

**NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)  
AUDIT (VERIFICATION) MANUAL**

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**SOP RAD1-007-97** dated May 1, 1997

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**APPENDIX A**

NORTH AMERICAN FREE TRADE AGREEMENT

CERTIFICATE OF ORIGIN

CUSTOMS FORM 434

**APPENDIX B**

NAFTA

GENERAL QUESTIONNAIRE

CUSTOMS FORM 446

**APPENDIX C**

NAFTA

UNITED STATES ELECTION TO AVERAGE FORM

CF - 447

**APPENDIX D**

NAFTA VERIFICATION MANUAL

This appendix is a sample of the letter to be sent to the exporter/producer regarding the initiation of a NAFTA verification visit.

This sample had been previously distributed as Attachment B to **Customs Directive 099 3810-008** dated April 20, 1994, entitled Notification of Proposed Verification Visits Under the North American Free Trade Agreement (NAFTA).

**APPENDIX E**

NAFTA VERIFICATION MANUAL

SAMPLE NOTIFICATION OF PROPOSED NAFTA VERIFICATION OF GOODS

TO KNOWN IMPORTERS OF RECORD

DATE

NAME OF IMPORTER OF RECORD

ADDRESS OF IMPORTER OF RECORD

To Whom It May Concern:

According to our records, you are listed as an importer of record for goods imported from (NAME OF EXPORTER/PRODUCER). Please be advised that the origin of (TYPE OF PRODUCTS) imported from (NAME OF EXPORTER/PRODUCER) is currently under review by this office. We are requesting that you provide copies of Certificate(s) of Origin relating to all entries for the merchandise above shipped from this exporter/producer since (TIME PERIOD UNDER REVIEW) for which duty free treatment under NAFTA was claimed.

Importations of such goods may be subject to full duty if the goods are determined not to be entitled to the preferential rate of duty under the North American Free Trade Agreement.

Following this review, when a determination with respect to the eligibility of such goods is made, you will be notified. Please provide the Certificate(s) of Origin no later than 30 days from the date of this letter to: (NAME OF CUSTOMS OFFICER AND MAILING ADDRESS). Should you have

any questions regarding this matter, you may contact (NAME OF CUSTOMS OFFICER) at (TELEPHONE NUMBER OF CUSTOMS OFFICER).

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

## **APPENDIX F**

### **NAFTA VERIFICATION MANUAL**

#### **REVIEW OF POLICIES, PROCEDURES AND INTERNAL CONTROLS CHECKLIST RELATIVE TO**

#### **ACCOUNTING AND MANAGEMENT SYSTEMS**

##### **EXPORTER/PRODUCER AUDIT PERIOD**

###### **Purpose**

The Policies, Procedures and Internal Controls Checklist can be used to assist with the evaluation of policies, procedures and the control environment in order to understand their effects on the accounting and management systems of the organization.

This checklist is relevant only to a NAFTA Origin Verification.

Ensure that discussions concerning controls are directed to key personnel which have the appropriate knowledge of the internal controls. The answers to the questions below are necessarily subjective and require considerable judgement. Definitive, reportable answers are not expected at this stage in the audit. Rather, the checklist is intended to help develop the audit approach by: evaluating the adequacy of controls, and the extent of reliance placed on these controls for compliance to the NAFTA rules of origin.

Yes / No Comments

###### **General**

1. Has Regulatory Audit previously reviewed the internal control systems including financial management, budget preparation and control, accounting and control of expenditures, standard costing, operating reports, and computerization?
2. Has there been any significant changes in operations (including accounting and financial systems) implemented during the period under review?

###### **(A) CONTROL**

###### **Organization**

3. Briefly describe the organization structure.
4. Obtain a current organization chart.
5. Are there job descriptions for all personnel?
6. Are the instructions or compliance requirements clear, understood and well delegated for:  
- purchase, approval for payment and payment?

- obtaining and reviewing supplier certifications?
  - completion of the NAFTA certificate of origin and any related customs documentation?
- Provide a brief description of the company policies for the above.
7. Are the lines of authority, responsibility and control between the entity and common service agencies and/or outside service centers (i.e. suppliers, subcontractors, etc.) clearly defined?
8. With respect to related parties:
- obtain a list of related parties;
  - obtain a list of related party transactions related to the goods in question;
  - obtain a list and details of any related party royalty agreements.
9. Is there an effective internal audit department which reviews policies, procedures, controls and plant operations?
- obtain the most recent internal audit department report on policies procedures and controls.
10. Does the external auditor perform on-site audit activity (i.e. a financial and/or compliance audit) on a periodic basis?
- obtain the most recent external audit report on policies, procedures and controls.
11. Were any activities performed (evaluation of policies, procedures and internal controls) by the trade consultants, or lawyers, or accountants who were involved in the calculation of the RVC percentage?

### **System Design, Maintenance and Supervision**

12. Obtain available documentation on accounting systems and procedures and controls to ensure the policies are consistent with prudent business practices and cost accounting standards?
13. Is there a uniform systems development policy which is followed for all new programs either purchased or developed with respect to:
- budgeting;
  - accumulating costs;
  - engineering and development of goods being produced; and
  - reporting costs?
14. Does a uniform policy regarding the procedures required to change existing programs exist with respect to:
- budgeting;
  - accumulating costs;
  - engineering and development of goods being produced; and
  - reporting costs?
15. Does each stage of development or change require active participation of users (i.e. production line management)?
16. Does testing of Ad Hoc reports (i.e., produced by spreadsheet, report generator or EDP department) occur where they are relied on?
17. Do standards require uniform documentation for each of the following applications that control the financial aspects of operations:
- system documentation;
  - operating instructions;
  - user documentation; and
  - acceptance testing
- for both automated and manual tasks or functions? If so, is documentation available for our review?
18. Do financial reports provide adequate information for appropriate NAFTA certification management and control? For example,
- review of standard cost of products;
  - review of origin of goods at year end when averaging has been used to certify goods;
  - review of usage and variances and how they have affected the origin of the goods certified as originating;

- origin of the materials being purchased; and
- review when there is a change in suppliers and sourcing of materials.

### **System Monitoring**

19. Are the following methods used to monitor the reliability of financial data:
- comparisons to nonfinancial reports (i.e., to data prepared outside the accounting department)?
  - preparation of capital and operating budgets?
  - use of variance reports to control the operations?
  - comparison of interim financial statements to budgets, variance reports, etc?
20. Can product costs used to calculate the RVC percentage be traced to books of accounts?
21. Are cost systems integrated and/or reconciled to financial records such that each type of cost is allocated only once and on only one basis to a product cost or cost objective?
22. Does the internal audit function review:
- existing manual accounting systems?
  - existing EDP accounting systems?
  - new accounting systems (manual and EDP) at critical points in development?

### **Reporting**

23. To ensure the accuracy of financial data, are interim financial statements:
- prepared regularly?
  - prepared on a timely basis?
  - prepared in sufficient detail?
  - prepared using proper cut-off procedures?
  - reconciled to the accounting records?
24. Is the cost accounting system capable of producing actual unit or job lot costs, and/or are operations or product costs reported to the profit center level?
25. Are burden, center, or departmental costs developed providing segregation for activities such as fabrication, assembly, repair, overhead, research and development, sales and marketing functions, shipping activities, etc.?
26. Determine the procedures followed with respect to charges from corporate office or related companies pertaining to such costs as direct material, royalties, selling activities, non-allowable interest and shipping activities (are these charges material?).

### **(B) PROTECTION OF ASSETS AND RECORDS**

27. Does the entity have a record retention program or policy (it should assure that records are retained at least five years as required by the NAFTA)?

### **(C) EVALUATION OF COST ACCOUNTING SYSTEM**

28. Determine the type of cost accounting system utilized by the manufacturer. A written outline of the accounting system, prepared by the exporter/producer, would be useful.
29. Ensure that indirect costs (i.e. overhead) are accumulated into a cost pool that has been allocated in accordance with Schedule VII of the NAFTA Rules of Origin Regulations.
30. Ensure that the cost allocation method selected by the exporter/producer has been used consistently throughout the exporter's/producer's fiscal year.
31. Ensure that any variances (i.e. material price and quantity variances; and labor rate and time variances) have been appropriately disposed of within the cost accounting system and are reflected in the costs used to calculate the regional value content percentage (considering the materiality of the variances and the effect on the final result).
32. Ensure that the company has identified the integration of the cost accounting system with the financial accounting system.
33. Determine whether the practices for setting and revising of standards, use of standard costs,

and disposition of variances is stated in writing and consistently followed.

34. Compare product unit selling price to unit cost per the regional value content (net cost method) calculation (and unit value for duty claimed for U. S. Customs purposes) ensuring that:

- margin is consistent with margin reported for divisional operations and/or financial statements;
- margin is sufficient to provide for a reasonable allocation of additional product related costs such as the excluded costs, with the balance of this margin attributable as a normal profit levels;

#### **(D) EFFECT ON AUDITING PROCEDURES**

In your judgement, if any of the answers on this worksheet require special audit attention (either modification in the nature, timing, and extent of procedures or a heightened sense of awareness while performing the procedures), amend audit programs accordingly.

### **APPENDIX G**

#### **NAFTA VERIFICATION MANUAL**

This appendix includes two sample origin determinations. Both are completed on a **Customs Form 29**. The first CF-29 is a sample of a positive determination, and the second CF-29 is a sample of a negative determination, along with the notice of intent to deny. The origin determination (CF-29) would be sent to the exporter/producer whose goods were subject to a NAFTA verification.

These samples had been previously distributed as Attachments A and B to **Customs Directive 099 3810-010** dated July 27, 1994, entitled Issuance of Origin Determinations Under the North American Free Trade Agreement (NAFTA).

### **APPENDIX H(1)**

#### **NAFTA VERIFICATION MANUAL**

#### **SAMPLE NOTIFICATION OF VERIFICATION RESULTS TO KNOWN IMPORTERS**

#### **GOODS MET NAFTA RULE OF ORIGIN REQUIREMENTS**

DATE

CERTIFIED MAIL

NAME OF IMPORTER OF RECORD

ADDRESS OF IMPORTER OF RECORD

To Whom It May Concern:

As importer of record, and further to our letter dated (DATE OF INITIAL NOTIFICATION TO IMPORTER OF RECORD OF THE REVIEW), please be advised that the verification of origin of (TYPE OF PRODUCTS) imported from (NAME OF EXPORTER/PRODUCER) is now complete. The purpose of this verification was to determine whether the (TYPE OF PRODUCTS) imported into the United States during (TIME PERIOD), met the rule of origin requirement according to the North American Free Trade Agreement (NAFTA) and were entitled to the preferential rate of duty. It was concluded, as a result of our verification, that the (TYPE OF PRODUCTS) imported from (NAME OF EXPORTER/PRODUCER) during the period (TIME PERIOD UNDER REVIEW) met the NAFTA rule of origin requirements.

Should you have any questions regarding this matter, you may contact (NAME OF CUSTOMS OFFICER) at (TELEPHONE NUMBER OF CUSTOMS OFFICER).

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

**APPENDIX H (2)**

NAFTA VERIFICATION MANUAL

SAMPLE NOTIFICATION OF VERIFICATION RESULTS TO KNOWN IMPORTERS

**GOODS DID NOT MEET NAFTA RULE OF ORIGIN REQUIREMENTS**

DATE

CERTIFIED MAIL  
NAME OF IMPORTER OF RECORD  
ADDRESS OF IMPORTER OR RECOED

To whom It May Concern:

As importer of record, and further to our letter dated (DATE OF INITIAL NOTIFICATION TO IMPORTER OF RECORD OF THE REVIEW), please be advised that the verification of origin of (TYPE OF PRODUCTS) imported from (NAME OF EXPORTER/PRODUCER) is now complete. The purpose of this verification was to determine whether the (TYPE OF PRODUCTS) imported into the United States during (TIME PERIOD), met the rule of origin requirement according to the North American Free Trade Agreement (NAFTA) and were entitled to the preferential rate of duty. It was concluded, as a result of our verification, that the (TYPE OF PRODUCTS) imported from (NAME OF EXPORTER/PRODUCER) during the period (TIME PERIOD UNDER REVIEW) did not meet the NAFTA rule of origin requirements. You should receive a Customs Form 29 from the Port Director responsible for your good which provides additional information concerning the determination.

Should you have any questions regarding this matter, you may contact (NAME OF CUSTOMS OFFICER) at (TELEPHONE NUMBER OF CUSTOMS OFFICER).

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

**APPENDIX I(1)**

NAFTA VERIFICATION MANUAL

(A sample supplier letter for non-automotive parts suppliers)

**REGISTERED MAIL**

Supplier Name Date  
Supplier Address  
Dear Sir/Madam,

The United States Customs Service (U.S. Customs) is conducting a verification of the origin of

**provide description of the good** which is produced by **company name** and imported into the United States under the terms of the North American Free Trade Agreement (NAFTA). It would be appreciated if you could assist U.S. Customs by completing the attached supplier confirmation with respect to **Part Number and Material Description** supplied by your company. The completed supplier confirmation should be mailed to the address stated below or faxed to (xxx) xxx-xxxx.

U.S. Customs Service  
Mailing Address

Attention: Name of Customs Officer

The completed supplier confirmation will be used by U.S. Customs only. U.S. Customs shall, in accordance with Article 507 of the NAFTA, protect the confidentiality of all business information submitted in this supplier confirmation.

Please complete the supplier confirmation by **Due Date**. If the supplier confirmation is not received by the due date the value of the part will be deemed by U.S. Customs to be considered non-originating pursuant to Article 511 of the North American Free Trade Agreement and 181.72(d) of the U.S. Customs Regulations.

If you have any further questions about the completion of the attached confirmation, please call **Name of Customs Officer** at **Telephone Number**.

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

Attachment: Supplier Confirmation

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**SUPPLIER CONFIRMATION**

**UNITED STATES CUSTOMS SERVICE**

**NOTE: This Supplier Confirmation consists of four sections:**

**Section I - Supplier Information**

**Section II - Production Process**

**Section III - Listing of Materials**

**Section IV - Certification**

**Please complete all sections. Please note that the information requested is basic and further information may be required in the future.**

**DEFINITIONS**

"non-originating material" means a material that does not qualify as originating under the NAFTA;

"originating material" means a material that qualifies as originating under the NAFTA;

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

"tariff item" refers to any eight-digit number set out in the column "Tariff Item" in the Harmonized System.

**SECTION I - SUPPLIER INFORMATION**



Supplier Name Telephone Number

\_\_\_\_\_

Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Part Name and Part Number Supplied Tariff Classification (Tariff Item-8 digits)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Period Covered

\_\_\_\_\_

## SECTION II- PRODUCTION PROCESS

1. Was this part manufactured or assembled by your company?

Yes \_\_\_\_\_

No \_\_\_\_\_

2. If your company did not manufacture or assemble the Part being confirmed, provide the name and address of the company and contact person from whom it was purchased.

Name of supplier \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Telephone No. \_\_\_\_\_

Contact Person \_\_\_\_\_

3. Please describe the production process if your company manufactured or assembled the above mentioned Part.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Please provide the address of the plant where the production process has taken place.

Address \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

5a. Was any portion of the production process undertaken outside the United States, Canada, or Mexico?

**YES** \_\_\_\_\_ **NO** \_\_\_\_\_

5b. If yes, please briefly describe the part of the production process that took place outside the United States, Canada, or Mexico.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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6. Please indicate the period (year/month) of the production for which this information has been reported.

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**SECTION III - GENERAL INSTRUCTIONS**

**(A)** List all materials and the respective supplier names and addresses which were used in the production of the part being confirmed. If the material is a non-originating material or a material of unknown origin, list the tariff classification number (to the 6th digit) for that material in the spaces provided.

**NOTE 1:** Materials purchased from manufacturers or suppliers in the NAFTA territory are not necessarily originating materials (materials claimed to be originating must qualify as originating under the NAFTA Rules of Origin Regulations). Any written representations obtained from suppliers of materials that a material qualifies as an originating material must be kept on file for purposes of verification.

**(B)** Indicate in the column provided, under the category "originating", "non-originating", or "origin unknown", the unit value of each material determined in accordance with subsection 7(1) of the NAFTA Rules of Origin Regulations.

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**SECTION III - LISTING OF MATERIALS**

**SECTION IV-CERTIFICATION**

I certify that the information provided in response to this supplier confirmation is true and accurate and I assume the responsibility of proving such representations. I agree to maintain, and present upon request, all records and documentation necessary to support the representations made in response to this confirmation.

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Authorized Signature Company Name and Address(Print or Type)

---

Name(Print or Type) Title(Print or Type)

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Date(DD/MM/YR) Telephone No. Facsimile No.

**APPENDIX I(2)**

**NAFTA VERIFICATION MANUAL**

(A sample letter for automotive parts supplied to a producer of a light duty automtomvie good)

*REGISTERED MAIL*

Supplier Name Date  
Supplier Address  
Dear Sir/Madam,

TIER 1:

The United States Customs Service (U.S. Customs), is conducting a verification of the origin of **provide description of the good** which is produced **by company name** and imported to the United States under the terms of the North American Free Trade Agreement (NAFTA).

TIER 2:

The United States Customs Service (U.S. Customs), is conducting a verification of the origin of **provide description of the good (Tier 1 company name** which is produced by **company name (Tier 1 company name)**.

In accordance with the North American Free Trade Agreement (NAFTA) there are special tracing provisions for the value of non-originating materials (VNM) for the calculation of the Regional Value Content Requirement (RVC) for Light Duty Automotive Goods. Schedule IV (four) of the *NAFTA Rules of Origin Regulations* contains a listing of traced materials that are considered non-originating if the materials meet the definition of a traced material. (See attached Appendix for the listing).

It would be appreciated if you could assist U.S. Customs by completing the applicable Schedules of the supplier confirmation with respect to **Part Number and Material Description** supplied by your company.

If your company imports the material from outside the territory of the United States, Canada, or Mexico, please complete Schedules I and IV.

If your company self produces the material within the territory of the United States, Canada, or Mexico, please complete Schedules I and II.

Finally if your company purchases the material from a third party within the territory of the United States, Canada, or Mexico, please complete Schedule I and III.

The completed supplier confirmation should be mailed to the address stated below or faxed at (xxx) xxx-xxxx.

U.S. Customs Service

Mailing Address

Name of Customs Officer

The completed supplier confirmation will be used by U.S. Customs only. U.S. Customs shall, in accordance with Article 507 of the NAFTA, protect the confidentiality of all business information submitted in this supplier confirmation.

Please return the supplier confirmation by **Due Date**. If the supplier confirmation is not received by the due date the value of **Part Number and Material Description** will be deemed by U.S. Customs to be considered non-originating pursuant to Article 511 of the North American Free Trade Agreement and 181.72(d) of the U.S. Customs Regulations and subsection 9(7) of the Appendix.

If you have any further questions about the completion of the attached confirmation, please call **Name of Customs Officer at telephone number**.

Thank you in advance for your cooperation.

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

Attachments:

Appendix - Light Duty Automotive Parts

Schedule I - Supplier Information and Certification Schedule II - Listing of Materials  
Schedule III - Purchase of Materials within the territory of Canada, the United States or Mexico  
Schedule IV - Materials Imported from outside the territory of Canada, the United States or Mexico

**LIGHT-DUTY AUTOMOTIVE PARTS THAT ARE REQUIRED TO BE TRACED  
FOR PURPOSES OF THE NAFTA RULES OF ORIGIN REGULATIONS**

**Schedule IV of the NAFTA Rules of Origin Regulations**

4009  
4010.10  
4011  
4016.93.10  
4016.99.30 and 4016.99.55  
7007.11 and 7007.21  
7009.10  
8301.20  
8407.31  
8407.32  
8407.33  
8407.34.05, 8407.34.15, and 8407.34.25  
8407.34.35, 8407.34.45 and 8407.34.55  
8408.20  
8409  
8413.30  
8414.59.30  
8414.80.05  
8415.81 through 8415.83  
8421.39.40  
8481.20, 8481.30 and 8481.80  
8482.10 through 8482.80  
8483.10 through 8483.40  
8483.50  
8501.10  
8501.20  
8501.31  
8501.32.45  
8507.20.40, 8507.30.40, 8507.40.40 and 8507.80.40  
8511.30  
8511.40  
8511.50  
8512.20  
8512.40  
8519.91  
8527.21  
8527.29  
8536.50  
8536.90  
8537.10.30  
8539.10  
8539.21

8544.30  
8706  
8707  
8708.10.30

**LIGHT-DUTY AUTOMOTIVE PARTS THAT ARE REQUIRED TO BE TRACED  
FOR PURPOSES OF THE NAFTA RULES OF ORIGIN REGULATIONS  
Schedule IV of the NAFTA Rules of Origin Regulations**

8708.21  
8708.29.20  
8708.29.10  
8708.29.15  
8708.39  
8708.40  
8708.50  
8708.60  
8708.70.05, 8708.70.25 and 8708.70.45  
8708.80  
8708.91  
8708.92  
8708.93.15 and 8708.93.60  
8708.94  
8708.99.03, 8708.99.27 and 8708.99.55  
8708.99.06, 8708.99.31 and 8708.99.58  
8708.99.09, 8708.99.34 and 8708.99.61  
8708.99.12, 8708.99.37 and 8708.99.64  
8708.99.15, 8708.99.40 and 8708.99.67  
8708.99.18, 8708.99.43 and 8708.99.70  
8708.99.21, 8708.99.46 and 8708.99.73  
8708.99.24, 8708.99.49 and 8708.99.80  
9031.80  
9032.89  
9401.20

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**SUPPLIER CONFIRMATION**

**UNITED STATES CUSTOMS SERVICE**

NOTE: This Supplier Confirmation consists of four Schedules:

Schedule I Supplier Information and Certification

Schedule II Listing of Materials

Schedule III Purchase of Material within the United States, Canada or Mexico

Schedule IV Materials Imported from outside the United States, Canada or Mexico.

Please complete the applicable sections. Please note that the information requested is basic and further information may be required in the future.

**DEFINITIONS**

"customs value" means

(a) in the case of the United States, the value of imported merchandise as determined by the Customs Service in accordance with section 402 of the *Tariff Act of 1930*, converted, in the event such value is not expressed in United States currency, to United States currency at the rate of exchange determined in accordance with subsection 3(1) of the Regulations;

(b) in the case of Canada, value for duty as defined in the *Customs Act*, except that for purposes of determining that value the reference in section 55 of that Act to "in accordance with the regulations made under the *Currency Act*" shall be read as a reference to "in accordance with subsection 3(1) of these Regulations", and;

(c) in the case of Mexico, the *valor en aduana* as determined in accordance with the *Ley Aduanera*, converted, in the event such value is not expressed in Mexican currency, in Mexican currency at the rate of exchange determined in accordance with subsection 3(1) of these Regulations.

"non-originating material" means a material that does not qualify as originating under the NAFTA;

"originating material" means a material that qualifies as originating under the NAFTA;

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

"tariff item" refers to any eight-digit number set out in the column "Tariff Item" in the Harmonized System;

"traced material" means a material, produced outside the territories of the NAFTA countries, that is imported from outside the territories of the NAFTA countries and is, when imported, of a tariff provision listed in Schedule IV.

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**SCHEDULE I - SUPPLIER INFORMATION AND CERTIFICATION**

Supplier Name Telephone Number \_\_\_\_\_

Address  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Part Name and Part Number Supplied Tariff Classification  
(Tariff Item-8 digits)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please provide the address of the plant where the production process has taken place.  
Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please indicate the period( year/month) of the production for which this information has been reported.

\_\_\_\_\_  
\_\_\_\_\_

**PROTECTED WHEN COMPLETED**

**CERTIFICATION**

I certify that the information provided in response to this supplier confirmation is true and accurate and I assume the responsibility of proving such representations. I agree to maintain, and present upon request, all records and documentation necessary to support the representations made in response to this confirmation.

\_\_\_\_\_

Authorized Signature Company Name and Address(Print or Type)

\_\_\_\_\_

Name(Print or Type) Title(Print or Type)

\_\_\_\_\_

Date(DD/MM/YR) Telephone No. Facsimile No.

**PROTECTED WHEN COMPLETED**

**SCHEDULE II - LISTING OF MATERIALS**

(A) List all materials and the respective supplier names and addresses that are used to produce the above part. Please include the price paid/payable for each of the materials. In the spaces provided list the tariff classification number ( to the 6th digit or 8th digit level) for all materials that have been imported from a non-NAFTA country or for all materials of unknown origin.

**Material Name Tariff Classification Supplier Price Paid  
of Materials Imported Name and Payable \*  
from non-NAFTA country Address  
or of unknown origin**

\_\_\_\_\_

\* If some of the materials used to produce the above part meets the definition of a traced material ,please provide the value of the traced material(customs value plus additions if applicable) in accordance with Schedule IV of this confirmation.

**PROTECTED WHEN COMPLETED**

**SCHEDULE III - PURCHASE OF MATERIAL WITHIN THE UNITED STATES, CANADA OR MEXICO**

If your company did not produce the material being confirmed, please provide the name and address of the company and contact person from whom it was purchased.

Name of supplier \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Telephone No. \_\_\_\_\_

Fax Number \_\_\_\_\_

Contact Person \_\_\_\_\_

Title \_\_\_\_\_

**PROTECTED WHEN COMPLETED**

SCHEDULE IV -MATERIALS IMPORTED FROM OUTSIDE

THE UNITED STATES, CANADA OR MEXICO.

If you have imported the material from outside the United States, Canada or Mexico, please provide the value of the traced material to the point where you have or taken title. Please complete the appropriate section.

**Section 1**

**If you have taken title of the material at the time of importation, the sum of**

- (i) the customs value of the traced material, \_\_\_\_\_
- (ii) Add (if not already included in the customs value) the following costs that were incurred in transporting the traced material to the first place at which it was received in territory of the United States, Canada or Mexico:

Freight \_\_\_\_\_  
Insurance \_\_\_\_\_  
Packing \_\_\_\_\_  
Other Costs \_\_\_\_\_  
Subtotal \_\_\_\_\_

- (iii) Add (if not already included in the customs value)  
Duties and taxes paid \_\_\_\_\_  
Customs brokerage costs \_\_\_\_\_

\_\_\_\_\_

Value of Non-Originating Materials

=====

**PROTECTED WHEN COMPLETED**

**Section 2**

**If you do not have or did not take title to the material at the time of importation, the sum of**

- (i) the customs value of the traced material, \_\_\_\_\_
- (ii) Add (if not already included in the customs value) the following costs that were incurred in transporting the traced material to the place at which it was when the producer takes title in the territory of the United States, Canada or Mexico:

Freight \_\_\_\_\_  
Insurance \_\_\_\_\_  
Packing \_\_\_\_\_  
Other Costs \_\_\_\_\_  
Subtotal \_\_\_\_\_



(iii) Add (if not already included in the customs value)  
Duties and taxes paid \_\_\_\_\_  
Customs brokerage costs \_\_\_\_\_  
Value of Non-Originating Materials

=====

## APPENDIX J

### SAMPLE NOTIFICATION OF VERIFICATION RESULTS

#### TO SUPPLIER OF MATERIALS

DATE

#### ***CERTIFIED MAIL***

NAME OF SUPPLIER  
ADDRESS OF SUPPLIER  
To Whom It May Concern:

Please be advised that the verification of origin of (TYPE OF MATERIALS) that you supply to (NAME OF PRODUCER OF GOODS CLAIMING NAFTA) is now complete. The purpose of this verification was to determine whether the (TYPE OF MATERIALS) supplied to (NAME OF PRODUCER) during (TIME PERIOD), met the rule of origin requirement according to the North American Free Trade Agreement (NAFTA) and qualified as an originating material. It was concluded, as a result of our verification, that the (TYPE OF MATERIALS) supplied to (NAME OF PRODUCER) during the period (TIME PERIOD UNDER REVIEW) met the NAFTA rule of origin requirements. Should you have any questions regarding this matter, you may contact (NAME OF CUSTOMS OFFICER) at (TELEPHONE NUMBER OF CUSTOMS OFFICER).

Sincerely,  
Field Director  
Regulatory Audit  
or  
Port Director

## APPENDIX K

### NAFTA VERIFICATION MANUAL

#### PREPARATION OF AUDIT REPORTS

SOP RAD1-007-97 dated May 1, 1997, entitled Regulatory Audit Reports is included as Appendix K for reference purposes.

## **APPENDIX L**

### **VERIFICATION PROGRAM**

#### **GOODS WHOLLY OBTAINED OR PRODUCED IN THE TERRITORY**

##### VERIFICATION OBJECTIVE

TO ENSURE THAT THE GOOD QUALIFIES AS ORIGINATING BY SATISFYING CRITERION A - GOODS WHOLLY OBTAINED OR PRODUCED IN THE TERRITORY OF ONE OR MORE OF THE PARTIES.

##### **Definitions:**

Goods Wholly Obtained or Produced Entirely in the Territory of One or More of the Parties means:

- (a) a mineral good extracted in the territory of one or more of the NAFTA countries;
- (b) a vegetable or other good harvested in the territory of one or more of the NAFTA countries;
- (c) a live animal born and raised in the territory of one or more of the NAFTA countries;
- (d) a good obtained from hunting, trapping or fishing in the territory of one or more of the NAFTA countries;
- (e) fish, shellfish, or other marine life taken from the sea by a vessel registered or recorded with a NAFTA country and flying its flag;
- (f) a good produced on board a factory ship from a good referred to in paragraph (e), where the factory ship is registered or recorded with the same NAFTA country as the vessel that took that good and flies that country's flag;
- (g) a good taken by a NAFTA country or a person of a NAFTA country from or beneath the seabed outside the territorial waters of that country, where a NAFTA country has the right to exploit that seabed;
- (h) a good taken from outer space, where the good is obtained by a NAFTA country and is not processed outside the territories of the NAFTA countries;

##### **VERIFICATION PROGRAM - GOODS WHOLLY OBTAINED OR PRODUCED (CONT'D)**

- (i) waste and scrap derived from:
  - (i) production in the territory of one or more of the NAFTA countries, or
  - (ii) used goods collected in the territory of one or more of the NAFTA countries, where those goods are fit only for the recovery of raw materials; or
- (j) a good produced in the territory of one or more of the NAFTA countries

exclusively from a good referred to in any of paragraphs (a) through (i), or from the derivatives of such a good, at any stage of production.

#### VERIFICATION PROCEDURES

1. Determine if the exporter is also the producer of the good and, if not, determine the producer of the good.
2. Obtain and review information used to prove that the goods are "Goods Wholly Obtained or Produced Entirely in the Territory".
3. Determine which part of the definition of "Goods Wholly Obtained or Produced Entirely in the Territory", as noted above, applies to the producer.
4. Ensure that all of the requirements within the applicable part of the definition are met.
5. Review the Bill of Materials (if any exist), the production process procedures or marketing brochures and determine if all materials have been accounted for. If not, follow-up.

#### **VERIFICATION PROGRAM - GOODS WHOLLY OBTAINED OR PRODUCED (CONT'D)**

6. If costs of other producers are included, evaluate if it is feasible that the merchandise could be wholly produced in a NAFTA country.
7. Ensure there are no non-qualifying operations and only acceptable transshipment. (Refer to the verification programs contained in Chapter 5.)
8. Conclude as to whether the goods meet the definition of being wholly obtained or produced entirely in the territory of one or more of the NAFTA countries.

### **APPENDIX M**

#### **VERIFICATION PROGRAM**

##### **GOODS PRODUCED EXCLUSIVELY FROM ORIGINATING MATERIALS**

#### VERIFICATION OBJECTIVE

TO ENSURE THAT THE GOOD QUALIFIES AS ORIGINATING BY SATISFYING CRITERION C - "GOODS PRODUCED ENTIRELY IN THE TERRITORY OF ONE OR MORE OF THE NAFTA COUNTRIES EXCLUSIVELY FROM ORIGINATING MATERIALS.

#### VERIFICATION PROCEDURES

1. Determine if the exporter is also the producer of the good, and, if not, determine the producer of the good.
2. Obtain and review information used to prove that the goods are "Goods Produced Entirely in the Territory of One or More of the Parties Exclusively From Originating Materials".
3. Request a Bill of Materials (or similar documentation) and compare to the information received in Step 2. for completeness.
4. Request copies of supplier certifications, or similar documentation that supports the claim that the materials are originating, if not already included in the information received in Step 2.
5. Review the certifications for the preference criteria/rule of origin identified by the supplier of the material. Evaluate if the supplier claims are feasible.

**GOODS PRODUCED EXCLUSIVELY FROM ORIGINATING MATERIALS**  
**CONTINUED:**  
**VERIFICATION PROGRAM**

6. If supplier certifications are inadequate or not available, consider sending supplier confirmation letters/questionnaires to a sample of suppliers. This sample could include:
  - (a) suppliers with companies in non-NAFTA countries;
  - (b) suppliers that are U.S., Mexican or Canadian distributors;
  - (c) suppliers of high value originating materials; and
  - (d) suppliers of materials, that, if determined to be non-originating, would not undergo the applicable tariff classification change as would be required by the specific rule of origin.
7. Insure the production process takes place within the territories of one or more of the NAFTA countries. Is any portion of the production process sub-contracted?
8. Ensure there are no non-qualifying operations and only acceptable transshipment. (Refer to the verification programs contained in Chapter 5.)
9. Conclude as to whether the good meets Criterion C - i.e. the good is produced entirely in the territory exclusively from originating materials.

**APPENDIX N**

**VERIFICATION PROGRAM**

**PREFERENCE CRITERION D**

**VERIFICATION OBJECTIVE**

TO ENSURE THAT THE GOOD MEETS THE CONDITIONS FOR CLAIMING PREFERENCE CRITERION D, AND TO ENSURE THAT THE GOOD

## QUALIFIES AS ORIGINATING BY SATISFYING A REGIONAL VALUE CONTENT REQUIREMENT.

### CRITERIA

Except for a good provided for in Chapters 61 through 63 of the Harmonized System, the good is produced entirely in the territory of one or more of the NAFTA countries but one or more of the non-originating materials used in the production of the good do not undergo an applicable change in tariff classification because:

- (i) the materials were imported together, whether or not with originating materials, into the territory of a NAFTA country as an unassembled or disassembled good, and were classified as an assembled good pursuant to Rule 2(a) of the General Rules for the Interpretation of the Harmonized System; or
- (ii) (A) those materials are provided for under the Harmonized System as parts of the good, and  
(B) the heading for the good provides for both the good and its parts and is not further subdivided into subheadings, or the subheading for the good provides for both the good and its parts

**(NOTE:** if the good imported from a NAFTA country is classified as a part, then this provision cannot be used);

For (i) or (ii) above, following conditions must be met:

- The regional value content of the good, is not less than 60 per cent where the transaction value method is used, or is not less than 50 per cent where the net cost method is used; and
- the good satisfies all other applicable requirements of the Regulations. Refer to Subsection 4(4) of the NAFTA Rules of Origin Regulations.

### **VERIFICATION PROGRAM - PREFERENCE CRITERION D**

#### VERIFICATION PROCEDURES

1. Obtain and review information to prove that the RVC requirement was met.
2. Ensure the tariff classification of the final good and the non-originating materials are accurate (particularly those non- originating materials that do not undergo the tariff classification change). Refer to the verification program on tariff classification contained in Chapter 5 for assistance.)
3. Identify the applicable specific rule of origin and verify that either (i) or (ii) Criterion D requirements) listed above exist.
4. Proceed with the verification program - non-qualifying operations, the verification program - transaction value method or the verification program - net cost method (as applicable), the verification program - transshipment

## APPENDIX O

### VERIFICATION PROGRAM

#### LIGHT DUTY AUTOMOTIVE GOODS - AVERAGED

#### VERIFICATION PROGRAM - LIGHT-DUTY AUTOMOTIVE GOODS (AVERAGED)

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### **VERIFICATION OBJECTIVE**

TO ENSURE THAT THE LIGHT-DUTY AUTOMOTIVE GOOD, WHERE AN ELECTION TO AVERAGE HAS BEEN FILED, IS AN ORIGINATING GOOD IN ACCORDANCE WITH THE NAFTA RULES OF ORIGIN REGULATIONS AND CONSIDERING THE SPECIAL RVC CALCULATION REQUIREMENTS INCLUDED IN SECTION 9 (LIGHT-DUTY AUTOMOTIVE GOODS), SECTION 11 (MOTOR VEHICLE AVERAGING), SECTION 12 (LIGHT-DUTY AUTOMOTIVE GOODS, PARTS AVERAGING) AND SECTION 13 (SPECIAL RVC REQUIREMENTS) OF THE NAFTA RULES OF ORIGIN REGULATIONS.

#### **Definitions:**

**Note to the Definitions:** In order to assist in understanding the audit program where ever a word or group of words are used as defined, the word or words will appear in bold print:

**Class of motor vehicles** means any one of the following categories of motor vehicles:

- (a) motor vehicles provided for in any of subheadings 8701.20, tariff items 8702.10.30 and 8702.90.30 (vehicles for transport of 16 or more persons), subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and headings 8705 and 8706,
- (b) motor vehicles provided for in any subheadings 8701.10 and 8701.30 through 8701.90,
- (c) motor vehicles provided for in any tariff items 8702.10.60 and 8702.90.60 (vehicles for the transport of 15 or fewer persons) and subheadings 8704.21 and 8704.31, and
- (d) motor vehicles of any of subheading Nos. 8703.21 through 8703.90.

**Complete motor vehicle assembly process** means the production of a motor vehicle from separate constituent parts, which parts include 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.

**First prototype** means the first motor vehicle that

- (a) is produced using tooling and processes intended for the production of motor vehicles offered for sale, and
- (b) follows the **complete motor vehicle assembly process** in a manner not specifically designed for testing purposes.

**Floor pan of a motor vehicle** 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 firewall or bulkhead of the motor vehicle and ending

- (a) where there is a luggage floor panel in the motor vehicle, at the place where that luggage floor panel begins, and
- (b) where there is no luggage floor panel in the motor vehicle, at the place where the passenger compartment of the motor vehicle ends.

**Light-duty automotive good** means a **light-duty vehicle** or a good of a tariff provision listed in **Schedule IV** that is subject to a RVC requirement and is for use as **original equipment** in the production of a **light-duty vehicle**.

**Light-duty vehicle** means a motor vehicle provided for in tariff items 8702.10.60 and 8702.90.60 (vehicles for transport of 15 or fewer persons) and subheadings 8703.21 through 8703.90, 8704.21 and 8704.31.

**Marque** means a trade name used by a marketing division of a **motor vehicle assembler** that is separate from any other marketing division of that **motor vehicle assembler**.

**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**

- (a) to differentiate the motor vehicle from other motor vehicles that use the same **platform** design,
- (b) to associate the motor vehicle with other motor vehicles that use different **platform** designs, or
- (c) to denote a **platform** design.

**Motor vehicle assembler** means a producer of motor vehicles and any related person with whom, or joint venture in which, the producer participates with respect to the production of motor vehicles.

**New building** means a new construction to house a **complete motor vehicle assembly process**, where that construction includes the pouring or construction of a new foundation and floor, the erection of a new frame and roof, and the installation of new plumbing and electrical and other utilities.

**Original equipment** means a material that is incorporated into a motor vehicle before the first transfer of title or consignment of the motor vehicle to a person who is not a **motor vehicle assembler**, and that is

- (a) a good of a tariff provision listed in **Schedule IV**, or
- (b) an automotive component assembly, automotive component, sub-component or listed material.

**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) **light-duty vehicles** and heavy-duty vehicles,
- (b) goods of a tariff provision listed in **Schedule IV**, and
- (c) automotive component assemblies, automotive components, sub-components and listed materials.

**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.

**Refit** means a closure of a **plant** for a period of at least three consecutive months that is for purposes of **plant** conversion or retooling.

#### **Schedule IV of the NAFTA Rules of Origin Regulations**

4009  
4010.10  
4011

4016.93.10  
4016.99.30 and 4016.99.55  
7007.11 and 7007.21  
7009.10  
8301.20  
8407.31  
8407.32  
8407.33  
8407.34.05, 8407.34.15, and 8407.34.25  
8407.34.35, 8407.34.45 and 8407.34.55  
8408.20  
8409  
8413.30  
8414.59.30  
8414.80.05  
8415.81 through 8415.83  
8421.39.40  
8481.20, 8481.30 and 8481.80  
8482.10 through 8482.80  
8483.10 through 8483.40  
8483.50  
8501.10  
8501.20  
8501.31  
8501.32.45  
8507.20.40, 8507.30.40, 8507.40.40 and 8507.80.40  
8511.30  
8511.40  
8511.50  
8512.20  
8512.40  
8519.91  
8527.21  
8527.29  
8536.50  
8536.90  
8537.10.30  
8539.10  
8539.21  
8544.30  
8706  
8707  
8708.10.30  
8708.21  
8708.29.20  
8708.29.10

8708.29.15  
8708.39  
8708.40  
8708.50  
8708.60  
8708.70.05, 8708.70.25 and 8708.70.45  
8708.80  
8708.91  
8708.92  
8708.93.15 and 8708.93.60  
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8708.99.03, 8708.99.27 and 8708.99.55  
8708.99.06, 8708.99.31 and 8708.99.58  
8708.99.09, 8708.99.34 and 8708.99.61  
8708.99.12, 8708.99.37 and 8708.99.64  
8708.99.15, 8708.99.40 and 8708.99.67  
8708.99.18, 8708.99.43 and 8708.99.70  
8708.99.21, 8708.99.46 and 8708.99.73  
8708.99.24, 8708.99.49 and 8708.99.80  
9031.80  
9032.89  
9401.20

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

- (a) 85 cubic feet (2.38 m<sup>3</sup>) or less,
- (b) more than 85 cubic feet (2.38 m<sup>3</sup>) but less than 100 cubic feet (2.80 m<sup>3</sup>),
- (c) 100 cubic feet (2.80 m<sup>3</sup>) or more but not more than 110 cubic feet (3.08 m<sup>3</sup>),
- (d) more than 110 cubic feet (3.08 m<sup>3</sup>) but less than 120 cubic feet (3.36 m<sup>3</sup>), or
- (e) 120 cubic feet (3.36 m<sup>3</sup>) or more.

**Traced material** means a material, produced outside the territories of the NAFTA countries, that is imported from outside the territories of the NAFTA countries and is, when imported, of a tariff provision listed in **Schedule IV**.

**Underbody** means the **floor pan of a motor vehicle**.

## **1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISIONS FOR LIGHT-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS ELECTED TO AVERAGE THE COSTS OF THESE GOODS**

### VERIFICATION SUB-OBJECTIVE

To ensure that the good is a **light-duty automotive good** and the company has elected to average the sum of the net costs incurred and the sum of the values of

non-originating materials used by the producer in accordance with subsections 11(1), 12(1) or 13(4).

#### VERIFICATION PROCEDURES

a) Determine whether the good is classified in one of the tariff provisions listed in the definition of a **light-duty vehicle** and the producer has filed an election to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1) or 13(4) of the Regulations. If so, this verification program is applicable.

b) If the good is:

i) of a tariff provision listed in **Schedule IV**,

ii) subject to a RVC requirement, **and**

iii) for use as **original equipment** in the production of a **light-duty vehicle**; and

the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 12(1) of the Regulations. If so, this verification program is applicable.

c) Conclude on the verification sub-objective.

**NOTE:** If the good is a **light-duty automotive good** but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 11(1), 12(1) or 13(4) of the Regulations, use the **Light-Duty Automotive Goods (Non-Averaged)** verification program.

#### **1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISIONS FOR LIGHT-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS ELECTED TO AVERAGE THE COSTS OF THESE GOODS**

If the good is a heavy-duty automotive good and the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the **Heavy-Duty Automotive Goods (Averaged)** verification program.

If the good is a heavy duty automotive good but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 11(1), 12(1) or 13(4) of the Regulations, use the **Heavy-Duty Automotive Goods (Non-Averaged)** verification program.

If the good is not a **light-duty automotive good** nor a heavy-duty automotive good, then the general verification programs found in Chapter 5 of the NAFTA audit manual are applicable.

