

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

UNITED STATES CUSTOMS SERVICE REGULATORY AUDIT DIVISION NORTH AMERICAN FREE TRADE AGREEMENT AUDIT (VERIFICATION) MANUAL TABLE OF CONTENTS Introduction

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INTRODUCTION

With the entry in force of the North American Free Trade Agreement (NAFTA), the Parties have experienced a significant increase in the trade of goods and services between them. The three Customs Administrations have agreed that the Rules of Origin as set out in Chapter Four of the NAFTA and the NAFTA Rules of Origin Regulations (the Regulations), define the framework to be observed by exporters/producers in order to have their goods qualify as "originating goods", and be eligible for a NAFTA preferential tariff treatment when imported into the territory of any of the other Parties to the Agreement.

As a result, it has become important for the Customs Administration of each Party to verify that the goods for which NAFTA preferential tariff treatment has been claimed comply with the Rules of Origin.

In this respect, the three Customs Administrations have considered that the establishment of verification guidelines is important and useful. The Customs Administrations of all Parties have consulted during the development of this manual and these guidelines include general, examination and reporting standards for NAFTA origin verifications.

This manual is intended to be used by: Origin Audits Unit of Revenue Canada (Canada); Direction of International Audit of the Ministry of Finance and Public Credit (Mexico); and, the offices of Regulatory Audit and Field Operations, U.S. Customs Service (United States). However, portions of this manual may also be used by other areas within each Customs Administration as deemed appropriate.

The main purpose of this document is to establish the recommended technical verification framework to be observed when conducting NAFTA verifications. The application of the provisions included therein should take into consideration the circumstances involved in each verification and be adapted accordingly. It is understood that this document will be updated on a continual basis.

This of the NAFTA Verification Manual provides revisions to the November 1995 version to reflect changes in the Regulations which became effective on October 1, 1995.

EXECUTIVE SUMMARY

This manual considers all types of verifications, but focuses on the on-site audit process for exporter verifications where the regional value content requirement, tariff change requirement, or both, must be met. It should be noted that this manual provides verification procedures that are recommended by all Parties.

There are seven chapters contained in this manual. Included is an annex at the end of most chapters. The Annex contains information for the particular chapter that may differ among the Parties. The chapters within this U.S. version of the NAFTA Verification Manual includes information unique to the U.S. Information differing in Mexico and/or Canada, is included at the end of the chapter in the Annex. The highlights for each chapter are as follows:

Chapter 1, Purpose of the Manual and Legislative Framework, points out the need for this audit (verification) manual, and refers to the legal framework by which NAFTA verifications are conducted.

Chapter 2, Co-operation Among the Parties, discusses the exchange of information and communication between Customs Administrations subject to NAFTA.

Chapter 3, Auditing Standards, demonstrates how the Generally Accepted Auditing Standards have been incorporated into each Party's audit (verification) process.

Chapter 4, Objectives of NAFTA Audits (Verifications), outlines the objectives of NAFTA exporter on-site verifications as well as the verification program objectives for this type of verification.

Chapter 5, Scope of the NAFTA Audits (Verifications), describes the parameters of coverage for NAFTA exporter verifications including the verification period, coverage, importer identification, and assessment/liquidation period. This Chapter also includes recommended verification procedures that are identical and uniform for all Customs Administrations.

Chapter 6, Methodology for Rules of Origin Audits (Verifications), explains the verification process for NAFTA exporter verifications.

Chapter 7, NAFTA Working Groups, refers to the contact areas within the Customs Administration of each Party with respect to verification issues and their relationships with the NAFTA Working Groups.

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