

SUBMISSION BY THE AUCKLAND REGIONAL CHAMBER OF COMMERCE ON THE AUSTRALIAN AND NEW ZEALAND PRODUCTIVITY COMMISSIONS JOINT STUDY ON STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND

INTRODUCTION

1. The Auckland Regional Chamber of Commerce and Industry appreciates the opportunity to make a submission on the joint scoping study on strengthening trans-Tasman economic relations being undertaken by the Productivity Commissions of Australia and New Zealand.
2. **The Auckland Chamber confirms that it wishes to be heard in support of this submission.** For service please contact Breda Linge, Executive Assistant to chief executive Michael Barnett.
3. The Auckland Regional Chamber has a corporate membership of more than 6000 and is dedicated to the strengthening of the Auckland's status as New Zealand's pre-eminent commercial, industrial and communications region and to assisting the development of the region in creating a desirable environment for its 1.4 million citizens.

SCOPE

4. The Auckland Chamber notes that the Prime Ministers of Australia and New Zealand have asked the Productivity Commissions of each country to conduct a joint scoping study that identifies reforms that will boost productivity, increase competitiveness and drive deeper economic integration between the two countries.
5. The Commissions' approach to this scoping study will be to seek out a reform agenda that will improve the welfare of both the Australian and New Zealand communities. Because initiatives promoting economic integration can have costs as well as benefits, it is proposed that the study apply a 'net benefits' framework and consider how gains and losses are distributed within and between countries.
6. We also note the Commissions will propose directions and priorities for further trans-Tasman economic integration over a 15 to 20 year time frame, and it is intended that a draft report for further consultation will be published in September 2012.
7. Accordingly, while our submission identifies a number of specific reforms that we believe should be made in the near term, our focus in this submission is primarily on identifying critical areas of concern to business over the longer term, and which we believe should have a central place in the Commissions reform agenda and September report. We anticipate and look forward to commenting in more depth at that stage.

REFORM AGENDA OVERVIEW

8. In the nearly 30 years the Closer Economic Relations Trade Agreement (CER) has been in place, its progressive implementation in specific areas has made it much easier and cheaper for trans-Tasman businesses to operate. It has been good for business in both countries and helps them to be globally competitive. Bilateral trade has grown rapidly because of CER, averaging 6.2% growth per year since 1991.
9. We agree that it is now time to extend CER beyond people, goods and services, to capital, with the aim to ensure its free flow across the Tasman. In an integrated (single) market for people, goods and services, it should be no more difficult for capital to flow across the Tasman than it is to flow from the North Island of New Zealand to the South Island, or from one Australian state to another.
10. Accordingly, the Chamber supports the work underway to address barriers to the free flow of capital across the Tasman, and in particular to allow mutual recognition by respective tax authorities of franking and imputation credits between Australia and New Zealand. In principle, removing a tax barrier that works against trans-Tasman investment is similar to removing a tariff on trans-Tasman trade.
11. Similarly, the Chamber agrees and supports the Commissions' proposals to undertake a high level assessment of each of the areas identified in Chapter 5 of the joint study issues paper – trade in goods, services trade, labour movements, knowledge transfers, government functions as well as capital flows.
12. In respect of the request to comment on whether the proposed organizing framework set out in Table 1¹ and high level assessment described in Chapter 5 is likely to identify the potential areas of reform that offer the most significant gains, the Chamber comments as follows:
 - First, the framework noticeably focuses on identifying impediments 'between-', 'at-' and 'post-' borders in a bid to identify the point at which specific impediments occur in the undertaking of a trans-Tasman activity. There may also be merit in giving attention to identifying pre-border impediments in respective 'home' environments, and which can be an impediment to trans-Tasman activity getting off the ground – e.g. Local and/or State government constraints - rates and charges, regulatory compliance etc, and also local transport.
 - Second, the Chamber would welcome consideration to an alternative framework that considers the potential to assess all the above areas from the perspective of the value of the reform agenda focusing on realising the original CER ambition to be outward-looking, not just bilateral-focused.
 - That is, Table 1 and the proposed assessment are structured around seeking to unblock impediments to improved bilateral outcomes. It may be that the time has arrived to

¹ See Questions 23 & 24, "Strengthening Economic Relations between Australia and New Zealand," A joint study issues paper, April 2012, re Table 1, p.25.

acknowledge that greater benefits may arise from reforms to boost productivity, increase competitiveness and drive deeper economic integration between our two countries that address impediments preventing/ holding back both countries working together to jointly take on third markets. We elaborate this suggestion below.

13. In summary, the Chamber welcomes and supports the Commissions' task to seek out a reform agenda that will extend CER to capital flows and address impediments identified in the issues paper affecting further expansion of trade in goods, services trade, labour movements, and knowledge transfers, and also achieve more integrated and aligned government services with respect to Australia and New Zealand collaboration.
14. However, we suggest that the 30th anniversary of CER offers the opportunity for the Productivity Commissions of each country to seek out an appropriate bold next step – or step change - on which to drive deeper economic integration and collaboration through which our respective business communities can boost productivity and living standards in respective countries.
15. In particular, we suggest that there is merit in the joint study assessing merits of a collaboration agenda that builds on the founding vision and ambition of the pioneering CER negotiators Doug Anthony and Hugh Templeton for the Agreement to be outward-looking - a shared platform for both countries to trade with third countries; or, in the words in the issues paper (page 5): *“... Serve as a means of exposing the tradeable sectors in both countries to a greater degree of international competition.”*
16. The balance of our submission explores the outward-looking imperatives of CER.

