

(h) measures by Canada respecting preferential rates for goods originating in certain Canadian provinces under the existing provisions of Maritime Freight Rate Act, R.S.C. 1985, c. M-1, as amended;

(i) Canadian excise taxes on absolute alcohol used in manufacturing under the existing provisions of Excise Tax Act, R.S.C. 1985, c. E-15, as amended;

(j) except as provided for in Chapter Seven (Agriculture), import restrictions imposed under Section 5(1)(b) and (d) of the Export and Import Permits Act, R.S.C. 1985, c. E-19, as amended, as of January 1, 1994, that are in accordance with the provisions of Article XI:2(c)(i) of the GATT; and

(k) quantitative import restrictions on goods that originate in the territory of the United States, considering operations performed in, or materials obtained from, Mexico as if they were performed in, or obtained from, a non-Party, and that are indicated by asterisks in Chapter 89 in Annex 401.2 (Tariff Schedule of Canada) of the Canada - United States Free Trade Agreement for as long as the measures taken under the Merchant Marine Act of 1920, (46 U.S.C. App. 883) and the Merchant Marine Act of 1936, (46 U.S.C. App. 1171, 1176, 1241 and 1241o) apply with quantitative effect to comparable Canadian origin goods sold or offered for sale into the United States market.

2. Notwithstanding any provision of this Agreement, any measure related to the internal sale and distribution of wine and distilled spirits, other than those covered by Article 313 (Blending Requirements) or Article 314 (Distinctive Products) shall, as between Canada and the United States, be governed under this Agreement exclusively in accordance with the relevant provisions of the Canada - United States Free Trade Agreement which for this purpose are hereby incorporated into this Agreement.

3. In respect of any measure related to the internal sale and distribution of wine and distilled spirits, the provisions of Articles 301 and 309 shall not apply as between Canada and Mexico to:

(a) a non-conforming provision of any existing measure;

(b) the continuation or prompt renewal of a non-conforming provision of any existing measure;

(c) an amendment to a non-conforming provision of any existing measure to the extent the amendment does not decrease its conformity with the provisions of Article 301 or 309; or

(d) measures set out in paragraphs 4 and 5.

4. Further to paragraph 3(d):

(a) automatic listing measures in the province of British Columbia may be maintained provided they apply only to existing estate wineries producing less than 30,000 gallons of wine annually and meeting the existing content rule;

(b) Canada may

(i) adopt or maintain a measure limiting on-premise sales by a winery or distillery to those wines or distilled spirits produced on its premises, and

(ii) maintain a measure requiring existing private wine store outlets in the provinces of Ontario and British Columbia to discriminate in favor of wine of those provinces to a degree no greater than the discrimination required by such existing measure; and

(c) nothing in this Agreement shall prohibit the Province of Quebec from requiring that any wine sold in grocery stores in Quebec be bottled in Quebec, provided that alternative outlets are provided in Quebec for the sale of wine of the other Parties, whether or not such wine is bottled in Quebec.

5. As between Canada and Mexico:

(a) any measure related to listing of wine and distilled spirits of the other Party shall

(i) conform with Article 301,

(ii) be transparent, non-discriminatory and provide for

prompt decision on any listing application, prompt written notification of such decision to the applicant, and in the case of a negative decision, provide for a statement of the reason for refusal,

(iii) establish administrative appeal procedures for listing decisions that provide for prompt, fair and objective rulings,

(iv) be based on normal commercial considerations,

(v) not create disguised barriers to trade, and

(vi) be published and made generally available to persons of Mexico;

(b) where the distributor is a public entity, the entity may charge the actual cost-of-service differential between wine and distilled spirits of the other Party and domestic wine and distilled spirits. Any such differential shall not exceed the actual amount by which the audited cost-of-service for the wine or distilled spirits of the exporting party exceeds the audited cost-of-service for the wine and distilled spirits of the importing party;

(c) notwithstanding Articles 301 and 309, Article I (Definitions), Article IV.3 (Wine), and Annexes A, B and C of the Agreement between Canada and the European Economic Community Concerning Trade and Commerce in Alcoholic Beverages dated February 28, 1989 shall apply with such modifications as may be necessary as between Canada and Mexico;

(d) all discriminatory mark-ups on distilled spirits shall be eliminated immediately upon the date of entry into force of this Agreement. Cost-of-service differential mark-ups as described in subparagraph (b) shall be permitted;

(e) any other discriminatory pricing measure shall be eliminated upon the date of entry into force of this Agreement;

(f) any measure related to distribution of wine or distilled spirits of the other Party shall conform with Article 301; and

(g) unless otherwise specifically provided in this Annex, the Parties retain their rights and obligations under the GATT and agreements negotiated under the GATT.

