

SUBMISSION

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To: Australian Productivity Commission
New Zealand Productivity Commission

Submission on: **Strengthening Economic Relations between Australia and New Zealand
Joint Study Issues Paper**

From: **Federated Farmers of New Zealand**

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**SUBMISSION TO THE AUSTRALIAN PRODUCTIVITY COMMISSION AND NEW ZEALAND
PRODUCTIVITY COMMISSION ON THE
JOINT STUDY ISSUES PAPER
*STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND***

1. INTRODUCTION

- 1.1 Federated Farmers welcomes the opportunity to submit to the Australian Productivity Commission and the New Zealand Productivity Commission on their Joint Study Issues Paper *Strengthening Economic Relations between Australia and New Zealand*.
- 1.2 Australia is New Zealand's most significant economic partner and Federated Farmers agrees that it is important to investigate the opportunities and risks from further trans-Tasman economic integration, taking due consideration of benefits and costs.
- 1.3 Federated Farmers is generally supportive of further integration but there are some areas of potential concern where the costs of further integration are likely to exceed the benefits. For example, the Federation would not support implementing a currency union between Australia and New Zealand and nor would we favour relaxation in biosecurity standards on trans-Tasman trade and travel, unless it were based on sound science and assessment of risk. Neither country should simply adopt the other's policy, legislation, and institutions – these should be taken from best international practice.
- 1.4 Federated Farmers looks forward to commenting on the draft report once it is released.

2. BACKGROUND

- 2.1 Federated Farmers has had a long history of supporting efforts to liberalise trade and reduce trade barriers. The Federation has also urged producers in other countries to embrace trade liberalisation, drawing on New Zealand farmers' experiences since the 1980s reforms.
- 2.2 Not only is free trade beneficial from the perspectives of economic efficiency and welfare, but it is particularly important to keep pushing for liberalisation at the present time as it would provide a timely boost to the global economy – just as moves towards protectionism could put at risk any recovery or exacerbate any downturn.
- 2.3 The Federation's preference is for a comprehensive multilateral agreement through a satisfactory resolution of the WTO Doha Development Round. However, in the absence of such a breakthrough we do support comprehensive WTO-consistent regional and bilateral initiatives, especially when they involve important trading partners.
- 2.4 Turning to Australia, there is a long history of formal economic relations between Australia and New Zealand, both in terms of trade in goods and services and more generally in fostering a 'single economic market'. The issues paper concisely sets out this history.
- 2.5 Both Australia and New Zealand are significant producers and exporters of agricultural produce. This is especially true for sheep meat, beef meat, wool, and dairy products. The two countries send the bulk of their respective agricultural exports to third countries and this can foster a perception that our countries' agricultural sectors operate in isolation of each other, except where our exporters compete in third countries.
- 2.6 What is less acknowledged is that Australia is New Zealand's second largest market for agricultural exports (behind China) and it is New Zealand's largest source of agricultural imports. There is a significant and growing two-way trade both in unprocessed food and live

animals and in processed food. According to Statistics New Zealand's *Global New Zealand* publication, there was the following trade in these products¹:

New Zealand exports to Australia (NZ\$ million fob, December years)

	2007	2008	2009	2010	2011	% Inc 2007-11
Unprocessed primary produce						
Food and live animals	498	539	554	642	699	+40.4%
Processed primary produce						
Food	1,372	1,686	1,766	2,015	2,086	+52.0%

New Zealand imports from Australia (NZ\$ million cif, December years)

	2007	2008	2009	2010	2011	% Inc 2007-11
Unprocessed primary produce						
Food and live animals	457	593	529	523	587	+28.4%
Processed primary produce						
Food	1,131	1,285	1,357	1,373	1,362	+20.4%

2.7 The most important New Zealand agricultural exports to Australia for the year to December 2011 were²:

- wine (\$355.8 million);
- cheese (\$261.1 million);
- food preparations, nec (\$163.7 million);
- bread, pastries, cakes, etc. (\$110.3 million);
- tufted carpets (\$106.3 million);
- live horses (\$104.9 million);
- frozen vegetables (\$101.3 million);
- chocolate (\$96.4 million); and
- butter and dairy spreads (\$96.4 million).

2.8 The most important New Zealand agricultural imports from Australia for the year to December 2011 were³:

- wheat (\$209.9 million);
- chocolate (\$145.4 million);
- bread, pastries, cakes, etc. (\$132.8 million);
- cane sugar and pure sucrose (\$128.9 million);
- pet food (\$108.8 million);
- wine (\$88.7 million); and
- food preparations nec (\$85.2 million).

