



31-Oct-03

Productivity Commission
Canberra Office
Level 3 Nature Conservation House
Car Emu Bank & Benjamin Way
Belconnen ACT 2617

Attn: Mr John Cosgrove

Dear John

During your visit to our premises you requested that we submit in writing our views regarding the Rules of Origin under the CER Agreement between NZ and Australia.

As discussed, whilst we have managed to trade successfully in Australia for some 1213 years we do find the 50% local content regulations restrictive and would appreciate any move that overcomes the areas we find troublesome.

A brief summary of the main issues we have are as follows:

- **Exchange Rates:** In times when the NZ\$ is weak against the currencies we buy the majority of our Raw Materials in (USD & Euro) the higher relative costs of those imported items results in our company having difficulties in reaching the 50% content for some of the items we wish to produce. Whilst this is not the case at present with the NZ\$:USD being so high, it almost certainly will devalue some time into the future and impact negatively on our Trans Tasman trade.
- **Inefficient Raw Material Buying Decisions:** To meet 50% content we at times purchase raw materials from local sources more expensively than is available from alternative world sources and of a lower quality. An example of this is polyester linings for a jacket - not only does this cost substantially more than the viscose lining we would prefer to buy but it is of inferior quality to the preferred option. The same applies to locally sourced shoulder pads and trouser pocketing. Consumers ultimately pay a higher price which does not seem to be the desired outcome of this regulation.
- **Inefficient Manufacturing:** As a result of our buying local raw materials to ensure we meet 50% content we are forced to manage a significantly greater number of raw material items. Best illustrated in the colour based jacket linings where we must buy all the colours we require twice - one from our preferred (cheaper and better) quality and again from the locally sourced option. Additionally, in some circumstances we manufacture garments to a quality standard far higher than is required by the market just to ensure we

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meet the 50% level - in one extreme case not only do we do all this but we also deliver the garment with a belt (made in NZ) just to ensure we meet content. The added cost of all this is substantial - again consumers ultimately pay the higher price for this_

- **High Quality Niches:** We see the future for locally made garments in our business (we are also a substantial importer) to be largely confined to the higher priced/higher quality end of the market. As a result the fabrics that form this part of our business are of a high price - yet these high priced fabrics are the area we have the greatest difficulty in meeting 50% content. This in effect restricts us from manufacturing the items that are the most logical to be made locally and as a result the market place will buy the goods from the alternative sources which is likely to be European. This does not seem to be the outcome planned for the 50% local content level.

We understand that some Companies or Industries may not favour any change to the current Rules of Origin level due to the perceived threat of their competitor from the other side of the Tasman. We suggest that views such as this are ignoring the main threat to their entire industry (including our business) comes from countries outside the CER boundaries (ie China). Decision makers on both sides of the Tasman should be ensuring that the CER rules of origin are structured in such a way as to encourage local businesses to survive the greater threat from countries such as China. If decisions were made to protect local companies from Trans Tasman competitors it could have the effect of weakening even the strong (NZ & Aust) companies futures.

Our recommendation therefore is to have the current 50% local content level reduced to 40%. Whilst we know there are problems with determining local content, we are of the view that the system is already in place and it works - any alternative scheme will take too long to implement, therefore we will not get the benefit of the change for many years. A change to 40% can be implemented quickly and will have an immediate and positive impact for manufacturer's such as ourselves.

Yours Sincerely



David Lyford
MANA ING DIRECTOR