(The intention of paragraphs 3, 4, and 5 is to grant Mexico the same concessions granted to the U.S. under the Canada - United States Free Trade Agreement respecting wine and distilled spirits.)

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## Section B - Mexican Measures

1. Articles 301 and 309 shall not apply to:

(a) controls by Mexico on the export of logs of all species;

(b) measures under the existing provisions of Articles 192 through 194 of the General Ways of Communication Act ("Ley de Vías Generales de Comunicación") reserving exclusively to Mexican vessels all services and operations not authorized for foreign vessels and empowering the Mexican Ministry of Communications and Transportation to deny foreign vessels the right to perform authorized services if their country of origin does not grant reciprocal rights to Mexican vessels;

(c) measures taken in accordance with Annex 300-A (Trade in Automotive Goods) and measures taken in accordance with existing provisions of Articles 1, 4 and 5 of the Mexican Foreign Trade Act ("Ley Reglamentaria del Artículo 131 de la Constitución Política de los Estados Unidos Mexicanos en Materia de Comercio Exterior") with respect to automotive goods referred to in Annex 300-A (Trade in Automotive Goods);

(d) measures taken in accordance with Sections 3 (Import and Export Restrictions), 5 (Bilateral Emergency Actions-Quantitative Restrictions), 6 (Rules of Origin), and 8 (Trade in Worn Clothing) of Annex 300-B (Textile and Apparel Goods) and measures taken in accordance with existing provisions of Articles 1, 4 and 5 of the Mexican Foreign Trade Act ("Ley Reglamentaria del Artículo 131 de la Constitución Política de los Estados Unidos Mexicanos en Materia de

Comercio Exterior") with respect to textile and apparel goods referred to in Annex 300-B;

(e) measures taken in accordance with Articles 703 (Market Access) and Annex (permits for Dairy, Poultry and Eggs) of Chapter Seven (Agriculture) and measures taken in accordance with existing provisions of Articles 1, 4 and 5 of the Mexican Foreign Trade Act ("Ley Reglamentaria del Artículo 131 de la Constitución Política de los Estados Unidos Mexicanos en Materia de Comercio Exterior") with respect to agricultural goods referred to in Chapter Seven;

(f) measures covered by Chapter Six (Energy) and measures taken in accordance with existing provisions of Articles 1, 4 and 5 of the Mexican Foreign Trade Act ("Ley Reglamentaria del Artículo 131 de la Constitución Política de los Estados Unidos Mexicanos en Materia de Comercio Exterior") with respect to energy and basic petrochemical goods referred to in Chapter 6;

(g) export permit measures taken in accordance with existing provisions of Articles 1, 4 and 5 of the Mexican Foreign Trade Act ("Ley Reglamentaria del Artículo 131 de la Constitución Política de los Estados Unidos Mexicanos en Materia de Comercio Exterior") with respect to goods subject to quantitative restrictions, tariff rate quotas or tariff preference levels adopted or maintained by another Party; and

(h) with respect to existing provisions, the continuation or prompt renewal of a non-conforming provision of any of the above provisions or an amendment to a non-conforming provision of any of the above provisions to the extent that the amendment does not decrease its conformity with the provisions of Articles 301 and 309.

2. Notwithstanding Article 309, and without prejudice to other rights and obligations under this Agreement concerning import and export restrictions, for the first 10 years after the date of entry into force of this Agreement, Mexico may require permits for the importation of used goods provided for in the following existing items in the Tariff Schedule of the General Import Duty Act ("Tarifa de la Ley del Impuesto General de Importación"). For purposes of reference, the goods covered by those items are broadly identified next to the corresponding item.

