

basis of the formula $RVC = ((AV - VNM)/AV) \times 100$, where RVC is the regional value content, expressed as a percentage; AV is the adjusted value; and VNM is the value of non-originating materials that are acquired and used by the producer in the production of the good.

(c) *Build-up method.* Under the build-up method, the regional value content must be calculated on the basis of the formula $RVC = (VOM/AV) \times 100$, where RVC is the regional value content, expressed as a percentage; AV is the adjusted value; and VOM is the value of originating materials that are acquired or self-produced and used by the producer in the production of the good.

§ 10.536 Value of materials.

(a) *Calculating the value of materials.* Except as provided in § 10.541, for purposes of calculating the regional value content of a good under General Note 25(o), HTSUS, and for purposes of applying the *de minimis* (see § 10.533 of this subpart) provisions of General Note 25(o), HTSUS, the value of a material is:

(1) In the case of a material imported by the producer of the good, the adjusted value of the material;

(2) In the case of a material acquired by the producer in the territory where the good is produced, except for a material to which paragraph (a)(3) of this section applies, the adjusted value of the material with reasonable modifications to the provisions of the Customs Valuation Agreement so as to permit their application to the domestic acquisition by the producer. Such reasonable modifications include, but are not limited to, treating a domestic purchase by the producer as if it were a sale for export to the country of importation; or

Example 1. The producer in Singapore purchases material x from an unrelated seller in Singapore for \$100. Under the provisions of Article 1 of the Customs Valuation Agreement, transaction value is the price actually paid or payable for the goods when sold for export to the country of importation adjusted in accordance with the provisions of Article 8. In order to apply Article 1 to this domestic purchase by the producer, such purchase is treated as if it were a sale for export to the country of importation. Therefore, for purposes of determining the adjusted value

of material x, Article 1 transaction value is the price actually paid or payable for the goods when sold to the producer in Singapore (\$100), adjusted in accordance with the provisions of Article 8. In this example, it is irrelevant whether material x was initially imported into Singapore by the seller (or by anyone else). So long as the producer acquired material x in Singapore, it is intended that the value of material x will be determined on the basis of the price actually paid or payable by the producer adjusted in accordance with the provisions of Article 8.

Example 2. Same facts as in Example 1, except the sale between the seller and the producer is subject to certain restrictions that preclude the application of Article 1. Under Article 2 of the Customs Valuation Agreement, the value is the transaction value of identical goods sold for export to the same country of importation and exported at or about the same time as the goods being valued. In order to permit the application of Article 2 to the domestic acquisition by the producer, it should be modified so that the value is the transaction value of identical goods sold within Singapore at or about the same time the goods were sold to the producer in Singapore. Thus, if the seller of material x also sold an identical material to another buyer in Singapore without restrictions, that other sale would be used to determine the adjusted value of material x.

(3) In the case of a self-produced material, or in a case in which the relationship between the producer of the good and the seller of the material influenced the price actually paid or payable for the material, including a material obtained without charge, the sum of:

(i) All expenses incurred in the production of the material, including general expenses; and

(ii) A reasonable amount for profit.

(b) *Permissible additions to, and deductions from, the value of materials—(1) Additions to originating materials.* For originating materials, the following expenses, if not included under paragraph (a) of this section, may be added to the value of the originating material:

(i) The costs of freight, insurance, packing, and all other costs incurred in transporting the material to the location of the producer;

(ii) Duties, taxes, and customs brokerage fees on the material paid in the territory of one or both of the Parties, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit

against duty or tax paid or payable; and

(iii) The cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-product; and

(2) *Deductions from non-originating materials.* For non-originating materials, if included under paragraph (a) of this section, the following expenses may be deducted from the value of the non-originating material:

(i) The costs of freight, insurance, packing, and all other costs incurred in transporting the material to the location of the producer;

(ii) Duties, taxes, and customs brokerage fees on the material paid in one or both of the Parties, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable;

(iii) The cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-products;

(iv) The cost of processing incurred in the territory of Singapore or the United States in the production of the non-originating material; and

(v) The cost of originating materials used in the production of the non-originating material in the territory of Singapore or the United States.

(c) *Accounting method.* Any cost or value referenced in General Note 25, HTSUS and this subpart, must be recorded and maintained in accordance with the Generally Accepted Accounting Principles applicable in the territory of the country in which the good is produced (whether Singapore or the United States).

§ 10.537 Accessories, spare parts, or tools.

Accessories, spare parts, or tools that are delivered with a good and that form part of the good's standard accessories, spare parts, or tools will be treated as originating goods if the good is an originating good, and will be disregarded in determining whether all the non-originating materials used in the production of the good undergo an applicable change in tariff classification specified

in General Note 25(o), HTSUS, provided that:

(a) The accessories, spare parts, or tools are not invoiced separately from the good;

(b) The quantities and value of the accessories, spare parts, or tools are customary for the good; and

(c) If the good is subject to a regional value content requirement, the value of the accessories, spare parts, or tools will be taken into account as originating or non-originating materials, as the case may be, in calculating the regional value content of the good under § 10.535 of this subpart.

§ 10.538 Fungible goods and materials.

(a) A person claiming preferential treatment under the SFTA for a good may claim that a fungible good or material is originating either based on the physical segregation of each fungible good or material or by using an inventory management method. For purposes of this subpart, the term "inventory management method" means:

(1) Averaging;

(2) "Last-in, first-out;"

(3) "First-in, first-out;" or

(4) Any other method that is recognized in the Generally Accepted Accounting Principles of the Party in which the production is performed or otherwise accepted by that country.

(b) A person selecting an inventory management method under paragraph (a) of this section for particular fungible goods or materials must continue to use that method for those fungible goods or materials throughout the fiscal year of that person.

§ 10.539 Retail packaging materials and containers.

Packaging materials and containers in which a good is packaged for retail sale, if classified with the good for which preferential treatment under the SFTA is claimed, will be disregarded in determining whether all non-originating materials used in the production of the good undergo the applicable change in tariff classification set out in General Note 25(o), HTSUS. If the good is subject to a regional value content requirement, the value of such packaging materials and containers