## **2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS**

### VERIFICATION SUB-OBJECTIVE

To ensure that the appropriate RVC percentage requirement is used by the producer to determine whether the **light-duty vehicles** or a good of any of heading nos. 84.07 and 84.08 and subheading No. 8708.40, that is for use in a **light-duty vehicle** qualify as originating as set out in subsections 13(1) or (2) of the NAFTA Rules of Origin Regulations.

### VERIFICATION PROCEDURES

**Note:** If the good cannot be identified below, the special RVC percentage requirements do not apply to it and the requirements of Schedule I are applicable.

#### **2.1 RVC Percentage Requirement for A Good of A Tariff Provision Listed in Schedule IV, that is Subject to a Regional Value Content Requirement and is for Use in a Light-Duty Vehicle, Except for A Good of Any of Heading Nos. 8407 and 8408 and Subheading No. 8708.40 or any of Subheading Nos. 8482.10 through 8482.80, 8483.20 and 8483.30.**

- a) Determine if the fiscal year of the producer starts before July 2, 1997. If so, the RVC requirement is 50%.
- b) Determine if the fiscal year of the producer starts after July 1, 1997 but before July 2, 2001. If so, the RVC requirement is 55%.
- c) Determine if the fiscal year of the producer starts after July 1, 2001. If so, the RVC requirement is 60%.

#### **2.2 RVC Percentage Requirements for Light-Duty Vehicles or A Good of Any of Heading Nos. 8407 and 8408 and Subheading No. 8708.40, that is for use in a Light-Duty Vehicle**

- d) Determine if the fiscal year of the producer starts before July 2, 1997. If so, the RVC requirement is 50%.
- e) Determine if the fiscal year of the producer starts after July 1, 1997 but before July 2, 2001. If so, the RVC requirement is 56%.
- f) Determine if the fiscal year of the producer starts after July 1, 2001. If so, the RVC requirement is 62.5%.

## **2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS**

### 2.3 Special RVC Requirements for Light-Duty Vehicles Produced in a New Plant

g) Determine if the **plant** in which the **light-duty vehicles** are produced consists of or includes a **new building** in which the **light-duty vehicles** are assembled.

h) Determine if the **light-duty vehicles** produced meet the definition of **first prototype**.

i) Determine the date of production of the **first prototype** and whether or not it has been five years since the date on which the **first prototype** has been produced. If it has been greater than five years after the date on which the **first prototype** was produced, use the appropriate RVC requirements as identified in verification procedures d) through f).

j) Determine if the **light-duty vehicle** is of a:

i) **class of motor vehicle**,

ii) **marque**,

iii) **size category**, or

iv) type of **underbody**,

that was not previously produced by the **motor vehicle assembler** in the territory of any of the NAFTA countries.

### 2.4 Value of Machinery

k) For the purposes of determining the value of machinery that was never previously used for production, and that is used in the **new building** or buildings for the purposes of the **complete motor vehicle assembly process** with respect to that vehicle, obtain the **motor vehicle assemblers** fixed asset sub ledger and the supporting invoices for the new machinery acquired to produce the motor vehicle.

## 2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS

l) Using the information obtained in verification procedure k) above review the producer's calculation of the value of machinery to ensure that the value of machinery that was never previously used for production, and that is used in the **new building(s)** for the purposes of the **complete motor vehicle assembly process** with respect to that motor vehicle, is at least 90% of the value of all machinery used for the purpose of that process.

i) Verify that where the machinery was acquired by the producer of the motor vehicle from another person, the value of the machinery is the cost of that machinery that is recorded on the books of the producer.

ii) Verify that where the machinery was used previously by the producer of the

motor vehicle in the production of another good, the value of machinery is the cost of the machinery that is recorded on the books of the producer minus accumulated depreciation of that machinery that is recorded on those books.

iii) Verify that where the machinery was produced by the producer of the motor vehicle, the value of the machinery is the total cost incurred with respect to that machinery, calculated on the basis of the costs that are recorded on the books of the producer.

m) Conclude as to whether all the conditions outlined in verification procedures g) through l) are met. If so, the RVC requirement is not less than 50% for five years after the date on which the **first prototype** is produced in the **plant** by the **motor vehicle assembler**. The RVC requirements outlined in verification procedures d) through f) apply for the periods following this five year time frame.

## **2.5 Special RVC Requirements for Light-Duty Vehicles Produced in a Refit Plant**

n) Determine if the **plant** in which the **light-duty vehicles** are produced meets the definition of **refit**.

## **2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS**

o) Determine if the **light-duty vehicles** produced meet the definition of **first prototype**.

p) Determine the date of production of the **first prototype** and whether or not it has been two years since the date on which the **first prototype** has been produced. If greater than two years after the date on which the **first prototype** was produced, use the appropriate RVC requirements for **light-duty automotive goods** as identified in verification procedures d) through f).

q) Determine if the light-duty motor vehicle is of a:

i) **class of motor vehicle**,

ii) **marque**,

iii) **size category**, or

iv) type of **underbody**,

that was not assembled by the **motor vehicle assembler** in the **plant** before the **refit**.

r) Conclude as to whether the conditions outlined in verification procedures n) through q) are met. If so, the RVC requirement is not less than 50% for two years after the date on which the **first prototype** is produced in the **plant** by the **motor vehicle assembler**. The RVC requirements outlined in verification procedures d) through f) apply for the periods following this two year time frame.



## 2.6 General Summary Procedures

s) Conclude on the verification sub-objective.

## 3. MOTOR VEHICLE AVERAGING ELECTION

### VERIFICATION SUB-OBJECTIVE

To ensure that the producer of light-duty motor vehicles who has filed an election to average has properly determined the goods to be used to determine the sum of the net costs and the sum of the values of non-originating materials (VNM) that are used in the calculation of the regional value content (RVC) as set out in the NAFTA Rules of Origin Regulations.

Note: Some of these procedures require information contained in the classification of the finished goods Section of the 11. TARIFF CLASSIFICATION verification subprogram.

### VERIFICATION PROCEDURES

#### 3.1 Identification of election to average

a) Obtain the appropriate Motor Vehicle Averaging Election filed under subsection 11(1) or subsection 13(4) of the NAFTA Rules of Origin Regulations for the period under review as filed with the Customs Administration conducting the verification.

- i) Confirm that the election has been accepted within the required time frames.
- ii) Ensure that the models of motor vehicles identified on the certificate of origin are included in the election to average.
- iii) Identify the averaging provisions elected by the producer.

#### 3.2 Identification of the motor vehicles produced by the motor vehicle assembler which should be included in the election to average

b) If the category under paragraphs 11(5)(a) or 13(7)(a) of the NAFTA Rules of Origin Regulations, identify

- i) the **model line** of all motor vehicles produced in the **plant** for which the election is made,
- ii) the **class of motor vehicle** for all motor vehicles produced in the **plant** for which the election is made.

## 3. MOTOR VEHICLE AVERAGING ELECTION

- c) If the category under paragraph 11(5)(b) or paragraph 13(7)(b) of the NAFTA Rules of Origin Regulations is chosen, identify the **class of motor vehicle** for all motor vehicles produced in the **plant** for which the election is made.
- d) If the category under paragraph 11(5)(c) of the NAFTA Rules of Origin Regulations is chosen, identify the **model line** of all motor vehicles produced in the territory of the NAFTA country.

### **3.3 Comparison and reconciliation of the submission of RVC information to the election filed under Section 11 - Motor Vehicle Averaging**

Ensure that: 1) the category or basis of calculation as stated in the election filed with our customs administration have not been modified in any way in the calculation of the actual RVC; and 2) all vehicles that should be included based on the category and basis of calculation identified in the election, are in fact included in the averaging calculation. (The results of this section will be used as the basis for the remaining verification sub-programs)

- e) Determine if the averaging category, identified in verification procedures b) , c) or d) used by the **motor vehicle assembler** to prepare the submission of RVC information is the same as the one on the filed election to average. Identify any differences.
- f) Determine the motor vehicles whose costs are included in the submission of the RVC information.

Compare the motor vehicles whose costs are being averaged in the submission to the motor vehicles whose costs should be averaged based on the filed election to average.

### **3. MOTOR VEHICLE AVERAGING ELECTION**

- i) If the category under paragraph 11(5)(a) of the NAFTA Rules of Origin Regulations has been chosen, ensure that:

A) the **model line** identified on the filed election to average is the same as the **model line** of the vehicles whose costs are included in the RVC calculation and all vehicles whose costs are included in the RVC calculation are in the same **model line** and the costs associated with all motor vehicles in that **model line** are included in the RVC calculation, and

B) the **class of motor vehicle** identified on the filed election to average is the same as the **class of motor vehicles** whose costs are included in the RVC calculation and the **model line** identified in verification procedure f)i)A) is within the same **class of motor vehicle** and the costs associated with all motor vehicles in that **model line** in that **class of motor vehicle** are included in the RVC calculation, and

C) the **plant** identified on the filed election to average is the same as the **plant** which produces the motor vehicles whose costs are included in the RVC calculation and the **class of motor vehicle** identified in verification procedure

f)ii)B) is all produced within the same **plant** and the costs associated with all motor vehicles in that **model line** of motor vehicle in that **class of motor vehicle** in that **plant** are included in the RVC calculation.

ii) If a category under paragraph 11(5)(b) of the NAFTA Rules of Origin Regulations has been chosen, ensure that

A) the **class of motor vehicle** identified on the filed election to average is the same as the **class of motor vehicles** whose costs are included in the RVC calculation and the costs associated with all motor vehicles that are within the same **class of motor vehicle** are included in the RVC calculation, and

### 3. MOTOR VEHICLE AVERAGING ELECTION

B) the **plant** identified on the filed election to average is the same as the **plant** which produces the motor vehicles whose costs are included in the RVC calculation and the **class of motor vehicle** identified in verification procedure f)ii)A) is produced within the same **plant** and the costs associated with all motor vehicles in that **class of motor vehicle** in that **plant** are included in the RVC calculation.

iii) If the category under paragraph 11(5)(c) of the NAFTA Rules of Origin Regulations has been chosen, ensure that

the **model line** identified on the filed election to average is the same as the **model line** of the motor vehicles whose costs are included in the RVC calculation **and** all motor vehicles whose costs are included in the RVC calculation are in the same **model line and** the costs associated with all motor vehicles produced in the territory of a NAFTA country in that **model line** are included in the RVC calculation.

g) Ensure that the basis of calculation actually used by the producer is the same as the one on the election.

i) If the basis under paragraph 11(9)(a) has been elected as identified in verification procedure a), and using the results of verification procedures b), c), or d) as applicable, ensure that all motor vehicles that fall within the category chosen and are produced (for domestic use and for exportation) in the period elected are included in the RVC calculation.

ii) If the basis under paragraph 11(9)(b) has been elected as identified in verification procedure a), and using the results of verification procedures b), c), or d), ensure that all those motor vehicles exported to the territory of one or more of the NAFTA countries that fall within the category chosen and are produced in the period elected are included in the RVC calculation.

h) Ensure that the period identified on the filed election to average is the same as the period used to calculate the RVC. This should be the producer's fiscal year. How does this compare to the period defined in the Certificate(s) of Origin?

### 3. MOTOR VEHICLE AVERAGING ELECTION

#### 3.4 Comparison to the election filed under subsection 13(4) - Special RVC Requirements for Vehicles Produced in a New or Refit Plant

Ensure that: 1) the category or basis of calculation as stated in the election filed with our customs administration have not been modified in any way in the calculation of the actual RVC; and 2) all vehicles that should be included based on the category and basis of calculation identified in the election are in fact included in the averaging calculation. (The results of this section will be used as the basis for the remaining verification sub-programs )

i) Determine the averaging category, as identified in the NAFTA Rules of Origin Regulations, used by the **motor vehicle assembler** to prepare the submission of RVC information. Ensure that the category actually averaged in the submission is the same as the one on the filed election to average.

j) Determine the motor vehicles whose costs are included in the RVC calculation in the submission.

Compare the motor vehicles whose costs are being averaged in the submission to the motor vehicles whose costs should be averaged based on the filed election to average.

i) If a category under paragraph 13(7)(a) has been chosen, ensure that

A) the **model line** identified on the filed election to average is the same as the **model line** of the vehicles whose costs are included in the RVC calculation and all vehicles whose costs are included in the RVC calculation are in the same **model line** and the costs associated with all motor vehicles in that **model line** are included in the RVC calculation, and

B) the **class of motor vehicle** identified on the filed election to average is the same as the **class of motor vehicles** whose costs are included in the RVC calculation and the **model line** identified in verification procedure j)i)A) is within the same **class of motor vehicle** and the costs associated with all motor vehicles in that **model line** in that **class of motor vehicle** are included in the RVC calculation, and

### 3. MOTOR VEHICLE AVERAGING ELECTION

C) the **plant** identified on the filed election to average is the same as the **plant** which produces the motor vehicles whose costs are included in the RVC calculation and the **class of motor vehicle** identified in verification procedure

j)ii)B) is all produced within the same **plant** and the costs associated with all motor vehicles in that **model line** of motor vehicle in that **class of motor vehicle** in that **plant** are included in the RVC calculation.

ii) If a category under paragraph 13(7)(b) has been chosen, ensure

A) the **class of motor vehicle** identified on the filed election to average is the same as the **class of motor vehicles** whose costs are included in the RVC calculation and the costs associated with all motor vehicles that are within the same **class of motor vehicle** are included in the RVC calculation, and

B) the **plant** identified on the filed election to average is the same as the **plant** which produces the motor vehicles whose costs are included in the RVC calculation and the **class of motor vehicle** identified in verification procedure

j)ii)A) is produced within the same **plant** and the costs associated with all motor vehicles in that **class of motor vehicle** in that **plant** are included in the RVC calculation.

k) Ensure that the basis of calculation actually used by the producer is the same as the one on the election.

i) If the basis under paragraph 13(8)(a) has been elected as identified in verification procedure a), and using the results of verification procedures b) or c), as applicable, ensure that all motor vehicles that fall within the category chosen that are produced (for domestic use and for exportation) in the period elected are included in the RVC calculation.

ii) If the basis under paragraph 13(8)(b) has been elected as identified in verification procedure a), and using the results of verification procedures b) or c), as applicable, ensure that all those motor vehicles exported to the territory of one or more of the NAFTA countries that fall within the category chosen and are produced in the period elected are included in the RVC calculation.

### **3. MOTOR VEHICLE AVERAGING ELECTION**

l) Ensure that the period identified on the filed election to average is the same as the period used to calculate the RVC. Ensure that the period is in accordance with subsection 13(4). How does this compare to the period defined in the Certificate(s) of Origin?

#### **3.5 General Summary Procedures**

m) Conclude as to whether the averaging provisions defined by the election to average have been applied correctly.

n) Prepare adjustments as required.

### **4. AUTOMOTIVE PARTS AVERAGING**

#### **VERIFICATION SUB-OBJECTIVE**

To ensure that the automotive parts producers who have elected to average their net costs and values of non-originating materials have properly determined the goods to be used to determine the sum of the net costs and the sum of the values of non-originating materials (VNM) that are used in the calculation of the regional value content (RVC) as set out in the NAFTA Rules of Origin Regulations.

Note 1: The following verification sub-program only applies where the company has notified the Customs Administration in writing during the course of the verification of their election to average under section 12 of the NAFTA Rules of Origin Regulations. If the Customs Administration has not been notified in writing during the course of the verification that an election to average under section 12 of the NAFTA Rules of Origin Regulations has been made, the light-duty automotive goods (non-averaged) verification programs are applicable. If the company has elected to average under subsections 11(1) or 13(4) of the NAFTA Rules of Origin Regulations use the 3. MOTOR VEHICLE AVERAGING ELECTION verification sub-program.

Note 2: Some of these procedures require reference to the verification procedures performed in the 11.2 Classification of the Finished Goods section of the 11. TARIFF CLASSIFICATION verification sub-program.

#### VERIFICATION PROCEDURES

a) Refer to the 2. RVC Percentage Requirements for Light-Duty Automotive Goods in order to ensure that the correct regional value content percentage is being applied.

#### **4.1 Identification of election to average**

b) If the good is of a provision listed in **Schedule IV of the Regulations**, inquire as to whether the producer is electing to calculate the sum of the net costs incurred and the sum of the non-originating materials used by the producer of the goods in accordance with section 12 of the Regulations. If so, this program is applicable, otherwise use the **light-duty automotive goods** non-averaged verification program (where the goods are of a provision listed on **Schedule IV of the Regulations**, subject to a regional value-content requirement and are for use as **original equipment** in the production of a **light-duty vehicle**).

i) Determine the models of goods by part number included in the automotive parts averaging election. Obtain this information in writing from the company.

#### **4. AUTOMOTIVE PARTS AVERAGING**

ii) Using the information obtained in the 11. TARIFF CLASSIFICATION verification sub-program, ensure that all part numbers of the models identified in

- i) are of the same tariff provision listed in **Schedule IV**.
- iii) Compare the part numbers of the models under review to the certificate of origin to ensure that any or all models or part numbers are included in the automotive parts averaging election.
- iv) Identify the averaging provision (i.e. category and period) elected by the producer. Obtain this information in writing from the company.
- v) Where the automotive parts producer chooses a one or three month period, determine if the producer has, at the end of the fiscal year of the motor vehicle producer to whom the goods are sold, chosen the fiscal year of that motor vehicle producer.

#### **4.2 Identification of the goods included in the automotive parts averaging election**

- c) If the category under paragraph 12(4)(a) of the Regulations is chosen by the producer, ensure that the goods are **original equipment** for use in the production of **light-duty vehicles**.
- d) If the category under 12(4)(b) of the Regulations is chosen, ensure that the goods are **original equipment** for use in the production of heavy-duty vehicles, and this program is not applicable. Refer to the 4. AUTOMOTIVE PARTS AVERAGING verification sub-program in the HEAVY-DUTY AUTOMOTIVE GOODS (AVERAGED) verification program.
- e) If the category under 12(4)(c) of the Regulations is chosen, ensure that the goods are after-market parts, and this program is not applicable. Refer to the applicable verification programs found in Chapter 5 of the audit manual.
- f) If the category under 12(4)(d) of the Regulations is chosen, ensure that the goods are **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts.

#### **4. AUTOMOTIVE PARTS AVERAGING**

- g) If the category under 12(4)(e) of the Regulations is chosen, ensure that the goods are any of the following:
  - i) **original equipment** for use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers; or
  - ii) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are sold to one or more motor vehicle producers.

h) If the category under 12(4)(f) of the Regulations is chosen, ensure that the goods are any of the following:

i) **original equipment** for use in the production of **light-duty vehicles** and are exported to the territory of one or more of the NAFTA countries;

ii) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after market parts and are exported to the territory of one or more of the NAFTA countries;

iii) **original equipment** for use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries; or

iv) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries.

i) If the verification encompasses reviewing all goods of a tariff provision produced by the producer, ensure that all goods are included in an averaging category. Similarly, if the verification encompasses specific goods of the same tariff provision, ensure that only those goods are included in an averaging category.

#### **4. AUTOMOTIVE PARTS AVERAGING**

##### **4.3 Identification of the motor vehicle producer included in the automotive parts averaging election**

j) If the category under 12(4)(a) of the Regulations is elected, where the goods are:

i) **original equipment** for use in the production of **light-duty vehicles**:

A) Determine the motor vehicle producer(s) included in the averaging election;

B) Determine if all motor vehicle producer(s) have the same fiscal year end(s).

C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for;

k) If the category under 12(4)(d) of the Regulations is elected, where the goods are:

i) original equipment for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty motor vehicles, or after-market parts:



- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) have the same fiscal year end(s).
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for;

l) If the category under 12(4)(e) of the Regulations is elected, where the goods are:

i) **original equipment** for use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers:

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end;

#### 4. AUTOMOTIVE PARTS AVERAGING

C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for; or

ii) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are sold to one or more motor vehicle producers:

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end;
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for.

m) If the category under 12(4)(f) of the Regulations is elected, where the goods are:

i) **original equipment** for use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end;
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for; or

ii) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty

vehicles, or after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end;

#### **4. AUTOMOTIVE PARTS AVERAGING**

C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in c) have all been accounted for.

##### **4.4 Identification of the country(s) of export included in the automotive parts averaging election**

n) If the category under 12(4)(f) of the Regulations is chosen, if the goods are:

i) **original equipment** for use in the production of **light-duty vehicles** and are exported to the territory of one or more of the NAFTA countries:

- A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to;
- B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct;

ii) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after market parts and are exported to the territory of one or more of the NAFTA countries:

- A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.
- B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct;

iii) **original equipment** for use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

- A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.

#### **4. AUTOMOTIVE PARTS AVERAGING**

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct;

iv) **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct.

#### **4.5 Verification of the period elected by the producer**

o) If the category under paragraph 12(4)(a) of the Regulations is chosen, ensure that the period elected is calculated over any month, any consecutive three month period that is evenly divisible into the number of months of the producer's fiscal year remaining at the beginning of the period, or the fiscal year of the motor vehicle producer to whom those goods are sold only if all producer(s) have the same fiscal year end.

i) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

ii) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

A) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or

#### **4. AUTOMOTIVE PARTS AVERAGING**

B) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

p) If the category under paragraph 12(4)(d) of the Regulations is chosen and some of the goods are **light-duty automotive goods**, ensure that the period elected is calculated over any month, any consecutive three month period, or the fiscal year of the motor vehicle producer to whom those goods are sold only if all producer(s) have the same fiscal year end.

i) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

ii) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

A) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or

B) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

q) i) If the category under paragraph 12(4)(e) of the Regulations is chosen and the goods are only **original equipment** for the use in the production of **light-duty vehicles** and are sold to one or more motor vehicle producers, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

ii) If the category under paragraph 12(4)(e) of the Regulations is chosen and the goods are **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are sold to one or more motor vehicle producers ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

r) i) If the category under paragraph 12(4)(f) of the Regulations is chosen and the goods are only **original equipment** for the use in the production of **light-duty vehicles** and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is

chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or  
II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

ii) If the category under paragraph 12(4)(f) of the Regulations is chosen and the goods are **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated any month, any consecutive three month period or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or  
II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

iii) If the category under paragraph 12(4)(f) of the Regulations is chosen and the goods are only **original equipment** for the use in the production of **light-duty vehicles**, are sold to one or more motor vehicle producers and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or  
II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

iv) If the category under paragraph 12(4)(f) of the Regulations is chosen and the goods are **original equipment** for use in the production of **light-duty vehicles** in combination with **original equipment** for use in the production of heavy-duty vehicles, or after-market parts, are sold to one or more motor vehicle producers and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or enquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure b); or  
II) the remainder of the fiscal year of the automotive parts producer where such producer did not change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

#### 4.6 Comparison and reconciliation of the submission of RVC information

s) Ensure that the goods and period as identified in the election to average obtained in verification procedure b) has not been modified in any way in the calculation of the actual RVC.

#### 4.7 General Summary Procedures

- t) Conclude as to whether the averaging provisions defined by the election to average have been applied correctly.
- u) Prepare adjustments as required.

### 5. INITIAL ANALYSIS OF THE RVC INFORMATION

#### VERIFICATION SUB-OBJECTIVE

To conduct a preliminary review of the submitted RVC information in order to identify risks that require further verification.

#### VERIFICATION PROCEDURES

- a) Obtain from company officials a submission of RVC information for the goods under review.
- b) Review the costs provided in the submission of RVC information to determine if they are reflective of actual costs (as opposed to estimates that would have been used in the election to average).
- c) Ensure that all calculations are correct. Ensure that the appropriate RVC percentage requirement has been used by the company. Ensure that the good has met the RVC requirement based on these calculations.
- d) Ensure that all the non-originating materials (i.e. materials that do not meet their required rule of origin) and materials of unknown origin have met the required tariff classification change portion of the rule of origin.
- e) Identify any materials listed on **Schedule IV** that are imported by the company but are declared as originating materials.
- f) Review the labor and overhead information provided. Identify any excluded costs incorrectly included in the RVC calculation.
- g) Conduct risk analysis/ratio analysis on the total values for materials, labor and overhead in relation to the RVC requirement.
- h) Conclude on the areas of concern requiring further review.

### 6. PLANT TOUR

#### VERIFICATION SUB-OBJECTIVE

To obtain an understanding of the entire operations of the company (i.e. manufacturing, assembly, warehouse, accounting, etc.).

#### VERIFICATION PROCEDURES

- a) Obtain an organization chart. Ensure all operations and or departments whose costs are included in the total cost calculation for RVC purposes have been reviewed and documented. Document the potential for costs to be included in total cost that should be excluded (i.e. costs not directly related to the production of the motor vehicles subject to averaging, sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs and non-allowable interest costs).
- b) Observe and document the existence of the *goods* included in the election.
  - i) Confirm the goods to be included in the election to average are manufactured at that production facility.
  - ii) Identify other goods that should be included in the election and goods that are included but should not be.

iii) Identify any differences that may exist with respect to the tariff classification of the goods under review.

c) Where the producer designates an intermediate material, review the assembly process and observe the completed intermediate material (IM). This information will be used in the 15. INTERMEDIATE MATERIAL verification sub-program.

d) Observe and document any concerns with regards to any possible non-qualifying operations (i.e. unacceptable production or pricing practice used to circumvent the Rules of Origin) noted during the plant tour. This information will be used in the 8. Non-Qualifying Operations verification sub-program.

e) Observe and document the research and development and/or engineering operations. Document any concerns with respect to the potential allocation problems of costs not directly related to the goods included in the averaging calculation.

f) Observe and document the warehouse operations (i.e. receiving material inventory, storing material inventory and storing of finished goods).

Document any concerns with respect to the tariff classification of materials for which there may be classification differences.

Document any concerns with respect to the ownership of materials.

Document any concerns with respect to the source of materials (i.e. dual sourcing, markings on materials, fungible materials, etc.) noted during the plant tour, especially those materials listed on **Schedule IV of the NAFTA Rules of Origin Regulations.**

Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the goods included in the averaging calculation.

Document any concerns with respect to the shipping of finished goods (i.e. any costs of shipping and packing that may be included in the net cost calculation).

Document any concerns with respect to the inventory and turnover of finished goods.

g) Observe and document the production/manufacturing operations. Ensure each in-house manufacturing and sub-assembly operations have been documented (i.e. stamping, engine production, axle production, etc.)

Document any concerns with respect to the out-sourcing (sub-contracting) of manufacturing/production or sub-assembly operations. Evaluate whether assists may be provided to the out-sourced producers. This information will be used in the 14. VALUE OF MATERIALS verification sub-program.

Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the goods included in the averaging calculation.

h) Observe and document the financial accounting operations. Ensure the materials ordering, receiving, inventory flow, direct labor costing, indirect material costing and overhead allocation determination are all documented.

i) Observe and document the management of information system operations. Inquire as to the type of management reports that are produced (i.e. bills of materials, production reports, labor reports, material stock reports, etc.). This information will be used in the 7. REVIEW OF MANAGEMENT OF INFORMATION SYSTEM verification sub-program.

## **7. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM**

### VERIFICATION SUB-OBJECTIVE

To ensure the management of information system used to develop the regional value content calculation is reliable and accurate.

### VERIFICATION PROCEDURES

a) Obtain the relevant information concerning the management of information system (MIS) gathered through the plant tour. Identify the areas of concern with respect to the MIS. Consider using the "Review of Policies, Procedures and Internal Controls Checklist" (See Appendix F) to assist in identifying concerns.

- b) Obtain and review the policies and procedures manual. Identify the areas of concern with respect to the MIS.
- c) Obtain the independent auditor's report. Review this report to assess the reliance the auditor's placed on the MIS.
- d) Interview the personnel responsible for the MIS. Assess their knowledge of Electronic Data Processing (EDP) and the importance the organization places on controls within the MIS. .
- e) Document the MIS. Use the policies and procedures manual and the interviews with the MIS personnel as a guide.
- i) Document how the Bill of Materials is created within the system. Document how the following items are entered into the system:
  - A) engineering documents/specifications (including changes to engineering specifications)
  - B) list of materials and suppliers - approved vendor listing
  - C) development of standards for costing purposes (i.e. materials, labor and overhead standards).
- ii) Include a review of the following:
  - A) how orders for motor vehicles are entered into the system
  - B) what determines production for the period
  - C) how production reports are generated
  - D) how material stock reports (i.e. KAN-BAN) and picking lists are generated
  - E) inventory (i.e. purchase from supplier(s), receipt, transfer to production, work-in-process, finished goods, shipment of finished goods)

Document how the actual costs are recorded in the system. Include a review of payments for materials inventory, direct and indirect labor, manufacturing overhead and all other costs included in the total cost calculation.
- f) Document the controls inherent in the MIS (i.e. the general and application controls). Ensure adequate controls over materials inventory, production, labor, overhead, etc.

### **i) General Controls**

Review information pertaining to the organization controls and standard operating procedures.

Review the systems development and documentation controls. This includes:

- A) systems development methodology;
- B) programming conventions and procedures;
- C) technical, management, user and auditor review and approval;
- D) system testing;
- E) conversion control (if applicable);
- F) program change controls;
- G) system documentation standards -- program documentation, operations documentation, user documentation.

Review the systems software controls. This includes:

- A) handling errors;
- B) program protection;
- C) file protection;
- D) security protection.

Document how changes are made (i.e. authorization of changes to the system).

### **ii) Application Controls**

Review the data capture and batch data entry controls. This includes:

- A) control methodology (exposures resulting from errors and irregularities, management control objectives, system objectives, role of controls in EDP systems)
- B) audit trail;
- C) data capture controls;
- D) data entry controls.

Review the on-line entry, processing and output controls. This includes controls to ensure:

- A) reliable, proper, authorized and valid transaction entry;



- B) unreliable and improper data entry is detected;
- C) unreliable and improper data is corrected;
- D) that processing is reliable, proper and authorized;
- E) that unreliable, improper, and unauthorized processing is detected;
- F) that unreliable, improper, and unauthorized processing is corrected;
- G) that errors detected in output are properly corrected and resubmitted to data processing on a timely basis.

## **8. NON-QUALIFYING OPERATIONS**

### VERIFICATION SUB-OBJECTIVE

To ensure that the goods do not qualify as originating because of mere dilution with water or another substance or because of a production or pricing practice designed to circumvent the rules of origin as set out in Chapter 4 of the NAFTA.

**Note:** A good shall not be considered to be an originating good where there is a preponderance of evidence that the object of a production or pricing practice was to circumvent the Rules of Origin. In regards to unacceptable production practices, circumvention consists of any alteration or process performed on goods for the purpose of circumventing the rule of origin requirements. For example, when the processing or assembling performed in the territory of another Party of the Agreement is reversed or substantially altered after the finished goods have been imported, and such processing or assembly was not performed for any commercial purpose other than to qualify the goods for the NAFTA tariff treatment, then this will be considered circumvention.

### VERIFICATION PROCEDURES

#### **8.1 Non-qualifying production/assembly operations**

- a) During the on-site visit, interview personnel to understand the production / assembly operations of the entire **plant(s)** where the goods subject to averaging are produced. Document any concerns with respect to non-qualifying production/assembly operations.
- b) Obtain and review a copy of the bill(s) of materials and any product literature for the goods that are subject to averaging. Document any concerns with respect to non-qualifying production/assembly operations.
- c) Review the section of the 6. PLANT TOUR verification sub-program related to the non-qualifying operations. Address any concerns noted with respect to non-qualifying production/assembly operations.
- d) Review documents related to transportation (consider documents obtained in the 20. TRANSSHIPMENT verification sub-program) and document any concerns with respect to the finished goods being altered subsequent to importation.
- e) Prepare a written evaluation of the non-qualifying production / assembly operation and assess the evidence gathered.

#### **8.2 Non-qualifying pricing practices**

- f) Identify major adjustments made as a result of the 14. VALUE OF MATERIALS verification sub-program, and document any concerns.
- g) Review adjustments made to the purchases accounts at the end of the year and the beginning of the next year. Identify any concerns.
- h) Prepare a written evaluation of the questionable non-qualifying pricing practice(s) and assess the extent of the evidence gathered.

#### **8.3 Conclusion**

i) Conclude on the verification sub-objective.

## **9. BILL OF MATERIALS**

### VERIFICATION SUB-OBJECTIVE

To ensure that the bill(s) of materials of the goods subject to the averaging provisions are complete and consistent throughout the verification period.

### VERIFICATION PROCEDURES

a) Obtain all the bills of materials for the goods that should be included in the averaging calculation (the motor vehicle averaging election for motor vehicles). (Refer to the 3. MOTOR VEHICLE ELECTION TO AVERAGE and 11. TARIFF CLASSIFICATION verification sub-programs.)

b) Verify the mathematical accuracy of the BOMs.

c) Using the information from the 7. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program, obtain the description of the system for BOM's and any related documentation that is required to complete verification procedure f). If necessary, review the policy and procedures manual for the BOM with respect to the definition of the BOM, use of the BOM, what is reported on the BOM, who and when changes are made to the BOM, etc.

d) Compare the models of the bills of materials to the motor vehicle averaging election, if applicable, to ensure they are included in the election. Identify any differences.

e) Sort the BOM's into the various models of the final good subject to averaging.

Obtain the volume of sales to the United States (and/or Canada or Mexico) for each model in each family. Calculate the % of sales by both volume and dollar value within each model group. Obtain the production reports for each model and compare to the volumes of sales as provided by the company.

Document any concerns with respect to goods produced in a different period and being sold/shipped in the period under review.

f) To ensure the BOM's are complete, select a sample of bills of materials to:

i) compare the BOM to engineering documents/specifications (i.e. compare parts and quantity to be included in the production of the good);

ii) compare the part's numbers, descriptions and values to picking lists used to obtain parts for the production from inventory,

iii) compare the bills of materials to product literature;

iv) review the sourcing of materials for consistency among the bills of materials

v) compare the BOM's to BOM's for similar goods (i.e. use professional judgment to ensure all materials on the BOM are incorporated into the good and to ensure there are no missing materials that should be incorporated into the good).

Document any differences. Obtain explanations from the client.

g) To ensure that the standard costs for materials on the BOM are consistent throughout the year:

i) review the company's standard cost accounting policies;

ii) inquire of company officials if there have been changes in the production process or the standard costs during the year;

iii) compare a sample of the BOM's to others for the same model from a different date during the year.

Inquire with company officials if any differences are found.

h) Conclude on the verification sub-objective.

## **10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION**

### VERIFICATION SUB-OBJECTIVE

To ensure that the list of materials used in the averaged RVC calculation for net costs and value of non-originating materials is complete and accurate.

Note: The 9. BILL OF MATERIALS verification sub-program will have to be completed before proceeding with these verification procedures.

### VERIFICATION PROCEDURES

- a) Obtain the listing of materials and any additional supporting documentation used by the producer in the RVC calculation for net costs and value of non-originating materials. This listing should contain all the materials used in the production of all the final good subject to the averaging provisions for the period under review.
- b) Verify the mathematical accuracy of the listing. Compare the totals reported on the listing to the total value of materials included in the net cost calculation and the value of non-originating materials in the submission of RVC information.
- c) Interview the person(s) responsible for developing this listing. Inquire how the list of materials was developed (i.e. how did the client ensure that only the materials used in the production of the final good subject to the averaging provisions are included on the list).  
Based on their response to the above, assess their knowledge of the NAFTA, the NAFTA Rules of Origin Regulations and, specifically the motor vehicle averaging provisions, if applicable.
- d) Match this listing with the general ledger and/or audited financial statements. If non-averaged goods are also produced, ensure the materials used to produce those goods are not included in this list.
- e) Perform reasonableness tests on the list of materials such as the following:
  - i) using production reports and average costs, recalculate the total of the value of materials included in the averaging calculation;
  - ii) select a sample of materials and recalculate the value of materials using average/standard values.
- f) Select a sample of bills of materials included in the averaging calculation and perform the following:
  - i) compare the description of a sample of the materials per the BOM to the list to ensure they are listed;
  - ii) using the production reports, ensure the quantity of materials on the list of materials is appropriate.
- g) Select a sample of materials from the list of materials included in the averaging calculation and perform the following:
  - i) compare the description per the list of materials to the BOM to ensure they are used in the goods to be averaged;
  - ii) using production reports, ensure the quantity on the list is appropriate for the materials used in the goods to be averaged.
- h) Identify any accessories, spare parts and tools, packaging materials and containers for retail sale and packing materials and containers for shipment to be disregarded for evaluating the tariff classification change requirement. This information will be used in the 11. TARIFF CLASSIFICATION verification sub-program. Provide the information concerning packing materials and containers for shipment to the person responsible for the 16. Value of Other Costs Than Materials and 14. Value of Materials verification sub-program.
- i) Conclude on the verification sub-objective.

## **11. TARIFF CLASSIFICATION**

### VERIFICATION SUB-OBJECTIVES

To ensure that the finished good is properly classified under the Harmonized System (H.S.) of tariff classification, and to ensure the correct rule of origin is applied.

To classify all materials which would not meet the necessary tariff classification change as required by the specific rule of origin (Schedule I of the NAFTA Rules of Origin Regulations)

applicable to the good if they were non-originating materials.

To classify all potential **traced materials** (materials of a tariff provision listed in **Schedule IV of the NAFTA Rules of Origin Regulations**) used or incorporated in the good in order to establish the **value of non-originating materials** per Section 9 of the Regulations.

## VERIFICATION PROCEDURES

### **11.1 General**

a) Interview the person(s) responsible for tariff classification to establish how the classifications of the good and materials were determined.

Obtain any rulings that the company had received from other Customs Administrations.

b) Document the potential for fungible materials while performing the procedures in this verification sub-program.

c) Obtain information from the company pertaining to the de minimus calculation when the company has applied the de minimus provisions to qualify the goods. To evaluate de minimus, refer to the verification procedures outlined in Chapter 5 of this audit manual.

d) For use in the 12. SOURCE OF MATERIALS verification sub-program, note the source of materials, if you come across this information while performing the procedures in this verification program.

### **11.2 Classification of the finished good and intermediate materials (IMs)**

e) Obtain and review documentation on the goods and IM's, e.g., bills of materials, public brochures, engineering specifications, invoices, bills of lading, owner's manual, catalogues, and verify if it is consistent with the tariff classifications provided for the goods under review.

Review the export documents for the Harmonized System (HS) number for the goods under review.

f) Obtain from the 6. PLANT TOUR verification sub-program information with respect to the production of the goods or the intermediate materials and physically inspect the goods during a plant tour to aid in confirming the correct classification number and rule of origin of the finished goods and IMs.

g) Identify the classification declared by the company in the RVC information, on the election to average (if applicable) and on the NAFTA Certificate of Origin.

h) Identify the applicable rule of origin for the goods and IMs.

i) Ensure that the goods are included in the **class of motor vehicles** as elected by the producer (if applicable).

j) Ensure that the goods are in the same tariff provision listed in Schedule IV as elected by the producer (if applicable).

k) Prepare a conclusion on the tariff classification for the goods and IMs under review.

### **11.3 Classification of materials for tariff classification change requirement only**

To be completed where the non-originating materials included in the goods under review are required to undergo a tariff classification change.

l) Analyze the rule of origin identified in verification procedure g) of this verification sub-program to determine the tariff classification of the materials that would not meet the required tariff classification change if they were non-originating materials.

m) Obtain an accurate description of the materials used in the production of the goods, by physical examination, reviewing supplier parts catalogue, purchase orders, engineering documents and/or supplier contracts. Document any self-produced materials designated in accordance with subsection 4(8) of the NAFTA Rules of Origin Regulations.

n) For only the goods being exported to the country performing the verification, classify all materials except those identified as accessories, spare parts and tools; packaging materials and container for retail sale and packing materials and containers for shipment (obtain both the list of materials to classify and the identification of the exceptions from the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program) to the level required for tariff change requirement.

o) Identify those materials which would not meet the tariff change requirement if they were non-originating.

#### **11.4 Classification of all potential traced materials (materials of a tariff provision listed in Schedule IV of the Regulations) used or incorporated in the good**

p) Using the list developed in the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION, (and any information concerning the potential traced material content of intermediate materials, if applicable, from the 15. INTERMEDIATE MATERIAL verification sub-program) obtain an accurate description of the materials by physical examination, reviewing supplier parts catalogues, engineering documents and/or supplier contracts (some of this reference material may have been gathered in verification procedure I) of this verification sub-program). Identify:

- i) those materials that are of a tariff provision listed in **Schedule IV**, but do not contain any **Schedule IV** sub-materials; and
- ii) those materials that are of a tariff provision listed in **Schedule IV**, which may also contain sub-materials that are of a tariff provision listed in **Schedule IV**. For those materials identified,

A) identify the sub-materials by examining the BOM for the sub-materials, the suppliers parts catalogues and/or physical examination;

B) classify the sub-materials; and,

C) identify the sub-materials that are of a tariff provision listed in Schedule IV.

iii) those materials that are **NOT** of a tariff provision listed in **Schedule IV**, but which may contain sub-materials that are of a tariff provision listed in **Schedule IV**. For those materials identified,

A) for the materials identified, identify the sub-materials by examining the bills of materials, supplier parts catalogues, engineering documents, supplier contracts, and/or by physical examination;

B) classify the sub-materials; and,

C) identify the sub-materials that are of a tariff provision listed in **Schedule IV**.

q) Repeat verification procedures o)i) through iii) as necessary to identify any sub-materials, used or incorporated into the materials, that are of a tariff provision listed in **Schedule IV**.

r) Prepare a working paper to document **all** the identified materials, used or incorporated into the goods subject to the averaging calculation **at any level** of production, that are of a tariff provision listed in **Schedule IV**. Also, when applicable, group sub-materials by the material that incorporates the sub-materials.

## **12. SOURCE OF MATERIALS**

### VERIFICATION SUB-OBJECTIVES

To determine and verify:

--the origin of all materials which would not meet the necessary tariff classification change as required by the specific rule of origin (Schedule I of the Regulations) if the materials were non-originating; and

--the source of all materials or sub-materials of a tariff provision listed in **Schedule IV of the Regulations**, used or incorporated in the good in order to establish the **value of non-originating materials** (Section 9 of the Regulations) especially the ones claimed as originating materials by the producer or his supplier.

## VERIFICATION PROCEDURES

### **12.1 Tariff Classification Change Analysis**

- a) Obtain the list of the materials which would not meet the tariff classification change required by the specific rule of origin from the CLASSIFICATION OF MATERIALS FOR TARIFF CHANGE REQUIREMENT ONLY section of the 16. TARIFF CLASSIFICATION verification sub-program.
- b) Confirm the origin of these materials by reviewing the Certificate of Origin or the supplier certification obtained by the producer or by reviewing the purchase order, invoice and the receiving document.
- c) Physically inspect these materials to verify markings or any other indications which might indicate that the materials are non-originating.
- d) Assess if the 7% De Minimis rule can be applied if there are non-originating materials that do not meet the required tariff classification change (see verification procedure f) in the 14. VALUE OF MATERIALS verification sub-program).
- e) Evaluate the need to send supplier confirmations for the purposes of the origin of materials for the tariff change requirement.
- f) Conclude as to whether the tariff classification change requirement has been satisfied.

