

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

CHAPTER 4 OBJECTIVES OF NAFTA AUDITS (VERIFICATIONS)

This chapter explains the overall objective for conducting a North American Free Trade Agreement (NAFTA) exporter and/or producer verification. The specific verification program objectives are also provided.

4.1 Verification Objective

The overall objective of the exporter and/or producer verification is to confirm that the product(s) certified by the exporter and/or producer qualify as originating in accordance with Chapter 4 of the NAFTA and the NAFTA Rules of Origin Regulations (the Regulations).

4.2 Objectives of the Verification Programs

Verification programs should be developed based on the verification objective stated in Section 4.1, the information gathered, and the concerns identified during the planning and preparation phase of the audit. Listed below are the specific verification program objectives subject to the verification process. Chapter 5 contains the verification programs and sub-programs which identify the recommended verification procedures to be utilized in meeting these objectives.

OBJECTIVES OF THE VERIFICATION PROGRAMS

A. NON-QUALIFYING OPERATIONS PROGRAM

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.

B. TARIFF CLASSIFICATION PROGRAM

To ensure that all non-originating materials are sufficiently transformed in the NAFTA territory so as to undergo the necessary tariff classification change as required by the Specific Rule of Origin applicable to the exported good and to ensure that the finished good and the non-originating materials used to produce it are properly classified.

REGIONAL VALUE CONTENT REQUIREMENT

C. TRANSACTION VALUE METHOD - (RVC) - PROGRAM

To ensure that the Regional Value Content requirement, as required by the rules of origin, has been met where the Transaction Value Method has been used.

D. NET COST METHOD - (RVC) - PROGRAM

To ensure that the Regional Value Content requirement, as required by the rules of origin, has been met where the Net Cost Method has been used.

E. TRANSSHIPMENT PROGRAM

To verify that the originating good, by reason of having undergone production that satisfies the requirements of Article 401 of the NAFTA, (1) Is not withdrawn from Customs control outside the territories of the NAFTA countries and (2) Does not undergo further production or any other operation outside the territories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 NAFTA countries, 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 a NAFTA country.

For additional verification programs from the other Parties, refer to the respective Annex, Section 4.2 at the end of this Chapter.

ANNEX 4 CANADA

4.2 Objectives of the Verification Programs

F. TARIFF TREATMENT PROGRAM

TO ENSURE THAT THE ORIGINATING GOODS ARE IMPORTED USING THE CORRECT TARIFF TREATMENT AS SET OUT IN ANNEX 302.2 OF THE NAFTA AND TO ENSURE THAT NON-ORIGINATING GOODS ARE IMPORTED USING THE CORRECT NON-NAFTA TARIFF TREATMENT.