

## **CHAPTER FIVE RULES OF ORIGIN**

### ARTICLE 5.1: ORIGINATING GOODS

Except as otherwise provided in this Chapter or Chapter Four (Textiles and Apparel), each Party shall provide that a good is an originating good where it is imported directly from the territory of one Party into the territory of the other Party, and

- (a) it is a good wholly the growth, product, or manufacture of one or both of the Parties;
- (b) for goods other than those covered by the rules in Annex 4-A or Annex 5-A, the good is a new or different article of commerce that has been grown, produced, or manufactured in the territory of one or both of the Parties; and the sum of (i) the value of materials produced in the territory of one or both of the Parties, plus (ii) the direct costs of processing operations performed in the territory of one or both of the Parties is not less than 35 percent of the appraised value of the good at the time it is imported into the territory of a Party; or
- (c) for goods covered by the rules in Annex 4-A or Annex 5-A, the good has satisfied the requirements specified in that Annex.

### ARTICLE 5.2: NEW OR DIFFERENT ARTICLE OF COMMERCE

For purposes of this Chapter, **new or different article of commerce** means a good that has been substantially transformed from a good or material that is not wholly the growth, product, or manufacture of one or both of the Parties and that has a new name, character, or use distinct from the good or material from which it was transformed.

### ARTICLE 5.3: NON-QUALIFYING OPERATIONS

Each Party shall provide that, for purposes of Article 5.1, no good shall be considered a new or different article of commerce by virtue of having merely undergone (a) simple combining or packaging operations or (b) mere dilution with water or with another substance that does not materially alter the characteristics of the good.

#### ARTICLE 5.4: CUMULATION

1. Each Party shall provide that direct costs of processing operations performed in one or both of the Parties as well as the value of materials produced in the territory of one or both of the Parties may be counted without limitation toward satisfying the 35 percent value-content requirement specified in Article 5.1(b).
2. Each Party shall provide that an originating good or a material produced in the territory of one or both of the Parties, incorporated into a good in the territory of the other Party, shall be considered to originate in the other Party.
3. Each Party shall provide that a good grown, produced, or manufactured in the territory of one or both of the Parties by one or more producers shall be an originating good, provided that it satisfies the requirements of Article 5.1 and all other applicable requirements in this Chapter and Chapter Four (Textiles and Apparel).

#### ARTICLE 5.5: VALUE OF MATERIALS

1. For purposes of this Chapter, each Party shall provide that the value of a material produced in the territory of one or both of the Parties includes:
  - (a) the price actually paid or payable by the producer of the good for the material;
  - (b) when not included in the price actually paid or payable by the producer of the good for the material, the freight, insurance, packing, and all other costs incurred in transporting the material to the producer's plant;
  - (c) the cost of waste or spoilage, less the value of recoverable scrap; and
  - (d) taxes or customs duties imposed on the material by one or both of the Parties, provided the taxes or customs duties are not remitted on exportation.
2. Each Party shall provide that where the relationship between the producer of the good and the seller of the material influenced the price actually paid or payable for the material, or where paragraph 1 is otherwise not applicable, the value of the material produced in the territory of one or both of the Parties includes:

- (a) all expenses incurred in the growth, production, or manufacture of the material, including general expenses;
- (b) a reasonable amount for profit; and
- (c) freight, insurance, packing, and all other costs incurred in transporting the material to the producer's plant.

#### ARTICLE 5.6: DIRECT COSTS OF PROCESSING OPERATIONS

1. For purposes of this Chapter, **direct costs of processing operations** means those costs either directly incurred in, or that can be reasonably allocated to, the growth, production, or manufacture of the good. Such costs include the following, to the extent that they are includable in the appraised value of goods imported into the territory of a Party:

- (a) all actual labor costs involved in the growth, production, or manufacture of the specific good, including fringe benefits, on-the-job training, and the costs of engineering, supervisory, quality control, and similar personnel;
- (b) tools, dies, molds, and other indirect materials, and depreciation on machinery and equipment that are allocable to the specific good;
- (c) research, development, design, engineering, and blueprint costs, to the extent that they are allocable to the specific good;
- (d) costs of inspecting and testing the specific good; and
- (e) costs of packaging the specific good for export to the territory of the other Party.

