

PACER+PLUS

OUTCOMES: RULES OF ORIGIN

Rules of origin (ROO) determine which goods are eligible for preferential tariff treatment. Product specific rules (PSRs) determine the circumstances in which goods imported from a member, that have components or inputs from a non-member, are still eligible for preferential tariff treatment.

PACER Plus has modern and flexible ROO and PSRs that will help create more opportunities for domestic value-adding for goods traded by members. This will support greater participation of the members in regional and global supply chains.



Scope

In general terms, a good is eligible for preferential treatment under PACER Plus if it is wholly obtained or produced in one or more of the member countries, or meets PSRs as outlined in an annex to the Agreement. In line with international best practice, the PSR Schedule in PACER Plus sets out up to three alternative rules to determine if an imported good originates from a member. Any one of these must be met to qualify for a preference:

- + **Change of Tariff Classification (CTC):** a good has undergone a significant production process that changes its tariff classification. The degree of change required to confer origin is specified for each product in the PSR Schedule.
- + **Regional Value Content:** at least 40 per cent of value-adding has taken place within the PACER Plus membership, with the last process of production taking place in a PACER Plus member country. However, this applies to some - but not all - products.
- + **Process Rules:** a good has undergone a specific process that fundamentally changed its nature. For example, a substance that undergoes a chemical reaction that transforms it but does not change its tariff classification or changes it sufficiently to apply the CTC rule. This is available for some products.



Trade under SPARTECA

PACER Plus builds on the 1980 South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) under which Australia (and New Zealand) provide duty-free access for imports from Pacific island countries. It was an innovative program in the 1980s; however, relatively little trade currently takes place under SPARTECA. This is partly because about half of Australia's most-favoured-nation (MFN) duties are currently zero and well over half of Australia's Generalised System of Preferences/Australian system of tariff preferences (GSP/ASTP) duties are zero. Additionally, all of Australia's duties on goods from Least Developed Countries (LDC)s are zero and therefore products do not need origin claims under SPARTECA to enter duty-free.

The rules of SPARTECA also require the last process of manufacture to be performed in a Pacific island country and at least 50 per cent of factory costs must be represented by qualifying expenditure. This arrangement suited international traders in the 1980s when a product might be manufactured, or substantially manufactured, in one or two countries, but is less relevant in modern supply chain trading.

PACER Plus preserves existing duty-free access under SPARTECA for Pacific island countries and improves access through improved modern and flexible ROO and PSRs.



Verification of Origin

PACER Plus sets out a process to verify claims of origin, when required, that balances the need for compliance with the rights of producers and traders. It also sets out documentation and record keeping requirements. Exporters and producers or their authorised representatives can complete the declaration of origin needed to claim a preference on a good imported from another member; there is no requirement for origin to be certified by an independent body.



More flexible ROO: the case of soaps and skin care products

Australia imports soaps, skin care creams and lotions from Pacific island countries made from coconut oil produced in Pacific island countries. These products would attract a five per cent duty on entry into Australia if they did not meet the minimum 50 per cent factory content rule under SPARTECA. Coconut oil might be produced locally but many other ingredients, along with packaging, might be imported. Currency movements that make imported inputs relatively more expensive add to the difficulty of meeting the factory content rule.

Under PACER Plus, these ingredients would enter Australia duty free if they met the Change of Tariff Classification rule. A key consequence is that duty free access to Australia would not be impacted by changes in the relative cost of inputs into the final product.

While Pacific island country manufacturers normally use locally produced coconut oil to promote their brands, there may be exceptions. Manufacturers might want to expand production using coconut oil imported from neighbouring Pacific islands that are not members of PACER Plus – for example American Samoa or New Caledonia. Similarly, local coconut production might fall temporarily in the aftermath of a cyclone. Imports of coconut oil from non-PACER Plus members might therefore be required to maintain production of skin care products. In both cases, these products would still qualify for duty-free entry into Australia under PACER Plus' flexible ROO.