



Australian Government
Productivity Commission

NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa



Strengthening trans-Tasman economic relations

A JOINT STUDY · FINAL REPORT · November 2012

© Commonwealth of Australia and New Zealand Crown 2012

ISBN 978-1-74037-425-5 (Australia)

ISBN 978-0-478-39517-4 (printed) 978-0-478-39518-1 (online) (New Zealand)

Copyright notice:

Unless otherwise noted, copyright in this publication is owned by the Commonwealth of Australia and the New Zealand Crown.

Creative Commons licence:



This joint publication by the Australian and New Zealand Productivity Commissions, is licensed under a Creative Commons Attribution 3.0 Unported License (<http://creativecommons.org/licenses/by/3.0/>). Permissions beyond the scope of this license may be directed to either Commission, contact details below.

This licence allows you to copy, distribute and transmit this work provided that you attribute the source. Wherever a third party holds copyright in material presented in this publication, the copyright remains with that party. Their permission may be required to use the material.

General inquiries:

Australian Productivity Commission

Ph: +61 2 6240 3200 Email: maps@pc.gov.au

New Zealand Productivity Commission

Ph: +64 4 903 5150 Email: info@productivity.govt.nz

An appropriate citation for this publication is:

Australian Productivity Commission and New Zealand Productivity Commission 2012, *Strengthening trans-Tasman economic relations*, Joint Study, Final Report.

JEL code: F

Australian Productivity Commission

The Australian Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies in the long term interest of the Australian community. www.pc.gov.au

New Zealand Productivity Commission

The New Zealand Productivity Commission was established in April 2011 and is an independent crown entity with a dedicated focus on productivity. The Commission carries out in-depth analysis and research on inquiry topics selected by the Government with the aim of providing independent, well-informed and accessible advice that leads to the best possible improvement in the wellbeing of New Zealanders. www.productivity.govt.nz

Foreword

Australia and New Zealand mark the 30th anniversary of CER — Closer Economic Relations — in 2013. This is a significant milestone and an opportunity to consider the future of the economic relationship between our two countries.

Building on the long history and pragmatic approach of trans-Tasman cooperation, CER has played a direct role in removing barriers to trade, and provided a framework for the development of complementary agreements, including those covering mutual recognition of standards and occupations, business law, and the movement of people ‘across the ditch’. The relationship has thrived on strong government-to-government links. Today, Australia and New Zealand are among the world’s most closely integrated economies, with CER at the core of this.

In the lead up to this milestone, Prime Ministers Gillard and Key requested the Productivity Commissions to scope further initiatives that would strengthen the trans-Tasman economic relationship and improve economic wellbeing in both countries. This joint study looks back on what has been achieved, and forward to what more can be achieved as both countries pursue their shared aspirations in the Asian century.

The Commissions are grateful to the individuals, businesses, unions, community groups and government officials who contributed to this study. Drawing on this input and further analysis, the Commissions have identified more than 30 policy initiatives to extend trans-Tasman integration that would benefit both countries.

The proposed initiatives vary in their significance, complexity and timescales and some require more in-depth examination than has been feasible in a broad-ranging scoping study. In tackling the new agenda, maintaining a pragmatic approach while being cognisant of the broader policy context and the need for CER to be open and outward looking, will remain as important as in the first 30 years.

The Commissions are confident that the actions recommended in this report would help maintain the vibrancy of the relationship and deliver further benefits to both countries in the years ahead.

Gary Banks AO, Chairman

Jonathan Coppel, Commissioner
Australian Productivity Commission

Murray Sherwin CNZM, Chair

Dr Graham Scott C.B., Commissioner
New Zealand Productivity Commission

November 2012

Terms of reference

Impacts and Benefits of Further Economic Integration of the Australian and New Zealand Economies — Joint Scoping Study by the Productivity Commissions of Australia and New Zealand

Purpose of the study

The Governments of Australia and New Zealand are firmly committed to strong economic relations between Australia and New Zealand, including boosting productivity through reducing the regulatory burden on business, increasing competition and encouraging closer economic cooperation, and to strengthening those relations further. The two countries have a long history of working together through the *Australia New Zealand Closer Economic Relations Trade Agreement* which first came into effect on 1 January 1983 and has involved successive rounds of integration of the Australia and New Zealand economies. This has been highly beneficial to both countries.

