



BRIEFING

Reviewing tariff and anti-dumping measures on residential building materials

Date:	19 October 2018	Priority:	Medium
Security classification:	In Confidence	Tracking number:	1089 18-19

Action sought		
	Action sought	Deadline
Hon Kris Faafoi Minister of Commerce and Consumer Affairs	<p>Agree that the tariff concession on residential building materials remain in place and be reviewed in five years' time</p> <p>Agree to allow the suspension of anti-dumping duties to expire on 30 June 2019</p> <p>Forward this briefing to the Minister for Building and Construction, the Minister for Trade and Export Growth, and the Minister of Housing and Urban Development for their information</p>	26 October 2018

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Jim Robinson	Manager, Trade and International	Section 9(2)(a)	✓
Tom Lee	Senior Policy Advisor, Trade and International		

The following departments/agencies have been consulted
Building System Performance branch of MBIE, the Ministry of Housing and Urban Development, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service.

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

To seek your agreement to continue the tariff concession on residential building materials and to allow the suspension of anti-dumping duties on residential building materials to expire on 30 June 2019.

Executive summary

In an effort to improve housing affordability, in 2014 the Government put in place a tariff concession on residential building materials and suspended anti-dumping duties on residential building materials. These measures were intended to provide cost savings when building a house and to increase competition in the residential construction sector.

With the legislated suspension of anti-dumping duties on residential building materials due to expire on 30 June 2019, officials have reviewed this policy. At the same time, officials have reviewed the tariff concession on residential building materials, in accordance with a commitment made in 2014.

We recommend the tariff concession remain in place. Since its inception, imports of building materials have risen steadily. We consider the tariff concession has encouraged competition in the construction sector as well as providing modest cost savings to importers of residential building materials.

We also recommend allowing the suspension of anti-dumping duties to expire on 30 June 2019. We consider the suspension is now unnecessary. New Zealand's trade remedies regime now has a public interest test in place, which allows the government to take into account public interest considerations, such as competition or consumer welfare impacts, before imposing any future anti-dumping duties. This means the government must now consider, on a case-by-case basis, whether to apply anti-dumping duties on residential building materials. There are currently no suspended anti-dumping duties that would come back into effect if the suspension is allowed to expire.

We consider that this approach aligns with the Government's current housing policy objectives, including improving housing affordability.

If you agree with our recommendations, you do not need to take any action. The tariff concession will simply remain in place and the suspension of anti-dumping duties will expire on the legislated date of 30 June 2019. If you do not agree with our recommendations, officials can meet with you to discuss options.

Recommended action

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

- a **Note** the Government has in place a tariff concession and a suspension of anti-dumping duties on residential building materials to reduce import barriers in order to improve housing affordability
Noted
- b **Note** in preparing this advice officials have consulted with relevant government agencies which agree with the recommendations of this briefing, but have not undertaken public consultation
Noted
- c **Agree** that the tariff concession on residential building materials remain in place and be reviewed in five years' time
Agree / Disagree
- d **Agree** to allow the suspension of anti-dumping duties to expire on 30 June 2019
Agree / Disagree
- e **Note** that, closer to the expiry date of the suspension, MBIE will update its website to reflect decisions relating to the suspension of anti-dumping duties and tariff concessions
Noted
- f **Forward** this briefing on to the Minister for Building and Construction, the Minister for Trade and Export Growth, and the Minister of Housing and Urban Development for their information.
Agree / Disagree



Jim Robinson
Manager, Trade and International
Labour, Science and Enterprise, MBIE

