



AUSTRALIA NEW ZEALAND LEADERSHIP FORUM

STRENGTHENING ECONOMIC RELATIONS

SUBMISSION TO THE JOINT STUDY BY THE AUSTRALIAN AND NEW ZEALAND PRODUCTIVITY COMMISSIONS

MAY 2012

Introduction and summary

This submission responds to the invitation from the two Productivity Commissions set out in the Issues Paper released in April 2012.

2 The submission is made on behalf of participants in the 8th Australia New Zealand Leadership Forum (ANZLF) which took place in Sydney on 12-13 April 2012. The Forum was pleased to receive a presentation by Commissioners Jonathan Coppel and Murray Sherwin who drew attention to the objectives and process for the Productivity Commissions' study mandated by the Prime Ministers of Australia and New Zealand.

3 ANZLF is an annual high level gathering of senior government, business and community leaders. ANZLF welcomes the initiative of the Prime Ministers in commissioning this scoping study on strengthening trans-Tasman relations.

4 The Sydney Leadership Forum took as its central theme what needs to be done to improve the ability of both economies to integrate more fully into the wider Asia-Pacific/Indo-Pacific region. The Forum developed a number of recommendations to governments for improving competitiveness, productivity, the capacity to take advantage of developments in the wider region and to complete the Single Economic Market (SEM). The need for a bolder vision to drive this work was articulated and a willingness to address existing barriers particularly related to investment and travel.

5 ANZLF hopes the Productivity Commissions' study might provide the framework for such a vision.

About ANZLF

6 The Australia New Zealand Leadership Forum has been described as "a successful symbol of trans -Tasman togetherness"¹. The first Leadership Forum was held in 2004 as an initiative designed to strengthen the relationship some 21 years after the signing of the CER treaty and at a time when there were fears the relationship lacked relevance. The Forum has been well supported by both governments and by senior business leaders and can claim a number of successes including providing support for accelerating progress on the SEM agenda, border control reforms including common immigration lanes for Australians and New Zealanders in both countries, advocating a closer investment relationship and

¹ Peter Hempenstall, NZAC Research Centre, University of Canterbury, October 2006



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supporting the joint FTA negotiation with ASEAN². The Forum has met annually, except in 2010 when the Australian federal election was called and the Forum was postponed. In 2008 the Forum established the goal of a common border by 2015.

7 The Forum is chaired for Australia by Rod McGeoch AM and, for New Zealand, Jonathan Ling. The Forum's policy development process is led by a Policy Group comprising senior business representatives from both countries and is supported by a New Zealand-based Secretariat managed by BusinessNZ. The Trans Tasman Business Council also provides support to the Forum Co-Chairs.

About the 8th Australia New Zealand Leadership Forum

8 The 8th Leadership Forum held in Sydney 12-13 April 2012 met under the theme "*Australia and New Zealand – together in the Indo-Pacific century.*" The theme was chosen to reflect the growing sense that Australia and New Zealand have the opportunity to develop a powerful platform for expansion into the Indo Pacific³ region. There was a strong focus on what needs to be done to lift the trans-Tasman business and economic relationship to a new level of integration so as to better position both economies to meet the challenges and opportunities of Asian markets.

9 The consensus recommendations of the Forum on key issues were as follows:

- Liberalise capital flows between Australia and New Zealand by removing the tariff on capital that arises from the lack of mutual recognition of franking and imputation credits. We comment more on this important issue below.
- Continue to resolve outstanding areas of regulatory reform and removal of impediments to optimal functioning of investment markets:
 - Regulatory harmonisation or mutual recognition:
 - Incremental approach: More regular joint meetings; deeper shared representation; joint policy development and law reform; mutual recognition of laws, clean up outstanding issues.
 - Transformational approach: create single regulatory agencies for antitrust, bank and insurance regulation and/or telecommunications; develop a trans-Tasman legal market, trans-Tasman settlement and clearing market.
 - Integration of Government Services to improve efficiency:
 - Incremental approach: project specific activities.
 - Transformational approach: Set a large cost reduction target across constitutionally non-sensitive areas. Booz analysis estimates a multi-billion dollar prize.

