POST-CABINET PRESS CONFERENCE: MONDAY, 18 FEBRUARY 2019

PM: All right, good afternoon. Let me first give you an overview of the coming week. Today, I want to begin, after my introductory comments, by giving a statement on China, followed by an announcement about fairness and balance in the tax system.

This evening I am hosting the screening of Celia Lashlie's documentary here in the Beehive Theatrette. On Tuesday, I'm hosting an Air New Zealand function in the banquet hall. On Wednesday morning, I will be chairing the public hearing of the Intelligence and Security Committee, and in the evening I will be speaking at the Business New Zealand Back to Business event.

On Thursday, I'm looking forward to attending Te Matatini at the Westpac Stadium. On Friday, I am hosting the Australia - New Zealand Leadership Forum and welcoming Prime Minister Scott Morrison.

There's been a fair amount of media attention on China-related issues over the past week. I thought it would be useful today to reiterate some of the context around our relationship and also to correct some of the inaccuracies that I have heard. As I've said before, China is a very important and highly valued partner for New Zealand. I know from my discussion with Premier Li in November that China also values its relationship with New Zealand. This is a point recently confirmed by the spokesperson for China's Ministry of Foreign Affairs last Friday when referring to China and New Zealand "enjoying strong and steady development is in the interests of both countries."

There've been suggestions over recent days that New Zealand exports are facing delays at China's border. These reports don't reflect the facts on the ground. Our officials in China have confirmed that New Zealand primary products continue to clear the border as usual. There's no indication of anything out of the ordinary in China's border clearance procedures for New Zealand products. In a trade relationship of this size, with \$28 billion of trade moving between both countries, there will sometimes be temporary technical issues which occur from time to time. We've seen some reports of this nature over the last week or so.

We need to keep these in context. A delay in processing a small number of products doesn't change the overall picture of a significant trade relationship working effectively in both directions. New Zealand's goods exports to China were up by 20 percent in 2018. The rate of consignments being stopped at the Chinese border for 2018 was 0.26 percent, just over a quarter of 1 percent. In January 2019 it was 0.29 percent, a change of only 0.03 percent. That is not statistically significant. This should also be considered alongside the significant changes to border processing China has made over the past year.

There've also been suggestions that China's Government was warning Chinese people to stop visiting New Zealand. Again, China's foreign ministry spokesperson last week rejected these reports, suggesting those peddling the story were "either making a big fuss over nothing or harbouring ulterior motives." And the facts underline the current strength of visitor arrivals from China, which were up 7.3 percent in 2018. Holiday visitors were up 8.8 percent, and visitors' spend was up 14 percent.

At the official level, it is completely incorrect that five Ministers are awaiting visas for travel to China. There are, in fact, no Ministers currently awaiting either letters of invitation or visas from China.

New Zealand and China have differences of views on some issues, as we do with any other country. However, this is a robust and mature relationship; we manage these differences together in a mutually respectful way. This is a Government which will apply the rule of law and due process scrupulously, and ever more so when addressing matters that affect the security and well-being of New Zealanders.

New Zealand and China also continue to cooperate on a wide range of other issues in the relationship, including working together to strengthen the WTO through high-level discussions, a shared objective to address climate change. The Minister for climate change, James Shaw, visited China last year to progress work on this important issue.

We have strong science and research connections, and rich cultural and people-to-people exchanges. Officials are also negotiating an upgrade of our free-trade agreement, which has seen our trade with China more than triple since it was signed 11 years ago.

To recap, we do place a very high priority on our relationship with China. It's a significant and complex relationship, but one that brings great benefit to both parties. New Zealanders and Chinese will continue to visit each other's countries to do business with each other and to bring stronger cultural and people-to-people links.

Today, though I want to move on to an issue discussed at Cabinet and some decisions that have been made. Today Cabinet agreed to progress work on ensuring multinationals pay their fair share of tax in New Zealand. For a number of years the New Zealand Government has been engaged at the OECD on developing a framework to tackle the tax challenges arising from the digitalisation of the global economy. While we have made considerable progress, there are still gaps.

