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Metals New Zealand submission to the Trade (Anti-dumping and Countervailing Duties) Act 1988: Applying the Public Interest Test

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Metals New Zealand thanks MBIE for the opportunity to respond to the proposed Trade (Anti-Dumping and Countervailing Duties) Act 1988: Applying the Public Interest test and acknowledges MBIE's acceptance of a late submission owing to tight timelines, limited resources and other commitments.

Metals New Zealand does not support the Public Interest test and requests that the Minister directs MBIE to adopt a more holistic approach in keeping with the Coalition Government's agenda and progress.

Metals New Zealand commissioned NZIER to provide an informed and independent economic response to the questions raised by MBIE.

The key points of the NZIER report are

The PIPES model, as it is described in the consultation document, is not well suited for the purpose of measuring the relative impact on domestic producers, final consumers and downstream industries. The main reason is that the model oversimplifies the economic effects and does not have mechanism to model the flow-on downstream effects on other industries and the ultimate effects on consumers.

It is well established that the major limitation of partial equilibrium models is that they only consider first-round effects and they do not consider the flow-on effects

It might offer some insight into the initial direct first-round effects, but it cannot help MBIE understand the flow-on effects upstream or downstream. It might be possible to consider the effects very broadly across multiple markets, roughly modelling markets in isolation.

This means that the PIPES model could only be used to give MBIE very simplistic insight into the effect on markets. There would be no insight into the flow-on effects in the economy.

NZIER, in highlighting the shortcomings of the PIPES model, offer words of caution for MBIE re the significant additional research required by MBIE to collect data on each appropriate sector subject to a public interest test for the PIPES model.

Finally, NZIER point out that the worked example is highly simplified. It begins by assuming there are no downstream effects, which limits the usefulness of the example.

1. Introduction

It is extremely disappointing that MBIE's approach to consultation in this document is very narrow – merely seeking answers to their questions, rather than seek constructive input from interested and potentially impacted parties from across New Zealand manufacturing.

The Public Interest test was introduced in an attempt to address the affordability of housing by potentially removing barriers to importation of dumped and subsidised building materials.

Metals New Zealand argues that New Zealand has moved on significantly from this simplistic thinking. Kiwibuild has been an abject lesson that houses are sold on the basis of what the customer is prepared to pay, rather than the cost of a sheet of plasterboard.

Furthermore New Zealand now measures our progress and performance against the Living Standards Framework, rather than solely simplistic economic and GDP measures.

MBIE's document fails to mention how applying a Public Interest test delivers to the Living Standards Framework.

Metals New Zealand would also draw the Trade Remedies team's attention to the building reform process in its own department, where the Building Systems performance programme of reform is focused on:

- Improving information and accountability for building products and methods
- Strengthening the framework for product certification.

Metals New Zealand's member organisations support MBIE's endeavours to provide a more robust regulatory framework and have invested significantly to ensure locally manufactured products and systems meet Building Code requirements:

- Steel Construction New Zealand and the Heavy Engineering Research Association are at the forefront of delivering robust, independently certified quality systems for the construction sector.
- NZ Metal Roofing Manufacturers have developed a robust Code of Practice to ensure locally made roofing and cladding products are installed to meet requirements of NZ Building Code.
- The National Association of Steel Framed Housing have developed Standards which are now (2019), referenced as Acceptable Solutions to the NZ Building Code.

A Public Interest test focused on delivering cheaper products (which are commonly non-conforming products) undermines the sector's progress and MBIE's own work.

The proposed Public Interest test focuses on the implications resulting from the initial capital cost. However in the built environment the ongoing maintenance and operational costs over the life of the building are significantly greater than the initial capital cost. Any Public Interest test needs to be able to assess and evaluate the life time costs of the proposed purchase.

The original Public Interest legislation (and the relevant Cabinet Paper) made no reference to an economic analysis. The Public interest test is currently only applied in two jurisdictions (the EU and Canada) and neither of these include an economic simulation model. We would question New Zealand's ability to populate the model with New Zealand data to ensure the model is relevant.

2. Comments on the Proposed Methodology

Considerations under 10(F)(3)(a)-(h) of the Act . The document notes

The timeframe over which the public interest is to be considered will vary on a case-by-case basis, as different goods will be subject to different factors, such as seasonality, timing of relevant contracts, etc.

Metals New Zealand would agree that the timeframe has varied and progressed and that MBIE need to develop methodology to evaluate the Public Interest test against the Living Standards Framework and how the imposition of duties will deliver to:

- Natural Capital
- Human Capital
- Social Capital
- Financial & Physical capital

Where in the proposed methodology are life time costs evaluated along with the potential impact of non-conforming dumped and subsidised products?

3. Part I – To what extent do you consider the factors discussed in Part 1 of this paper are appropriate in addressing the requirements set out in the Act?

