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Australian Productivity Commission  
Trans-Tasman Study  
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### **Strengthening Economic Relations between Australia and New Zealand**

Dear Mr Banks

The Australian Industry Group (Ai Group) welcomes the opportunity to contribute to the joint review on strengthening trans-Tasman economic relations, as outlined in the issues paper dated April 2012.

Ai Group is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses we represent employ more than 1 million employees. We are an organisation committed to helping Australian industry, with a focus on building competitive and sustainable industries through global integration, skills development, productive and flexible workplace relations, infrastructure development and innovation.

A number of our member companies have operations on both sides of the Tasman. Our submission is focused on possible areas for further integration raised by a number of these companies, including the introduction of greenhouse gas emissions trading schemes in Australia and New Zealand, movement of cash, taxation arrangements, labour migration, quarantine regulations and the harmonisation of standards for manufactured goods.

## **Introduction of greenhouse gas emissions trading schemes**

The introduction of greenhouse gas emissions trading schemes in New Zealand and Australia involves economic costs, both through impacts on the international competitiveness of trade exposed industries and through the broader economic impacts of restructuring to reduce emissions. Significant assistance measures for trade-exposed industries exist under both schemes to minimise the first kind of cost while action among key competitors remains patchy and uneven. The use of market instruments is intended to ensure that the second category of overall abatement costs is no higher than necessary.

In practice, markets are imperfect and can be volatile, especially at smaller scales, where lower volumes and lumpy transactions can have a significant impact. While Australia's expected carbon market is much larger than New Zealand's current one, the mooted linkage of the two schemes from as early as 2015 would tend to increase liquidity and improve price discovery in both. While Ai Group retains strong concerns about important aspects of Australia's policy, particularly in the fixed price period from 2012 to 2015, we support international linkage as a mechanism to improve cost-effectiveness, enhance the operation of the market and level out the playing field.

With a substantial stream of forest management-related units to trade, New Zealand is potentially a very attractive source of very robust emissions credits for Australian emitters to purchase. Similarly, Australia should be an enticing market for New Zealand unit holders, particularly given the floor price expected to apply in Australia from 2015-2018. Should New Zealand extend its emissions trading scheme to the agricultural sector from 2015 or later, this may also provide an attractive stream of saleable units, depending on the manner of inclusion and available methodologies for measuring improved land and livestock management.

While there are important details to be discussed and ongoing political uncertainty, linkage of Australian and New Zealand climate policies should continue to be advanced.

## **Movement of cash**

The inability to easily move capital between Australia and New Zealand continues to be problematic for businesses, with such transactions often incurring significant delays and cost. It is recommended that the study investigate the potential for banks to enable cash to be drawn down and repaid across both countries.

## **Taxation arrangements**

Ai Group supports further alignment of taxation rules and regulations for trans-Tasman staff transfers which could be easily applied and have a limited impact on company cash flows. Greater harmonisation between Australian and New Zealand taxation rates and policies would help companies reduce the costs of learning the tax laws of both countries to ensure compliance across both their Australian and New Zealand operations. Harmonisation would also enable more efficient investment of capital over both countries.

## **Quarantine regulations**

While member companies acknowledged the substantial effort that has been made to streamline quarantine regulations between Australia and New Zealand, they continue to experience significant burdens in having to learn the sometimes subtle differences between Australian and New Zealand boarder protection rules and regulations. Continuing work towards harmonisation in this area would be mutually beneficial.

## **Labour migration**

A number of member companies have highlighted the importance of ensuring free migration between the two economies, particularly where it enables skilled migrants to fill gaps in the local labour market. To this end, Ai Group agrees with the approach taken in the report to investigating existing barriers to labour migration between Australia and New Zealand. Among the concerns raised by our member companies in this respect is the potential for migration to be hindered by difficulties in transferring superannuation funds and other employment entitlements between the two countries.

## **Standards for manufactured goods**

A common theme amongst our membership is the need for greater harmonisation of standards for manufactured goods across Australia and New Zealand. In addition, members mentioned the need to ensure consistency of interpretation of compliance against these standards across the Tasman.

In conclusion, Ai Group supports closer economic relations where the objective is to reduce the costs of doing business across the Tasman. However, Australia needs to consider resolving impediments to mutual recognition in the domestic Council of Australian Governments (COAG) context before embarking on this in a trans-Tasman context. Careful cost benefit analysis also needs to be undertaken of any reforms to ensure that net economic benefits are achieved and maximised and there are benefits to both parties.

Thank you for considering our views.

Yours sincerely

**Innes Willox**  
Chief Executive  
Australian Industry Group