As the global economy has become more digitised, tax systems have not kept up with these changes. This means that currently some digital companies can do significant business in New Zealand and other countries without being subject to paying tax on the income they earn. That is not fair and it is not sustainable. This is a gap in New Zealand's tax system, which this Government believes should be closed. New Zealand is continuing to work at the OECD level to get broad agreement on this issue, but today Cabinet agreed that we should also be looking at what interim action we can take through the introduction of a digital services tax to help ensure multinationals start to pay their fair share.

A number of other countries are already looking at introducing interim digital services taxes while the broader OECD work is ongoing. This includes Australia, France, Germany, Italy, Spain, Austria, the UK, and the US. Today Cabinet agreed to join them in investigating such a tax. Finance Minister Grant Robertson and revenue Minister Stuart Nash today took a paper to Cabinet outlining the next steps in our plan and the revenue Minister is here to discuss them with you now.

Hon Stuart Nash: Thank you Prime Minister. As the Prime Minister said, New Zealand has been working at the OECD for a global solution to this issue. Highly digitised companies such as those offering social media networks, trading platforms, and online advertising currently earn significant income from New Zealand consumers without being liable to income tax. International tax laws have not kept up with modern business developments. In the long term this threatens the sustainability and integrity of our revenue base and the fairness of our tax system.

The current tax rules also provide a competitive advantage to foreign companies in the digital services field compared to local companies who offer e-commerce, online, advertising, and social networking services. The value of cross-border digital service in New Zealand is estimated to be around \$2.7 billion a year. We are determined to ensure that multinational companies involved in this sector of the economy do pay their fair share of tax. Our revenue estimate for digital services tax is between \$30 and \$80 million dollars a year but it depends on how this is designed.

New Zealand is currently working at the OECD to find an internationally agreed solution for including the digital economy within the tax frameworks. And our preference is to continue working within the OECD, which was also recommended last year in the interim report from the tax working group. However, we do believe we need to move ahead with our own work so we can proceed in our form of a digital services tax as an interim measure until the OECD reaches agreement.

It's important to note that this is the same approach being considered by Australian authorities, as outlined by the Prime Minister, who released a discussion document on this issue late last year. The OECD has also released a discussion document on its proposals last week and officials will now finalise New Zealand's document which will likely be publicly released in May of this year. The document will make it clear that we are determined that multinational companies pay their fair share of tax. We are committed to finding an international solution within the OECD but would also consider an interim option until the OECD finalises its position, and this is the work we are now proceeding.

PM: Happy to take questions. Audrey.

Media: Is this different to the-

PM: Base erosion?

Media: —profit shifting tax from last year?

Hon Stuart Nash: It's the next stage. So the base erosion profit shifting was about multinationals and aggressive tax planning. This is the next stage to ensure that multinationals without a permanent establishment within this country actually pay their fair share of tax.

Media: Why is this urgent? Why are you rushing ahead of the OECD?

PM: The suggestion that the OECD is moving at pace is probably the issue here.

Hon Stuart Nash: What happened is the OECD for a long time has said that they would like to have a solution on the table by 2020. That was looking highly unlikely until the British actually passed a digital services tax in their Budget last year. That brought everyone round the table again, and they are committed to coming up with a solution in July this year, but we want to be ready just in case, because the OECD can move at a rather slow rate and if they do come up with a solution in July of this year, then fantastic. But if they don't, we want to be ready to have an interim measure in place.

PM: Keeping in mind, even if they do come up with a solution the Minister's spoken of at the OECD level, that could be some three to four years away from then being implemented, so there's quite a lag time. And, look, the question is, are we willing to have that unfair practice exist in our system, where multinationals are not paying their fair share of tax? So we've just got to get on with exploring our own solutions.

Media: Which digital companies don't have a base here that you're targeting?

Hon Stuart Nash: Well, we don't want to mention any companies in particular, but I think you'll understand when we talk about, you know, social network companies, digital platforms—it's reasonably obvious but we don't highlight specific organisations, but I think it's probably pretty obvious.

Media: Your interim measure—when would the first year that would be paid be; when would it be implemented by?

Hon Stuart Nash: Well, obviously, what has to happen is we would put the document out in May; we would ask for feedback on that, then it goes through the stock-standard tax process. So, again, we would probably be looking at 2020, but let's go through the process first.

Media: Did this come up at all today in Cabinet in terms of the Tax Working Group's assessment on this tax? Did they mention it at all in their report?