At their annual leaders meeting, the Prime Ministers of Australia and New Zealand agreed that, to promote further reform and economic integration, the Productivity Commissions of each country would conduct a joint study on the options for further reforms that would enhance increased economic integration and improve economic outcomes. The Commissions' final report should be completed by 1 December 2012 in order to inform the next meeting of leaders, expected to take place in early 2013.

With 2013 marking 30 years of the operation of the Closer Economic Relations Trade Agreement, the Commissions' report will help advise the Australian and New Zealand Governments on next steps in economic integration.

The report should identify specific areas for further potential reform, the ways in which they might be best achieved, the likely impacts of potential reforms, any significant transition and adjustment costs that could be incurred and the time scale over which impacts are likely to accrue.

Scope of report

The Commissions' report to leaders should provide analysis on:

- potential areas of further economic reform and integration, including identification of the areas of reform where benefits are likely to be most significant, with particular focus on critical issues for business like investment and productivity
- the economic impacts and benefits of reform
- any significant transition and adjustment costs that could be incurred
- identification of reform where joint net benefits are highest
- the means by which they might be best actioned
- the likely time paths over which benefits are expected to accrue.

Methodology

The Commissions should provide an explanation of the methodology and assumptions used in its analysis. The Commissions should also provide guidance concerning the sensitivity of results to the assumptions used and bring to leaders' attention any limitations or weaknesses in approaches to reform evaluation.

Consultation and timing

In the course of preparing the report, the Commissions should consult and hold public hearings as appropriate. While these consultations would inform the Commissions' assessment, responsibility for the final report would rest with the two Productivity Commissions.

The Commissions should produce both a draft and a final report. The Commissions' final report should be submitted to leaders, through the Treasurer of Australia and the Minister of Finance of New Zealand, by 1 December 2012. The reports will be published.

Bill English
Minister of Finance
Deputy Prime Minister

Wayne Swan
Treasurer
Deputy Prime Minister

[Received 14 March 2012]

Contents

Foreword	iii
Terms of reference	iv
Abbreviations and explanations	ix
Glossary	xii
Overview	1
1 Introduction	19
1.1 What have the Commissions been asked to do?	19
1.2 Strengthening economic relations	21
1.3 The Commissions' approach	23
1.4 Conduct of the scoping study	24
2 Framework for trans-Tasman integration	27
2.1 Economic integration and the role of government	29
2.2 What are the potential impacts of trans-Tasman economic integration?	33
2.3 How much trans-Tasman integration?	42
2.4 Identifying the most promising initiatives	43
2.5 Desirable features of trans-Tasman integration initiatives	48
2.6 Cross-country distributional effects	50
3 CER — achievements and implications for the future	55
3.1 Evolution of the CER agenda	56
3.2 Achievements of CER	66
3.3 Implications for the future agenda	86
4 Opportunities for further integration	97
4.1 Initiatives underway: key areas to deliver	98
4.2 'First freedom': trade in goods	108
4.3 'Second freedom': trade in services	112

4.4	'Third freedom': capital	131
4.5	'Fourth freedom': cross border movement of people	147
4.6	Government and regulatory services	158
4.7	Options that should not proceed	164
5	Making it happen	167
5.1	The forward agenda	167
5.2	Past and current governance of CER	169
5.3	Strengthening CER governance	173
A	Stakeholder engagement	179
	References	187

Additional material referred to in the chapters but not reproduced in this report is available from the joint study website:

www.transtasman-review.pc.gov.au

www.transtasman-review.productivity.govt.nz

Supplementary papers:

- A: Trade in goods
- B: Transport services
- C: Foreign direct investment
- D: People movement
- E: Economy-wide modelling of economic integration
- F: Mutual recognition of imputation credits
- G: Modelling the effects of mutual recognition of imputation credits

