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Tax Working Group Secretariat
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Re: Future of Tax - Submissions Background Paper

The Wood Processors and Manufacturers' Association (WPMA) advocates on behalf of a broad membership spanning the whole of New Zealand's wood supply chain. WPMA represents one of New Zealand's largest manufacturing sectors, employing over 20,500 people directly in the regions and is the third biggest export sector currently valued at NZ\$2.5 billion per annum.

WPMA members handle in excess of 85% of the wood processed in New Zealand. Members produce pulp, paper, sawn lumber, panels, laminated products, mouldings, bio-chemical and bio-composites for export and for the domestic market.

Lack of security of raw material (log) supply has become an acute problem for the industry in recent years. Overseas buyers (mainly from Asia) are acquiring forests, cutting rights or logs with the benefit of subsidies and incentives that deny local mills the opportunity to compete fairly. The number of overseas buyers is increasing and this is driving up log prices to the extent that it is now having an upward effect on domestic timber prices with consequential inflationary effects on domestic construction costs.

WPMA has carried out a legal examination of the main subsidy regimes currently in existence in competitor countries and tested their legal consistency with the WTO. We have found that the manufacturing subsidy systems in many of these countries are in breach of international trade law and are thus extremely unfair to New Zealand producers competing against them in the global, processed-wood market place.

Our trade lawyers advise that this on-shore competition for logs is causing the New Zealand wood industry to suffer nullification and impairment of benefits expected to accrue to the New Zealand industry from existing trade agreements under Article XXIII of the GATT 1994.

The existence of a distorted market caused by WTO-prohibited subsidies, we believe, provides a strong case for putting in place trade remedies, such as taxation measures, to address injury to New Zealand wood processors and manufacturers in the domestic log market.

GST and Log Exports

WPMA's investigations show that New Zealand's trading partners can and have acted to bolster the value to their economy of domestic processing of imported logs by selective application of domestic taxes including VAT, sales and similar taxes. These taxation regimes undoubtedly augment the competitiveness of their domestic wood processing sectors.

MFAT's stated view is that variability in the rates of VAT charged domestically on different products in some of the countries with which NZ trades is outside the scope of bilateral and multilateral trading agreements. WPMA's view is, nonetheless, that the effect of differential VAT rates acts to divert logs from the domestic market and favours the export of logs from New Zealand instead.

With the need to address significant trade injury, we urge the TWG to review New Zealand's capacity to selectively apply GST to the domestic log market where that is shown to be in the overall interest of NZ and can be achieved without transgressing applicable trade agreements.

Arguments offered in support of countervailing tax-based interventions include meeting the government's policy objectives for greater regional development, local employment and adding export value to returns otherwise limited to the commodity value of exported logs.

It is clear that countries importing raw logs from New Zealand recognise the environmental benefits of their standing forests as well as the employment and other benefits of a thriving domestic processing sector. We observe that log importing countries are making extensive use of non-tariff measures (including taxation regimes) to facilitate the import of raw logs from other parts of the world to achieve this.

Recommendation:

The TWG is encouraged to consider the value to New Zealand of the statutory power of selective application of domestic taxes. In particular, the TWG is asked to consider recommending the use of selective rates of GST be applied as a countervailing measure to the use of selective tax rates (employed as a non-tariff trade barrier) in New Zealand's export markets. Whether differential rates are warranted could be considered on a case by case basis, taking into account New Zealand's overall best interests, including trade balances, regional development etc.

Thank you for the opportunity to provide comment.

Yours sincerely



Dr Jon Tanner
Chief Executive