

PRODUCTIVITY COMMISSION ENQUIRY – CER RULES OF ORIGIN

INTERIM RESEARCH REPORT

SUBMISSION from Cambridge Clothing Co Ltd

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1. Introduction

Thank you for the opportunity to comment on the Interim Research Report

For the most part we are supportive of the report. We agree with the analysis and we also agree, subject to one or two provisos, that INTERIM RECOMMENDATIONS 1 to 4 would achieve significant gains for traders on both sides of the Tasman.

2. Compliance costs of current ROO

We agree with the assessment of the costs of complying with the current RoO structure

3. Freight cost – is 5% about right?

Transtasman freight for Cambridge Clothing for the 6 months to December 03 were 3.1% of the FIS value of those goods.

4. Waiver proposal

We think the waiver proposal is sensible – as the margin of preference under CER drops with the lowering of the tariffs, so does the advantage for the local producer against the non-CER supplier. Lowering the cost of making the preference claim mitigates some of that loss of preference.

5. Importance of the principle that once the waiver applies it cannot be revoked

A company's strategy and overall business plan may change significantly upon receiving a waiver.

In addition once the systems and processes required to ensure a company's preference claims are correct are discarded and the human resource re-deployed, it will be expensive to re-implement them. The systems and processes might well no longer be applicable because other systems and processes with which they are integrated may be modified in the meantime. And the skills and habits will be lost after a matter of months.

For these reasons it is essential that the CER RoO include a rule that prevents the waiver status being revoked once it has been applied.

6. Definition of "Manufacture"

The Productivity Commission acknowledged at the meeting I attended that it was still working on this definition and how it might be applied at the border. It is important that it is robust (favours producers not trans-shippers or technical tinkerers), transparent (easy to establish one way or the other), and verifiable. It was not clear from the presentation that the proposal met these criteria. However we do agree that any such system (including the present one) relies on the basic honesty of the claimant. And we are optimistic that the ANZSIC principle the commission is pursuing is workable.

7. Qualification threshold measures – Factory Cost Build-up Method compared with Transaction Value Build-down Method

We agree the calculation in the TVBD method would involve lower compliance costs than in the current cost-based model.

The example in our Attachment A (last submission) which yielded a 56.46% qualifying cost proportion in the *build-up method*, yields an approximate 70% "added value" proportion in the *build-down method*. Other recent examples where the local content was close to the 50% threshold are as follows:

| FCBU | TVBD |
|-------|-------|
| 50.4% | 74.0% |
| 51.4% | 69.4% |
| 51.1% | 66.2% |
| 51.2% | 61.8% |

What proportion should be used as an indicator of local production? The present 50% would probably allow some products preference when no qualifying manufacturing cost had been added.

We think the saving in compliance costs would be less than the time and cost of negotiating a proportion that all parties agreed was a robust definition of "manufacture". And the unpredictable movements in exchange rate will remain a factor anyway.

8. Change in tariff classification approach

In our earlier submission we commented on the advantages and disadvantages of using the CTC approach to determining origin. In the end we took the view that the transition costs involved, and the likelihood of sector or product specific secondary rules acting as protection measures, would more than outweigh the advantages.

We have not seen anything since then to persuade us that the CTC approach would achieve the stated aims of this review more effectively than the INTERIM RECOMMENDATIONS.

9. Conclusion

We support the findings of the Commission in the Interim Research Report, subject to the qualifications in Points 5 and 6 above. We believe that given the diminishing margin of preference afforded by the CER, it is worth taking practical steps to lower the significant compliance costs faced by genuine producers.

To miss this opportunity because of different internal policy positions between the two countries, such as whether intermediate goods are duty free in one or the other country, or the degree of assistance to industry over the period of adjustment to the lower duty rates, would be short sighted and inconsistent with the Terms of Reference.

JOE MACKY

MANAGING DIRECTOR

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