19 / 10 / 2018

Hon Kris Faafoi
Minister of Commerce and Consumer
Affairs

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Background

The Government has removed two import barriers to improve housing affordability

1. In 2013, the previous Government directed MBIE to undertake a market-level study into the construction sector to identify barriers that could be addressed to improve housing affordability. The study identified that tariffs and anti-dumping duties on residential building materials were two barriers to competition and productivity in the residential building sector.
2. To reduce these import barriers, in 2014 Cabinet decided to:
 - a. introduce a temporary tariff concession for residential building materials
 - b. temporarily suspend the application of anti-dumping duties on residential building materials for three years (which was later extended by another two years)
 - c. direct officials to develop a bounded public interest test for the anti-dumping and countervailing duties regime.
3. It was considered these measures could be put in place relatively quickly, which would assist with the Canterbury earthquake rebuild and the increased residential construction in Auckland.
4. At the time, Cabinet agreed that officials would review the tariff concession in five years' time (2019). Furthermore, the suspension of anti-dumping duties is due to expire on 30 June 2019, as set out in legislation. We have therefore decided to brief you now on both measures to allow adequate time for any legislative amendments, should they be required.
5. As the Minister responsible for both tariff and trade remedies policy, we seek your agreement for the tariff concession on residential building materials to remain in place and to allow the suspension of anti-dumping duties to expire. An overview and brief analysis of the measures are below.

Tariff concession on residential building materials

What is a tariff concession?

6. The Government's Working Tariff Document outlines the tariffs that are to be applied to all goods being imported into New Zealand. Goods will incur either a tariff of 5 per cent, 10 per cent or no tariff depending on the type and origin of the good being imported. A 5 per cent tariff is the most commonly applied rate on residential building materials. A tariff concession allows particular goods to have the usual applicable import tariff waived. The goods and the circumstances in which the concessions apply are also listed in the Working Tariff Document.

A tariff concession on residential building materials has been in place since 2014

7. A tariff concession was put on residential building materials in July 2014 to reduce import barriers in order to improve housing affordability. The tariff concession covers approximately 90 per cent of materials used for residential building purposes.
8. The intention of implementing the tariff concession was to reduce tariffs on imported building materials which would mean importers would pay lower prices for imported building

materials, creating cost savings in the construction of a house. It was intended that this would also increase competition in the residential construction sector, incentivising firms to innovate and compete on both price and non-price grounds.

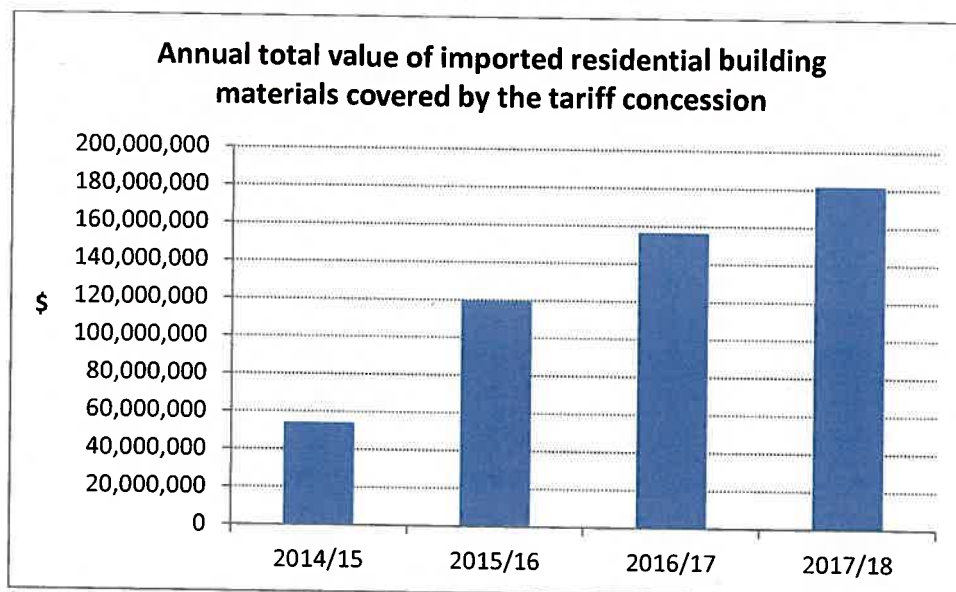
9. As part of Cabinet's agreement to the tariff concession measure, it was decided that the policy should be reviewed to understand and re-evaluate whether it has had the intended benefits.

Analysis

10. MBIE, with the assistance of the New Zealand Customs Service, has been monitoring the tariff concession on residential building materials since its introduction in July 2014.