### **12.2 Source of materials of a tariff provision in Schedule IV for the purposes of determining the VNM**

- g) Obtain the complete list of all potential **traced materials** (i.e., materials and submaterials of a tariff provision listed in **Schedule IV**) from the CLASSIFICATION OF ALL POTENTIAL TRACED MATERIALS USED OR INCORPORATED IN THE GOOD section of the 11. TARIFF CLASSIFICATION verification sub-program.
- h) Using the list obtained in verification procedure g) select a sample of materials and sub-materials which the exporter has claimed as originating (including those materials which may contain sub-materials) and perform the following:
  - i) verify if the source of the above materials could be valid, by looking at the Industry Profile documentation, industry information and other submissions for similar goods (i.e. could these materials be imported);
  - ii) interview company officials responsible for the origin of materials as found in the submission of RVC information. Ask what procedures they used to verify the source of the materials. Document strengths and weaknesses of the manner in which the company assigned origin to the materials;
  - iii) if the company has received supplier certifications to verify the source of the materials, review them and determine if they are adequate (if not adequate these items may be considered high risk items for confirmation purposes).
- i) Obtain information from the exporter's policy and procedures manuals and complete a plant tour to assist in identifying the source of materials. Physically inspect the materials to identify markings or any other indications of whether or not the materials may be imported. Coordinate this work with that in verification procedure m)ii). While conducting the plant tour and through enquiry of management, identify any parts of the production process that may be sub-contracted to another company.

j) Review the concerns identified in the 6. PLANT TOUR verification sub-program.  
k) Obtain a list of suppliers for all materials on the list obtained in verification procedure g). For the originating materials identified in verification procedure h), determine the suppliers and perform the following:  
i) determine whether any of the suppliers have companies in a non-NAFTA country, or if the suppliers are U.S., Canadian or Mexican distributors (these suppliers will be considered high-risk items for confirmation purposes);  
ii) inquire of company officials if there were any supplier changes during the period under review or any materials that are sourced from more than one supplier. The Approved Vendor List or the history of the engineering specifications may provide evidence of supplier changes;  
iii) determine whether there are any fungible materials. Examine the parts and supplier lists, the Approved Vendor List and inquire as to whether the same material is sourced from both a supplier from a NAFTA country and from a non-NAFTA country and if they source parts from distributors. (This information will be used in the 13. INVENTORY MANAGEMENT SYSTEM verification sub-program.)

l) Using the 11. TARIFF CLASSIFICATION verification sub-program identify: 1) any materials of a tariff provision listed on **Schedule IV** that had been designated as originating but were in fact imported from outside the NAFTA territory or 2) any materials that are not of a tariff provision on **Schedule IV** that are considered non-originating but were in fact imported from outside the NAFTA territory, i.e. information from supplier catalogues and markings during the plant tour  
m) Select a sample of originating materials from the list obtained in verification procedure g) and perform the following:  
i) scan the purchase invoice, any attached shipping documents, and bank endorsement stamp on the canceled check to determine whether they support the exporter's claim for the source (and value) of the material;  
ii) select materials from this sample to verify markings and coordinate this work with that performed in verification procedure j);  
iii) follow up on any contradictory observations; and  
iv) prepare a working paper to control this process and to document the results.

n) Using the list obtained in verification procedure g), select a sample of materials not claimed as originating by the producer and determine if:  
i) the materials are imported directly into the NAFTA territory by the producer, or  
ii) the materials are imported into the territory by someone other than the producer, or  
iii) the producer chose to identify the material as non-originating per 9)9)e) of the Regulations

If the material is imported into the territory by someone other than the producer, obtain supplier statements for these materials.

This information will be used in the 14. VALUE OF MATERIALS verification sub-program.

o) Compare any supplier statements or certificates of origin obtained through the verification procedures identified above to the list of materials.  
p) Evaluate the need to expand sampling procedures based on the results of the testing performed above.  
q) Assess if the origin or the traced material content of any of the materials needs to be confirmed with respect to the materials listed on **Schedule IV**.  
r) Conclude as to whether the materials listed on **Schedule IV**, including the materials (and sub-materials) that may incorporate sub-materials listed on **Schedule IV**, are originating, imported or non-originating but not-imported (as determined by the Customs officers).

### 12.3 Supplier Confirmations

s) Judgementally select suppliers from whom supplier confirmations will be obtained: to confirm the origin of materials listed on **Schedule IV** claimed to be originating; or to confirm the origin of materials that have potential **traced materials** in them and claimed by the company or its

supplier to be originating (the value of the **traced materials** may also be the subject of this confirmation); or to confirm the origin of materials that if found to be non-originating would not meet the tariff change requirements in Schedule I and that have been claimed as being originating by the company.

- i) send confirmations to high risk suppliers who are distributors, or those who are known to import parts from outside the territory, or where the reliability of the suppliers certifications on file with the exporter/producer are questionable and for high dollar value materials;
- ii) find information on the suppliers in the exporter/producer correspondence files and purchase records, i.e. addresses, contact person, phone numbers, etc;
- iii) ensure that confirmations are sent out to all suppliers of a material if there is more than one supplier of a material or if suppliers were changed during the period under review;
- iv) follow up with the supplier to obtain a completed confirmation, this may be telephone within a predetermined time frame to ensure that all the completed confirmations are received;

Note: Confirmation for which there is no response or insufficient information will result in the material being considered non-originating for tariff change purposes, and will be included in VNM for the RVC calculation.

- v) review the confirmations once they are received from the suppliers and compare the information on the confirmations with the information on the certificates filed with the exporter and/or producer;
- vi) determine if supplier confirmation letters should be sent to the suppliers of the suppliers of the exporter and/or producer, because there are materials which require further verification (either for origin or VNM purposes);
- vii) after reviewing the supplier confirmation, consideration should be given to conducting a restricted supplier verification at the suppliers' premises based on the evidence gathered to date. However, such visits will have to be approved prior to making any arrangements;
- viii) prepare a working paper to control the confirmation process and to document the results; and
- ix) prepare a letter to each supplier subject to the confirmation process, notifying them of whether or not the material was found to be originating.

## 12.4 General

- t) Ensure that all verification adjustments required as a result of the sourcing verification procedures have been recorded.

## 13. INVENTORY MANAGEMENT SYSTEM

### VERIFICATION SUB-OBJECTIVE

To determine if an applicable inventory management method is in place when fungible materials (physically separated or commingled) are used in the production of a good, or when fungible goods are physically combined or mixed in inventory, potentially to identify the origin of a specific shipment of the goods.

In terms of fungible materials used in the production of **light-duty automotive goods**, an inventory management method must identify originating versus non-originating materials for the purposes of the tariff classification change requirement. Also, for the purposes of the RVC requirement, an inventory management method must, for materials that are on **Schedule IV**, identify not imported versus imported materials, and for all materials that have more than one supplier, identify the different traced sub-material values.

If an acceptable inventory management method does not exist, for the purposes of the tariff classification change requirement, all fungible materials will be considered to be non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials identified as a risk above will be included in the calculation of VNM.

Note that the existence of fungible materials does not automatically require that this verification



program be applied, as the exporter/producer may choose to treat, for the purposes of the tariff change requirement, all fungible materials as non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials as part of VNM.

#### VERIFICATION PROCEDURES

- a) Using the information from the 12. SOURCE OF MATERIALS verification sub-program, obtain a listing of identified fungible materials.
- b) Determine the impact on the origin of the goods under review should the inventory management system be found to be not acceptable. When fungible materials exist, evaluate the impact in terms of the tariff classification change requirement (consider the use of the de minimis provision) by reviewing the information obtained in the 11. TARIFF CLASSIFICATION verification sub-program, as well as in terms of the regional value content requirement (considering **Schedule IV** and materials that may contain traced sub-materials) by reviewing the information obtained in the 14. VALUE OF MATERIALS and the 18. CALCULATION OF THE REGIONAL VALUE CONTENT verification sub-programs. If the impact is significant, proceed with the evaluation of the inventory management system.
- c) Determine which of the following inventory management systems outlined in the NAFTA Regulations - Schedule X the company used for the fungible materials (goods):

##### Specific Identification

FIFO

LIFO

##### Average Method

- d) Document the inventory management system from the beginning to end (i.e. purchasing, receiving, storage of materials, removal of materials from storage into production of goods, storage of goods and removal of goods from storage for shipment of goods).
- e) If Specific Identification was used, ensure that fungible materials (goods) were physically segregated, or ensure the existence of an origin identifier.
- f) If FIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, first received were considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.
- g) If LIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, last received was considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.
- h) If the average method was used, ensure that the ratio was calculated and applied correctly.
- i) Ensure whichever method that was chosen, including the averaging period chosen in the case of the average method, that it was used from the time it was chosen to the end of the fiscal year. Has the system changed since the inception of NAFTA?
- j) Ensure that the company correctly determined the materials, identified by origin or by supplier, as applicable, in its opening inventory by:
  - i) identifying, in the books of the producer, the latest receipts of fungible materials that add up to the amount of fungible materials in opening inventory at the time an inventory method is chosen;
  - ii) reviewing the origin or supplier of the materials (goods), as applicable, that make up those receipts;
  - iii) determining those fungible materials (goods) to be the fungible materials (goods) in opening inventory, identified by origin or supplier, as applicable.
- k) Review the inventory management system by performing compliance tests of a sample of purchase transactions. The sample should include transactions involving materials (goods) that were fungible materials (goods) at the inception of the NAFTA and materials (goods) that were identified as fungible since the inception (i.e. change in supplier).
- l) Is the inventory management system tested periodically? Obtain a description of periodic testing and evaluate its effectiveness.

m) Test a sample of fungible material (good) inventories by identifying the origin of opening inventory, adding receipts/adjustments of materials (goods) and deducting withdrawals/adjustments and compare your results to the company's records. (Can test a variety of periods, materials (goods) and production processes.)

n) Conclude on whether:

- i) the inventory management system used by the Company meets all the requirements of Schedule X of the Regulations (i.e. the inventory management system is acceptable); or
- ii) the inventory management system used by the company requires improvement to meet the requirements of Schedule X of the Regulations - document the weaknesses of the system - document the impact on the origin of the goods under review; or
- iii) the inventory management system does not meet the requirements of Schedule X and the company can/cannot construct the necessary inventory system - document the impact on the origin of the goods under review.

## 14. VALUE OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure that the value of originating and non-originating materials has been calculated in accordance with NAFTA.

### VERIFICATION PROCEDURES

#### 14.1 General

a) Gather any information relevant to the value of materials identified in the 10. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program. Assess the internal controls in place to preserve the quality and accuracy of the data available by reviewing policy and procedures manuals with respect to the purchase of materials, internal auditor's reports, setting of standards and identification of variances and by performing a walk through of the purchasing and receiving function and documenting the flow of information by tracing material requisitioning, ordering, receiving and reporting, returns, accounting, and cash disbursement.

b) From discussions with the company staff, find out who is responsible for determining the values for the materials and how the materials are valued. Is the same valuation method used for all the materials, i.e., do they use a different method for determining the value of non-originating materials than the value of originating materials? Are materials valued differently for NC and VNM purposes?

c) Review the calculations prepared by the company including any supporting documentation and supplier certifications and statements obtained by the producer. Supplier certifications and statements should state whether the material is originating or non-originating, either with **traced materials**, or, with a value of **traced materials**, or, with a zero value of **traced materials**. Determine if the procedure used to value materials for both NC and VNM purposes is in accordance with the Regulations.

i) Identify all assumptions made by the company.

ii) Identify all cost types included in the calculations (freight, insurance, packing and other costs incurred in transporting, such as duties and taxes and brokers costs, including in-house broker costs). Apply the appropriate verification procedures to the costs being examined (examine invoices, calculations, standard costs, etc...).

iii) Identify the accounts from which the information was extracted.

iv) Determine if the values of materials are the same currency as the currency of the country in which the person who provided the supplier statement is located. See Section 3 of the Regulations.

v) Identify areas for further review.

d) Identify all related suppliers and determine if the purchase price was affected by the relationship and if an adjustment will be required.

i) Identify and review accounts or any documents that may pertain to material transfers and/or transfer payments from the producer to the supplier to identify any possible assists.

ii) If materials are dual sourced, compare the purchase prices of the related and non-related companies, e.g. obtain price list from the producer listing suppliers, prices and materials.

iii) Review correspondence between the producer and the related suppliers. Is there a possibility of the relationship affecting the value used? Refer to Section 7, Section 9 or Schedule VIII, as applicable, for the method of determining the correct value.

e) Inquire as to how price and usage variances are accounted for. Analyze if these variances (actual and standard cost) are significant and adjust the value of the materials in the RVC calculation, if necessary.

#### **14.2 De minimis**

f) Except for goods of tariff item number 8415.81 through 8415.83, if there are non-originating materials that do not meet the required tariff classification change, verify if the value of these materials determined in accordance with Section 7 of the Regulations is less than or equal to 7% of the transaction value (or total cost of the good, if the transaction value is unacceptable), to see if the de minimis rule can be applied. (see verification procedure d) in the 12. SOURCE OF MATERIALS verification sub-program).

#### **14.3 Value of materials to be included in net cost**

g) Verify that all materials included in the net cost calculation are valued in accordance with Section 7 of the Regulations. **NOTE:** the value of materials calculated in accordance with NAFTA includes the following regardless of whether the applicable value is the customs value of the material or the transaction value with respect to the transaction in which the producer acquired the material:

i) freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer;

ii) duties and taxes paid or payable with respect to the materials in the territory of one or more of the NAFTA countries, unless they were refunded or waived;

iii) customs brokerage fees (including in-house services);

iv) waste and spoilage resulting from the use of the material in the production (minus the value of reusable scrap);

When the value is the transaction value, the following may also be added:

i) commissions, except buying commissions;

ii) elements (assists) supplied to the seller by the producer (materials; tools, dies, molds and other indirect materials; engineering, development, artwork, design work, and plans and sketches performed outside the country in which the producer is located)

iii) royalties;

iv) subsequent proceeds that accrue to the seller.

The value of materials to be included in net cost also includes accessories, spare parts, tools, packaging materials and containers for retail sale.

The value of intermediate materials, if applicable, should be obtained from the information obtained in the 15. INTERMEDIATE MATERIAL verification sub-program.

h) Review the values of materials reported in the submission of RVC information and assess if these amounts seem reasonable by comparison with the RVC information of a similar good.

i) Inquire into the results of the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program, and take into consideration while conducting the value of materials verification procedures.

j) Judgementally select a sample of high risk materials for value of materials purposes. (Consider obtaining sufficient audit coverage).

(High risk for value purposes would be fungible materials or those non-**traced materials** that if found to be traced, or contain **traced materials** would make the good non-qualifying for RVC purposes. It could also be materials that are overvalued and correctly identified as non-traced or materials that are undervalued and correctly identified as traced, therefore creating an overstatement of the RVC percentage.).

i) determine the actual price paid by the exporter/producer by tracing to the purchase invoice, the attached shipping documents and the bank endorsement stamp on the canceled check;

ii) calculate the difference between the actual and standard cost and compare with the price variance or variance from standard claimed by the exporter/producer; follow-up on any substantial differences; and

iii) trace the total invoice amount to the appropriate ledgers and sub-ledgers to verify that purchases have been recorded correctly in the exporter's/producer's books and records.

k) Verify that the value of all materials, calculated in accordance with Section 7 of the Regulations, are included in the net cost of the goods. Ensure that the value of traced (non-originating) materials, determined in accordance with Section 9 of the Regulations, as set out below, are not also added in the calculation of the net cost of the goods, as they would be double counted. Also, ensure intermediate materials are included only once.

l) Prepare a W/P to ensure that all adjustments required for materials as a result of value of materials verification procedures have been recorded.

m) Conclude as to whether the value of materials is correct and consistent throughout the verification period.

#### **14.4 Value of non-originating materials (traced materials)**

n) Obtain the list of **traced materials** and sub-materials (i.e. imported materials of a tariff provision listed in **Schedule IV**) developed in the 12. SOURCE OF MATERIALS verification sub-program, and the list, and value, of the **traced materials** contained in the intermediate material, if applicable, from the 15. INTERMEDIATE MATERIALS verification sub-program.

o) Judgementally select a sample of high risk traced materials (high risk in terms of VNM includes **traced materials**, as well as non-traced materials that contain **traced materials** (except those imported materials that are not on **Schedule IV**, even if they contain **traced materials**)) and determine, by, for example, reviewing commercial invoices, and customs invoices, and by applying the relevant valuation methods: (Consider materiality in terms of closeness to RVC requirement)

i) Where the **producer imported the traced material and took title at time of importation** the value should be the sum of

A) the customs value of the **traced material**, and where not included in the customs value, any costs identified in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the **traced material** to the first place at which it was received in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

ii) Where the **producer imported the traced material** from outside the territories of the NAFTA countries and **does not have or take title to it at the time of importation**, the value should be the sum of

A) the customs value of the **traced material**, and where not included in the customs value, any costs identified in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the **traced material** to the place at which it was when the producer took title in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

iii) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries and **that person has or takes title to the material at the time of importation**, if the producer has a statement that is signed by the person from whom the producer acquired the **traced material**, whether in the form in which it was imported into the territory of a NAFTA country or incorporated into another material, and states all the following values, the value of the **traced material** should be

A) the customs value of the **traced material**, and where not included in the customs value, any costs detailed in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the **traced material** to the first place at which it was received in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

iv) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries and **that person does not have or take title to the material at the time of importation**, if the producer has a statement that is signed by the person from whom the producer acquired the **traced material**, whether in the form in which it was imported into the territory of a NAFTA country or incorporated into another material, and states all the following values, the value of the **traced material** should be

A) the customs value of the **traced material**, and where not included in the customs value, any costs detailed in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the **traced material** to the place at which it was located when the first person in the territory of a NAFTA country took title, and

C) duties and taxes paid or payable with respect to the material in the territory of one of more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

#### 14. VALUE OF MATERIALS

v) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries and the producer **acquires the traced material or a material that incorporates the traced material** from a person in the territory of a NAFTA country who has title to it, if the producer has a statement that is signed by the person from whom the producer acquired the **traced material** or the material that incorporates it, and states all the following values, the value of the **traced material** or the material that incorporates it should be

A) the value determined in accordance with Schedule VIII (transaction value or value determined with an alternative method), with respect to a transaction that occurs after the customs value of the **traced material** was determined, and where not included in that value,

B) taxes, other than duties paid on an importation of a material from a NAFTA country, paid or payable with respect to the material in the territory of one of more of the NAFTA countries, other than taxes that are waived, refunded, refundable or otherwise recoverable, including credit against tax paid or payable.

vi) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries, and the producer **acquires a material that incorporates the traced material and the acquired material was produced in the territory of a NAFTA country and is subject to a regional value-content requirement**, if the producer has a statement that is signed by the person from whom the producer acquired the material, and states that the acquired material is an originating material, and also states the regional value content of the material, the value of the material should be:

an amount equal to  $VM \times (1 - RVC)$  where

**VM** is the value of the acquired material, determined in accordance with Subsection 9(5), with respect to the transaction in which the producer acquired the material,

and

**RVC** is the regional value content of the acquired material, expressed as a decimal.

#### 14. VALUE OF MATERIALS

vii) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries, and the producer **acquires a material that incorporates the traced material and the acquired material was produced in the territory of a NAFTA**

**country and is subject to a regional value-content requirement**, if the producer has a statement that is signed by the person from whom the producer acquired the material, and states that the acquired material is an originating material but does not state any value with respect to the **traced material**, the value of the material should be

an amount equal to  $VM \times (1 - RVCR)$  where

**VM** is the value of the acquired material, determined in accordance with Subsection 9(5), with respect to the transaction in which the producer acquired the material,

and

**RVCR** is the regional value-content requirement for the acquired material, expressed as a decimal.

viii) Where a **person other than the producer imports the traced material** from outside the territories of the NAFTA countries and the producer **acquires a material that incorporates that traced material, that was produced in the territory of a NAFTA country, and for which an amount was determined with the formula  $VM \times (1 - RVC)$  or  $VM \times (1 - RVCR)$**  (in accordance with vi) or vii) respectively above), if the producer of the good has a statement signed by the person from whom the producer acquired the material that states such an amount, the value of the material should be the amount determined with the formula

$VM \times (1 - RVC)$  or  $VM \times (1 - RVCR)$  as the case may be.

Explanation: The producer receives a statement that states one amount as the value of the material. That amount is determined by the supplier of the material in accordance with the provisions of paragraph 9(2)(f) or 9(2)(g), as the case may be. That amount is the one the producer will use as the value of the material.

#### 14. VALUE OF MATERIALS

ix) Where a **person other than the producer imports the traced material from outside the territories of the NAFTA countries** and the producer **does not have a statement** described in any of paragraphs 9(2)(c) to (h), the value of the **traced material** or any material that incorporates it is determined in accordance with Subsection 9(5) with respect to the transaction in which the producer acquires the **traced material** or any material that incorporates it.

p) Determine whether all costs incurred in transporting materials have been identified and correctly reported (i.e. freight, insurance, packing, etc.).

i) Test the method used by the company when identifying these costs, by selecting a sample of transactions involving purchases of material from the territory of the NAFTA countries and those from outside the territory of the NAFTA countries.

ii) Identify any assumptions made by the company. Test these assumptions to ensure that they are valid (i.e. if the company is using a standard cost system ensure that they follow the correct procedures for updating or revising the standard cost values).

iii) Prepare adjustments as required as a results of this testing. (keeping in mind materiality and risk)

q) Determine whether duty, taxes and brokerage fees with respect to the purchase and importation of materials have been identified and correctly reported, making adjustments as required. (keeping in mind materiality and risk)

r) Ensure that VNM is adjusted for any variances that affect **traced materials** values.

s) Verify that values for all the **traced materials** are included in the Value of Non-originating Materials (VNM) calculation.

t) If the company included other non-originating materials (other than **traced materials**) in VNM, verify that the values of these materials are calculated in accordance with Subsection 9(5) of the Regulations. Ensure that these materials do not contain **traced materials** already included in VNM.

#### **14. VALUE OF MATERIALS**

u) Prepare W/P's to support all **traced materials**. Ensure that

sufficient and appropriate evidence has been obtained to support

the conclusions made.

#### **14.5 Conclusion**

v) Conclude on the verification sub-objective.

#### **15. INTERMEDIATE MATERIALS**

##### VERIFICATION SUB-OBJECTIVE

The objective of this verification sub-program is to review any self-produced materials including self-produced materials and containers, and self-produced accessories, spare parts and tools, designated as an intermediate material by the producer. If intermediate materials are designated by the company, and are found to qualify, the value of the intermediate material is considered an originating material for RVC calculation purposes. However, intermediate materials in **light-duty automotive goods** are still subject to the tracing provisions set out in Section 9 of the NAFTA Rules of Origin Regulations.

Note: For the purposes of calculating the RVC of the good, the producer of the good may designate as an intermediate material any self-produced material that is used in the production of the good, provided that where an intermediate material is subject to a RVC requirement, no other self-produced material that is subject to a RVC requirement and is incorporated into that designated self-produced material is also designated by the producer as an intermediate material. Also, intermediate materials are goods in their own right, and must therefore meet the rule of origin applicable to an intermediate material.

##### VERIFICATION PROCEDURES

a) Document all intermediate material designations made by the company.

b) Inquire of the company officials as to how the value of the intermediate material was calculated. Are all costs reasonably allocated to the intermediate material?



c) Ensure that material, labor, overhead costs, etc. related to the intermediate material are not double counted in the respective costs related to the final goods.

d) Is the intermediate material a **light-duty vehicle**, or a good of a tariff provision listed on **Schedule IV of the Regulations**, that is subject to a RVC requirement and is for use as **original equipment** in the production of a **light-duty vehicle**?

## 15. INTERMEDIATE MATERIALS

If so, complete the 9. BILL OF MATERIALS, 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION, 11. TARIFF CLASSIFICATION, 12. SOURCE OF MATERIALS, 14. VALUE OF MATERIALS, 16. VALUE OF OTHER COSTS THAN MATERIALS, and 18. CALCULATION OF THE REGIONAL VALUE CONTENT REQUIREMENT sub-programs of the light-duty automotive goods (averaged or non-averaged, as applicable) verification programs specifically oriented towards the intermediate material. Any **traced materials** contained in the intermediate material and their value should be noted. This information will be used in the 14. VALUE OF MATERIALS verification sub-program for the purposes of adding into the value of non-originating materials (i.e. **traced materials**) of the final good.

If not, evaluate the originating status of the intermediate material using the non-automotive verification programs contained in Chapter 5 of the audit manual. This could involve a test of the tariff classification change or both a tariff classification change and a regional value content requirement (using the net cost method for determining the regional value content). While conducting these tests, note any materials that are potentially **traced materials**. This information will be used in the 11. TARIFF CLASSIFICATION verification sub-program.

e) If more than one intermediate material has been identified, ensure that, where the intermediate material is subject to a regional value content requirement, no other self-produced material subject to a regional value content requirement is used in the production of that intermediate material.

f) Conclude as to whether the intermediate material is an originating material (and its traced material content, if applicable).

g) If an intermediate material is determined to be originating, calculate the total cost in accordance with subsection 7(6) and subsections 2(6) through 2(9) of the Regulations (i.e. all product, period and other costs, less the costs identified in verification procedure c) of the 16. VALUE OF OTHER COSTS THAN MATERIALS verification sub-program). This information will be used in the 14. VALUE OF MATERIALS verification sub-program.

## 16. VALUE OF OTHER COSTS THAN MATERIALS

### VERIFICATION SUB-OBJECTIVE

To verify that the other costs (labor, overhead, excluded costs, and other costs) included in the regional value content (RVC) calculation are accounted for in accordance with the NAFTA Rules of Origin Regulations.

### VERIFICATION PROCEDURES

a) Trace the detail of the net cost reported in the submission of RVC information to the exporter / producer's working schedule. Trace these working schedules to the books and records.

b) Identify the potential for sales promotion, marketing and after-sales service costs, royalty, shipping and packing costs and non-allowable interest costs being included in the net cost of the good. Consider whether these costs are attributable to the good, or to qualifying intermediate materials.

c) Ensure by scanning the detail in support of the net cost values in the submission of RVC information that period costs, product costs, and other costs incurred in the territory of one or more of the Parties are included in the net cost figure. By breaking down the overhead and general and administrative figures, ensure that the net cost does not include:

i) corporate or personal taxes on income;

ii) capital gains taxes, dividends, or other accounts that should be classified as assets or reductions to income accounts;

iii) profits that are earned by the producer of the good, regardless of whether they are retained or paid out to other persons as dividends;

iv) gains related to currency conversion that are related to the production of the good (losses are added back into the net cost calculation) ;

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

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

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

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

## **16. VALUE OF OTHER COSTS THAN MATERIALS**

d) Review the amounts of labor and overhead included in the RVC calculation. Tie these amounts into the financial statements. Are these costs reasonably allocated to the good under review?

e) Evaluate the method(s) used to allocate common expenses to the product under review and assess whether the methods used are consistent with the recommendations in Schedule VII of the NAFTA Rules of Origin Regulations.

f) Obtain copies of agreements related to sales promotions and marketing. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.

g) Obtain copies of contracts related to shipping costs. Review the terms of the contracts and ensure that they were properly taken into account in the net cost calculation.

h) Refer to the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program to identify any materials considered to be packing materials and containers for shipment purposes. Ensure that the value for packing materials is not included in the calculation of the net cost of the good.

i) Obtain copies of royalty agreements, technical assistance agreements, and other similar documents. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.

j) Obtain copies of loan agreements. Review the terms of these agreements, particularly the interest rates charged and ensure that any non-allowable interest costs have been properly taken into account in the net cost calculation.

k) Review the chart of accounts and the trial balance to identify those accounts included in net cost which fall within the elements of excluded costs and conduct the following :

i) select a sample of costs and trace to supporting commercial documentation, paying particular attention to journal voucher type entries; and

ii) where it is determined that these costs should not be included in net cost, ensure the reversal is only for the amount originally allocated.

## **16. VALUE OF OTHER COSTS THAN MATERIALS**

l) Review the chart of accounts and trial balance to identify accounts which appear to be included costs but that the company has ignored in the net cost calculation. List these accounts for further testing to supporting documentation and discussion with company personnel.

m) When the **light-duty automotive goods** are motor vehicles which are produced in a new **plant**, obtain the value of machinery from the 2. RVC REQUIREMENTS FOR **LIGHT-DUTY AUTOMOTIVE GOODS** verification sub- program, verification procedure l).

n) Prepare a working paper to adjust the net cost figure in the submission of RVC information for any excluded, or not allowable costs not deducted by the exporter/producer. (Remember that excluded costs attributable to a qualifying intermediate material remain in the calculation for the net cost of the good.)

o) Conclude on the verification sub-objective.

## **17. ACCUMULATION**

### VERIFICATION SUB-OBJECTIVE

To ensure that the exporter/producer that chose to accumulate the production of one (or more) of his suppliers did so in accordance with Section 14 of the NAFTA Rules of Origin Regulations.

#### **General**

For purposes of determining whether a good is an originating good, an exporter or producer of a good may choose to accumulate the production of one or more producers, in the territory of one or more of the NAFTA countries, of materials that are incorporated into that good so that the production of the materials shall be considered to have been performed by that exporter or producer, provided that:

- all non-originating materials used in the production of the good undergo an applicable tariff classification change, and the good satisfies any applicable RVC requirement, entirely in the territory of one or more of the Parties; and

- the good satisfies all other rules of origin requirements.

## **Requirements**

- In order to accumulate the production of a material,

i) where the good is subject to an RVC requirement, the producer of the good must have a certification as described below that is signed by the producer of the material, and

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

- 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;

- any information contained in the certification that concerns the value of materials or costs shall be in the same currency as the currency of the country in which the person who provided the statement is located.

## **17. ACCUMULATION**

### **Statement needed**

#### **Non-averaging of costs from accumulated production**

Where a good is subject to a RVC requirement and an exporter or producer of the good has a statement signed by a producer of a material that is used in the production of the good that:

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

i) the net cost incurred by the producer of the good with respect to the material shall be the net cost incurred by the producer of the material plus, where not included in the net cost incurred by the producer of the material the costs referred to in paragraphs 7(1)(c) through (e) of the Uniform Regulations (ie. freight, insurance, packing, transport to location of producer, duties and taxes, customs brokerage fees); and

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

**or**

b) states any amount, 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 shall be the value of the material determined in accordance with subsection 7(1) of the Uniform Regulations (this is covered in the Value of Materials section of the verification program), and

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

## **17. ACCUMULATION**

### **Averaging of costs from accumulated production**

Where an exporter or producer of a good does not have a statement as provided in (a) or (b) above, but does have a statement signed by a producer of a material that is used in the production of the good that

c) states that 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 shall 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, where not included in the net costs incurred by the producer of the material, the costs referred to in paragraphs 7(1)(c) through (e) of the Regulations, and

ii) the value of non-originating materials used by the producer of the good with respect to the material shall 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**

d) 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 shall be the value of the material, determined in accordance with subsection 7(1), and

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

## **17. ACCUMULATION**

### VERIFICATION PROCEDURES

a) Determine that only the net cost method has been used to calculate the RVC requirement where the producer has chosen to use accumulation.

b) Review the information received from the producer, that has accumulated the production, to ensure that it is mathematically correct and ensure that it has been correctly included in the RVC calculation.

In that regard, ensure that the period of time over which the information provided by the supplier was calculated, falls within the fiscal year of the light-duty automotive goods producer.

c) Evaluate the quality of the certifications and ensure that they contain all of the required information as stated above.

When accumulated costs are averaged, ensure that the statement includes the periods referred to in subsection 14(3) of the NAFTA Rules of Origin Regulations, and verify that it falls within the fiscal year of the light-duty automotive goods producer.

d) Ensure that the profit component of the material being accumulated is not included in the net cost information by examining the supplier information and by comparing the price paid by the producer to the cost information provided by the supplier, if possible.

e) Use the following verification sub-programs (only the applicable verification procedures) in order to evaluate the information received: 11. TARIFF CLASSIFICATION, 12. SOURCE OF MATERIALS, 13. INVENTORY MANAGEMENT SYSTEM, 14. VALUE OF MATERIALS, 15. INTERMEDIATE MATERIALS, and 18. CALCULATION OF REGIONAL VALUE CONTENT.

NOTE: Consideration should be given to the use of supplier confirmations and visits to the supplier to verify the authenticity of the information reported to the exporter / producer.

## **18. CALCULATION OF THE REGIONAL VALUE CONTENT (RVC)**

### VERIFICATION SUB-OBJECTIVE

To determine whether the good satisfies the NAFTA regional value content requirement.

### VERIFICATION PROCEDURES

a) Obtain the value of all materials to be included in the net cost of the good and the value of non-originating materials identified in the 14. VALUE OF MATERIALS verification sub-program.

b) Add to the value of all materials to be included in the net cost, the value of other costs from the 16. VALUE OF OTHER COSTS THAN MATERIALS verification sub- program to arrive at the net cost of the good.

c) Subtract the value of all non-originating materials from the net cost of the good.

d) Divide the difference by the net cost of the good.

e) Multiply the result obtained in verification procedure d) by 100.

f) Conclude on the verification sub-objective.

## **19. ORIGIN OF THE GOOD**

### VERIFICATION SUB-OBJECTIVE

To determine which of the goods subject to verification are originating goods under the NAFTA Rules of Origin Regulations.

#### VERIFICATION PROCEDURES

a) Determine whether the goods subject to verification originate under the NAFTA by documenting whether the tariff classification change and RVC requirements in the specific rule of origin have been met. Refer to the 12. SOURCE OF MATERIALS and 18. CALCULATION OF THE REGIONAL VALUE CONTENT verification sub-programs. Prepare a working paper to document which goods originate and which do not originate under the NAFTA.

b) Conclude on the verification sub-objective.

### **20. TRANSSHIPMENT**

#### VERIFICATION SUB-OBJECTIVE

To verify that the originating good, by reason of having undergone production that satisfies the requirements of section 4 of the NAFTA Rules of Origin Regulations, (1) is not withdrawn from customs control outside the territories of the NAFTA countries; and (2) does not undergo further production or any other operation outside the territories of the Parties, other than unloading, reloading, or any other operation necessary to preserve it in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur dioxide or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled or damaged and present a danger to the remaining units of the good or to transport the good to the territory of the Party.

#### VERIFICATION PROCEDURES

a) Obtain and review copies of the invoices, bills of lading or waybills for the goods subject to verification for a sample period. Document the shipping route and all points of shipment and transshipment prior to the importation of the goods. Determine if the goods have been conveyed directly on a through bill of lading from the exporter to a consignee. Consider gathering information from the importer.

b) If the goods have not been shipped directly on a through bill of lading, they may be transshipped through an intermediate country, provided that:

i) the goods remain under Customs transit control in the intermediate country; and

ii) the goods undergo no operations in the intermediary country other than the unloading, reloading, or operations necessary to preserve the goods in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled, or damaged and present a danger to the remaining units of the good or any other operation necessary to transport the good to a NAFTA country.

### **20. TRANSSHIPMENT**

In order to substantiate the above, request documentation from the exporter and/or importer. Documents include, but shall not be limited to: 1) customs receipts and release documents; 2) exporter/ producer shipment/production records; 3) list of serial numbers or lot numbers of the

goods; 4) temporary import and corresponding export documentation; 5) research material explaining the non-NAFTA customs operations and procedures.

c) Determine whether any of the goods shipped were not produced by the producer. Consider the potential for fungible goods. If fungible goods are found, refer to the 13. INVENTORY MANAGEMENT SYSTEM verification sub-program.

From the transshipment information requested in verification procedure b) of this sub-program, consider requesting that the exporter/producer develop a working paper which shows a reconciliation of shipments of goods exported by the exporter/producer and imported into the territory of the other NAFTA Party, taking into account their quantities and values.

d) Conclude on the verification sub-objective.

## APPENDIX P

### VERIFICATION PROGRAM

#### LIGHT DUTY AUTOMOTIVE GOODS - NON-AVERAGED

#### VERIFICATION PROGRAM - LIGHT-DUTY AUTOMOTIVE GOODS (NON-AVERAGED)

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## 16. ORIGIN OF THE GOOD

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### VERIFICATION OBJECTIVE

TO ENSURE THAT THE LIGHT-DUTY AUTOMOTIVE GOOD, WHERE THERE HAS NOT BEEN AN ELECTION TO AVERAGE, IS AN ORIGINATING GOOD IN

ACCORDANCE WITH THE NAFTA RULES OF ORIGIN REGULATIONS AND  
CONSIDERING THE SPECIAL RVC CALCULATION REQUIREMENTS  
INCLUDED IN SECTION 9 (LIGHT-DUTY AUTOMOTIVE GOODS) AND  
SECTION 13 (SPECIAL RVC REQUIREMENTS) OF THE NAFTA RULES OF  
ORIGIN REGULATIONS.

Definitions:

Note to the Definitions: In order to assist in understanding the audit program where ever a word or group of words are used as defined, the word or words will appear in bold print:

"Class of motor vehicle(s)" means any one of the following categories of motor vehicles:

- a) motor vehicles provided for in any of subheading 8701.20, tariff items 8702.10.30 and 8702.90.30 (except for the transport of 16 or more persons), subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and headings 8705 and 8706,
- b) motor vehicles provided for in any of subheadings 8701.10 and 8701.30 through 8701.90,
- c) motor vehicles provided for in any of Tariff Items 8702.10.60 and 8702.90.60 (vehicles for transport of 15 or fewer persons) and subheadings 8704.21 and 8704.31, and
- d) motor vehicles provided for in any of Subheadings 8703.21 through 8703.90.

"Complete motor vehicle assembly process" means the production of a motor vehicle from separate constituent parts, which parts include 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.

"First 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.

"Floor pan of a motor vehicle" 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 firewall or bulkhead of the motor vehicle and ending

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

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

"Light-duty automotive good" means a light-duty vehicle or a good of a tariff provision listed in Schedule IV that is subject to a regional value-content requirement and is for use as original equipment in the production of a light-duty vehicle.

"Light-duty vehicle" means a motor vehicle provided for in any of tariff items 8702.10.60 and 8702.90.60 ( vehicles for the transport of 15 or fewer persons) and subheadings 8703.21 through 8703.90, 8704.21 and 8704.31.

"Marque" means a trade name used by a marketing division of a motor vehicle assembler that is separate from any other marketing division of that motor vehicle assembler.

"Motor vehicle assembler" means a producer of motor vehicles and any related person with whom, or joint venture in which, the producer participates with respect to the production of motor vehicles.

"New building" means a new construction to house a complete motor vehicle assembly process, where that construction includes the pouring or construction of a new foundation and floor, the erection of a new frame and roof, and the installation of new plumbing and electrical and other utilities.

"Original equipment" means a material that is incorporated into a motor vehicle before the first transfer of title or consignment of the motor vehicle to a person who is not a motor vehicle assembler, and that is

(a) a good of a tariff provision listed in Schedule IV

(b) an automotive component assembly, automotive component, sub- component or listed material

"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) light-duty vehicles and heavy-duty vehicles,

(b) goods of a tariff provision listed in Schedule IV, and

(c) automotive component assemblies, automotive components, sub-components and listed materials.

"Refit" means a closure of a plant for a period of at least three consecutive months that is for purposes of plant conversion or retooling.

"Schedule IV of the NAFTA Rules of Origin Regulations"

4009

4010.10

4011

4016.93.10

4016.99.30 and 4016.99.55

7007.11 and 7007.21

7009.10

8301.20

8407.31

8407.32

8407.33

8407.34.05, 8407.34.15, and 8407.34.25

8407.34.35, 8407.34.45 and 8407.34.55

8408.20

8409

8413.30

8414.59.30

8414.80.05

8415.81 through 8415.83

8421.39.40

8481.20, 8481.30 and 8481.80

8482.10 through 8482.80  
8483.10 through 8483.40  
8483.50  
8501.10  
8501.20  
8501.31  
8501.32.45  
8507.20.40, 8507.30.40, 8507.40.40 and 8507.80.40  
8511.30  
8511.40  
8511.50  
8512.20  
8512.40  
8519.91  
8527.21  
8527.29  
8536.50  
8536.90  
8537.10.30  
8539.10  
8539.21  
8544.30  
8706  
8707  
8708.10.30  
8708.21  
8708.29.20  
8708.29.10  
8708.29.15  
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8708.40  
8708.50  
8708.60  
8708.70.05, 8708.70.25 and 8708.70.45  
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8708.92  
8708.93.15 and 8708.93.60  
8708.94  
8708.99.03, 8708.99.27 and 8708.99.55  
8708.99.06, 8708.99.31 and 8708.99.58  
8708.99.09, 8708.99.34 and 8708.99.61  
8708.99.12, 8708.99.37 and 8708.99.64  
8708.99.15, 8708.99.40 and 8708.99.67  
8708.99.18, 8708.99.43 and 8708.99.70  
8708.99.21, 8708.99.46 and 8708.99.73

8708.99.24, 8708.99.49 and 8708.99.80  
9031.80  
9032.89  
9401.20

"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 m<sup>3</sup>) or less,
- (b) more than 85 cubic feet (2.38 m<sup>3</sup>) but less than 100 cubic feet (2.80 m<sup>3</sup>),
- (c) 100 cubic feet (2.80 m<sup>3</sup>) or more but not more than 110 cubic feet (3.08 m<sup>3</sup>),
- (d) more than 110 cubic feet (3.08 m<sup>3</sup>) but less than 120 cubic feet (3.36 m<sup>3</sup>), or
- (e) 120 cubic feet (3.36 m<sup>3</sup>) or more.

"Traced material" means a material, produced outside the territories of the NAFTA countries, that is imported from outside the territories of the NAFTA countries and is, when imported, of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations.

"Underbody" means the floor pan of a motor vehicle.

## 1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISIONS FOR NON AVERAGED LIGHT-DUTY AUTOMOTIVE GOODS

### VERIFICATION SUB-OBJECTIVE

To ensure that the good is a light-duty automotive good.

### VERIFICATION PROCEDURES

a) Using the definition of a light-duty vehicle, determine whether the good is classified in one of the tariff provisions listed in the definition of a light-duty vehicle. Also verify that the producer has not filed an election to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1) or 13(4) of the Regulations. If so, this verification program is applicable.

b) If the good is

i) a good of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations,

ii) subject to a RVC requirement, and

iii) for use as original equipment in the production of a light-duty vehicle.

and the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 12(1) of the Regulations.

c) Conclude on the verification sub-objective.

NOTE: If the good is a light-duty automotive good but the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the Light-Duty Automotive Goods (Averaged) verification program.

If the good is a heavy duty automotive good, but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the Heavy-Duty Automotive Goods (Non-Averaged) verification program.

If the good is a heavy-duty automotive good and the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the Heavy-Duty Automotive Goods (Averaged) verification program.

If the good is not a light-duty automotive good nor a heavy-duty automotive good, then the general verification programs found in Chapter 5 of the NAFTA audit manual are applicable.

## 2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS

### VERIFICATION SUB-OBJECTIVE

To ensure that the appropriate RVC percentage requirement is used by the producer to determine whether the light-duty vehicle or a good of any of headings 8407 and 8408 and subheading 8708.40, that is for use in a light-duty vehicle qualify as originating as set out in subsections 13(1) or (2) of the NAFTA Rules of Origin Regulations.

### VERIFICATION PROCEDURES

Note: If the good cannot be identified below, the special RVC percentage requirements do not apply to it and the requirements of Schedule I are applicable.

2.1 RVC Percentage Requirement for a Good of A Tariff Provision Listed in Schedule IV, that is Subject to a Regional Value Content Requirement and is for Use in a Light-Duty Vehicle, Except for A Good of Any of Heading Nos 8407 and 8408 and Subheading No. 8708.40 or Any of Subheading Nos. 8482.10 through 8482.80, 8483.20 and 8483.30.

a) Determine if the fiscal year of the producer starts before July 2, 1997. If so, the RVC requirement is 50%.

b) Determine if the fiscal year of the producer starts after July 1, 1997 but before July 2, 2001. If so, the RVC requirement is 55%.

c) Determine if the fiscal year of the producer starts after July 1, 2001. If so, the RVC requirement is 60%.

2.2 RVC Percentage Requirements for a Light-Duty Vehicle or A Good of Any of Heading Nos. 8407 and 8408 and Subheading No. 8708.40, that is for use in a Light-Duty Vehicle

d) Determine if the fiscal year of the producer starts before July 2, 1997. If so, the RVC requirement is 50%.

e) Determine if the fiscal year of the producer starts after July 1, 1997 but before July 2, 2001. If so, the RVC requirement is 56%.

2. RVC percentage requirements for LIGHT-DUTY AUTOMOTIVE GOODS

f) Determine if the fiscal year of the producer starts after July 1, 2001. If so, the RVC requirement is 62.5%.

