



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Research, Science and Innovation
Title of Cabinet paper	Heavy Engineering Research Levy Act 1978: Proposed Amendments	Date to be published	17 March 2021

List of documents that have been proactively released

Date	Title	Author
22 January 2021	Heavy Engineering Research Levy Act 1978: Proposed Amendments	Office of the Minister of Research, Science and Innovation
26 January 2021	CBC-21-MIN-0012	Cabinet Office

Information redacted

YES / NO [select one]

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

In Confidence

Office of the Minister of Research, Science and Innovation

Cabinet Business Committee

Heavy Engineering Levy Act amendments to Tariff numbers and item descriptions in Schedule 2 and 3.

Proposal

1. This paper seeks agreement to amend several Tariff item numbers and descriptions in Schedule 2 and two Tariff item descriptions in Schedule 3 of the Heavy Engineering Research Levy Act 1978 (the Act).

Executive Summary

2. This paper seeks Cabinet approval to amend Schedule 2 of the Act to correct a 2016 administrative error that resulted in certain Tariff item numbers in Schedule 2 not matching those listed in the Working Tariff Document (the Tariff).
3. Because of this error, the Heavy Engineering Research Association (HERA) and Customs have been unable to collect the levy on these items since 1 January 2017. This has reduced the amount of funding for industry good research by around \$330,000 over the past 3 years. HERA informed the Ministry of Business, Innovation and Employment (MBIE) of this error in June 2020.
4. I propose that Cabinet agree to amend the Tariff item numbers and descriptions in Schedule 2 of the Act to match those in the Tariff and resume levy collection on these items.
5. This paper also seeks approval to amend minor technical differences between Tariff item descriptions in Schedule 3 of the Act and the Tariff. These differences do not affect HERA or Customs' ability to collect the levy.

Background

6. The Act authorises the collection of a levy from the heavy engineering and related industries to provide funds for HERA to promote and conduct industry good research into heavy engineering. Schedules 2 and 3 specify the items levied at two different rates.
7. Under section 6(2) of the Act, levies on domestically produced items are payable by the producer directly to HERA. Section 6(3) authorises Customs to collect the levies on imported items. HERA also receives revenue from a number of exchange transactions, which include membership subscriptions, consulting and seminars.
8. In 2016, Customs updated several Tariff item numbers in the Tariff via Gazette (Notice Number 2016-cu6136, Issue Number 100). This was to provide more specific item descriptions, so Metals NZ could perform more granular industry monitoring. Metals NZ is an incorporated society which acts to serve the needs of New Zealand's metals related industry.
9. Consequential amendments to Schedule 2 of the Act should have been made at the same time to ensure the two regulatory instruments were aligned. Due to an administrative error, this did not take place. As a result, Customs has not been able to collect the levy on these items on HERA's behalf since 1 January 2017. HERA informed MBIE of this error in early June 2020.
10. HERA has advised that they have not collected levies on any of the domestically produced items concerned, as no domestic manufacturers have produced these items in the last three years.
11. The differences between Schedule 3 of the Act and the Tariff have likely arisen from the 2017 revision of the Harmonised System, which informs the Tariff, and is a typesetting error. These differences do not affect HERA or Customs ability to collect the levy. However, we want to take this amendment opportunity to ensure consistency of item classification between the two regulatory documents.

Analysis

Impact on HERA's levy revenue

12. HERA has forgone \$329,775 of levy revenue on these imported Schedule 2 items since the revised tariff item numbers came into effect in January 2017.
13. This is roughly equivalent to six per cent of the total levy revenue received by HERA over the last three years.
14. While this Schedule 2 discrepancy exists:
 - HERA will not receive the full amount of levy revenue they are entitled
 - Lower levy revenue will decrease HERA's ability to carry out research and support for the heavy engineering industry.
15. The Tariff item description differences between the Tariff and Schedule 3 of the Act have had no impact on HERA's levy revenue.

Amendment by Order in Council

16. Section 4 of the Act allows the Governor General to amend Schedule 2 and 3 by Order in Council, to accord with any updates made to the Tariff.
17. I seek Cabinet's agreement to draft an Order in Council to amend Schedules 2 and 3 of the Act to replace the outdated Tariff item numbers and descriptions with those in the Tariff. The current and proposed Tariff item numbers and descriptions are detailed in recommendations 3 and 5 of this paper.

Future-proofing information sharing on Tariff item number changes

18. I have asked MBIE to put in place appropriate systems and processes to ensure information on Tariff item number changes is shared across the teams with responsibilities for administering the Tariff and Heavy Engineering Research Levy Act. This will minimise the risk of similar errors occurring in the future.
19. I am aware that a tripartite Memorandum of Understanding (MoU) between MBIE, Customs and HERA is being prepared to ensure the parties administer the Act in a co-ordinated, effective and efficient manner going forward. This MoU will ensure that Tariff information that relates to the Act flows to the MBIE team that administers the Act.
20. I have also been informed that Customs is reviewing their operating process and procedure documents for amending excise and levy rates imposed on imported items to. This will ensure their processes are effective, efficient and deliver high service standards.
21. No other legislation within the Research, Science and Innovation portfolio relates to the Tariff or is vulnerable to Tariff item discrepancies.