Abbreviations and explanations

Abbreviations

AANZFTA	ASEAN-Australia-New Zealand Free Trade Agreement
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACTU	Australian Council of Trade Unions
ANZCERTA	Australia New Zealand Closer Economic Relations Trade Agreement
ANZEA	Australia New Zealand Economic Analysis model
ANZLF	Australia New Zealand Leadership Forum
ANZSOG	Australia and New Zealand School of Government
ANZTPA	Australia New Zealand Therapeutic Products Agency
APRA	Australian Prudential Regulation Authority
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
BIE	Bureau of Industry Economics
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CER	Closer Economic Relations
COAG	Council of Australian Governments
CPM	Carbon Price Mechanism
DIAC	(Australian) Department of Immigration and Citizenship
EU	European Union
FDI	Foreign Direct Investment
FSANZ	Food Standards Australia New Zealand
GDP	Gross Domestic Product
GNI	Gross National Income
GTAP	Global Trade Analysis Project model

HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Program
JAS-ANZ	Joint Accreditation System of Australia and New Zealand
MFN	Most Favoured Nation
MRIC	Mutual Recognition of Imputation Credits
NOLS	National Occupational Licensing System
NZCC	New Zealand Commerce Commission
NZCTU	New Zealand Council of Trade Unions
NZETS	New Zealand Emissions Trading Scheme
NZIER	New Zealand Institute of Economic Research
NZ PC	New Zealand Productivity Commission
NZS	New Zealand Superannuation
OECD	Organisation for Economic Cooperation and Development
PC	(Australian) Productivity Commission
PMC	Passenger Movement Charge
PTA	Preferential Trade Agreement
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RIA	Regulatory Impact Analysis
RoGS	Report on Government Services
RoO	Rules of Origin
SAM	Single Aviation Market
SCV	Special Category Visa
SEM	Single Economic Market
TTCBS	Trans-Tasman Council on Banking Supervision
TTMRA	Trans-Tasman Mutual Recognition Arrangement
TTOIG	Trans-Tasman Outcomes Implementation Group
TTTA	Trans-Tasman Travel Arrangement
VET	Vocational Education and Training
WTO	World Trade Organisation

Explanations

F1.1

Findings are set out in the body of the report, as this is.

R1.1

Recommendations are set out in the body of the report, as this is.

Glossary

Agglomeration economies	A decrease in costs arising from the co-location of firms and/or people. For example both employers and labour benefit from markets with more potential employees and jobs. Cities form and grow to exploit economies of agglomeration.
Airline designation	An airline is designated under an air services agreement if it meets certain provisions intended to restrict the benefits of the agreement to the airlines of the signatory countries.
Air services agreement (ASA)	An agreement between governments regulating international air services between their countries. The agreement sets out the terms and conditions under which airlines can fly.
Allocative efficiency	How well resources are allocated across different uses so as to generate the greatest community wellbeing at a given point in time.
Anti-dumping system	An anti-dumping system seeks to counter the effects of 'dumped' or subsidised imports on competing domestic industries. Dumping occurs when an overseas supplier exports goods to a country at a price below the normal value of the goods in the supplier's home market.
At the border barriers	Measures that create transaction costs at the border. These commonly include tariffs, customs duties, biosecurity measures, and taxes and other levies on goods.
Australia New Zealand Economic Analysis (ANZEA) model	A global general equilibrium model derived from the GTAP model (see below) and database. It is simpler than the GTAP model, and is used to illustrate the economic implications (such as changes in prices, output and economic welfare) of integration.

Behind the border barriers	Barriers to trade that operate inside a country, including: costs of complying with domestic regulation such as labelling requirements; or restrictions on foreign companies' operations and investment.
Benchmarking	Identification and analysis of policies and processes that are leading practice in order for jurisdictions or organisations to learn from one another.
Between the border barriers	Barriers that increase the transaction costs involved in moving a good or service between two countries. These barriers relate mostly to transport costs and may include regulations that protect shipping or air services from competition.
Cabotage	In the context of air services and shipping, cabotage refers to the reservation of a country's domestic trade — that is trade directly between domestic ports — for operators from that country.
Dynamic efficiency	How well resources are allocated to achieve the greatest possible community wellbeing over time.
Economies of scale	A decrease in the cost of production per unit of output as the volume of production increases.
Franked dividend	Payments by a company to shareholders on which the company has already paid tax. These payments carry imputation (also known as franking) credits.
Freedoms of the air	The basis of rights exchanged in air services negotiations, allowing designated airlines to fly to, from, beyond and between bilateral partners and other countries.
Global Trade Analysis Project (GTAP) model	A global computable general equilibrium model based on assumptions of perfect competition and constant returns to scale. The model can be used to analyse the economic effects of policy changes.
Imputation credit	A credit received by shareholders for the tax that has already been paid on their dividends by the issuing company. Also known as franking credits.