2.3 Special RVC Requirements for a Light-Duty Vehicle Produced in a New Plant

g) Determine if the plant in which the light-duty vehicle is produced consists of or includes a new building in which the light-duty vehicle is assembled.

h) Determine if the light-duty vehicle produced meets the definition of first prototype.

i) Determine the date of production of the first prototype and whether or not it has been five years since the date on which the first prototype has been produced. If it has been greater than five years after the date on which the first prototype was



produced, use the appropriate RVC requirements as identified in verification procedures d) through f).

j) Determine if the light-duty vehicle is of a:

i) class of motor vehicle,

ii) marque,

iii) size category, or

iv) type of underbody,

that was not previously produced by the motor vehicle assembler in the territory of any of the NAFTA countries.

## 2.4 Value of Machinery

k) For the purposes of determining the value of machinery that was never previously used for production, and that is used in the new building or buildings for the purposes of the complete motor vehicle assembly process with respect to that vehicle, obtain the motor vehicle assemblers fixed asset sub ledger and the supporting invoices for the new machinery acquired to produce the motor vehicle.

l) Using the information obtained in verification procedure k) above review the producer's calculation of the value of machinery to ensure that the value of machinery that was never previously used for production, and that is used in the new building(s) for the purposes of the complete motor vehicle assembly process with respect to that motor vehicle, is at least 90% of the value of all machinery used for the purpose of that process.

i) Verify that where the machinery was acquired by the producer of the motor vehicle from another person, the value of the machinery is the cost of that machinery that is recorded on the books of the producer.

ii) Verify that where the machinery was used previously by the producer of the motor vehicle in the production of another good, the value of machinery is the cost of the machinery that is recorded on the books of the producer minus accumulated depreciation of that machinery that is recorded on those books.

iii) Verify that where the machinery was produced by the producer of the motor vehicle, the value of the machinery is the total cost incurred with respect to that machinery, calculated on the basis of the costs that are recorded on the books of the producer.

m) Conclude as to whether all the conditions outlined in verification procedures g) through l) are met. If so, the RVC requirement is not less than 50% for five years after the date on which the first prototype is produced in the plant by the motor vehicle assembler. The RVC requirements outlined in verification procedures d) through f) apply for the periods following this five year time frame.

## 2.5. Special RVC Requirements for a Light-Duty Vehicle Produced in a Refit Plant

n) Determine if the plant in which the light-duty vehicle are produced meets the definition of refit.

o) Determine if the light-duty vehicle produced meet the definition of first prototype.

p) Determine the date of production of the first prototype and whether or not it has been two years since the date on which the first prototype has been produced. If greater than two years after the date on which the first prototype was produced, use the appropriate RVC requirements for light-duty automotive goods as identified in verification procedures d) through f).

q) Determine if the light-duty vehicle is of a:

i) class of motor vehicle,

ii) marque,

iii) size category, or

iv) type of underbody,

that was not assembled by the motor vehicle assembler in the plant before the refit.

r) Conclude as to whether the conditions outlined in verification procedures n) through q) are met. If so, the RVC requirement is not less than 50% for two years after the date on which the first prototype is produced in the plant by the motor vehicle assembler. The RVC requirements outlined in verification procedures d) through f) apply for the periods following this two year time frame.

## 2.6 General Summary Procedures

s) Conclude on the verification sub-objective

## 3. INITIAL ANALYSIS OF THE RVC INFORMATION

## VERIFICATION SUB-OBJECTIVE

To conduct a preliminary review of the submitted RVC information in order to identify risks that require further verification.

## VERIFICATION PROCEDURES

- a) Obtain from company officials a submission of RVC information for the good under review.
- b) Review the costs provided in the submission of RVC information to determine if they are reflective of actual costs per unit (as opposed to estimates).
- c) Ensure that all calculations are correct. Ensure that the appropriate RVC percentage requirement has been used by the company. Ensure that the good has met the RVC requirement based on these calculations.
- d) Ensure that all the non-originating materials (i.e. materials that do not meet their required rule of origin) and materials of unknown origin have met the required tariff classification change portion of the rule of origin.
- e) Identify any materials listed on Schedule IV of the NAFTA Rules of Origin Regulations that are imported by the company but are declared as originating materials.
- f) Review the labor and overhead information provided. Identify any excluded costs incorrectly included in the RVC calculation. Ensure that all costs allocated to the good subject to the verification are in fact actual costs incurred in the production of the good on the date of its production.
- g) Conduct risk analysis/ratio analysis on the total values for materials, labor and overhead in relation to the RVC requirement.
- h) Conclude on the areas of concern requiring further review.

## 4. PLANT TOUR

## VERIFICATION SUB-OBJECTIVE

To obtain an understanding of the entire operations of the company (i.e. manufacturing, assembly, warehouse, accounting, etc.).

## VERIFICATION PROCEDURES

a) Obtain an organization chart. Ensure all operations and/or departments whose costs are included in the total cost calculation for RVC purposes have been reviewed and documented.

Document the potential for costs to be included in total cost that should be excluded (i.e. costs not directly related to the production of the good subject to the verification, sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs, and non-allowable interest costs).

Ensure that averaged costs over a period of time and allocated to the good subject to the verification are not included.

b) Observe and document the existence of the good.

i) Confirm that the good is manufactured at that production facility.

ii) Identify any differences that may exist with respect to the tariff classification of the good under review.

c) Where the producer designates an intermediate material, review the assembly process and observe the completed intermediate material (IM). This information will be used in the 12. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

d) Observe and document any concerns with regards to any possible non-qualifying operations (i.e. unacceptable production or pricing practice used to circumvent the Rules of Origin) noted during the plant tour.

e) Observe and document the research and development and/or engineering operations.

Document any concerns with respect to the potential allocation problems of costs not directly related to the good under review.

f) Observe and document the warehouse operations (i.e. receiving material inventory, storing material inventory and storing of finished goods).

i) Document any concerns with respect to the tariff classification of materials for which there may be classification differences.

ii) Document any concerns with respect to the ownership of materials.

iii) Document any concerns with respect to the source of materials (i.e. dual sourcing, markings on materials, fungible materials, etc.) noted during the plant tour, especially those materials listed on Schedule IV of the NAFTA Rules of Origin Regulations.

iv) Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the good under review.

v) Document any concerns with respect to the shipping of the finished good (i.e. any costs of shipping and packing that may be included in the net cost calculation).

g) Observe and document the production/manufacturing operations. Ensure each in-house manufacturing and sub-assembly operations have been documented (i.e. stamping, engine production, axle production, etc.)

#### 4. PLANT TOUR

Document any concerns with respect to the out-sourcing (sub-contracting) of manufacturing/production or sub-assembly operations. Evaluate whether assists may be provided to the out-sourced producers. This information will be used in the 11. VALUE OF MATERIALS verification sub-program.

Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the good under review.

h) Observe and document the financial accounting operations. Ensure the materials ordering, receiving, inventory flow, direct labor costing, indirect material costing and overhead allocation determination are all documented.

i) Observe and document the management of information system. Inquire as to the type of management reports that are produced (i.e. bills of materials, production reports, labor reports, material stock reports, etc.). This information will be used in the 5. REVIEW OF MANAGEMENT OF INFORMATION SYSTEM verification sub-program.

#### 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM

##### VERIFICATION SUB-OBJECTIVE

To ensure the management of information system used to develop the regional value content calculation is reliable and accurate.

##### VERIFICATION PROCEDURES

a) Obtain the relevant information concerning the management of information system (MIS) gathered through the plant tour. Identify the areas of concern with respect to the MIS. Consider using the "Review of Policies, Procedures and Internal Controls Checklist" (See Appendix F) to assist in identifying concerns.

b) Obtain and review the policies and procedures manual. Identify the areas of concern with respect to the MIS.

c) Obtain the independent auditor's report. Review this report to assess the reliance the auditor's placed on the MIS.

d) Interview the personnel responsible for the MIS. Assess their knowledge of Electronic Data Processing (EDP) and the importance the organization places on controls within the MIS. Determine whether the MIS is capable of producing accounting information on a per unit basis.

e) Document the MIS. Use the policies and procedures manual and the interviews with the MIS personnel as a guide.

i) Document how the Bill of Materials is created within the system. Document how the following items are entered into the system:

A) engineering documents/specifications (including changes to engineering specifications)

B) list of materials and suppliers - approved vendor listing

C) development of standards for costing purposes (i.e. materials, labor and overhead standards).

## 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM

ii) Include a review of the following to identify the costs attributable to a particular unit:

A) how orders for motor vehicles are entered into the system

B) how production reports are generated

C) how material stock reports (i.e. KAN-BAN) and picking lists are generated

D) inventory (i.e. purchase from supplier(s), receipt, transfer to production {inventory management method such as LIFO, FIFO, average, etc.}, work-in-process, finished goods, shipment of finished goods)

iii) Document how the actual costs are recorded in the system. Include a review of payments for materials inventory, direct and indirect labor, manufacturing overhead and all other costs included in the total cost calculation for the unit under review.

f) Document the controls inherent in the MIS (i.e. the general and application controls). Ensure adequate controls over materials inventory, production, labor, overhead, etc.

i) General Controls

Review information pertaining to the organization controls and standard operating procedures.

Review the systems development and documentation controls. This includes:

A) systems development methodology;

B) programming conventions and procedures;

C) technical, management, user and auditor review and approval;

D) system testing;

E) conversion control (if applicable);

F) program change controls;

G) system documentation standards -- program documentation, operations documentation, user documentation.

5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM

Review the systems software controls. This includes:

A) handling errors;

B) program protection;

C) file protection;

D) security protection.

Document how changes are made (i.e. authorization of changes to the system).

ii) Application Controls

Review the data capture and batch data entry controls. This includes:

A) control methodology (exposures resulting from errors and irregularities, management control objectives, system objectives, role of controls in EDP systems)

B) audit trail;

C) data capture controls;

D) data entry controls.

Review the on-line entry, processing and output controls. This includes controls to ensure:

A) reliable, proper, authorized and valid transaction entry;

B) unreliable and improper data entry is detected;

C) unreliable and improper data is corrected;

D) that processing is reliable, proper and authorized;

E) that unreliable, improper, and unauthorized processing is detected;

F) that unreliable, improper, and unauthorized processing is corrected;

G) that errors detected in output are properly corrected and resubmitted to data processing on a timely basis.

## 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM

g) Since no election to average was filed by the producer of the good, the auditor must make sure that the RVC calculation applicable to the good, or any other information that served as a basis for the calculation, do not include any averaging of costs incurred by the producer of the good, because of the fact that the RVC must be calculated in accordance with Article 402(3) of the NAFTA, and not in accordance with Section 11 of the Regulations.

## 6. NON-QUALIFYING OPERATIONS

### VERIFICATION SUB-OBJECTIVE

To ensure that the good does not qualify as originating because of mere dilution with water or another substance or because of a production or pricing practice designed to circumvent the rules of origin as set out in Chapter 4 of the NAFTA.



Note: A good shall not be considered to be an originating good where there is a "preponderance of evidence" that the object of a production or pricing practice was to circumvent the Rules of Origin. In regards to unacceptable production practices, circumvention consists of any alteration or process performed on goods for the purpose of circumventing the rule of origin requirements. For example, when the processing or assembling performed in the territory of another Party of the Agreement is reversed or substantially altered after the goods have been imported into Canada, and such processing or assembly was not performed for any commercial purpose other than to qualify the good for the NAFTA tariff treatment, then this will be considered circumvention.

## VERIFICATION PROCEDURES

### 6.1 Non-qualifying production/assembly operations

- a) During the on-site visit, interview personnel to understand the production/assembly operations. Document any concerns that need to be confirmed during the plant tour.
- b) Obtain and review a copy of the bill of materials and any product literature for the good under review. Document any concerns with respect to non-qualifying production/assembly operations.
- c) Review the section of the 4. PLANT TOUR verification sub-program related to non-qualifying operations. Address any concerns noted with respect to the non-qualifying production/assembly operations.
- d) Review documents related to transportation (consider documents obtained in the 17. TRANSSHIPMENT verification sub-program) and document any concerns with respect to the finished good being altered subsequent to importation.
- e) Prepare a written evaluation of the non-qualifying production/assembly operation and assess the evidence gathered.

### 6.2 Non-qualifying pricing practices

- f) Identify major adjustments made as a result of the 11. VALUE OF MATERIALS verification sub-program, and document any concerns.
- g) Review adjustments made to the purchase accounts. Identify any concerns.
- h) Prepare a written evaluation of the questionable non-qualifying pricing practice(s) and assess the extent of the evidence gathered.

### 6.3 Conclusion

i) Conclude on the verification sub-objective.

## 7. BILL OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure that the bill of materials (BOM) of the good under review is complete and accurate.

### VERIFICATION PROCEDURES

- a) Obtain the BOM and any additional supporting documentation for the good under review used by the producer to prepare the submission of RVC information. (Refer to the 8. TARIFF CLASSIFICATION verification sub-program.)
- b) Verify the mathematical accuracy of the BOM.
- c) Compare the values of the materials and the materials themselves (inventory part # and name) on the BOM and the other supporting documentation to totals reported in the submission of RVC information. If information concerning the origin of the materials or sourcing of the materials is on the BOM and the supporting documentation, also compare this information to the origin of the materials declared in the submission of RVC information.
- d) Using the information from the 6. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program, obtain the description of the system for the BOM and any related documentation that is required to complete verification procedure f). If necessary, review the policy and procedures manual for the BOM with respect to the definition of the BOM, use of the BOM, what is reported on the BOM, who and when changes are made to the BOM, etc.
- e) To ensure that the BOM is complete:
- i) compare the BOM to engineering documents/specifications (i.e. compare parts and quantity to be included in the production);
  - ii) compare the part numbers, descriptions, and values to picking lists used to obtain parts for the production from inventory (ensure this matches the inventory management method as described in the MIS review);
  - iii) compare the BOM to product literature;
  - iv) review the sourcing of materials for consistency on the BOM;

v) compare the BOM to a BOM for a similar good (i.e. use professional judgment to ensure all materials on the BOM are incorporated into the good and to ensure there are no missing materials that should be incorporated into the good). Document any differences. Obtain explanations from the producer.

f) Review the company's standard cost accounting policies, if standard costs were used. If so, ensure that the standard cost of the good has been adjusted to the actual cost of production of the good on a per unit basis.

g) Identify any accessories, spare parts and tools, packaging materials and containers for retail sale and packing materials and containers for shipment to be disregarded for evaluating the tariff classification change requirement. Provide this information to the person responsible for the 8. TARIFF CLASSIFICATION verification sub-program. Provide the information concerning packing materials and containers for shipment to the person responsible for the 13. VALUE OF OTHER COSTS THAN MATERIALS and 11. VALUE OF MATERIALS verification sub-program.

h) Conclude on the verification sub-objective.

## 8. TARIFF CLASSIFICATION

### VERIFICATION SUB-OBJECTIVES

To ensure that the finished good is properly classified under the Harmonized System (H.S.) of tariff classification, and to ensure the correct rule of origin is applied.

To identify all materials which would not meet the necessary tariff classification change as required by the specific rule of origin (Schedule I of the NAFTA Rules of Origin Regulations) applicable to the good if they were non-originating materials.

To classify all potential traced materials (materials of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations) used or incorporated in the good in order to establish the value of non-originating materials as per Section 9 of the Regulations.

### VERIFICATION PROCEDURES

#### 8.1 General

a) Interview the person(s) responsible for tariff classification to establish how the classifications of the good and materials were determined. Obtain any rulings that the company received from other Customs Administrations.

b) Document the potential for fungible materials while performing the procedures in this verification sub-program.

c) Obtain information from the company pertaining to the de minimis calculation when the company has applied the de minimis provision to qualify the good. To evaluate de minimis, refer to the verification procedures in Chapter 5 of this audit manual.

d) For use in the 9. SOURCE OF MATERIALS verification sub-program, note the source of materials, if you come across this information while performing the procedures in this verification sub-program.

## 8.2 Classification of the finished good and intermediate materials (IMs)

e) Obtain and review documentation on the good and IMs, e.g., bill of materials, owner's manual, public brochures, engineering specifications, catalogues, invoices, bill of lading, and verify if the information is consistent with the tariff classification of the good under review. Review the export documents for the Harmonized System (H.S.) number for the good under review.

f) Obtain from the 4. PLANT TOUR verification program, information with respect to the production of the good or the intermediate materials and physically inspect the good during a plant tour to aid in confirming the correct classification number and rule of origin of the finished good and IMs.

g) Identify the classification declared by the company in the RVC information and on the NAFTA Certificate of Origin.

h) Identify the applicable rule of origin for the good and the IMs.

i) Prepare a conclusion on the tariff classification for the good under review and the IMs.

## 8.3 Classification of Materials for Tariff Classification Change Requirement Only

To be completed where the non-originating materials included in the good and IMs under review are required to undergo a tariff classification change.

j) Analyze the rule of origin identified in verification procedure h) to determine the tariff classification of the materials that would not meet the required tariff classification change if they were non-originating materials.

k) Obtain an accurate description of the materials used in the production of the good under review, by physical examination, reviewing supplier parts catalogue, purchase orders, engineering documents and/or supplier contracts. Document

any self-produced materials designated in accordance with subsection 4(8) of the NAFTA Rules of Origin Regulations.

l) Classify all materials, except those identified as accessories, spare parts and tools; packaging materials and containers for retail sale and packing materials and containers for shipment (obtain this information from the 7. BILL OF MATERIALS verification sub-program), to the level required for the tariff classification change requirement.

m) Identify those materials which would not meet the tariff classification change requirement if they were non-originating.

8.4 Classification of all potential traced materials (materials of a tariff provision listed in Schedule IV of the Regulations) used or incorporated in the good

n) Using the BOM of the good under review, (and any information concerning the potential traced material content of intermediate materials, if applicable, from the 12. INTERMEDIATE MATERIALS DESIGNATION verification sub-program) obtain an accurate description of the materials by physical examination, reviewing supplier parts catalogues, engineering documents and/or supplier contracts (some of this reference material may have been gathered in verification procedure j) of this verification sub-program). Identify:

i) those materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations, but do not contain any Schedule IV of the NAFTA Rules of Origin Regulations sub-materials

ii) those materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations, which may also contain sub-materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations. For those materials identified;

A) identify the sub-materials by examining the BOM for the sub-materials, the supplier parts catalogues, and/or by physical examination;

B) classify the sub-materials; and,

C) identify the sub-materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations.

iii) those materials that are NOT of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations, but which may contain sub-materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations. For those materials identified;

A) identify the sub-materials by examining the BOM, the supplier parts catalogues, engineering documents, supplier contacts, and/or by physical examination;

B) classify the sub-materials; and,

C) identify the sub-materials that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations.

o) Repeat the steps in m)i) through m)iii), as necessary, to identify any sub-materials, used or incorporated into the materials, that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations.

p) Prepare a working paper to document all the identified materials, used or incorporated into the good at any level of production, that are of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations. Also, when applicable, group the sub-materials by the material that incorporates the sub-material.

## 9. SOURCE OF MATERIALS

### VERIFICATION SUB-OBJECTIVES

To determine and verify:

- the origin of all materials which would not meet the necessary tariff classification change as required by the specific rule of origin (Schedule I of the Regulations) if the materials were non-originating; and

- the source of all materials or sub-materials of a tariff provision listed in Schedule IV of the Regulations, used or incorporated in the good in order to establish the value of non-originating materials (Section 9 of the Regulations) especially the ones claimed as originating materials by the producer or his supplier.

### VERIFICATION PROCEDURES

#### 9.1 Tariff Classification Change Analysis

a) Obtain the list of the materials which would not meet the tariff classification change required by the specific rule of origin from the Classification of materials for tariff classification change requirement only section of the 8. TARIFF CLASSIFICATION verification sub-program.

b) Confirm the origin of these materials by reviewing the Certificate of Origin or supplier certification obtained by the producer or by reviewing the purchase order, invoice and the receiving document.

c) Physically inspect these materials to verify markings or any other indications which might indicate that the materials are non-originating.

d) Assess if the 7% De Minimis rule can be applied if there are non-originating materials that do not meet the required tariff classification change (see verification procedure f) in the 11. VALUE OF MATERIALS verification sub-program.

e) Evaluate the need to send supplier confirmations for the purposes of the origin of materials for the tariff classification change requirement.

f) Conclude as to whether the tariff classification change requirement has been satisfied.

## 9.2 Source of materials of a tariff provision in Schedule IV of the NAFTA Rules of Origin Regulations for the purposes of determining the VNM

g) Obtain the complete list of all potential traced materials (i.e., materials and sub-materials of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations) from the CLASSIFICATION OF ALL POTENTIAL TRACED MATERIALS USED OR INCORPORATED IN THE GOOD section of the 8. TARIFF CLASSIFICATION verification sub-program.

h) From the list obtained in verification procedure g) select a sample of materials and sub-materials which the exporter has claimed as originating (including those materials which may contain sub-materials) and perform the following:

i) verify if the source of the above materials could be valid, by looking at the Industry Profile documentation, industry information and other submissions for similar goods (i.e. could these materials be imported);

ii) interview company officials responsible for the origin of materials as found in the submission of RVC information. Ask what procedures they used to verify the source of the materials. Document strengths and weaknesses of the manner in which the company assigned origin to the materials;

iii) if the company has received supplier certifications to verify the source of the materials, review them and determine if they are adequate (if not adequate these items may be considered high risk items for confirmation purposes).

i) Obtain information from the exporter's policy and procedures manuals and complete a plant tour to assist in identifying the source of materials. Physically

inspect the materials to identify markings or any other indications of whether or not the materials may be imported. Coordinate this work with that in verification procedure m)ii). While conducting the plant tour and through enquiry of management, identify any parts of the production process that may be sub-contracted to another company.

j) Review the concerns identified in the 4. PLANT TOUR verification sub-program.

k) Obtain a list of suppliers for all materials on the list obtained in verification procedure g). For the originating materials identified in verification procedure h), determine the suppliers and perform the following:

i) determine whether any of the suppliers have companies in a non-NAFTA country, or if the suppliers are U.S., Canadian or Mexican distributors (these suppliers will be considered high-risk items for confirmation purposes);

ii) inquire of company officials if there were any supplier changes or any materials that are sourced from more than one supplier. The Approved Vendor List or the history of the engineering specifications may provide evidence of supplier changes;

iii) determine whether there are any fungible materials. Examine the parts and supplier lists, the Approved Vendor List and inquire as to whether the same material is sourced from both a supplier from a NAFTA country and from a non-NAFTA country and if they source parts from distributors. (This information will be used in the 10. INVENTORY MANAGEMENT SYSTEM verification sub-program.)

l) Using the 8. TARIFF CLASSIFICATION verification sub-program identify 1) any materials of a tariff provision listed on Schedule IV of the NAFTA Rules of Origin Regulations that had been designated as originating but were in fact imported from outside the NAFTA territory or 2) any materials that are not of a tariff provision on Schedule IV of the NAFTA Rules of Origin Regulations that are considered non-originating but were in fact imported from outside the NAFTA territory, i.e. information from supplier catalogues and markings during the plant tour.

m) Select a sample of originating materials from the list obtained in verification procedure g) and perform the following:

i) scan the purchase invoice (for the material used in the good under review), any attached shipping documents, and bank endorsement stamp on the canceled check to determine whether they support the exporter's claim for the source (and value) of the material;



ii) select materials from this sample to verify markings and coordinate this work with that performed in verification procedure i);

iii) follow up on any contradictory observations; and

iv) prepare a working paper to control this process and to document the results.

n) Using the list obtained in verification procedure g), select a sample of materials not claimed as originating by the producer and determine if:

i) the materials are imported directly into the NAFTA territory by the producer, or

ii) the materials are imported into the territory by someone other than the producer, or

iii) the producer chose to identify the material as non-originating per 9)9)e) of the Regulations. If the material is imported into the territory by someone other than the producer, obtain supplier statements for these materials. This information will be used in the 11. VALUE OF MATERIALS verification sub-program.

o) Compare any supplier statements or certificates of origin obtained through the verification procedures identified above to the bill of materials.

p) Evaluate the need to expand sampling procedures based on the results of the testing performed above.

q) Assess if the origin or the traced material content of any of the materials needs to be confirmed with respect to the materials listed on Schedule IV of the NAFTA Rules of Origin Regulations.

r) Conclude as to whether the materials listed on Schedule IV of the NAFTA Rules of Origin Regulations, including the materials (and sub-materials) that may incorporate sub-materials listed on Schedule IV of the NAFTA Rules of Origin Regulations, are originating, imported or non-originating but not-imported (as determined by the Customs officers).

### 9.3 Supplier Confirmations

s) Judgementally select suppliers from whom supplier confirmations will be obtained: to confirm the origin of materials listed on Schedule IV of the NAFTA Rules of Origin Regulations claimed to be originating; or to confirm the origin of materials that have potential traced materials in them and claimed by the company or its supplier to be originating (the value of the traced materials may also be subject to this confirmation); or to confirm the origin of materials that if found to be non-originating would not meet the tariff change requirements in Schedule I and that have been claimed as being originating by the company.

i) send confirmations to high risk suppliers who are distributors, or those who are known to import parts from outside the territory, or where the reliability of the suppliers certifications on file with the exporter/producer are questionable and for high dollar value materials;

ii) find information on the suppliers in the exporter/producer correspondence files and purchase records, i.e. addresses, contact person, phone numbers, etc;

iii) ensure that confirmations are sent out to all suppliers if there is more than one supplier of a material or if suppliers were changed during the period under review;

iv) follow up with the supplier to obtain a completed confirmation , this may be telephone within a predetermined time frame to ensure that all the completed confirmation are received;

Note: Confirmations for which there is no response or insufficient information will result in the material being considered non-originating for tariff change purposes, and will be included in VNM for the RVC calculation.

v) review the confirmations once they are received from the suppliers and compare the information on the confirmations with the information on the certificates filed with the exporter/producer;

vi) determine if supplier confirmation letters should be sent to the suppliers of the suppliers of the exporter and/or producer, because there are materials which require further verification (either for origin or VNM purposes);

vii) after reviewing the supplier confirmation, consideration should be given to conducting a restricted supplier verification at the supplier's premises based on the evidence gathered to date. However, such visits will have to be approved prior to making any arrangements;

viii) prepare a working paper to control the confirmation process and to document the results;

ix) prepare a letter to each supplier subject to the confirmation process, notifying them of whether or not the material was found to be originating.

#### 9.4 General

t) Ensure that all verification adjustments required as a result of the sourcing verification procedures have been recorded.

### 10. INVENTORY MANAGEMENT SYSTEM

## VERIFICATION SUB-OBJECTIVE

To determine if an applicable inventory management method is in place when fungible materials (physically separated or commingled) are used in the production of a good, or when fungible goods are physically combined or mixed in inventory, potentially to identify the origin of a specific good.

In terms of fungible materials used in the production of light-duty automotive goods, an inventory management method must identify originating versus non-originating materials for the purposes of the tariff classification change requirement. Also, for the purposes of the RVC requirement, an inventory management method must, for materials that are on Schedule IV of the NAFTA Rules of Origin Regulations, identify not imported versus imported materials, and for all materials that have more than one supplier, identify the different traced sub-material values.

If an acceptable inventory management method does not exist, for the purposes of the tariff classification change requirement, all fungible materials will be considered to be non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials identified as a risk above will be included in the calculation of VNM.

Note that the existence of fungible materials does not automatically require that this verification program be applied, as the exporter/producer may choose to treat, for the purposes of the tariff classification change requirement, all fungible materials as non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials as part of VNM.

## VERIFICATION PROCEDURES

a) Obtain from the 9. SOURCE OF MATERIALS verification sub-program, a listing of identified fungible materials.

b) Determine the impact on the origin of the good under review should the inventory management system be found to be not acceptable. When fungible materials exist, evaluate the impact in terms of the tariff classification change requirement (consider the use of the de minimis provision) by reviewing the information obtained in the 8. TARIFF CLASSIFICATION verification sub-program, as well as in terms of the regional value content requirement (considering Schedule IV of the NAFTA Rules of Origin Regulations and materials that may contain traced sub-materials) by reviewing the information obtained in the 11. VALUE OF MATERIALS verification sub-program and the 15. CALCULATION OF THE REGIONAL VALUE

CONTENT verification sub-programs. If the impact is significant, proceed with the evaluation of the inventory management system.

c) Determine which of the following inventory management systems outlined in the NAFTA Regulations - Schedule X the company used for the fungible materials (goods):

Specific Identification

FIFO

LIFO

Average Method

d) Document the inventory management system from the beginning to end (i.e. purchasing, receiving, storage of materials, removal of materials from storage into production of a good, storage of a good and removal of the good from storage for shipment of the good).

e) If Specific Identification was used, ensure that fungible materials (goods) were physically segregated, or ensure the existence of an origin identifier.

f) If FIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, first received were considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

g) If LIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, last received was considered to the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

h) If the average method was used, ensure that the ratio was calculated and applied correctly.

i) Ensure whichever method that was chosen, that it was used from the time it was chosen to the end of the fiscal year. Has the system changed since the inception of NAFTA?

j) Ensure that the company correctly determined the materials, identified by origin or by supplier, as applicable, in its opening inventory by:

i) identifying, in the books of the producer, the latest receipts of fungible materials that add up to the amount of fungible materials in opening inventory at the time an inventory method is chosen;

ii) reviewing the origin or supplier of the materials (goods), as applicable, that make up those receipts;

iii) determining those fungible materials (goods) to be the fungible materials (goods) in opening inventory, identified by origin or supplier, as applicable.

k) Review the inventory management system by performing compliance tests of a sample of purchase transactions. The sample should include transactions involving materials (goods) that were fungible materials (goods) at the inception of the NAFTA and materials (goods) that were identified as fungible since the inception (i.e. change in supplier).

l) Is the inventory management system tested periodically? Obtain a description of periodic testing and evaluate its effectiveness.

m) Test a sample of fungible material (good) inventories by identifying the origin of opening inventory, adding receipts/adjustments of materials (goods) and deducting withdrawals/adjustments and compare your results to the company's records.

n) Conclude on whether:

i) the inventory management system used by the Company meets all the requirements of Schedule X of the Regulations (i.e. the inventory management system is acceptable); or

ii) the inventory management system used by the company requires improvement to meet the requirements of Schedule X of the Regulations - document the weaknesses of the system - document the impact on the origin of the good under review; or

iii) the inventory management system does not meet the requirements of Schedule X and the company can/cannot construct the necessary inventory system - document the impact on the origin of the good under review.

## 11. VALUE OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure that the value of originating and non-originating materials has been calculated in accordance with NAFTA.

### VERIFICATION PROCEDURES

#### 11.1 General

a) Gather any information relevant to the value of materials identified in the 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program. Assess the internal controls in place to preserve the quality and

accuracy of the data available by reviewing policy and procedures manuals with respect to the purchase of materials, internal auditor's reports, setting of standards and identification of variances and by performing a walk through of the purchasing and receiving function and documenting the flow of information by tracing material requisitioning, ordering, receiving and reporting, returns, accounting, and cash disbursement.

b) From discussions with the company staff, find out who is responsible for determining the values for the materials and how the materials are valued. Is the same valuation method used for all the materials, i.e., do they use a different method for determining the value of non-originating materials than the value of originating materials? Are materials valued differently for NC and VNM purposes?

c) Review the calculations prepared by the company including any supporting documentation and supplier certifications and statements obtained by the producer. Supplier certifications and statements should state whether the material is originating or non-originating, either with traced materials, or, with a value of traced materials, or, with a zero value of traced materials. Determine if the procedure used to value materials for both NC and VNM purposes is in accordance with the Regulations.

i) Identify all assumptions made by the company.

ii) Identify all cost types included in the calculations (freight, insurance, packing and other costs incurred in transporting, such as duties and taxes and brokers costs, including in-house broker costs). Apply the appropriate verification procedures to the costs being examined (examine invoices, calculations, standard costs, etc...).

iii) Identify the accounts from which the information was extracted.

iv) Determine if the values of materials are the same currency as the currency of the country in which the person who provided the supplier statement is located. See Section 3 of the Regulations.

v) Identify areas for further review.

d) Identify all related suppliers and determine if the purchase price was affected by the relationship and if an adjustment will be required.

i) Identify and review accounts or any documents that may pertain to material transfers and/or transfer payments from the producer to the supplier to identify any possible assists.

ii) If materials are dual sourced, compare the purchase prices of the related and non-related companies, e.g. obtain price list from the producer listing suppliers, prices and materials.

iii) Review correspondence between the producer and the related suppliers. Is there a possibility of the relationship affecting the value used? Refer to Section 7, Section 9 or Schedule VIII, as applicable, for the method of determining the correct value.

e) Inquire as to how price and usage variances are accounted for. Analyze if these variances (actual and standard cost) are significant and adjust the value of the materials in the RVC calculation, if necessary.

### 11.2 De minimis

f) Except for goods of tariff item number 8415.81 through 8415.83, if there are non-originating materials that do not meet the required tariff classification change, verify if the value of these materials determined in accordance with section 7 of the Regulations is less than or equal to 7% of the transaction value (or total cost of the good, if the transaction value is unacceptable), to see if the de minimis rule can be applied. (see verification procedure d) in the 9. SOURCE OF MATERIALS verification sub-program).

### 11.3 Value of materials to be included in net cost

g) Verify that all materials that are included in the net cost calculation are valued in accordance with section 7 of the Regulations. NOTE: the value of materials calculated in accordance with NAFTA includes the following regardless of whether the applicable value is the customs value of the material or the transaction value with respect to the transaction in which the producer acquired the material:

i) Freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer;

ii) duties and taxes paid or payable with respect to the materials in the territory of one or more of the NAFTA countries, unless they were refunded or waived;

iii) customs brokerage fees (including in-house services);

iv) waste and spoilage resulting from the use of the material in the production (minus the value of reusable scrap);

When the value is the transaction value, the following may also be added:

i) commissions, except buying commissions;

ii) elements (assists) supplied to the seller by the producer (materials; tools, dies, molds and other indirect materials; engineering, development, artwork, design work, and plans and sketches performed outside the country in which the producer is located)

iii) royalties;

iv) subsequent proceeds that accrue to the seller. The value of materials to be included in net cost also includes accessories, spare parts, tools, packaging materials and containers for retail sale. The value of intermediate materials, if applicable, should be obtained from the information obtained in the 12.

INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

h) Review the values of materials reported in the submission of RVC information and assess if these amounts seem reasonable by comparison with the RVC information of a similar good.

i) Inquire into the results of the 7. BILL OF MATERIALS verification sub-program, and take these results into consideration while conducting the value of materials verification procedures.

j) Judgementally select a sample of high risk materials for value of materials purposes. (Consider obtaining sufficient audit coverage). (Note: High risk for value purposes would be fungible materials or those non-traced materials that if found to be traced, or contain traced materials would make the good non-qualifying for RVC purposes. It could also be materials that are overvalued and correctly identified as non-traced or materials that are undervalued and correctly identified as traced, therefore creating an overstatement of the RVC percentage.).

i) determine the actual price paid by the exporter/producer by tracing to the purchase invoice, the attached shipping documents and the bank endorsement stamp on the canceled check;

ii) calculate the difference between the actual and standard cost and compare with the price variance or variance from standard claimed by the exporter/producer; follow-up on any substantial differences; and

iii) trace the total invoice amount to the appropriate ledgers and sub-ledgers to verify that purchases have been recorded correctly in the exporter's/producer's books and records.

k) Verify that the value of all materials, calculated in accordance with section 7 of the Regulations, are included in the net cost of the goods. Ensure that the value of traced (non-originating) materials, determined in accordance with section 9 of the Regulations, as set out below, are not also added in the calculation of the



net cost of the goods, as they would be double counted. Also, ensure intermediate materials are included only once.

l) Prepare a working paper to ensure that all adjustments required for materials as a result of value of materials verification procedures have been recorded.

m) Conclude as to whether the value of materials is correct.

#### 11.4 Value of non-originating materials (traced materials)

n) Obtain the list of traced materials and sub-materials (i.e. imported materials of a tariff provision listed in Schedule IV of the NAFTA Rules of Origin Regulations) developed in the 9. SOURCE OF MATERIALS verification sub-program, and the list, and value, of the traced materials contained in the intermediate material, if applicable, from the 12. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

o) Judgementally select a sample of high risk traced materials (high risk in terms of VNM includes traced materials, as well as non-traced materials that contain traced materials (except those imported materials that are not on Schedule IV of the NAFTA Rules of Origin Regulations, even if they contain traced materials)) and determine, by, for example, reviewing commercial invoices, and customs invoices, and by applying the relevant valuation methods: (Consider materiality in terms of closeness to RVC requirement)

i) Where the producer imported the traced material and took title at time of importation the value should be the sum of

A) the customs value of the traced material, and where not included in the customs value, any costs identified in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the traced material to the first place at which it was received in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

ii) Where the producer imported the traced material from outside the territories of the NAFTA countries and does not have or take title to it at the time of importation, the value should be the sum of

A) the customs value of the traced material, and where not included in the customs value, any costs identified in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the traced material to the place at which it was when the producer took title in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

iii) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries and that person has or takes title to the material at the time of importation, if the producer has a statement that is signed by the person from whom the producer acquired the traced material, whether in the form in which it was imported into the territory of a NAFTA country or incorporated into another material, and states all the following values, the value of the traced material should be

A) the customs value of the traced material, and where not included in the customs value, any costs detailed in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the traced material to the first place at which it was received in the territory of a NAFTA country, and

C) duties and taxes paid or payable with respect to the material in the territory of one of more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

iv) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries and that person does not have or take title to the material at the time of importation, if the producer has a statement that is signed by the person from whom the producer acquired the traced material, whether in the form in which it was imported into the territory of a NAFTA country or incorporated into another material, and states all the following values, the value of the traced material should be:

A) the customs value of the traced material, and where not included in the customs value, any costs detailed in B) and C) below:

B) freight, insurance, packing and other costs that were incurred in transporting the traced material to the place at which it was located when the first person in the territory of a NAFTA country took title, and

C) duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable, and 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 NAFTA countries.

v) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries and the producer acquires the traced material or a material that incorporates the traced material from a person in the territory of a NAFTA country who has title to it, if the producer has a statement that is signed by the person from whom the producer acquired the traced material or the material that incorporates it, and states all the following values, the value of the traced material or the material that incorporates it should be

A) the value determined in accordance with Schedule VIII (transaction value or value determined with an alternative method), with respect to a transaction that occurs after the customs value of the traced material was determined, and where not included in that value,

B) taxes, other than duties paid on an importation of a material from a NAFTA country, paid or payable with respect to the material in the territory of one of more of the NAFTA countries, other than taxes that are waived, refunded, refundable or otherwise recoverable, including credit against tax paid or payable.

vi) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries, and the producer acquires a material that incorporates the traced material and the acquired material was produced in the territory of a NAFTA country and is subject to a regional value-content requirement, if the producer has a statement that is signed by the person from whom the producer acquired the material, and states that the acquired material is an originating material, and also states the regional content of the material, the value of the material should be:

an amount equal to  $VM \times (1 - RVCR)$  where

VM is the value of the acquired material, determined in accordance with Subsection 9(5), with respect to the transaction in which the producer acquired the material, and RVCR is the regional value-content requirement for the acquired material, expressed as a decimal.

vii) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries, and the producer acquires a material that incorporates the traced material and the acquired material was produced in the territory of a NAFTA country and is subject to a regional value-content requirement, if the producer has a statement that is signed by the person from whom the producer acquired the material, and states that the acquired material is an originating material but does not state any value with respect to the traced material, the value of the material should be:

an amount equal to  $VM \times (1 - RVCR)$  where

VM is the value of the acquired material, determined in accordance with Subsection 9(5), with respect to the transaction in which the producer acquired the material, and RVCR is the regional value-content requirement for the acquired material, expressed as a decimal.

viii) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries and the producer acquires a material that incorporates that traced material, that was produced in the territory of a NAFTA country, and for which an amount was determined with the formula

$VM \times (1 - RVCR)$  (in accordance with vi) or vii

respectively above), if the producer of the good has a statement signed by the person from whom the producer acquired the material that states such an amount determined with the formula  $VM \times (1 - RVCR)$ , the value of the material should be the amount determined with the formula

$VM \times (1 - RVC)$  or  $(1 - RVCR)$  as the case may be.

Explanation: The producer receives a statement that states one amount as the value of the material. That amount is determined by the supplier of the material in accordance with the provisions of paragraph 9(2)(f) or 9(2)(g), as the case may be. That amount is the one the producer will use as the value of the material.

ix) Where a person other than the producer imports the traced material from outside the territories of the NAFTA countries and the producer does not have a statement described in any of paragraphs 9(2)(c) to (h), the value of the traced material or any material that incorporates it is determined in accordance with Subsection 9(5) with respect to the transaction in which the producer acquires the traced material or any material that incorporates it.

p) Determine whether all costs incurred in transporting materials have been identified and correctly reported (i.e. freight, insurance, packing, etc.).

- i) Test the method used by the company when identifying these costs, by selecting a sample of materials on the BOM that are purchased from within the territory of the NAFTA countries and those from outside the territory of the NAFTA countries.
- ii) Identify any assumptions made by the company. Test these assumptions to ensure that they are valid (i.e. if the company is using a standard cost system ensure that they follow the correct procedures for updating or revising the standard cost values).
- iii) Trace the materials to the purchase invoice and determine the amount of transportation costs associated with those materials. If the transportation costs are not included in the purchase price, trace the costs to the invoices for all costs incurred in transporting the materials.
- iv) Prepare adjustments as required as a results of this testing. (keeping in mind materiality and risk)
- q) Determine whether duty, taxes and brokerage fees with respect to the purchase and importation of materials have been identified and correctly reported, making adjustments as required. (keeping in mind materiality and risk)
- r) Ensure that VNM is adjusted for any variances that affect traced materials values.
- s) Verify that values for all the traced materials are included in the Value of Non-originating Materials (VNM) calculation.
- t) If the company included other non-originating materials (other than traced materials) in VNM, verify that the values of these materials are calculated in accordance with subsection 9(5) of the Regulations. Ensure that these materials do not contain traced materials already included in VNM.
- u) Prepare working papers to support all traced materials. Ensure that sufficient and appropriate evidence has been obtained to support the conclusions made.

## 11.5 Conclusion

- v) Conclude on the verification sub-objective.

## 12. INTERMEDIATE MATERIALS DESIGNATION

### VERIFICATION SUB-OBJECTIVE

The objective of this verification sub-program is to review any self-produced materials including self-produced materials and containers, and self-produced

accessories, spare parts and tools, designated as an intermediate material by the producer. If intermediate materials are designated by the company, and are found to qualify, the value of the intermediate material is considered an originating material for RVC calculation purposes. However, intermediate materials in light-duty automotive goods are still subject to the tracing provisions set out in Section 9 of the NAFTA Rules of Origin Regulations.

Note: For the purposes of calculating the RVC of the good, the producer of the good may designate as an intermediate material any self-produced material that is used in the production of the good, provided that where an intermediate material is subject to a RVC requirement, no other self-produced material that is subject to a RVC requirement and is incorporated into that designated self-produced material is also designated by the producer as an intermediate material. Also, intermediate materials are goods in their own right, and must therefore meet the rule of origin applicable to an intermediate material.

### VERIFICATION PROCEDURES

- a) Document all intermediate material designations made by the company.
- b) Inquire of the company officials as to how the value of the intermediate material(s) was calculated. Are all costs reasonably allocated to the intermediate material?
- c) Ensure that material, labor, overhead costs, etc. related to the intermediate material are not double counted in the respective costs related to the final good.
- d) Is the intermediate material a light-duty vehicle, or a good of a tariff provision listed on Schedule IV of the Regulations, that is subject to a RVC requirement and is for use as original equipment in the production of a light-duty vehicle?