2. For greater certainty, costs that are not included as direct costs of processing operations are those that are not directly attributable to the good or are not costs of growth, production, or manufacture of the good. These include:

- (a) profit; and

- (b) general expenses of doing business that are either not allocable to the good or are not related to the growth, production, or manufacture of the good, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions, or expenses.

ARTICLE 5.7: PACKAGING AND PACKING MATERIALS AND CONTAINERS FOR RETAIL SALE AND FOR SHIPMENT

Each Party shall provide that packaging and packing materials and containers for retail sale and for shipment shall be disregarded in determining whether the good qualifies as an originating good, except to the extent that the value of such packaging and packing materials and containers may be counted toward satisfying the 35 percent value-content requirement specified in Article 5.1(b), where applicable.

ARTICLE 5.8: INDIRECT MATERIALS

Each Party shall provide that indirect materials shall be disregarded in determining whether the good qualifies as an originating good, except that the cost of such indirect materials may be counted toward satisfying the 35 percent value-content requirement where applicable.

ARTICLE 5.9: TRANSIT AND TRANSSHIPMENT

For purposes of this Chapter, each Party shall provide that a good shall not be considered to be imported directly from the territory of the other Party if the good undergoes subsequent production, manufacturing, 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 or to transport the good to the territory of the other Party.

ARTICLE 5.10: IMPORTER REQUIREMENTS

Each Party shall provide that whenever an importer makes a claim for preferential tariff treatment for a good, the importer:

- (a) shall be deemed to have certified that the good qualifies for preferential tariff treatment; and
- (b) shall submit to the customs authority of the importing Party, on request, a

signed declaration setting forth all pertinent information concerning the growth, production, or manufacture of the good. Each Party may require that the declaration contain at least the following details:

- (i) a description of the good, quantity, numbers, and invoice numbers and bills of lading;
- (ii) a description of the operations performed in the growth, production, or manufacture of the good in the territory of one or both of the Parties and, where applicable, identification of the direct costs of processing operations;
- (iii) a description of any materials used in the growth, production, or manufacture of the good that are wholly the growth, product, or manufacture of one or both of the Parties, and a statement as to the value of such materials;
- (iv) a description of the operations performed on, and a statement as to the origin and value of, any materials used in the good that are claimed to have been sufficiently processed in the territory of one or both of the Parties so as to be materials produced in the territory of one or both of the Parties, or are claimed to have undergone an applicable change in tariff classification specified in Annex 4-A or Annex 5-A; and
- (v) a description of the origin and value of any foreign materials used in the good that are not claimed to have been substantially transformed in the territory of one or both of the Parties, or are not claimed to have undergone an applicable change in tariff classification specified in Annex 4-A or Annex 5-A.

The importing Party should request a declaration only when that Party has reason to question the accuracy of a deemed certification referred to in subparagraph (a), when that Party's risk assessment procedures indicate that verification of an entry is appropriate, or when the Party conducts a random verification. The importer shall retain the information necessary to prepare the declaration for five years from the date of importation of the good.

#### ARTICLE 5.11: OBLIGATIONS RELATING TO IMPORTATION

1. Each Party shall grant any claim for preferential tariff treatment, unless the Party possesses information indicating that the importer's claim fails to comply with any requirement under this Chapter or Chapter Four (Textiles and Apparel).
2. To determine whether a good imported into its territory qualifies for preferential tariff treatment, the importing Party may, through its customs authority, verify the origin.
3. Where a Party denies a claim for preferential tariff treatment, it shall issue a written determination containing findings of fact and the legal basis for its determination. The Party shall issue the determination within a period established under its law.
4. Nothing in this Article shall prevent a Party from taking action under Article 4.4 (Customs and Administrative Cooperation).

