2. Notwithstanding paragraph 1, a good subject to product specific rules shall qualify as an originating good if it satisfies the applicable product specific rules set out in Annex 2. Where a product specific rule provides a choice of rules from an LVC-based rule of origin, a CTC-based rule of origin, a specific manufacturing or processing operation, or a combination of any of these, each Party shall permit the exporter of the good to decide which rule to use in determining whether the good qualifies as an originating good of the Party.

3. For the purposes of subparagraph 1(a) and the relevant product specific rules set out in Annex 2 which specify a certain LVC, it is required that the LVC of a good, calculated using the formula set out in Article 27, is not less than the percentage specified by the rule for the good.

4. For the purposes of subparagraph 1(b) and the relevant product specific rules set out in Annex 2, the rules requiring that the materials used have undergone CTC, or a specific manufacturing or processing operation, shall apply only to non-originating materials.

Article 27
Calculation of Local Value Content

1. For the purposes of calculating the LVC of a good, the following formula shall be used:

$$\text{LVC} = \frac{\text{FOB} - \text{VNM}}{\text{FOB}} \times 100\ \%$$

2. For the purposes of this Article:

(a) "FOB" is, except as provided for in paragraph 3, the free-on-board value of a good, inclusive of the cost of transport from the producer to the port or site of final shipment abroad;

(b) "LVC" is the LVC of a good, expressed as a percentage; and

(c) "VNM" is the value of non-originating materials used in the production of a good.

3. FOB referred to in subparagraph 2(a) shall be the value:

(a) adjusted to the first ascertainable price paid for a good from the buyer to the producer of the good, if there is free-on-board value of the good, but it is unknown and cannot be ascertained; or

(b) determined in accordance with Articles 1 through 8 of the Agreement on Customs Valuation, if there is no free-on-board value of a good.

4. For the purposes of paragraph 1, the value of non-originating materials used in the production of a good in a Party:

(a) shall be determined in accordance with the Agreement on Customs Valuation and shall include freight, insurance, and where appropriate, packing and all other costs incurred in transporting the materials to the importation port in the Party where the producer of the good is located; or

(b) if such value is unknown and cannot be ascertained, shall be the first ascertainable price paid for the materials in the Party, but may exclude all the costs incurred in the Party in transporting the materials from the warehouse of the supplier of the materials to the place where the producer is located such as freight, insurance and packing as well as any other known and ascertainable costs incurred in the Party.

5. For the purposes of paragraph 1, the VNM of a good shall not include the value of non-originating materials used in the production of originating materials of the Party which are used in the production of the good.

6. For the purposes of subparagraph 3(b) or 4(a), in applying the Agreement on Customs Valuation to determine the value of a good or non-originating materials, the Agreement on Customs Valuation shall apply, *mutatis mutandis*, to domestic transactions or to the cases where there is no domestic transaction of the good or non-originating material.

Article 28
De Minimis

1. A good that does not satisfy the requirements of subparagraph 1(b) of Article 26 or an applicable CTC-based rule of origin set out in Annex 2 shall be considered as an originating good of a Party if:

(a) in the case of a good classified under Chapters 16, 19, 20, 22, 23, 28 through 49, and 64 through 97 of the Harmonized System, the total value of non-originating materials used in the production of the good that have not undergone the required CTC does not exceed 10 percent of the FOB;

(b) in the case of a particular good classified under Chapters 9, 18, and 21 of the Harmonized System, the total value of non-originating materials used in the production of the good that have not undergone the required CTC does not exceed 10 percent or seven percent of the FOB, as specified in Annex 2; or