PM: We're going to let the Tax Working Group speak for itself when that report is released. It is fair to say that, as a Cabinet, we've been discussing this issue for some months. We, in fact, at the time that we looked at the base erosion work, did talk about the need to continue on to the next stage. And this is a conversation that's being had globally. This is an issue that economies like ours are looking for solutions around because it's only fair—when

taxpayers look at their contribution, they want to seek and know that multinationals are paying their fair share as well.

Media: How much would the tax be at this stage? Have you got any ideas or estimates on how much it would be?

PM: It ranges for the digital services taxes that other countries have canvassed, have been in the range of 2 to 3 percent.

Media: So that would be the same level that New Zealand would look at?

PM: We've been looking at similar structures.

Media: And you said that this would bring in—was it \$30 to \$80 million?

PM: \$30 to \$80 million. It's highly speculative. Of course, we've had to make some assumptions to generate that figure, but that's the figure that officials, at this stage, have come up with.

Media: Have you talked to the industry yet on this?

Hon Stuart Nash: No, that's what the discussion document will be about.

Media: Officials in the past have said that this kind of tax could break WTO rules or some tax agreements or treaties that we are party to. Are you at all worried about that? Has something changed from that earlier advice?

Hon Stuart Nash: We would ensure that we don't contravene our double tax agreements, or international tax agreements, keeping in mind, as the Prime Minister outlined, there are a number of countries who are investigating this, including Australia.

Media: Have Facebook, Google, Airbnb, Uber—are they rorting New Zealanders?

PM: Our current tax system is not fair in the way that it treats individual tax payers and the way that it treats multinationals. It's not fair.

Media: Why only charge them 2 or 3 percent when there are other tax rates that we pay here, like 15 percent GST or 33 percent income tax? It seems pretty low, 2 or 3 percent.

Hon Stuart Nash: It's an interim measure. It's where the digital services tax tends to sit internationally, and we're looking at what's going on globally and looking to do the same as an interim measure until the OECD comes up with the final solution.

Media: And what penalties could you charge or actually could you take if they decided to go, "No, stuff you. We don't live in New Zealand; we can do what we want."?

Hon Stuart Nash: Well, that will be fleshed out in the discussion document.

PM: Yeah, these are all the things that, as with all design policy for tax, these are things that you, of course, canvass in the design stages. It's fair to say there is a growing move—this was one of the issues discussed at Davos, that you heard in the margins of the meetings. We are not alone in moving in this direction, and I think there's a general acceptance from those who are likely to be affected that it's time to step up.

Media: What if they don't pay; what are you going to do? Are going to ban Facebook?

PM: Again, of course, you've seen some international examples, where there's been States who have pursued, through their tax regulation, those who have not paid, and who have been successful in doing so.

Media: And the Tax Working Group did come out and say in its assessment that equalisation tax—which is the tax we're talking about here—the introduction of this tax should depend on whether a critical mass of companies also adopt such a tax—

PM: Countries.

Media: Countries—do you feel that this critical mass has been reached?

PM: Yes. As we've outlined in my introductory comments, there are a significant number of nations that are now pursuing this area of work, particularly mindful of the fact that Australia is already consulting, as we are now proposing to do. And that is important.

Media: Which of the companies—

PM: Countries.

Media: —countries, sorry—have been in contact with you specifically about the adoption of this tax?

PM: I don't know whether or not I can speak to specific contact, but, as I said, Australia, France, Germany, Italy, Spain, Austria, the UK, and the US. Proposals more broadly, I think, have already been taken to the OECD, I believe, from Germany as well. So there are a number of countries doing work in this space.

Media: Also in the interim report it said that the tax's introduction should depend on New Zealand's companies not being unduly affected by the tax. Is the Government sure that this is the case?

PM: Yes. And as we go through the process of consulting on this, these are the kinds of things that we will tease out. But one of the issues we have at the moment: if you survey—and in fact, they are surveyed—small businesses and the like, they'll say that they see an unfair playing field out there in our tax system, and they want fairness in the system. So, yes, we have to make sure that we don't have an undue effect on New Zealand businesses. At the same time, we need to even out the playing field for business too.

Media: There are reports out of Britain today that the cyber-security—

PM: Sorry, let me just check for the benefit of the Minister: any more questions on that?

