

**Evaluation of the Quality of the New  
Zealand Productivity Commission's**

***Joint Inquiry into Strengthening  
Trans-Tasman relations***

Howard Fancy

March 2013

## **Summary Assessment**

This report assesses the quality of the joint inquiry by the Australian and New Zealand Productivity Commissions into Strengthening trans-Tasman Relations. The assessment is undertaken in relation to the key performance criteria against which the New Zealand Productivity Commission assesses the quality of its reports.

As a joint study an important aspect of the processes of preparing the report required both Commissions to develop common frameworks, understandings and ways of working effectively together.

The subject matter of the Inquiry is broad in focus and requires attention to a relatively wide range of policy areas at quite a specific level. A key objective for the final report was to inform the discussions between the Prime Ministers of both countries at their annual meeting in 2013.

The preparation of this report represents good processes and effective engagement with a wide range of stakeholders. Clear frameworks were established to underpin the analysis and support the recommendations. Recommendations are relevant, practical and credible and clearly informed by input from submissions and discussions.

The focus of the report centres on relatively detailed aspects of a broad range of policies and their impacts. The report provides clear and convincing advice that adds up to a broad and relevant programme of work that will support greater integration.

Some areas where it may have been possible to increase the impact of the report are identified. These centre on the insights that could be gained from a wider consideration of factors shaping the overall competitiveness of the two economies. This would have recognised factors increasing the interdependencies between economies, influences that are driving processes of innovation and the implications of growing internationalisation in areas such as health and education.

### ***Right Focus***

The focus of the report is practical and relevant. The state of play on current CER initiatives is assessed. Possible new specific initiatives are identified. This focus is informed by a review of past CER experience and the need for both countries to frame the CER relationship within a strong global orientation.

Greater possible value from the study would have seen the more detailed policy focus complemented by a greater focus on the longer term implications for CER of more recent international trends that are driving the performance of economies.

### ***Good process management***

A wide range of evidence and information is analysed and interpreted in a balanced and credible way. Open processes enables the thinking of the Commissions to be well tested and well informed. The frameworks underpinning the analysis in the report are sensible and work well. While the Issues document opened up some wider issues, feedback from the process seemed to largely concentrate

on specific policy issues. This suggests some other approaches would have been required to achieve more focus on longer term issues.

### ***High Quality Work***

Clear and sound frameworks for assessing options were established. Analysis and findings are credible, robust and persuasive. Evidence and information is assessed in balanced and considered ways with conclusions and recommendations flowing logically from the analysis. The report may have benefited from some greater thinking being directed towards emerging issues and the cultural, capability and leadership aspects associated with further integration that may become more important over the longer term.

### ***Effective Engagement***

The Commissions ran open processes with opportunities for broad engagement with interested parties. The final report is balanced in terms of its judgements and the breadth of views heard. Engagement seemed greatest on specific issues rather than broader and longer term questions. To achieve better engagement on longer term issues the selective commissioning of some relevant think pieces could have enhanced the final report.

### ***Clear delivery of message***

The final report was well written and accessible to a wide range of readers. It was persuasive and communicates effectively and consistently to different audiences. In terms of the overall balance of the report I would have preferred to have seen the historical section shorter and more emphasis given to developing further the section on future issues.

### ***Overall assessment***

Overall this is a good report that will assist in maintaining a momentum of work that helps increase the integration of the two economies. A broad range of policies is reviewed and the advice seems robust and credible. The report uses sound frameworks for its analysis.

The report though may have had greater long term influence if it had placed some greater emphasis on the ways in which future policies and institutional arrangements would best support deeper integration. These are likely to centre on areas that are more strongly connected to innovation, the provision of health and education and the development of stronger and productive connections between the combined two economies and the rest of the world.

## **Introduction**

This report provides an independent review of the New Zealand and Australian Productivity Commissions' joint *Inquiry into Strengthening trans-Tasman relationships*. This review is an input into the New Zealand Commission's reporting on its performance including identifying ways in which its performance can be improved.

The review assesses the study against the performance measures that have been adopted by the New Zealand Productivity Commission. These performance measures are attached as an Annex to this report.