Following submissions to the Commerce Committee, MBIE prepared a report dated 22 September 2016 which addressed the various views expressed by interested parties.

We have undertaken a comparison of the comments made in MBIE's Departmental Report to the Commerce Committee (Section F) (22 September 2016) where examples were given of how the PIT factors would be used, with the detail contained in Part 1 of the Consultation Note.

The effect of the duty on the prices of the dumped or subsidised goods

The Consultation Note suggests that this analysis should be "a reasonably simple exercise...given most of the information about duties and corresponding price rises will come from the dumping or subsidy investigation". However the extent of the analysis set out in the Consultation Note suggests a much more in depth analysis of this factor.

Together with the use of the PIPES Model, we submit that an opportunity is being created for MBIE to undertake a second material injury analysis, when the purpose of the PIT analysis is to use the information gathered during investigation Step 1, rather than carry out a reinvestigation of the case.

The effect of the duty on prices of like goods produced in New Zealand

The same comments apply as above.

The effect of the duty on the choice or availability of like goods

The proposed assessment is in line with work that was set out in the Departmental Report.

The effect of the duty on product and service quality

This is an analysis that is typically undertaken during the material injury assessment in an investigation Step 1. Only one of the proposed assessment points is related to the imposition of duty. This approach again raises the potential for a reinvestigation of the material injury being suffered by the local industry, with the risk that reasons will be found to dilute the outcome.

The effect of the duty on the financial performance of the domestic industry

The issues that are proposed to be assessed will have already been considered during the investigation Step 1. MBIE's Departmental Report to the Commerce Committee notes that "all this information will be available from the dumping or subsidy investigation as part of the injury analysis". It is typical in Step 1 of the investigation that the officials look at the forward projections of the local industry in determining whether the alleged material injury is likely to continue. A further assessment of this seems superfluous.

The effect of the duty on employment levels

The analysis as set out will have been undertaken during the investigation Step 1 and gives officials the opportunity to reconsider some of their initial findings.

Whether there is an alternative supply (domestically or internationally) of like goods available

All of the points set out in the Consultation Note will have been investigated and assessed during the investigation Step 1. We submit that a further review of these issues seems redundant.

Furthermore, the Departmental Report states at paragraph 123:

“There is reasonably strong certainty in this factor; in most cases, there will likely be a suitable alternative supply of the subject goods, regardless of whether or not the Government imposes duties.”

To make further enquiries seems unbalanced, as it can only produce an outcome favourable to the consumer/downstream industry.

Any factor that the Chief Executive considers essential to ensure the existence for competition in the market

This factor was not included in the original Cabinet Paper but was included in the legislation that made its way through Parliament. We submit that the extent to which the Consultation Note proposes that this factor be examined is strongly weighted in favour of the consumer/downstream industry. It could be construed that if a measure that was imposed in the investigation Step 1 survives the earlier analysis in Step 2, then this factor gives the Chief Executive virtually unlimited scope to find in favour of the consumer/downstream industry.

The Departmental Report at paragraph 126 notes:

“It is unlikely that information under this factor will be available throughout the investigation.”

We disagree with this comment and hence the need for the Chief Executive to make further enquiries under this factor. Part of the local industry’s material injury argument will necessarily include the effects on the business going forward of the various price and market share pressures caused by the dumped/subsidised imports.

In summary, the depth and extent of the analysis that the Consultation Note proposes is heavily weighted in favour of the consumer/downstream industry. This is contrary to the requirement of the legislation that the balance of any analysis is found in favour of the local manufacturer.

4. Is the PIPES model useful in informing the analysis of the public interest test

Metals New Zealand commissioned NZIER to provide an informed and independent response to the questions raised by MBIE. NZIER's comments are as follows.

The PIPES model, as it is described in the consultation document, is not well suited for the purpose of measuring the relative impact on domestic producers, final consumers and downstream industries.

The main reason is that the model oversimplifies the economic effects and does not have mechanism to model the flow-on downstream effects on other industries and the ultimate effects on consumers.

It is well established that the major limitation of partial equilibrium models is that they only consider first-round effects and they do not consider the flow-on effects.¹ For example, the PIPES model could look at the impact of Chinese steel on the domestic steel industry in isolation but it couldn't provide insight to the flow-on effects to construction costs. Therefore, it cannot provide definitive insight into the public interest test, which it has been proposed to be used for.

Nor is the model helpful for providing insight for points a)–g) because the model does not capture the following considerations:

- The flow-on effects on prices for imported goods or domestic goods.
- Changes in capital to labour ratios in production.
- Any aspect of quality.
- Effects in financial performance.
- Labour market effects.
- Effects of alternative product markets.

It might offer some insight into the initial direct first-round effects, but it cannot help MBIE understand the flow-on effects upstream or downstream. It might be possible to consider the effects very broadly across multiple markets, roughly modelling markets in isolation.

