



**Australian Government**  
**Department of Foreign Affairs and Trade**

5 March 2004

Handwritten initials, possibly 'J.S. 10/3', in black ink.

Mr Paul Gretton  
Assistant  
Commissioner  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Dear Mr Gretton

As requested, please find additional information on the proposal for changes to ANZCERTA Rules of Origin provisions relating to 'Intermediate Inputs' as raised in my letter of 1 March 2004.

Yours sincerely

Handwritten signature of Ric Wells in black ink.

Ric Wells  
First Assistant Secretary  
South Pacific, Africa and Middle East Division

## **Proposal for changes to ANZCERTA Rules of Origin provisions relating to 'Intermediate Inputs'**

### **Background**

At the CER Ministerial Forum, held in Sydney on 28 August 2003, the Australian Minister for Trade, the Hon. Mark Vaile, MP, and the New Zealand Minister for Trade Negotiations, the Hon. Jim Sutton, agreed that officials from Australia and New Zealand should examine the CER ROO with a view to considering whether improvements should be made to enhance trade. This included possible changes to the treatment of imported 'intermediate inputs'. Under the existing operation of ANZCERTA ROO, firms on either side of the Tasman can be denied preferential entry to the other market because they use imported materials in the manufacture of their final products.

The following proposal has been developed to allow imported materials to be appropriately disregarded from the calculation of the total cost of the finished good for the purpose of determining local content under the CER:

- Only materials not produced in either country may qualify;
- Coverage by the Tariff Concession Orders (TCOs) in both countries represent an appropriate proxy for goods not produced in each country.  
  
as such, materials on the TCO lists of both countries would meet the eligibility criterion and automatically qualify under the new provision;
- Materials approved under the determined manufactured raw materials (DMRM) regime also automatically qualify for treatment under the new provision;
- Where TCOs are not available, the process for determining whether a material is not produced in either Australia or New Zealand should be similar to the process for seeking a TCO. Materials approved in this manner would be published on a public schedule;
- A 33 per cent cap (of the total factory cost) will apply to the use of the new provision to ensure there is no abuse of the new arrangements; and
- Use of the provision is voluntary.

### **Impact**

Currently, about 2 per cent of Australia's exports to New Zealand do not enter duty free (i.e. enter at free rates of duty or under the tariff preference). A similar percentage of imports from New Zealand do the same. Australian exports to New Zealand were worth approximately \$8.1 billion in 2002-03, providing an upper limit to the current trade affected by this proposal of around \$162 million. Similarly, the value of imports from New Zealand that could benefit from the changes to the ROO is around \$100 million.

The major Australian export products where duty is currently paid include: plastics and chemicals, paper and paper products, fabrics, ceramic products, glass and glassware, metals and electrical machinery and equipment. Accordingly, these are the products most likely to benefit from such a change.

Since, under the proposal, the ROO would be relaxed somewhat, there is also a small possibility that trade would expand. Any such increased trade would likely have some competitive impact on the domestic industry of the importing party. The Australian structured clothing industry would likely see some additional competition from New Zealand in suits of higher quality than New Zealand currently exports to Australia and vice versa.

### **Industry views**

Australian Government officials have discussed the proposal with several industry associations who subsequently sought feedback on the proposal from their members. The Australian Industry Group was supportive of the proposal, particularly as the proposal includes built in protections with the "not produced in either country" criterion and cap. The Council of Textiles and Fashion Industries of Australia, however, does not support the change.



**Australian Government**  
**Department of Foreign Affairs and Trade**

1 March 2004

Mr Paul Gretton Assistant  
Commissioner Productivity  
Commission PO Box 80  
BELCONNEN ACT 2616

Dear Mr Gretton

I refer to the Department of Foreign Affairs and Trade's submission of 15 November 2003 to the Productivity Commission's inquiry into Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) Rules of Origin (ROO). This submission drew attention to the current state of negotiations between Australia and New Zealand on CER Rules of Origin, in particular noting that, as part of a package of ROO reforms, New Zealand has requested a change in the treatment of 'intermediate' goods, that are not produced in either Australia or New Zealand, for the purpose of calculating local content under ANZCERTA. Changes under consideration would disregard (up to a limit of 33 per cent) the value of such imported materials.

The Productivity Commission's interim report, released in December 2003, does not address the issue of 'intermediate inputs', and it was not raised by participants at the Productivity Commission's Roundtables held throughout Australia and New Zealand in February or in the supplementary submissions to the inquiry. This issue is nevertheless of particular importance to negotiations between Australia and New Zealand over further possible adjustments to ANZCERTA ROO. I suggest, therefore, that it would be useful if the Productivity Commission were to include consideration of the matter in its final report on ANZCERTA ROO.

The Department of Foreign Affairs and Trade would be pleased to provide additional information on this matter if required.

Yours sincerely  
Ric Wells  
First Assistant Secretary  
South Pacific, Africa and Middle East Division

A handwritten signature in black ink, appearing to read 'Ric Wells'.