#### ARTICLE 5.12: CONSULTATIONS AND MODIFICATIONS

1. The Parties shall consult and cooperate to ensure that this Chapter is applied in an effective and uniform manner, in accordance with the objectives of this Agreement.
2. The Parties may establish *ad hoc* working groups, or a subcommittee of the Joint Committee established pursuant to Article 19.2 (Joint Committee), to consider any matter related to this Chapter (including Annex 5-A). On request of a Party, the Parties may direct a working group or subcommittee to review operation of this Chapter (including Annex 5-A) and develop recommendations for amending them in the light of pertinent developments, including changes in technology and production processes, and other relevant factors.

#### ARTICLE 5.13: REGIONAL CUMULATION

At a time to be determined by the Parties, and in the light of their desire to promote regional integration, the Parties shall enter into discussions with a view to deciding the extent to which materials that are products of countries in the region may be counted for purposes of satisfying the origin requirement under this Agreement as a step toward achieving regional integration.

ARTICLE 5.14: DEFINITIONS

For purposes of this Chapter:

**foreign material** means a material other than a material produced in the territory of one or more of the Parties;

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

**goods wholly the growth, product, or manufacture of one or both of the Parties** means goods consisting entirely of one or more of the following:

- (a) mineral goods extracted in the territory of one or both of the Parties;
- (b) vegetable goods, as such goods are defined in the Harmonized System, harvested in the territory of one or both of the Parties;
- (c) live animals born and raised in the territory of one or both of the Parties;
- (d) goods obtained from live animals raised in the territory of one or both of the Parties;
- (e) goods obtained from hunting, trapping, or fishing in the territory of one or both of the Parties;
- (f) goods (fish, shellfish, and other marine life) taken from the sea by vessels registered or recorded with a Party and flying its flag;
- (g) goods produced on board factory ships from the goods referred to in subparagraph (f) provided such factory ships are registered or recorded with that Party and fly its flag;
- (h) goods taken by a Party or a person of a Party from the seabed or beneath the seabed outside territorial waters, provided that a Party has rights to exploit such seabed;
- (i) goods taken from outer space, provided they are obtained by a Party or a person of a Party and not processed in the territory of a non-Party;

- (j) waste and scrap derived from:
  - (i) production or manufacture in the territory of one or both of the Parties, or
  - (ii) used goods collected in the territory of one or both of the Parties, provided such goods are fit only for the recovery of raw materials;
- (k) recovered goods derived in the territory of a Party from used goods and utilized in the Party's territory in the production of remanufactured goods; and
- (l) goods produced in the territory of one or both of the Parties exclusively from goods referred to in subparagraphs (a) through (j), or from their derivatives, at any stage of production;

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

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



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

**material** means a good, including a part or ingredient, that is used in the growth, production, or manufacture of another good that is a new or different article of commerce that has been grown, produced, or manufactured in one or both of the Parties;

**material produced in the territory of one or both of the Parties** means a good that is either wholly the growth, product, or manufacture of one or both of the Parties, or a new or different article of commerce that has been grown, produced, or manufactured in the territory of one or both of the Parties;

**recovered goods** means materials in the form of individual parts that are the result of: (1) the complete disassembly of used goods into individual parts; and (2) the cleaning, inspecting, testing, or other processing of those parts as necessary for improvement to sound working condition;

**remanufactured goods** means industrial goods assembled in the territory of a Party that: (1) are entirely or partially comprised of recovered goods; (2) have similar life expectancies and meet similar performance standards as new goods; and (3) enjoy similar factory warranties as new goods;

**simple combining or packaging operations** means operations such as adding batteries to electronic devices, fitting together a small number of components by bolting, gluing, or soldering, or packing or repacking components together; and

**substantially transformed** means, with respect to a good or material, changed as the result of a manufacturing or processing operation where: (1) the good or material has multiple uses and is converted into a good or material with limited uses; (2) the physical properties of the good or material are changed to a significant extent; or (3) the operation undergone by the good or material is complex in terms of the number of processes and materials involved, as well as the time and level of skill required to perform these processes; and the good or material loses its separate identity in the resulting, new good or material.

