

# Thailand - Australia Free Trade Agreement

Rules of Origin



The signing of the Thailand Australia Free Trade Agreement (TAFTA) opens an opportunity for Australian automotive component suppliers. A key element to be considered by the automotive industry are the Rules of Origin.

The Australian and Thai governments have entered into a Free Trade Agreement (TAFTA) which will have a substantial impact on the Australian economy.

This brochure highlights various aspects of the Agreement, and the way the Rules of Origin (ROO) operate under the agreement.

## What is the TAFTA?

The TAFTA was signed by the two countries in July 2004 and its associated tariff reductions are expected to come into effect on 1 January 2005, following the passage of implementing legislation.

## What effect will the TAFTA have on the automotive industry?

The TAFTA will see a range of tariffs on vehicles and automotive parts reduced over coming years. The following tables provide an overview of these changes:

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## Thai Tariff Changes

Category	Current Tariff	Tariff at 1 January 2005	Ongoing reductions	Final tariff
<b>Passenger Motor Vehicles</b>				
Large (>3000cc capacity)	80%	0%	–	0%
Goods vehicles	60%	0%	–	0%
Other	80%	30%	6 percentage points per year till 2010	0%
<b>Engines, components, parts and accessories</b>				
Automotive components, parts & accessories	Up to 42%	Up to 20%	Phased Reduction to 2010	0%
Engines	30%	15%	Phased Reduction to 2010	0%
<b>Other</b>				
Other Automotive tariffs	< 20%	0%	–	0%

## Australian Tariff Changes

Category	Current Tariff	Tariff at 1 January 2005	Ongoing reductions	Final tariff
<b>Passenger Motor Vehicles</b>				
PMVs	15%	0%	–	0%
Commercial vehicles	5%	0%	–	0%
<b>Engines, components, parts and accessories</b>				
Automotive components (general), parts & accessories	5-15%	5%	Reduction to 0% in 2009	0%
Specified components*	5-15%	0%	–	0%

\* Specified components include a list of up to 26 specific items including chassis, bodies, hoses, ball or roller bearings. For a complete list please refer to the Annex 4.1 to the TAFTA.

There are a number of administrative rules in place that support the operation of the agreement. It is important for Australian companies to understand these rules to assist them in identifying opportunities and assessing the impact of the agreement on their business.

## Rules of Origin (ROOs)

### Why do we need ROOs?

The TAFTA's rules of origin establish which goods are originating goods of Australia and Thailand. That is, which are genuinely manufactured in those two countries and therefore able to obtain preferential tariff treatment.

These rules prevent goods from other countries obtaining the TAFTA benefits by merely being shipped through Thailand or Australia.

Determining the origin of goods can be a complex exercise, and some specific rules have been set-up under TAFTA to address these matters. Chapter 4 of the TAFTA and its Annexes contain more detail on these rules, and they are summarised in the following sections.

### The Specific ROOs

If you produce goods that are made from wholly Australian or Thai produced materials, then your goods are considered originating because they are "wholly obtained" from originating materials.

However, goods can be originating even if they contain some non-originating materials, as long as the non-originating materials satisfy the ROOs.

A specific ROO exists for every type of good that incorporates non-originating materials. These are organised by tariff classification number, so the first step is to find the tariff classification number of a good. This can be done by searching Schedule 3 of the Customs Tariff Act 1995, or by seeking advice from the Australian Customs Service. Annex 4.1 of the TAFTA gives the ROO that applies to each tariff classification number.

The specific ROOs are based on either:

- a regional value content ("RVC") using the 'build down' method;
- a change in the tariff classification; or
- both of the above.

In the majority of cases, both the change in tariff classification and a RVC requirement apply to automotive products.

### Regional Value Content (RVC)

The RVC threshold is determined by calculating the value of the final product (after subtracting the cost of non-originating materials) and comparing this to the value of the exported product.

The RVC is calculated using the formula:

$$RVC = \frac{AV - VNM}{AV} \times 100$$

where

- RVC is the regional value content, expressed as a percentage;
- AV is the adjusted value (value for customs purposes); and
- VNM is the value of non-originating materials used by the producer in the production of the good.

The adjusted value (AV) equates to the free-on-board (FOB) value of the product – i.e. the price paid by the importer, less international shipping and related costs.

The value of non-originating materials (VNM) is measured by the Cost, Insurance and Freight (CIF) value of the material – i.e. the price paid by the importer, including international shipping and related costs incurred from the country of exportation to the port of importation.

## Example 1.

An Australian producer sells a radiator (tariff classification subheading number 8708.91) for \$100. The CIF value of the relevant non-originating materials imported from Japan (classified in subheading 8708.99) used in the production of the radiator in Australia is \$40 which includes \$4 in shipping costs and \$1 in insurance costs from Japan to the Australia.

