

# The Treasury

## Budget 2014 Information Release

### Release Document

#### July 2014

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [6] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [7] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [9] 9(2)(h) - to maintain legal professional privilege
- [10] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
- [14] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

## Title of paper: Reducing import barriers in residential construction sector

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### Purpose

1. This paper seeks EGI's agreement to (1) introduce a temporary tariffs concession scheme and (2) temporarily suspend the application of anti-dumping duties for key residential construction materials. These proposals have been developed as a result of MBIE's Residential Construction Sector Market Study, part of the government's response to the 2012 Productivity Commission report on housing affordability. Consideration of non-trade related policy options will be made later this year.

### Comment

We support the proposals in this paper, but recommend that you agree in principle pending Budget decisions. Given that the paper does not include a recommendation to this effect, we suggest you discuss with the Ministers of Housing and Commerce prior to EGI Committee, seeking to table a new recommendation to this effect.

#### *Tariffs*

2. Tariffs are a structural impediment to better economic performance, distorting competition, productivity and hindering New Zealand's integration into global value chains. Treasury supports the proposal to remove tariffs on residential construction materials however we recommend that this change is made permanently rather than being restricted to a five year period. We have split recommendation 7 to reflect this preference. **We recommend you support a modified recommendation 7.2, to agree in principle pending Budget decisions.**
3. The immediate economic benefit of removing tariffs is likely to be small, with some short term impact on affected domestic industry. However Treasury considers that the static benefits may understate the potential gains from the long term dynamic and international signalling impact of removing tariffs. As such, any progress made towards the eventual unilateral removal of tariffs is valuable.

4. [14]

5. The proposal will result in a decrease in revenue to the Crown (estimated at \$5.5m per year). However, this effect is likely offset by productivity gains from increased competition.

#### *Anti-dumping duties*

6. Treasury supports this policy and believes there are gains to be made in terms of a reduction in the costs of residential construction. This will flow through into supporting government objectives on increasing housing affordability.

7. However, Treasury believes the full benefits of reducing anti-dumping duties may not be realised if there are bottlenecks at other stages in the supply chain such as the product approval stage. The paper acknowledges this in paragraphs 13-15 and further proposals for reducing construction sector costs will come through as part of this wider study. **We recommend you support a modified recommendation 11, to agree in principle pending Budget decisions.**
8. The impact of suspending anti-dumping duties on Crown revenue is minimal (estimated at less than \$0.2 million per year).

### Treasury Recommendation

9. We recommend that you **support the paper with modified recommendations 7.2 and 11, to agree in principle pending Budget decisions.**
10. **Note** that the full benefit of these policies may be dependent on the removal of other barriers in the residential construction market.

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			13/14	14/15	15/16	16/17	Out years	
Reducing import barriers in residential construction sector		<b>Support in principle pending Budget decisions</b>  <b>Support Treasury's recommendation 7.2 that tariffs on key residential construction materials are removed permanently, rather than on a five year basis</b>	<i>Operating</i>					Tariffs are a structural barrier to better economic performance. As such, Treasury recommends that these tariffs are removed permanently. We recommend that you agree in principle to recommendation 7.2 pending Budget decisions.
			0	5.7	5.7	5.7	5.7	
			<i>Capital</i>					