Liner shipping	A shipping service that provides carriage for general cargo, in regularly scheduled services, between specified ports. Liners typically transport goods in modular containers.
Māori terms	<p><i>Hapū</i>: kinship group, clan, tribe, or subtribe (section of a large kinship group).</p> <p><i>Mana</i>: prestige, authority, control, power, influence, status, spiritual power, charisma; as well as jurisdiction, mandate, or freedom.</p> <p><i>Marae</i>: courtyard – the open area in front of the <i>wharenuī</i> (meeting house) where formal greetings and discussions take place. Often also used to include the complex of buildings around the <i>marae</i>.</p> <p><i>Tino rangatiratanga</i>: self-determination.</p> <p><i>Tohunga</i>: a skilled person, chosen expert or priest. A person chosen as a leader in a particular field.</p> <p><i>Whānau</i>: extended family or family group.</p>
Most favoured nation (MFN) status	Allows the recipient country to receive trade advantages no less than those received by the ‘most favoured’ trading partner. This ensures that no country receives preferential treatment.
Mutual recognition	Recognising compliance with another jurisdiction’s laws or regulations. For example, under mutual recognition, if a product meets sale requirements in one jurisdiction it can be sold in the other jurisdiction without needing to meet that jurisdiction’s regulatory requirements.
National treatment	Foreign goods, services and factors are granted the same treatment under government provisions as those of domestic goods, services and factors. Departures from national treatment discriminate against foreign suppliers.
Occupational licensing	A system which controls entry and standards of practice within a particular occupation to those that meet a set of requirements or guidelines.

Preferential trade agreement (PTA)	An agreement to lower (not necessarily eliminate) tariffs and other barriers to trade among the countries party to the agreement. PTAs usually include clauses that affect trade in goods and services, as well as investment.
Prudential regulation	Regulation on the operations of deposit-taking institutions such as banks, superannuation funds and other financial organisations, including insurance. Prudential regulations are designed to manage risks in the financial system, including ensuring the safety of depositor funds and the stability of the financial system.
Quantitative restrictions	Limits on the physical amounts of particular commodities that can be imported by a country.
Ratemaking agreements	International liner shipping agreements that include agreement to set or manage freight rates on a route and/or to limit capacity in order to raise rates above what they would be in the absence of the agreement.
Regulatory harmonisation	Alignment of differing regulations across jurisdictions. Regulatory harmonisation does not necessarily mean regulations are identical in each jurisdiction, but that they are consistent or compatible to the extent they do not result in barriers to trade, investment or labour mobility. Harmonisation is a more integrated method of regulatory coordination than mutual recognition, which recognises compliance across jurisdictions.
Rules of Origin (RoO)	Rules of Origin are used to define where a product was made and determine whether it qualifies for preferential treatment in the context of a PTA.
Sensitive land	Land of a particular type, such as farm land, that exceeds a particular area threshold, as detailed in New Zealand's <i>Overseas Investment Act 2005</i> .
Seventh freedom rights	The right given to a designated airline to carry freight and passengers between two countries by an airline of a third country on a route with no connection in its home country.
Structural adjustment	Compositional shifts in the economy, such as changes in the relative size of industries, characteristics of the workforce and in the size and mix of activities within regions.

Trade creation	A trade increase between partners in a PTA as a result of a preferential lowering of trade barriers.
Trade diversion	A decrease in imports between a PTA partner and third countries. This occurs when a tariff preference induces a PTA country to shift imports from a low cost third country supplier to a higher cost supplier from its PTA partner.
Transaction costs	The costs involved in exchange, such as transport costs, taxes, costs of regulatory compliance, and administrative costs.

