

Vote Commerce

Baseline Alignment Proposal

Version [1]

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Submitted by: Hon Simon Power

Minister of Commerce

Section 1: Alignment to Government Priorities

My priorities over 2010/11 and the next two financial years, [deleted – free and frank] are as follows.

- Leading work with Australia to implement the 27 Single Economic Market (SEM) outcomes identified in the Joint Statement of Intent by the New Zealand and Australian Prime Ministers. Taken together the achievement of these outcomes will be a significant step forward in supporting a seamless trans Tasman business environment, making it easier for NZ companies to do business in Australia. Because expansion into Australia is often the first step for businesses expanding overseas, reducing the regulatory costs of participating in that market will help to ease New Zealand businesses entry into overseas markets more generally. Deeper trans Tasman business integration will support stronger science and innovation linkages and vice versa. A strong single economic market will strengthen New Zealand and Australian competitive position globally and support more joint trade promotion activity. These outcomes support two of the six main policy drivers in the Government's economic plan. The main risks associated with the work are disagreement between key stakeholders, including Australian stakeholders, and/or delays in the necessary legislative action because of other priorities.
- Reviewing the Securities Act to help ensure that capital markets are functioning well and securing the passage of the Securities (Trustees and Statutory Supervisors) Bill - which will establish a comprehensive licensing regime for trustees, and provide the Securities Commission with an ongoing monitoring role in respect of trustees' supervision of issuers. These initiatives, together with work on the financial advisers' regime and financial literacy, will form a significant part of the Government's response to the findings of the Capital Market Development Taskforce. They will promote investment in capital markets and thereby boost support for science, innovation and trade as well as investment in infrastructure which are two of the six main policy drivers in the Government's economic plan. The main risk associated with the work is the risk associated with tight timeframes for its completion.
- Investigating, and if appropriate introducing, legislation to criminalize cartel conduct. This will ensure more effective deterrence against anti-competitive behaviour. It will also ensure that firms operating in both New Zealand and Australian markets are faced with the same consequences for the same anti-competitive conduct, which is one of the outcomes in the SEM Outcomes Framework. Increasing the effectiveness of New Zealand's competition regime in this way will result in greater competitive pressures and incentives. This will contribute to better regulation and strengthened support for science, innovation and trade policy drivers. The main risk is the possibility of unanticipated delays arising from issues raised in the consultation process.
- Supporting free trade negotiations, including negotiations to advance the Trans-Pacific Strategic Economic Partnership Agreement (TPP). This will be New Zealand's most important and complex trade negotiation to date. It will

be key to advancing two important strategic objectives – a comprehensive trade and economic agreement with the United States, and laying the basis for a 21st century trade agreement for the Asia Pacific region. The increasing globalisation of production chains and service provision means that the TPP will need to be underpinned by strong competition principles and commitments to regulatory cooperation. The negotiations will be led by MFAT officials working for the Minister of Trade, but key areas of tariffs, rules of origin, trade remedies, regulatory barriers to trade, intellectual property and competition policy lie within the Commerce portfolio. Successful pursuit of these negotiations will contribute to our support for science, innovation and trade policy driver. The main risk is that the negotiations will either be unsuccessful or unduly prolonged.

These priorities will require policy development and implementation in relation to the reform of legal and regulatory frameworks, the pursuit of international negotiations and the enactment of legislation.

The work I have chosen not to do, or to defer, in order to accommodate these priorities is summarised in the next section.

Section 2: Reprioritisation

The SEM, financial market, and trade negotiation work is not new but will represent a significant expansion of existing effort. The work on criminalizing cartel conduct is a new initiative. The rationale for this expansion of existing effort and new initiative is summarised in the preceding section.

Note that I have been asked to contribute funding towards the Establishment of the New Zealand Productivity Commission.

To accommodate this additional work within my baseline, I propose to end or reduce the following activities:

Activity which will be ended or reduced	Why the activity is of lower value	Effects of stopping or decreasing the activity	Risks
Auditor liability and audit firm incorporation review	It is not certain that change would produce clear economic benefits.	There will be some continuing uncertainty for auditors about potential liability for carrying out functions.	Auditors have raised concerns about the issue.
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Activity which will be ended or reduced	Why the activity is of lower value	Effects of stopping or decreasing the activity	Risks
[deleted – confidentiality of advice]	[deleted – confidentiality of advice]	[deleted – confidentiality of advice]	[deleted – confidentiality of advice]
Review of Section 36 of Commerce Act	Addressing abuse of dominant position is being considered in the courts. Better to await the outcome before changing the law.	Unclear because it is not clear whether there is a problem that needs to be addressed.	May not identify problem (if there is one) as early as we could.
Copyright Act review / review of copyright issues as they arise	The current regime is working, so a review would be to improve performance.	The law may not deal with development of new technologies effectively.	Stakeholder criticism. This could delay development or deployment of new technologies in New Zealand.
KiwiSaver and Superannuation Scheme Governance	More important to update the Securities Act which sets the broad framework for public issues of securities.	This would involve reviewing the governance of KiwiSaver and superannuation schemes. Improved governance of these schemes would result in greater protections for investors, and possibly better performing schemes.	Not progressing this work has the potential to increase the risks for investors in KiwiSaver and Superannuation schemes and this may reduce the performance of those schemes over the long term. It will also result in inconsistencies between the regulation of superannuation and KiwiSaver schemes, and other managed funds.
Platforms and Portfolio Management	More important to update the Securities Act which sets the broad framework for public issues of securities.	This would involve regulating platforms and portfolio management services. The focus of this work would be on clarifying the regulatory status of platforms and portfolio management services, and ensuring minimum protections for consumers of those services.	Not progressing this work has the potential to reduce competition in the managed funds sector, and increase the risks for consumers of platform and portfolio management services that perform advisory or custodial roles.

A risk that could transpire is that increased volume demands on the Insolvency and Trustee Service will continue into future years. This is a service that is demand driven (largely by the economic recession). If this risk does transpire a proposal to respond to it will be developed.

In addition to these changes it was agreed in the March 2009 budget process that the Eco Verification programme, intellectual property awareness raising activity and the MED Canberra post would end at the end of June 2010. While decisions on these were made last year I am highlighting them as there is a small risk there could be adverse comment as they come to a close. We are seeking to mitigate this risk with the Eco Verification programme by finding other organisations to run key business support tools set up through the programme.

Section 3: Summary of Financial Movements

Changes to appropriations (including new appropriations) required to deliver the reprioritisation set out in section 2 within the fixed baseline are provided in the attached table.

Baseline Alignment Proposal – Financial Summary Report

Vote Commerce	2009/10 (\$000)	2010/11 (\$000)	2011/12 (\$000)	2012/13 (\$000)	2013/14 (\$000)
Baseline (2009/10) FBU	121,566	116,564	114,677	114,971	115,171
Share Allocation	0	0	0	0	0
Centralised Saving	0	0	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	0	0	0	0	0
Total Proposed Baseline	121,566	116,564	114,677	114,971	115,171