



## AUSTRALIA NEW ZEALAND LEADERSHIP FORUM

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Dear Chairmen

### **Submission to: Strengthening Economic Relations between Australia and New Zealand**

In response to the Commission's discussion draft of September 2012, we submit the following comments. These follow up our previous submissions dated May and August 2012.

#### **Level of Ambition**

As set out in our original submission, we believe some bold new goals are needed to guide us towards achieving the Single Economic Market. The original goals of CER were very ambitious in their day - to strengthen the broader relationship between Australia and New Zealand; to develop closer bilateral economic relations through a mutually beneficial expansion of free trade; to eliminate barriers to bilateral trade in a gradual and progressive manner under an agreed timetable and with a minimum of disruption, and to develop trade between New Zealand and Australia under conditions of fair competition. We believe both countries need to set their sights higher and consider the next frontier for the bilateral relationship with a more specific and ambitious set of refreshed goals.

The discussion draft gets us part of the way there but is considerably less ambitious for the relationship than we had hoped. The discussion draft avoids articulating a bold vision and argues that "the end point...cannot be specified in advance", in fact it is "a moving target" (page 6). The draft report instead relies on the "direction of travel" for integration that was captured in a set of principles endorsed by the respective Prime Ministers in 2009. We would like to see a much stronger articulation of the importance of the Single Economic Market and some bold new goals in the final report.

We would also like the Commissions' report to articulate a clearer sense of economic priorities. The current draft report lists many individual action items in various stages of progress. However the list provides no guidance as to the level of economic value that will be created from each activity.



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### **Regional context**

The ANZLF agrees with the Commissions' view that the bilateral relationship needs to be seen in the broader Asia-Pacific context and that it needs to remain outward looking. The future of both countries' engagement with Asia will be one of the key themes of the Australia New Zealand Leadership Forum to be held in 2013. However, this seems to us to be another area where the draft report lacks ambition. We had hoped that the draft report would be more specific about which policy reforms and initiatives can most effectively place the two economies on a sounder footing for developing new opportunities in Asia and beyond. On page 7 the Commissions note that "The best way for the two governments to position their economies to benefit from the 'Asian Century' will be to enhance productivity and competitiveness". Mutual recognition of franking and imputation credits would contribute to this by making capital cheaper, yet it is not endorsed as an appropriate course of action in the draft report. We refer to this issue in more detail below.

The report talks about the opportunities presented by the "Asian century" but its draft recommendations, while useful, are unlikely to make a material difference to either the overall productivity and competitiveness of both countries' or their ability to integrate with Asia. The conclusions reached about the value of CER are grudging at best and the report appears to take the view that domestic reform is preferable to reform carried out in the context of CER. To our mind this both undervalues what has been accomplished through the world's most comprehensive trade agreement and the potential of CER to contribute to broader regional integration. In particular more attention could be focused on the role of CER in strengthening the economic performance of both countries and providing a workable template for regional trade liberalisation through such initiatives as the ASEAN-Australia-New Zealand FTA or the Trans Pacific Partnership (TPP).

### **Regulatory issues**

We welcome the attention given in the draft report to the need to resolve outstanding areas of business law reform and other regulatory reforms, which we identified in our original submission, and the removal of barriers to the flow of services across the Tasman. These are important steps towards a single economic market. We would support more attention being paid to transformational initiatives such as the creation of single regulatory agencies (e.g. for antitrust, bank and insurance regulation and/or telecommunications), and development of a trans-Tasman legal market and trans-Tasman settlement and clearing market.

In general business seeks to operate in regulatory environments that are fair, consistent, competitive, support innovation and involve low compliance costs. Page 90 of the draft report notes that regulatory harmonisation is challenging for a range of reasons. In our view the mechanism for reducing behind the border barriers need not be harmonisation per se; in some cases it may be preferable to aim for regulatory coherence, invoking principles of regulatory best practice such as non-discrimination, comprehensiveness, transparency, accountability and least efficiency distorting. We note in this regard the agenda under



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development in the context of the TPP negotiations to which both Australia and New Zealand are party.

### **Partnering**

ANZLF has identified the need for Australia and New Zealand to seek opportunities for partnering to improve competitiveness and relevance. We therefore welcome DR 5.3, recommending consideration of how to facilitate joint action in regional and multilateral fora. It would be beneficial for both countries to see Australia and New Zealand exercising joint global policy leadership on matter of mutual interest.

### **Movement of People**

ANZLF seeks to encourage more trans-Tasman travel and tourism by reducing the Australian Passenger Movement Charge to align with actual costs. Therefore we welcome the first part of DR4.10, which recommends that the Australian Passenger Movement Charge should be reconfigured to be a true cost recovery mechanism for border costs. We believe this approach would provide much greater transparency and alignment with actual costs. At present the New Zealand government does not levy departure taxes at New Zealand international airports. The main border processing functions of Customs, Immigration and Biosecurity are funded by the New Zealand Government and are not recovered from airlines or passengers. We do not support the second part of recommendation DR4.10, that the New Zealand Government should review its border passenger charges to achieve full and transparent cost recovery, in line with existing arrangements for cargo. This would create a disincentive to travel and would undermine New Zealand's tourism sector and overall economic recovery. We strongly advise that this part of the recommendation be deleted from the final report.

