



Consultation on: Non-tariff barriers faced by New Zealand exporters

From: Wood Processors and Manufacturers Association
New Zealand Forest Owner's Association

To: Foreign Affairs, Defence and Trade Committee

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Brief

Thank you for the opportunity to provide a briefing on non-tariff barriers (NTBs) and their impact on the forestry and wood products industry. Please find as outlined our summarised feedback.

1. Executive Summary

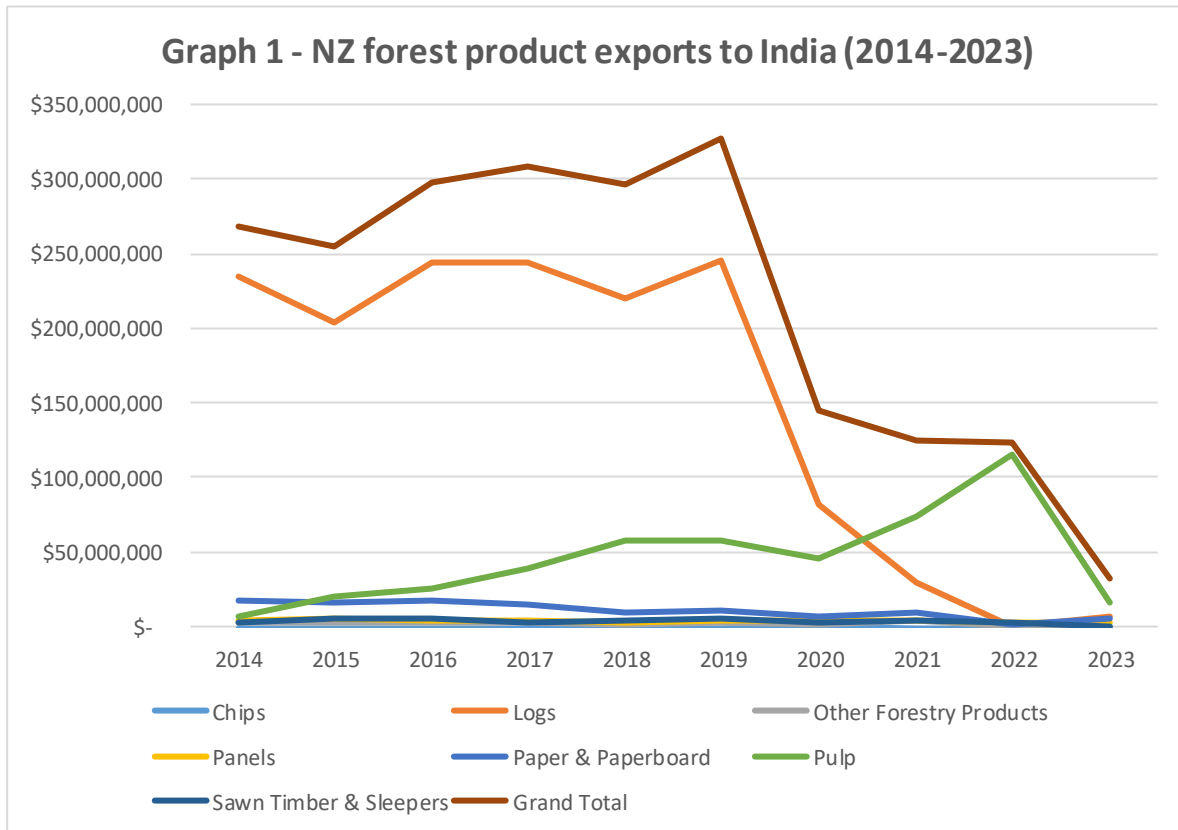
- 1.1 Trade barriers, particularly non-tariff trade barriers, are a significant impediment to growth in New Zealand's log and value-added wood product exports. Most of the official efforts in eliminating barriers to trade have focused on the reduction or elimination of tariff barriers, which are transparent and their impacts well understood. Non-tariff measures (NTBs) such as environmental, subsidy, and phytosanitary focussed measures are less appreciated. In part because they are not as directly visible and clearly targeted as tariff barriers, and also because they are difficult to define, evaluate and quantify. As tariff levels have been reduced for forestry and wood product exports, NTBs have assumed a more central role within the industry's trade agenda.
- 1.2 Feedback received from wood product exporters emphasise that NTBs are causing trade distortions, which is having a negative effect on the New Zealand wood processing industry. Despite support from previous Ministers, trade officials have failed to appropriately respond. This omission to act undermines the export pathways for many of our wood product businesses.

2. Discussion

- 2.1 According to the June 2024 MPI Situation and Outlook for the Primary Industry report, forestry and wood products export revenue is expected to increase 5 percent in 2024/25 from \$5.8 billion to \$6.17 billion. For forestry exporters issues such as high energy prices, problems and costs associated with logistics and ports, shipping delays, foreign exchange rates, and compliance costs are current impediments to achievement of this projected market growth.