## Item Description

8407.3499 Gasoline engines of more than 1,000 cm<sup>3</sup>, except for motorcycles.

8413.11.01 Pumps fitted with a measuring device even if it includes a totalizing mechanism.

8413.40.01 Concrete pumps for liquids, not fitted with a measuring device from 36 up to 60 m<sup>3</sup>/hr capacity.

8426.12.01 Mobile lifting frames on tires and straddle carriers.

8426.19.01 Other (overhead travelling cranes, transporter cranes, gantry cranes, bridge cranes, mobile lifting frames and straddle carriers.

8426.30.01 Portal or pedestal jib cranes.

8426.41.01 Derricks, cranes and other lifting machinery on tires, self-propelled with mechanical working and carrying capacity less than 55 tons.

8426.41.02 Derricks, cranes and other lifting machinery on tires, self-propelled with hydraulic working and carrying capacity more than 9.9 up to 30 tons.

8426.41.99 Other (Machinery, self propelled, on tires.)

8426.49.01 Derricks, cranes and other lifting machinery (other than on tires), self-propelled with mechanical working and carrying capacity less than 55 tons.

8426.49.02 Derricks, cranes and other lifting machinery (other than on tires), self-propelled with hydraulic working and carrying capacity more than 9.9 up to 30 tons.

8426.91.01 Derricks, cranes and other lifting machinery except items 8426.91.02, 03 and 04.

8426.91.02 Derricks, cranes and other lifting machinery for mounting on road vehicles, with hydraulic working and carrying capacity up to 9.9 tons.

8426.91.03 Derricks, cranes and other lifting machinery (basket type) for mounting on road vehicles, with carrying capacity up to 1 ton and 15 meters lift.

8426.91.99 Other (machinery designed for mounting on road vehicles).

8426.99.01 Derricks, cranes and other lifting machinery except items 8426.91.02

8426.99.02 Swivel cranes.

8426.99.99 Other (derricks; cranes, including cable cranes; mobile lifting frames, straddle carriers and works trucks fitted with a crane).

8427.10.01 Self-propelled work trucks powered by an electric motor, carrying capacity 3.5 tons.

8427.20.01 Other self-propelled trucks with combustion piston engines, carrying capacity up to 7 tons.

8428.40.99 Other (escalators and moving walkways).

8428.90.99 Other (continuous-action elevators and conveyors, for goods or materials).

8429.11.01 Self-propelled bulldozers and angledozers, for track laying.

8429.19.01 Other (bulldozers and angledozers).

8429.20.01 Self-propelled graders and levelers.

8429.30.01 Self-propelled scrapers.

8429.40.01 Self-propelled tamping machines and road rollers.

8429.51.02 Self-propelled front-end shovel loaders, wheel-type, less than 335 HP.

8429.51.03 Self-propelled front-end shovel loaders, wheel-type, other than item 8429.51.01.

8429.51.99 Other (mechanical shovels, excavators and shovel loaders).

8429.52.02 Self-propelled backhoes, shovels, clamshells and draglines, other than 8429.52.01.

8429.52.99 Other (machinery with a 360 revolving superstructure).

8429.59.01 Excavators.

8429.59.02 Track laying draglines, carrying capacity up to 4 tons.

8429.59.03 Track laying draglines, other than item 8429.59.04.

8429.59.99 Other (self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers).

8430.31.01 Self-propelled tunneling machinery.

8430.31.99 Other (self-propelled coal or rock cutters and tunnelling machinery).

8430.39.01 Sinking or boring shields.

8430.39.99 Other (coal or rock cutters and tunnelling machinery).

8430.41.01 Self-propelled boring or sinking machinery, other than item 8430.41.02.

8430.41.99 Other (self-propelled boring or sinking machinery).

8430.49.99 Other (boring or sinking machinery).



8430.50.01 Self-propelled peat excavators, with frontal carriers and hydraulic mechanism less than 335 hp capacity.

8430.50.02 Scrapers.

8430.50.99 Other (machinery self-propelled).

8430.61.01 Tamping machinery, not self-propelled.

8430.61.02 Compacting machinery, not self-propelled.

8430.61.99 Other (machinery, not self-propelled).

8430.62.01 Scarificationer machine.

8430.69.01 Threshers or scrapers machine.

8430.69.02 Trencher machine, other than 8430.69.03.

8430.69.99 Other (moving, grading, levelling, scraping, excavating, tamping, compacting, extracting or boring machinery).