## **Background**

The Australian and New Zealand Productivity Commissions were asked to conduct a joint study on options for further reforms that would enhance increased economic integration and improve economic outcomes for both countries.

The study was required to identify the areas where the benefits of further reform would be most significant. A particular focus on critical issues for business investment and productivity was required.

The study when identifying specific areas for further reforms was expected to consider any significant transition and adjustment costs that could incur over time and also the time scale over which any impacts were likely to accrue.

The report was required to be completed in time to inform the annual leaders meeting of the Prime Ministers of the two countries that took place early in 2013.

In undertaking the Inquiry the Commissions looked to:

- Glean insights from 30 years of experience with economic co-operation
- Address unfinished business
- Identify new initiatives
- Consider issues relating to the implementation of reforms

## **Specific Comments**

In the following sections of this report, I review the report against the specific performance measures adopted by the New Zealand Productivity Commission. The one exception is that of assessment of “Impact “. This is separately assessed by the Commission.

### ***Right Focus***

The inquiry was designed to advise the Australian and New Zealand Governments on the next steps towards greater economic integration. The inquiry was given a broad mandate to identify specific areas for further potential reforms.

The report begins by establishing the frameworks within which the report’s views are shaped. For example, it quite explicitly, and appropriately, recognises that CER is framed within an international context that requires both countries to be outward looking. The focus on specific policy barriers to greater integration therefore needs to complement a strong and open international orientation and support broader domestic policy agendas.

A relatively long historical perspective is then provided. This summarises the evolution of the CER relationship, its experience and its achievements. This review of past experience is used to highlight some of the challenges and trade-offs faced in making judgements. The report also identifies lessons from the past experience to provide insights for future decision making.

The report assesses the state of play of current initiatives before considering possible new initiatives in the areas of trade, services, capital, and people. The final section of the report considers ways in which a forward agenda of reform might be best progressed.

The focus of the report is practical. The inquiry primarily centres on specific aspects of policy – for example, on work previously initiated, under the CER umbrella, but not yet completed and on specific areas of policy and policy administration that are acting as potential barriers to greater integration.

The focus on initiatives already underway is very relevant. The report recognises that significant investment has already been made in these areas and there is a need to decide whether work should be continued to completion, modified or stopped. This focus also highlights both the importance of completing an existing programme and the need to keep things moving along.

The focus on identifying new initiatives also builds from past work by considering whether that work should be further extended. Barriers to greater integration that were identified through the consultation process also added to the focus and informed the advice.

Consideration of future priorities recognises that increasingly the issues associated with on-going integration are moving from ones centred on trade to ones relating to services and regulatory arrangements. The report identifies future areas for possible consideration such as services and regulatory harmonisation but advises that these raise more complex and difficult issues. The fact that such issues are more complex, though, was not seen as an argument to stop looking for future opportunities to seek greater integration in these areas.

Political and monetary union is dismissed as an area for future work, while ways in which further deepening of relationships between government agencies is encouraged.

Overall the focus of the report conveys a sense of the importance of maintaining the momentum of a considered and relatively detailed work programme rather than advocating a more transformative and radical agenda.

At one level this makes a lot of sense. The Inquiry suggests that there are relatively small but useful gains to be made from further integration rather than substantive ones.

Overall the focus of the report is sound and provides a practical and credible basis for a worthwhile work programme.

The Inquiry clearly and correctly recognises the vital importance of any programme of policy reform being outward looking and minimising any trade diverting impacts. The historical context provides good background that shows the progressive deepening of the relationship and the benefits that flow from this.

The report has a strong bilateral focus that emphasises the barriers to deepening the flows across the Tasman and the interplays between the policies of both countries.

I thought there were several interrelated areas where some greater focus could have been adopted in the inquiry. These would have centred on how the overall performance of the combined economies could be strengthened within a wider global context. This may have added additional dimensions to the thinking about future approaches to greater integration.

Such a wider focus would have given more emphasis to:

- The changing nature of international economic performance, and the determinants of competitiveness, over the past decade and the longer term implications of these for CER.

For example, considering the forces driving the increased agglomeration of big cities which raises questions about the importance of relationships between Australasian cities

- Consideration of what might be required to strengthen the overall positioning and international competitiveness of the “combined” Australasian economies within a wider international setting.