Imports of residential building materials have increased and there is greater competition in the residential construction sector

11. Trade data shows that since the concession was put in place, imports of goods under the tariff codes covered by the concession ("relevant goods") has grown considerably. Between July 2014 and July 2018, nearly \$512.5 million worth of relevant goods have been imported. For each of the four years since the concession has been in place, the value of the goods imported has steadily risen, as shown in the graph below.



12. The following information also shows similar import growth of residential building materials:
 - a. The number of registered unique importers of relevant goods has grown significantly. In July 2014, there were 56 different importers of relevant goods. Over the four years this number has steadily increased, with a total of 242 different importers importing relevant goods in June 2018.
 - b. The individual import entry lines (which are the Customs declared lines of imported products) have more than tripled, growing from 497 entries in July 2014 to 1,511 entries in June 2018.
13. The data above shows that, since the concession has been in place, both the quantity of imported residential building materials and the number of entities importing goods has substantially increased. The increasing volume of building materials being imported into New

Zealand free of duty is providing savings for importers and consumers. The increase in the number of importers of relevant goods suggests the concession has helped increase competition in the sector, which was a key policy objective.

14. Looking at the growth trend in the data, we consider the tariff concession remains important for the residential construction sector. As an increasing quantity of relevant goods is being imported, the impact of the concession becomes increasingly significant with more tariff savings for importers and greater competition in the market.
15. While we cannot attribute these increases directly to the tariff concession with certainty (as there may be a range of factors contributing to the data), we consider the tariff concession is likely to have provided some assistance towards improving housing affordability by encouraging increased levels of trade and market competition. If the concession remains in place, these benefits are expected to continue.

Removing the tariff concession could have a negative impact on housing affordability

16. If the tariff concession was removed, there could be negative impacts on housing affordability compared to retaining the concession. Potential negative impacts could include:
 - a. an increase in the cost of imported materials
 - b. a decrease in volume of imported materials
 - c. less competition in the construction sector
 - d. an increase in the cost to build houses.

The tariff concession aligns with the Government's housing policy

17. Key objectives of the Government's current housing policy are increasing housing supply and improving housing affordability. As mentioned earlier, a key objective of introducing the tariff concession was to improve housing affordability by removing import barriers. Based on our analysis, we consider the tariff concession on residential building materials aligns with the Government's current housing objectives.
18. The alternative – removing the tariff concession and allowing tariffs to be charged on residential building materials – would not align with the Government's policy of improving housing affordability. Prices for some imported building materials would increase which would raise the cost of building a house and we would expect at least some of these costs to be passed on to consumers. A removal of the tariff concession also has the potential to lower competition in the residential construction sector, as it may result in fewer importers.
19. We consider that any moves to implement a policy that would likely increase costs of residential construction would not be consistent with this Government's general housing policy.

We recommend the tariff concession on imported building materials should remain in place

20. In light of the data suggesting benefits to the residential construction industry and the alignment with the Government's housing policy, we recommend the tariff concession remain in place and be reviewed in another five years' time (2023).

Suspension of anti-dumping duties

A suspension of anti-dumping duties on residential building materials expires in June 2019

21. A suspension of anti-dumping duties on residential building materials was put in place in 2014 alongside the general tariff concession to help improve housing affordability. Section 14AA was added to the Trade (Anti-dumping and Countervailing Duties) Act 1988 stating “no new anti-dumping duty may be imposed... on any residential building material”.
22. Goods are considered dumped if the export price to New Zealand is less than the price they are sold for in the domestic market of the exporting country. Anti-dumping duties seek to remedy the injury caused to New Zealand’s domestic industries by dumped imports.
23. Originally, the suspension on anti-dumping duties was put in place for three years. However, in 2017, when the suspension was due to expire, the suspension was extended for another two years, largely in order to allow for the public interest test to be developed and implemented (discussed in more detail below). The suspension of anti-dumping duties on residential building materials is now due to expire on 30 June 2019.
24. In 2014, when the suspension was established, New Zealand had anti-dumping duties in place on standard plasterboard from Thailand, wire nails from China, and reinforcing steel bar and coil from Thailand. The policy meant that anti-dumping duties were suspended on these products, making them cheaper to import. The timeframe for applying anti-dumping duties on these products has lapsed and there are no longer anti-dumping duties that would apply to any residential building materials if the suspension is lifted.