The Annex 4.1 specific ROO for the radiator - tariff classification subheading 8708.91 states:

"Change to subheading 8708.91 from any other heading or from subheading 8708.99, provided there is a regional value content of not less than 40 percent."

Since the imported non-originating materials are classified in subheading 8708.99 and the finished good (the radiator) is classified in subheading 8708.91, the non-originating materials meet the required tariff change.

The second test of the specific ROO for subheading 8708.91 requires a RVC of no less than 40 per cent. Using the "build-down" method, the producer calculates the RVC as follows:

$$RVC = \frac{100(AV) - 40(VNM)}{100(AV)} \times 100 = 60\%$$

The radiator would be considered originating, since both the tariff change requirement is met and the RVC is not less than 40 percent.

### ROO based on change in tariff classification

When a ROO is based on a change in tariff classification, each of the non-originating materials used in producing the good must undergo the change.

This means that the non-originating materials are classified under one tariff item before processing, and under another once processing is complete. The specific ROOs define exactly what change in tariff classification must occur for the goods to be considered originating.

### Motor Vehicles

ROOs for motor vehicles will be based on a change of tariff classification at the 4-digit (heading) level from any other heading, provided they meet a RVC of 40 per cent.

### Parts and Accessories

For automotive parts and components the ROOs will require a change of tariff classification at the 6-digit (subheading) level, providing they meet a RVC of 40 per cent.

### Special Rules

#### Ancillary Goods - Accessories, spare parts and tools

Under the TAFTA, special treatment can apply to items that are invoiced as part of another component or machine.

An example of these ancillary goods may be hoses delivered with the pump that are used for connection to a piece of machinery (regardless of where the hoses originated from).

When the pump itself is subject to the 'Change in tariff classification' ROO, the ancillary items that appear on the invoice do not need to be considered under the tariff change. Hence, if the pump itself is considered originating, the hoses and other ancillary items listed on the invoice are also considered originating.

However, where goods are subject to a RVC requirement, the value of these ancillary items will be taken into account as originating or non-originating materials. In our example, the hoses are treated as individual items to be considered, as is the pump itself.

## Example 2.

An Australian producer sells gear boxes (tariff classification subheading number 8708.40) for \$1000. The non-originating materials used in the production of the gear boxes include \$300 of material (which includes \$40 of shipping and insurance costs incurred for the international shipment of the materials from Indonesia to Australia) classified in heading 7318 imported from Indonesia and \$280 of material (which includes \$35 of shipping costs incurred for the international shipment of the materials from Malaysia to Australia) classified in heading 7326 imported from Malaysia for a total CIF value of non-originating material of \$580.

The Annex 4.1 specific ROO for the gear boxes - tariff classification subheading 8708.40 states:

“Change to subheading 8708.40 from any other heading or from subheading 8708.99, provided there is a regional value content of not less than 40 percent.”

Since the imported non-originating materials are classified in headings 7318 and 7326 respectively and the finished goods (the gear boxes) are classified in subheading 8708.40, the non-originating materials meet the required tariff change.

The second test of the specific rule of origin for subheading 8708.40 requires a RVC of not less than 40 per cent. Using the “build-down” method, the producer calculates the RVC as follows:

$$\text{RVC} = \frac{1000(\text{AV}) - 580(\text{VNM})}{1000(\text{AV})} \times 100 = 42\%$$

The gear boxes would be considered originating, since both the tariff change requirement is met and the RVC is not less than 40 percent.

### Accumulation

Originating goods from Australia incorporated into goods from Thailand, are considered to originate in Thailand (and vice-versa).

### De Minimis Rule

A good that does not satisfy the change in tariff classification requirement can still be considered originating if the total value of the non-originating materials that failed to meet the change in tariff classification requirement and used in the production of the good is no more than 10 per cent of the value of the good.

Note that the De Minimis rule will only apply to automotive product in exceptional circumstances.



## Example 3.

A manufacturer purchases two types of non-originating materials – X and Y to be assembled into a finished good Z. The finished good Z is valued at \$1000, with the parts individually worth \$500 (X) and \$80 (Y). As a result of its transformation into the finished good, X satisfies the required tariff change, but Y does not satisfy the required tariff change. Since Y has not met the required tariff change requirement, the finished good will not qualify as originating unless the value of Y does not exceed 10% of the value of Z. Therefore as the value of Y is 9% of the goods value (\$1000), the goods would be considered originating under the FTA.

### Certificate of Origin

An exporter must apply to an authorised body for a Certificate of Origin (COO) in respect of a single shipment of originating goods.

In Australia, a COO can be issued by the Australia Chamber of Commerce and Industry (ACCI), State Chambers of Commerce or the Australian Industry Group (AiGroup). In Thailand, the contact is the Department of Foreign Trade, Ministry of Commerce.