ANZLF is also on record calling for the introduction of more Smartgate facilities particularly on departure from Australian airports to streamline passenger processing and make trans-Tasman travel a more domestic-like experience. We therefore support DR4.15 recommending further roll-out of Smartgate (where it is cost effective to do so) at regional airports and Australian departures.

### **Elevating the importance of the trans-Tasman agenda**

We welcome the recommendations to strengthen the existing mechanisms for bilateral engagement, which we proposed in our May submission. This joint study by the two Productivity Commissions is a great example of collaborative action and we hope there will be more such opportunities. We also encourage both governments to make the most of the opportunity afforded by the annual ANZLF meetings to engage with the business communities on both sides to discuss how to take the relationship forward. The proposed formal five-yearly public review of CER's direction and achievements may also afford an opportunity to more closely track the benefits of CER and identify relevant empirical evidence which the Commissions appear to believe to have been lacking to date.



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### **Mutual Recognition of Franking and Imputation Credits**

We welcome the attention given to the issue of mutual recognition of franking and imputation credits in the draft report but are deeply disappointed with the lack of a firm recommendation in favour of this policy option. We are keen to engage with the Commissions with a view to encouraging firm recommendations in support of mutual recognition in the final report.

The Joint Productivity Commissions have been invited to make recommendations for “policy initiatives ... that would provide net benefits overall, and for each country separately” (p5). The ANZLF has provided to the Commissions detailed analysis of the case for mutual recognition of franking and imputation credits. This analysis clearly indicates that mutual recognition of franking and imputation credits would satisfy this test: both Australia and New Zealand gain in GDP and net welfare terms from mutual recognition. These gains are after accounting for the loss of revenue that flows from mutual recognition. Importantly mutual recognition meets the stated goal that SEM initiatives should foster net trans-Tasman benefit.

In the absence of any detailed alternative empirical cost-benefit analysis in the draft discussion paper it is difficult to see why our research and recommendations have not been more positively reflected in the draft paper. There is undue emphasis given to the fiscal costs with only cursory discussion of benefits. The draft report highlights that this is a complex issue and more work is needed. We look forward to hearing how much more work needs to be done and what would satisfy the Commissions in this regard.

The draft report places significant weight on initiatives not impeding third country trade and investment (p7). Our modelling suggests mutual recognition would have minimal impacts on third countries, although this is a difficult area to model with confidence. Even if there was empirical evidence of some investment diversion in third countries, which we have yet to see, this would need to be balanced against the productivity and competitiveness benefits that mutual recognition would bring for Australian and New Zealand firms. It seems odd that the trans-Tasman productivity benefits arising from mutual recognition of franking and imputation credits might be dismissed on the grounds of potentially resulting in lower investment in third countries.

In the discussion on a joint tourism visa (p131) the report states “This proposal would have fiscal implications for both countries, but these could be offset through the use of a cost recovery model. (The Australian Government is already moving towards a cost-recovery model for visa-related charges.) In addition, the two Governments would need to agree on an appropriate sharing of the costs and revenues.” It seems unusual that it might be considered acceptable to have initial fiscal losses in this case; or some form of cost/revenue sharing mechanism, but not in the case of franking and imputation credits, which potentially has much larger economic benefits.



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### **Conclusions**

ANZLF was pleased to welcome the Joint Commissions' investigation because it gave an opportunity to think more boldly about the future of our two countries. Against these high hopes we are concerned that the interim report falls short of the ambition originally set by the two Prime Ministers. The interim report makes a number of useful recommendations but their impact on performance and behaviour is likely to be marginal at best. Continuing with business as usual approaches to the relationship will deliver only incremental gains. Our concern is that we risk overlooking a big opportunity if we can't be more ambitious.

We believe the value of a strengthened relationship is to be found in the opportunity it gives us both to win in the Asian Century. Respective national interests need to be put in the context of this bigger picture. The Commissions' report provides an ideal opportunity for adopting a new vision in the lead up to the celebration of the 30th anniversary of CER and the 2015 ANZAC centenary. Moving to implement mutual recognition of franking and imputation credits would be one way of accelerating the flow of capital and taking the investment relationship to a new level. Big impact recommendations such as this are required in the final report if it is to meet the objectives set by the two Prime Ministers and capture the imagination of the private sector.

We look forward to discussing these issues with you at the stakeholder meetings later this month in Auckland and Melbourne.

Yours sincerely

**Rod McGeoch AM**  
**Co Chair**

**Jonathan Ling**  
**Co Chair**