

3. Notwithstanding any other provision in this Chapter, Mexico may set aside procurement contracts from the obligations of this Chapter, subject to the following:

- (a) the total value of the contracts set aside that may be allocated by all entities, except Pemex and CFE, may not exceed the Mexican peso equivalent of
 - (i) US\$1.0 billion, in each year until December 31, 2002, and
 - (ii) US\$1.2 billion, in each year beginning January 1, 2003;
- (b) no contract may be set aside under this paragraph by Pemex or CFE prior to January 1, 2003;
- (c) the total value of the contracts set aside by Pemex and CFE under this paragraph may not exceed the Mexican peso equivalent of US\$300 million, in each year beginning January 1, 2003;
- (d) the total value of contracts under any single FSC class (or other classification system agreed by the Parties) that may be set aside under this paragraph in any year shall not exceed 10 percent of the total value of contracts that may be set aside under this paragraph for that year; and
- (e) no entity subject to subparagraph (a) may set aside contracts in any year of a value of more than 20 percent of the total value of contracts that may be set aside for that year.

4. Beginning one year after the date of entry into force of this Agreement, the dollar values referred to in paragraph 3 shall be adjusted annually for cumulative inflation from the date of entry into force of this Agreement, based on the implicit price deflator for U.S. Gross Domestic Product (GDP) or any successor index published by the Council of Economic Advisors in "Economic Indicators".

The dollar values adjusted for cumulative inflation up to January of each year following 1994 shall be equal to the original dollar values multiplied by the ratio of:

- (a) the implicit U.S. GDP price deflator or any successor index published by the Council of Economic Advisors in "Economic Indicators", current as of January of that year, to
- (b) the implicit U.S. GDP price deflator or any successor index published by the Council of Economic Advisors in "Economic Indicators", current as of the date of entry into force of this Agreement,

provided that the price deflators under paragraphs (a) and (b) have the same base year.

The resulting adjusted dollar values shall be rounded to the nearest million dollars.

5. National security exceptions include procurements made in support of safeguarding nuclear materials or technology.

6. Notwithstanding any other provision of this Chapter, an entity may impose a local content requirement of no more than:

- (a) 40 percent, for labor-intensive turnkey or major integrated projects; or
- (b) 25 percent, for capital-intensive turnkey or major integrated projects.