

Background to the AANZFTA Agreement

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1. Introduction

The Agreement establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) was signed in Thailand in February 2009 by Australia, New Zealand and the following ten member countries of ASEAN:

- Brunei
- Burma (Myanmar)
- Cambodia
- Indonesia
- Laos
- Malaysia
- Philippines
- Singapore
- Thailand
- Vietnam.

While the agreement will enter into force on 1 January 2010, the following countries have notified other Parties of their ratification and will therefore be Parties to AANZFTA from 1 January 2010:

- Brunei
- Burma (Myanmar)
- Malaysia
- Philippines
- Singapore
- Vietnam.

The remaining ASEAN countries (Cambodia, Indonesia, Laos and Thailand) are working to ratify AANZFTA at the earliest possible opportunity in 2010. The Agreement will enter into force for these Parties 60 days after the dates of their respective notifications.

2. AANZFTA's Tariff Commitments

2.1 Overview of the Tariff Commitments

AANZFTA provides for extensive commitments on the reduction and elimination of tariffs. Key features of the tariff outcomes are:

- Tariffs will be eliminated on a high percentage of tariff lines in all AANZFTA Parties. Most tariffs will be progressively phased down until they are eliminated. This phasing generally commences on entry into force of the Agreement, including immediate tariff elimination for some products in individual countries. The phasing uses as a starting point applied most-favoured-nation (MFN) tariffs in 2005.
- Many tariffs currently at very high levels will be reduced to levels that should allow trade to flow within a few years.
- Exclusions from tariff commitments in individual ASEAN countries have been kept to a minimum, and generally do not exceed 1% of a country's national tariff lines. For goods where tariffs are neither eliminated nor excluded from commitments, tariffs will either be bound at the 2005 base rate, or will be subject to tariff reductions.
- The tariff commitments in the Agreement only apply to those goods exported by an AANZFTA Party which meet the applicable rules of origin (ROO). The tariff outcomes provide for longer transition periods, and lower tariff elimination outcomes, for Vietnam and the three least developed countries (Burma, Cambodia and Laos), in recognition of their status as newer ASEAN members with less developed economies.

A snapshot of the tariff elimination outcomes is provided in Table 1, which shows, for each Party, the percentage of tariff lines with applied (most-favoured-nation (MFN)) tariff-free treatment in the base year of 2005, and with bound tariff-free treatment in AANZFTA in 2010, in 2013, and at the end of the transition period for each country.

Table 1 demonstrates:

- the high levels of tariff elimination that will be achieved by AANZFTA; and
- that high levels of tariff-free treatment - generally around 90% - will be achieved as early as 2013 for the more developed ASEAN markets.

Table 1
Percentage of Tariff Lines with Tariff-Free Treatment

Country	2005 Base Tariffs (%)	2010 (%)	2013 (%)	Final Tariff Elimination	Year Achieved
Australia	47.6	96.4	96.5	100	2020
Brunei	68	75.7	90	98.9	2020
Burma	3.7	3.6	3.6	85.2	2024
Cambodia	4.7	4.7	4.7	88	2024
Indonesia	21.2	58	85	93.2	2025

Laos	0	0	0	88	2023
Malaysia	57.7	67.7	90.9	96.3	2020
New Zealand	58.6	84.7	90.3	100	2020
Philippines	3.9	60.3	91	94.6	2020
Singapore	99.9	100	100	100	2009
Thailand	7.1	73	87.2	99	2020
Vietnam	29.3	29	29	89.8	2020

Note: AANZFTA will apply in parallel with Australia’s existing bilateral free trade agreements (FTAs) with three of the countries that are also signatories to AANZFTA (New Zealand (ANZCERTA), Singapore (SAFTA) and Thailand (TAFTA)). The three FTAs have their own tariff commitments, which apply to goods meeting the relevant ROO provisions under each of the agreements. Businesses will be free to decide whether to make use of AANZFTA or the bilateral FTA when trading with these countries, but need to remember that the tariff commitments contained in each agreement are only applicable to goods that meet the relevant ROO in that agreement.