Media: Is the \$30 million to \$80 million estimate part of the \$200 million estimate from last June, or additional to?

PM: From the base erosion conversation?

Media: Yes.

Hon Stuart Nash: It's additional.

PM: It's additional, yes.

Media: So are you looking at taxing revenue rather than profits?

Hon Stuart Nash: Yes.

Media: Is it hard to calculate exactly what revenues are being generated?

Hon Stuart Nash: It's much easier to calculate revenue than it is profits, but let me give you an example. Online advertising is about \$920 million in this country, and we know that offshore contributes about 36 percent of that. So we have a good feel for revenue; we just don't have a good feel for profits—the reason why we're doing this.

PM: Yep.

Media: Would it only be levied on multinationals—no actual New Zealand companies—and the British tax, I believe, it kicks in at a certain level of revenue so you have international revenues—

PM: Yes.

Media: —of £20 billion. Have you looked at any, like, kick-in rate for the size of the multinationals that would apply to?

Hon Stuart Nash: Yeah, the British one kicks in at £500 million, but why a New Zealand company wouldn't be caught in this is because it is really about bricks and mortar—i.e. a permanent establishment versus offshore. But your other question about a kick-in rate—that's something that I think we'll flesh out in the discussion document.

PM: Yep, yep.

Media: Companies that were taxed using this law—would they be exempt from a BEPS tax role; they would also pay additional tax?

PM: The way the base erosion means?

Media: Yeah.

PM: Yeah.

Hon Stuart Nash: BEPS is really about targeting those who use really aggressive tax planning mechanisms to avoid paying tax. So this is as well as BEPS. This is just the next stage, I suppose, in ensuring that multinational companies pay their fair share of tax here. No, it's not double tax, at all. I mean, this is tax that they're not paying that they should be paying.

Media: Will it stabilise the revenues of digital news companies based in New Zealand that have long complained at the unequal playing field? Is this aligned with that?

PM: Oh, we'll leave them to make that comment when we consult, but certainly that may be an issue or a point that's raised. Obviously, the reason that we're talking about those who don't have bricks and mortar here is because those who do are already paying tax.

Media: Are you concerned about the snail's pace that OECD is moving at? How quickly can you implement this?

Hon Stuart Nash: Well, as mentioned, what we do is we put out a discussion document, it goes through the standard legislation process. We expect, if the OECD doesn't make a decision when it says it's going to, or if it takes longer to implement such a global recommendation, that we could possibly have something in place by 2020. But, again, that's all to be fleshed out. But this won't be rushed through under urgency or anything like that. It will go through the proper process.

Media: So in the bank by 2020?

Hon Stuart Nash: Well, let's just wait and see. But, like I said, it has to go through the legislative process.

Media: Are you concerned at all that these companies might just choose not to provide their services and go elsewhere, like Amazon, for example?

PM: No. no.

Media: You're not—because that happened in Australia when they first floated this.

PM: Yeah, the same thing was said around the way that we deal with online sales, and we haven't seen that.

Media: Do you have any tentative designs on what you might do with the extra revenue? Would that perhaps go towards more pressing needs?

PM: No, no, I mean it's highly speculative at this stage what the additional revenue would be. So, no.

Media: Just going back to the Tax Working Group's interim report. They made a third assessment that said that tax's introduction should go ahead if it's not simply being passed on to New Zealand consumers. Are you confident that this is the case? That it's not going to be passed on to Kiwis?

PM: That any additional cost or—yeah. Look, when you think about some of the services that we're talking about, obviously in some of those cases I wouldn't have an expectation that it would, no. Of course, these are things that I'm sure consumer groups would point out in the discussion document, so there's plenty of space to canvass that.

Right, any final questions on this matter? OK, thank you Minister. Sorry we had a question that we jumped through. Sorry, Jane.

Media: Reports out of Britain with the cyber-security services basically saying that they think they can mitigate the risks of 5G with Huawei involved and it should give comfort to other countries. Would that affect New Zealand's process more as it continues to examine the 5G?

PM: Two things. That report has not been fully released yet as I understand, so I won't speculate too much on the content of that, but when it comes to some of the statements that I've heard made, that does sound to a certain degree in alignment with the process that we undertake in New Zealand through TICSA. We have a process where an assessment is made by the GCSB, independent of Ministers. Any vendor who has made an application is then told the outcome of that assessment and is given a chance if there are security concerns to mitigate those concerns. That is exactly where we are now. Spark has been given options around mitigation of potential security concerns and now the ball is in their court.