² The ASEAN Australia New Zealand Free Trade Agreement was signed in February 2009 and entered into force the following year.

³ This term was coined by Michael Wesley of the Lowy Institute, Sydney, in his presentation to the Auckland Forum in 2011.



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- Partnering to improve competitiveness and relevance:
 - Incremental approach: Project Specific (e.g. the Square Kilometre Array).
 - Transformational approach: Joint trade promotion (Austrade/NZTE) and shared diplomatic infrastructure; joint global policy leadership on matter of mutual interest (eg carbon and agriculture).
- Elevating the importance of the trans-Tasman agenda.
 - Incremental approach: hold periodic joint cabinet meetings and by invitation participation in COAG.
 - Transformational approach: hold annual joint cabinet meetings; create Ministers for the SEM; put SEM on the permanent COAG agenda; empower Productivity Commission work and follow up.
- Agree an ambitious long term framework and set of objectives for the next 30 years of CER, with appropriate consideration of the Joint Productivity Commission Study outputs in this context.
- Develop a coordinated approach to deepen engagement with Asia, noting the importance of the forthcoming Henry Review as a potential framework for a joint Australian and New Zealand approach.
- Encourage more trans-Tasman travel and tourism by reducing the Australian Passenger Movement Charge to align with actual costs, and introducing more smartgate facilities particularly on departure from Australian airports.
- Continue to collaborate on Pacific development and opportunities for business input into official aid programmes; and
- Maximise opportunities arising from the celebration of Trans Tasman milestones, including the 30th anniversary of CER next year, as well as working together towards the 2015 ANZAC centenary and our joint co-hosting of the 2015 Cricket World Cup.

10 Key messages arising from the discussion are attached as Annex A and a press release by the Forum Co-Chairs is attached as Annex B. We comment further on a number of specific issues relevant to the Productivity Commissions' joint study below.

Progress in the Single Economic Market

11 There was a sense at the Sydney Forum that while CER and the existing SEM agenda has delivered some significant progress, some bold new goals are needed to guide us towards achieving the Single Economic Market. Mutual recognition of franking and imputation credits urgently needs addressing (see further below). On the regulatory front the existing agenda of the Trans Tasman Officials Implementation Group (TTOIG) will soon run its course. ANZLF believes that both countries need to their sights higher and consider the next frontier for the bilateral relationship. The Productivity Commission's report will play an important role in articulating these bold new goals.

Removal of the tariff on capital

12 The tariff on capital that arises from the lack of mutual recognition of franking and imputation credits has been of longstanding concern to business on both sides of the



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Tasman. Political leadership is required to resolve this issue. Australia and New Zealand cannot achieve a Single Economic Market, and free movement of capital, without resolving this issue. The Forum acknowledges the achievement of zero tariffs on goods trade between Australia and New Zealand, and wants to see the flow of capital similarly liberalised. In an effort to assist this process, the Forum has agreed to commission some independent research into the benefits and costs of the removal of the tariff. This research will be funded by business in Australia and New Zealand. ANZLF would welcome the involvement of staff from the Productivity Commissions to participate in the Advisory Group which is being established to guide the study.

Future focus

13 During 2012-13 the ANZLF Policy Group intends to focus on the following areas:

- completing the proposed independent research the benefits and costs of removal of the tariff on capital flows arising from the lack of mutual recognition of franking and imputation credits
- giving further consideration to Australia and New Zealand relations with Asia
- providing input into the Joint Productivity Commission report on the impacts and benefits of further economic integration of the two economies.

14 We envisage that these themes will become the centrepiece of the 2013 Forum. We will also retain an interest in some of the issues we focussed on during 2011-12, particularly our continuing objection to the magnitude of the Australian Passenger Movement Charge, the desirability of a further rollout of smartgates on departure in Australia and aspects of Pacific development.