8452.10.01 Sewing machines of the household type.

8452.21.04 Industrial machines, other than 845221.02, 03 and 05.

8452.21.99 Other (automatic sewing machines).

8452.29.05 Pending

8452.29.06 Industrial machines, other than 84522901, 03 and 05.

8452.29.99 Other (sewing machines).

8452.90.99 Other (parts of sewing machines).

8471.10.01 Analog or hybrid automatic data processing machines.

8471.20.01 Digital automatic data processing machines, containing in the same housing at least a central processing unit and an input and output unit, whether or not combined.

8471.91.01 Numerical or digital units entered with the rest of a system, which may contain in the housing one or two of the following types of units: storage units, input units, output unit.

8471.92.99 Other (input or output units whether or not entered with the rest of a system and whether or not containing storage units in the same housing).

8471.93.01 Storage units, including the rest of the system.

8471.99.01 Other (automatic data processing machines and units thereof).

8474.20.02 Crushing jawbone and grinding millstone.

8474.20.05 Drawer cone crushing, with diameter no more than 1200 millimeters.

8474.20.06 Grinding hammer percussion.

8701.30.01 Track-laying tractors with a net engine power more than 105 h.p. but less than 380 h.p. including pushing blade.

8701.90.02 Rail road tractors, on tires with mechanical mechanism for pavement.

8474.20.01 Crushing and grinding with two or more cylinders.

8474.20.03 Blades crushing machines.

8474.20.04 Blades XXX

8474.20.99 Other (crushing or grinding machines).

8474.39.99 Other (mixing machines).

8474.80.99 Other (kneading machines).

8475.10.01 Machines for assembling electric or electronic lamps, tubes.

8477.10.01 Injection-molding machines for working rubber or plastics, up to 5 kg capacity for one molding model.

8711.10.01 Motorcycles, mopeds and cycles fitted with an auxiliary motor with reciprocating internal combustion piston engine not exceeding 50 cm.<sup>3</sup>.

8711.20.01 Motorcycles, mopeds and cycles fitted with an auxiliary motor with reciprocating internal combustion piston engine over 50 cm.<sup>3</sup> but not over 250 cm.<sup>3</sup>.

8711.30.01 Motorcycles, mopeds and cycles fitted with an auxiliary motor with reciprocating internal combustion piston engine over 250 cm.<sup>3</sup> but not over 500 cm.<sup>3</sup>.

8711.40.01 Motorcycles, mopeds and cycles fitted with an auxiliary motor with reciprocating internal combustion piston engine over 500 cm.<sup>3</sup> but less than 550 cm.<sup>3</sup>.

8711.90.99 Other (motorcycles, mopeds and cycles fitted with an auxiliary motor without an internal combustion piston engine, and sidecars which are not to be used with motorcycles and velocipedes of any kind).

8712.00.02 Bicycles, other than of the type for racing.

8712.00.99 Other (Cycles, not motorized, except bicycles, and tricycles for the transport of merchandise).

8716.10.01 Trailers and semi-trailers for housing and camping, not mechanically propelled.

8716.31.02 Tanker trailers and tanker semi-trailers for the transport of goods, not mechanically propelled, of the steel-tank type.

8716.31.99 Other (Tanker trailers and tanker semi-trailers for the transport of goods, not mechanically propelled, except of the

steel-tank type, and of the thermal type for the transportation of milk).

8716.39.01 Trailers and semi-trailers for the transport of goods, not mechanically propelled, of the platform type (more detailed description pending).

8716.39.02 Trailers and semi-trailers for the transport of vehicles, not mechanically propelled.

8716.39.04 Trailers and semi-trailers for the transport of goods, not mechanically propelled, of the modular-platform type (more detailed description pending).

8716.39.05 Semi-trailers for the transport of goods, not mechanically propelled, of the low-bed type (more detailed description pending).

8716.39.06 Trailers and semi-trailers for the transport of goods, not mechanically propelled, of the closed-box type, including those for refrigeration.

8716.39.07 Trailers and semi-trailers for the transport of goods, not mechanically propelled, of the steel-tank type.

8716.39.99 Other. (Trailers and semi-trailers for the transport of goods, not mechanically propelled, except those referred to in items 87163901, 02, 04, 05, 06 and 07, those with two levels which are recognizable as intended for use exclusively in the transportation of cattle, and carriages with solid rubber wheels).