This could have seen more emphasis given to the growing importance of innovation and ideas to increase productivity. This has strong links to research capacity and to the development stronger domestic and international supply chains.

- Recognition of the growing trade in services that historically were seen as non- tradeable.

For example, the growth of international trade in services has seen international growth in many “non-traditional” areas such as education and health

The scope for developing workforce capability and productivity in areas relating to ageing populations, social services, health and education will also be of growing importance

Such a broader focus could have informed whether there were wider barriers or constraints to improving overall economic performance that policies and a more collaborative approach across the two countries, could more deliberately aim to influence.

I note that the Issues document released raised some questions relating to some of these areas but these were not carried through to the final report.

I am not suggesting that consideration of these areas would have necessarily led to specific proposals but they seem to be areas that will become increasingly important for policy debate and dialogue in coming years

### ***Good Process Management***

The process for this study was formally initiated with the receipt of the signed Terms of Reference in March 2012. This was followed by the release of an Issues paper in April, a draft report in September and the final report in December 2012.

This timetable saw the final report delivered in the timeframe requested and in good time to inform the Annual meeting of the two Ministers in February 2013.

The process followed seems a good one. The Issues document provides context for the Inquiry and poses a series of questions relating to the specific feedback being sought. The publication of a draft report provides opportunities for both the interpretation and analysis of feedback along with other information to be tested with interested parties through consultation and submissions.

Meetings and consultations occurred where input from sectors was sought and considered. The final report was informed by, and underpinned by, deeper analysis which was published as a series of annexes to the main report.

This process seems robust and one that helps ensure the credibility and quality of the final report. The Annex to the final report provides clear evidence of the extensive discussions held, and submissions received, as input into the final report.

This Inquiry required both Commissions to work together. This would have inevitably involved both learning about each other as well as needing to establish a common basis for the approach to the report. As such this will have helped provide the basis for a deeper future relationship between the two Commissions.

The documents convey a good sense of balance. Different perspectives are aired and shared but in ways that convey an overall impression that a good consensus was built regarding how different issues could be progressed. The overall coherence of the documents and their recommendations suggests the process of working together was effective.

The report rightly identifies that one of the benefits of CER is how it has changed thinking about the drivers of economic performance and the need for, and direction of, change. This raises a possible question in my mind as to how the processes of producing such a report can influence and shape thinking about future possibilities.

I note for example, that the Issues paper raised the issue of knowledge transfers and identifies possible areas where knowledge creation and flows could be enhanced. While the inquiry raises a number of forward looking issues, such as future governance arrangements, thinking about this particular area relating to knowledge was not developed in the final report.

It may have been inherent in the nature of this report and its processes that engagement, and the interests of those who engaged, centred much more on specific aspects of particular policies and sectors. Therefore engagement around more complex and open ended areas attracted limited feedback.

This may mean future reviews as part of their processes could consider including some commissioned think pieces in areas of potential future importance – such as:

- Key influences on innovation including knowledge creation and transfers
- The capabilities and relationships required to develop stronger international supply chains

- The scope to build greater trans-Tasman international scale and critical mass in areas such as research, education and health. This would open up issues such as balancing stronger capabilities and specialisation as well as the wider issues associated with access and funding.

### ***High-Quality work***

The report made clear the frameworks that it was using to inform its analysis and advice.

- Integration

Economic integration is defined as a concept that centres on the freedom of exchange between the two countries across a number of dimensions

- Advice is framed around four dimensions of integration

These are trade in goods, services, capital, and people. It was explained how the depth and breadth of interactions across these different dimensions in various ways can lead to greater trade, increased specialisation and greater economies of scale.

- The characteristics of barriers to integration are identified

The report describes how policies can affect integration across these different dimensions through the creation of transactions costs and other barriers. It also recognises that policies need to balance trade-offs that can differ across the two countries and also that policies can also have significant distributional impacts and adjustment implications that need to be taken into account

- The benefits to date from CER are assessed and insights from the experience to date identified

This is based on both quantitative and qualitative information. It is supported by modelling overall impacts (in some cases) and through recognition of the growing breadth and depth of trans-Tasman engagement. The importance of dynamic effects was recognised. For example the learning for business and governments associated with CER

- Trade-offs and complexities are recognised

This recognises the effects of the comparative sizes of the New Zealand and Australian economies. Distributional effects as well as important areas of difference are also recognised as are the strength of Māori perspectives required in New Zealand.

