



Submission No 30

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

Organisation: Department of Foreign Affairs and Trade

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The Hon Mark Vaile MP

Deputy Prime Minister
Minister for Trade
Leader of The Nationals

22 SEP 2006

The Hon Bruce Baird MP
Chair
Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Mr Baird

Supplementary Submission Review of the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) on Proposed Amendments to Article 3 of ANZCERTA: Rules of Origin

I refer to the request by the Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade on 7 September 2006 to the Department of Foreign Affairs and Trade for a supplementary submission regarding the benefits and costs of the proposed amendment to Article 3 of ANZCERTA.

As you are aware, the Minister for Industry, Tourism and Resources, Ian Macfarlane and I announced on 3 February 2006 that new Rules of Origin (ROO) would be adopted under ANZCERTA. The new ANZCERTA ROO are the result of a lengthy and rigorous process, including a comprehensive study by the Productivity Commission, detailed negotiations between the Australian and New Zealand Governments and extensive consultations with Australian and New Zealand industry.

The current ANZCERTA Rules of Origin (ROO) requires manufacturers to prove that at least 50 percent of a good's ex-factory cost comes from originating materials and/or local processing. The calculation costs of this approach can be administratively burdensome for the manufacturer, and can also lead to uncertainty as to whether the ROO will be met from one time period to the next, due to fluctuations in domestic production costs, exchange rates or prices of imported components. The ROO may also encourage companies to be inefficient, by encouraging them to inflate their local costs, rather than seeking out efficiencies.

The Australian and New Zealand governments and industry now consider that the Change-in-Tariff Classification (CTC) approach proposed for the ANZCERTA ROO holds significant advantages over the existing value-added ROO. The major advantage is that the CTC approach to ROO gives greater certainty and is administratively simpler than the value added approach. Under the CTC method, imports are required to undergo a specified change in tariff classification, which usually occurs when a product is transformed from a collection of materials and components into a finished good. Cost calculations become unnecessary under this approach, and there is no longer any uncertainty as to whether changing input costs or exchange rates will affect a product's ability to claim origin. The CTC also provides no incentive for companies to inflate their local costs in order to meet an RVC threshold. Other advantages of the CTC ROO are that they:

- are objective – they provide a single, clear rule for each tariff line, providing certainty as to what constitutes 'substantial transformation', regardless of the method used to produce the transformation;
- improve efficiency by allowing greater use of inputs not produced in Australia or New Zealand without an adverse impact on the ability to claim origin; and
- are consistent with Australia's more recent free trade agreements (AUSFTA and TAFTA).

In terms of costs, to the extent that they make it easier to claim preference on goods which currently fail to meet the ROO and pay the MFN tariff, CTC ROO will impact on Government revenues. This would affect a maximum of around \$2.9 million of duty collected by the Government, based on 2004-05 figures.

To minimise the impact on business of the new arrangements in the short-run, the existing ANZCERTA ROO will be maintained in parallel with the proposed new CTC ROO for five years. Australia and New Zealand have also agreed to review the operation of the CTC ROO within three years of them coming into effect. These provisions will put a floor under the potential costs to the changes by ensuring industry can become familiar with the CTC ROO while still having recourse to the current ROO if they think they will not meet them.

In conclusion, the Australian and New Zealand Governments, and industry on both sides of the Tasman are of the view that the proposed adoption of new ANZCERTA ROO based on a change of tariff classification approach will bring significant benefits to trans-Tasman trade by reducing costs for business and simplifying the rules.

Yours sincerely



MARK VAILE