

Generalized System of Preferences

**HANDBOOK ON THE SCHEME OF
NEW ZEALAND**



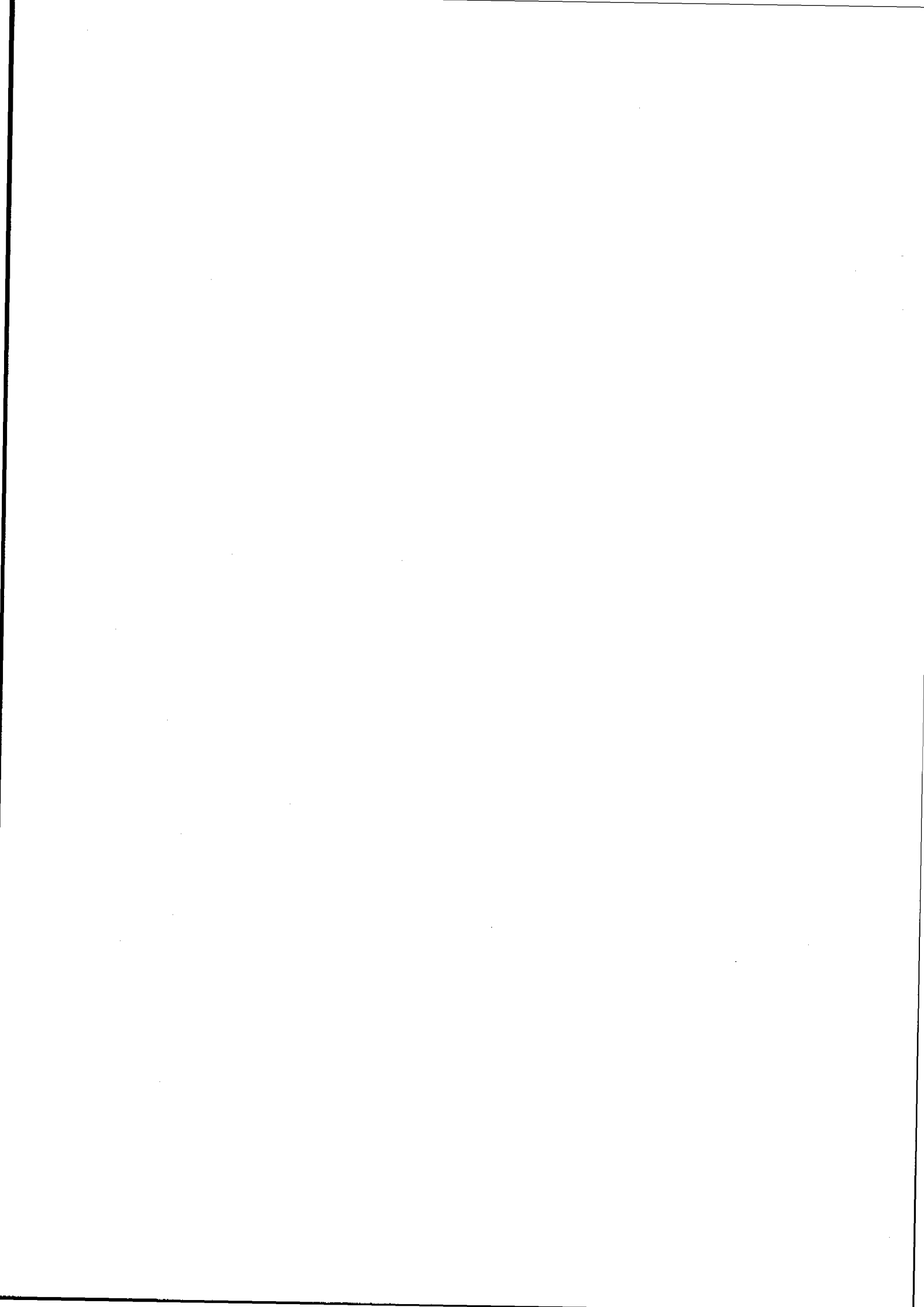
UNITED NATIONS

Generalized System of Preferences

HANDBOOK ON THE SCHEME OF NEW ZEALAND

(INT/97/A06)

UNCTAD Technical Cooperation Project on Market Access,
Trade Laws and Preferences



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INTRODUCTION

This Handbook is intended to give, in a consolidated and concise form, information regarding the tariff advantages available to developing countries under the scheme of generalized preferences of New Zealand, and the conditions under which goods may qualify for preferential treatment on importation into New Zealand, on the basis of official texts of the New Zealand Customs administration as of 20 April 1999.

The Handbook has been prepared by the UNCTAD Technical Cooperation Project on Market Access, Trade Laws and Preferences (INT/97/A06) primarily for use within the context of project activities.

It should be noted the description of products is given in terms of the Harmonized Commodity Description and Coding System on which the New Zealand Customs Tariff is based. Matters involving technical interpretation of the GSP will be determined, however, in accordance with the provisions of the New Zealand Customs Tariff, since the scheme has been devised on an individual tariff line basis.

Although based on official texts, the Handbook cannot be regarded as a substitute for these texts. For more detailed information, authentic and up-to-date legal texts should be consulted.

Further information may be obtained by writing to the:

New Zealand Customs Administration
Private Bag
Wellington
NEW ZEALAND

BACKGROUND

New Zealand introduced its GSP scheme on 1 January 1972. Since its implementation the scheme has been fully reviewed four times – in 1976, 1984, 1986 and in 1988. The latest review took place against the background of New Zealand's overall movement towards zero tariffs in 1996. By 2000, most normal tariffs – covering 89 percent of New Zealand tariff items – will be at zero or 5 percent duty. GSP preferences will be minimal since for all those items, the standard margin of preference will be zero or 1 percent. For the remaining 11 percent of tariff lines the margin of preference will range between only 1-3 percent.

