



## **Submission No 29**

### **Australia's trade and investment relations under the Australia-New Zealand Closer Economic Relations Trade Agreement**

**Organisation:** Department of Industry, Tourism and Resources

**Contact Person:** Mr Richard Emerson-Elliot  
Tariff and Trade Policy

**Address:** Level 11  
20 Allara St  
Canberra ACT 2600

## **Response to questions from the Joint Standing Committee on Foreign Affairs, Defence and Trade**

### ***ANZCERTA Rules of Origin Amendments and men's suits***

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At the 2004 Closer Economic Relations meeting held in Queenstown, New Zealand, Australian and New Zealand Ministers agreed to adopt a Change in Tariff Classification (CTC) approach to the Rules of Origin (ROO) used in the Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). Following extensive consultation with industry throughout 2005, negotiations for the ROO were concluded, and agreed to by Australia and New Zealand's Trade Ministers, in February 2006. The ROO amendments are scheduled to come into force on 1 January 2007. The Joint Standing Committee on Treaties is currently completing its inquiry into the proposed amendments.

This briefing answers a number of questions put to the government from the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) on the proposed ROO amendments for men's and boys' suits. The Department of Foreign Affairs and Trade has overall responsibility for the ANZCERTA treaty, and the ROO amendments have been developed in close consultation with the Department of Industry, Tourism and Resources, the Department of Agriculture, Forestry and Fisheries and the Australian Customs Service. This briefing has been prepared by the Department of Industry, Tourism and Resources as the questions cover specific technical aspects relating to the Textile Clothing and Footwear industry. However, any further questions should be directed to the Department of Foreign Affairs and Trade in the first instance.

The questions posed by JSCFADT and answers follow.

#### **A description of the two methods of determining the origin of goods traded between Australia and NZ.**

##### ***Factory Cost Method Rule of Origin (ROO) under ANZCERTA***

Currently, Article 3 of ANZCERTA specifies that to be deemed originating goods, goods that are not wholly obtained in Australia or New Zealand must meet two requirements:

- a) The last process in the manufacture of the goods must be undertaken in Australia or New Zealand; and
- b) At least 50% of the factory or works cost of the goods consists of Australian or New Zealand materials, labour and overheads, calculated as follows:

$$RVC = \frac{TC - VNM}{TC}$$

Where

- RVC is the regional value content
- TC is the total factory cost
- VNM is the value of non qualifying content (i.e. content that is not classified as from the region)

The total factory cost includes all material and labour costs directly associated with the manufacture of the good and overhead costs that can be assigned to the production of the good such as depreciation, licence fees and rent.

#### Change in Tariff Classification (CTC) ROO

The proposed amended ANZCERTA Article 3 adopts a CTC ROO for all tariff items (though some tariff item ROOs also incorporate an RVC or chemical reaction requirement). Though the amended Article 3 is scheduled to start on 1 January 2007, manufacturers and importers/exporters are still able to use the factory cost method for verifying the origin of goods, if they choose to, up until 1 January 2012.

The CTC approach to ROO is based on transformation of imported materials using the World Customs Organization's Harmonized System of Tariff Codes - the HS Code. A CTC ROO requires an imported material to come from a different part of the HS Code than that of the exported product - in other words, the materials undergo a specified change in tariff classification as a result of the production process. CTC rules may specify that changes are required at the chapter level (HS code two-digit), the heading level (four-digit) or the subheading level (six-digit). Examples of CTC rules in the proposed ANZCERTA ROO schedule are:

- CTC rule at chapter level:
  - “Change to heading 6603 from any other chapter”
- CTC rule at heading level:
  - “Change to heading 2712 from any other heading”
- CTC rule at subheading level:
  - “Change to subheading 370710 from any other subheading”