**ANNEX 5-A**  
**CERTAIN PRODUCT-SPECIFIC RULES OF ORIGIN**

**Section A: Interpretative Notes**

1. For goods covered in this Annex, a good is an originating good if:
  - (a) each of the non-originating materials used in the production of the good undergoes an applicable change in tariff classification specified in this Annex as a result of production occurring entirely in the territory of one or both of the Parties, or the good otherwise satisfies the applicable requirements of this Annex where a change in tariff classification for each non-originating material is not specified; and
  - (b) the good satisfies any other applicable requirements of this Chapter.
  
2. For purposes of interpreting the rules of origin set out in this Annex:
  - (a) the specific rule, or specific set of rules, that applies to a particular heading or subheading is set out immediately adjacent to the heading or subheading;
  - (b) a rule applicable to a subheading shall take precedence over a rule applicable to the heading which is parent to that subheading;
  - (c) a requirement of a change in tariff classification applies only to non-originating materials; and
  - (d) the following definitions apply:

**chapter** means a chapter of the Harmonized System;

**heading** means the first four digits in the tariff classification number under the Harmonized System; and

**subheading** means the first six digits in the tariff classification number under the Harmonized System.

## **Section B: Specific Rules**

ANNEX NOTE: A good containing over 10 percent by weight of cow's milk solids classified under chapter 4 or heading 1901, 2105, 2106, or 2202 must be made from originating cow's milk. Use of non-originating sheep's or goat's milk in a good classified under Chapter 4 or heading 1901, 2105, 2106, or 2202 shall not render the good non-originating.

### **Section I**

#### **Vegetable Products (Chapter 6-14)**

NOTE: An agricultural or horticultural good grown in the territory of a Party shall be treated as an originating good even if grown from a non-originating seed, bulb, rootstock, cutting, slip, graft, shoot, bud or other live part of a plant.

#### **Chapter 6 - Live Trees and Other Plants; Bulbs, Roots and the Like; Cut Flowers and Ornamental Foliage**

0602-0603 A change to heading 0602 through 0603 from any other chapter.

#### **Chapter 7 - Edible Vegetables and Certain Roots and Tubers**

0710-0713 A change to heading 0710 through 0713 from any other chapter.

#### **Chapter 8 - Edible Fruit and Nuts; Peel or Citrus Fruit or Melons**

0811-0814 A change to heading 0811 through 0814 from any other chapter.

#### **Chapter 9 - Coffee, Tea, Mate and Spices**

0901.21-0901.22 A change to subheading 0901.21 through 0901.22 from any other chapter.

0902.10 A change to subheading 0902.10 from any other subheading.

0904.20 A change to subheading 0904.20 from any other chapter except from chapter 7.

0910.20 A change to subheading 0910.20 from any other chapter.

**Chapter 12 - Oilseeds and Oleaginous Fruits; Miscellaneous Grains, Seeds, and Fruits; Industrial or Medicinal Plants; Straw and Fodder**

1212.10 A change to a good of subheading 1212.10 from any other subheading or from carob or seed of carob of subheading 1212.10.

**Chapter 13 - Lac; Gums; Resins and Other Vegetable Saps and Extracts**

1302.32 A change to goods of subheading 1302.32 from any other subheading or from mucilage, not modified, of subheading 1302.32.