8716.40.01 Other trailers and semi-trailers, not mechanically propelled. (Other than for the transport of goods).

8716.80.99 Other. (Vehicles not mechanically propelled, except trailers and semi-trailers, hand-wagons, and hand-wagons of hydraulic operation.

3. Notwithstanding Article 309, and without prejudice to other rights and obligations under this Agreement concerning import and export restrictions:

(a) for the first five years after the date of entry into force of this Agreement, Mexico may require permits for the importation of new automotive goods provided for in the following existing items in the Tariff Schedule of the General Import Duty Act ("Tarifa de la Ley del Impuesto General de Importación"). For purposes of reference, the goods covered by those items are broadly identified next to the corresponding item;

#### Item Description

8701.20.01 Road Tractors for semi-trailers

8702.10.01 Public-transport type passenger vehicles, with diesel or semi-diesel engine, with body mounted on a chassis.

8702.10.02 Public-transport type passenger vehicles, with diesel or semi-diesel engine, with an integral body.

8702.90.03 Public-transport type passenger vehicles, with gasoline engine, with an integral body.

8703.10.99 Other special vehicles.

8704.22.99 Motor vehicles for the transport of goods with diesel engine and capacity of cargo of more than 5 tons but less than 20 tons.

8704.23.99 Motor vehicles for the transport of goods with diesel engine and capacity of cargo of more than 20 tons.

8704.32.99 Motor vehicles for the transport of goods with gasoline engine and with capacity of cargo of more than 5 tons.

8705.20.01 Mobile drilling derricks.

8705.40.01 Concrete mixers.

8706.00.01 Chassis fitted with gasoline engine.

8706.00.99 Other chassis fitted with gasoline engine.

(b) for the first 10 years after the date of entry into force of this Agreement, Mexico may require permits for the importation of new automotive goods provided for in the following existing items in the Tariff Schedule of the General Import Duty Act ("Tarifa de la Ley del Impuesto General de Importación"). For purposes of reference, the goods covered by those items are broadly identified next to the corresponding item;

#### Item Description

8407.34.99 Gasoline engines of more than 1,000 cm<sup>3</sup>, except for motorcycles.

8702.90.02 Public-transport type passenger vehicles, with gasoline engine, with body mounted on a chassis.

8703.21.01 Passenger motor vehicles with gasoline engine of less than or equal to 1,000 cm<sup>3</sup>.

8703.22.01 Passenger motor vehicles with gasoline engine of more than 1,000 cm<sup>3</sup> but less than 1,500 cm<sup>3</sup>.

8703.23.01 Passenger motor vehicles with gasoline engine of more than 1,500 cm<sup>3</sup> but less than or equal to 3,000 cm<sup>3</sup>.

8703.24.01 Passenger motor vehicles with gasoline engine of more than 3,000 cm<sup>3</sup>.

8703.31.01 Passenger motor vehicles with diesel engine of less than or equal to 1,500 cm<sup>3</sup>.

8703.32.01 Passenger motor vehicles with diesel engine of more than 1,500 cm<sup>3</sup> but less than or equal to 2,500 cm<sup>3</sup>.

8703.33.01 Passenger motor vehicles with diesel engine of more than 2,500 cm<sup>3</sup>.

8703.90.99 Other passenger vehicles.

8704.21.99 Motor vehicles for the transport of goods with diesel engine and with capacity of cargo of less than or equal to 5 tons.

8704.31.99 Motor vehicles for the transport of goods with gasoline engine and with capacity of cargo of less than or equal to 5 tons.

(c) for the first 25 years after the date of entry into force of this Agreement, Mexico may require permits for the importation of used automotive goods provided for in the following existing items in the Tariff Schedule of the General Import Duty Act ("Tarifa de la Ley del Impuesto General de Importación"). As of the 26th year after the date of entry into force of this Agreement, Mexico may require permits for the importation of non-originating automotive goods provided for under such items. For purposes of reference, the goods covered by those items are broadly identified next to the corresponding item.