If so, complete the 7. BILL OF MATERIALS, 8. TARIFF CLASSIFICATION, 9. SOURCE OF MATERIALS, 11. VALUE OF MATERIALS, 13. VALUE OF OTHER COSTS THAN MATERIALS, and 15. CALCULATION OF THE REGIONAL VALUE CONTENT REQUIREMENT sub-programs of the light-duty automotive verification (averaged or non-averaged, as applicable) programs, specifically oriented towards the intermediate materials. Any traced materials contained in the intermediate material and their value should be noted. This information will be used in the VALUE OF MATERIALS for the purposes of adding into the value of non-originating materials (i.e. traced materials) of the final good.

If not, evaluate the originating status of the intermediate material using the non-automotive verification programs contained in Chapter 5 of the manual. This could involve a test of the tariff classification change or both a tariff classification change and a regional value content requirement (using the net cost method for determining the regional value content). While conducting these tests, note any

materials that are potentially traced materials. This information will be used in the 8. TARIFF CLASSIFICATION verification sub-program.

e) If more than one intermediate material has been identified, ensure that, where the intermediate material is subject to a regional value-content requirement, no other self-produced material subject to a regional value-content requirement is used in the production of that intermediate material.

f) Conclude as to whether the intermediate material is an originating material (and its traced material content, if applicable).

g) If an intermediate material is determined to be originating, calculate the total cost in accordance with subsection 7(6) and subsections

2(6) through 2(9) of the Regulations (i.e. all product, period and other costs, less the costs identified in verification procedure c) of the 13. VALUE OF OTHER COSTS THAN MATERIALS verification sub-program). This information will be used in the 11. VALUE OF MATERIALS verification sub-program.

### 13. VALUE OF OTHER COSTS THAN MATERIALS

#### VERIFICATION SUB-OBJECTIVE

To verify that the other costs (labor, overhead, excluded costs, and other costs) included in the regional value content (RVC) calculation are only attributable to the good under review.

#### VERIFICATION PROCEDURES

a) Trace the detail of the net cost reported in the submission of RVC information to the exporter / producer's working schedule. Trace these working schedules to the books and records.

b) Identify the potential for sales promotion, marketing and after-sales service costs, royalty, shipping and packing costs and non-allowable interest costs being included in the net cost of the good. Consider whether these costs are attributable to the good, or to qualifying intermediate materials.

c) Ensure by scanning the detail in support of the net cost values in the submission of RVC information that period costs, product costs, and other costs incurred in the territory of one or more of the Parties are included in the net cost figure. By breaking down the overhead and general and administrative figures, ensure that the net cost does not include:

i) corporate or personal taxes on income;

- ii) capital gains taxes, dividends, or other accounts that should be classified as assets or reductions to income accounts;
  - iii) profits that are earned by the producer of the good, regardless of whether they are retained or paid out to other persons as dividends;
  - iv) gains related to currency conversion that are related to the production of the good (losses are added back into the net cost calculation) ;
  - v) costs of a service provided by a producer of a good to another person where the service is not related to the good;
  - vi) gains or losses resulting from the disposition of a discontinued operation;
  - vii) cumulative effects of accounting changes reported in accordance with a specific requirement of the applicable Generally Accepted Accounting Principles;
  - viii) gains or losses resulting from the sale of a capital asset of the producer.
- d) Review the amounts of labor, overhead and general and administrative expenses included in the RVC calculation. Trace these labor, overhead and general and administrative costs to the supporting documentation for the good under review. Ensure none of these costs include excluded costs.
- e) Obtain copies of agreements related to sales promotions and marketing. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.
- f) Obtain copies of contracts related to shipping costs. Review the terms of the contracts and ensure that they were properly taken into account in the net cost calculation.
- g) Refer to the verification sub-program to identify any materials considered to be packing materials and containers for shipment purposes. Ensure that the value for packing materials is not included in the calculation of the net cost of the good.
- h) Obtain copies of royalty agreements, technical assistance agreements, and other similar documents. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.
- i) Obtain copies of loan agreements. Review the terms of these agreements, particularly the interest rates charged and ensure that any non-allowable interest costs have been properly taken into account in the net cost calculation.
- j) Review the chart of accounts and trial balance to identify accounts which appear to be included costs but that the company has ignored in the net cost



calculation. List these accounts for further testing to supporting documentation and discussion with company personnel.

k) When the light-duty automotive goods are motor vehicles which are produced in a new plant, obtain the value of machinery from the 2. RVC REQUIREMENTS FOR LIGHT-DUTY AUTOMOTIVE GOODS verification sub-program, verification procedure I).

l) Prepare a working paper to adjust the net cost figure in the submission of RVC information for any excluded, or not allowable costs not deducted by the exporter/producer. (Remember that excluded costs attributable to a qualifying intermediate material remain in the calculation for the net cost of the good.)

m) Conclude on the verification sub-objective.

## 14. ACCUMULATION

### VERIFICATION SUB-OBJECTIVE

To ensure that the exporter/producer that chose to accumulate the production of one (or more) of his suppliers did so in accordance with Section 14 of the NAFTA Rules of Origin Regulations.

#### General

For purposes of determining whether a good is an originating good, an exporter or producer of a good may choose to accumulate the production of one or more producers, in the territory of one or more of the NAFTA countries, of materials that are incorporated into that good so that the production of the materials shall be considered to have been performed by that exporter or producer, provided that:

- all non-originating materials used in the production of the good undergo an applicable tariff classification change, and the good satisfies any applicable RVC requirement, entirely in the territory of one or more of the Parties; and
- the good satisfies all other rules of origin requirements.

#### Requirements

- In order to accumulate the production of a material,

i) where the good is subject to an RVC requirement, the producer of the good must have a certification as described below that is signed by the producer of the material, and

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

- 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;

- any information contained in the certification that concerns the value of materials or costs shall be in the same currency as the currency of the country in which the person who provided the statement is located.

Statement needed

Non-averaging of costs from accumulated production

Where a good is subject to a RVC requirement and an exporter or producer of the good has a statement signed by a producer of a material that is used in the production of the good that:

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

i) the net cost incurred by the producer of the good with respect to the material shall be the net cost incurred by the producer of the material plus, where not included in the net cost incurred by the producer of the material the costs referred to in paragraphs 7(1)(c) through (e) of the Regulations (i.e. freight, insurance, packing, transport to location of producer, duties and taxes, customs brokerage fees); and

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

or

b) states any amount, 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 shall be the value of the material determined in accordance with subsection 7(1) of the Regulations (this is covered in the 11. VALUE OF MATERIALS verification sub-program), and

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

#### Averaging of costs from accumulated production

Where an exporter or producer of a good does not have a statement as provided in (a) or (b) above, but does have a statement signed by a producer of the material that is used in the production of the good that

c) states that 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 shall 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, where not included in the net costs incurred by the producer of the material, the costs referred to in paragraphs 7(1)c) through (e) of the Regulations, and

ii) the value of non-originating materials used by the producer of the good with respect to the material shall 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 material with respect to which the statement is made;

or

d) 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 shall be the value of the material, determined in accordance with subsection 7(1), and

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

#### VERIFICATION PROCEDURES

- a) Determine that only the net cost method has been used to calculate the RVC requirement where the producer has chosen to use accumulation.
- b) Review the information received from the producer, that has accumulated the production, to ensure that it is mathematically correct and ensure that it has been correctly included in the RVC calculation.
- c) Evaluate the quality of the certifications and ensure that they contain all of the required information as stated above.
- d) Ensure that the profit component of the material being accumulated is not included in the net cost information by examining the supplier information and by comparing the price paid by the producer to the cost information provided by the supplier.
- e) Use the following verification sub-programs (only the applicable verification procedures) in order to evaluate the information received: 8. TARIFF CLASSIFICATION, 9. SOURCE OF MATERIALS, 10. INVENTORY MANAGEMENT SYSTEM, 11. VALUE OF MATERIALS, 12. INTERMEDIATE MATERIALS DESIGNATION, and 15. CALCULATION OF THE REGIONAL VALUE CONTENT.

NOTE: Consideration should be given to the use of supplier confirmations and visits to the supplier to verify the authenticity of the information reported to the exporter / producer.

#### 15. CALCULATION OF THE REGIONAL VALUE CONTENT (RVC)

##### VERIFICATION SUB-OBJECTIVE

To determine whether the good satisfies the NAFTA regional value content requirement.

##### VERIFICATION PROCEDURES

- a) Obtain the value of all materials to be included in the net cost of the good and the value of non-originating materials identified in the 11. VALUE OF MATERIALS verification sub-program.

b) Add to the value of all materials to be included in the net cost, the value of other costs from the 13. VALUE OF OTHER COSTS THAN MATERIALS verification sub- program to arrive at the net cost of the good.

c) Subtract the value of all non-originating materials from the net cost of the good.

d) Divide the difference by the net cost of the good.

e) Multiply the result obtained in verification procedure d) by 100.

f) Conclude on the verification sub-objective.

## 16. ORIGIN OF THE GOOD

### VERIFICATION SUB-OBJECTIVE

To determine the origin of the good under review using the NAFTA Rules of Origin Regulations.

### VERIFICATION PROCEDURES

a) Determine whether the good subject to verification originates under the NAFTA by documenting whether the tariff classification change and RVC requirements in the specific rule of origin have been met. Refer to the 9. SOURCE OF MATERIALS and 15. CALCULATION OF THE REGIONAL VALUE CONTENT verification sub-programs. Prepare a working paper documenting if the good originates under the NAFTA.

b) Conclude on the verification sub-objective.

## 17. TRANSSHIPMENT

### VERIFICATION SUB-OBJECTIVE

To verify that the originating good, by reason of having undergone production that satisfies the requirements of section 4 of the NAFTA Rules of Origin Regulations, (1) is not withdrawn from customs control outside the territories of the NAFTA countries; and (2) does not undergo further production or any other operation outside the territories of the Parties, other than unloading, reloading, or any other operation necessary to preserve it in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur dioxide or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled or damaged and present a danger to the remaining units of the good or to transport the good to the territory of the Party.

## VERIFICATION PROCEDURES

a) Obtain and review the copy of the invoice, bill of lading or waybill for the goods subject to verification. Document the shipping route and all points of shipment and transshipment prior to the importation of the good. Determine if the good has been conveyed directly on a through bill of lading from the exporter to a consignee. Consider gathering information from the importer.

b) If the good has not been shipped directly on a through bill of lading, it may have been transshipped through an intermediate country, provided that:

i) the good remained under Customs transit control in the intermediate country; and

ii) the good underwent no operations in the intermediary country other than the unloading, reloading, or operations necessary to preserve the good under review in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the other goods that are shipped with the good under review which are spoiled, or damaged and present a danger to good under review or any other operation necessary to transport the good to a NAFTA country.

c) Determine whether the good shipped was not produce by the producer. Consider the potential for fungible goods. If fungible goods are found, refer to the 10. INVENTORY MANAGEMENT SYSTEM verification sub-program. From the transshipment information requested in verification procedure b) of this sub-program, consider requesting that the exporter/producer develop a working paper which shows a reconciliation of shipments of goods exported by the exporter/producer and imported into the territory of the other NAFTA Party, taking into account their quantities and values.

d) Conclude on the verification sub-objective.

### APPENDIX Q

#### VERIFICATION PROGRAM

#### HEAVY DUTY AUTOMOTIVE GOODS - AVERAGED

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### VERIFICATION OBJECTIVE

TO ENSURE THAT THE HEAVY-DUTY AUTOMOTIVE GOOD, WHERE AN ELECTION TO AVERAGE HAS BEEN FILED, IS AN ORIGINATING GOOD IN ACCORDANCE WITH THE NAFTA RULES OF ORIGIN REGULATIONS AND CONSIDERING THE SPECIAL RVC CALCULATION REQUIREMENTS INCLUDED IN SECTION 10 (HEAVY-DUTY AUTOMOTIVE GOODS), SECTION 11 (MOTOR VEHICLE AVERAGING), SECTION 12 (HEAVY-DUTY AUTOMOTIVE PARTS AVERAGING) AND SECTION 13 (SPECIAL RVC REQUIREMENTS) OF THE NAFTA UNIFORM REGULATIONS.

### DEFINITIONS

Note to the Definitions: In order to assist in understanding the audit program wherever a word or group of words are used as defined, the word or words will appear in bold print :

"Automotive Component" means a good that is referred to in Column I of an item of Schedule V.

"Automotive Component Assembly(ies)" means a good other than a heavy-duty vehicle that incorporates an automotive component.

"Class of motor vehicle(s)" means any one of the following categories of motor vehicles:

a) motor vehicles of any of Subheading 8701.20, Tariff Items 8702.10.30 and 8702.90.30 (except for the transport of 16 or more persons), subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and Headings 8705 and 8706,

b) motor vehicles provided for in any of Subheadings 8701.10 and 8701.30 through 8701.90,

c) motor vehicles provided for in any of Tariff Items 8702.10.60 and 8702.90.60 (vehicles for transport of 15 or fewer persons) and Subheadings 8704.21 and 8704.31, and

d) motor vehicles provided for in any of Subheadings 8703.21 through 8703.90.

"Complete motor vehicle assembly process" means the production of a motor vehicle from separate constituent parts, which parts include 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.

"First prototype" means the first motor vehicle that

- a) is produced using tooling and processes intended for the production of motor vehicles offered for sale, and
- b) follows the complete motor vehicle assembly process in a manner not specifically designed for testing purposes.

"Floor pan of a motor vehicle" 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 firewall or bulkhead of the motor vehicle and ending

- a) where there is a luggage floor panel in the motor vehicle, at the place where that luggage floor panel begins, and
- b) where there is no luggage floor panel in the motor vehicle, at the place where the passenger compartment of the motor vehicle ends.

"Heavy-duty automotive good(s)" means a heavy-duty vehicle or a heavy-duty component.

"Heavy-duty component(s)" means an Automotive Component or automotive component assembly that is for use as original equipment in the production of a heavy-duty vehicle.

"Heavy-duty vehicle(s)" means a motor vehicle provided for in any of Heading 8701, Tariff Items 8702.10.30 and 8702.90.30 (vehicles for the transport of 16 or

more persons), and Subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and heading 8705, and 8706.

"Listed material(s)" means a good that is referred to in column II of an item of Schedule V.

"Marque" means a trade name used by a marketing division of a motor vehicle assembler that is separate from any other marketing division of that motor vehicle assembler.

"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

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

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

(c) to denote a platform design.

"Motor vehicle assembler" means a producer of motor vehicles and any related person with whom, or joint venture in which, the producer participates with respect to the production of motor vehicles.

"New building" means a new construction to house a complete motor vehicle assembly process, where that construction includes the pouring or construction of a new foundation and floor, the erection of a new frame and roof, and the installation of new plumbing and electrical and other utilities.

"Original equipment" means a material that is incorporated into a motor vehicle before the first transfer of title or consignment of the motor vehicle to a person who is not a motor vehicle assembler, and that is

a) a good of a tariff provision listed in Schedule IV, or

b) an automotive component assembly, automotive component, sub-component or listed material.

"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) light-duty vehicles and heavy-duty vehicles,
- b) goods of a tariff provision listed in Schedule IV, and
- c) automotive component assemblies, automotive components, sub-components, and listed materials.

"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.

"Refit" means a closure of a plant for a period of at least three consecutive months that is for purposes of plant conversion or retooling.

#### Schedule V of the NAFTA Rules of Origin Regulations

Item Column I Column II

#### Automotive Components Listed Materials

1. For engines provided for incast blocks, cast heads, fuel nozzles, fuel injector pumps, heading 8407 or 8408 glow plugs, turbochargers, superchargers, electronic engine controls, intake manifolds, exhaust manifolds, intake valves, exhaust valves, crankshafts, camshafts, alternators, starters, air cleaner assemblies, pistons, connecting rods and assemblies made therefrom, rotor assemblies for rotary engines, flywheels (for manual transmissions), flexplates (for automatic transmissions), oil pans, oil pumps, pressure regulators, water pumps, crankshaft gears, camshaft gears, radiator assemblies, charge-air coolers.

2 For Gear boxes (transmissions)(a) for manual transmissions: transmission cases and provided for in subheading clutch housings; clutches; internal shifting mechanisms; 8708.40 gear sets, synchronizers and shafts; and

(b) for torque convertor type transmissions: transmission cases and convertor housings; torque convertor assemblies; gear sets and clutches; electronic transmission controls.

"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 m<sup>3</sup> ) or less,

(b) more than 85 cubic feet (2.38 m<sup>3</sup> ) but less than 100 cubic feet (2.80 m<sup>3</sup> ),

(c) 100 cubic feet (2.80 m<sup>3</sup>) or more but not more than 110 cubic feet (3.08 m<sup>3</sup>),

(d) more than 110 cubic feet (3.08 m<sup>3</sup>) but less than 120 cubic feet (3.36 m<sup>3</sup>), or

(e) 120 cubic feet (3.36 m<sup>3</sup>) or more.

"Sub-component" means a good that comprises a listed material and one or more other materials or listed materials.

"Underbody" means the floor pan of a motor vehicle.

## 1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISIONS FOR HEAVY-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS ELECTED TO AVERAGE THE COSTS OF THESE GOODS

### VERIFICATION SUB-OBJECTIVE

To ensure that the good is a heavy-duty automotive good and the company has elected to average the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer in accordance with Subsections 11(1), 12(1) or 13(4) of the Regulations.

### VERIFICATION PROCEDURES .

a) Using the definition of a heavy-duty vehicle, determine whether the good is classified in one of the tariff provisions listed in the definition of a heavy-duty vehicle and the producer has filed an election to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsections 11(1) or 13(4) of the Regulations. If so, this verification program is applicable.

b) If the good is:

i) an Automotive Component or Automotive Component Assembly,

ii) for use as original equipment in the production of a heavy-duty vehicle; and

iii) the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsection 12(1) of the Regulations. If so, this verification program is applicable.

c) Conclude on the verification sub-objective.

NOTE: If the good is a heavy duty automotive good but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsection 11(1), 12(1) or 13(4) of the

Regulations, complete the Heavy-Duty Automotive Goods (Non-Averaged) verification program.

If the good is a light-duty automotive good and the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the Light Duty Automotive Goods (Averaged) verification program.

#### 1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISION FOR HEAVY-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS ELECTED TO AVERAGE THE COSTS OF THESE GOODS

If the good is a light duty automotive good but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 11(1), 12(1), or 13(4) of the Regulations, use the Light-Duty Automotive Goods (Non-Averaged) verification program.

If the good is not a heavy duty automotive good nor a light duty automotive good, then the general verification programs found in Chapter 5 of the NAFTA Audit (Verification) Manual are applicable.

#### 2. RVC PERCENTAGE REQUIREMENTS FOR HEAVY-DUTY AUTOMOTIVE GOODS

##### VERIFICATION SUB-OBJECTIVE

To ensure that the applicable minimum Regional Value Content (RVC) percentage requirement is used by the producer to determine whether the heavy-duty vehicles and heavy-duty components qualify as originating under the NAFTA.

Note: If the good cannot be identified below, the special RVC percentage requirements do not apply to it and the requirements of Schedule I are applicable.

##### VERIFICATION PROCEDURES .

2.1 RVC Percentage Requirement for a Good of a Tariff Provision Listed in Schedule IV, that is Subject to a Regional Value Content Requirement and is for use in a Heavy-Duty Vehicle, Except for a Good of any of Heading Nos. 8407 and 8408 and Subheading No. 8708.40 or any of Subheading Nos. 8482.10 through 8482.80, 8483.20 and 8483.30.

a) Determine if the fiscal year of the producer started before July 2, 1997. If so, the RVC requirement is 50%.

b) Determine if the fiscal year of the producer started after July 1, 1997, but before July 2, 2001. If so, the RVC requirement is 55%.

c) Determine if the fiscal year of the producer started after July 1, 2001. If so, the RVC requirement is 60%.

## 2.2 Staged Heavy Duty Vehicles and Heavy Duty Components RVC Requirement

Regional Value Content (RVC) Percentage Requirements for light-duty vehicles, or a good provided for in any of heading 8407 and 8408 and subheading 8708.40, that is for use in a heavy-duty vehicle.

d) Determine if the fiscal year of the producer started before July 2, 1997. If so, the RVC requirement is 50%.

e) Determine if the fiscal year of the producer started after July 1, 1997, but before July 2, 2001. If so, the RVC requirement is 56%.

f) Determine if the fiscal year of the producer started after July 1, 2001. If so, the RVC requirement is 62.5%.

## 2.3 Special RVC Requirements for Heavy-Duty Vehicles Produced in a New Plant

g) Determine if the plant in which the heavy-duty vehicles are produced consists of, or includes, a new building in which the heavy-duty vehicles are assembled.

h) Determine if the heavy-duty vehicles produced meet the definition of first prototype .

i) Determine the date of production of the first prototype and whether or not it has been five years since the date on which the first prototype has been produced. If greater than five years after the date on which the first prototype was produced, use the appropriate RVC requirements as identified in Verification Procedures a) through c).

j) Determine if the heavy-duty vehicle is of a:

i) class of motor vehicle, or

ii) marque ,

that was not previously produced by the motor vehicle assembler in the territory of any of the NAFTA countries.

## 2.4 Value of Machinery

k) For purposes of determining the value of machinery that was never previously used for production, and that is used in the new building (s) for the purposes of the complete motor vehicle assembly process with respect to that vehicle, obtain the motor vehicle assembler's fixed asset sub-ledger and the supporting invoices for the new machinery acquired to produce the motor vehicle.

l) Using the information obtained in verification procedure h) above review the producer's calculation of the value of machinery to ensure that the value of machinery that was never previously used for production, and that is used in the new building(s) for the purposes of the complete motor vehicle assembly process with respect to that motor vehicle, is at least 90% of the value of all machinery used for the purposes of that process.

i) Where the machinery was acquired by the producer of the motor vehicle from another person, the value of the machinery is the cost of that machinery that is recorded on the books of the producer.

ii) Where the machinery was used previously by the producer of the motor vehicle in the production of another good, the value of machinery is the cost of the machinery that is recorded on the books of the producer minus accumulated depreciation of that machinery that is recorded on those books.

iii) Where the machinery was produced by the producer of the motor vehicle, the value of the machinery is the total cost incurred with respect to that machinery, calculated on the basis of the costs that are recorded on the books of the producer.

m) Conclude as to whether all the conditions outlined in verification procedures g) through l) are met. If so, the RVC requirement is not less than 50% for five years after the date on which the first prototype is produced in the plant by the motor vehicle assembler . The RVC requirements outlined in verification procedure 2.1 apply for the periods following five years after the date on which the first prototype is produced.

## 2.5 Special RVC Requirements for Heavy-Duty Vehicles Produced in a Refit Plant

n) Determine if the plant which the heavy-duty vehicles are produced meets the definition of refit.

o) Determine if the heavy-duty vehicles produced in the refit plant meet the definition of first prototype.



p) Determine the date of production of the first prototype and whether or not it has been two years since the date on which the first prototype has been produced. If greater than two years after the date on which the first prototype was produced, use the appropriate RVC requirements for heavy-duty automotive goods as identified in Verification procedure 2.2.

q) Determine if the heavy-duty motor vehicle is of a:

i) class of motor vehicles, or

ii) marque, that was not assembled by the motor vehicle assembler in the plant before the refit.

r) Conclude as to whether the conditions outlined in verification procedures n) through q) are met. If met, the RVC requirement is not less than 50% for two years after the date on which the first prototype is produced in the plant by the motor vehicle assembler. The RVC requirements outlined in Verification procedure 2.1 apply for the period following two years beginning with the date on which the first prototype is produced.

s) Prepare any adjustments, as required.

## 2.6 General Summary Procedures

t) Conclude on the verification sub-objective

## 3. MOTOR VEHICLE AVERAGING ELECTION

### VERIFICATION SUB-OBJECTIVE

To ensure that the producer of the heavy-duty motor vehicles who has filed an election to average has properly determined the goods to be used to determine the sum of the net costs and the sum of the Value of Non-originating Materials (VNM) that are used in the calculation of the Regional Value Content (RVC) as set out in the NAFTA Rules of Origin Regulations.

Note: Some of these procedures require reference to the Verification Procedures found in 11.2 of the 11. TARIFF CLASSIFICATION verification sub-program.

### VERIFICATION PROCEDURES

#### 3.1 Identification of election to average

a) Obtain the appropriate Motor Vehicle Averaging Election filed under Subsection 11(1) or 13(4) of the NAFTA Rules of Origin Regulations for the

period under review from the Customs officer responsible for maintaining the Motor Vehicle Averaging Elections.

i) Confirm that the election has been accepted within the required time frames.

ii) Ensure that the models of motor vehicles identified on the certificate of origin are included in the election to average.

iii) Identify the averaging provisions elected by the producer. 3.2 Identification of the motor vehicles produced by the motor vehicle assembler which should be included in the election to average

b) If the category of motor vehicles for averaging is made under Paragraphs 11(5)(a), or 13(7)(a) of the NAFTA Rules of Origin Regulations, identify the same model line of all motor vehicles in the same class of motor vehicle produced in the same plant for which the election is made.

i) the model line of all motor vehicles produced in the plant for which the election is made,

ii) the class of motor vehicle for all motor vehicles produced in the plant for which the election is made.

c) If the category of motor vehicles for averaging is made under Paragraph 11(5)(b) or 13(7)(b) of the NAFTA Rules of Origin Regulations, identify the same class of motor vehicles produced in the same plant for which the election is made.

d) If the category under Paragraph 11(5)(c) of the NAFTA Rules of Origin Regulations is chosen, identify the model line of all motor vehicles produced in the territory of the NAFTA country.

### 3.3. Comparison and Reconciliation of the RVC Information to the Election Filed Under Section 11 of the NAFTA - Rules of Origin Regulations; Motor Vehicle Averaging

Ensure that: 1) the category basis of calculation as stated in the election to average filed with the customs administration has not been modified in any way in the calculation of the actual Regional Value Content (RVC); and 2) all vehicles that should be included based on the category and basis of calculation identified in the election, are in fact included in the averaging calculation (These results will be used as the basis for the remaining verification sub-programs).

e) Determine if the averaging category, identified in verification procedures b), c), or d) used by the motor vehicle assembler to prepare the submission of RVC

information, is the same as the one on the filed election to average. Identify any differences.

f) Determine the motor vehicles whose costs are included in the submission of the RVC information. Compare the motor vehicles whose costs are being averaged to the motor vehicles whose costs should be averaged on the filed election to average.

i.) If the category under Paragraph 11(5)(a) of the NAFTA Rules of Origin Regulations has been chosen, ensure that:

A) the model line identified on the filed election to average is the same as the model line of the vehicles whose costs are included in the RVC calculation and all vehicles whose costs are included in the RVC calculation are in the same model line and the costs associated with all motor vehicles in that model line are included in the RVC calculation, and

B) the class of motor vehicle identified on the filed an election to average is the same as the class of motor vehicles whose costs are included in the RVC calculation and the model line identified in verification procedure f) i) A) is within the same class of motor vehicle and the costs associated with all motor vehicles in that model line in that class of motor vehicle are included in the RVC calculation, and

C) the plant identified on the filed election to average is the same as the plant which produces the motor vehicles whose costs are included in the RVC calculation and the class of motor vehicle identified in verification procedure f) i) B) is all produced within the same plant and the costs associated with all motor vehicles in that model line of motor vehicle in that class of motor vehicle in that plant are included in the RVC calculation.

ii) If a category under paragraph 11(5)(b) of the NAFTA Rules of Origin Regulations has been chosen, ensure that

A) the class of motor vehicle identified on the filed election to average is the same as the class of motor vehicles whose costs are included in the RVC calculation and the costs associated with all motor vehicles that are within the same class of motor vehicle are included in the RVC calculation, and,

B) the plant identified on the filed election to average is the same as the plant which produces the motor vehicles whose costs are included in the RVC calculation and the class of motor vehicle identified in verification procedure f)ii)A) is produced within the same plant and the costs associated with all motor vehicles in that class of motor vehicle in that plant are included in the RVC calculation.

iii) If the category under Subsection 11(5)(c) of the NAFTA Rules of Origin Regulations has been chosen, ensure that the model line identified on the filed election to average is the same as the model line of the motor vehicles whose costs are included in the RVC calculation and all motor vehicles whose costs are included in the RVC calculation are in the same model line and the costs associated with all motor vehicles produced in the territory of a NAFTA country in that model line are included in the RVC calculation.

g) Ensure that the basis of calculation actually used by the producer is the same as the one on the election.

i) If the basis under paragraph 11(9)(a) has been elected (as identified in verification procedure a)), and using the results of verification procedures b), c), or d) as applicable, ensure that all motor vehicles that fall within the category chosen and are produced (for domestic use and for exportation) in the period elected are included in the RVC calculation.

ii) If the basis under paragraph 11(9)(b) has been elected (as identified in verification procedure a)), and using the results of verification procedures b), c), or d), ensure that all those motor vehicles exported to the territory of one or more of the NAFTA countries that fall within the category chosen and are produced in the period elected are included in the RVC calculation.

h) Ensure that the period identified on the filed election to average is the same as the period used to calculate the RVC. This should be the producer's fiscal year. How does this compare to the period defined in the Certificate(s) of Origin?

#### 3.4 Comparison to the Election Filed Under Subsection 13(4) - Special RVC Requirements for Vehicles Produced in a New or Refit Plant

Ensure that: 1) the category or basis of calculation as stated in the election filed with our customs administration has not been modified in any way in the calculation of the actual RVC; and 2) all vehicles that should be included based on the category and basis of calculation identified in the election to average, are in fact included in the averaging calculation. (These results will be used as the basis for the remaining verification sub-programs)

i) Determine the averaging category, as identified in the NAFTA Rules of Origin Regulations, used by the motor vehicle assembler to prepare the submission of RVC information. Ensure that the category actually averaged in the submission is the same as the one on the filed election to average.

j) Determine the motor vehicles whose costs are included in the RVC calculation in the submission. Compare the motor vehicles whose costs are being averaged in the submission to the motor vehicles whose costs should be averaged based on the filed election to average.

i) If a category under Paragraph 13(7)(a) has been chosen, ensure that:

A) the model line identified on the filed election to average is the same as the model line of the vehicles whose costs are included in the RVC calculation and all vehicles whose costs are included in the RVC calculation are in the same model line and the costs associated with all motor vehicles in that model line are included in the RVC calculation, and

B) the class of motor vehicle identified on the filed election to average is the same as the class of motor vehicles whose costs are included in the RVC calculation and the model line identified in Verification procedure

j) i) A) is within the same class of motor vehicle and the costs associated with all motor vehicles in that model line in that class of motor vehicle are included in the RVC calculation, and

C) the plant identified on the filed election to average is the same as the plant which produces the motor vehicles whose costs are included in the RVC calculation and the class of motor vehicle identified in Verification procedure j) i) B) is all produced within the same plant and the costs associated with all motor vehicles in that model line of motor vehicle in that class of motor vehicle in the same plant are included in the RVC calculation.

ii) If a category under Paragraph 13(7)(b) has been chosen, ensure that :

A) the class of motor vehicle identified on the filed election to average is the same as the class of motor vehicles whose costs are included in the RVC calculation and the costs associated with all motor vehicles that are within the same class of motor vehicle are included in the RVC calculation, and

B) the plant identified on the filed election to average is the same as the plant which produces the motor vehicles whose costs are included in the RVC calculation and the class of motor vehicle identified in Verification procedure j)ii)A) is produced within the same plant and the costs associated with all motor vehicles in that class of motor vehicle in that plant are included in the RVC calculation.

k) Ensure that the basis of calculation actually used by the producer is the same as the one on the election.

i) If the Paragraph 13(8)(a) basis of calculation has been elected as identified in verification procedure a), and using the results of the verification procedures b) or c), as applicable, ensure that all motor vehicles that fall within the category chosen that are produced (for domestic use and for exportation) in the period elected are included in the RVC calculation.

ii) If the Paragraph 13(8)(b) basis of calculation has been elected, as identified in verification procedure a), and using the results of the verification procedures b) or c), as applicable, ensure that all those motor vehicles exported to the territory of one or more of the NAFTA countries that fall within the category chosen that are produced in the period elected, are included in the RVC calculation.

l) Ensure that the period identified on the filed election to average is the same as the period used to calculate the RVC. Ensure that the period is in accordance with Subsection 13(4). How does this compare to the period defined in the Certificate(s) of Origin?

### 3.5. General Summary Procedures

m) Conclude as to whether the averaging provisions defined by the election to average have been applied correctly.

n) Prepare adjustments as required.

## 4. AUTOMOTIVE PARTS AVERAGING

### VERIFICATION SUB-OBJECTIVE

To ensure that the automotive parts producers who have elected to average their net costs and values of non-originating materials have properly determined the goods to be used to determine the sum of the net costs and the sum of the values of non-originating materials (VNM) that are used in the calculation of the Regional Value Content (RVC) as set out in the NAFTA Rules of Origin Regulations.

Note 1: The following verification sub-program only applies where the company has notified the Customs Administration in writing during the course of the verification of their election to average under section 12 of the NAFTA Rules of Origin Regulations. If the Customs Administration has not been notified in writing during the course of the verification that an election to average under section 12 of the NAFTA Rules of Origin Regulations has been made, the heavy-duty automotive goods (non-averaged) verification program is applicable. If the company has elected to average under subsections 11(1) or 13(4) of the NAFTA Rules of Origin Regulations use the 3. MOTOR VEHICLE AVERAGING ELECTION verification sub-program.

Note 2: Some of these procedures require reference to the verification procedures performed in the 11.2 classification of the Finished Goods verification subobjective of the 11. TARIFF CLASSIFICATION verification sub-program.

### VERIFICATION PROCEDURES

#### 4.1 Identification of election to average

a) If the good is of a provision listed as an automotive component assembly or a heavy-duty component inquire as to whether the producer is electing to calculate the sum of the net costs incurred and the sum of the non-originating materials used by the producer of the goods in accordance with section 12 of the Regulations. If so, this program is applicable, otherwise use the heavy-duty automotive goods non-averaged verification program.

i) Determine the models of goods by part number included in the automotive parts averaging elections. Obtain this information in writing from the company.

ii) Using the information obtained in the 11. TARIFF CLASSIFICATION verification sub-program, ensure that all part numbers of the models identified in i) are of the same tariff provision. In addition, all averaged goods must have the same specific noun description for the automotive components assembly, automotive component, sub-component, or listed materials being averaged.

iii) Compare part numbers of the models of goods under review to the certificate of origin to ensure that any or all models or part numbers are included in the automotive parts averaging election.

iv) Identify the averaging provision (i.e. category and period) elected by the producer. Obtain this information in writing from the company.

v) Where the automotive parts producer chooses a one or three month period, determine if the producer has, at the end of the fiscal year of the motor vehicle producer to whom the goods are sold, chose the fiscal year of that motor vehicle producer.

#### 4.2 Identification of the goods included in the automotive parts averaging election

b) If the category under paragraph 12(4)(a) of the Regulations is chosen by the producer, original equipment for use in the production of light-duty vehicles, this program is not applicable. Refer to the 4. AUTOMOTIVE PARTS AVERAGING verification sub-program in the LIGHT-DUTY AUTOMOTIVE GOODS (AVERAGED) verification program.

c) If the category under 12(4)(b) of the Regulations is chosen, ensure that the goods are original equipment for use in the production of heavy-duty vehicles.

d) If the category under 12(4)(c) of the Regulations is chosen, goods are after-market parts, this program is not applicable. Refer to the applicable verification programs found in Chapter 5 of the verification manual.

e) If the category under 12(4)(d) of the Regulations is chosen, ensure that the goods are original equipment for use in the production of a heavy-duty vehicle in combination with after-market parts.

f) If the category under 12(4)(e) of the Regulations is chosen, ensure that the goods are any of the following:

i) original equipment for use in the production of heavy-duty vehicles and are sold to one or more motor vehicle producers; or

ii) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producer.

g) If the category under 12(4)(f) of the Regulations is chosen, ensure that the goods are any of the following:

i) original equipment for use in the production of heavy-duty vehicles and are exported to the territory of one or more of the NAFTA countries;

ii) original equipment for use in the production of heavy-duty vehicles in combination with after market parts and are exported to the territory of one or more of the NAFTA countries;

iii) original equipment for use in the production of heavy-duty vehicles and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries; pr

iv) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries.

h) If the verification encompasses reviewing all goods of a tariff provision produced by the producer, ensure that all goods are included in an averaging category. Similarly, if the verification encompasses specific good of the same tariff provisions, ensure that only those goods are included in the averaging category.

#### 4.3 Identification of the motor vehicles producer included in the automotive parts averaging election

i) If the category under 12(4)(b) of the Regulations is elected, where the goods are:

i) original equipment for use in the production of heavy-duty vehicles:



- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) have the same fiscal year end(s);
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in b) have all been accounted for.

j) If the category under 12(4)(d) of the Regulations is elected, where the goods are:

i) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts:

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) have the same fiscal year end(s);
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in b) have all been accounted for.

k) If the category under 12(4)(e) of the Regulations is elected, where the goods are:

i) original equipment for use in the production of heavy duty vehicles and are sold to one or more motor vehicle producers :

- A) Determine the motor vehicle producer(s) included in the averaging election;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end(s);
- C) Confirm the sales of the parts to the producer(s) to ensure the goods identified in b) have all be accounted for: or

ii) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producers:

#### 4. AUTOMOTIVE PARTS AVERAGING

- A) Determine the motor vehicle producer(s) included in the election to average ;
- B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end(s);

C) Confirm the sales of the parts to the produce(s) to ensure he goods identified in b) have all been accounted for ; or

l) If the category under 12(4)(f) of the Regulations is elected, here the goods are:

i) original equipment for use in the production of heavy-duty vehicles and re sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

A) Determine the motor vehicle producer(s) included it the averaging election;

B) Determine if all motor vehicle producers) included in the election to average have the same fiscal year end(s);

C) Confirm that sales of the parts to the producer(s) to ensure the goods identified in b) have all been accounted for: or

ii) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

A) Determine the motor vehicle producer(s) included in the averaging election;

B) Determine if all motor vehicle producer(s) included in the election to average have the same fiscal year end(s);

C) confirm the sales of the parts to the producer(s) to ensure the goods identified in b) have all been accounted for.

4.4 Identification of the country(ies) of export included in the automotive parts averaging election

m) If the category under 12(4)(f) of the NAFTA Rules of Origin Regulations is chosen, if the goods are:

i) original equipment for use in the production of heavy-duty vehicles and are exported to the territory of one or more of the NAFTA countries.

A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct.

ii) original equipment for use in the production of heavy-duty vehicles in combination with after market parts and are exported to the territory of one or more of the NAFTA countries.

A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct:

iii) original equipment for use in the production of heavy-duty vehicles and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

A) Determine the territory of one or more NAFTA countries the goods included in the averaging calculation have been exported to.

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct:

iv) original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producers and are exported to the territory of one or more of the NAFTA countries:

A) Determine the territory of one or more NAFTA countries and goods included in the averaging calculation have been exported to.

B) Confirm the amount of goods exported outside the territory of the Party in which the production occurred, to ensure the quantity of goods included in the averaging calculation is correct:

#### 4.5 Verification of the period elected by the producer

n) If the category under paragraph 12(4)(b) of the NAFTA Rules of Origin Regulations is chosen, ensure that the period elected is calculated over any month, any consecutive three month period that is evenly divisible into the number of months of the producer's fiscal year remaining at the beginning of the period, or the fiscal year of the motor vehicle producer to whom those goods are sold.

i) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

ii) Where the producer chooses a one or three month period, ensure that the same duration is chosen for:

A) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

B) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those goods are sold.

o) If the category under paragraph 12(4)(d) of the NAFTA Rules of Origin Regulations is chosen and some of the goods are heavy-duty automotive goods but none of the goods are light-duty automotive goods, ensure that the period elected is calculated over any month, any consecutive three month period, or the fiscal year of the motor vehicle producer to whom these goods are sold.

i) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

ii) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

A) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or B) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

p) i) If the category under paragraph 12(4)(e) of the NAFTA Rules of Origin Regulations is chosen and the goods are only original equipment for the use in the production of heavy-duty vehicles and are sold to one or more motor vehicle producers, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

l) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to

the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

ii) If the category under paragraph 12(4)(e) of the NAFTA Rules

of Origin Regulations is chosen and the goods are original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are sold to one or more motor vehicle producers ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producers(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

q) i) If the category under paragraph 12(4)(f) of the NAFTA Rule of Origin Regulations is chosen and the goods are only original equipment for the use in the production of heavy-duty vehicles and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to

the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

ii) If the category under paragraph 12(4)(f) of the NAFTA Rules of Origin Regulations is chosen and the goods are original equipment for use in the production of heavy-duty vehicles in combination with after-market parts and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated any month, any consecutive three month period or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

II) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

iii) If the category under paragraph 12(4)(f) of the NAFTA Rules or Origin Regulations is chosen and the goods are only original equipment for the use in the production of heavy-duty vehicles, are sold to one or more motor vehicle producers and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

I) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to

the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

ii) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

iv) If the category under paragraph 12(4)(f) of the NAFTA Rules of Origin Regulations is chosen and the goods are original equipment for use in the production of heavy-duty vehicles in combination with after-market parts, are sold to one or more motor vehicle producers and are exported to the territory of one or more NAFTA countries, ensure that the period elected is calculated on any month, any consecutive three month period, or the fiscal year of the motor vehicle producer(s) to whom the goods are sold.

A) By means of industry reports or inquiries in writing, confirm the fiscal year(s) of the motor vehicle producer(s) to whom the goods are sold.

B) Where the producer chooses one or three month period, ensure that the same duration is chosen for:

i) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the automotive parts producer has changed the period to the fiscal year of the motor vehicle producer to whom the goods are sold as identified in verification procedure a); or

ii) the remainder of the fiscal year of the automotive parts producer where such producer did to change the period to the fiscal year of the motor vehicle producer to whom those those goods are sold.

#### 4.6 Comparison and reconciliation of the submission of RVC

##### Information

r) Ensure that the goods and period as identified in the election to average obtained in verification procedure a) has not been modified in any way in the calculation of the actual RVC.

#### 4.7 General Summary Procedures

s) Conclude as to whether the averaging provisions defined by the election to average have been applied correctly.

t) Prepare adjustments as required.

### 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM

## VERIFICATION SUB-OBJECTIVE

To ensure the Management of Information System (MIS) used to develop the Regional Value Content calculation is reliable and accurate.

## VERIFICATION PROCEDURES

a) Obtain the relevant information concerning the Management of Information System (MIS) gathered through the 7. PLANT TOUR verification sub-program. Identify the areas of concern with respect to the MIS. Consider using the "Review of Policies, Procedures and Internal Controls Checklist" (See Appendix F) to assist in identifying concerns.

b) Obtain and review the policies and procedures manual. Identify the areas of concern with respect to the MIS.

c) Obtain the independent auditor's report. Review this report to assess the reliance the auditors placed on the MIS.

d) Interview the personnel responsible for the MIS. Assess their knowledge of Electronic Data Processing (EDP) and the importance the organization places on controls within the MIS.

e) Document the MIS. Use the policies and procedures manual and the interviews with the MIS personnel as a guide.

i) Document how the Bill of Materials is created within the system. Document how the following items are entered into the system:

A) engineering documents/specifications (including changes to engineering specifications)

B) list of materials and suppliers - approved vendor listing

C) development of standards for costing purposes (i.e. materials, labor and overhead standards).

ii) Include a review of the following:

A) how are orders for motor vehicles entered into the system

B) what determines production for the period

C) how are production reports generated

D) how are material stock reports (i.e. KAN-BAN) and picking lists generated



E) inventory (i.e. purchase from supplier(s), receipt, transfer to production, work-in-process, finished goods, shipment of finished goods)

iii) Document how the actual costs are recorded in the system. Include a review of payments for materials inventory, direct and indirect labor, manufacturing overhead and all other costs included in the total cost calculation.

f) Document the controls inherent in the MIS (i.e. the general and application controls). Ensure adequate controls over materials inventory, production, labor, overhead, etc.

#### i) General Controls

Review information pertaining to the organization controls and standard operating procedures. Review the systems development and documentation controls. This includes:

A) systems development methodology;

B) programming conventions and procedures;

C) technical, management, user and auditor review and approval;

D) system testing;

E) conversion control (if applicable);

F) program change controls;

G) system documentation standards -- program documentation, operations documentation, user documentation.