Specific data is required for the Certificate of Origin, including:

1. Registered exporter details
2. Shipment details
3. Full description of Registered Goods
4. Registered Exporter declaration

### Obligations of importers

When claiming duty rates under the TAFTA, an importer must have a valid Certificate of Origin (or a copy) in its possession for the relevant goods and must provide a copy on request by the customs authority of the importing country.

Importers must maintain records and supporting documents related to the origin of the good for at least five years from the date of importation of the good.

### Obligations of exporters

Exporters must register with an authorised body (Refer Certificates of Origins above) which must approve the exporter as producing originating goods. The exporter then must apply to the authorised body to obtain a COO for each shipment.

(Certificates of Origin and the standard application forms are under development by ACCI and Ai Group in consultation with the Australian Government)

Exporters must maintain records and supporting documents related to the origin of the good for at least five years from the date of the Certificate of Origin.

## Additional Information

There are a number of bodies who offer specialist advice and assistance in regard to the technical issues associated with the TAFTA. Some of these bodies are listed below.

### Automotive Standards

#### Thai Industrial Standards Institute

Web: [www.tisi.go.th](http://www.tisi.go.th)

#### Standards Australia

GPO BOX 5420  
SYDNEY, NSW 2001  
Web: [www.standards.com.au](http://www.standards.com.au)

#### Department of Foreign Affairs and Trade (DFAT)

Tel: (02) 6261 1251 or (02) 6261 2373  
Web: [www.dfat.gov.au/trade/negotiations](http://www.dfat.gov.au/trade/negotiations)

#### Department of Transport and Regional Services (DOTARS)

Tel: (02) 6274 7111  
Web: [www.dotars.gov.au](http://www.dotars.gov.au)

#### Australia Thailand Business Council

PO BOX 6005  
KINGSTON, ACT 2604  
Tel: +612 6273 2311  
Fax: +612 6273 3196  
Email: [secretariat@aust-thai.org.au](mailto:secretariat@aust-thai.org.au)  
Web: [www.aust-thai.org.au](http://www.aust-thai.org.au)

### Certificates of Origin

#### Australian Industry Group (AiGroup)

NSW  
Shirley Ng, tel: (02) 9466 5442  
Email: [Shirley.Ng@aigroup.asn.au](mailto:Shirley.Ng@aigroup.asn.au)  
QLD  
Ron Vicencio, tel: (07) 3244 1749  
Email: [Ron.Vicencio@aigroup.asn.au](mailto:Ron.Vicencio@aigroup.asn.au)  
VIC  
Louise McGrath, tel: (03) 9867 0158  
Email: [Louise.McGrath@aigroup.asn.au](mailto:Louise.McGrath@aigroup.asn.au)

#### Australian Chamber of Commerce and Industry (ACCI)

PO Box 6005  
KINGSTON ACT 2604  
Tel: (02) 6273 2311  
Fax: (02) 6273 3286  
Email: [acc@acci.asn.au](mailto:acc@acci.asn.au)

### Thailand Contacts

#### The Automotive Industry Club

Queen Sirikit National Convention Centre,  
Zone C  
4th Floor, New Rachadapisek Road,  
Klongtoey  
Bangkok 10110  
Thailand  
Tel: (662) 229-4255  
Fax: (662) 229-4941-2  
Email: [info@mediaoverseas.com](mailto:info@mediaoverseas.com)  
Chairman: Mr. Ajarin Sarasas

#### The Auto-Parts Industry Club

Queen Sirikit National Convention Centre,  
Zone C  
4th Floor, New Rachadapisek Road,  
Klongtoey  
Bangkok 10110  
Thailand  
Tel: (662) 229-4255  
Fax: (662) 229-4941-2  
Email: [info@mediaoverseas.com](mailto:info@mediaoverseas.com)  
Chairman: Mr. Chawalit Jariyawatsakul

#### Thai Auto Parts Manufacturers Association

32-33 Moo 17, Bangna-Trad Highway Km 11  
Bangpleeyai, Bangplee  
Samutprakarn 10540  
Thailand  
Tel: (662) 316-8800-7 ext. 206  
Fax: (662) 316-5629  
Email: [info@mediaoverseas.com](mailto:info@mediaoverseas.com)  
Chairman: Mr. Pramont Pongtong

#### Thai Automotive Industry Association

Queen Sirikit National Convention Centre,  
Zone C  
4th Floor, New Rachadapisek Road,  
Klongtoey  
Bangkok 10110  
Thailand  
Tel: (662) 229-4255  
Fax: (662) 229-4941-2  
Email: [info@mediaoverseas.com](mailto:info@mediaoverseas.com)  
Chairman: Mr. Adisak Rohitasume

#### Thailand Board of Investment

Office of the Board of Investment  
555 Vibhavadi-Rangsit Road, Chatuchak  
Bangkok 10900 Thailand  
Tel: (662) 537-8111-55  
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This brochure has been produced with the assistance of:



Australian Government  
Department of Industry  
Tourism and Resources