#### Item Description

8701.20.01 Road Tractors for semi-trailers

8702.10.01 Public-transport type passenger vehicles, with diesel or semi-diesel engine, with body mounted on a chassis.

8702.10.02 Public-transport type passenger vehicles, with diesel or semi-diesel engine, with an integral body.

8702.90.01 Trolleys.

8702.90.02 Public-transport type passenger vehicles, with gasoline engine, with body mounted on a chassis.

8702.90.03 Public-transport type passenger vehicles, with gasoline engine, with an integral body.

8703.10.01 Special vehicles with electric engine  
(snowmobiles, golf cart).

8703.10.99 Other special vehicles.

8703.21.01 Passenger motor vehicles with gasoline engine of  
less than or equal to 1,000 cm<sup>3</sup>.

8703.22.01 Passenger motor vehicles with gasoline engine of  
more than 1,000 cm<sup>3</sup> but less than 1,500 cm<sup>3</sup>.

8703.23.01 Passenger motor vehicles with gasoline engine of  
more than 1,500 cm<sup>3</sup> but less than or equal to  
3,000 cm<sup>3</sup>.

8703.24.01 Passenger motor vehicles with gasoline engine of  
more than 3,000 cm<sup>3</sup>.

8703.31.01 Passenger motor vehicles with diesel engine of  
less than or equal to 1,500 cm<sup>3</sup>.

8703.32.01 Passenger motor vehicles with diesel engine of  
more than 1,500 cm<sup>3</sup> but less than or equal to  
2,500 cm<sup>3</sup>.

8703.33.01 Passenger motor vehicles with diesel engine of  
more than 2,500 cm<sup>3</sup>.

8703.90.01 Electrical motor cars.

8703.90.99 Other passenger vehicles.

8704.21.99 Motor vehicles for the transport of goods with  
diesel engine and with capacity of cargo of less  
than or equal to 5 tons.

8704.22.99 Motor vehicles for the transport of goods with  
diesel engine and capacity of cargo of more than 5  
tons but less than 20 tons.

8704.23.99 Motor vehicles for the transport of goods with  
diesel engine and capacity of cargo of more than  
20 tons.

8704.31.99 Motor vehicles for the transport of goods with  
gasoline engine and with capacity of cargo of less  
than or equal to 5 tons.



8704.32.99 Motor vehicles for the transport of goods with gasoline engine and with capacity of cargo of more than 5 tons.

8705.10.01 Mobile crane vehicles.

8705.20.01 Mobile drilling derricks.

8705.20.99 Other drilling derricks.

8705.40.01 Concrete mixers.

8705.90.01 Spraying vehicles.

8705.90.99 Other special purpose vehicles.

8706.00.01 Chassis fitted with gasoline engine.

8706.00.99 Other chassis fitted with gasoline engine.

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## Section C - United States Measures

Articles 301 and 309 shall not apply to:

(a) controls by the United States on the export of logs of all species;

(b) taxes on imported perfume containing distilled spirits under existing provisions of Section 5001(a)(3) and 5007(b)(2) of the Internal Revenue Code of 1986 (26 U.S.C. 5001(a)(3), 5007(b)(2));

(c) measures under existing provisions of section 27 of the Merchant Marine Act (46 U.S.C. App. 883), the Passenger Vessel Act of 1920 (46 U.S.C. App. 289), the Merchant Ship Sales Act of 1946 (46 U.S.C. App. 292, 316, and 46 U.S.C. 12108); and

(d) import restrictions with respect to Canada imposed under existing provisions of section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624).

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## Tariff Elimination

1. Except as otherwise provided in a Party's Schedule attached to this Annex, the following staging categories apply to the elimination of customs duties by each Party pursuant to Article 302(2):

(a) duties on goods provided for in the items in staging category A in a Party's Schedule shall be eliminated entirely and such goods shall be duty-free, effective January 1, 1994;

(b) duties on goods provided for in the items in staging category B in a Party's Schedule shall be removed in 5 equal annual stages commencing on January 1, 1994, and such goods shall be duty-free, effective January 1, 1998;

(c) duties on goods provided for in the items in staging category C in a Party's Schedule shall be removed in 10 equal annual stages commencing on January 1, 1994, and such goods shall be duty-free, effective January 1, 2003;

(d) duties on goods provided for in the items in staging category C+ in a Party's Schedule shall be removed in 15 equal annual stages commencing on January 1, 1994, and such goods shall be duty-free, effective January 1, 2008; and

(e) goods provided for in the items in staging category D in a Party's Schedule shall continue to receive duty-free treatment.

