

New Zealand and Australian Productivity Commissions
PO Box 8036
The Terrace
Wellington 6143
New Zealand
Via email

17 October 2012

Dear Chairmen

Strengthening trans-Tasman Economic Relations

We would like to thank the Productivity Commissions (**Commissions**) for the work they have undertaken in identifying options for strengthening trans-Tasman economic relations and for the opportunity to comment on the discussion draft (**draft**).

By way of background Contact Energy is one of New Zealand's leading energy generators and retailers, providing electricity, natural gas and LPG to around 560,000 New Zealand customers. We are also one of New Zealand's largest listed companies with around 77,000 shareholders including a 53% holding by Origin Energy (Australia). As such we have a strong interest in the trans-Tasman study undertaken by the Commissions and any outcomes that increase economic integration and improve economic outcomes.

We do not wish to comment substantively on the draft, but instead wish to focus our submission on two points, that of the mutual recognition of franking and imputation credits and the potential for a trans-Tasman market for renewable energy credits.

Mutual recognition of franking and imputation credits

Earlier this year the Australia and New Zealand Leadership Forum commissioned a detailed report on the mutual recognition of franking and imputation credits. The report concluded that *"the benefits of eliminating the double taxation of investment returns outweigh the costs, both in terms of enhanced GDP and net trans-Tasman welfare"* and was provided to the Commissions to assist with their report on strengthening trans-Tasman economic relations.

While Contact is pleased to see the discussion given to the issue of mutual recognition of franking and imputation credits in the draft we reiterate the comments of the Australia and NZ Leadership Forum¹ in that we are deeply disappointed with the lack of a firm recommendation in favour of this policy option.

In our view the mutual recognition of franking and imputation credits warrants, at a minimum, further investigation by the Commissions.

¹ Australia and New Zealand Leadership Forum Submission to the Australia and New Zealand Productivity Commissions dated 12 October 2012.

The creation of a trans-Tasman market for renewable energy credits.

While Australia is pursuing its greenhouse gas emissions reduction target through a Carbon Price Mechanism and New Zealand through the New Zealand Emissions Trading Scheme the differences between the two countries create opportunities for trade.

While Australia is able to export much of its resource wealth physically New Zealand has an abundance of renewable energy in the form of hydro and wind. In our view a trans-Tasman market for renewable energy credits, to help meet any shortfall in Australia's mandatory target is a concept that warrants further investigation, in particular once Australia transitions to a fully flexible cap-and-trade scheme in 2015.

We see this as conceivably benefiting both economies – producing export revenue for New Zealand, and allowing Australia to meet its target in a low cost way while remaining true to the purpose of Australia's Carbon Price Mechanism, namely to tackle climate change.

We would note that this idea was raised by Contact's Chairman, Grant King at a recent meeting with the Prime Minister of New Zealand and the Prime Minister was encouraging of further work on this concept.

Yours sincerely

Paul Ridley-Smith
General Counsel and Company Secretary