This means that the PIPES model could only be used to give MBIE very simplistic insight into the effect on markets. There would be no insight into the flow-on effects in the economy.

4.1. Assumptions in the PIPES model limit the model's effectiveness.

There are three core assumptions in the PIPES model:

¹ Babu, S., Gajanan, S. N., & Hallam, J. A. (2016). Nutrition economics: Principles and policy applications. Academic Press.

- The effects of economic shock are not passed through to other industries or consumers
- The markets considered at the time of modelling are not affected by other shocks
- Upstream effects are out of scope.

The first assumption seems contrary to the consideration of the downstream effects in the public interest test.

The second assumption is a standard assumption showing that economic modelling is manageable.

The third assumption means that the economic effects on industries that supply to the domestic market will not be considered, running the risk of unintended consequences.

4.2. Significant additional research required to credibly inform the PIPES model

MBIE should not underestimate the effort required to establish appropriate estimates of the cross-price elasticities of demand for the New Zealand economy. To do this would be a major research undertaking for each industry being assessed. It is no small task, requiring up to a year to complete. Too often, overseas estimates are applied to New Zealand without being tested.

4.3. The worked example is highly simplified.

It begins by assuming there are no downstream effects, which limits the usefulness of the example.

In the example, the consumer is worse off due to the imposition of the duty. Consumers will always be negatively impacted when duties are imposed in this model because duties increase the material cost and diminish consumer relative purchasing power for the imported goods.

The aim of the duty is to correct the market prices for the anti-competitive dumping of imported good, which distorts the local market.

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Metals member organisations



www.hera.org.nz

The New Zealand Heavy Engineering Research Association (HERA) was established in 1979 as a non-profit research organisation dedicated to serving the needs of the metals-based industries in New Zealand. Its membership consists of approximately 600 companies representing metals-based fabrication and manufacturing companies, the associated design and consulting industry, related education providers, and the supporting material supply and services industry. HERA is base funded through an industry generated R&D contribution in the form of a levy on heavy steel and welding consumables administered by the Heavy Engineering Research Levy (HERL) Act. HERA's current research is in the areas of steel construction, general heavy engineering industry development and welding fabrication innovation. HERA works with other research providers such as universities, independent research organisations and CRLs to deliver its programmes.



www.scnz.org

Steel Construction New Zealand Inc. (SCNZ) aims to advance the interests of New Zealand's diverse steel construction industry by promoting the benefits of steel solutions in building and infrastructure projects. Members include manufacturers of structural steel and steel products, distributors, fabricators, designers, detailers, galvanisers, and paint and building supply companies. SCNZ provides its members with technical advice on the latest in steel design trends and standards, networking opportunities, and a representative voice with key industry and Government decision-makers.



www.castingtechnologynz.org

Casting Technology New Zealand (CTNZ) aims to be a major contributor to the success and prosperity of the metal casting industry. The organisation is an advocate for maintaining high industry standards and encourages members to participate in quality training programmes. It provides a network for technical and business activities among its membership at national and international levels. At a Government level, CTNZ keeps abreast of legislation relevant to the metal casting industry and, importantly, represents the industry's position on issues affecting the sector.



www.metalroofing.org.nz

The New Zealand Metal Roofing Manufacturers Association Inc. (NZMRM) represents companies that roll-form steel and other metals for roofing and cladding purposes. Commonly known as 'Rollformers', NZMRM has 30 member companies. Members are involved in producing a wide range of profiled product, both painted and unpainted. The Association is active in the development and promotion of industry standards, and in conducting research that promotes the use of metal roofing and cladding.



www.nashnz.org.nz

Formed in New Zealand and Australia in 1982, the National Association of Steel-Framed Housing (NASH) is an advocate for all forms of low and medium rise steel-framed construction. NASH represents the interests of suppliers, practitioners and customers of steel-framing systems, and provides a representative voice for the sector at Government level.



www.nzssda.org.nz

The New Zealand Stainless Steel Development Association (NZSSDA) was formed in 1998 to promote and develop the stainless steel market in New Zealand. Its members include engineers, architects, fabricators, merchants and end-users with an interest in the supply or application of stainless steels. NZSSDA supports and encourages technical excellence in the industry and provides specialised training courses on stainless steel for the New Zealand market.



New Zealand’s major aluminium extrusion companies work collaboratively, (supported by Metals NZ), on areas of common interest which include fair and free trade, non-conforming products, government procurement and sustainability.



The Sustainable Steel Council (SSC) was reconstituted by Metals NZ, HERA, SCNZ, NZMRM, NZSSDA, NASH, New Zealand Steel, Fletcher Steel and Steel and Tube in 2018. Members of the Sustainable Steel Council are committed to a vision where steel is valued as a critical enabler in New Zealand’s journey to a low emission economy. The vision is achieved by a financially sound industry taking leadership in delivering to the living standards framework, measured across human, social, natural and financial / infrastructure capitals.