Post-2000, the New Zealand Government has legislated a programme for the removal of all tariffs by 1 July 2006. Tariffs on all products other than textile, clothing, carpet, headgear will be removed by 1 July 2002 (see Appendix III.)

In addition to unilateral reduction programmes, New Zealand will continue to participate in regional and international activities such as the APEC sectoral liberalization initiative and WTO zero for zero agreements.

The latest review determined that changes in the New Zealand tariff regime and in the international trading environment mean that New Zealand's GSP scheme, created 25 years ago, was no longer appropriate and that certain modifications were required. In light of this latest review, the New Zealand Government has decided that the New Zealand GSP scheme will continue in its current form for least developed countries. They will continue to enjoy duty free access except on some footwear and some apparel. The Government agreed that the GSP scheme will be formally abolished when normal rates fall to zero for all tariff items covered by the scheme. Developing country preferential rates under the GSP scheme will be frozen on 1 July 2000 and then will be phased out as normal tariffs reduce to zero. During this phase out period developing country tariff rates will not be increased. The product graduation element was abolished as of 1 January 1998. Under this previous product graduation element, when imports from a developing country under a particular tariff item exceeds the twin benchmarks of import share (25 percent of total imports) and a certain value for duty (NZ\$122,000) in 1996 those imports lost their preferential status.

DEPTH OF TARIFF CUTS

The preferential tariff rates accorded under the GSP are generally maintained at the duty-free level for least developed countries (LLDCs) or at 80 percent of the MFN or "normal" level for other developing countries (LDCs). However, for some tariff items, the LDC preference is greater, eg wood pulp (Chapter 47) and on articles of tin (Chapter 80). Similarly, duty is payable on some items from LLDCs (apparel, on which there is a small LLDC preference, and footwear, on which there is no preference). Excise equivalent duties are not subject to concession under GSP or any other scheme.

BENEFICIARIES

LDC's are granted beneficiary status on application, provided they meet specified economic benchmarks (viz per capital GNP relative to New Zealand's). Approval must also be consistent with New Zealand's international obligations (eg United Nations sanctions). One hundred and five LDCs have preferential access to the New Zealand market (see Appendix 1).

LLDCs, defined by the United Nations using a per capita income benchmark (maximum of US\$400 per annum), have been beneficiaries of the scheme since 1 July 1985. Forth six LLDCs have preferential access to New Zealand (see Appendix 1).

The New Zealand Government intended that LLDCs should eventually obtain duty-free access for all products. However, some exclusions were made for industry assistance reasons. About 99.5 percent of LLDC imports into New Zealand under "dutiabale" tariff items receive a special LLDC preference.

Quantitative Restrictions

New Zealand does not impose any quantitative restrictions on GSP imports (or any other imports).

Graduation Policy

New Zealand operates a country graduation policy under its GSP scheme. (As mentioned above, a product graduation measure was phased out on 1 January 1998).

Country graduation is aimed at focusing the GSP scheme on assisting and promoting growth in the relatively-poorer developing countries, rather than benefiting countries that have already achieved a comparatively high degree of development. Under New Zealand's GSP, a beneficiary loses preferences when its per capita gross National Product reaches or exceeds 70 percent of the New Zealand level. The base reference source for this data is the World Bank Atlas. At this level of relative income, a country is considered to have developed beyond the point where it needs preferential tariff treatment. When a beneficiary exceeds the benchmark, it is 'graduated' and loses its preferential status. In the past, a beneficiary which was 'graduated' could apply for a reinstatement of preferences for certain items to be placed in a special concessions category. This possibility was revoked in the most recent review, as the value of such reinstated imports was found to be insignificant.

PRODUCT COVERAGE

New Zealand's scheme is based on the 'negative list' concept; that is, all goods are subject to preference unless specifically excluded. The initial priority was to provide LDCs with preferential treatment for their semi-manufactured and manufactured products, with the main emphasis being placed on the industrial products in Chapters 25-97 of the Harmonized Tariff. Raw materials and base

metals are, with few exceptions, not included in the GSP; most are 'Free All Sources' in the New Zealand Tariff. LDC product coverage is wide but not universal (some 72 percent of the dutiable tariff items in the New Zealand Tariff provide for LDC preferences). Certain "sensitivities" relate mainly to sectors covered by former "Industry Plans" (including Apparel, Commercial Shipbuilding, Footwear, Glass, Motor Vehicles and Ceramics).

RULES OF ORIGIN

Rules of origin are used to determine the eligibility of products for preferential treatment. To enjoy preferential tariff treatment, products must be:

- wholly obtained in a LDC/LLDC; or
- partly manufactured in a LDC/LLDC (50 percent Rule).

(a) Products Wholly Obtained in a LDC/LLDC

The following products wholly obtained in a LDC/LLDC will qualify for GSP tariff treatment:

- (i) Mineral products extracted from its soil or from its seabed;
- (ii) Vegetable products harvested there;
- (iii) Live animals born and raised there;
- (iv) Products obtained there from live animals;
- (v) Products obtained by hunting or fishing conducted there;
- (vi) Products of sea fishing and other products taken from the sea by its vessels;
- (vii) Products made on board its factory ships exclusively from the products referred to in sub-paragraph (vi) above;
- (viii) Used articles collected there fit only for the recovery of raw materials;
- (ix) Waste and scrap resulting from manufacturing operations conducted there;
- (x) Products obtained there exclusively from products specified in sub-paragraphs (i) to (ix) above.