Review the systems software controls. This includes:

A)handling errors;

B)program protection;

C)file protection;

D)security protection.

Document how changes are made (i.e. authorization of changes to the system).

#### ii) Application Controls

Review the data capture and batch data entry controls. This includes:

A) control methodology (exposures resulting from errors and irregularities, management control objectives, system objectives, role of controls in EDP systems)

B) audit trail;

C) data capture controls;

D) data entry controls.

Review the on-line entry, processing and output controls. This includes controls to ensure:

A) reliable, proper, authorized and valid transaction entry;

B) unreliable and improper data entry is detected;

C) unreliable and improper data is corrected;

D) processing is reliable, proper and authorized;

E) unreliable, improper, and unauthorized processing is detected;

F) unreliable, improper, and unauthorized processing is corrected;

G) errors detected in output are properly corrected and resubmitted to data processing on a timely basis.

## 6. INITIAL ANALYSIS OF THE RVC INFORMATION

### VERIFICATION SUB-OBJECTIVE

To conduct a preliminary review of the submitted RVC information in order to identify risks that require further verification.

### VERIFICATION PROCEDURES

a) Obtain from company officials supporting RVC information for the goods under review.

b) Review the costs provided in the submission of RVC information to determine if they are reflective of actual costs (as opposed to estimates that would have been used in the election to average).

- c) Ensure that all calculations provided with the information are correct. Ensure that the appropriate RVC percentage requirement has been used by the company. Ensure that the good has met the RVC requirement based on these calculations.
- d) Ensure that all the non-originating materials (i.e., materials that do not meet their required rule of origin) and materials of unknown origin have met the required tariff classification change portion of the rule of origin.
- e) Review the labor and overhead information provided. Identify any excluded costs incorrectly included in the RVC calculation.
- f) Identify any automotive component assembly, automotive component, sub-component, or listed material that are imported by the company and identified as originating materials. (Reference Schedule V)
- g) Conduct risk analysis /ratio analysis on the total value for materials, labor and overhead in relation to the RVC requirement.
- h) Conclude on the areas of concern requiring further review.

## 7. PLANT TOUR

### VERIFICATION SUB-OBJECTIVE

To obtain an understanding of the entire operations of the verification company (i.e. manufacturing, assembly, warehouse, accounting, etc.).

### VERIFICATION PROCEDURES

- a) Obtain an Organization Chart. Ensure all operations and or departments whose costs are included in the total cost calculation for RVC purposes have been reviewed and documented.  
  
--Document the potential for costs to be included in total cost that should be excluded (i.e. costs not directly related to the production of the automotive goods including: sales promotion, marketing and after-sales service costs; royalties; shipping and packing costs; and non-allowable interest costs).
- b) Observe and document the existence of the goods included in the election to average.
- i) Confirm the goods to be included in the election to average are manufactured at that production facility.

ii) Identify other goods that should be included in the election and goods that are included but should not be.

iii) Identify any differences that may exist with respect to the tariff classification of the goods under review.

c) Where the producer designates an intermediate material review the assembly process and observe the completed intermediate material (IM). Conclude on whether or not the IM is a self-produced material. This information will be used in 8. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

d) Observe and document any concerns with regard to any possible Non-Qualifying Operations (i.e. unacceptable production or pricing practice used to circumvent the Rules of Origin) noted during the plant tour. This information will be used in 19. Non-Qualifying Operations sub-program.

e) Observe and document the Research and Development and/or Engineering Operations.

--Document any concerns with respect to the potential allocation problems of costs not directly related to the goods included in the averaging calculation.

f) Observe and document the warehouse operations (i.e. receiving material inventory, storing material inventory and storing of finished goods).

i) Document any concerns with respect to the tariff classification of materials for which there may be classification differences.

ii) Document any concerns with respect to the ownership of material.

iii) Document any concerns with respect to the source of materials (i.e. dual sourcing, markings on materials, fungible materials, etc.) noted during the plant tour, especially automotive component assembly, automotive component, sub-component, and listed materials

iv). Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the goods included in the averaging calculation.

v). Document any concerns with respect to the shipping of finished goods (i.e. any costs of shipping and packing that may be included in the net cost calculation).

vi) Document any concerns with respect to the inventory and turnover of finished goods.

g) Observe and document the production/manufacturing operations. Ensure each in-house manufacturing and sub-assembly operations have been documented (i.e. stamping, engine production, axle production, etc.)

i). Document any concerns with respect to the out-sourcing of manufacturing/production or sub-assembly operations. Evaluate whether assists may be provided to the out-sourced producers. This information will be used in 14. VALUE OF MATERIALS verification sub-program.

ii). Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the goods included in the averaging calculation.

h) Observe and document the financial accounting operations. Ensure the materials ordering, receiving, inventory flow, direct labor costing, indirect material costing and overhead allocation determination are all documented.

i) Observe and document the Management of Information System Operations. Inquire as to the type of management reports that are produced (i.e. bills of materials, production reports, labor reports, material stock reports, etc.). This information will be used in 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program.

## 8. INTERMEDIATE MATERIALS DESIGNATION

### VERIFICATION SUB-OBJECTIVE:

The objectives of this verification sub-program are: 1) To determine if the intermediate material(s) (IM) designation, made by the heavy duty automotive goods producer, is in accordance with Paragraph 10(9)(a) and Subsections 7(4) and 7(19) of the NAFTA Regulations; 2) Where the Specific Rule of Origin for the IM requires that the non-originating materials making up the IM undergo a tariff classification change, that the tariff classification change requirement is met; 3) Where the Specific Rule of Origin requires that the IM meet a Regional Value Content (RVC), that the RVC requirement is met.; 4) document any self produced materials and containers and self produced accessories spare parts and tools designated as an IM.

Complete this sub-program only if the producer designates a self-produced intermediate material(s) (IM) in accordance with Paragraph 10(9)(a) and Subsections 7(4) and 7(19) of the NAFTA Regulations.

### VERIFICATION PROCEDURES

#### 8.1 Review of the IM Designation for Compliance With Paragraph 10(9)(a)

a) Document all Intermediate Material (IM) designations made by the company.

b) Review the company designated HTS number and description of the intermediate material to ensure that the description in the Harmonized Tariff System of the NAFTA Party does not describe a heavy-duty component or sub-component.

c) Is the I M designation within the requirements of Paragraph 10(9)(a) of the NAFTA Regulations? An IM designation will be considered meeting the Paragraph 10(9)(a) requirements where the self-produced material is a material other than a heavy-duty component or sub-component and no other materials which are other than a heavy-duty component or sub-component that is subject to a RVC requirement and is incorporated into that I M is also designated by the producer as an IM.

d) Conclude on the Intermediate Material designation for compliance with Paragraph 10(9)(a).

## 8.2 HTS Classification of the IM

e) Obtain the correct tariff classification and Rule of Origin for the IM from the 11.TARIFF CLASSIFICATION verification sub-program.

## 8.3 Tariff Classification Change Requirements for the IM

f) Obtain the information with respect to the Tariff Classification for the I M from the 11.TARIFF CLASSIFICATION verification sub-program.

## 8.4 Review of the RVC Requirements of the IM

g) Inquire of the company officials as to how the value of the intermediate material was determined. See Subsection 7(6) of the NAFTA Regulations. Are all costs reasonably allocated to the IM according to Schedule VII.

h) Ensure that material, labor, overhead costs etc. allocated to the Intermediate Material are not double counted in the respective costs related to the final good. (i.e. the net cost of the good should be reduced to the extent of the IM designation). This information will be used in sub-programs 14. VALUE OF MATERIALS and 15. VALUE OF COSTS OTHER THAN MATERIALS

i) Perform the RVC requirement on the IM using the net cost method. Refer to sub-program 17. CALCULATION OF THE RVC verification sub-program for determining the RVC using the net cost content calculation.

j) If more than one intermediate material has been identified, insure that, where the IM is subject to a RVC requirement, no other self-produced material subject to a RVC requirement is used in the production of that IM.

k) Conclude as to whether the IM is an originating material.

l) If an intermediate material is determined to be originating, calculate the non-originating value in the total cost of the IM and carry forward that value, as an originating cost, to be subtracted from the VNM (if not already reduced).

## 9. BILL OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure the bill(s) of materials (BOM) of the goods used in the averaging calculation are complete and accurate throughout the verification period.

### VERIFICATION PROCEDURES

a) Obtain all of the bills of materials (BOMs) for the goods that should be included in the averaging election. (Refer to 3. MOTOR VEHICLE AVERAGING ELECTION and 11. TARIFF CLASSIFICATION verification sub-programs.)

b) Verify the mathematical accuracy of the BOMs.

c) Obtain from 5. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program, the description of the system for the BOMs and any related documentation. If necessary, review the policy and procedures manual for the BOM with respect to the definition of the BOM, use of the BOM, what is reported on the BOM, who and when changes are made to the BOM, etc.

d) Compare the models of the BOMs to the averaging election to ensure they are included in the election. Identify any differences.

e) Sort the BOMs into the various models (goods) subject to averaging.

f) Obtain the volume of sales to the U.S. (and/or Canada or Mexico) for each model of goods subject to averaging. Calculate the percentage of sales by both volume and dollar value within each model.

--Obtain the production reports for each model and compare to the volumes of sales as provided by the company.

--Documents any concerns with respect to goods produced in a different period and being sold/shipped in the period under review.

g) To ensure the BOMs are complete, select a sample of bills of materials (BOM) to:

i). compare the BOM to engineering documents/specifications (i.e. compare parts and quantity to be included in the good);

ii) compare the part numbers, descriptions and values, to picking lists used to obtain parts for the production from inventory;

iii) compare the bills of materials to product literature;

iv) review the sourcing of materials for consistency among the bills of materials.

v) Compare the BOMs to other BOMs of similar goods (i.e. use professional judgment to ensure all materials on the BOM are incorporated into the good and to ensure there are no missing materials that should be incorporated into the good).

vi) Document any differences. Obtain explanations from the company.

h) To ensure that the standard costs for materials on the BOM are consistent throughout the year:

i) review the company's standard cost accounting policies;

ii) inquire of company officials if there have been changes in the production process or the standard costs during the year;

iii) compare a sample of the BOMs to other BOMs for the same model from a different date during the year. If any differences are found discuss with company officials.

i) Conclude on the verification sub-objective.

## 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION

### VERIFICATION SUB-OBJECTIVE

To ensure that the list of materials used in the averaged RVC calculation for net costs and value of non-originating materials is complete and accurate.

Note: The 9. BILL OF MATERIALS verification sub-program will have to be completed before proceeding with these verifications procedures

### VERIFICATION PROCEDURES



a) Obtain the listing of materials and any additional supporting documentation used by the producer in the RVC calculation of the Net Costs (NC) and Value of Non-originating Materials (VNM). This listing should contain all the materials used on the production of all the final goods subject to the averaging provisions for the period under review.

b) Verify the mathematical accuracy of the materials list. Compare the totals reported on the listing to the total value of materials included in the net cost calculation and the value of non-originating materials in the submission of the RVC information.

c) Interview the person(s) responsible for developing this listing. Inquire as to how the list of materials was developed (i.e. how did the company ensure that only the materials used in the production of the motor vehicles subject to the averaging provisions are included on the list).

-Based on responses to the above, assess their knowledge of the NAFTA, the NAFTA Rules of Origin Regulations, and specifically the motor vehicle averaging provisions (if applicable ).

d) Match this listing with the general ledger and/or audited financial statements. If non-averaged goods are also produced, ensure the materials used to produce those goods are not included in this list.

e) Perform tests on the list of materials such as the following:

i) using production reports and average costs, recalculate the total of the value of materials included in the averaging calculation;

ii) select a sample of materials and recalculate the value of materials using average/standard values.

f) Select a sample of bills of materials included in the averaging calculation and perform the following:

i) compare the description of the BOM to the list of originating goods to ensure they are listed;

ii) using the production reports, ensure the quantity of materials on the list of materials is appropriate.

g) Select a sample of materials from the list of materials included in the averaging calculation and perform the following:

i) compare the description per the list of materials to the BOM to ensure they are used in the goods to be averaged;

ii) using production reports, ensure the quantity on the list is appropriate for the materials used in the goods to be averaged.

h) Identify any accessories, spare parts and tools, packaging materials and containers for retail sale, and packing materials and containers for shipment, to be disregarded for evaluating the tariff classification change requirement. Provide this information to the person responsible for the 11. TARIFF CLASSIFICATION verification sub-program. Provide the information concerning packing materials and containers for shipment to the person responsible for the 15. VALUE OF COSTS OTHER THAN MATERIALS and 14. VALUE OF MATERIALS verification sub-programs.

i) Conclude on the verification sub-objective

## 11. TARIFF CLASSIFICATION

### VERIFICATION SUB-OBJECTIVE

To ensure that the heavy duty automotive good is properly classified under the Harmonized Tariff System (HTS) of tariff classification, and to ensure the correct rule of origin is applied.

To classify all materials which would not meet the necessary tariff classification change as required by the Specific Rule of Origin (Schedule I of the Uniform Regulations) applicable to the good if they were non-originating materials.

To identify and classify all automotive component assemblies, automotive components, sub-components and listed materials together with any other non-originating materials used by the producer in the production of the good in order to establish the Value of Non-originating Materials (VNM) in accordance with Section 10 of the Regulations.

### VERIFICATION PROCEDURES

#### 11.1. General Introductory Procedures:

a) Interview the person(s) responsible for tariff classification to establish how the classifications of the good and the materials were determined. Obtain any rulings that the company has received from other customs administrations.

b) Document the potential for fungible materials while performing the procedures in this verification sub-program.

c) Obtain information from the company pertaining to the de minimis calculation when the company has applied the de minimis provisions to qualify the goods. To

evaluate de minimis, refer to the verification procedures outlined in Chapter 5 of this verification (audit) manual.

d) To aid in the completion and accuracy of 12. SOURCE OF MATERIALS verification sub-program, note data on the material suppliers, if you come across this information while performing the verification procedures of this sub-program.

## 11.2 Classification of the Finished Goods and Intermediate Materials

e) Obtain and review documentation on the goods and IM including; bills of materials, public brochures, engineering specifications, invoices, bills of lading, owner's manual, catalogues and verify if it is consistent with the tariff classifications provided for the goods under review. Review the export documents for the Harmonized Tariff System (HTS) number for the goods being verified.

f) Obtain from 7. PLANT TOUR verification sub-program information with respect to the production of the goods or the IM. Physically inspect the good during a plant tour to aid in confirming the correct classification number and rule of origin of the finished goods and IMs.

g) Ensure that the goods and I Ms under review are properly classified in the RVC information on the election to average. The good and/or IM classification should be classified as applicable, to the Tariff Heading (4<sup>th</sup> digit), Subheading (6<sup>th</sup> digit), or where required by the Specific Rule of Origin the Item (8<sup>th</sup> digit) level of the Party's HTS.

Where the tariff number is in doubt, take pictures, drawings, samples to the appropriate specialist for a classification.

h) Identify the Specific Rule of Origin for the "Heavy Duty Automotive Goods" and I M under review.

-Prepare a conclusion on the tariff classification declared by the company for the goods or the I M under review.

i) Ensure that the goods are included in the class of motor vehicles as elected by the producer (if applicable).

j) Does the specific rule of origin of the good require that the materials undergo a change in tariff classification ? If no, go to procedure

11.4 within this verification sub-program . If yes, continue.

11.3 Classification of Materials for Tariff Classification Change Requirement Only:

To be completed where the non-originating materials included in the Heavy Duty Automotive Goods or IM are required to undergo a tariff classification change.

k) Analyze the Specific Rule of Origin for the good or IM identified in verification procedure h) to determine the tariff classification of the materials that would not meet the required tariff classification change if they were non-originating materials.

l) Obtain an accurate description of the materials used in the production of the goods, by physical examination, reviewing supplier parts catalogue, engineering documents, purchase orders, and/or supplier contracts. Document any self-produced materials designated in accordance with subsection 4(8) of the NAFTA Rules of Origin Regulations.

m) For the goods being exported to the country performing the verification, classify all materials in the list of materials, except those identified as accessories, spare parts and tools; packaging materials and container for retail sale and packing materials and containers for shipment to the level required for tariff classification change requirement. Note: Obtain this information from the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program.

n) Identify those materials which would not meet the tariff classification change requirement if they were non-originating. The conclusion on the tariff classification change requirement will be performed in verification procedure g) in the 12. SOURCE OF MATERIALS verification sub-program.

#### 11.4 Identification of Materials Used or Incorporated In the Good for VNM Purposes

o) Using the list of materials incorporated into the goods subject to averaging, obtain an accurate description of the materials by physical examination, reviewing supplier parts catalogues, engineering documents and/or supplier contracts. Identify:

i) material that are automotive component assemblies, automotive components, sub-components, listed materials and all other non-originating materials;

ii) For automotive component assemblies, identify the potential automotive components , sub-components, and listed materials;

iii) For automotive components, identify the potential sub-components and listed materials;

iv) For sub-components , identify the potential listed materials.

p) Prepare a working paper to document all the information on the materials, used or incorporated into the goods subject to the averaging calculation at any level of production, that are identified above.

## 12. SOURCE OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To determine and verify:

--the origin of materials which would not meet the tariff classification change as required by the Specific

Rule of Origin (Schedule I of the Regulations) if the materials were non-originating; and,

--the source of all materials or sub-materials that are automotive component assemblies, automotive components, sub-components, and listed materials, used or incorporated in the good in order to establish the value of non-originating materials (Section 10 of the Regulations) especially the ones claimed as originating materials by the producer or his supplier.

### VERIFICATION PROCEDURES

#### 12.1 Tariff Classification Change Analysis

a) Obtain the list of materials reported as originating which if failing to originate, would not meet the tariff classification change required by the Specific Rule of Origin ( Schedule I of the Regulations). This list should be obtained from the 11.3 TARIFF CLASSIFICATION OF MATERIALS FOR Tariff classification change REQUIREMENT ONLY of the 11. TARIFF CLASSIFICATION verification sub-program.

b) Confirm the origin of these materials by reviewing the Certificates of Origin or supplier statements obtained by the producer and/or by reviewing the purchase order, invoice, and the receiving documents.

c) Physically inspect these materials to verify markings or any indications which might indicate that the materials are non- originating.

d) Assess if the 7% De Minimis Rule can be applied if there are non- originating materials that do not meet the required tariff classification change (see verification procedure f) in the 14. VALUE OF MATERIALS verification sub-program.

e) Assess the need to send supplier confirmations for the purposes of determining the origin of materials for the tariff classification change requirement

f) Conclude as to whether the tariff classification change requirement has been satisfied.

## 12.2 Source of Materials for the Purpose of Determining the VNM

g) Obtain the complete list of materials identified in the Identification of Materials Used or Incorporated in the Good for VNM Purposes in the 11. TARIFF CLASSIFICATION verification sub-program. Add all other originating high value materials to this list.

h) From the list obtained in Verification procedure g):

i) select a sample of the materials which the exporter has claimed as originating (including those materials which may contain sub-materials);

ii) verify if the source of the above materials could be valid, by looking at the industry profile documentation, and other information for similar goods (i.e., Could these materials be imported?);

iii) interview company officials responsible for determining the origin of materials as found in the information response. Ask what procedures they used to verify the source of the materials. Document strengths and weaknesses of the manner in which the company identified non-originating materials;

iv) if the company has received certificates of origin and/or supplier statements to verify the source of the materials, review them and determine if they are adequate (if not adequate these items may be considered high risk items for confirmation purposes).

i) Obtain information from the exporter's policy and procedures manuals and complete a plant tour to assist in identifying the source of materials. Physically inspect the materials to verify markings or any indications which might indicate if they were imported. Coordinate this work with that performed in verification procedure h)ii).

j) While conducting the plant tour and through inquiry of management, identify any part of the production process that may be sub-contracted to another company.

k) Review the concerns raised during the 7. PLANT TOUR verification sub-program.

l) Obtain a list of suppliers for all materials. For the sample selected in verification procedure h) i) perform the following:

i) determine whether any of the suppliers have companies in a non-NAFTA country, or if the suppliers are U.S., Canadian or Mexican distributors (the materials from these suppliers will be considered high-risk for confirmation purposes);

ii) inquire of company officials if there were any supplier changes during the period under review, or were any materials sourced from more than one supplier. The Approved Vendor List or the history of the engineering specifications may provide evidence of supplier changes;

iii) determine whether there are any fungible (look for dual sourced materials) materials. Examine the parts and supplier lists, the Approved Vendor List, and inquire as to whether the same material is sourced from both a supplier from a NAFTA country and a non-NAFTA country, and if they source parts from distributors. (This information will be used in the 13. INVENTORY MANAGEMENT SYSTEM verification sub-program ).

m) Determine whether the 11. TARIFF CLASSIFICATION verification sub-program identified any materials that were designated as originating by the exporter but were in fact imported from a non-NAFTA country , i.e. obtain information from supplier catalogues and observation of markings during the plant tour.

n) Select a sample of originating materials from the list obtained in Verification procedure h) and perform the following:

i) scan the purchase invoice, any attached shipping documents, and bank endorsement stamp on the canceled check to determine whether they support the exporter's claim for the source (and value) of the material;

ii) select materials from this sample to verify markings and coordinate this work with that performed in verification procedure i;

iii) follow up on any contradictory observations;

iv) prepare a working paper to control the confirmation process and to document results.

o) Select a sample of the non-originating materials from the list obtained in verification procedure g) and determine if they are:

i) self-produced;

ii) acquired by the producer;

iii) imported directly by the producer;

iv) imported by a person other than the producer.

Obtain supplier statement for the acquired non-originating materials. This information will be used in the 14. VALUE OF MATERIALS sub-program.

p) Compare any supplier certificates of origin or supplier statements obtained through the verification to the list of materials in 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program.

q) Evaluate the need to expand sampling procedures.

r) Determine if the origin and VNM of any of the materials need to be confirmed.

### 12.3 Supplier Confirmations

s) Select suppliers from the list identified in g) from whom supplier confirmations will be obtained to confirm the origin of: 1) the materials claimed by the company or its supplier to be originating (and/or to verify VNM); or 2) materials that if found to be non-originating would not meet the tariff classification change requirements in Schedule I of the Regulations and that have been claimed as being originating by the company.

--Any verification of material suppliers should involve the following :

i) send confirmations to high risk suppliers who are distributors, for high dollar value materials, or suppliers known to import parts from outside the territory, or where the reliability of the certificates of origin or the suppliers certifications on file with the exporter and/or producer are questionable;

ii) find information on the suppliers in the exporter and/or producer correspondence files and purchase records, i.e. addresses, contact person, phone numbers, etc.;

iii) ensure that confirmations are sent out to all suppliers if there is more than one supplier of a material or if suppliers were changed during the period under review;

iv) follow up with the supplier to obtain a completed confirmation, this may be telephone within a predetermined time frame to ensure that all the completed confirmations are received;

v) review the confirmations once they are received from the suppliers and compare the information on the confirmations with the information on the certificates of origin and/or supplier certifications filed with the exporter and/or producer. Confirmations for which there are no response or insufficient information will result in the material being considered non- originating for tariff classification change and VNM purposes;

vi) determine if supplier confirmation letters should be sent to the suppliers of the suppliers of the exporter and/or producer, because there are materials which require further verification ;

vii) after reviewing the supplier confirmation, consideration should be given to conducting a restricted supplier verification at the suppliers premises based on



evidence gathered to date. However, such visits will have to be discussed with and approved by the appropriate Customs official prior to making any arrangements;

viii) prepare a working paper to control the confirmation process and to document the results ; and

ix) prepare a letter to each supplier subject to the confirmation process, notifying them of whether or not the material was found to be originating.

#### 12.4 GENERAL SUMMARY PROCEDURE

t) Ensure that all verification adjustments required as a result of the sourcing verification procedures have been recorded.

### 13. INVENTORY MANAGEMENT SYSTEM

#### VERIFICATION SUB-OBJECTIVE

To determine if an applicable inventory management method is in place when fungible materials (physically separated or commingled) are used in the production of a good, or when fungible goods are physically combined or mixed in inventory, potentially to identify the origin of a specific shipment of goods.

In terms of fungible materials used in the production of heavy-duty automotive goods, an inventory management method must identify originating versus non-originating materials for the purposes of the tariff classification change requirement. Also, for the purposes of the RVC requirement, an inventory management method must, for a material that is an: automotive component; automotive sub-component ; automotive component assembly; and listed material identify the origin of those materials and for all materials that have more than one supplier, identify the different VNM values.

If an acceptable inventory management method does not exist, for the purposes of the tariff classification change requirement, all fungible materials will be considered to be non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials identified as a risk above will be included in the calculation of VNM.

Note that the existence of fungible materials does not automatically require that this verification program be applied, as the exporter/producer may choose to treat, for the purposes of the tariff classification change requirement, all fungible materials as non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials as part of VNM.

#### VERIFICATION PROCEDURES

a) Obtain from verification procedure I)iii in the 12. SOURCE OF MATERIALS verification sub-program, a listing of identified fungible materials.

b) Determine the impact on the origin of the goods under review should the inventory management system be found to be not acceptable. When fungible materials exist, evaluate the impact in terms of the tariff classification change requirement (consider the use of the de minimis provision) by reviewing 11.TARIFF CLASSIFICATION verification sub-program, as well as in terms of the Regional Value Content requirement by reviewing 14.VALUE OF MATERIALS verification sub-program and reviewing 17. CALCULATION OF THE REGIONAL VALUE CONTENT verification sub-program. If the impact is significant, proceed with the evaluation of the inventory management system.

c) Determine which of the following inventory management systems outlined in the NAFTA Regulations - Schedule X the company used for the fungible materials (goods): Specific Identification, FIFO, LIFO, and the Average Method

d) Document the inventory management system from beginning to end (i.e. purchasing, receiving, storage of materials, removal of materials from storage into production of goods, storage of goods and removal of goods from storage for shipment of goods).

e) If Specific Identification was used, ensure that fungible materials (goods) were physically segregated, or ensure the existence of an origin identifier.

f) If FIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, first received were considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

g) If LIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, last received was considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

h) If the average method was used, ensure that the ratio was calculated and applied correctly.

i) Ensure whichever method that was chosen, including the averaging period in

the case of the averaging method, that it was used from the time it was chosen to the end of the fiscal year. Has the system changed since the inception of NAFTA?

j) Ensure that the company correctly determined the materials, identified by origin or by supplier, as applicable, in its opening inventory by:

i) identifying, in the books of the producer, the latest receipts of fungible materials that add up to the amount of fungible materials in opening inventory at the time an inventory method is chosen;

ii) reviewing the origin or supplier of the materials (goods), as applicable, that make up those receipts;

iii) determining those fungible materials (goods) to be the fungible materials (goods) in opening inventory, identified by origin of the supplier, as applicable.

k) Review the inventory management system by performing compliance tests of a sample of purchase transactions. The sample should include transactions involving materials (goods) that were fungible materials (goods) at the inception of the NAFTA and materials (goods) that were identified as fungible since the inception (i.e. change in supplier).

l) Is the inventory management system tested periodically? Obtain a description of periodic testing and evaluate its effectiveness.

m) Test a sample of fungible material (good) inventories by identifying the origin of opening inventory, adding receipts/adjustments of materials (goods) and deducting withdrawals/adjustments and compare your results to the company's records. (Can test a variety of periods, materials (goods) and production processes.)

n) Conclude on whether:

i) the inventory management system used by the Company is acceptable and meets all the requirements of Schedule X of the Regulations; or

ii) the inventory management system used by the company requires improvement to meet the requirements of Schedule X of the Regulations - document the weaknesses of the system - document the impact on the origin of the goods under review; or

iii) the inventory management system does not meet the requirements of Schedule X and the company can/cannot construct the necessary inventory system - document the impact on the origin of the goods under review.

## 14. VALUE OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure that the value of originating and non-originating materials has been calculated in accordance with the NAFTA.

## VERIFICATION PROCEDURES

### 14.1 General Valuation Procedures:

a) Using the information obtained with the 5. REVIEW OF THE MANAGEMENT INFORMATION SYSTEM verification sub-program assess the internal controls in place to preserve the quality and accuracy of the data available by reviewing: policy and procedures manuals with respect to the purchase of materials; internal auditor's reports; the setting of standards and identification of variances. Further assessment of internal controls can be made by performing a walk-through of the purchasing and receiving function, and documenting the flow of information by tracing material requisitioning, ordering, receiving and reporting returns, accounting, and cash disbursement.

b) From discussions with the company staff, find out who is responsible for determining the values for the materials and how the materials are valued. Is the same valuation method used for all the materials, i.e., do they use the same method for determining the value of non-originating materials and originating materials?

c) Review the calculations prepared by the company including any supporting documentation and supplier certifications and statements obtained by the producer. Determine if the procedure used to value materials is in accordance with the Regulations.

i) Identify all assumptions made by the company.

ii) Identify all additions to cost included in valuing the materials (freight, insurance, packing and other costs incurred in transporting the materials such as duties and brokers charges, including in-house broker costs). Apply the appropriate verification procedures to the costs being examined (examine invoices, calculations, standard costs, etc.).

iii) Identify the accounts from which the information was extracted.

iv) Where materials are imported, verify that if the values of materials are in the same currency as the currency of the country of the person who provided the supplier statement is located. See Section 3 of the Regulations.

v) Identify areas for further review.

d) Identify any related suppliers and determine if the materials purchase price was affected by the relationship, and if an adjustment will be required.

i) Identify and review accounts or any documents that may pertain to material transfers and/or transfer payments from the company to the parent to identify any possible assists.

ii) If materials are dual sourced, compare the purchase prices of the related and non-related companies, i.e., obtain a price list from the producer listing suppliers,

prices, and materials.

iii) Review correspondence between the company and the related suppliers. Is there a possibility that the relationship affected the value used?

e) Inquire as to how price and usage variances are accounted for. Analyze if these variances (actual and standard cost) are material and adjust the value of the materials in the RVC calculation, if necessary.

#### 14.2 Application of the De Minimis Rule

f) If there are non-originating materials that do not meet the required tariff classification change review the value of the sub-materials. Where the value of the sub-materials in the material (determined in accordance with Section 7 of the Regulations) is less than or equal to 7% of the transaction value (or total cost of the good, if the transaction value is unacceptable), the de minimis rule can be applied (See verification procedure d) in the 12. SOURCE OF MATERIALS verification sub-program).

#### 14.3 Value of Materials to be Included in Net Cost:

g) Verify that all materials included in the net cost calculation are valued in accordance with Section 7 of the Regulations. The value of materials calculated in accordance with NAFTA includes the following regardless of whether the applicable value is the customs value of the material or the transaction value with respect to the transaction value with respect to the transaction in which the producer acquired the material: freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer; duties and taxes paid or payable with respect to the materials in the territory of one or more of the NAFTA countries, unless they were refunded or waived; customs brokerage fees (including in-house services); waste and spoilage resulting from the use of the material in the production (minus the value of reusable scrap).

When the value is the transaction value, the following may also be added: commissions, except buying commissions; elements (assists) supplied to the seller by the producer (materials; tools, dies, molds and other indirect materials; engineering, development, artwork, design work, and plans and sketches performed outside the country in which the producer is located) royalties; subsequent proceeds that accrue to the seller. The value of materials also includes accessories, spare parts, tools, packaging materials and containers for retail.

Obtain the value of the IM from the 8. INTERMEDIATE MATERIALS

DESIGNATION verification sub-program.

h) Review the values of materials reported with the information response and assess if these amounts seem reasonable by comparison with other RVC information of similar goods.

i) Inquire into the results of the 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program, and take them into account while conducting the remaining verification procedures.

j) Select (Consider obtaining sufficient audit coverage) a sample of high risk materials for valuation purposes.(High risk for valuation purposes would be fungible materials; or originating materials that if found to be non-originating would make the good non-originating for RVC purposes. All materials should also be checked for correct valuation since originating materials that are overvalued and non-originating materials that may be undervalued would cause an overstatement of the RVC percentage.)

i) determine the actual price paid by the exporter/producer by tracing to the purchase invoice, the attached shipping documents and the bank endorsement stamp on the canceled check;

ii) calculate the difference between the actual and standard cost and compare with the price variance or variance from standard claimed by the exporter/producer; follow-up on any substantial differences; and

iii) trace the total invoice amount to the appropriate ledgers and sub-ledgers to verify that purchases have been recorded correctly in the exporter's/producer's books and records.

k) For the purpose of calculating the RVC, verify that the value of all materials calculated in accordance with Section 7 of the Regulations used or incorporated into the final goods are included in the net cost. Ensure that the value of intermediate materials or the VNM as outlined in Section 10 of the Regulations is not double counted in the total cost of the good.

l) Prepare a workpaper to ensure that all adjustments required for materials as a result of value of materials verification procedures have been recorded.

m) Conclude as to whether the value of materials is correct and consistent throughout the verification period.

#### 14.4 Value of Non-Originating Materials:

The Value of Non-originating Materials (VNM) for Heavy Duty Automotive Goods calculated in accordance with Section 10. Although Section 10 includes all the

materials which make up the VNM of the heavy duty automotive good, on an actual audit not all sections may apply.

n) Obtain the list of materials developed in the 12. SOURCE OF MATERIALS verification sub-program. Obtain the list of materials, and the value of the materials, contained in the intermediate material election, if applicable, from the 8. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

o) Select a sample of high risk materials and determine the VNM by reviewing commercial invoices, and customs invoices, and by applying the relevant valuation methods: (Consider materiality in terms of closeness to RVC requirement)

p) Did the heavy duty automotive goods producer self-produce a non-originating listed material that is used by himself in the production of the good (Paragraph 10(1)(a) of the Regulations)? -If no, proceed to verification procedure q) .If yes, continue with verification procedures p)i), p)ii) and p)iii), to determine the value of the non-originating material (VNM). (Verification procedures p)i) and p)ii) will apply independently to each material meeting the description of this verification procedure.)

i) VNM is the total cost of the self-produced listed material which is the result of allocating costs on the basis of Schedule VII. If this basis is used for the VNM stop here, if this basis is not used go on to verification procedure p) ii);

ii) VNM is the aggregate of each cost of the self-produced listed material which is the result of allocating costs on the basis of Schedule VII. If this basis is used for the VNM stop here, if this basis is not used go on to verification procedure p) iii).

iii) VNM is the sum of A) and B) where:

A) For non-originating materials that were imported by the producer of the listed material, the VNM is the customs value of the non-originating materials plus, to the extent not included, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f).

Note to verification procedure p)iii)A) : For reference purposes,

NAFTA Regulation Paragraphs 10(2)(c) through 10(2)(f) includes:

--freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer, Paragraph 10(2)(c)

--duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are

waived, refunded, refundable, or otherwise recoverable including credit against duty or tax paid or payable, Paragraph 10(2)(d);

--customs brokerage fees (including the cost of in-house customs brokerage and customs clearance services, incurred with respect to the material in the territory of one or more of the NAFTA countries, Paragraph 10(2)(e);

--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, Paragraph 10(2)(f);

B) For non-originating materials that were not imported by the producer of the listed material (i.e. acquired by the producer of the listed material from a supplier) the VNM is: the price paid or payable for the non-originating material according to paragraph 10(2)(a) or 10(2)(b) (according to Schedule VIII) plus, to the extent not included, the additional costs listed in Paragraphs 10(2)(c) through (f). For a description of these costs see the Note: to verification procedure p)iii)A))

Note to verification procedure p): the VNM costs of p)iii) will only include the costs of acquiring the non-originating material and will be less than the costs determined in accordance with verification procedure p) i) above which include originating costs.

q) Did the heavy duty automotive goods producer acquire and use in the production of the good, a non-originating listed material, produced in the territory of a NAFTA country (Paragraph 10(1)(b))? -If no, proceed to verification procedure r). If yes, continue with this verification procedure to q) i) and q) ii) to determine the value of the non-originating listed material. (Verification procedure q)i) and q) ii) apply independently to each material meeting the description of this verification procedure )

i) Where no statement was provided by the supplier to the heavy duty goods producer, the VNM of the listed material is based on the price paid or payable (according to Schedule VIII), plus to the extent not included, the additional costs listed in Paragraph 10(2)(c) through (f). For a description of the additional costs see the Note to Verification procedure p)ii)A):

ii) Where a statement(s) was provided to the heavy duty goods producer in accordance with q)ii)A) and/or q)ii)B) by the producer of the listed material, the VNM is the sum of the values of A) and/or B) depending on the response to A) and B) below.

Note to q)ii): Statements provided by this verification procedure (both q) ii)A) and/or q) ii)B) are subject to the review noted in verification procedure z) of this Sub-objective.



A) Did the producer of the listed material import the non-originating materials himself? If yes continue; if no go to B).

-Did the listed material statement report VNM as the customs value of the non-originating material plus, to the extent not included, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f). (For a description of these costs see the Note: Verification procedure p)ii)A).

B) Did the producer of the listed material acquire the non-originating materials from a supplier located in the same NAFTA country?

-Did the listed material statement detail the costs incurred with respect to the transaction in which the non-originating materials were acquired from a person located in the same NAFTA country?

-Were the costs of acquiring the material in accordance with Subsection 10(2)?

Note to verification procedure q): Statements provided in accordance with verification procedures q)ii)A) and/or q)ii)B) will allow the heavy duty automotive producer to include in the VNM only the value of the non-originating materials that were used in the production in the non-originating listed material.

r) Did the heavy duty automotive goods producer use a, listed material, automotive component assembly, automotive component or sub-component that was imported from outside the territories of the NAFTA countries in the production of the good (Paragraph 10(1)(c) of the Regulations)? -If no, proceed to s). If yes, continue with verification procedures r) i) and r) ii) to determine the VNM. (verification procedure r)i) and r) ii) apply independently to each material meeting the description of this verification procedure).

i) Was the listed material, automotive component assembly, automotive component, or sub-component, imported by the producer? If yes continue, if no go to ii) below;

--VNM is the customs value of the material plus, to the extent not included in the customs value, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f). For a description of these costs see the Note: to verification procedure p)ii)A)

ii) Was the listed material, automotive component assembly, automotive component or sub-component not imported by the producer?

--VNM is the cost determined in accordance with Subsection 10(2) of the NAFTA Regulations with respect to the transaction in which the heavy duty automotive goods producer acquired the imported material from outside the territories of the NAFTA countries from the supplier.

s) Did the heavy duty automotive goods producer acquire and use an originating automotive component assembly, automotive component, or sub-component any of which contained a non-originating material, that was used by the producer in the production of the good (Paragraph 10(1)(d))? If no, proceed to t), the next verification procedure . If yes, continue with verification procedures s)i), s)ii), s)iii), and s)iv), to determine the value of the non-originating material. (Verification procedure s)i), s)ii), and s)iii) apply independently to each material meeting the description of this verification procedure.)

i) Does the producer of the good have a statement signed by the person from whom the originating material was acquired that states the sum of the values determined (under Paragraphs 10(1)(a), (b), (c), and (e)) by the producer of the originating material for each non-originating material referred to in A) through D) as follows, that is/are incorporated into that originating material? If yes, VNM is the sum of:

A) the value of each non-originating listed material (self-produced or acquired and produced in a NAFTA country) used in the production of the originating material determined under the Subparagraphs and Clauses of the Regulations, Subparagraphs 10(1)(a) and 10(1)(b). Refer to verification procedures p) and q)

B) The value of each non-originating material (which is a listed material, automotive component assembly, automotive component, or sub-component that is imported from outside the territories of the NAFTA countries) incorporated into the originating material (automotive component assembly,

automotive component, or sub-component) determined under the Subparagraphs of Paragraph 10(1)(c) of the NAFTA Regulations.

C) The value of each non-originating listed material used in production of a material referred to in Paragraph 10(1)(e) (i.e. non-originating automotive component assembly, automotive component, or sub-component produced in the NAFTA territory that is acquired by the producer) that is used in the production of the originating material determined under the Subparagraphs and Clauses of Paragraph 10(1)(a) and (b) of the NAFTA Regulations. Refer to verification procedures p) and q)

D) Where the value of the non-originating listed material referred to in C) of this verification procedure and used in the production of a non-originating automotive component assembly, automotive component or sub-component that is used in the production of the originating material, is not included in C), the value of that automotive component assembly, automotive component or sub-component, is determined under Subsection 10(1)(e)ii) (i.e. Subsection 10(2) with respect to the transaction in which the producer acquired the material). Note to verification procedure s) i): A statement provided by this verification procedure is subject to the review noted in verification procedure z) ,

ii) If the material is subject to a Regional Value Content requirement and the producer has a statement, signed by the person from whom the producer acquired that material, that states the regional value content requirement of the material, the VNM shall be; An amount equal to the number resulting from applying the following formula:

$$VM \times (1 - RVC)$$

Where:

VM is the value of the acquired material, determined in accordance with Subsection 10(2), with respect to the transaction in which the producer of the good acquired the material, and

RVC is the regional value-content of the acquired material, expressed as a decimal.

Note to verification procedure s)ii): Statements provided by these verification procedures are subject to the review noted in verification procedure y).

iii) If the producer has none of the statements described in verification procedures s)i), s)ii), and s)iii), the VNM is the value of that automotive component assembly, automotive component, or sub-component, is determined in accordance with Subsection 10(2) of the NAFTA Regulations with respect to the transaction in which the producer acquired the material.

t) Did the heavy duty automotive goods producer acquire and use in the production of the good, a non-originating automotive component assembly, automotive component or sub-component produced in the territory of a NAFTA country (Paragraph 10(1)(e))? -If no, proceed to verification procedure u). If yes, continue with verification procedures t)i), and t)ii) to determine the VNM. (Note: verification procedure t)i), and t)ii) apply independently to each material meeting the description of this verification procedure.

i) Does the producer of the good have a statement signed by the person from whom the non-originating material was acquired, that states the sum of the values of non-originating materials incorporated into that non-originating material, determined by the producer of the non-originating material in accordance with Paragraphs 10(1)(a), (b), (c), (d), and (f). This procedure is subject to verification procedure z) of this Sub-objective.

Note to verification procedure t)i): A statement provided by this verification procedure is subject to the review noted in verification procedure z) of this Sub-objective.

ii) If the producer does not have a statement described above, the value of the non-originating automotive component assembly, automotive component, or sub-component, should be determined in accordance with Subsection 10(2) with respect to the transaction in which the producer acquired the material;

u) Where the heavy duty automotive goods producer used a non-originating material in the production of a good not referred to in

Paragraphs (10)(1)(a), (b), (c), or (e), of the NAFTA Regulations (i.e. did the goods producer use a non-originating material other than a non-originating listed material; automotive component assembly; automotive component; or sub-component ) in the production of the good (Paragraph 10(1)(f) -Continue with verification procedures u)i), and u)ii), to determine the value of the non-originating material that is used by the producer in the production of the good, (verification procedures u)i) and u)ii) apply independently to each material meeting the description of this verification procedure).

i) where the non-originating material is imported by the producer of the good the value is;

-The customs value of that non-originating material plus, to the extent not included in the customs value, the costs referred to in Paragraphs 10(2)(c) to 10(2)(f). For a description of these costs see the Note: to verification procedure p) ii) A)

ii) where the non-originating material is not imported by the producer of the good i.e. (acquired by the goods producer from a supplier) the value is:

--The value of that non-originating material in accordance with Subsection 10(2) with respect to the transaction in which the producer acquired the material.

Note to verification procedure u): This verification procedure covers all non-originating materials other than a listed material; automotive component assembly; automotive component; or sub-component .Thus automotive goods including by not limited to hoses, gaskets, metal stampings, and extruded plastics: 1) not produced in a NAFTA country; or 2) produced in a NAFTA country but failing to meet the Rules of Origin; will not originate and should be included in the VNM of the automotive good.

v) Determine whether all costs incurred in transporting materials have been identified and correctly reported (i.e. freight, insurance, packing, etc.).

i) Test the method used by the company when identifying these costs, by selecting a sample of transactions involving purchases of material from the territory of the NAFTA countries and those from outside the territory of the NAFTA countries.

ii) Identify any assumptions made by the company. Test these assumptions to ensure that they are valid (i.e. if the company is using a standard cost system ensure that they follow the correct procedures for updating or revising the standard cost values).

iii) Prepare adjustments as required as a results of this testing. (keeping in mind materiality and risk)

w) Determine whether duty, taxes and brokerage fees with respect to the purchase and importation of materials have been identified and correctly reported, making adjustments as required. (keeping in mind materiality and risk)

x) Ensure that the total VNM is adjusted for any variances that affect individual values of non-originating materials.

