September 6, 1992

ANNEX 1002.8

Indexation and Conversion of Thresholds

1. The calculations described in Article 1002(4) (Scope and Coverage) shall be made in accordance with the following:

(a) the United States inflation rate shall be measured by the the Producer Price Index for Finished Goods published by the United States Department of Commerce; and

(b) the inflationary adjustment shall be estimated according to the following formula

$$T_0 \times (1 + p_i) = T_1$$

$T_0 =$ threshold value at base period
$p_i =$ accumulated U.S. inflation rate for the ith two year-period
$T_1 =$ new threshold value.

2.- Mexico and Canada shall calculate and convert the value of the thresholds specified in paragraph 3 into their national currencies using the conversion formulas set out in paragraph 3 or 4, as appropriate. Mexico and Canada shall notify each other and the United States of the value, in their respective currencies, of the newly calculated thresholds not less than one month before the respective thresholds take effect.

3. Canada shall base the calculation on the official conversion rates of the Bank of Canada. From January 1, 1994 through December 31, 1995, the conversion rate shall be the average of the weekly values of the Canadian dollars in terms of the U.S. dollars over the period October 1, 1992 through September 30, 1993. For each subsequent two-year period, beginning January 1, 1996, the conversion rate shall be the average of the weekly values of the Canadian dollar in terms of the U.S. dollar over the two-year period ending September 30 of the year preceding the beginning of each two-year period.

4. Mexico shall use the conversion rate of the Banco de México. The conversion rate shall be the existing value of the Mexican peso in terms of the US dollar as of December 1 and June 1 of each year, or the 1st working day after. The conversion rate as of December 1 shall apply from January 1 to June 30 of the following year, and as of June 1 shall apply from July 1 to December 31 of that year.