(b) Products Partly Manufactured in a LDC/LLDC

Products partly manufactured in a LDC/LLDC will qualify for GSP tariff treatment provided:

- (i) The final process of manufacture has been performed in that country; and,
- (ii) At least one-half (50 percent) of the factory or works cost of the finished products is represented in each article by the value of:
 - material the product of any LDC/LLDCs; and/or
 - material the produce of New Zealand; and/or
 - other items of factory or works cost incurred in any LDC/LLDC or in New Zealand.

50 percent Rule

(a) The Last Process of Manufacture

This criterion must be met before the 50 percent calculation can be applied. In essence, manufacture involves the creation of an article different from the component parts or materials which go into such manufacture. Repairing, reconditioning, overhauling, or refurbishing do not constitute manufacture as these are restoration processes. Minimal operations or processes such as pressing, labelling, ticketing, packaging, preparation for sale and quality control inspections will not, by themselves, be considered to be the last process of manufacture.

(b) The 50 percent Rule is Calculated on the Following Formula

$$\frac{\text{qualifying expenditure}}{\text{factory or works cost}} \quad (\text{expressed as a percentage [\%]})$$

The 'factory or works cost' is the sum of the following expenditure:

- all materials used in manufacture;
- qualifying labour and qualifying factory overhead expenses;
- inside containers/packages (excluding outside packages).

While the 'qualifying expenditure' is the sum of the following three elements:

- qualifying materials;
- qualifying labour and qualifying factory overhead expenses;
- inside containers/packages (excluding outside packages).

Further explanation of the 'factory or works cost' and 'qualifying expenditure' is as follows.

(c) Application of Factory or Works Cost

It relates only to products 'partly manufactured' in a beneficiary country. It is not a factor in the determination of the origin of products 'wholly obtained' in a beneficiary country.

(d) The Factory or Works Cost of any Manufactured Product is the Total Sum of the Following Items

- Cost of materials as received into the factory excluding customs, excise or other duties payable in respect of those materials;
- Manufacturing wages (ie the direct wages paid for the labour expended in producing the product concerned, including holiday and sick leave with pay);
- Factory overhead expenses, namely:
 - All expenses directly or indirectly connected with manufacture (eg rent, rates and taxes in respect of the factory);
 - Motive power, gas, fuel, water, lighting and heating of the factory;
 - Expenses of factory supervision (eg wages and salaries of manger, foreman, timekeeper and watchman);
 - Repairs, renewals and depreciation of plant, machinery, tools and factory buildings. Including perishable tools, dies and drills;
 - Royalties payable in respect of patented machines or processes used in the manufacture of the products concerned;
 - Cost of inner containers, including packaging for retail sale but not including outside packing used for the conveyance of goods.

(i) Materials

Materials are the inputs that go into the manufacturing process being used, consumed and/or incorporated in the finished goods. The total cost of bringing all the materials used to produce the goods into the factory or works is allocated to the calculation of the factory or works of the finished goods.

Examples of what the cost of the materials includes are:

- the purchase price of the materials;
- any overseas freight and insurance, and port and clearance charges, eg, wharf to factory;
- inward transport to factory.

But the cost excludes:

- customs duty;
- excise duty;
- sales tax;
- anti-dumping or countervailing duty.

(ii) Labour (Manufacturing Labour)

This cost covers the direct employed in the production of the goods. Being the staff actually employed in the manufacture of the goods. It therefore includes manufacturing labour, ie, the labour of the employees directly relating to the manufacturing process – staff engaged in the direct manufacture of the product, eg machinist.

(iii) Factory Overhead Expenses

These expenses cover the factory overhead expenses used in the production of the goods as identified in the above list. However, the following points should be noted:

- Only expenses directly or indirectly connected with, or relating to the factory may be included in calculating factory or works cost; direct or indirect expenses connected with, or relating to, any other section of the enterprise must be excluded;
- Factory supervision includes training, inspection, laboratory, and other tests to verify the purity, etc, of the raw materials and of the product itself, both during manufacture and on completion; however, cost of experimental work on new products is not regarded as part of factory or works cost;
- Cost in connection with factory sick-bay and nurse, factory drawing office, factory welfare fund, medical insurance and factory store, are regarded as part of factory or works cost

NOTE: Neither labour nor factory overhead expenses are, however, included as a matter of course or on a hypothetical basis. They must exist as part of the manufacturer's costing system, and labour and specific factory overhead expenses must be incurred as part of the production of the goods.

(e) Exclusions from Factory or Works Cost

Calculation of factory or works cost does not take into account the following items:

- Manufacturer's profit or the profit on remuneration of any trader, broker or other persons dealing with the article in its finished condition;
- Royalties in respect of the finished products;
- The cost of outside packages or any cost of packing the products in them;

- Administration and general office expenses;
- Any cost of conveying, insuring or shipping the products subsequent to their manufacture;
- Any other charges incurred subsequent to the completion of the manufacture of the products.

(f) Application of Qualifying Expenditure

The qualifying expenditure consists of expenditure on the following:

- Qualifying LDC/LLDC and/or New Zealand materials used in the production of the goods;
- Qualifying labour incurred in a LDC/LLDC and/or New Zealand in the production of the goods;
- Qualifying factory overhead expenses incurred in a LDC/LLDC and/or New Zealand in the production of the goods.
- Qualifying containers used to contain the goods other than the outside package.

(Notes on each element of the factory or works cost are detailed below.)

(i) Qualifying Materials

To be regarded as a qualifying material, the material must effectively come into existence in either a LDC/LLDC or New Zealand. The material must therefore effectively be the natural produce of a LDC/LLDC or New Zealand, or be produced/manufactured in a LDC/LLDC or New Zealand.