Media: Do you expect GCSB to take heed of findings in other countries given the similar subject matter and similar security concerns?

PM: I would expect the GCSB to comply with our legislation and our own security assessments. It is fair to say Five Eyes, of course, share information but we make our own independent decisions.

Media: Would that carry any more weight given it is a Five Eyes partner?

PM: We have an independent foreign policy.

Media: The hacking of a political party in Australia, does that leave—given that they are a Five Eyes partner, does that leave us open to similar vulnerabilities?

PM: No, I've certainly been advised that we don't have—I haven't had a detailed briefing of what's happened in Australia but I'm advised that it has no impact on us.

Media: The fact that you've come out and made the statement on China to, as you say, correct these inaccuracies—who do you think is promulgating those inaccuracies and why?

PM: Certainly I've heard statements made by the Opposition that I deem to be incorrect. I think it's in our national interests that I correct them and that I simply before you the facts and the statistics and numbers that we have.

Media: Prime Minister, do you think people like David Marne, who's been on the ground in Beijing for 34 years—and the risk to New Zealand; do you think his point of view should be paid no heed to?

PM: I pay heed to both the feedback we get on the ground ourselves from our officials who are in China, and we've requested that feedback and I've shared that with you today. I also do hear the voices of our operators and we've had feedback from Fonterra that they haven't seen issues, and I pay heed to what Chinese officials themselves have said and they've rebutted some of the statements as well.

Media: Have you got your date for your trip yet?

PM: As I say, that's been an ongoing issue since last year and as I've relayed to you a number of times, I was given the invitation and we are still working on setting dates for that visit.

Media: Is there something tangible that we can read into, though, the fact that the trip has been delayed for months and months and months?

PM: I'm giving you the facts as they stand. Our relationship with China, as I've always said, is complex, but our goods exports are up, our numbers tourism are up, and there are a number of other indicators that show we still have a strong relationship despite those complexities.

Media: Aren't you concerned that *The People's Daily,* which is controlled by the Government and the Communist Party, has gone out of its way to publish a story saying

that Chinese tourists are concerned about your block on Huawei and that tour managers in China are recommending against travelling to New Zealand because of your Huawei block?

PM: I've seen that report and I've also seen, as I've shared with you, China's foreign ministry spokesperson rebut those very statements and as I said, saying quote "either they're making a big fuss over nothing or harbouring ulterior motives", so I have to, of course, accept that that exact story has been rebutted by Chinese officials.

Media: But you know that those stories in *The People's Daily* are all placed and approved by the Chinese Government?

PM: As I say, the Chinese officials have rejected those statements.

Media: On the visitor numbers, while they're up over the year, the last three months of the year saw significant declines, peaking at about 8 percent month on month, the year before.

PM: Yes.

Media: Does that concern you?

PM: Yeah, and again, what I think we also need to keep in mind is that we cannot confuse regulatory or administrative issues as being an indicator of the relationship and overall, broadly, the numbers are very strong. On tourism numbers, the numbers have been up significantly. At the same time, we do see a bit of softening in the Chinese economy, and so that, of course, we have to factor in as well. So all of these things need to be taken into consideration when looking at all those indicators.

Media: You've cited National's comments as being inaccurate, and the Government is clearly scared of a detrimental narrative forming. I mean, do you brief the Leader of the Opposition and is it perhaps worth starting to do that now?

PM: I wouldn't characterise my approach to the Opposition as one of fear but, rather, one that's in, I'd like to think, the national interest. We do have a strong and important relationship with China. There are complexities in that relationship, but we need to make decisions that are in the national interest, as well. And, at any point, if the Leader of the Opposition wished to have any additional briefing, I would be more than happy to have that provided. As I've said before, we have tended, in the past, to take a pretty united front on foreign policy matters, and I would like to see that continue.

Media: Andrew Little says he's disappointed that the Christmas Island detention centre has reopened. He says the conditions aren't satisfactory. Are you opposed to the centre reopening, and will you raise this in your meeting with Scott Morrison?