#### 14.5 Review of the Supplier VNM Statements:

y) During the verification of origin of a heavy duty automotive good where the producer has a supplier statement in accordance with s)ii) which states the acquired material (if an automotive component assembly; automotive component; or sub-component referred to in the statement) is an originating material, and during the course of an origin verification of the heavy duty automotive good the acquired material is found not to be an originating material, the VNM of the heavy duty automotive good with respect to the acquired material shall be determined in accordance with Subsection 10(2) of the NAFTA regulations with respect to the transaction in which the producer acquired it.

z) Where any person has information with regard to statements covering: 1) a non-originating material that is acquired and incorporated into a non-originating listed material referred to in verification procedure q) ii) of this verification procedure; 2) non-originating materials incorporated into an originating automotive component assembly; automotive component; or sub-component referred to in verification procedure s) i) of this verification procedure; and 3) non-originating material incorporated into a non-originating automotive component assembly, automotive component; or sub-component referred to in verification procedure t) i) of this verification procedure; and does not allow the customs administration to verify the information during a verification of origin, the VNM shall be determined in accordance with Subsection 10(2) of the NAFTA regulations with respect to the transaction in which the producer acquired it.

#### 14.6 Comparing the Verified VNM With the Producers Figures

aa) Sum the values of the non-originating materials determined in verification procedure p) through u) subtracting any adjustments as a result of verification procedure y), z), or other reductions., Compare the results of the sample to the

VNM initially determined by the heavy duty automotive goods producer for the sample.

bb) Explain any discrepancies between the audit derived figure and the figure initially reported by the heavy duty goods producer

cc) Reconcile the materials making up the VNM determined as a result of this Sub-objective with the producers list of non-originating items; reconcile the VNM to the list of materials. Note any excess (unreconciled) non-originating materials in the VNM or on the list of materials.

## 15 VALUE OF COSTS OTHER THAN MATERIALS

### VERIFICATION SUB-OBJECTIVE

To verify that the Regional Value Content (RVC) requirement with respect to costs other than materials (labor, overhead, excluded costs, and other costs), as required by the NAFTA Rules of Origin Regulations, has been met where the Net Cost Method has been used.

### SUB-OBJECTIVE

To ensure that the net cost has been determined correctly by using only eligible costs and reasonable cost allocation methods.

### VERIFICATION PROCEDURES

a) Trace the details of the net costs reported with the RVC information to the exporter/producer's working schedules of cost. Trace these working schedules to the books and records.

b) Identify the potential for Excluded Costs including: sales promotion, marketing and after-sales service costs; royalty; shipping and packing costs; and non-allowable interest costs; being included in the net cost of the good. Consider whether these costs are attributable to the good, or to qualifying intermediate materials.

c) Ensure that period costs, product costs, and other costs incurred in the territory of one or more of the Parties are included in the net cost figure by scanning the detail in support of the net cost values reported in the RVC information. Ensure that the net cost does not include:

i) corporate or personal taxes on income;

ii) capital gains taxes, dividends, or other accounts that should be classified as assets or reductions to income accounts;

iii) profits that are earned by the producer of the good, regardless of whether they are retained or paid out to other persons as dividends;

iv) gains related to currency conversion that are related to the production of the good. Losses are included in the net cost.

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

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

vii) cumulative effect of accounting changes reported in accordance with a specific requirement of the applicable Generally Accepted Accounting Principles;

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

d) Review the amounts of labor and overhead included in the RVC calculation. Reconcile these amounts into the financial statements. Are these costs reasonably allocated to the good under review.

e) Evaluate the method(s) used to allocate common expenses to the product under review and assess whether the method(s) used are consistent with the recommendations in Schedule VII of the NAFTA Rules of Origin Regulations.

f) Obtain copies of agreements related to sales promotions and marketing. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.

g) Obtain copies of contracts related to shipping and packing costs. Review the terms of the contracts and ensure that they were properly taken into account in the net cost calculation.

h) Refer to 10. LIST OF MATERIALS USED TO CALCULATE THE VALUE OF MATERIALS IN THE RVC CALCULATION verification sub-program to identify any materials considered to be packing materials and containers for shipment purposes. Ensure that the value for packing materials is not included in the calculation of the net cost of the good.

i) Obtain copies of royalty agreements, technical assistance agreements, and other similar documents. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation. Not included as an Excluded Cost are payments under technical assistance agreements or similar agreements that can be related to specific services such as personnel training, engineering, tooling, etc.,

j) Obtain copies of loan agreements. Review the terms of these agreements, particularly the interest rates charged and ensure that any non-allowable interest costs have been properly taken into account in the net cost calculation.

k) Review the chart of accounts and the trial balance to identify those accounts included in the net cost calculation which fall within the elements of excluded costs and conduct the following tests:

- select a sample of costs and trace to supporting commercial documentation, paying particular attention to journal voucher type entries; and

- where costs have been allocated for these costs, ensure that the method of allocation is consistent with that recommended in Schedule VII of the NAFTA Rules of Origin Regulations;

- where it is determined that these costs should not be included in net costs, ensure that the reversal is only for the amount originally allocated.

l) Review the chart of accounts and trial balance to identify accounts which appear to be included costs but that the company has ignored in the net cost calculation. List these accounts for further testing to supporting documentation and discussion with company personnel.

m) When the heavy-duty automotive goods are motor vehicles which are produced in a new plant, obtain the value of machinery from 2. RVC REQUIREMENTS FOR HEAVY-DUTY AUTOMOTIVE GOODS sub-program.

n) Prepare a working paper to adjust the net cost figure on the RVC information for any excluded costs, or not allowable costs not deducted by the exporter/producer. (Remember that excluded costs attributable to qualifying intermediate materials remain in the calculation of net cost of the good)

o) Conclude on the verification sub-objective.

## 16. ACCUMULATION

### VERIFICATION SUB-OBJECTIVE

To ensure that the exporter/producer that chose to accumulate the production of one (or more) of his suppliers did so in accordance with Section 14 of the NAFTA Rules of Origin Regulations.

#### General

For purposes of determining whether a good is an originating good, an exporter or producer of a good may choose to accumulate the production of one or more producers, in the territory of one or more of the NAFTA countries, of materials



that are incorporated into that good so that the production of the materials shall be considered to have been performed by that exporter or producer, provided that:

- all non-originating materials used in the production of the good undergo an applicable tariff classification change and the good satisfies any applicable RVC requirement, entirely in the territory of one or more of the Parties; and
- the good satisfies all other rules of origin requirements.

### Requirements

-In order to accumulate the production of a materials,

i) where the good is subject to an RVC requirement, the producer of the good must have a certification as described below that is signed by the producer of the material, and

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

- 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;
- any information contained in the certification that concerns the value of materials or costs shall be in the same currency as the currency of the country in which the person who provided the statement is located.

### Statement Needed

Non-Averaging of costs from accumulated production

Where a good is subject to a RVC requirement and an exporter or producer of the good has a statement signed by a producer of a material that is used in the production of the good that:

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

i) the net cost incurred by the producer of the good with respect to the material shall be the net cost incurred by the producer of the material plus, where not included in the net cost incurred by the producer of the material the costs referred to in paragraphs 7(1)(c) through (e) of the Regulations (i.e., freight,

insurance, packing, transport to location of producer, duties and taxes, customs brokerage fees); and

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

or

b) states any amount, 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 costs incurred by the producer of the good with respect to the material shall be the value of the material determined in accordance with subsection 7(1) of the Regulations (this is covered in 14. VALUE OF MATERIALS sub-program), and

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

Averaging of costs from accumulated production

Where an exporter or producer of a good does not have a statement as provided in (a) or (b) above, but does have a statement signed by a producer of a material that is used in the production of the good that

c) states that 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 shall 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, where not included in the net costs incurred by the producer of the material, the costs referred to in paragraphs 7(1)c) through (e) of the Regulations, and

ii) the value of non-originating materials used by the producer of the good with respect to the material shall 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 material with respect to which the statement is made;

or

d) 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 shall be the value of the material, determined in accordance with subsection 7(1), and

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

## 16. ACCUMULATION

### VERIFICATION PROCEDURES

#### Done

a) Determine that only the net cost method has been used to calculate the RVC requirement where the producer has chosen to use accumulation.

b) Review the information received from the producer, that has accumulated the production, to ensure that it is mathematically correct and ensure that it has been correctly included in the RVC calculation.

In that regard, ensure that the period of time over which the information provided by the supplier was calculated, falls within the fiscal year of the heavy-duty automotive goods producer.

c) Evaluate the quality of the certifications and ensure that they contain all of the required information as stated above.

d) Ensure that the profit component of the material being accumulated is not included in the net cost information by examining the supplier information and by comparing the price paid by the producer to the cost information provided by the supplier, if possible.

e) Use the following verification sub-programs (only the applicable verification procedures) in order to evaluate the information received: 11. TARIFF CLASSIFICATION; 12. SOURCE OF MATERIALS; 13. INVENTORY MANAGEMENT SYSTEM; 14. VALUE OF MATERIALS; 8. INTERMEDIATE MATERIALS DESIGNATION; 17. CALCULATION OF REGIONAL VALUE CONTENT.

NOTE: Consideration should be given to the use of supplier confirmations and visits to the supplier to verify the authenticity of the information reported to the exporter/producer.

## 17. CALCULATION OF THE RVC

### VERIFICATION SUB-OBJECTIVE

To determine whether the good satisfies the NAFTA Regional Value Content requirement.

### VERIFICATION PROCEDURES Done

- a) Obtain the value of all materials to be included in the net cost and the value of non-originating materials. See verification sub-program 14. VALUE OF MATERIALS.
- b) Add to the value of all materials to be included in the net cost, labor, overhead, period costs, and other costs, to be included in the net cost of the good being verified. See verification sub-program 15. COSTS OTHER THAN MATERIALS.
- c) Subtract the value of all non-originating materials from the net cost of the good.
- d) Divide the difference in verification procedure c) of this verification procedure by the net cost (determined in b) of the good.
- e) Multiply the result obtained in d) by 100.
- f) Conclude on the sub-objective.

## 18. ORIGIN OF THE GOOD

### VERIFICATION SUB-OBJECTIVE

To determine which of the goods subject to verification are originating goods under the NAFTA Rules of Origin Regulations.

### VERIFICATION PROCEDURES

- a) Determine whether the goods subject to verification originate under the NAFTA by documenting whether the tariff classification change and/or RVC requirements in the Specific Rule of Origin have been met. Refer to the 12. SOURCE OF MATERIALS and 17. CALCULATION OF THE RVC verification

sub-programs. Prepare a working paper to document which goods originate and which goods do not originate under the NAFTA.

b) Conclude on the sub-objective.

## 19. NON-QUALIFYING OPERATIONS

### VERIFICATION SUB-OBJECTIVE

To ensure that the goods do not qualify as originating only by reason of a production or pricing practice, of which the object is to circumvent the rules of origin as set out in Chapter 4 of the NAFTA. Note: A good shall not be considered to be an originating good where there is a preponderance of evidence that the object of a production or pricing practice was to circumvent the Rules of Origin.

In regard to unacceptable production practices, circumvention consists of any alteration or process performed on goods for the purpose of circumventing the rule of origin requirements. For example, when the processing or assembling performed in the territory of one Party of the NAFTA is reversed or substantially altered after the goods have been imported into the territory of another Party, and such processing or assembly was not performed for any commercial purpose other than to qualify the goods for the NAFTA tariff treatment, then this will be considered circumvention.

### VERIFICATION PROCEDURES

#### 19.1 Non-qualifying Production/Assembly Operations

- a) During the on-site visit, interview personnel in order to understand the production/assembly operations of the entire plant(s) where the goods subject to averaging are produced. Document any concerns with respect to possible non-qualifying production/assembly operations.
- b) Review the previously obtained bill(s) of materials and any product literature for the goods that are subject to averaging. Document any concerns with respect to non-qualifying production/assembly operations.
- c) Review verification sub-program 7 of this verification program entitled the PLANT TOUR. Identify any concerns noted during the tour with respect to non-qualifying production/assembly operations.
- d) Review documents related to transportation (consider documents obtained in the 20. TRANSSHIPMENT verification sub-program) and document any concerns with respect to the finished goods being altered subsequent to importation.
- e) Prepare a written evaluation of the possible non-qualifying production/assembly operation and assess the evidence gathered.

### VERIFICATION PROCEDURES

## 19.2 Non-qualifying pricing practices

- f) When completing the remaining verification procedures for the goods subject to averaging, are there any practice(s) that could be construed as a pricing practice that has been implemented by the company for the purpose of circumventing the rule of origin requirements so that the exported goods can qualify as originating.
- g) Identify major adjustments made as a result of the VALUE OF MATERIALS verification sub-program, and document any concerns.
- h) Review adjustments made to the purchases accounts at the end of the year and the beginning of the next year. Identify any concerns.
- i) Prepare a written evaluation of the non-qualifying pricing practice(s) and assess the extent of the evidence gathered.

## 19.3 Conclusion on Non-Qualifying Operations

- j) Conclude on the Non-qualifying Operations Sub-objective.

## 20. TRANSSHIPMENT

### VERIFICATION SUB-OBJECTIVE

To verify that the originating good, by reason of having undergone production that satisfies the requirements of section 4 of the NAFTA Rules of Origin Regulations, (1) is not withdrawn from customs control outside the territories of the NAFTA countries; and (2) does not undergo further production or any other operation outside the territories of the Parties, other than unloading, reloading, or any other operation necessary to preserve it in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur dioxide or other aqueous solutions, replacing damaged packing materials and containers and removal of units or of the goods that are spoiled or damaged and present a danger to the remaining units of the good or to transport the good to the territory of the Party.

### VERIFICATION PROCEDURES W/P

- a) Obtain and review copies of the invoices, bills of lading or waybills for the goods subject to verification for a sample period. Document the shipping route and all points of shipment and transshipment prior to the importation of the goods. Determine if the goods have been conveyed directly on a through bill of lading from the exporter to a consignee. Consider gathering information from the importer.
- b) If the goods have not been shipped directly on a through bill of lading, they may be transhipped through an intermediate country, provided that:

i) the goods remain under Customs transit control in the intermediate country;  
and

ii) the goods undergo no operations in the intermediary country other than the unloading, reloading, or operations necessary to preserve the goods in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulfur or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled, or damaged and present a danger to the remaining units of the good or any other operation necessary to transport the good to a NAFTA country.

## 20. TRANSSHIPMENT Done W/P

In order to substantiate the above, request documentation from the exporter and/or importer. Documents include, but shall not be limited to: 1) customs receipts and release documents; 2) exporter/ producer shipment/production records; 3) list of serial numbers or lot numbers of the goods; 4) temporary import and corresponding export documentation; 5) research material explaining the non-NAFTA customs operations and procedures.

c) Determine whether any of the goods shipped were not produced by the producer. Consider the potential for fungible goods. If fungible goods are found, refer to the INVENTORY MANAGEMENT SYSTEM verification sub-program.

d) From the transshipment information requested in verification procedure b) of this program, consider requesting that the exporter/producer develop a working paper which shows a reconciliation of shipments of goods exported by the exporter/producer and imported into the territory of the other NAFTA Party, taking into account their quantities and values.

e) Conclude on the verification sub-objective.

## APPENDIX R

### VERIFICATION PROGRAM

### HEAVY DUTY AUTOMOTIVE GOODS

### - NON-AVERAGED

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## VERIFICATION OBJECTIVE

TO ENSURE THAT THE HEAVY-DUTY AUTOMOTIVE GOOD, WHERE AN ELECTION TO AVERAGE HAS NOT BEEN FILED, IS AN ORIGINATING GOOD IN ACCORDANCE WITH THE NAFTA RULES OF ORIGIN REGULATIONS AND CONSIDERING THE SPECIAL RVC CALCULATION REQUIREMENTS INCLUDED IN SECTION 10 (HEAVY-DUTY AUTOMOTIVE GOODS) AND SECTION 13 (SPECIAL RVC REQUIREMENTS) OF THE NAFTA UNIFORM REGULATIONS.

## DEFINITIONS

Note to the Definitions: In order to assist in understanding the audit program wherever a word or group of words are used as defined, the word or words will appear in bold print :

"Automotive Component" means a good that is referred to in Column I of an item of Schedule V.

"Automotive Component Assembly(ies)" means a good other than a heavy-duty vehicle that incorporates an automotive component.

"Class of motor vehicle(s)" means any one of the following categories of motor vehicles:

a) motor vehicles of any of Subheading 8701.20, Tariff Items 8702.10.30 and 8702.90.30 (except for the transport of 16 or more persons), subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and Headings 8705 and 8706,

b) motor vehicles provided for in any of Subheadings 8701.10 and 8701.30 through 8701.90,

c) motor vehicles provided for in any of Tariff Items 8702.10.60 and 8702.90.60 (vehicles for transport of 15 or fewer persons) and Subheadings 8704.21 and 8704.31, and

d) motor vehicles provided for in any of Subheadings 8703.21 through 8703.90. "Complete motor vehicle assembly process" means the production of a motor vehicle from separate constituent parts, which parts include 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. "First prototype" means the first motor vehicle that

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

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

"Floor pan of a motor vehicle" 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 firewall or bulkhead of the motor vehicle and ending

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

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

"Heavy-duty automotive good(s)" means a heavy-duty vehicle or a heavy-duty component.

"Heavy-duty component(s)" means an Automotive Component or automotive component assembly that is for use as original equipment in the production of a heavy-duty vehicle.

"Heavy-duty vehicle(s)" means a motor vehicle provided for in any of Heading 8701, Tariff Items 8702.10.30 and 8702.90.30 (vehicles for the transport of 16 or more persons), and Subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and heading 8705, and 8706.

"Listed material(s)" means a good that is referred to in column II of an item of Schedule V.

"Marque" means a trade name used by a marketing division of a motor vehicle assembler that is separate from any other marketing division of that motor vehicle assembler.

"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

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

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

(c) to denote a platform design.

"Motor vehicle assembler" means a producer of motor vehicles and any related person with whom, or joint venture in which, the producer participates with respect to the production of motor vehicles.

"New building" means a new construction to house a complete motor vehicle assembly process, where that construction includes the pouring or construction of a new foundation and floor, the erection of a new frame and roof, and the installation of new plumbing and electrical and other utilities.

"Original equipment" means a material that is incorporated into a motor vehicle before the first transfer of title or consignment of the motor vehicle to a person who is not a motor vehicle assembler, and that is

a) a good of a tariff provision listed in Schedule IV, or

b) an automotive component assembly, automotive component, sub-component or listed material.

"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) light-duty vehicles and heavy-duty vehicles,

b) goods of a tariff provision listed in Schedule IV, and

c) automotive component assemblies, automotive components, sub-components, and listed materials. "Refit" means a closure of a plant for a period of at least three consecutive months that is for purposes of plant conversion or retooling.

Schedule V of the NAFTA Rules of Origin Regulations

Item Column I Column II

Automotive Components Listed Materials

1. For engines provided for in cast blocks, cast heads, fuel nozzles, fuel injector pumps, heading 8407 or 8408 glow plugs, turbochargers, superchargers, electronic engine controls, intake manifolds, exhaust manifolds, intake valves, exhaust valves, crankshafts, camshafts, alternators, starters, air cleaner assemblies, pistons, connecting rods and assemblies made therefrom, rotor assemblies for rotary engines, flywheels (for manual transmissions), flexplates (for automatic transmissions), oil pans, oil pumps, pressure regulators, water pumps, crankshaft gears, camshaft gears, radiator assemblies, charge-air coolers.

2 For Gear boxes (transmissions) (a) for manual transmissions: transmission cases and provided for in subheading clutch housings; clutches; internal shifting mechanisms; 8708.40 gear sets, synchronizers and shafts; and (b) for torque convertor type transmissions: transmission cases and convertor housings; torque convertor assemblies; gear sets and clutches; electronic transmission controls.

"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 m<sup>3</sup> ) or less,

(b) more than 85 cubic feet (2.38 m<sup>3</sup> ) but less than 100 cubic feet (2.80 m<sup>3</sup> ),

(c) 100 cubic feet (2.80 m<sup>3</sup> ) or more but not more than 110 cubic feet (3.08 m<sup>3</sup> ),

(d) more than 110 cubic feet (3.08 m<sup>3</sup>) but less than 120 cubic feet (3.36 m<sup>3</sup>), or

(e) 120 cubic feet (3.36 m<sup>3</sup>) or more.

"Sub-component" means a good that comprises a listed material and one or more other materials or listed materials.

"Underbody" means the floor pan of a motor vehicle.

1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISIONS FOR HEAVY

-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS NOT ELECTED TO

AVERAGE THE COSTS OF THESE GOODS

## VERIFICATION SUB-OBJECTIVE

To ensure that the good is a heavy-duty automotive good and in the case that the company has NOT elected to average the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer in accordance with Subsections 11(1) or 13(4) of the Regulations.

## VERIFICATION PROCEDURES .

a) Using the definition of a heavy-duty vehicle, determine whether the good is classified in one of the tariff provisions listed in the definition of a heavy-duty vehicle and the producer has NOT filed an election to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsections 11(1) or 13(4) of the Regulations.

b) If the good is:

i) an Automotive Component or Automotive Component Assembly,

ii) for use as original equipment in the production of a heavy-duty vehicle; and

iii) the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsection 12(1) of the Regulations. If so, this verification program is applicable.

c) Conclude on the verification sub-objective.

NOTE: If the good is a heavy duty automotive good but the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with Subsection 11(1), 12(1) or 13(4) of the Regulations, complete the Heavy-Duty Automotive Goods (Averaged) verification program. If the good is a light-duty automotive good and the producer has elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsections 11(1), 12(1) or 13(4) of the Regulations, use the Light Duty Automotive Goods (Averaged) verification program.

## 1. ELIGIBILITY FOR THE NAFTA RULES OF ORIGIN PROVISION FOR HEAVY-DUTY AUTOMOTIVE GOODS WHERE THE COMPANY HAS NOT ELECTED TO AVERAGE THE COSTS OF THESE GOODS

If the good is a light duty automotive good but the producer has not elected to average the sum of the net costs incurred and the values of non-originating materials in accordance with subsection 11(1), 12(1), or 13(4) of the Regulations, use the Light-Duty Automotive Goods (Non-Averaged) verification program.

If the good is not a heavy duty automotive good nor a light duty automotive good, then the general verification programs found in Chapter 5 of the NAFTA Audit (Verification) Manual are applicable.

## 2. RVC PERCENTAGE REQUIREMENTS FOR HEAVY-DUTY AUTOMOTIVE GOODS

## VERIFICATION SUB-OBJECTIVE

To ensure that the applicable minimum Regional Value Content (RVC) percentage requirement is used by the producer to determine whether the heavy-duty vehicles and heavy-duty components qualify as originating under the NAFTA.

Note: If the good cannot be identified below, the special RVC percentage requirements do not apply to it and the requirements of Schedule I are applicable.

#### VERIFICATION PROCEDURES .

2.1 RVC Percentage Requirement for a Good of a Tariff Provision Listed in Schedule IV, that is Subject to a Regional Value Content Requirement and is for use in a Heavy-Duty Vehicle, Except for a Good of any of Heading Nos. 8407 and 8408 and Subheading No. 8708.40 or any of Subheading Nos. 8482.10 through 8482.80, 8483.20 and 8483.30.

- a) Determine if the fiscal year of the producer started before July 2, 1997. If so, the RVC requirement is 50%.
- b) Determine if the fiscal year of the producer started after July 1, 1997, but before July 2, 2001. If so, the RVC requirement is 55%.
- c) Determine if the fiscal year of the producer started after July 1, 2001. If so, the RVC requirement is 60%.

#### 2.2 Staged Heavy Duty Vehicles and Heavy Duty Components RVC Requirement

Regional Value Content (RVC) Percentage Requirements for light-duty vehicles, or a good provided for in any of heading 8407 and 8408 and subheading 8708.40, that is for use in a heavy-duty vehicle.

- d) Determine if the fiscal year of the producer started before July 2, 1997. If so, the RVC requirement is 50%.
- e) Determine if the fiscal year of the producer started after July 1, 1997, but before July 2, 2001. If so, the RVC requirement is 56%.
- f) Determine if the fiscal year of the producer started after July 1, 2001. If so, the RVC requirement is 62.5%.

#### 2.3 Special RVC Requirements for Heavy-Duty Vehicles Produced in a New Plant

- g) Determine if the plant in which the heavy-duty vehicles are produced consists of, or includes, a new building in which the heavy-duty vehicles are assembled.
- h) Determine if the heavy-duty vehicles produced meet the definition of first prototype .
- i) Determine the date of production of the first prototype and whether or not it has been five years since the date on which the first prototype has been produced. If greater than five years after the date on which the first prototype was produced, use the appropriate RVC requirements as identified in Verification Procedures a) through c).
- j) Determine if the heavy-duty vehicle is of a:
  - i) class of motor vehicle, or

ii) marque, that was not previously produced by the motor vehicle assembler in the territory of any of the NAFTA countries.

#### 2.4 Value of Machinery

k) For purposes of determining the value of machinery that was never previously used for production, and that is used in the new building (s) for the purposes of the complete motor vehicle assembly process with respect to that vehicle, obtain the motor vehicle assembler's fixed asset sub-ledger and the supporting invoices for the new machinery acquired to produce the motor vehicle.

l) Using the information obtained in verification procedure h) above review the producer's calculation of the value of machinery to ensure that the value of machinery that was never previously used for production, and that is used in the new building(s) for the purposes of the complete motor vehicle assembly process with respect to that motor vehicle, is at least 90% of the value of all machinery used for the purposes of that process.

i) Where the machinery was acquired by the producer of the motor vehicle from another person, the value of the machinery is the cost of that machinery that is recorded on the books of the producer.

ii) Where the machinery was used previously by the producer of the motor vehicle in the production of another good, the value of machinery is the cost of the machinery that is recorded on the books of the producer minus accumulated depreciation of that machinery that is recorded on those books.

iii) Where the machinery was produced by the producer of the motor vehicle, the value of the machinery is the total cost incurred with respect to that machinery, calculated on the basis of the costs that are recorded on the books of the producer.

m) Conclude as to whether all the conditions outlined in verification procedures g) through l) are met. If so, the RVC requirement is not less than 50% for five years after the date on which the first prototype is produced in the plant by the motor vehicle assembler. The RVC requirements outlined in verification procedure 2.1 apply for the periods following five years after the date on which the first prototype is produced.

#### 2.5 Special RVC Requirements for Heavy-Duty Vehicles Produced in a Refit Plant

n) Determine if the plant which the heavy-duty vehicles are produced meets the definition of refit.

o) Determine if the heavy-duty vehicles produced in the refit plant meet the definition of first prototype.

p) Determine the date of production of the first prototype and whether or not it has been two years since the date on which the first prototype has been produced. If greater than two years after the date on which the first prototype was produced, use the appropriate RVC requirements for heavy-duty automotive goods as identified in Verification procedure 2.2.

q) Determine if the heavy-duty motor vehicle is of a:

i) class of motor vehicles, or

ii) marque, that was not assembled by the motor vehicle assembler in the plant before the refit.

r) Conclude as to whether the conditions outlined in verification procedures n) through q) are met. If met, the RVC requirement is not less than 50% for two years after the date on which the first prototype is produced in the plant by the motor vehicle assembler. The RVC requirements outlined in Verification procedure 2.1 apply for the period following two years beginning with the date on which the first prototype is produced.

s) Prepare any adjustments, as required.

## 2.6 General Summary Procedures

t) Conclude on the verification sub-objective

## 3. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM VERIFICATION SUB-OBJECTIVE

To ensure the Management of Information System (MIS) used to develop the Regional Value Content calculation is reliable and accurate.

### VERIFICATION PROCEDURES

a) Obtain the relevant information concerning the Management of Information System (MIS) gathered through the 7. PLANT TOUR verification sub-program. Identify the areas of concern with respect to the MIS. Consider using the "Review of Policies, Procedures and Internal Controls Checklist" (See Appendix F) to assist in identifying concerns.

b) Obtain and review the policies and procedures manual. Identify the areas of concern with respect to the MIS.

c) Obtain the independent auditor's report. Review this report to assess the reliance the auditors placed on the MIS.

d) Interview the personnel responsible for the MIS. Assess their knowledge of Electronic Data Processing (EDP) and the importance the organization places on controls within the MIS.

e) Document the MIS. Use the policies and procedures manual and the interviews with the MIS personnel as a guide.

i) Document how the Bill of Materials is created within the system. Document how the following items are entered into the system:

A) engineering documents/specifications (including changes to engineering specifications)

B) list of materials and suppliers - approved vendor listing

C) development of standards for costing purposes (i.e. materials, labor and overhead standards).

ii) Include a review of the following:

A) how are orders for motor vehicles entered into the system

B) what determines production for the period



C) how are production reports generated

D) how are material stock reports (i.e. KAN-BAN) and picking lists generated

E) inventory (i.e. purchase from supplier(s), receipt, transfer to production, work-in-process, finished goods, shipment of finished goods)

iii) Document how the actual costs are recorded in the system. Include a review of payments for materials inventory, direct and indirect labor, manufacturing overhead and all other costs included in the total cost calculation.

f) Document the controls inherent in the MIS (i.e. the general and application controls). Ensure adequate controls over materials inventory, production, labor, overhead, etc.

i) General Controls

Review information pertaining to the organization controls and standard operating procedures. Review the systems development and documentation controls. This includes:

A) systems development methodology;

B) programming conventions and procedures;

C) technical, management, user and auditor review and approval;

D) system testing;

E) conversion control (if applicable);

F) program change controls;

G) system documentation standards -- program documentation, operations documentation, user documentation.

Review the systems software controls. This includes:

A)handling errors;

B)program protection;

C)file protection;

D)security protection.

Document how changes are made (i.e. authorization of changes to the system).

ii) Application Controls

Review the data capture and batch data entry controls. This includes:

A) control methodology (exposures resulting from errors and irregularities, management control objectives, system objectives, role of controls in EDP systems)

B) audit trail;

C) data capture controls;

D) data entry controls.

Review the on-line entry, processing and output controls. This includes controls to ensure:

A) reliable, proper, authorized and valid transaction entry;

B) unreliable and improper data entry is detected;

C) unreliable and improper data is corrected;

D) processing is reliable, proper and authorized;

E) unreliable, improper, and unauthorized processing is detected;

F) unreliable, improper, and unauthorized processing is corrected;

G) errors detected in output are properly corrected and resubmitted to data processing on a timely basis.

#### 4. INITIAL ANALYSIS OF THE RVC INFORMATION

##### VERIFICATION SUB-OBJECTIVE

To conduct a preliminary review of the submitted RVC information in order to identify risks that require further verification.

##### VERIFICATION PROCEDURES

a) Obtain from company officials supporting RVC information for the goods under review on a shipment by shipment basis.

b) Review the costs provided in the submission of RVC information to determine if they are reflective of actual costs .

c) Ensure that all calculations provided with the information are correct. Ensure that the appropriate RVC percentage requirement has been used by the company. Ensure that the good has met the RVC requirement based on these calculations.

d) Ensure that all the non-originating materials (i.e., materials that do not meet their required rule of origin) and materials of unknown origin used in the production of the good have met the required tariff classification change portion of the rule of origin.

e) Review the labor and overhead information provided.

Identify any excluded costs incorrectly included in the RVC calculation. Ensure that all costs allocated to the good subject to the verification are in fact actual costs incurred in the production of such good on the specific date of production.

f) Identify any automotive component assembly, automotive component, sub-component , or listed material that are imported by the company and identified as originating materials. (Reference Schedule V)

g) Conduct risk analysis /ratio analysis on the total value for materials, labor and overhead in relation to the RVC requirement.

h) Conclude on the areas of concern requiring further review.

## 5. PLANT TOUR

### VERIFICATION SUB-OBJECTIVE

To obtain an understanding of the entire operations of the verification company (i.e. manufacturing, assembly, warehouse, accounting, etc.).

### VERIFICATION PROCEDURES

a) Obtain an Organization Chart. Ensure all operations and or departments whose costs are included in the total cost calculation for RVC purposes have been reviewed and documented. --Document the potential for costs to be included in total cost that should be excluded (i.e. costs not directly related to the production of the automotive goods including: sales promotion, marketing and after-sales service costs; royalties; shipping and packing costs; and non-allowable interest costs).

b) Observe and document the existence of the goods.

i) Confirm the goods to be included in the election to average are manufactured at that production facility.

ii) Identify any differences that may exist with respect to the tariff classification of the goods under review.

c) Where the producer designates an intermediate material review the assembly process and observe the completed intermediate material (IM). Conclude on whether or not the IM is a self-produced material. This information will be used in 6. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.

d) Observe and document any concerns with regard to any possible Non-Qualifying Operations (i.e. unacceptable production or pricing practice used to circumvent the Rules of Origin) noted during the plant tour. This information will be used in 16. NON-QUALIFYING OPERATIONS sub-program.

e) Observe and document the Research and Development and/or Engineering Operations.

--Document any concerns with respect to the potential allocation problems of costs not directly related to the goods included in the calculation.

f) Observe and document the warehouse operations (i.e. receiving material inventory, storing material inventory and storing of finished goods).

i) Document any concerns with respect to the tariff classification of materials for which there may be classification differences.

ii) Document any concerns with respect to the ownership of material.

iii) Document any concerns with respect to the source of materials (i.e. dual sourcing, markings on materials, fungible materials, etc.) noted during the plant tour, especially automotive component assembly, automotive component, sub-component, and listed materials

iv). Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the good under review.

v). Document any concerns with respect to the shipping of finished goods (i.e. any costs of shipping and packing that may be included in the net cost calculation).

vi) Document any concerns with respect to the inventory and turn-over of finished goods.

g) Observe and document the production/manufacturing operations. Ensure each in-house manufacturing and sub-assembly operations have been documented (i.e. stamping, engine production, axle production, etc.)

i). Document any concerns with respect to the out-sourcing of manufacturing/production or sub-assembly operations. Evaluate whether assists may be provided to the out-sourced producers.

This information will be used in 14. VALUE OF MATERIALS verification sub-program.

ii). Document any concerns with respect to the potential for costs being included in the RVC calculation that are not directly attributable to the good under review.

h) Observe and document the financial accounting operations. Ensure the materials ordering, receiving, inventory flow, direct labor costing, indirect material costing and overhead allocation per unit are all documented.

i) Observe and document the Management of Information System Operations. Inquire as to the type of management reports that are produced (i.e. bills of materials, production reports, labor reports, material stock reports, etc.). This information will be used in 3. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program.

## 6. INTERMEDIATE MATERIALS DESIGNATION

### VERIFICATION SUB-OBJECTIVE:

The objectives of this verification sub-program are: 1) To determine if the intermediate material(s) (IM) designation, made by the heavy duty automotive goods producer, is in accordance with

Paragraph 10(9)(a) and Subsection 7(4) and 7(19) of the NAFTA Regulations; 2) Where the Specific Rule of Origin for the IM requires that the non-originating materials making up the IM undergo a tariff classification change, that the tariff classification change requirement is met; 3) Where the Specific Rule of Origin requires that the IM meet a Regional Value Content (RVC), that the RVC requirement is met; and 4) To document any self-produced materials and containers and self-produced accessories spare parts and tools designated as an IM.

Complete this sub-program only if the producer designates a self-produced intermediate material(s) (IM) in accordance with Paragraph 10(9)(a) and Subsections 7(4) & 7(19) of the NAFTA Regulations.

## VERIFICATION PROCEDURES

### 6.1 Review of the IM Designation for Compliance With Paragraph 10(9)(a)

- a) Document all Intermediate Material (IM) designations made by the company.
- b) Review the company designated HTS number and description of the intermediate material to ensure that the description in the Harmonized Tariff System of the NAFTA Party does not describe a heavy-duty component or sub-component.
- c) Is the IM designation within the requirements of Paragraph 10(9)(a) of the NAFTA Regulations? An IM designation will be considered meeting the Paragraph 10(9)(a) requirements where the self-produced material is a material other than a heavy-duty component or sub-component and no other materials which are other than a heavy-duty component or sub-component that is subject to a RVC requirement and is incorporated into that IM is also designated by the producer as an IM.
- d) Conclude on the Intermediate Material designation for compliance with Paragraph 10(9)(a).

### 6.2 HTS Classification of the IM

- e) Obtain the correct tariff classification and Rule of Origin for the IM from the 8. TARIFF CLASSIFICATION verification sub-program.

### 6.3 Tariff Classification Change Requirements for the IM

- f) Obtain the information with respect to the Tariff Classification for the IM from the 8. TARIFF CLASSIFICATION verification sub-program.

### 6.4 Review of the RVC Requirements of the IM

- g) Inquire of the company officials as to how the value of the intermediate material was determined. See Subsection 7(6) of the NAFTA Regulations. Are all costs reasonably allocated to the IM according to Schedule VII?
- h) Ensure that material, labor, overhead costs etc. allocated to the Intermediate Material are not double counted in the respective costs related to the final good. (i.e. the net cost of the good should be reduced to the extent of the IM designation). This information will be used in sub-programs 11. VALUE OF MATERIALS and 12. VALUE OF COSTS OTHER THAN MATERIALS

i) Perform the RVC requirement on the IM using the net cost method. Refer to sub-program 14. CALCULATION OF THE RVC verification sub-program for determining the RVC using the net cost content calculation.

j) If more than one intermediate material has been identified, ensure that, where the IM is subject to a RVC requirement, no other self-produced material subject to a RVC requirement is used in the production of that IM.

k) Conclude as to whether the IM is an originating material.

l) If an intermediate material is determined to be originating, calculate the non-originating value in the total cost of the IM and carry forward that value, as an originating cost, to be subtracted from the VNM (if not already reduced).

## 7. BILL OF MATERIALS

### VERIFICATION SUB-OBJECTIVE

To ensure the bill of materials (BOM) of the good under review is complete and accurate throughout the verification period.

### VERIFICATION PROCEDURES

a) Obtain the bills of materials (BOM) and any additional supporting documentation for the good under review used by the producer to prepare the submission of RVC information. (Refer to 8. TARIFF CLASSIFICATION verification sub-programs.)

b) Verify the mathematical accuracy of the BOM.

c) Compare the values of the materials and the materials themselves (inventory part number and name) on the BOM and the other supporting documentation to totals reported in the submission of RVC information. If information concerning the origin of the materials or sourcing of the materials is on the BOM and the supporting documentation, also compare this information to the origin of the materials declared in the submission of RVC information.

d) Obtain from 3. REVIEW OF THE MANAGEMENT OF INFORMATION SYSTEM verification sub-program, the description of the system for the BOM and any related documentation that is required to complete verification procedure f). If necessary, review the policy and procedures manual for the BOM with respect to the definition of the BOM, use of the BOM, what is reported on the BOM, who and when changes are made to the BOM, etc.

e) To ensure that the BOM is complete:

i). compare the BOM to engineering documents/specifications (i.e. compare parts and quantity to be included in the good);

ii). compare the part numbers, descriptions and values, to picking lists used to obtain parts for the production from inventory (ensure this matches the inventory management method as described in the MIS review);

iii).compare the BOM to product literature;

iv). review the sourcing of materials for consistency on the BOM.

v) Compare the BOM to a BOM of similar goods (i.e. use professional judgment to ensure all materials on the BOM are incorporated into the good and to ensure there are no missing materials that should be incorporated into the good).

vi) Document any differences. Obtain explanations from the company.

f) Review the company's standard cost accounting policies, if standard costs were used. If so, ensure that the standard cost of the good has been adjusted to the actual cost of production of the good on a per unit basis. Inquire with company officials if any differences are found.

g) Identify any accessories, spare parts and tools, packaging materials and containers for retail sale and packing materials and containers for shipment to be disregarded for evaluating the tariff classification change requirement. Provide this information to the person responsible for the 8. TARIFF CLASSIFICATION verification sub-program. Provide the information concerning packing materials and containers for shipment to the person responsible for the 12. RVC- COSTS OTHER THAN MATERIALS and 11.VALUE OF MATERIALS verification sub-program.

i) Conclude on the verification sub-objective.

## 8. TARIFF CLASSIFICATION

### VERIFICATION SUB-OBJECTIVE

To ensure that the heavy duty automotive good is properly classified under the Harmonized Tariff System (HTS) of tariff classification, and to ensure the correct rule of origin is applied.

To classify all materials which would not meet the necessary tariff classification change as required by the Specific Rule of Origin (Schedule I of the Uniform Regulations) applicable to the good if they were non-originating materials.

To identify and classify all automotive component assemblies, automotive components , sub-components and listed materials together with any other non-originating materials used by the producer in the production of the good in order to establish the Value of Non-originating Materials (VNM) in accordance with Section 10 of the Regulations.

### VERIFICATION PROCEDURES

#### 8.1. General Introductory Procedures:

a) Interview the person(s) responsible for tariff classification to establish how the classifications of the good and the materials were determined. Obtain any rulings that the company has received from other customs administrations.

b) Document the potential for fungible materials while performing the procedures in this verification sub-program.

c) Obtain information from the company pertaining to the de minimis calculation when the company has applied the de minimis provisions to qualify the goods. To evaluate de minimis, refer to the verification procedures outlined in Chapter 5 of this verification (audit) manual.

d) To aid in the completion and accuracy of the 9. SOURCE OF MATERIALS verification sub-program, note data on the material suppliers, if you come across this information while performing the verification procedures of this sub-program.

## 8.2 Classification of the Finished Goods and Intermediate Materials

e) Obtain and review documentation on the good and IM including; bill of materials, public brochures, engineering specifications, invoices, bills of lading, owner's manual, catalogues and verify if it is consistent with the tariff classifications provided for the good under review. Review the export documents for the Harmonized Tariff System (HTS) number for the good being verified.

f) Obtain from 5. PLANT TOUR verification sub-program information with respect to the production of the goods or the IM. Physically inspect the good during a plant tour to aid in confirming the correct classification number and rule of origin of the finished goods and IMs.

g) Ensure that the good and IMs under review are properly classified in the RVC information. The good and/or IM classification should be classified as applicable, to the Tariff Heading (4<sup>th</sup> digit), Subheading (6<sup>th</sup> digit), or where required by the Specific Rule of Origin the Item (8<sup>th</sup> digit) level of the Party's HTS. Where the tariff number is in doubt, take pictures, drawings, samples to the appropriate specialist for a classification.

h) Identify the Specific Rule of Origin for the Heavy Duty Automotive Good and IM under review. Prepare a conclusion on the tariff classification declared by the company for the good or the IM under review.

i) Does the specific rule of origin of the good require that the materials undergo a change in tariff classification? If no, go to procedure 8.4 within this verification sub-program. If yes, continue.

## 8.3 Classification of Materials for Tariff Classification Change Requirement Only:

To be completed where the non-originating materials included in the Heavy Duty Automotive Good or IM are required to undergo a tariff classification change.

j) Analyze the Specific Rule of Origin for the good or IM identified in verification procedure g) to determine the tariff classification of the materials that would not meet the required tariff classification change if they were non-originating materials.

k) Obtain an accurate description of the materials used in the production of the good, by physical examination, reviewing supplier parts catalogue, engineering documents, purchase orders, and/or supplier contracts. Document any self produced materials designated in accordance with subsection 4(8) of the NAFTA Rules of Origin Regulations.

l) Classify all materials on the BOM, except those identified as accessories, spare parts and tools; packaging materials and containers for retail sale and packing materials and containers for shipment to the level required for tariff classification change requirement. Note: obtain this information from the 7. BILL OF MATERIALS verification sub-program.



m) Identify those materials which would not meet the tariff classification change requirement if they were non-originating. The conclusion on the tariff classification change requirement will be performed in verification procedure g) in the 9. SOURCE OF MATERIALS verification sub-program.