In summary, this provision contains the following preference principles:

- *Cumulative Rule*, ie LDC/LLDC beneficiary countries can treat materials the "produce or manufacture" of any LDC/LLDC as contributing as qualifying expenditure.
- *Donor Country Content Rule*, ie LDC/LLDC beneficiary countries can treat materials the "produce or manufacture" of New Zealand as contributing as qualifying expenditure.

The total into factory cost of these qualifying materials is treated as being 100 percent qualifying materials for the purposes of the calculation of the qualifying expenditure of the finished goods.

(ii) Qualifying Labour and Factory Overhead Expenses

These expenses (as identified above) must be incurred in the LDC/LLDC country or New Zealand as part of the production of the finished goods.

(iii) Qualifying Inside Containers/Packages

Containers (other than the outside package) that are manufactured in a LDC/LLDC or New Zealand are regarded as 'qualifying containers'. However, note that outside packages are excluded from the 'factory or works cost' calculation. Therefore, where the 'inside' container or containers are produced or manufactured in a LDC/LLDC or New Zealand, then the total cost can be treated as 'qualifying containers'.

Goods Entering the Commerce of Another Country

Except in the case of goods going from one developing country to another, goods lose their tariff preference if they enter the commerce of another country before importation into New Zealand.

Goods are deemed to have entered the commerce of another country when they have physically entered a country and have been unloaded off the ship, or the aircraft, or other means of transport, and cleared through customs for home consumption in that country.

Goods are NOT deemed to have entered into the commerce of another country where:

- they are exported to New Zealand from any country but pass through any other country on their voyage to New Zealand (whether transhipped in that other country or not) are considered to be shipped directly from that first mentioned country;
- they are invoiced from a different country other than the country of produce or manufacture but are exported from the country which is subject to preferential entry into New Zealand;
- they have been placed in customs bond/warehouse in a country and the goods have not entered that country for home consumption purposes, ie they have not been cleared through customs and are still subject to the control of customs;
- they have been imported temporarily into a country, eg for display at fairs or exhibitions, evaluation, trade samples.

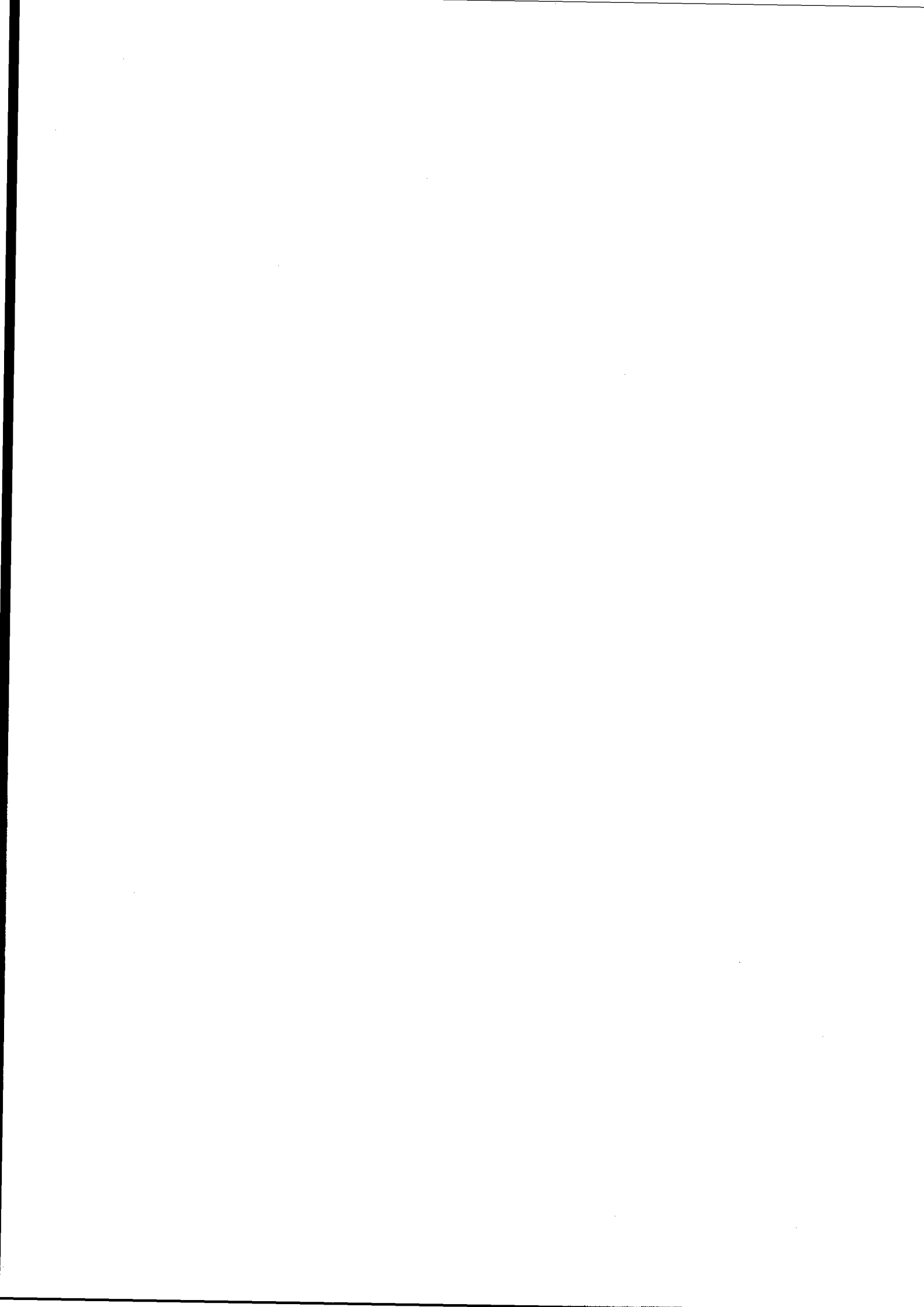
Documentary Requirements

New Zealand no longer has a legal requirement for the produced of a legally prescribed certificate of origin.

