



Australian Government

**Department of Industry
Innovation, Science, Research
and Tertiary Education**

Mr Gary Banks
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Dear Chairman

I write in response to the Australian and New Zealand Productivity Commissions' Discussion Draft on Strengthening Trans-Tasman Economic Relations released on 18 September 2012.

The Department of Industry, Innovation, Science, Research and Tertiary Education (the department) has policy responsibility for the development and review of rules of origin (RoO) for non-agricultural products under preferential trade agreements. The department is involved in the negotiation of RoO in all of Australia's current trade negotiations and in 2009 negotiated the review of the treaty text related to RoO and the associated product specific rules (PSR) under the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA).

Recommendation 4.6 of the Draft Report proposes a waiver of RoO requirements for all items for which tariffs in Australia and New Zealand are at 5 per cent or less. It also proposes that any remaining tariffs over 5 per cent should be reduced to that level by 2015 to allow for the removal of all Trans-Tasman RoO.

The Draft Report also notes that compliance with RoO requirements imposes costs which act as a barrier to increased utilisation of the agreement. These barriers include administrative costs borne by Australian and New Zealand customs services and businesses and distortions to production and consumption incentives.

The department notes that a similar recommendation was made by the Australian Productivity Commission in its Research Report on Bilateral and Regional Trade Agreements which was released in December 2010, and that the Australian Government accepted this recommendation.

The department considers implementation of a waiver under ANZCERTA would require careful Government consideration for the following reasons:

- the impact of these measures would potentially extend beyond Trans-Tasman trade and affect Australia's relationship with other trading partners;
- RoO compliance is an important component of preferential trade agreements as it provides a mechanism for avoiding transshipment;
- the department has received representations from Australian industry groups to indicate that a 5 per cent tariff is commercially meaningful, particularly for manufacturers of high value-added products and traders of bulk, homogenous commodities; and
- experience suggests that a waiver would be difficult to negotiate with a preferential trading partner. In the majority of negotiations to date, partner countries (including New

Zealand) have attached a high value to RoO and have sought strong certification and verification provisions for RoO.

Finally, the department notes that under existing legislated tariff reductions, all Australian *ad valorem* tariffs above 5 per cent are scheduled to be reduced to 5 per cent on 1 January 2015.

I would be happy for the content of this letter to be made publicly available on the Commission's website.

Yours sincerely

Paul Trotman

12 October 2012