- Criteria are developed for selecting the most promising initiatives

These include width of reach, nature and extent of barriers, and impacts on national autonomy.

Policy proposals are seen as needing to be compatible with broader integration objectives, complementary of domestic reforms, compatible with other trade agreements and having a general presumption in favour of non-discrimination.

This all emphasises the importance of considering CER initiatives within a strong global orientation that minimises trade diversion

These considerations are applied to:

- Existing initiatives, and whether they need amending. This then informed advice on the need, or otherwise, to progress these.
- The merits of possible new initiatives. These are informed by consideration of areas that had been previously exempt from agreements, the views of sector and other groups, and analysis undertaken by the two Commissions.
- Additional areas where further work is merited
- Governance and oversight of the relationship.

The conclusions and advice provided are credible, practical, understandable and considered. Stakeholder views clearly informed the advice as well as being an important source of information. This combined with the more detailed analysis contained in the background documents gives an overall sense of robustness to the report and its recommendations.

The broad range of policy areas covered inevitably limits the depth of analysis that could be provided. But in each area recommendations are supported by a balanced presentation of relevant judgements, facts and views.

The report looks to make clear trade-offs and key judgements where these are important. Benefits are not overstated – and where net benefits cannot be quantified, the presumption towards the benefits of greater integration is made clear.

The discussion in relation to the mutual recognition of tax imputation credits illustrates many of these dimensions.

The report acknowledges that issues relating to trade are relatively straightforward and that increasingly issues relating to possible regulatory harmonisation and trade in services will become more important. In doing so, the report acknowledges that these areas will be more complex to address.

Discussion around the use of standards and experience with the establishment of the Australia New Zealand Therapeutic Products Agency provides good insights into some of the issues involved and some possible ways forward.

The report acknowledges the growing range and depth of trans-Tasman sector relationships that have developed since the inception of CER.

The issue of institutional arrangements and governance of the overall relationship are raised as an important longer term issue. The conclusions here are not highly specific but more in the nature of a warning that pragmatic drift is not likely to be the best option.

I think that the advice about moving away from a more pragmatic approach to the relationship to one with more explicit leadership is sound. However to do this may require a number of more deliberate actions to be considered to develop leadership at different levels and forms – including political leadership. These include consideration of:

- Where and how a more explicit CER and international perspectives should be required within domestic policy proposals and agendas
- Ensuring that CER initiatives are framed within a broader international competitiveness and relationship framework
- Considering whether the concepts of integration that are used in this report need to be broadened to encompass a wider range of influences. These, for example, could consider the depth and effectiveness of connections – especially as they strengthen the overall competitiveness and performance of the combined economies
- How, and where, investment in the further deepening of the institutional relationships is warranted

As suggested in an earlier section above, I thought the very strong bilateral and policy focus in the report could have been balanced with some greater consideration of a broader international perspective and a desirable positioning of the Australasian economies within this perspective.

This would not have required a prescriptive policy focus or taken away from the more precise recommendations that are made. Rather it would complement these with an additional assessment of what will matter most for the overall competitiveness and welfare of the combined economies.

This would have allowed some opening up of questions about how sectors such as the science, education and health systems might collaborate to develop greater critical mass and relevant specialisation without compromising the quality of benefits or access to services to the citizens of both countries. These issues are relevant to the development of broader approaches to thinking about societal well-being.

The freedom of exchange of goods, services, capital, technology, knowledge and people between countries are important determinants of integration. Nonetheless I would question whether these, while necessary, will be sufficient. The review of the CER experience makes an important point when it said that one important benefit of CER related to how it changed thinking. This suggests that the underlying purposes, drivers, and dynamics associated with exchanges are also important. These will be shaped by culture, understandings, capabilities, and institutional arrangements. Policies from these perspectives in this sense are only one means of influence. This suggests that leadership at different levels will be important in facilitating and accelerating further integration. This also suggests that the growth in trans-Tasman forums can create potential opportunities for greater leverage.