The more prevalent trade barrier being the use of NTBs, such as for phytosanitary requirements, local environmental and industry standards and direct subsidies all play a role in materially undermining the growth of our industry.

- 2.2 Domestic subsidies are a significant driver to our global competitors' manufacturing competitiveness. Without them they would be out of business. Free electricity, low-cost logistics, low-cost funding programs, direct cash subsidies, land transfer deals, government grants, differential tax treatments between raw material and value-add, differential raw material prices are all proven/known direct subsidies enjoyed by our competitors.
- 2.3 In comparison, as a barrier to export growth, tariffs for forestry exports globally are reasonably minor. India would be an example of a top tier tariff export market with New Zealand imported wood product tariffs set between 5 to 10 percent and imported log tariffs at 5.5 percent.
- 2.4 Non-Tariff Barriers tend to be less transparent than tariffs but have increasingly become the primary policy tool through which governments affect trade. Many NTBs are imposed for non-trade reasons, such as in response to rising public demand for traceability and protection against environmental hazards, for example, deforestation. Although their justification may be valid, they often have unintended impacts on trade. Some measures are also imposed more for trade protectionist than other reasons, in response to self-interested industry groups and in oversupply situations.
- 2.5 NTBs which are unnecessary, complicated, or poorly designed impact negatively on the quantity of logs and forest products traded, affecting prices and harming our competitiveness. At the same time the NTB's may also be serving legitimate policy objectives. The diversity and complexity of NTBs make them the "new frontier" of trade policy - as important in their content as in their manner of implementation.
- 2.6 With NTBs the primary concern for forestry exporters currently is phytosanitary requirement for logs, for example in India the biggest barrier for logs is agreeing on suitable phytosanitary protocols, along with environmental NTBs such as the European Union Deforestation Regulations.
- 2.7 Using India as an example, due to NTBs New Zealand forest and wood product exports to India have decreased from a high of \$326 million in 2019 to just \$31 million for the majority of 2023 (refer graph 1). Although export opportunities remain for a range of forest related products, the bulk of the export volume and receipts have previously been driven by India's demand for New Zealand logs.



(Source: MPI, January 2024)

- 2.8 The collapse in log exports (from a high of \$243m in 2019) was a direct result of New Zealand exporters having to treat logs to the Indian phytosanitary requirements, which involved fumigation with methyl bromide prior to ships leaving New Zealand. With the phasing out of methyl bromide use within New Zealand alternative solutions continue to be explored that will meet the Indian phytosanitary standards.
- 2.9 Sawn timber exporters also often experience higher NTBs, e.g. Chinese and Indian market, which act as disincentive to export product to those markets. India is currently perceived by sawn timber exporters as a low value market with low returns and which has little appreciation of the attributes of higher quality radiata pine sawn wood products. Whereas China has industrial policies that limit market access for imported goods and foreign manufacturers, while offering substantial government guidance, resources, and regulatory support to Chinese wood product industries. A summary of the China NBT's is provided in Appendix 1.
- 2.10 For exported logs and wood products there is the ongoing challenge of adapting to trade barriers, especially non-tariff barriers like building regulations. Prescriptive building codes, which specify particular timber species, sizes and grades, and flexibility requirements, affect the competitive position of wood products suppliers. Exploration of new markets will require information on country codes and standards and proactive involvement in negotiating radiata pine's position in those standards. As an example, Australian construction standards have framing MOE (stiffness) requirements set to match the Australian resource and limit the ability for New Zealand processors to supply this profitable product line. The Australian State and

Federal government also offer grants to their wood processors, with a \$110 million Federal grant funding option available as part of a \$300 million sector support package.

- 2.11 Legality, sustainability and the climate impacts of different consumer choices are escalating international concerns that are being increasingly reflected in the regulations and legislation of a growing number of our export markets, e.g. EUDR, which the European Union has introduced to prevent companies from placing commodities (incl. wood products) linked with deforestation and forest degradation, onto the EU market.
- 2.12 Highlighting the EUDR as an example, New Zealand's environmental policies and regulation on sustainability and afforestation are world-leading, yet we are still captured by the global effect of this EU regulation which is acting as an environmental NTB. To ensure we can continue to export our \$100 million plus in wood products to European Union countries our individual exporters need to supply their European customers with geolocation data/spatial polygons specifying where each individual supplied trees was harvested, a signed statement specifying that the harvested trees meets the regulatory requirements of New Zealand legislation (e.g. RMA, Health and Safety Act) and that the land will be afforested and not turned into pastoral farming activities. All of this information needs to be supplied via a Due Diligence Statement and/or Digital Platform. Without this detail and meeting the regulatory requirements our wood products will not be able to be exported to the EU and this export market will be lost – all due to this NTB. This also impacts our business-to-business customers who make products for export into the Eurozone.
- 2.13 The interpretation of such rules/legislation present barriers to trade if definitions are unclear, which is the current case with the EUDR definitions for deforestation and degradation. To improve this situation international agreements on acceptable definitions is needed along with methods of demonstrating timber legality and sustainability.
- 2.14 The New Zealand forestry sector also needs to be made aware of what legislation is being drafted by trading partners to reflect these concerns and ensure that exporters can appropriately demonstrate any product exported to that partner country meets the requirements demanded by those rules and regulations.