CREATING AN OUTWARD-LOOKING CER AGENDA

17. In his speech to the Australian Parliament in June 2011 Prime Minister John Key posed the question: “Can we take our relationship to the next level?” At the same occasion, Australian Prime Minister Julia Gillard spoke of both countries: “... reaching out beyond our two nations together to the world.”
18. If the joint study is to be successful it will need to frame compelling responses to the Prime Ministerial comments:
 - What is the agenda to take the CER relationship to the ‘next level’?
 - What are some practical ways for both countries to ‘reach out together to the world’?
19. In **recommending** that the joint study look at initiatives to boost productivity and wealth creation of our respective countries by way of a bold new initiative possibly involving a shared outward-looking vision and strategy to build trade with third countries, especially in Asia, we make the following observations and suggestions:
20. After 30 years of progressively building and expanding CER, in terms of the freedom to do business in each other's market we are now down to addressing some fine grained detail – e.g. taxation and imputation credits. As beneficial as these improvements are likely to be, they will not distract respective business communities from their current ‘big market opportunity’ focus – Asia.

21. Put simply, instead of the CER focus going into efforts to squeeze out more micro bi-lateral benefits, should the primary focus go into an all-out campaign to develop a joint approach and strategy in third countries?
22. In essence both countries either have agreements or are negotiating them with the same partners. Both have successfully completed an ambitious agreement with ASEAN (ASEAN-CER Integration Partnership), which creates a combined market of 600 million people.
23. In the ASEAN and China markets there is a rapidly rising middle class, and associated demand for high quality products and tourism experiences. A number of Asian cities have a population larger than the combined population of New Zealand and Australia. Putting aside (for this part of the proposal) the complementarity of our economies - Australia's dominant trade focus on minerals and New Zealand's on primary farmed products - there is in both countries a significant tier of experienced but mid-sized service and manufacturing businesses that *might* benefit from a joined up approach to get into Asia.
24. Part of the exploration to assess the benefits of a shared CER approach to third markets will need to cover understandings on, for example, tariff setting, to ensure that a target country sets the same tariff arrangements for Australia and New Zealand. Also, as is implied in the establishment of an ASEAN-CER market, that there is an agreed progressive agenda in place where joint net benefits are identified and progressively negotiated and achieved – so that the level CER playing field between Australia and New Zealand is always maintained.
25. A further aspect the Chamber suggests a joint study on an outward-looking CER consider relates to responses the study can provide to key questions from either side: What's in it for Australia?; What's in it for New Zealand?
26. The founding idea of CER as an outward-looking arrangement was an acknowledgement that Australia and New Zealand had shared but complementary interests and attributes to bring to a joint approach and most of which still apply. Briefly, that:
 - New Zealand has trade and business relationships with third countries in a way that Australia does not and vice versa;
 - Australia has a mutual interest and investment in New Zealand that drives an imperative to support high and rising living standards on this side of the Tasman;
 - Compared to New Zealand, Australia has a mid-sized country scale that would be beneficial for NZ selectively teaming up with in developing relationships with third countries.
27. Thirty years on, there is an emerging set of new imperatives supporting a more collaborative and strategic CER approach towards third countries and which might interest Australia. Briefly, that:
 - Relative cross rate between the Kiwi and Australian currency;
 - Ease and cost of doing business – including compliance costs, employment law
 - Scale and arguably attitude – ability of New Zealand business to be adaptive and nimble in meeting third country customer requirements.
28. In summary, the Chamber believes that there are a number of compelling arguments supporting a serious exploration of the idea of both Australia and New Zealand developing a CER initiative/ platform aimed at jointly taking on third markets.

29. We suggest the time is right to use what we have done to create CER as a springboard to other markets.
30. For the reasons set out above and to acknowledge the Prime Minister's question – 'Can we take our relationship to the next level?' - the Chamber **strongly recommends** that the Commissions' scoping study focus on a strategy to achieve the founding CER ambition to be outward-looking and to define some practical ways for achieving this vision.
31. Accordingly, with respect to the questions raised in Chapter 5 of the issues paper, we encourage the Commission's to focus their efforts on designing a joint strategy to help expose the business sectors in both countries to a greater degree of international competition.

CONCLUDING COMMENTS

32. Our suggestions and recommendations for the Productivity Commissions' scoping study to identify a strategy to strengthen economic relations between Australia and New Zealand are put forward in the positive spirit of achieving a measurable long-term boost in New Zealand's productivity.
33. We look forward to discussing them further and working collaboratively with the Commissions to ultimately achieve an enduring outcome from this singularly important joint study process.

Michael Barnett

Chief Executive

29 May 2012