2.2 How to Find the Tariff Commitments for Individual Products

The tariff commitments of each of AANZFTA’s 12 Parties are set out in the 12 individual country tariff schedules which are contained in Annex 1 to the Agreement (the schedules can be found at http://www.dfat.gov.au/trade/fta/asean/aanzfta/annexes/annex1_tc.html).

These schedules contain several columns setting out the following information:

HS Code: this is the national tariff number for each product. The Harmonized System (HS) is harmonized internationally up to the six digit level using the Harmonized Commodity Description and Coding System. The HS is used by all AANZFTA Parties as the basis for classifying and differentiating between goods for the purposes of levying tariffs, applying other trade measures and collecting trade statistics.

However, the national tariff of most countries is at the 7, 8 or 9 digit level, with the additional digits allowing countries to make their own distinctions between different categories of goods. Most ASEAN countries use the ASEAN Harmonized Tariff nomenclature (AHTN), which is based on the Harmonized System but which further harmonizes the tariff numbers up to the eight digit level. List the HS, the AHTN also allows individual ASEAN countries to have additional digits in their national tariffs to make national-level product distinctions

Description: this is the description of the good covered by the corresponding national tariff number. Like the tariff numbers, this is harmonized internationally in the HS up to the six digit level, but can differ between countries at higher levels.

Columns for 2009, 2010 etc: these columns set out AANZFTA’s tariff commitments for each year. The column headed ‘2009’ was originally included because of the possibility that AANZFTA might have entered into force in the second half of 2009. If, as now expected, AANZFTA enters into force on 1 January 2010, the tariff that would be applied under AANZFTA for each tariff line on that date (or an alternative date of entry into force in 2010) is that set out in the column headed ‘2010’. The tariff rates that would be implemented in

subsequent years are set out in the columns headed ‘2011’, ‘2012’ etc, and these rates will be implemented on 1 January of each year. The final column in most countries’ schedules is headed ‘2020 and subsequent years’ and sets out the final tariff rate that would apply from 2020 onwards.

2.3 Note: HS Transposition of the Tariff Schedules

The tariff schedules included in Annex 1 to the Agreement, are in a tariff classification format that is known as HS 2002. The HS is periodically updated by the World Customs Organization – usually every five years – to simplify it where possible and to take account of changes in technology, the appearance of new products, and changes in the patterns of international trade. The version of the HS that applied on 1 January 2005 – the starting point for AANZFTA’s tariff commitments – was HS 2002. However, this was replaced in 2007 by a new version, known as HS 2007.

Prior to AANZFTA’s entry into force, all of the AANZFTA tariff schedules need to be converted (or ‘transposed’) into the HS 2007 format. For many product sectors there are only minor changes between the structure of the tariff in HS 2002 and that in HS 2007, but for some product sectors there are significant changes between the two formats. In addition to changes at the six-digit level to the HS – there may be other changes at the national tariff line level (e.g. the 8 or 9 digit level). For example, Indonesia’s national tariff structure has undergone a major simplification since 2005, and now has a significantly smaller number of tariff lines. These changes often involve a number of tariff lines being merged into a single tariff line, or a single tariff line being split into several new tariff lines, or more complex changes involving both splits and mergers.

The AANZFTA Parties have been undertaking the transposition of the tariff schedules into HS 2007 over recent months and expect to complete this process very soon. When the transposition is completed, the HS 2007 tariff schedules will be made publicly available (e.g. they will be available on www.dfat.gov.au/trade/fta/asean/aanzfta), and the AANZFTA tariff commitments will be implemented using these HS 2007 tariff schedules (rather than using the HS 2002 tariff schedules).

It will therefore be important for business to check the commitments in the HS 2007 schedules, when they become available, before seeking to export or import under AANZFTA.