But the New Zealand importer must, on entering the goods for Customs purposes, have sufficient information on which to base a claim for the preferential rate of duty. Effectively, this requires the overseas manufacturer or exporter to provide the importer with clear information as to those goods which meet the preferential rules of origin.

There is now the opportunity to detail on the export documentation, eg the commercial documents (invoice) by way of a statement, declaration, or certification that identifies goods which meet the rules of origin.

ANNEX I



GSP BENEFICIARY LIST

A Less Developed Countries (LDCs)

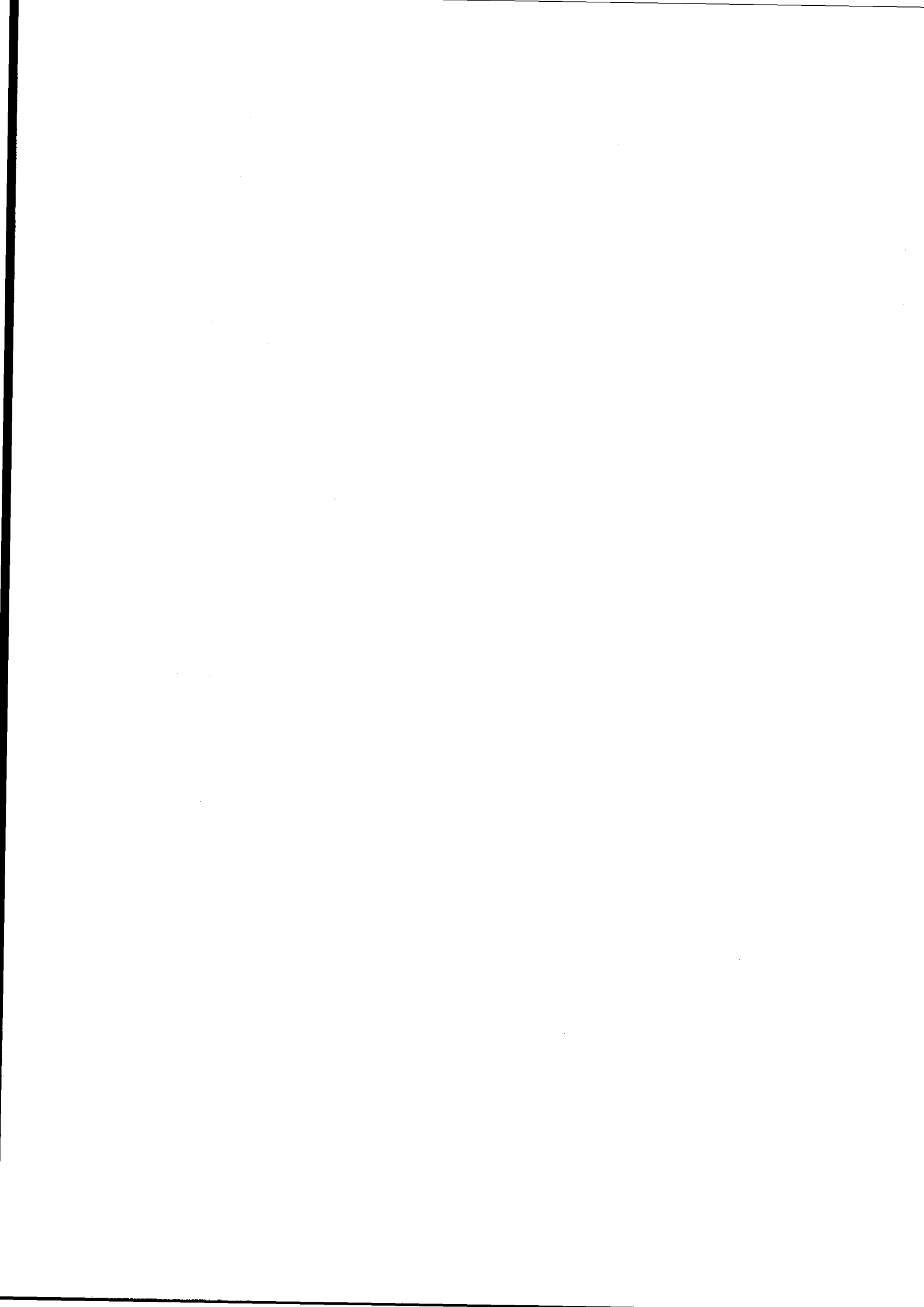
Albania	Malaysia
Algeria	Malta
Angola	Mauritius
Anguilla	Mexico
Antigua and Barbuda	Micronesia, Federated States of
Argentina	Mongolia
Aruba	Montserrat
Bahrain	Morocco
Barbados	Namibia
Belize	Nauru
Bolivia	Nicaragua
Bosnia-Herzegovina	Nigeria
Brazil	Norfolk Island
British Indian Ocean Territory	Oman
British Virgin Islands	Papua New Guinea
Bulgaria	Pakistan
Cameroon	Palau
Cayman Islands	Panama
Chile	Paraguay
China, People's Republic of	Peru
Christmas Island	Philippines
Cocos (Keeling) Island	Pitcairn Island
Colombia	Poland
Congo	Romania
Costa Rica	St. Helena
Croatia	St. Kitts and Nevis
Cuba	St. Lucia
Czech Republic	St. Vincent & the Grenadines
Dominica	Saudi Arabia
Dominican Republic	Senegal
Ecuador	Seychelles
Egypt	Slovak Republic
El Salvador	Slovenia
Falkland Islands (Malvinas)	Sri Lanka)
Fiji	Suriname
Gabon	Swaziland
Ghana	Syrian Arab Republic
Gibraltar	Thailand
Grenada	Tonga
Guatemala	Trinidad and Tobago
Guyana	Tunisia
Honduras	Turkey
Hungary	Turks & Caicos Islands
India	United States Minor Outlying Islands
Indonesia	Uruguay
Iran, Islamic Republic of	Venezuela