Financial implications

22. HERA has been unable to claim an estimated \$329,000 of levy income on Schedule 2 items since the Tariff revision, which came into effect in January 2017.
23. MBIE expect these Schedule 2 amendments to result in around \$110,000 of additional HERA levy revenue invested into industry good research each year, and that payment of these levies will be distributed over 11-12 heavy engineering businesses annually. This estimate is based on Customs data showing HERA's forgone levy revenue and the number of businesses affected each year since 2017.
24. HERA has indicated that levy paying businesses may be unaware that they have not contributed a levy on these Schedule 2 items since 2017. MBIE therefore considers this change unlikely to be contentious.
25. There are no financial implications to the proposed amendments to Schedule 3 of the Act.

Legislative implications

26. The proposal will amend Schedules 2 and 3 of the Heavy Engineering Research Levy Act 1978.

Impact Analysis

Regulatory Impact Statement

27. The Regulatory Quality Team at the Treasury has determined that the regulatory proposals in this paper are exempt from the requirement to provide a Regulatory Impact Statement on the basis that they have no or minor impacts on businesses, individuals or not-for-profit entities.

Human Rights

28. This paper has no human rights implications.

Consultation

29. MBIE has consulted with the New Zealand Customs Service and The Treasury on the proposed amendments to Schedule 2 of the Act.

30. HERA has briefed their Board on the Schedule 2 administrative error. The Board comprises a range of industry members and the CEO of the Manufacturers Network (previously The New Zealand Manufacturers and Exporters Association, "NZMEA").

31. Industry consultation is not required on amendments to the Tariff item numbers and descriptions in Schedules 2 and 3. The Act only requires consultation with NZMEA on levy rate changes.

Proactive Release

32. I intend to release this paper proactively in whole.

Recommendations

The Minister of Research, Science and Innovation recommends that the Committee:

1. **note** that several Tariff item numbers in Schedule 2 of the Act do not match the Working Tariff Document, therefore the research levy on these items cannot be collected.
2. **approve** the amendments to Schedule 2 of the Act, as specified in Annex One, to enable levy collection on the listed items to resume.
3. **note** there are two minor differences in Tariff item descriptions between Schedule 3 of the Act and the Tariff.
4. **approve** the amendments to Schedule 3 of the Act, as specified in Annex Two, to ensure consistency with item classification in the Tariff.
5. **note** that the amendments in recommendation 2 and 4 can be made through an Order in Council under Section 4 of the Act.
6. **authorise** the Minister of Research, Science and Innovation to issue drafting instructions to the Parliamentary Counsel Office to prepare an Order in Council that gives effect to the policy decision in recommendations 2 and 4 above.
7. **authorise** the Minister of Research, Science and Innovation to make decisions on any minor and technical matters that may arise during the drafting process.
8. **invite** the Minister of Research, Science and Innovation to report to the Cabinet Legislation Committee with a draft Order in Council.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Research, Science and Innovation

..... / /

Annex One: Proposed amendment to Schedule 2

Tariff item numbers and descriptions in Schedule 2, Heavy Engineering Research Levy Act 1978	Replacement numbers and descriptions, per 2016 Gazette (Notice Number 2016-cu6136, Issue Number 100)
<p>7210.49.19.01F</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other: Exceeding 4.75 mm in thickness 	<p>7210.49.19 19J</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Containing in the plating or coating, not less than 50% and not more than 80% zinc by weight, alloyed with aluminium: Painted, lacquered or similarly coated: Of a thickness of 4.75mm or more
	<p>7210.49.19 29F</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Containing in the plating or coating, not less than 50% and not more than 80% zinc by weight, alloyed with aluminium: Plastic laminated: Of a thickness of 4.75mm or more
	<p>7210.49.19 39C</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Containing in the plating or coating, not less than 50% and not more than 80% zinc by weight, alloyed with aluminium: Other: Of a thickness of 4.75mm or more
	<p>7210.49.19 49L</p>

	<p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Containing in the plating or coating, more than 80% zinc by weight, alloyed with aluminium: Painted, lacquered or similarly coated: Of a thickness of 4.75mm or more
	<p>7210.49.19 59H</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Containing in the plating or coating, more than 80% zinc by weight, alloyed with aluminium: Plastic laminated: Of a thickness of 4.75mm or more
	<p>7210.49.19 69E</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Other: Of a thickness of 4.75mm or more
	<p>7210.49.19 79B</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness: ---- Other: ----- Other Other: Painted, lacquered or similarly coated Of a thickness of 4.75mm or more
	<p>7210.49.19 89K</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc -- Other: -- Exceeding 1.9 mm in thickness:

	<ul style="list-style-type: none"> ---- Other: ----- Other Other: Other: Of a thickness of 4.75mm or more
<p>7212.30 19 09C</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc: -- Other: --- Exceeding 1.9 mm in thickness: ---- Other Exceeding 4.75 mm in thickness, not in coils 	<p>7212.30.19 41G</p> <p>Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:</p> <ul style="list-style-type: none"> - Otherwise plated or coated with zinc: -- Other: --- Exceeding 1.9 mm in thickness: ---- Other Other: Exceeding 4.75mm in thickness, not in coils
<p>7306.61.00 27F</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section ... Rectangular hollow sections ... Of a maximum dimension of 102 mm or more but less than 128 mm Other 	<p>7306.61.00 63B</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with zinc: Of a wall thickness not exceeding 2.6mm
	<p>7306.61.00 64L</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with zinc: Other
	<p>7306.61.00 65J</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with other metals: Of a wall thickness not exceeding 2.6mm
	<p>7306.61.00 66G</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with other metals: Other

	<p>7306.61.00 67E</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> Painted, lacquered or similarly coated: Of a wall thickness not exceeding 2.6mm
	<p>7306.61.00 68C</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> Painted, lacquered or similarly coated: Other
	<p>7306.61.00 69A</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> Other: <ul style="list-style-type: none"> Of a wall thickness not exceeding 2.6mm
	<p>7306.61.00 70E</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> Other: <ul style="list-style-type: none"> Other
<p>7306.61.00 29B</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> ... Rectangular hollow sections <ul style="list-style-type: none"> ... Of a maximum dimension of 128 mm or more but less than 229 mm 	<p>7306.61.00 71C</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: <ul style="list-style-type: none"> -- Of square or rectangular cross-section <ul style="list-style-type: none"> Stainless steel: <ul style="list-style-type: none"> Of a wall thickness not exceeding 2.6mm
	<p>7306.61.00 72A</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section:

<ul style="list-style-type: none"> -- Of square or rectangular cross-section Stainless steel: Other
<p>7306.61.00 73K</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with zinc: Of a wall thickness not exceeding 2.6mm
<p>7306.61.00 74H</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with zinc: Other
<p>7306.61.00 75F</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with other metals: Of a wall thickness not exceeding 2.6mm
<p>7306.61.00 76D</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Plated or coated with other metals: Other
<p>7306.61.00 77B</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:</p> <ul style="list-style-type: none"> - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Painted, lacquered or similarly coated: Of a wall thickness not exceeding 2.6mm
<p>7306.61.00 78L</p>

	<p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel: - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Painted, lacquered or similarly coated: Other</p>
	<p>7306.61.00 79J</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel: - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Other: Of a wall thickness not exceeding 2.6mm</p>
	<p>7306.61.00 80B</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel: - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Other: Other</p>
<p>7306.61.00 31D</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel: - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section . . . Rectangular hollow sections Other</p>	<p>7306.61.00 81L</p> <p>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel: - Other, welded, of non-circular cross-section: -- Of square or rectangular cross-section Other</p>

Annex Two: Proposed amendments to Schedule 3

<p>Tariff item descriptions in Schedule 3, Heavy Engineering Research Levy Act 1978</p>	<p>Proposed description amendments to align with the Working Tariff Document</p>
<p>7215.50.20 31K</p> <p>Other bars and rods of iron or non-alloy steel: – Other, not further worked than cold-formed or cold-finished: – – Other: 7215.50.20 – – – Containing by weight less than 0.6% of carbon Containing by weight less than 0.25% of carbon: Straightened wire not exceeding 13 mm in diameter: Other: 31 K Welding</p>	<p>“</p> <p><i>Add one dot to each of the final two lines, to read:</i></p> <p>. Other: 31K Welding</p>
<p>8311.30.00</p> <p>Wire, rods, tubes, plates, electrodes and similar products, of base metal or of metal carbides, coated or cored with flux material, of a kind used for soldering, brazing, welding or deposition of metal or of metal carbides; wire and rods, of agglomerated base metal powder, used for metal spraying: 8311.10.00 00C – Coated electrodes of base metal, for electric arc-welding 8311.20.00 00G – Cored wire of base metal, for electric arc-welding 8311.30.00 00L – Coated rods and cored wire, of base metal, for soldering, brazing or welding by flame – Other, including parts: 8311.90.01 00J – – Wire and rods, of agglomerated base metal powder, used for metal spraying 8311.90.09 00K – – Other</p>	<p>“</p> <p><i>Remove “including parts”, to read:</i></p> <p>– Other: 8311.90.010 0J – – Wire and rods, of agglomerated base metal powder, used for metal spraying 8311.90.090 0K – – Other</p>