Another major issue in the CER relationship in large part reflects the fact that greater integration is more likely on balance to benefit New Zealand proportionately relative to Australia. This suggests that in looking ahead, the CER policy framework may need to give greater weight to the strengthening of the overall international competitiveness and performance of the combined economies rather than just balancing the relevant impacts on the two economies.

### ***Effective Engagement***

This area of performance was well done.

There was a proactive approach to engagement with a wide range of interested groups. Processes were open with opportunities for interested parties to engage.

The report conveys a clear sense that stakeholders engaged well with the issues which meant that the information and feedback received were valuable - especially in terms of how policies and their administration are working in practice.

It was good to see an onus being placed on submitters to identify what they thought needed to be changed, and why, and what they thought was working well and why.

The tenor of the report also conveyed that a collaborative and effective relationship was struck between both Commissions. This may well have been helped by the quite practical focus to the report. This all must augur well for the future and how the combined capabilities of the two Commissions can contribute to greater future integration of the two economies.

The only area for possible improvement relates to points already made above. The report's major impact relates to its advice on specific policy areas. The opportunity provided in the Issues paper to put more emphasis on some of the future choices relevant to possible future integration did not flow through to any extent into the final report. Hence some opportunity to have stimulated greater discussion on important future areas for increasing productivity and the future welfare of both countries was not realised.

The report is clearly written for both Prime Ministers. However from the Inquiry and background papers there may be opportunities and value in the NZ Commission looking for ways to further convey some key messages and insights from the study to New Zealand institutions and policy makers.

### ***Clear Delivery of Message***

The report is accessible with the majority of technical content provided through the background papers.

The process was open with good engagement.

The relatively detailed policy focus is a deliberate aspect of the report's scope. However this may have limited people's reading of the report to the specific policy areas of particular interest to them.

The historical review of CER and its achievements provided an important underpinning to the advice and its context.

Issues relating to political union and monetary union were raised and correctly put to one side. Future issues such as leadership, governance arrangements and trade in services were clearly identified as becoming more important to future agendas.

Areas of specific policy should be part of any on-going work programme and part of future agendas. However the opportunity could have been more fully taken to also incorporate a more deliberate focus on how the nature of a changing world would impact on Australia and New Zealand and future approaches to CER.

The report may have also benefited from a deeper and more strategic discussion on the overall priority needing to be given to further integration and why. In part this comes back to the extent to which the Commission plays an educative role.

Two areas seem relevant here.

The first would have required a stronger focus on how the overall competitiveness and welfare of the combined economies can be increased within a strong international orientation. This would take account of the many dynamic changes happening in the world economy.

The second centres on the fact that the relative size of the two economies means that New Zealand needs Australia more than Australia needs New Zealand. There are some parallels in New Zealand in relation to the issues concerning the importance of Auckland to the rest of New Zealand. This argues that the future nature and benefits of integration may need frame debate and discussion differently.

Overall the report is readable with all the substance in one document which also has a good executive summary.

In terms of the overall balance of the report I would have preferred to have seen the historical section shorter and more emphasis given to developing further the section on a future agenda.

## NZ Productivity Commission Performance Measures

---

The performance measures we have developed for our inquiries are:

- **having intended impacts** – what happens as a result of our work;
- **the right focus** – the relevance and materiality of our inquiry reports;
- **good process management** – the timeliness and quality of our inquiry process;
- **high quality work** – the quality of our analysis and recommendations;
- **effective engagement** – how well we have engaged with interested parties;
- **clear delivery of messages** – how well our work is communicated and presented; and
- **Overall quality** – the overall quality of the inquiry taking into account all factors.

Our inquiries are evaluated against these measures using three external sources of feedback:

- an independent expert's review
- a survey of inquiry participants
- An independently facilitated stakeholder focus group.

The evaluation results for each inquiry will be published (see Resources section to the right). Our current performance measures are for inquiries - our core business and largest area of expenditure. We will give consideration to whether performance measures are valuable for our other functions in the future.