Iraq
Ivory Coast
Jamaica
Jordan
Kenya
Korea, Republic of
Lebanon
Liberia
Libyan Arab Jamahiriya
Macao
Macedonia (former Yugoslav Republic of)

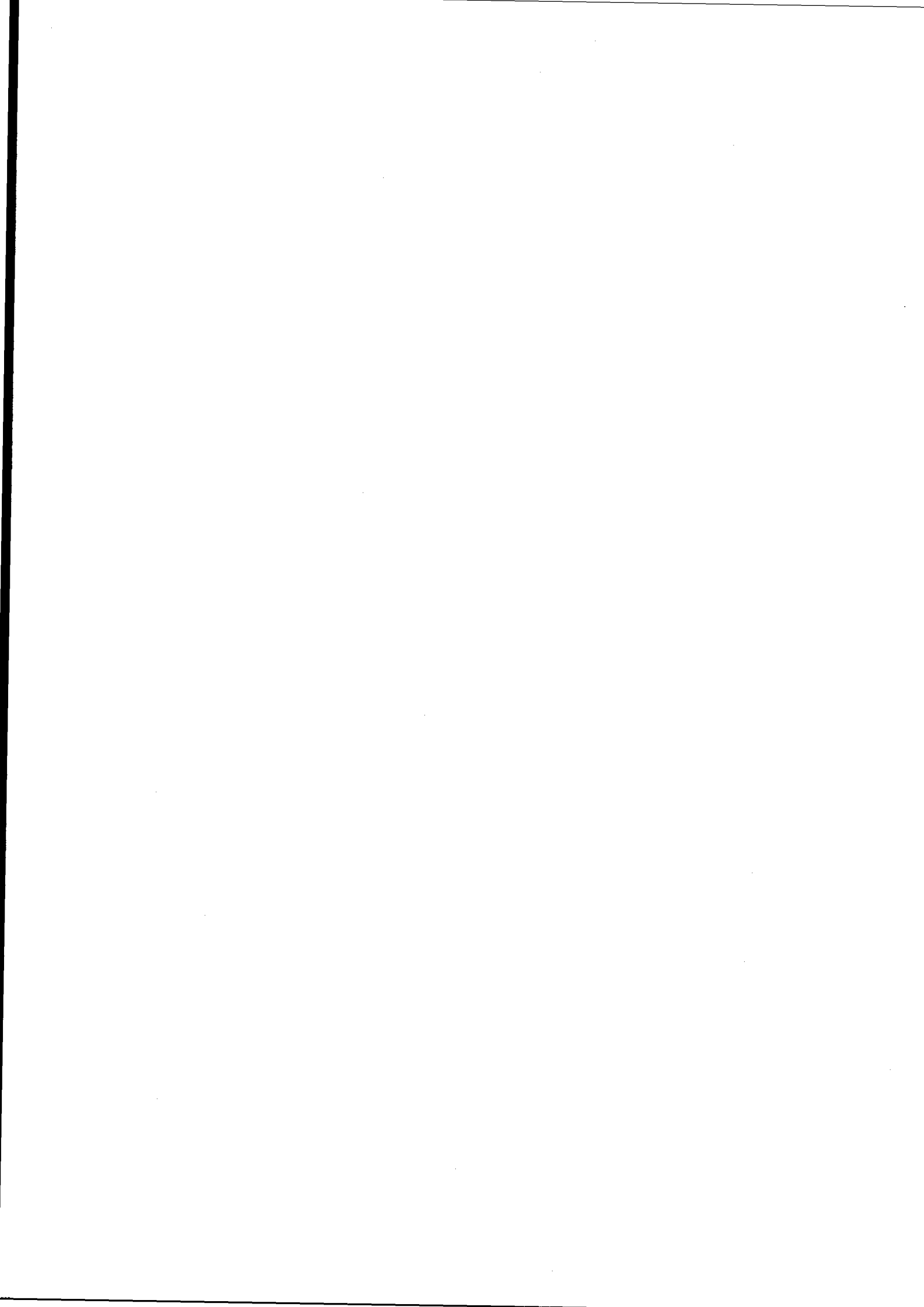
Vietnam
Wallis and Futuna Islands
Zimbabwe

B Least Developed Countries (LLDC's)

Afghanistan	Malawi
Bangladesh	Maldives
Benin	Mali
Bhutan	Mauritania
Botswana	Mozambique
Burkina Faso	Myanmar
Burundi	Nepal
Cambodia	Niger
Cape Verde	Rwanda
Central African Republic	Sao Tome & Principe
Chad	Sierra Leone
Comoros	Solomon Islands
Djibouti	Somalia
Equatorial Guinea	Sudan
Ethiopia	Tanzania, United Republic of
Gambia	Togo
Guinea	Tuvalu
Guinea-Bissau	Uganda
Haiti	Vanuatu
Kiribati	Western Samoa
Laos, People's Dem. Republic of	Yemen
Lesotho	Zaire
Madagascar	Zambia



ANNEX II



SPECIAL REGIME FOR HANDICRAFT PRODUCTS

Approved Handicraft Goods

All articles of:

Abaca fibre, bamboo, banana fibre, bark, berries, bone, cameo-shell, cane, clay, coconut (fibres, leaf bud, leaves, sheath, shell), copper and copper alloys, coral, handwoven cordage, hibiscus fibre, horn, ivory, lava, mother of pearl, natural gums, natural resins, palm leaves, pandanas, pine-needles, pine-shells, quills, raffia, rattan, reeds, sakikl leaves, seeds, shell, sisal, straw, stone, tapa, teeth, tin and tin alloys, tortoise-shell (including, in the case of jewellery, tortoise-shell with metal inlay), tusks, twince, or combinations thereof.