2.9 Australia is an important source of farm inputs such as motor vehicles, fuels, and chemicals. Australian companies are also very important providers of services and Australia is New Zealand's largest source of foreign direct investment (FDI). As at 31 March 2011 Australian FDI in New Zealand was around \$51.8 billion, around 55 percent of New Zealand's total stock FDI. Some of this investment will be in New Zealand farmland, processors, and services to agriculture, just as some of New Zealand's \$13.5 billion FDI in Australia will be in Australian farmland, processors, and services to agriculture⁴.

2.10 Our two economies are closely linked and it makes sense to investigate the opportunities for further integration. That said, it should be recognised that most of the 'low hanging fruit' will already have been implemented and that further integration is likely to require tougher decisions, some of which might involve higher risks (e.g., changes to biosecurity procedures) or could undesirably compromise sovereignty (e.g., currency union).

¹ Global New Zealand, International Trade, Investment and Travel Profile year ended December 2011, Statistics NZ (refer Table 4.08, page 125)

² Ibid, Table 2.08, page 25

³ Ibid

⁴ Ibid, Table 5.3, page 153.

3. COMMENT ON THE ISSUES PAPER

- 3.1 Federated Farmers believes that CER has generally worked well. CER reduced and in many cases eliminated barriers to trade, often well in advance of the targeted dates. This was the intention of the CER and in that respect we believe that it has been successful, despite some issues remaining outstanding (as per the list on page 7 of the issues paper).
- 3.2 The issues paper acknowledges that there has been “no comprehensive assessment on whether businesses have made practical use of the concessions granted” or whether CER has “enhanced overall community welfare in Australia or New Zealand”. The issues paper goes on to note that past analyses on whether CER has created trade or diverted trade have been inconclusive and that by focusing on merchandise trade they have not focused on the complete CER picture. It would be useful for this study to shed a more comprehensive light on how CER has worked and its impact on the two economies.
- 3.3 With regard to economic integration, Federated Farmers agrees that it is important to have a good understanding of what economic integration means and the benefits, costs and risks of economic integration. We expect the study to look closely into this.
- 3.4 Federated Farmers agrees that it is important that Trans-Tasman integration policy should be based on sound principles. We agree with the Commissions’ interpretation that improving economic outcomes will be synonymous with producing net benefits. A complicating factor is that even if the net benefits for both countries taken together are assessed to be positive, the impact on either of the two countries could be negative. We take the perspective that for each aspect of integration, the results of the benefits tests should be shown for each country as well as in aggregate. It would then be up to respect governments to determine whether it would be in the national interest to proceed.
- 3.5 With regard to the question of how far integration should go, Federated Farmers members (like the general population) will have varying views. ‘Free trade’ is likely to be generally supported by farmers, but further integration beyond that such as customs union, common market, economic union, and common government, will be another matter and where the risks and costs of further integration could exceed the opportunities and benefits. From Federated Farmers perspective there are three major issues that need to be considered:
- Biosecurity
 - Common currency
 - Policy, legislation and institutions

Biosecurity

- 3.6 56.8 percent of New Zealand’s exports come from agriculture and when including fisheries and forestry it rises to 69.2 percent⁵. Without the income generated by the agricultural sector, New Zealanders would not enjoy first world living standards. To maintain the competitive advantage that agriculture has, biosecurity must retain a strong focus on protection of land-based primary production.
- 3.7 Biosecurity agencies must be accountable for balancing trade facilitation with ensuring pests and diseases are kept out of New Zealand. The sea is a great natural border and an advantage we must protect. This is equally true for Australia.
- 3.8 Any move to enhance our border clearance process is viewed as advantageous to importers, passengers, airports and our tourist industry. However, without effective biosecurity systems we would only open up our country to increased incursions of harmful pest and diseases. In the long-run this will not only affect our farmers and conservation estate, but also our economic prosperity. Any decisions on biosecurity changes must be based on sound science and risk analysis.

⁵ Ibid, Table 3.03, page 84.

- 3.9 As such Federated Farmers would be opposed to any reduction in the effectiveness of biosecurity controls for trade and travel between Australia and New Zealand.