#### Build Down RVC

Some ANZCERTA ROO incorporate both a CTC requirement and an RVC requirement. In most cases, this RVC is calculated using the "build down" approach. This formula differs from the old factory cost approach as it determines regional content as a percentage of fob price rather than factory cost, expressed as follows:

$$RVC = \frac{FOB - VNM}{FOB}$$

Where

- RVC is the regional value content
- FOB is the price of the exported good at the export wharf
- VNM is the value of non qualifying content (ie content that is not classified as from the region)

The 'build down' formula allows everything in the export price except for content that is sliced off as non-qualifying. Though there is no need to fully enumerate all cost elements in the same way as is needed for the factory cost-based formulae, there is nonetheless a need to enumerate all elements purchased from outside the firm and to identify those brought in elements that contain non qualifying content.

### Build Up RVC

For some agricultural items, a build up method can be used to calculate the RVC. This formula also relates the content to the FOB price, but rather than identifying non-qualifying content (as with the factory cost and build down method) it requires the identification of enough qualifying content to satisfy the threshold requirement:

$$RVC = \frac{VOM}{FOB}$$

Where

- RVC is the regional value content
- FOB is the price of the exported good at the export wharf
- VOM is the value of originating materials, either internally produced or purchased

### **Whether there is to be an exemption from the move to the 'change in tariff classification' method for determining the origin of the men's and boys' suits category (Tariff item 6103)? If so, what were the grounds for the exemption?**

Men's and boys' suits will not be exempt from the move to the CTC method for determining origin and a CTC requirement will be adopted for tariff item 6103 once the proposed new ANZCERTA Rules of Origin are adopted. However, in addition to a change of tariff requirement, goods that fall under tariff item 6103 must also meet a factory cost based RVC of 50% to be eligible for duty free entry under ANZCERTA. From 1 January 2010 this RVC requirement will be reduced to 45% based on the factory cost method.

The additional factory cost based RVC requirement was retained for tariff item 6103 following extensive consultation with Australian clothing manufacturers. Australian manufacturers expressed their strong opposition to any change being made in the ROO. As a compromise, Ministers decided to retain the existing ROO until 2010, from when a reduction would be made in the RVC requirement.

### **The amount of tariff imposed on an imported suit from NZ if it were not classified as New Zealand-made?**

Australia's MFN tariff rate for goods of tariff item 6103 is currently 17.5%.

**Confirmation that, if the 'change in tariff classification' method were applied to the men's and boys' suits category, such imports from NZ would qualify as New Zealand-made.**

The proposed ROO for 6103 is:

A change to heading 6103 from any other chapter, provided that the good is both cut (or knit to shape) and sewn or otherwise assembled in the territory of one or both of the Parties and there is a regional value content of not less than 50 percent based on the factory cost method.

Imports from New Zealand of men's and boys' suits that currently meet the existing RVC-only rules of origin will still meet this proposed new ROO. New Zealand has agreed to this CTC plus RVC definition and has not raised any concerns that goods currently imported under preference would be ineligible under the new ROO.

**Whether there is to be an exemption from the move to the 'change in tariff classification' method for determining the origin of the women's and girls' suits category (Tariff item 6104)? What were the grounds either for the exemption, or the decision not to apply an exemption?**

There is not to be any exemption for women's or girls' clothing. Rather, the ROO has been significantly altered to a CTC-only rule. The ROO for 6104 was adopted following consultation with Australian industry which indicated its preference for a CTC-only rule.

**Whether the men's and boys' suits category imported from NZ has in the past been classified as of NZ origin?**

Where men's and boys' suits imported from New Zealand have met ANZCERTA ROO provisions, they have been classified as of NZ origin. Of all the men's and boys' suits imported from New Zealand in 2004-05, only around 4 per cent entered Australia without a claim for New Zealand origin.

**Whether men's and boys' suits are exported from Australia to NZ, and whether the proposed rules will affect that trade? If yes, how?**

Men's and boys' suits are currently being exported from Australia to New Zealand. As there is no effective change made in the proposed new rule of origin for tariff item 6103 (CTC plus 50% factory cost based RVC), there will be no impact on this trade.