Articles of natural wood, viz:

Bowls, canoes, decorative carvings, dishes, dolls, drums, fans, figurines, furniture, gongs, masks, model houses, picture frames, table articles, trays, walking stocks, weapons.

Articles of leather, viz:

Hand-tooled and hand-embroidered apparel, hand-tooled and silver inlaid hand-made saddlery and harness.

Articles of silk, wool, cotton, linen, jute and other vegetable fibres not already specified under paragraph 1 above, viz:

Handwoven textiles, fabrics, hand-printed (block, screen or batik printed), weighing less than 186 g/m² and not containing hand-made fibres; table linen of the foregoing hand-printed fabrics, jute belts.

Plastic-covered bamboo baskets.

Note: Products must be wholly or principally by weight of the approved materials. However, other materials are permitted if they are of a minor nature and do not contribute towards or detract from the essential nature of the goods (eg filling of wood-wool).

Definition of Handicraft

The concession applies to goods which the Collector is satisfied are made:

- (a) by hand;
- (b) by tools held in the hand;
- (c) by machines powered by foot or hand; or
- (d) by any combination of the foregoing processes.

However, goods that have been "hand crafted" within the definition above from machine-made or processed materials of basic form, that is to say, materials in a form not predetermined by its intended ultimate end-use (eg a rectangular sided block of stone, a billet of wood, a rectangular sheet of copper) will not normally be excluded from being "handicrafts".

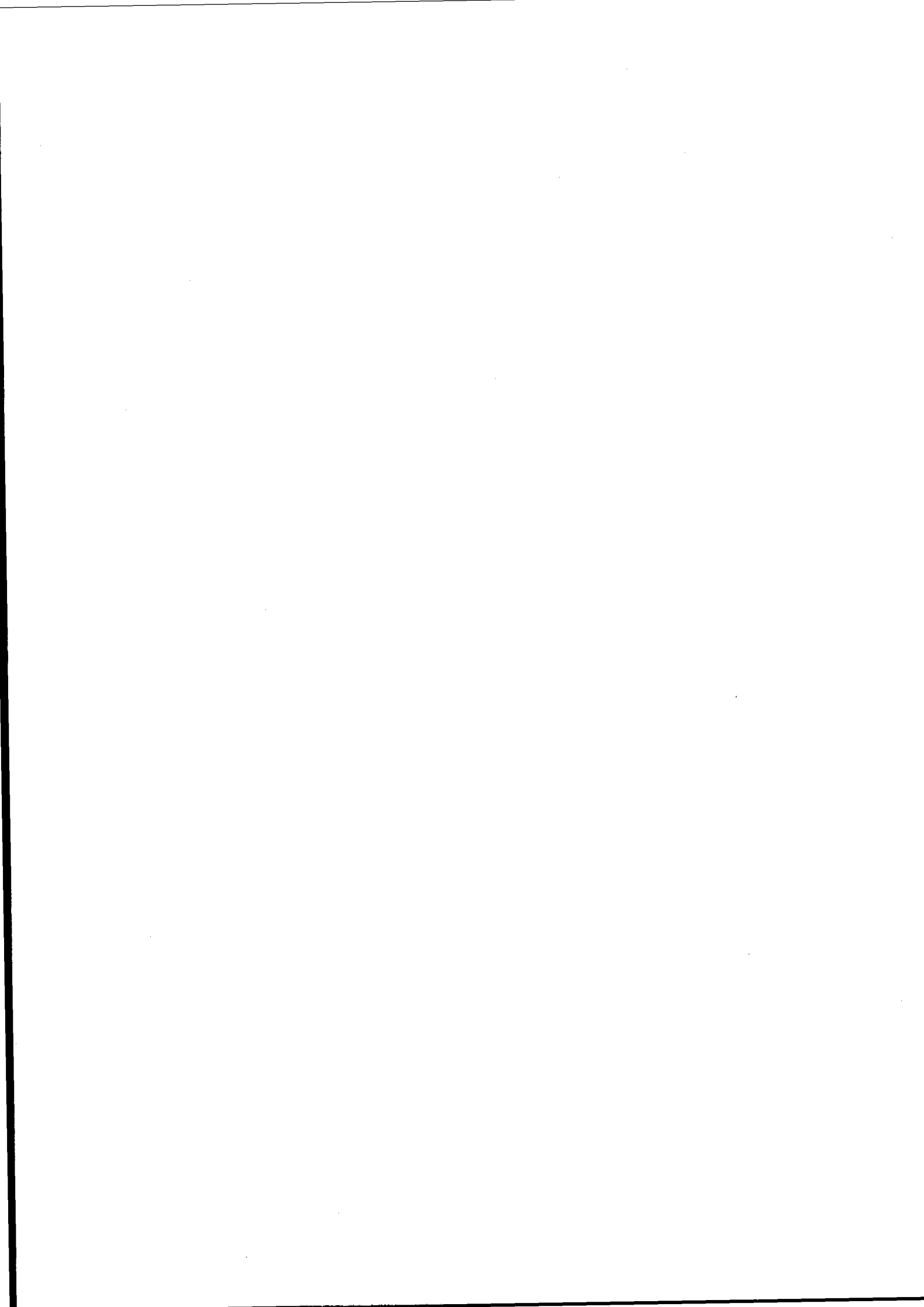
Goods are not precluded from being regarded as "handicrafts" by reason of their use in the manufacture of:

- (a) mechanically powered tools, provided they are held in the hand (eg electric drill) – this does not cover a situation where the article being produced is held in the hand and worked on a machine tool fitted to bench, stand or other support; or
- (b) machines not held in the hand, provided they are hand or foot powered (eg treadle operated sewing machines and potters' wheels); or
- (c) machine-made materials and components of a minor nature that are incidental to the assembly or normal operation of those goods (eg sewing threads, plain buttons, plain fasteners, nails, screws, plain hinges, paint or dyes).

Goods made up by hand, in whole or part from machine-made components, would not normally qualify as "handicrafts".

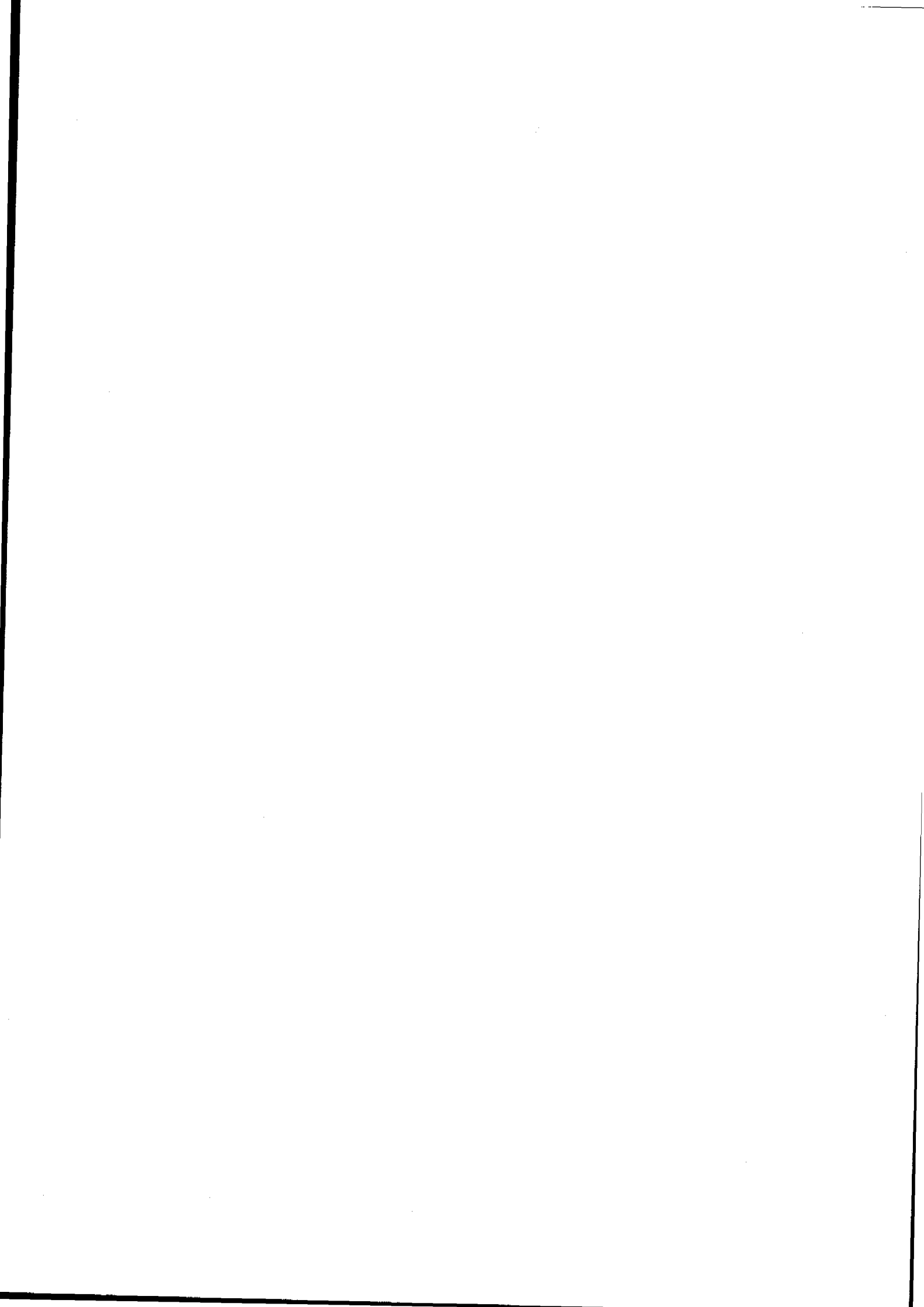
Goods held by hand against a cutting or grinding tool driven by a bench power-driven machine whereby artistic or decorative effects are produced will not be regarded as "handicrafts".

ANNEX III



Tariff removal: Indicative Chart

Goods	1 July 2000	1 July 2001	1 July 2002	1 July 2003	1 July 2004	1 July 2005	1 July 2006
(a) Textiles, clothing and accessories, carpet, headgear, footwear	15% 10% 5%	15% 10% 5%	15% 10% 5%	15% 10% 5%	10% 8% Free	5% 4%	Free Free
(b) All other products	10% 5%	5% Free	Free				



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