Annex IV.5

Inventory Management Methods

Section I: **Fungible Materials**

Subsection 1: **Definitions and Interpretation**

For purposes of this Section:

average method means the method by which the origin of fungible materials withdrawn from materials inventory is based on the ratio, calculated under Section 4, of originating materials and non-originating materials in materials inventory;

FIFO method means the method by which the origin of fungible materials first received in materials inventory is considered to be the origin of fungible materials first withdrawn from materials inventory;

LIFO method means the method by which the origin of fungible materials last received in materials inventory is considered to be the origin of fungible materials first withdrawn from materials inventory;

materials inventory means:

(a) with respect to a producer of a good, an inventory of fungible materials that are used in the production of the good; and

(b) with respect to a person from whom the producer of the good acquired such fungible materials, an inventory from which fungible materials are sold or otherwise transferred to the producer of the good;

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

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

Subsection 2: **General**

1. The inventory management methods for determining whether fungible materials referred to in Article IV.5(a) are originating materials are the following:

(a) specific identification method;

(b) FIFO method;

(c) LIFO method; and

(d) average method;

2. Where a producer of a good or a person from whom the producer acquired the materials that are used in the production of the good chooses an inventory management method referred to in paragraph 1, that method, including the averaging period chosen in the case of the averaging method, shall be used from the time the choice is made until the end of the fiscal year of the producer or person.

Subsection 3: Specific Identification Method

1. Except as otherwise provided under paragraph 2, where the producer or person referred to in Subsection 2.2 chooses the specific identification method, the producer or person shall physically segregate, in materials inventory, originating materials that are fungible materials from non-originating materials that are fungible materials.

2. Where originating materials or non-originating materials that are fungible materials are marked with an origin identifier, the producer or person need not physically segregate those materials under paragraph 1 if the origin identifier remains visible throughout the production of the good.

Subsection 4: Average Method

1. Where the producer or person referred to in Subsection 2.2 chooses the average method, the origin of fungible materials withdrawn from materials inventory is determined on the basis of the ratio of originating materials and non-originating materials in materials inventory that is calculated under paragraphs 2 and 3.

2. The ratio is calculated with respect to a one-month or three-month period, at the choice of the producer or person, by dividing:

(a) the sum of:

(i) the total units of originating materials or non-originating materials that are fungible materials and that were in materials inventory at the beginning of the preceding one-month or three-month period; and

(ii) the total units of originating materials or non-originating materials that are fungible materials and that were received in materials inventory during that preceding one-month or three-month period;

by:

(b) the sum of:

(i) the total units of originating materials and non-originating materials that are fungible materials and that were in materials inventory at the beginning of the preceding one-month or three-month period; and

(ii) the total units of originating materials and non-originating materials that are fungible materials and that were received in materials inventory during that preceding one-month or three-month period.

3. The ratio calculated with respect to a preceding one-month or three-month period under paragraph 2 is applied to the fungible materials remaining in materials inventory at the end of the preceding one-month or three-month period.

4. Where the good is subject to a regional value-content requirement and the regional value content of that good is calculated under the transaction value method or the net cost method, the ratio is calculated with respect to each shipment of the good by dividing:

(a) the total units of originating materials or non-originating materials that are fungible materials and that were in materials inventory prior to the shipment;

by:

(b) the total units of originating materials and non-originating materials that are fungible materials and that were in materials inventory prior to the shipment.

5. The ratio calculated with respect to a shipment of a good under paragraph 4 is applied to the fungible materials remaining in materials inventory after the shipment.

Subsection 5: Manner of Dealing with Opening Inventory

1. Except as otherwise provided under paragraphs 2 and 3, where the producer or person referred to in Subsection 2.2 has fungible materials in opening inventory, the origin of those fungible materials is determined by:

(a) identifying, in the books of the producer or person, the latest receipts of fungible materials that add up to the amount of fungible materials in opening inventory;

(b) determining the origin of the fungible materials that make up those receipts; and

(c) considering the origin of those fungible materials to be the origin of the fungible materials in opening inventory.

2. Where the producer or person chooses the specific identification method and has, in opening inventory, originating materials or non-originating materials that are fungible materials and that are marked with an origin identifier, the origin of those fungible materials is determined on the basis of the origin identifier.

3. The producer or person may consider all fungible materials in opening inventory to be non-originating materials.

Section II: Fungible Goods

Subsection 6: Definitions and Interpretation

For purposes of this Section:

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

FIFO method means the method by which the origin of fungible goods first received in finished goods inventory is considered to be the origin of fungible goods first withdrawn from finished goods inventory;

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

LIFO method means the method by which the origin of fungible goods last received in finished goods inventory is considered to be the origin of fungible goods first withdrawn from finished goods inventory;

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

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

Subsection 7: General

1. The inventory management methods for determining whether fungible goods referred to in Article IV.5(b) are originating goods are the following:

(a) specific identification method;

(b) FIFO method;

(c) LIFO method; and

(d) average method.

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

Subsection 8: Specific Identification Method

1. Except as provided under paragraph 2, where the exporter or person referred to in Subsection 7.2 chooses the specific identification method, the exporter or person shall physically segregate, in finished goods inventory, originating goods that are fungible goods from non-originating goods that are fungible goods.

2. Where originating goods or non-originating goods that are fungible goods are marked with an origin identifier, the exporter or person need not physically segregate those goods under paragraph 1 if the origin identifier is visible on the fungible goods.

Subsection 9: Average Method

1. Where the exporter or person referred to in Subsection 7.2 chooses the average method, the origin of each shipment of fungible goods withdrawn from finished goods inventory during a one-month or three-month period, at the choice of the exporter or person, is determined on the basis of the ratio of originating goods and non-originating goods in finished goods inventory for the preceding one-month or three-month period that is calculated by dividing:

(a) the sum of:

(i) the total units of originating goods or non-originating goods that are fungible goods and that were in finished goods inventory at the beginning of the preceding one-month or three-month period; and

(ii) the total units of originating or non-originating goods that are fungible goods and that were received in finished goods inventory during that preceding one-month or three-month period.

by:

(b) the sum of:

(i) the total units of originating goods and non-originating goods that are fungible goods and that were in finished goods inventory at the beginning of the preceding one-month or three-month period; and

(ii) the total units of originating goods and non-originating goods that are fungible goods and that were received in finished goods inventory during that preceding one-month or three-month period.

2. The ratio calculated with respect to a preceding month or three-month period under paragraph 1 is applied to the fungible goods remaining in finished goods inventory at the end of the preceding month or three-month period.

Subsection 10: Manner of Dealing with Opening Inventory

1. Except as otherwise provided under paragraphs 2 and 3, where the exporter or person referred to in Subsection 7.2 has fungible goods in opening inventory, the origin of those fungible goods is determined by:

   (a) identifying, in the books of the exporter or person, the latest receipts of fungible goods that add up to the amount of fungible goods in opening inventory;

   (b) determining the origin of those fungible goods that make up those receipts; and

   (c) considering the origin of those fungible goods to be the origin of the fungible goods in opening inventory.

2. Where the exporter or person chooses the specific identification method and has, in opening inventory, originating goods or non-originating goods that are fungible goods and that are marked with an origin identifier, the origin of those fungible goods is determined on the basis of the origin identifier.

3. The exporter or person may consider all fungible goods in opening inventory to be non-originating goods.