(other staging categories will be displayed in the tariff schedules of each Party and may be incorporated here.)

2. The base rate of duty and staging category for determining the interim rate of duty at each stage of reduction for an item are indicated for the item in each Party's Schedule attached to this Annex. These rates generally reflect the rate of duty in effect on July 1, 1991, including rates under the U.S. Generalized System of Preferences and the General Preferential Tariff of Canada.

3. For the purpose of the elimination of customs duties in accordance with Article 302, interim staged rates shall be rounded down, except as set out in each Party's Schedule attached to this Annex, at least to the nearest tenth of a percentage point or, if the rate of duty is expressed in monetary units, at least to the nearest .001 of the official monetary unit of the Party.

4. Canada shall apply the rate applicable under the staging category set out for an item in Annex 401.2, as amended, of the Canada - United States Free Trade Agreement which Annex is hereby incorporated into and made part of this Agreement, to an originating good provided that:

(a) notwithstanding any provision in Chapter Four of this Agreement, in determining whether such good is an originating good, operations performed in or materials obtained from Mexico are considered as if they were performed in or obtained from a non-Party; and

(b) any processing that occurs in Mexico after the good would qualify as an originating good in accordance with subparagraph (a) does not increase the transaction value of the good by greater than seven percent.

5. Canada shall apply the rate applicable under the staging category set out for an item contained in column I of section A of this Annex to an originating good provided that:

(a) notwithstanding any provision to the contrary in Chapter Four, in determining whether such good is an originating good, operations performed in or materials obtained from the United States are considered as if they were performed in or obtained from a non-Party; and

(b) any processing that occurs in the United States after the good would qualify as an originating good in accordance with subparagraph (a) does not increase the transaction value of the good by greater than seven percent.

6. Canada shall apply to an originating good to which neither paragraph 4 nor paragraph 5 applies, the applicable rate indicated for an item contained in column II, reduced in accordance with the staging category of column I of section A of

this Annex except as otherwise indicated, or where there is a letter "X" (to be replaced with descriptive language) in column II, the applicable rate of duty for the item shall be the higher of:

(a) the General Preferential Tariff rate of duty for that item applied on July 1, 1991, reduced in accordance with the applicable staging category set out for that item in column I of its Schedule; or

(b) the applicable rate under the staging category for that item set out in Annex 401.2, as amended, of the Canada - United States Free Trade Agreement.

7. Paragraphs 4, 5 and 6 shall not apply to goods provided for under Chapters 50 through 63 of the Harmonized System and to other goods identified in Appendix 1.1 of Annex 300-B (Textiles and Apparel Goods).

8. Mexico shall apply the rate applicable under the staging category set out for an item in column II of section B of this Annex to an originating good when the good qualifies to be marked as a good of Canada, pursuant to Annex 312, without regard to whether the good is marked.

9. Mexico shall apply the rate applicable under the staging category set out for an item in column I of section B of this Annex to an originating good when the good qualifies to be marked as a good of the United States, pursuant to Annex 312, without regard to whether the good is marked.

10. The United States shall apply the rate applicable under the staging category set out for an item in Annex 401.2, as amended, of the Canada - United States Free Trade Agreement to an originating good when the good qualifies to be marked as a good of Canada pursuant to Annex 312, without regard to whether the good is marked.

11. The United States shall apply the rate applicable under the staging category set out for an item in section C of this Annex to an originating good when the good qualifies to be marked as a good of Mexico pursuant to Annex 312, whether or not the good is marked.

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## SECTION A - SCHEDULE OF CANADA

(TARIFF SCHEDULE TO BE ATTACHED)

SECTION B - SCHEDULE OF MEXICO

(TARIFF SCHEDULE TO BE ATTACHED)

SECTION C - SCHEDULE OF THE UNITED STATES

(TARIFF SCHEDULE TO BE ATTACHED)

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ANNEX 303.6

Goods Not Subject to Article 303

1. For exports from the territory of the United States to the territory of Canada or Mexico, a good, provided for in U.S. tariff item 1701.11.02, that is imported into the territory of the United States and used as a material in the production of, or substituted by an identical or similar good used as a material in the production of, a good provided for in Canadian tariff item 1701.99.00 or Mexican tariff items 1701.99.01 and 1701.99.99 (refined sugar).