**Section II**

**Prepared Foodstuffs; Beverages, Spirits and Vinegar; Tobacco and Manufactured Tobacco Substitutes (Chapter 16-24)**

**Chapter 20 - Preparations of Vegetables, Fruits, Nuts or other Parts of Plants**

2001 A change to heading 2001 from any other chapter except from chapter 7 or 8.

2002 A change to heading 2002 from any other heading except from chapter 7.

2003 A change to heading 2003 from any other chapter except from chapter 7.

2004 A change to heading 2004 from any other chapter except from chapter 7.

2005 A change to heading 2005 from any other chapter except from chapter 7.

2006 A change to heading 2006 from any other chapter except from chapter 7 or 8.

2007 A change to heading 2007 from any other chapter except from chapter 7 or 8.

2008 A change to heading 2008 from any other chapter except from chapter 8.

- 2009.11-2009.39 A change to subheading 2009.11 through 2009.39 from any other chapter except from heading 0805.
- 2009.41-2009.80 A change to subheading 2009.41 through 2009.80 from any other chapter or from concentrated juice of grapes, apples, pears, bananas, guavas, mangoes, or carrots of heading 2009.
- 2009.90 A change to subheading 2009.90 from any other chapter; or a change to subheading 2009.90 from any other subheading within Chapter 20, whether or not there is also a change from any other chapter, provided that a single juice ingredient, or juice ingredients from a single non-Party, constitute in single strength form no more than 60 percent by volume of the good.

#### **Chapter 21 - Miscellaneous Edible Preparations**

- 2106.90 A change to concentrated juice of any single fruit or vegetable fortified with vitamins or minerals of subheading 2106.90 from any other chapter or from juice of grapes, apples, pears, bananas, guavas, mangoes and carrots of heading 2009, except from heading 0805, subheading 2009.11 through 2009.39, or subheading 2002.90.

#### **Chapter 22 - Beverages, Spirits and Vinegar**

- 2204.10-2204.30 A change to subheading 2204.10 through 2204.30 from any other chapter.

### **Section III**

#### **Plastics and Articles Thereof; Rubber and Articles Thereof (Chapter 39-40)**

##### **Chapter 39 - Plastics and Articles Thereof**

- 3919.10-3919.90 A change to subheading 3919.10 through 3919.90 from any other subheading outside that group.

### **Section IV**

#### **Base Metals and Articles of Base Metal (Chapter 72-83)**

##### **Chapter 72 - Iron and Steel**

- 7209 A change to heading 7209 from any other heading
- 7210 A change to heading 7210 from any other heading.
- 7211 A change to heading 7211 from any other heading.
- 7212 A change to heading 7212 from any other heading.

#### **Section V**

#### **Machinery and Mechanical Appliances; Electrical Equipment; Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, and Parts and Accessories of Such Articles (Chapter 84-85)**

#### **Chapter 85 - Electrical Machinery and Equipment and Parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles**

- 8544.30 A change to an ignition wiring set or other wiring set of 8544.30, of a kind used in vehicles, from any other subheading, or from a good within that subheading, provided that assembly of the wiring set involves at least each of the following operations:
- (a) assembly of at least 10 separate parts;
  - (b) cutting of wire into different lengths to create wire sub-assemblies;
  - (c) stripping of the sheathing of wire;
  - (d) inserting connectors to the ends of wire sub-assemblies;
  - (e) attaching wire sub-assemblies to cable; and
  - (f) 100 percent testing of wiring sets and other quality control operations and packaging and labeling of finished product.

8544.11-8544.20 &  
8544.41-8544.70

A change to subheadings 8544.11-8544.20 and subheadings 8544.41-8544.70 from any other subheading, including a subheading within that group, provided that the value of materials produced and direct costs of processing operations performed in the territory of one or both of the Parties is not less than 35 percent of the appraised value of the good at the time it is entered into the territory of a Party.

## **Section VI**

### **Vehicles, Aircraft, Vessels and Associated Transport Equipment (Chapter 86-89)**

#### **Chapter 87 - Vehicles Other than Railway or Tramway Rolling-Stock and Parts and Accessories thereof**

8707 A change to heading 8707 from any other heading.

8708.91 A change to subheading 8708.91 from any other subheading.

8708.93 A change to subheading 8708.93 from any other subheading.

8708.94 A change to subheading 8708.94 from any other subheading.

8708.99 A change to subheading 8708.99 from any other subheading.

8716.31/39/40 A change to subheading 871631/39/40 from any other subheading.

8716.90 A change to subheading 8716.90 from any other subheading.