Common Currency

- 3.10 Advocates of a common currency argue that adopting another country's currency would reduce transaction costs for exporters and importers and would overcome some of the problems associated with high real interest rates and fluctuations in the exchange rate.
- 3.11 Australia is New Zealand's largest trading partner so it is an obvious starting point for a common currency. A common currency with Australia would certainly lower the transaction costs for those doing business with Australia. However, the transactional benefits for agriculture from a common currency would be much less than for other sectors. For example, Australia takes 10.0 percent of New Zealand's agricultural exports compared to 39.5 percent of its non-agricultural exports⁶. Given that so much of New Zealand's overall trade is settled in US Dollars or Euros, there would potentially be greater transactional savings if New Zealand adopted the US Dollar (or even the Euro).
- 3.12 But more important is the fact that despite both being commodity economies with significant resource and agricultural sectors, the Australian and New Zealand economies are fundamentally different. Most obviously, Australia has a much greater focus on mining and energy resources (72 percent of Australia's exports⁷), while New Zealand has a much greater focus on agriculture, forestry and fishing (69 percent of New Zealand's exports). In practice adopting a common currency would mean New Zealand adopting the Australian Dollar and currency movements would be likely to reflect the situation in Australia's mining and energy sector, rather than what is happening in the wider New Zealand economy.
- 3.13 Tying New Zealand's fortunes to Australia's currency would result in monetary policy being driven by Australian conditions with decisions made by the Reserve Bank of Australia. Clearly this may not always be appropriate for New Zealand, particularly when economic conditions are different and when experiencing divergent business cycles. This has been the case for Australia and New Zealand over recent years and is reflected in the exchange rate between the two currencies.
- 3.14 At the time of writing the New Zealand Dollar is currently worth around \$0.76 Australian and the Australian Dollar is around parity with the US Dollar. It would be extremely painful for New Zealand exporters to have to cope with the Australian Dollar.
- 3.15 Support for currency union is driven by the assumption that by adopting the currency of Australia, the US or Europe, New Zealand can somehow be as successful as those economies in terms of growth and real income levels without fundamental changes to current policy settings. In reality it is productivity growth (increased output for the same or fewer resources) that is the fundamental driver of improved living standards. A common currency is no panacea.
- 3.16 As such, Federated Farmers would be opposed to the adoption of a common currency.

Policy, Legislation and Institutions

- 3.17 There is a perception in some quarters within New Zealand that adopting Australian policy, legislation, and institutions would in itself close the income gap between the two countries. Federated Farmers disagrees for the same reasons as discussed above in relation to common currency.
- 3.18 The Federation believes that New Zealand should adopt the best possible policy, legislation and institutions regardless of where they originate, whether it be New Zealand, Australia, the

⁶ Ibid, Tables 3.04 and 3.23.

⁷ Bureau of Resources and Energy Economics, March 2012

UK, the US, or the rest of the world. The establishment of the New Zealand Productivity Commission is a good example of an institution inspired by Australian experience that we think will be beneficial to New Zealand. However, we believe that some Australian policy (e.g., aspects of tax policy such as high rates of personal income tax and a complicated GST), legislation (e.g., aspects of employment relations legislation encouraging cross-industry or multi-employer collective bargaining), and institutions (e.g., the Federal system) would be undesirable for New Zealand. Undoubtedly there will also be aspects of New Zealand policy, legislation and institutions which would be undesirable for Australia.

- 3.19 As such, Federated Farmers expresses caution about adopting Australian policy, legislation, and institutions. These should be taken from best international practice.

4. CONCLUSION

- 4.1 Federated Farmers is pleased that the Australian and New Zealand Productivity Commissions are undertaking this joint study. Given the importance of each country to the other, we agree that it is important to look at ways to strengthen economic relations between the two countries and to rigorously assess the benefits and costs of further integration.
- 4.2 Federated Farmers is generally supportive of further integration but there are some areas of potential concern where the costs of further integration are likely to exceed the benefits. For example, the Federation would not support implementing a currency union between Australia and New Zealand and nor would we favour relaxation in biosecurity standards on trans-Tasman trade and travel, unless it were based on sound science and assessment of risk. Neither country should simply adopt the other's policy, legislation, and institutions – these should be taken from best international practice.

5. ABOUT FEDERATED FARMERS

- 5.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.
- 5.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:
- Our members may operate their business in a fair and flexible commercial environment;
 - Our members' families and their staff have access to services essential to the needs of the rural community; and
 - Our members adopt responsible management and environmental practices.