Conclusion

15 The joint study of the two Productivity Commissions provides an ideal opportunity for adopting a new vision in the lead up to the celebration of the 30th anniversary of CER, determining how best to remove remaining barriers and complete the Single Economic Market. In the view of ANZLF the overall aim of the joint study should determine which policy reforms and initiatives can most effectively place the two economies on a sounder footing for developing new opportunities in Asia and beyond.

Rod McGeoch AM
Co Chair

Jonathan Ling
Co Chair

May 2012



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ANNEX A

8TH AUSTRALIA NEW ZEALAND LEADERSHIP FORUM, SYDNEY FRIDAY 13 APRIL 2012

KEY MESSAGES

- The big picture – engagement with Asia
 - ANZLF should consider how to support the White Paper on “Australia in the Asian Century” and encourage Ken Henry to visit New Zealand to discuss the White Paper.
 - The business communities in Australia and New Zealand need to be advocates for stronger relations with Asia, Asian economic opportunities and the need for foreign investment to help achieve a competitive business environment in Australia and New Zealand. Business needs to contribute to public debate about the importance of an open investment environment.

- Opportunities with Asia – Policy and Business Responses
 - Australia and NZ need to leverage existing Free Trade Agreements e.g. the ASEAN Australia NZ FTA.
 - ANZLF should consider how New Zealand and Australia can work together in the Asia Pacific region to encourage regional economic integration, e.g.
 - by encouraging improved regional financial architecture,
 - by addressing non-tariff barriers in Asian markets particularly by promoting the principles of mutual recognition and regulatory coherence – both bilaterally and through the TPP and/or APEC;
 - by leveraging Australian and New Zealand governance expertise.

- Trans Tasman investment
 - Agreement that the most pressing element of unfinished business needs to be resolved, that is, the lack of mutual recognition of franking and imputation credits. We heard strong support from both the NZ and Australian business community to address this issue, which amounts to a tariff on Trans-Tasman investment with negative impacts on efficiency, productivity and competitiveness.
 - Agreement that ANZLF should pursue a joint research study to identify the benefits as well as the costs of mutual recognition. This will be provided to the Productivity Commissions as input for their study on deeper economic integration.
 - Pursue further harmonisation of the prudential regulations of the banking and insurance sectors in Australia and New Zealand.
 - Agreement that remaining investment “housekeeping issues” should be tidied up. Possible policy responses range from the incremental to the transformational in the following areas:



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- Regulatory harmonisation or mutual recognition
 - Integration of Government Services to improve efficiency
 - Partnering to improve competitiveness and relevance
 - Elevating the importance of the trans-Tasman agenda.
 - Agreement that the existing Trans Tasman Outcomes Implementation Group agenda should be completed.
 - Investigate issues around employee share schemes.
- Trans Tasman Travel: a domestic-like experience:
- Business would like to see the reduction of the Australian Passenger Movement Charge to align with actual costs, in order to promote trans-Tasman travel and tourism.
 - Business supports simplified border processing and efforts to make trans-Tasman travel a domestic like experience. Business wants to see the introduction of more smartgate facilities, particularly on departure from Australian airports.
 - Business wants to see more collaboration between border agencies to integrate smartgate for pre-clearance on arrival at the departure end.
 - Business wants border agencies in both Australia and New Zealand to integrate systems with Cruise Ship operators to enable electronic pre-clearance of most passengers for disembarkation.
 - Business wants to encourage collaboration between the border agencies in Australia and New Zealand to implement full departure baggage screening with image transfer to support risk based arrivals screening.
 - Business suggests there is merit in looking jointly at some of the wider aspects of a common border that could take Australia and New Zealand to a new level of trans-Tasman integration, which might include, for example, a common external tariff.
 - Business suggests that the case for creating a joint agency to administrate the border in both countries should be considered.
- Pacific Development
- Encourage business and government recognition that business is the answer to development and creating transformational changes for aid recipients, and encourage the two governments to engage more with business around addressing regional development challenges and improving aid delivery.
 - ANZLF participants to consider the opportunities for business to take part in aid projects via Public Private Partnerships, and to leverage opportunities arising from a new \$40 million NZ aid fund.