The introduction of a public interest test on anti-dumping and countervailing duties has now rendered the anti-dumping suspension unnecessary

25. As part of the Cabinet decisions to put in place the tariff concession and suspension of anti-dumping duties to improve housing affordability, Cabinet also directed officials to develop a bounded public interest test for the anti-dumping and countervailing duties regime.
26. A public interest test allows the government to take into account whether it is in the wider public interest to impose an anti-dumping duty or countervailing duty. Public interest considerations could include the impact of duties on competition or consumer welfare, for example.
27. In 2017, a legislated public interest test for anti-dumping or countervailing duties came into force, meaning that from November 2017 any new trade remedy investigations would be subject to the test.
28. With the public interest test now in place, we consider that the suspension of anti-dumping duties to improve housing affordability is no longer necessary. The government now has the ability to decide that anti-dumping duties are not in the wider public interest. Therefore, the government does not need to rely on the suspension provisions relating to residential building materials to execute the policy intent. Future decisions on whether to apply anti-dumping duties on residential building materials must now be considered on a case-by-case basis, rather than using the blanket suspension provision.

We recommend the suspension of anti-dumping duties on imported building materials should be allowed to expire

29. With the public interest test now in place and with no current anti-dumping duties that would apply to residential building materials, we recommend the suspension of anti-dumping duties on imported building materials should be allowed to expire on 30 June 2019.

Risks

30. We consider both the continuation of the tariff concession and the expiry of the suspension on anti-dumping duties to be low risk. These recommendations align with the current government housing policy and are unlikely to be controversial.
31. One group that may have a negative reaction towards this approach is domestic manufacturers of residential building materials. Restoring tariffs would likely promote the use of locally made building materials, but would also likely cause prices for residential building materials to rise due to imports becoming more expensive and the impact of reduced market competition in the building materials sector.
32. We consider that since the imposition of the tariff concession four years ago, domestic manufacturers have generally adjusted well and have not been severely affected.
33. We are aware that some domestic businesses are currently experiencing growth despite the tariff concessions and suspension of anti-dumping duties. For example, Winstone Wallboards Ltd, a New Zealand plasterboard manufacturing company, reports a volume increase of 2 per cent in its value added plasterboard for the 2017/18 year. Similarly, Winstone Wallboards Ltd's parent company, the Building Products Division of Fletcher Building (which brings together a range of New Zealand manufacturing businesses that supply into the construction sector), reported a revenue increase of 3 per cent for the 2017/18 year. Fletcher Building stated that they benefitted from elevated demand for their products and described the building products market as "highly competitive".
34. When considering these examples and the four year adjustment timeframe for domestic manufacturers, we suggest that the continuation of tariff concessions on residential building products is unlikely to threaten the ongoing viability of domestic businesses.

35. **Section 9(2)(d)**
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Consultation

36. In providing this advice we have consulted with MBIE's Building System Performance branch, the Ministry of Housing and Urban Development, the Ministry of Foreign Affairs and Trade, and the New Zealand Customs Service. All of these agencies agree with the recommendations of this briefing. We have not undertaken public consultation on this advice.

Next steps

37. If you agree with the recommendations of this briefing, you do not have to take any action. The tariff concession will simply remain in place in the Working Tariff Document and the

clauses in the Trade (Anti-dumping and Countervailing Duties) Act 1988 that suspend anti-dumping duties are legislated to expire on 30 June 2019.

38. Closer to the expiry date, MBIE will update its website information to inform the public that the suspension of anti-dumping duties on residential building materials will expire and that the tariff concession will continue.
39. If you do not agree with the recommendations of this briefing, officials are ready to meet with you to discuss options and timing. Note that if you want the suspension of anti-dumping duties to continue, this would require legislative amendment which would need to be progressed swiftly.
40. We suggest you forward this briefing to the Minister for Building and Construction, the Minister for Trade and Export Growth, and the Minister of Housing and Urban Development for their information, as this policy touches on areas of their portfolios.