#### 8.4 Identification of Materials Used or Incorporated In the Good for VNM Purposes

n) Using the BOM of the good under review, obtain an accurate description of the materials by physical examination, reviewing supplier parts catalogues, engineering documents and/or supplier contracts. Identify:

i) material that are automotive component assemblies, automotive components, sub-components, listed materials and all other non-originating materials;

ii) For automotive component assemblies, identify the potential automotive components , sub-components, and listed materials;

iii) For automotive components, identify the potential sub-components and listed materials;

iv) For sub-components , identify the potential listed materials.

o) Prepare a working paper to document all the information on the materials used or incorporated into the good subject to the verification at any level of production.

### 9. SOURCE OF MATERIALS

#### VERIFICATION SUB-OBJECTIVE

To determine and verify:

--the origin of materials which would not meet the tariff classification change as required by the Specific

Rule of Origin (Schedule I of the Regulations) if the materials were non-originating;

--the source of all materials or sub-materials that are automotive component assemblies, automotive components, sub-components, and listed materials, used or incorporated in the good in order to establish the value of non-originating materials (Section 10 of the Regulations) especially the ones claimed as originating materials by the producer or his supplier; and

-the source of originating materials for tariff treatment purposes.

#### VERIFICATION PROCEDURES

##### 9.1 Tariff Classification Change Analysis

a) Obtain the list of materials reported as originating which if failing to originate, would not meet the tariff classification change required by the Specific Rule of Origin ( Schedule I of the Regulations). This list should be obtained from the 8.3 TARIFF CLASSIFICATION OF MATERIALS FOR TARIFF CLASSIFICATION CHANGE REQUIREMENT ONLY of the 8. TARIFF CLASSIFICATION verification sub-program.

b) Confirm the origin of these materials by reviewing the Certificates of Origin or supplier statements obtained by the producer and/or by reviewing the purchase order, invoice, and the receiving documents.

c) Physically inspect these materials to verify markings or any indications which might indicate that the materials are non- originating.

d) Assess if the 7% De Minimis Rule can be applied if there are non-originating materials that do not meet the required tariff classification change (see verification procedure f) in the 11. VALUE OF MATERIALS verification sub-program.

e) Assess the need to send supplier confirmations for the purposes of determining the origin of materials for the tariff classification change requirement.

f) Conclude as to whether the tariff classification change requirement has been satisfied.

## 9.2 Source of Materials for the Purpose of Determining the VNM

g) Obtain the complete list of materials identified in the 8.4 IDENTIFICATION OF MATERIALS USED OR INCORPORATED IN THE GOOD FOR VNM PURPOSES in the 8. TARIFF CLASSIFICATION verification sub-program. Add all other originating high value materials to this list.

h) From the list obtained in Verification procedure g):

i) select a sample of the materials which the exporter has claimed as originating (including those materials which may contain sub-materials);

ii) verify if the source of the above materials could be valid, by looking at the industry profile documentation, and other information for similar goods (i.e., Could these materials be imported?);

iii) interview company officials responsible for determining the origin of materials as found in the information response. Ask what procedures they used to verify the source of the materials. Document strengths and weaknesses of the manner in which the company identified non-originating materials;

iv) if the company has received certificates of origin and/or supplier statements to verify the source of the materials, review them and determine if they are adequate (if not adequate these items may be considered high risk items for confirmation purposes).

i) Obtain information from the exporter's policy and procedures manuals and complete a plant tour to assist in identifying the source of materials. Physically inspect the materials to verify markings or any indications which might indicate if they were imported. Coordinate this work with that performed in verification procedure h)ii).

j) While conducting the plant tour and through inquiry of management, identify any part of the production process that may be sub-contracted to another company.

k) Review the concerns raised during the 5. PLANT TOUR verification sub-program.

l) Obtain a list of suppliers for all materials. For the sample selected in verification procedure h) i) perform the following:

i) determine whether any of the suppliers have companies in a non-NAFTA country, or if the suppliers are U.S., Canadian or Mexican distributors (the materials from these suppliers will be considered high-risk for confirmation purposes);

ii) inquire of company officials if there were any supplier changes or were any materials sourced from more than one supplier. The Approved Vendor List or the history of the engineering specifications may provide evidence of supplier changes;

iii) determine whether there are any fungible (look for dual sourced materials) materials. Examine the parts and supplier lists, the Approved Vendor List, and inquire as to whether the same material is sourced from both a supplier from a NAFTA country and a non-NAFTA country, and if they source parts from distributors. (This information will be used in the 10. INVENTORY MANAGEMENT SYSTEM verification sub-program ).

m) Determine whether the 8. TARIFF CLASSIFICATION verification sub-program identified any materials that were designated as originating by the exporter but were in fact imported from a non-NAFTA country , i.e. obtain information from supplier catalogues and observation of markings during the plant tour.

n) Select a sample of originating materials from the list obtained in Verification procedure h) and perform the following:

i) scan the purchase invoice, any attached shipping documents, and bank endorsement stamp on the canceled check to determine whether they support the exporter's claim for the source (and value) of the material;

ii) select materials from this sample to verify markings and coordinate this work with that performed in verification procedure i;

iii) follow up on any contradictory observations;

iv) prepare a working paper to control the confirmation process and to document results.

o) Select a sample of the non-originating materials from the list obtained in verification procedure g) and determine if they are:

i) self-produced;

ii) acquired by the producer;

iii) imported directly by the producer;

iv) imported by a person other than the producer. Obtain supplier statement for the acquired non-originating materials. This information will be used in the 11. VALUE OF MATERIALS sub-program.

p) Compare any supplier certificates of origin or supplier statements obtained through the verification procedures identified above to the BOM identified in the 7. BILL OF MATERIALS verification sub-program.

q) Evaluate the need to expand sampling procedures.

r) Determine if the origin and VNM of any of the materials need to be confirmed.

### 9.3 Supplier Confirmations

s) Select suppliers from the list identified in g) from whom supplier confirmations will be obtained to confirm the origin of: 1) the materials claimed by the company or its supplier to be originating (and/or to verify VNM); or 2) materials that if found to be non-originating would not meet the tariff classification change requirements in Schedule I of the Regulations and that have been claimed as being originating by the company.

--Any verification of material suppliers should involve the following :

i) send confirmations to high risk suppliers who are distributors, for high dollar value materials, or suppliers known to import parts from outside the territory, or where the reliability of the certificates of origin or the suppliers certifications on file with the exporter and/or producer are questionable;

ii) find information on the suppliers in the exporter and/or producer correspondence files and purchase records, i.e. addresses, contact person, phone numbers, etc.;

iii) ensure that confirmations are sent out to all suppliers if there is more than one supplier of a material or if suppliers were changed;

iv) follow up with the supplier to obtain a completed confirmation, this may be telephone within a predetermined time frame to ensure that all the completed confirmations are received;

v) review the confirmations once they are received from the suppliers and compare the information on the confirmations with the information on the certificates of origin and/or supplier certifications filed with the exporter and/or producer. Confirmations for which there are no response or insufficient information will result in the material being considered non-originating for tariff classification change and VNM purposes;

vi) determine if supplier confirmation letters should be sent to the suppliers of the suppliers of the exporter and/or producer, because there are materials which require further verification ;

vii) after reviewing the supplier confirmation, consideration should be given to conducting a restricted supplier verification at the suppliers premises based on evidence gathered to date. However, such visits will have to be discussed with and approved by the appropriate Customs official prior to making any arrangements;

viii) prepare a working paper to control the confirmation process and to document the results ;  
and

ix) prepare a letter to each supplier subject to the confirmation process, notifying them of whether or not the material was found to be originating.

### 9.5 General Summary Procedure

t) Ensure that all verification adjustments required as a result of the sourcing verification procedures have been recorded.

## 10. INVENTORY MANAGEMENT SYSTEM

## VERIFICATION SUB-OBJECTIVE

To determine if an applicable inventory management method is in place when fungible materials (physically separated or commingled) are used in the production of a good, or when fungible goods are physically combined or mixed in inventory, potentially to identify the origin of a specific shipment of goods.

In terms of fungible materials used in the production of heavy-duty automotive goods, an inventory management method must identify originating versus non-originating materials for the purposes of the tariff classification change requirement. Also, for the purposes of the RVC requirement, an inventory management method must, for a material that is an: automotive component; automotive sub-component ; automotive component assembly; and listed material identify the origin of those materials and for all materials that have more than one supplier, identify the different VNM values.

If an acceptable inventory management method does not exist, for the purposes of the tariff classification change requirement, all fungible materials will be considered to be non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials identified as a risk above will be included in the calculation of VNM.

Note that the existence of fungible materials does not automatically require that this verification program be applied, as the exporter/producer may choose to treat, for the purposes of the tariff classification change requirement, all fungible materials as non-originating, and, for the purposes of the RVC requirement, the total value of all fungible materials as part of VNM.

## VERIFICATION PROCEDURES

- a) Obtain from verification procedure I)iii in the 9. SOURCE OF MATERIALS verification sub-program, a listing of identified fungible materials.
- b) Determine the impact on the origin of the goods under review should the inventory management system be found to be not acceptable. When fungible materials exist, evaluate the impact in terms of the tariff classification change requirement (consider the use of the de minimis provision) by reviewing 8.TARIFF CLASSIFICATION verification sub-program, as well as in terms of the Regional Value Content requirement by reviewing 11.VALUE OF MATERIALS verification sub-program and reviewing 14. CALCULATION OF THE REGIONAL VALUE CONTENT verification sub-program. If the impact is significant, proceed with the evaluation of the inventory management system.
- c) Determine which of the following inventory management systems outlined in the NAFTA Regulations - Schedule X the company used for the fungible materials (goods): Specific Identification, FIFO, LIFO, and the Average Method
- d) Document the inventory management system from beginning to end (i.e. purchasing, receiving, storage of materials, removal of materials from storage into production of goods, storage of goods and removal of goods from storage for shipment of goods).
- e) If Specific Identification was used, ensure that fungible materials (goods) were physically segregated, or ensure the existence of an origin identifier.
- f) If FIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable,

first received were considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

g) If LIFO was used, review the company's receipts and withdrawals from the inventory record system. Ensure that the fungible materials (goods), identified by origin or supplier, as applicable, last received was considered to be the fungible materials (goods), identified by origin or supplier, as applicable, first withdrawn.

h) If the average method was used, ensure that the ratio was calculated and applied correctly.

i) Ensure whichever method that was chosen, including the averaging period in the case of the averaging method, that it was used from the time it was chosen to the end of the fiscal year. Has the system changed since the inception of NAFTA?

j) Ensure that the company correctly determined the materials (goods), identified by origin or by supplier, as applicable, in its opening inventory by:

i) identifying, in the books of the producer, the latest receipts of fungible materials (goods) that add up to the amount of fungible materials (goods) in opening inventory at the time an inventory method is chosen;

ii) reviewing the origin or supplier of the materials (goods), as applicable, that make up those receipts;

iii) determining those fungible materials (goods) to be the fungible materials (goods) in opening inventory, identified by origin of the supplier, as applicable.

k) Review the inventory management system by performing compliance tests of a sample of purchase transactions. The sample should include transactions involving materials (goods) that were fungible materials (goods) at the inception of the NAFTA and materials (goods) that were identified as fungible since the inception (i.e. change in supplier).

l) Is the inventory management system tested periodically? Obtain a description of periodic testing and evaluate it's effectiveness.

m) Test a sample of fungible material (good) inventories by identifying the origin of opening inventory, adding receipts/adjustments of materials (goods) and deducting withdrawals/adjustments and compare your results to the company's records.

n) Conclude on whether:

i) the inventory management system used by the Company is acceptable and meets all the requirements of Schedule X of the Regulations; or

ii) the inventory management system used by the company requires improvement to meet the requirements of Schedule X of the Regulations - document the weaknesses of the system - document the impact on the origin of the goods under review; or

iii) the inventory management system does not meet the requirements of Schedule X and the company can/cannot construct the necessary inventory system - document the impact on the origin of the goods under review.

## **11. VALUE OF MATERIALS**

## **VERIFICATION SUB-OBJECTIVE**

To ensure that the value of originating and non-originating materials has been calculated in accordance with the NAFTA.

## **VERIFICATION PROCEDURES**

### **11.1 General Valuation Procedures:**

a) Using the information obtained with the 3. REVIEW OF THE MANAGEMENT INFORMATION SYSTEM verification sub-program assess the internal controls in place to preserve the quality and accuracy of the data available by reviewing: policy and procedures manuals with respect to the purchase of materials; internal auditor's reports; the setting of standards and identification of variances. Further assessment of internal controls can be made by performing a walk-through of the purchasing and receiving function, and documenting the flow of information by tracing material requisitioning, ordering, receiving and reporting returns, accounting, and cash disbursement.

b) From discussions with the company staff, find out who is responsible for determining the values for the materials and how the materials are valued. Is the same valuation method used for all the materials, i.e., do they use the same method for determining the value of non-originating materials and originating materials?

c) Review the calculations prepared by the company including any supporting documentation and supplier certifications and statements obtained by the producer. Determine if the procedure used to value materials is in accordance with the Regulations.

i) Identify all assumptions made by the company.

ii) Identify all additions to cost included in valuing the materials (freight, insurance, packing and other costs incurred in transporting the materials such as duties and brokers charges, including in-house broker costs). Apply the appropriate verification procedures to the costs being examined (examine invoices, calculations, standard costs, etc.).

iii) Identify the accounts from which the information was extracted.

iv) Where materials are imported, verify that if the values of materials are in the same currency as the currency of the country of the person who provided the supplier statement is located. See Section 3 of the Regulations.

v) Identify areas for further review.

d) Identify any related suppliers and determine if the materials purchase price was affected by the relationship, and if an adjustment will be required.

i) Identify and review accounts or any documents that may pertain to material transfers and/or transfer payments from the company to the parent to identify any possible assists.

ii) If materials are dual sourced, compare the purchase prices of the related and non-related companies, i.e., obtain a price list from the producer listing suppliers, prices, and materials.

iii) Review correspondence between the company and the related suppliers. Is

there a possibility that the relationship affected the value used?

e) Inquire as to how price and usage variances are accounted for. Analyze if these variances (actual and standard cost) are material and adjust the value of the materials in the RVC calculation, if necessary.

### **11.2 Application of the De Minimis Rule**

f) If there are non-originating materials that do not meet the required tariff classification change review the value of the sub-materials. Where the value of the sub-materials in the material (determined in accordance with Section 7 of the Regulations) is less than or equal to 7% of the transaction value (or total cost of the good, if the transaction value is unacceptable), the de minimis rule can be applied (See verification procedure d) in the 9. SOURCE OF MATERIALS verification sub-program).

### **11.3 Value of Materials to be Included in Net Cost:**

g) Verify that all materials included in the net cost calculation are valued in accordance with Section 7 of the Regulations. The value of materials calculated in accordance with NAFTA includes the following regardless of whether the applicable value is the customs value of the material or the transaction value with respect to the transaction value with respect to the transaction in which the producer acquired the material: freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer; duties and taxes paid or payable with respect to the materials in the territory of one or more of the NAFTA countries, unless they were refunded or waived; customs brokerage fees (including in-house services); waste and spoilage resulting from the use of the material in the production (minus the value of reusable scrap).

When the value is the transaction value, the following may also be added: commissions, except buying commissions; elements (assists) supplied to the seller by the producer (materials; tools, dies, molds and other indirect materials; engineering, development, artwork, design work, and plans and sketches performed outside the country in which the producer is located) royalties; subsequent proceeds that accrue to the seller. The value of materials also includes accessories, spare parts, tools, packaging materials and containers for retail sale.

### **Obtain the value of the IM from the 6. INTERMEDIATE MATERIALS**

#### **DESIGNATION verification sub-program.**

h) Review the values of materials reported with the information response and assess if these amounts seem reasonable by comparison with other RVC information of similar goods.

i) Inquire into the results of the 7. BILL OF MATERIALS verification sub-program, and take them into account while conducting the remaining verification procedures.



- j) Select (consider obtaining sufficient audit coverage) a sample of high risk materials for valuation purposes. (High risk for valuation purposes would be fungible materials; or originating materials that if found to be non-originating would make the good non-originating for RVC purposes. All materials should also be checked for correct valuation since originating materials that are overvalued and non-originating materials that may be undervalued would cause an overstatement of the RVC percentage.)
- i) determine the actual price paid by the exporter/producer by tracing to the purchase invoice, the attached shipping documents and the bank endorsement stamp on the canceled check;
- ii) calculate the difference between the actual and standard cost and compare with the price variance or variance from standard claimed by the exporter/producer; follow-up on any substantial differences; and
- iii) trace the total invoice amount to the appropriate ledgers and sub-ledgers to verify that purchases have been recorded correctly in the exporter's/producer's books and records.
- k) For the purpose of calculating the RVC, verify that the value of all materials calculated in accordance with Section 7 of the Regulations used or incorporated into the final goods are included in the net cost. Ensure that the value of intermediate materials or the VNM as outlined in Section 10 of the Regulations is not double counted in the total cost of the good.
- l) Prepare a work paper to ensure that all adjustments required for materials as a result of value of materials verification procedures have been recorded.
- m) Conclude as to whether the value of materials is correct.

#### **11.4 Value of Non-Originating Materials:**

The Value of Non-originating Materials (VNM) for Heavy Duty Automotive Goods calculated in accordance with Section 10. Although Section 10 includes all the materials which make up the VNM of the heavy duty automotive good, on an actual audit not all sections may apply.

- n) Obtain the list of materials developed in the 12. SOURCE OF MATERIALS verification sub-program. Obtain the list of materials, and the value of the materials, contained in the intermediate material election, if applicable, from the 6. INTERMEDIATE MATERIALS DESIGNATION verification sub-program.
- o) Select a sample of high risk materials and determine the VNM by reviewing commercial invoices, and customs invoices, and by applying the relevant valuation methods: (Consider materiality in terms of closeness to RVC requirement)
- p) Did the heavy duty automotive goods producer self-produce a non-originating listed material that is used by himself in the production of the good (Paragraph 10(1)(a) of the Regulations)? -If no, proceed to verification procedure q) .If yes, continue with verification procedures p)i), p)ii), to determine the value of the non-originating material (VNM). (Verification procedures p)i), p)ii) and p)iii) will apply independently to each material meeting the description of this verification procedure.)

- i) VNM is the total cost of the self-produced listed material which is the result of allocating costs on the basis of Schedule VII. If this basis is used for the VNM stop here, if this basis is not used go on to verification procedure p) ii);
- ii) VNM is the aggregate of each cost of the self-produced listed material which is the result of allocating costs on the basis of Schedule VII. If this basis is used for the VNM stop here, if this basis is not used go on to verification procedure p)iii);
- iii) VNM is the sum of A) and B) where:

A) For non-originating materials that were imported by the producer of the listed material, the VNM is the customs value of the non-originating materials plus, to the extent not included, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f).

**Note to verification procedure p)ii)A) :** For reference purposes, NAFTA Regulation Paragraphs 10(2)(c) through 10(2)(f) includes:

- freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer, Paragraph 10(2)(c)
- duties and taxes paid or payable with respect to the material in the territory of one or more of the NAFTA countries, other than duties and taxes that are waived, refunded, refundable, or otherwise recoverable including credit against duty or tax paid or payable, Paragraph 10(2)(d);
- customs brokerage fees (including the cost of in-house customs brokerage and customs clearance services, incurred with respect to the material in the territory of one or more of the NAFTA countries, Paragraph 10(2)(e);
- 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, Paragraph 10(2)(f);

B) For non-originating materials that were not imported by the producer of the listed material (i.e. acquired by the producer of the listed material from a supplier) the VNM is: the price paid or payable for the non-originating material according to paragraph 10(2)(a) or 10(2)(b) (according to Schedule VIII) plus, to the extent not included, the additional costs listed in Paragraphs 10(2)(c) through (f). For a description of these costs see the Note: to verification procedure p)ii)A))

**Note to verification procedure p):** the VNM costs of p)ii) will only include the costs of acquiring the non-originating material and will be less than the costs determined in accordance with verification procedure p) i) above which include originating costs.

q) Did the heavy duty automotive goods producer acquire and use in the production of the good, a non-originating listed material, produced in the territory of a NAFTA country (Paragraph 10(1)(b))? -If no, proceed to verification procedure r). If yes, continue with this verification procedure to q) i) and q) ii) to determine the value of the non-originating listed material. (Verification procedure q)i) and q) ii) apply independently to each material meeting the description of this verification procedure )

i) Where no statement was provided by the supplier to the heavy duty goods producer, the VNM of the listed material is based on the price paid or payable

(according to Schedule VIII), plus to the extent not included, the additional costs listed in Paragraph 10(2)(c) through (f). For a description of the additional costs see the Note to Verification procedure p)ii)A):

ii) Where a statement(s) was provided to the heavy duty goods producer in accordance with q)ii)A) and/or q)ii)B) by the producer of the listed material, the VNM is the sum of the values of A) and/or B) depending on the response to A) and B) below.

Note to q)

ii): Statements provided by this verification procedure (both q) ii)A) and/or q) ii)B) are subject to the review noted in verification procedure z) of this Sub-objective.

A) Did the producer of the listed material import the non-originating materials himself? If yes continue; if no go to B).

-Did the listed material statement report VNM as the customs value of the non-originating material plus, to the extent not included, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f). (For a description of these costs see the Note: Verification procedure p)ii)A).

B) Did the producer of the listed material acquire the non-originating materials from a supplier located in the same NAFTA country?

-Did the listed material statement detail the costs incurred with respect to the transaction in which the non-originating materials were acquired from a person located in the same NAFTA country?

-Were the costs of acquiring the material in accordance with Subsection 10(2)?

Note to verification procedure g): Statements provided in accordance with verification procedures q)ii)A) and/or q)ii)B) will allow the heavy duty automotive producer to include in the VNM only the value of the non-originating materials that were used in the production in the non-originating listed material.

r) Did the heavy duty automotive goods producer use a, listed material, automotive component assembly, automotive component or sub-component that was imported from outside the territories of the NAFTA countries in the production of the good (Paragraph 10(1)(c) of the Regulations)? -If no, proceed to s). If yes, continue with verification procedures r) i) and r) ii) to determine the VNM. (verification procedure r)i) and r) ii) apply independently to each material meeting the description of this verification procedure).

i) Was the listed material, automotive component assembly, automotive component, or sub-component, imported by the producer? If yes continue, if no go to ii) below;

--VNM is the customs value of the material plus, to the extent not included in the customs value, the additional costs listed in Paragraph 10(2)(c) to 10(2)(f). For a description of these costs see the Note: to verification procedure p)ii)A)

ii) Was the listed material, automotive component assembly, automotive component or sub-component not imported by the producer?

--VNM is the cost determined in accordance with Subsection 10(2) of the NAFTA Regulations with respect to the transaction in which the heavy duty automotive goods producer acquired the imported material from outside the territories of the NAFTA countries from the supplier.

s) Did the heavy duty automotive goods producer acquire and use an originating

automotive component assembly, automotive component, or sub-component any of which contained a non-originating material, that was used by the producer in the production of the good (Paragraph 10(1)(d))? If no, proceed to t), the next verification procedure . If yes, continue with verification procedures s)i), s)ii), s)iii), and s)iv), to determine the value of the non-originating material.

(Verification procedure s)i), s)ii), and s)iii) apply independently to each material meeting the description of this verification procedure.)

i) Does the producer of the good have a statement signed by the person from whom the originating material was acquired that states the sum of the values determined (under Paragraphs 10(1)(a), (b), (c), and (e)) by the producer of the originating material for each non-originating material referred to in A) through D) as follows, that is/are incorporated into that originating material? If yes, VNM is the sum of:

A) the value of each non-originating listed material (self-produced or acquired and produced in a NAFTA country) used in the production of the originating material determined under the Subparagraphs and Clauses of the Regulations, Subparagraphs 10(1)(a) and 10(1)(b). Refer to verification procedures p) and q)

B) The value of each non-originating material (which is a listed material, automotive component assembly, automotive component, or sub-component that is imported from outside the territories of the NAFTA countries) incorporated into the originating material (automotive component assembly, automotive component, or sub-component) determined under the Subparagraphs of Paragraph 10(1)(c) of the NAFTA Regulations.

C) The value of each non-originating listed material used in production of a material referred to in Paragraph 10(1)(e) (i.e. non-originating automotive component assembly, automotive component, or sub-component produced in the NAFTA territory that is acquired by the producer) that is used in the production of the originating material determined under the Subparagraphs and Clauses of Paragraph 10(1)(a) and (b) of the NAFTA Regulations. Refer to verification procedures p) and q)

D) Where the value of the non-originating listed material referred to in C) of this verification procedure and used in the production of a non-originating automotive component assembly, automotive component or sub-component that is used in the production of the originating material, is not included in C), the value of that automotive component assembly, automotive component or sub-component, is determined under Subsection 10(1)(e)ii) (i.e. Subsection 10(2) with respect to the transaction in which the producer acquired the material). Note to verification procedure s) i): A statement provided by this verification procedure is subject to the review noted in verification procedure z) ,

ii) If the material is subject to a Regional Value Content requirement and the producer has a statement, signed by the person from whom the producer acquired that material, that states the regional value content requirement of the material, the VNM shall be; An amount equal to the number resulting from applying the following formula:

## **VM x (1 - RVC)**

Where:

VM is the value of the acquired material, determined in accordance with Subsection 10(2), with respect to the transaction in which the producer of the good acquired the material, and RVC is the regional value-content requirement for the acquired material, expressed as a decimal.

Note to verification procedure s)ii): Statements provided by these verification procedures are subject to the review noted in verification procedure y).

iii) If the producer has none of the statements described in verification procedures s)i), s)ii), and s)iii), the VNM is the value of that automotive component assembly, automotive component, or sub-component, is determined in accordance with Subsection 10(2) of the NAFTA Regulations with respect to the transaction in which the producer acquired the material.

t) Did the heavy duty automotive goods producer acquire and use in the production of the good, a non-originating automotive component assembly, automotive component or sub-component produced in the territory of a NAFTA country (Paragraph 10(1)(e))? -If no, proceed to verification procedure u). If yes, continue with verification procedures t)i), and t)ii) to determine the VNM. (Note: verification procedure t)i), and t)ii) apply independently to each material meeting the description of this verification procedure.

i) Does the producer of the good have a statement signed by the person from whom the non-originating material was acquired, that states the sum of the values of non-originating materials incorporated into that non-originating material, determined by the producer of the non-originating material in accordance with Paragraphs 10(1)(a), (b), (c), (d), and (f). This procedure is subject to verification procedure z) of this Sub-objective.

Note to verification procedure t)i): A statement provided by this verification procedure is subject to the review noted in verification procedure z) of this Sub-objective.

ii) If the producer does not have a statement described above, the value of the non-originating automotive component assembly, automotive component, or sub-component, should be determined in accordance with Subsection 10(2) with respect to the transaction in which the producer acquired the material;

u) Where the heavy duty automotive goods producer used a non-originating material in the production of a good not referred to in Paragraphs (10)(1)(a), (b), (c), or (e), of the NAFTA Regulations (i.e. did the goods producer use a non-originating material other than a non-originating listed material; automotive component assembly; automotive component; or sub-component) in the production of the good (Paragraph 10(1)(f) -Continue with verification procedures u)i), and u)ii), to determine the value of the non-originating material that is used by the producer in the production of the good, (verification procedures u)i) and u)ii) apply independently to each material meeting the description of this verification procedure).

i) where the non-originating material is imported by the producer of the good the value is;

-The customs value of that non-originating material plus, to the extent not

included in the customs value, the costs referred to in Paragraphs 10(2)(c) to 10(2)(f). For a description of these costs see the Note: to verification procedure p) ii) A)

ii) where the non-originating material is not imported by the producer of the good i.e. (acquired by the goods producer from a supplier) the value is:

--The value of that non-originating material in accordance with Subsection 10(2) with respect to the transaction in which the producer acquired the material.

Note to verification procedure u): This verification procedure covers all non-originating materials other than a listed material; automotive component assembly; automotive component; or sub-component .Thus automotive goods including by not limited to hoses, gaskets, metal stampings, and extruded plastics: 1) not produced in a NAFTA country; or 2) produced in a NAFTA country but failing to meet the Rules of Origin; will not originate and should be included in the VNM of the automotive good.

v) Determine whether all costs incurred in transporting materials have been identified and correctly reported (i.e. freight, insurance, packing, etc.).

i) Test the method used by the company when identifying these costs, by selecting a sample of transactions involving purchases of material from the territory of the NAFTA countries and those from outside the territory of the NAFTA countries.

ii) Identify any assumptions made by the company. Test these assumptions to ensure that they are valid (i.e. if the company is using a standard cost system ensure that they follow the correct procedures for updating or revising the standard cost values).

iii) Prepare adjustments as required as a results of this testing. (keeping in mind materiality and risk)

w) Determine whether duty, taxes and brokerage fees with respect to the purchase and importation of materials have been identified and correctly reported, making adjustments as required. (keeping in mind materiality and risk)

x) Ensure that the total VNM is adjusted for any variances that affect individual values of non-originating materials.

### **11.5 Review of the Supplier VNM Statements:**

y) During the verification of origin of a heavy duty automotive good where the producer has a supplier statement in accordance with s)ii) which states the acquired material (if an automotive component assembly; automotive component; or sub-component referred to in the statement) is an originating material, and during the course of an origin verification of the heavy duty automotive good the acquired material is found not to be an originating material, the VNM of the heavy duty automotive good with respect to the acquired material shall be determined in accordance with Subsection 10(2) of the NAFTA regulations with respect to the transaction in which the producer acquired it.

z) Where any person has information with regard to statements covering: 1) a non-originating material that is acquired and incorporated into a non-originating

listed material referred to in verification procedure q) ii) of this verification procedure; 2) non-originating materials incorporated into an originating automotive component assembly; automotive component; or sub-component referred to in verification procedure s) i) of this verification procedure; and 3) non-originating material incorporated into a non-originating automotive component assembly, automotive component; or sub-component referred to in verification procedure t) i) of this verification procedure; and does not allow the customs administration to verify the information during a verification of origin, the VNM shall be determined in accordance with Subsection 10(2) of the NAFTA regulations with respect to the transaction in which the producer acquired it.

### **11.6 Comparing the Verified VNM With the Producers Figures**

aa) Sum the values of the non-originating materials determined in verification procedure p) through u) subtracting any adjustments as a result of verification procedure y), z), or other reductions., Compare the results of the sample to the VNM initially determined by the heavy duty automotive goods producer for the sample.

bb) Explain any discrepancies between the audit derived figure and the figure initially reported by the heavy duty goods producer

cc) Reconcile the materials making up the VNM determined as a result of this Sub-objective with the producers list of non-originating items; reconcile the VNM to the list of materials. Note any excess (unreconciled) non-originating materials in the VNM or on the list of materials.

## **12 RVC- VALUE OF COSTS OTHER THAN MATERIALS**

### **VERIFICATION SUB-OBJECTIVE**

To verify that the Regional Value Content (RVC) requirement with respect to costs other than materials (labor, overhead, excluded costs, and other costs), as required by the NAFTA Rules of Origin Regulations, has been met where the Net Cost Method has been used.

### **VERIFICATION PROCEDURES**

a) Trace the details of the net costs reported with the RVC information to the exporter/producer's working schedules of cost. Trace these working schedules to the books and records.

b) Identify the potential for Excluded Costs including: sales promotion, marketing and after-sales service costs; royalty; shipping and packing costs; and non-allowable interest costs; being included in the net cost of the good. Consider whether these costs are attributable to the good, or to qualifying intermediate materials.

c) Ensure that period costs, product costs, and other costs incurred in the territory of one or more of the Parties are included in the net cost figure by scanning the detail in support of the net cost values reported in the RVC

information. Ensure that the net cost does not include:

- i) corporate or personal taxes on income;
  - ii) capital gains taxes, dividends, or other accounts that should be classified as assets or reductions to income accounts;
  - iii) profits that are earned by the producer of the good, regardless of whether they are retained or paid out to other persons as dividends;
  - iv) gains related to currency conversion that are related to the production of the good. Losses are included in the net cost.
  - v) costs of a service provided by a producer of a good to another person where the service is not related to the good;
  - vi) gains or losses resulting from the disposition of a discontinued operation;
  - vii) Cumulative effect of accounting changes reported in accordance with a specific requirement of the applicable Generally Accepted Accounting Principles;
  - viii) gains or losses resulting from the sale of a capital asset of the producer.
- d) Review the amounts of labor and overhead included in the RVC calculation. Trace the labor, overhead and general and administrative costs included in the RVC calculation to supporting documentation for the good under review. Ensure none of the costs include excluded costs.
- e) Obtain copies of agreements related to sales promotions and marketing. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation.
- f) Obtain copies of contracts related to shipping and packing costs. Review the terms of the contracts and ensure that they were properly taken into account in the net cost calculation.
- g) Refer to 7. BILL OF MATERIALS verification sub-program to identify any materials considered to be packing materials and containers for shipment purposes. Ensure that the value for packing materials is not included in the calculation of the net cost of the good.
- h) Obtain copies of royalty agreements, technical assistance agreements, and other similar documents. Review the terms of the agreements and ensure that they were properly taken into account in the net cost calculation. Not included as an Excluded Cost are payments under technical assistance agreements or similar agreements that can be related to specific services such as personnel training, engineering, tooling, etc.,
- i) Obtain copies of loan agreements. Review the terms of these agreements, particularly the interest rates charged and ensure that any non-allowable interest costs have been properly taken into account in the net cost calculation.
- j) Review the chart of accounts and trial balance to identify accounts which appear to be included costs but that the company has ignored in the net cost calculation. List these accounts for further testing to supporting documentation and discussion with company personnel.
- k) When the heavy-duty automotive goods are motor vehicles which are produced in a new plant , obtain the value of machinery from 2. RVC REQUIREMENTS FOR HEAVY-DUTY AUTOMOTIVE GOODS sub-program.
- n) Prepare a working paper to adjust the net cost figure on the RVC information for any excluded costs, or not allowable costs not deducted by the



exporter/producer. (Remember that excluded costs attributable to qualifying intermediate materials remain in the calculation of net cost of the good)

o) Conclude on the verification sub-objective.

### **13. ACCUMULATION**

#### **VERIFICATION SUB-OBJECTIVE**

To ensure that the exporter/producer that chose to accumulate the production of one (or more) of his suppliers did so in accordance with Section 14 of the NAFTA Rules of Origin Regulations.

#### **General**

For purposes of determining whether a good is an originating good, an exporter or producer of a good may choose to accumulate the production of one or more producers, in the territory of one or more of the NAFTA countries, of materials that are incorporated into that good so that the production of the materials shall be considered to have been performed by that exporter or producer, provided that:

- all non-originating materials used in the production of the good undergo an applicable tariff classification change and the good satisfies any applicable RVC requirement, entirely in the territory of one or more of the Parties; and
- the good satisfies all other rules of origin requirements.

#### **Requirements**

- In order to accumulate the production of a materials,
  - i) where the good is subject to an RVC requirement, the producer of the good must have a certification as described below that is signed by the producer of the material, and
  - ii) where an applicable change in tariff classification is applied to determine whether the good is an originating good the producer of the good must have a statement signed by the producer of the material that states the tariff classification of all non-originating materials used by that producer in the production of that material and that the production of the material took place entirely in the territory of one or more of the NAFTA countries.
- 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;
- any information contained in the certification that concerns the value of materials or costs shall be in the same currency as the currency of the country in which the person who provided the statement is located.

#### **Statement Needed**

#### Non-Averaging of costs from accumulated production

Where a good is subject to a RVC requirement and an exporter or producer of the good has a statement signed by a producer of a material that is used in the production of the good that:

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

i) the net costs incurred by the producer of the good with respect to the material shall be the net costs incurred by the producer of the material plus, where not included in the net cost incurred by the producer of the material the costs referred to in paragraphs 7(1)(c) through (e) of the Regulations (i.e., freight, insurance, packing, transport to location of producer, duties and taxes, customs brokerage fees); and

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

or

b) states 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 costs incurred by the producer of the good with respect to the material shall be the value of the material determined in accordance with subsection 7(1) of the Regulations (this is covered in 14. VALUE OF MATERIALS sub-program), and

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

#### Averaging of costs from accumulated production

Where an exporter or producer of a good does not have a statement as provided in (a) or (b) above, but does have a statement signed by a producer of the material that is used in the production of the good that

c) states that 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 shall be the sum of the net costs incurred by the producer of the material with respect to that material and d the identical materials or similar materials, divided by the number of units of materials with respect to which the statement is made, plus, where not included i the net costs incurred by the producer of the material, the costs referred to in paragraphs 7(1)(c) through (e) of the Regulations, and

ii) the value of non-originating materials used by the producer of the good with respect to the material shall 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 material with respect to which the statement is made;

or

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

### **VERIFICATION PROCEDURES**

- a) Determine that only the net cost method has been used to calculate the RVC requirement where the producer has chosen to use accumulation.
- b) Review the information received from the producer, that has accumulated the production, to ensure that it is mathematically correct and ensure that it has been correctly included in the RVC calculation.
- c) Evaluate the quality of the certifications and ensure that they contain all of the required information as stated above.
- d) Ensure that the profit component of the material being accumulated is not included in the net cost information by examining the supplier information and by comparing the price paid by the producer to the cost information provided by the supplier, if possible.
- e) Use the following verification sub-programs (only the applicable verification procedures) in order to evaluate the information received: 8. TARIFF CLASSIFICATION; 9. SOURCE OF MATERIALS; 10. INVENTORY MANAGEMENT SYSTEM; 11. VALUE OF MATERIALS; 6. INTERMEDIATE MATERIALS DESIGNATION; 14. CALCULATION OF REGIONAL VALUE CONTENT.

NOTE: Consideration should be given to the use of supplier confirmations and visits to the supplier to verify the authenticity of the information reported to the exporter/producer.

### **14. CALCULATION OF THE RVC**

#### **VERIFICATION SUB-OBJECTIVE**

To determine whether the good satisfies the NAFTA Regional Value Content requirement.

## **VERIFICATION PROCEDURES**

- a) Obtain the value of all materials to be included in the net cost and the value of non-originating materials. See verificationsub-program 11. VALUE OF MATERIALS.
- b) Add to the value of all materials to be included in the net cost, labor, overhead, period costs, and other costs, to be included in the net cost of the good being verified. See verificationsub-program 12. RVC-COSTS OTHER THAN MATERIALS.
- c) Subtract the value of all non-originating materials from the net cost of the good.
- d) Divide the difference in verification procedure c) of this verification procedure by the net cost (determined in b) of the good.
- e) Multiply the result obtained in d) by 100.
- f) Conclude on the sub-objective.

## **15. ORIGIN OF THE GOOD**

### **VERIFICATION SUB-OBJECTIVE**

To determine which of the goods subject to verification are originating goods under the NAFTA Rules of Origin Regulations.

### **VERIFICATION PROCEDURES**

- a) Determine whether the goods subject to verification originate under the NAFTA by documenting whether the tariff classification change and/or RVC requirements in the Specific Rule of Origin have been met. Refer to the 9. SOURCE OF MATERIALS and 14. CALCULATION OF THE RVC verification sub-programs. Prepare a working paper to document which goods originate and which goods do not originate under the NAFTA.
- b) Conclude on the sub-objective.

## **16. NON-QUALIFYING OPERATIONS**

### **VERIFICATION SUB-OBJECTIVE**

To ensure that the goods do not qualify as originating only by reason of a production or pricing practice, of which the object is to circumvent the rules of origin as set out in Chapter 4 of the NAFTA. Note: A good shall not be considered to be an originating good where there is a preponderance of evidence that the object of a production or pricing practice was to circumvent the Rules of Origin. In regard to unacceptable production practices, circumvention consists of any alteration or process performed on goods for the purpose of circumventing the rule of origin requirements. For example, when the processing or assembling performed in the territory of one Party of the NAFTA is reversed or substantially altered after the goods have been imported into the territory of another Party, and such processing or assembly was not performed for any

commercial purpose other than to qualify the goods for the NAFTA tariff treatment, then this will be considered circumvention.

## **VERIFICATION PROCEDURES**

### 16.1 Non-qualifying Production/Assembly Operations

- a) During the on-site visit, interview personnel in order to understand the production/assembly operations of the entire plant(s) where the good is produced. Document any concerns with respect to possible non-qualifying production/assembly operations.
- b) Review the previously obtained bill of materials and any product literature for the good. Document any concerns with respect to non-qualifying production/assembly operations.
- c) Review verification sub-program 5 of this verification program entitled the PLANT TOUR. Identify any concerns noted during the tour with respect to non-qualifying production/assembly operations.
- d) Review documents related to transportation (consider documents obtained in the

17. TRANSSHIPMENT verification sub-program) and document any concerns with respect to the finished good being altered subsequent to importation.

- e) Prepare a written evaluation of the possible non-qualifying production/assembly operation and assess the evidence gathered.

## **VERIFICATION PROCEDURES**

### 16.2 Non-qualifying pricing practices

- f) When completing the remaining verification procedures for the goods subject to averaging, are there any practice(s) that could be construed as a pricing practice that has been implemented by the company for the purpose of circumventing the rule of origin requirements so that the exported goods can qualify as originating.
- g) Identify major adjustments made as a result of the 11. VALUE OF MATERIALS verification sub-program, and document any concerns.
- h) Review adjustments made to the purchases accounts. Identify any concerns.
- i) Prepare a written evaluation of the non-qualifying pricing practice(s) and assess the extent of the evidence gathered.

### 16.3 Conclusion on Non-Qualifying Operations

- j) Conclude on the Non-qualifying Operations Sub-objective.

## **17. TRANSSHIPMENT**

## **VERIFICATION SUB-OBJECTIVE**

To verify that the originating good, by reason of having undergone production that satisfies the requirements of section 4 of the NAFTA Rules of Origin Regulations, (1) is not withdrawn from customs control outside the territories of the NAFTA countries; and (2) does not undergo further production or any other operation outside the territories of the Parties, other than unloading, reloading, or any other operation necessary to preserve it in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur dioxide or other aqueous solutions, replacing damaged packing materials and containers and removal of units or of the goods that are spoiled or damaged and present a danger to the remaining units of the good or to transport the good to the territory of the Party.

### **VERIFICATION PROCEDURES**

- a) Obtain and review copies of the invoices, bills of lading or waybills for the goods subject to verification for a sample period. Document the shipping route and all points of shipment and transshipment prior to the importation of the good. Determine if the good was conveyed directly on a through bill of lading from the exporter to a consignee. Consider gathering information from the importer.
- b) If the good was not been shipped directly on a through bill of lading, they may be transshipped through an intermediate country, provided that:
  - i) the good remains under Customs transit control in the intermediate country; and
  - ii) the good undergoes no operations in the intermediary country other than the unloading, reloading, or operations necessary to preserve the goods in good condition such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulfur or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled, or damaged and present a danger to the remaining units of the good or any other operation necessary to transport the good to a NAFTA country. In order to substantiate the above, request documentation from the exporter and/or importer. Documents include, but shall not be limited to: 1) customs receipts and release documents; 2) exporter/producer shipment/production records; 3) list of serial numbers or lot numbers of the goods; 4) temporary import and corresponding export documentation; 5) research material explaining the non-NAFTA customs operations and procedures.
- c) Determine whether the good shipped was not produced by the producer. Consider the potential for fungible goods. If fungible goods are found, refer to the 10. INVENTORY MANAGEMENT SYSTEM verification sub-program.
- d) Conclude on the verification sub-objective.

[1.](#)<sup>1</sup> CICA Handbook Section 5100.02

[2.](#)<sup>2</sup> CICA Handbook Section 5100.02

[3.](#)<sup>3</sup> CICA Handbook Section 5100.02

[4.](#)<sup>4</sup> CICA Handbook Section 5100.02

[5.](#)<sup>5</sup> CICA Handbook Section 5815.11