3. Exporters require more proactive involvement from government on NTB's

- 3.1 In the negotiation of future bilateral and multilateral trade agreements, New Zealand trade negotiators need to be cognisant of the impacts of NTBs on the NZ forestry sector. Their removal will potentially have higher gains for the New Zealand economy than the removal of tariff barriers. New Zealand forestry and wood processing has strong environmental and sustainable credentials via our legislative requirements and our drive to meet climate change goals. This needs to be factored into our negotiations on NTBs in export markets.
- 3.2 While MPI's work on biosecurity and customs assurance systems, and MFAT's work in negotiating free trade agreements, is acknowledged and appreciated, exporters require more proactive involvement from government in strategic trade issues affecting the sector, including international and bilateral negotiations, for example, regarding phytosanitary measures, subsidies, building codes and product standards (to ensure that NZ radiata pine is included in

new codes and standards), generic marketing of higher value NZ wood products as high quality products supported by excellent technical knowledge, and promoting awareness of the range of higher quality radiata pine products available from NZ suppliers.

- 3.3 Improving awareness of the prevalence and impacts of NTBs on the NZ forestry sector by making information on non-tariff measures and their impacts known to major players in forest industry, government agencies and policy makers, on a regular basis. For example, the level of subsidies in export markets.
- 3.4 We also need greater New Zealand government assistance (e.g. provision of market intelligence to export markets) to exporters. There is a need to protect radiata pine's reputation in export markets by ensuring that it is used appropriately.
- 3.5 Streamlining of New Zealand's government export compliance procedures will improve cost efficiency for exporters.
- 3.6 Provision of generic market intelligence to export markets on the technical capability of radiata pine is an important step to promote awareness of the range of higher quality products available from New Zealand suppliers, and to communicate the good reputation of higher quality radiata pine products.
- 3.7 Proactive involvement in negotiating the development of building codes and product standards in export markets is necessary to facilitate the acceptance and expanded use of New Zealand radiata pine in higher end uses.
- 3.8 Finally, active involvement in ensuring that international treaties on illegal logging and timber smuggling are being honoured by export markets is critical to ensuring that we are not disadvantaged by other economies poor environmental practices.

4 Conclusion

Non-tariff measures are common in the forestry trade. However, their quantification, and assessment of the impacts employed by one country on another's trade, is a great deal more difficult. Equally challenging is assessing what removal of existing measures might mean for a particular exporting country. From a global perspective, free trade is the most desirable policy but removing tariff measures does not create free trade and NTBs remain a significant impediment to trade. Even when tariffs are low/non-existent the barriers to trade for forestry and wood products can be significant.

Appendix 1: Specific non-tariff measures affecting forest products trade with China

- I. Industrial policies that limit market access for imported goods and foreign manufacturers, while offering substantial government guidance, resources, and regulatory support to Chinese industries. The principal beneficiaries of these policies are state-owned enterprises, as well as other favoured domestic companies attempting to move up the economic value chain.
- II. Manipulation of value-added-tax rebates to reinforce central government objectives, including the assistance of wood products exporters to remain competitive during global economic downturns, by raising or lowering the value-added-tax rebate available upon export.
- III. Government economic reform and infrastructure spending to lower cost structures and improve competitiveness of domestic industries.
- IV. Tax exemptions for infrastructure projects involving ports and wharves and other infrastructures to support export-oriented businesses by reducing their logistical costs.
- V. Central and local government investment and incentives to develop fast-growing, high-yield plantations including: discounted loans and loan interest subsidies, preferential tax policies for companies owning forests; incentives for public and farmer initiatives in afforestation; tax preferences and exemptions for forestry incomes.
- VI. Central and local government incentives and support to wood processing subsidies.
- VII. Significant subsidies and loans for Chinese paper producers, including subsidies for energy, pulp, wastepaper, loan interest subsidies for technology renovation and preferential tax policies for Chinese enterprises with foreign investment.
- VIII. Central government and provincial subsidies for the development of industrial clusters including infrastructure spending, provision of inexpensive land, tax reductions and exemptions, access to credit and loans, technology, skills and innovation support.
- IX. Poor enforcement of domestic environmental product standards which reduces manufacturing costs for domestic producers
- X. Government and provincial procurement policies which favour domestically manufactured products.
- XI. Continued illegal timber trade which depresses prices and makes it difficult to predict the Chinese wood products market.
- XII. Building codes and standards which favour North American wood products imports.