PM: This is one of the agenda items, more broadly, that we have had in our exchanges with Australia, across Ministers and myself, for a number of months, and will continue to be an agenda item.

Media: This is something that's developed in the past few days; are you disappointed that the centre in reopening?

PM: It feeds into a broader policy, where we've always taken a consistent position on.

Media: Any progress on KiwiBuild recalibration?

PM: That's something that the Minister will announce when he has the final Cabinet decision to share with you.

Media: MSD last year gave \$3 million to a hotel which appears to have been under the ownership of a company that seems to be exploiting the housing crisis. Is this something you're briefed on, and what's the Government—

PM: Whilst I don't have too many specific details on that exact case, I will openly share here the message that I have shared with officials. I have a real aversion to the fact that we are even in the position of having to use motels. It will not feel like a good use of taxpayers'

money to anyone. However, the alternative that we've had is that we inherited a real lack of transitional and emergency housing places. Now, we, since we've been in Government, have steadily increased the number of public housing places by 1,900, but that has still not kept up with demand and we are still, unfortunately, in the position of using motels. I do not want to be in that position, and I'm putting as much pressure as I can on extracting ourselves from that situation, but when the trade-off or alternative is, potentially, cars, I don't want to entertain that, either.

Media: This specific motel—could we do more about monitoring people living in squalor?

PM: Obviously, under those conditions, particularly given the amount of taxpayer money, I would expect that officials would be looking into those conditions.

Media: Isn't snubbing our Prime Minister an indication that the relationship between China and New Zealand is cooling?

PM: I think that's an unfair characterisation given that I was offered the invitation by the Premier.

Media: Have you reached out to China in the last week or two to smooth this over a little bit?

PM: Yeah, I don't want to split hairs, but reaching out is a quite—what does that mean? We have ongoing dialogue with a major trading partner and people-to-people partner. Our dialogue is almost constant.

Media: Have you spoken to anyone about it?

PM: In China, specifically?

Media: Yes, officials, or—?

PM: No, I have not, but nor would I expect to. We conduct our diplomacy through our diplomats on an ongoing basis, and that's consistent.

Media: Could you give us a bit of an outline about what happened in Cabinet today in terms of discussions about the Tax Working Group's final report?

PM: We've already outlined to you the process for release, and none of that's changed.

Media: Isn't it even more problematic that the invitation was extended by the Premier, and hasn't been realised?

PM: No, not at all. And, again, this is an issue that we continue jointly to work on. Visits are not a measure of the health of a relationship; they are only one small part of it. And, as I've outlined, we've had a number of Ministers who in the past 12 months have had extremely high-level exchanges and visits to China.

Media: Just on Pike River today, and the missing cabinet door. Have you been given any more information about what might have happened, and the significance of that?

PM: No, I haven't had any additional information other than what's been publicly reported. Of course, there is a suggestion that this may be a crucial piece of evidence. My expectation would be that we do what we can in order to locate something as important as that. Obviously, this is something that we have come in midway through, but we have commitments around the re-entry which we are fulfilling, and, of course, part of that is trying to complete the picture of what happened.

Media: Is this an indictment of the process and the way that the scene and evidence has been handled that years later there's something potentially so significant missing?

PM: Yes, I would see that as a failure.

Media: Huawei in the UK, in a national security background—it's kind of a joint body. They publish an annual report. It's run by Huawei but it employs GCHQ staff. Is there any possibility of us setting up a similar body to veto or to—

PM: No, I mean, I see theirs as being—you know, we have a process and a legislative framework for making the kinds of assessments that we are obviously in the process of making now. I think it's a robust one. I think probably it may well be that other countries would see there being some benefit to the way that our assessments and processes are undertaken. And, again, as I say, we are still midway through that process. All right, I'll take last question.

Media: What did you think of Huawei's public relations campaign that compared itself in New Zealand to the All Blacks?

PM: It's not for me to judge the marketing campaign of any private company. All right, thank you, everyone. Last question—I'm feeling generous.

Media: Are you concerned that your conservation Minister is blocking any exploration into genetic engineering despite her officials saying that it could be an effective alternative to 1080?

PM: Look, my understanding is that the Minister's simply expressed that that's not currently part of the work programme, but hasn't given a position as definitive as that.

conclusion of press conference