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ANNEX B

Media release 16th April 2012

AUSTRALIA NZ LEADERSHIP FORUM FINDS COMMON GROUND IN ASIA

The 8th annual Australia New Zealand Leadership Forum was held in Sydney 12-13 April and concluded with both sides expressing a shared interest in building a future for Australia and New Zealand in the markets of Asia, underpinned by inward and outward investment and built on the basis of a strong trans-Tasman single market.

“This Forum was notable for the strong alignment of business interests on both sides of the Tasman,” said Forum Co-Chair Jonathan Ling, Chief Executive of Fletcher Building.

“Both sides see our future in the dynamic markets of Asia. At issue in this Forum was how we could work to make this a reality. There was agreement that business needs to step up to articulate this vision more forcefully to domestic stakeholders, to develop new business models connecting with regional supply chains and to work with governments to promote both the development of Asia-relevant skills as well as a range of policy instruments which will foster greater economic integration in the region.

“Chief among these is the need to maintain an open and welcoming environment for foreign investment, including in agricultural land. Calls for a more restrictive environment for foreign investment can only hinder business development by making it harder to access capital and develop key relationships in Asia and beyond. The cost will be slower economic growth and fewer jobs.”

The Forum was co-chaired by Jonathan Ling and Rod McGeoch AM on the Australian side. The Forum brought together around 100 government, business and community leaders from both countries. Meeting under the theme “*Australia and New Zealand – together in the Indo-Pacific century*”, the Forum considered the broad strategic context for further expansion of the relationship in the lead up to the celebration of CER’s 30th anniversary in 2013.

“Australia and New Zealand are well on the way to achieving a single economic market,” said Forum Co-Chair Rod McGeoch AM, Chairman of Sky City Entertainment Group Ltd.

“The remaining steps require strong leadership. Business has a role to play in ensuring the remaining barriers are removed, including in relation to the movement of capital. Beyond this we see the need for a bold new step to take the relationship to a new level. The forthcoming report of the two Productivity Commissions, as mandated by the two Prime Ministers, will be critical in this regard. Businesses on both sides of the Tasman are resolved to participate the Productivity Commission process.”

Business sessions at the Forum focused on investment, common border and Pacific development.



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According to Rod McGeoch, “Key issues like the mutual recognition of imputation and franking credits, Australian departure taxes, and the prospect of public private partnerships in the Pacific were well articulated and supported by business representatives on both sides. Further work will now be done on these issues particularly in the context of the Productivity Commissions’ report.”

This year’s Forum was notable for enhanced interaction with senior Australian business leaders and the inclusion of a dialogue with the Business Council of Australia both in a joint CEO session and at a dinner involving all Forum delegates and BCA members addressed by Deputy Prime Minister Bill English.

“Our growing interaction with BCA is very welcome,” said BusinessNZ Chief Executive Phil O’Reilly.

“It provides an opportunity to align the business agenda in both countries and to encourage the two governments to learn from each other as they develop policies to enhance competitiveness and productivity. There was considerable interest expressed by BCA members in New Zealand’s policy settings and the opportunities for investment in New Zealand.”

Several ideas were also canvassed for the celebration of CER’s 30th anniversary.

“There would be no better way to celebrate the anniversary than to complete the single economic agenda ahead of time. Next year’s Forum will be the occasion to commit ourselves to the next chapter of the CER story. This will inevitably be one focused on the bigger picture of Asia and our shared willingness to do what is necessary to address this big new challenge,” concluded Jonathan Ling.