

Annex 1001.1c

Indexation and Conversion of Thresholds

1. The calculations referred to in Article 1001(1)(c) (Scope and Coverage) shall be made in accordance with the following:

- (a) the U.S. inflation rate shall be measured by the Producer Price Index for Finished Goods published by the U.S. Bureau of Labor Statistics;
- (b) the first adjustment for inflation, to take effect on January 1, 1996, shall be calculated using the period from November 1, 1993 through October 31, 1995;
- (c) all subsequent adjustments shall be calculated using two-year periods, each period beginning November 1, and shall take effect on January 1 of the year immediately following the end of the two-year period;
- (d) the United States shall notify the other Parties of the adjusted threshold values no later than November 16 of the year before the adjustment takes effect; and
- (e) the inflationary adjustment shall be estimated according to the following formula

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

T_0 = threshold value at base period

π_i = accumulated U.S. inflation rate for the i^{th} two year-period

T_1 = new threshold value.

2. Mexico and Canada shall calculate and convert the value of the thresholds set out in Article 1001(1)(c) into their national currencies using the conversion formula 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 no later than one month before the respective thresholds take effect.

3. Canada shall base its 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 dollar in terms of the U.S. dollar over the period October 1, 1992 through September 30, 1993. For each subsequent two-year period beginning January 1, 1996, its 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 Bank of Mexico ("Banco de México"). Its conversion rate shall be the existing value of the Mexican peso in terms of the U.S. dollar as of December 1 and June 1 of each year, or the first working day thereafter. 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.