

30 August 2013

Inquiry into the Services Sector
New Zealand Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

Email to: info@productivity.govt.nz

Dear Sir/Madam

Re: Boosting Productivity in the Services Sector – 1st Interim Report

1. Background

I am writing to you regarding the New Zealand Productivity Commission's (NZPC) 1st interim report entitled *Boosting Productivity in the Services Sector* (referred to as 'the Report').

Overall, we believe the Report provides a substantive review and assessment of the current state of the service sector in New Zealand.

We have previously submitted to the NZPC in the initial stages of the inquiry, which concentrated on the following issues:

- a. Additional data sources (domestic and international);
- b. Exclusion of the public sector in the terms of reference;
- c. Public perception of the services sector;
- d. Services sector role in the economy;
- e. Increased blurring of lines between services and manufacturing;
- f. Industry-by-industry analysis;
- g. Productivity gaps between firms;
- h. International trade in services;
- i. Relationship between productivity and wages; and
- j. Regulating service industries

After examining the Report, we believe that the NZPC has covered the comments and questions we previously raised to an excellent level. Although we continue to maintain that the public sector should be included in the inquiry, we believe the other issues we raised have been addressed, including an overall assessment of the services sector, productivity performance and a wide use of data sources relevant to the sector.

The Report states that the *“exclusion of particular industries and services from this inquiry would not exclude them from being the subject of a future Commission inquiry”*. As mentioned in our previous submission to the NZPC, while we accept that the Government currently has a wide programme underway for boosting public sector productivity, we believe there should be a future inquiry into the success or otherwise of any changes in this area.

Recommendation: That the NZPC conduct an inquiry in the near future regarding ways to boost public sector productivity.

2. Topics for in-depth analysis

The second part of the inquiry looks to formulate policy recommendations to lift productivity in the services sector and the wider economy. After consultation with interested parties, the Report outlines three possible topics on which there could be an in-depth examination aimed at generating specific policy recommendations. These are:

- i. Improving occupational licensing in the services sector
- ii. Stimulating services competition
- iii. Addressing barriers to the successful application of ICTs

We wish to provide comments on each of these three options.

i) Improving occupational licensing in the services sector

Prior to the release of the Report, BusinessNZ requested that the NZPC investigate occupational licensing on two separate occasions.

The first was our letter to the Minister of Finance in September 2012 regarding proposals for a third tranche of inquiries. Of the six areas that we considered most needed attention, one was a review of occupational regulation. In our letter, we stated that:

“New Zealand, in line with many other developed countries, still retains statutory controls on entry into certain occupations.

While most occupational licensing can be justified on public safety and/or consumer protection grounds, it is also important for it not to restrict entry into occupations on grounds that are clearly not justified. Unjustified controls simply reduce the number of practitioners in the field and raise costs.

Despite certain ad hoc reviews of occupational licensing for narrow occupational groupings and the existence of the trans-Tasman mutual recognition agreement, BusinessNZ considers it may be time to re-examine the nature of occupational regulation in NZ to test whether current controls are justified.”

In addition, as mentioned on pages 131 and 132 of the Report, our original submission to the NZPC on the services sector inquiry raised occupational regulation as an issue that should be examined.

Last, we note that the recently announced regulatory investigation inquiry will no doubt pick up on the various factors that will be outlined in any deep investigation into occupational licensing. Despite the inevitable cross-overs that will occur, we still believe further work needs to be carried out given the likely benefit of such work to the services sector as a whole.

Recommendation: That improving occupational licensing in the services sector is given the top priority as a topic to be investigated further.

ii) Stimulating services competition

The Report outlines the fact that the Commission is particularly interested in the role that consumers play in stimulating competition, given competition is a key variable among the various factors that can influence productivity in both the services and goods producing sector.

The Report highlights two potential areas for further investigation, namely, increasing transparency to promote competition and competition law.

Online tools such as PowerSwitch are proposed as an effective means of promoting competition in the services sector, and the system could also apply to KiwiSaver. However, except in very few instances, would online tools such as those described lead to any meaningful increase in productivity in the services sector as a whole? Our initial view would be no. As the report states, there are already a number of agency websites or multiple firm websites that compare prices and/or quality of goods and services across a broad spectrum of the service sector.

With respect to competition law, we note that the Report points out that no inquiry participants raised this as a particular barrier to productivity in the services sector. BusinessNZ agrees. While we cannot of course rule out that there may be isolated incidents of competition law leading to barriers for some specific areas of the market, our general impression – much like that of increasing transparency - is that it would be better for NZPC's resources to be spent elsewhere on issues that have broader application across the services sector.

Recommendation: That stimulating services competition is given the least priority as a topic to be investigated further.

iii) Addressing barriers to the successful application of ICTs

The Report states that the NZPC is interested in building a better understanding of how the relationship between ICTs and productivity has played out in the New Zealand context. Given the positive link outlined between ICT investment and productivity growth, as well as the potential for ICT to mitigate issues relating to the

provision of services over distance for a broad selection of businesses, BusinessNZ believes this topic provides fertile ground for the undertaking of further analysis.

In terms of key likely issues, three have been identified in the report:

- a. Application of ICT by New Zealand service firms;
- b. The use of ICT in specific service industries; and
- c. Do policy settings enable service firms to embrace productivity-enhancing technologies such as cloud computing?

Overall, our preference in terms of the three issues identified follows the order they find themselves in the Report.

We believe further work on the application of ICT by New Zealand service firms would be the most beneficial for the services sector as a whole. We note that the Report mentions that several inquiry participants have pointed out that while New Zealand firms invest in ICT at a similar rate to many other countries, many firms struggle to extract value from their investment. Also, given the concern expressed about the reluctance of some firms to invest in ICT on a collaborative basis from a fear of breaching competition law, BusinessNZ believes there are good reasons to investigate this issue more extensively.

Regarding the use of ICT in specific service industries and the fact that the wholesale/retail sectors of New Zealand make up around 10% of the economy and 15% of employment, we agree with the NZPC that poor productivity in these industries is likely to have a flow-on effect to other industries. Therefore while this issue ((b) above) does not have the importance of issue (a), it has more relevance than (c). While cloud computing serves is an increasingly transformational issue within the services sector, at this point in time we believe other issues within this topic should be given more weighting. Also, as the report points out, the Privacy Commission has compiled guides for cloud computing, while an industry-led cloud computing code of practice should ensure businesses are clear about what processes they need to undertake so that information they put into the cloud can be regarded as safe and secure. However, we still believe that the issue of cloud computing should be considered more holistically as part of the ability of New Zealand services firms to embrace and exploit ICT. Therefore, we would welcome the NZPC including cloud computing as an element to any future investigation addressing the application of ICT by New Zealand service firms.

Recommendation: That addressing barriers to the successful application of ICTs is given second priority among the three topics to investigate further.

3. In conclusion

Overall, BusinessNZ believes the Report provides an excellent basis in which to undertake further analysis of key aspects of the sector, on which we will undoubtedly comment when the 2nd interim report is released in early 2014.

Thank you for the opportunity to comment, and we look forward to further discussions.

Kind regards,

A handwritten signature in black ink, appearing to be 'P. O'Reilly', with a stylized, flowing script.

Phil O'Reilly
Chief Executive
BusinessNZ