

11 May 2015

SUBMISSION TO THE MINISTRY OF FOREIGN AFFAIRS AND TRADE

UPGRADE OF THE NEW ZEALAND CHINA FREE TRADE AGREEMENT

This submission is on behalf of the Wood Processing and Manufacturing Association of New Zealand (WPMA), representing companies involved in New Zealand solid wood and wood fibre processing.

Specific issues we would like to see addressed are the tariff and non-tariff constraints on free trade in wood products including paper and paper packaging identified in the 2005 New Zealand Journal of Forestry, (attached). Many of the forestry sector issues detailed in the paper were not addressed at the time the China – NZ FTA was first negotiated. Of specific note:

- The differential between VAT charged on logs (13%) and the 17% charged on processed wood products remains. Wood products are globally traded commodities and therefore priced competitively. NZ wood processors do compete successfully in the Chinese and other overseas markets but with low margins. Therefore a 4% differential could reasonably be expected to make a significant difference in the profitability and volume of some processed wood products.
- Containerboard duty into China on NZ-manufactured paper ranges from 5-7.5% (e.g. 5% kraftliner/medium, recycled testliner 7.5%). Prevailing and changing global economic conditions could be expected to result in a redirection of the Chinese economy from infrastructure to internal consumption and therefore a change in China's trade priorities. More specifically, a lessening in domestic demand for domestically produced paper could give rise to a domestic Chinese constituency interested in maintaining and increasing current import protections.

We are unclear as to the reason NZ agreed to retain VAT and tariff imbalances in traded wood and paper products at the time the FTA was first concluded but suggest they must be revisited.

Government has a stated goal of doubling the value of wood exports, as evidenced by its initiation of the Woodco strategy and related public commentary. The long time frames associated with realising export returns from traditional afforestation coupled with the increasing recognition of the environmental benefits of retaining a forest cover in some NZ geographies (for pollution avoidance, erosion control, regional employment and other reasons) suggests NZ has an on-going need for a viable forestry sector. Improving the profitability of the domestic processed wood product exports through elimination of Chinese VAT differentials, Chinese VAT rebates and Chinese tariffs on paper products can only improve the prospects for NZ's forest industry and therefore the attainment of Government's growth targets.

The wood industry is opposed to more rapid phase out than currently agreed of the few protections applying to NZ panel products if the benefit is limited to securing more favourable treatment of exports to China from unrelated sectors.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Jon Tanner', written in a cursive style.

Jon Tanner
CEO