Overview

Key points

- The Australian and New Zealand economies have become closely integrated, beyond what could be expected with any third country. This has been facilitated by institutional, legal and cultural similarities, as well as geographic proximity.
- Closer Economic Relations (CER) initiatives have contributed significantly to trans-Tasman integration over the past 30 years. Tariffs and quantitative restrictions have been eliminated on virtually all goods traded between the two countries; people move freely across the Tasman; and the CER agenda has expanded into new areas, such as services trade and behind-the-border regulatory barriers.
- The Commissions' assessment is that CER has produced benefits overall for Australia and New Zealand, even though evidence is limited in some areas.
- Barriers to further integration remain and new issues will emerge. Addressing them is becoming more challenging, as the focus shifts to more complex areas, including the regulation of services.
- To ensure that integration policies make the biggest contribution to both economies, future CER initiatives should continue to: be outward looking; take account of linkages with other agreements; and complement domestic policy improvement.
- A 'direction of travel' towards a single economic market has been characterised by Prime Ministers in terms of a seamless market in which people and businesses can have a 'domestic-like' experience in either country. How far Australia and New Zealand go in this direction should emerge from good public policy processes focused on the achievement of net benefits.
- This scoping study identifies more than 30 initiatives to promote beneficial integration. Most address regulatory barriers to services trade and commercial presence, and some remaining impediments to integration in goods, capital and labour markets.
- Some of these initiatives will require more detailed consideration.
- There is further potential for each government to cooperate with and learn from the other in policy development, service delivery and regulatory approaches.
- Current governance approaches for CER are informal and flexible, and appear reasonably effective. This scoping study identifies some opportunities for improvement.

Overview

The year 2013 marks the 30th anniversary of the historic Closer Economic Relations (CER) agreement between Australia and New Zealand. The close relationship goes back much further, with people moving freely across the Tasman since colonial times. Integration has increased over the past three decades, with trade, investment and people movement yielding benefits for both countries.

Personal ties are extensive and deep, with some 480 000 New Zealand-born people living in Australia and around 65 000 Australian-born people living in New Zealand. The two countries have similar political, legal and economic institutions, as well as language and culture, leading to a relationship that the two Prime Ministers have recently described as being 'like no other' (Key 2011) and 'family' (Gillard 2011a).

The CER agreement has a more prominent place in New Zealand than in Australia. More than half of New Zealand's foreign direct investment comes from Australia and Australia is New Zealand's largest export market. Australia's economy is over seven times the size of New Zealand's, so the commercial significance of New Zealand for Australia is smaller. New Zealand is nevertheless a major market for Australia's manufactured exports and tourism industry, and Australians hold investments in New Zealand worth around A\$74 billion.

Against this backdrop, the Prime Ministers requested that the two Productivity Commissions jointly conduct a 'scoping study' to identify further initiatives to strengthen the trans-Tasman economic relationship and improve economic outcomes. The Commissions were asked to identify initiatives where joint net benefits would be highest and how they might best be implemented, noting any potentially significant transition and adjustment costs.

Tables at the end of this overview outline the Commissions' proposals for strengthening economic relations between Australia and New Zealand. The Commissions scoped a wide range of issues and focused on those most likely to offer joint net benefits. The broad scope of the study has inevitably limited the feasibility of undertaking an in-depth analysis of all the areas identified. Some of these will need more detailed consideration.

While the Commissions have used filtering criteria to identify the most promising initiatives, ranking reforms according to their likely joint net benefits is difficult to do with precision in such a broad-ranging scoping study. Indeed, feedback on the two grade star rating of recommendations in the draft report suggested that it would be of limited value for determining priorities for a future integration agenda. Moreover, no recommendations stand out in terms of providing markedly higher likely benefits, although some will obviously be more significant. The star rating system has therefore been removed from the final report. The packaging of initiatives into a coherent forward agenda that benefits both countries is primarily a matter for political judgment.

What has been achieved?

The genesis of CER was a meeting of Prime Ministers Fraser and Muldoon in Wellington in 1980, where it was agreed that, as the Australian Prime Minister expressed it:

If the two countries can cooperate more closely in their own trading relationship, with each concentrating on what it can do best, it will help both countries to grow stronger and to compete in wider markets. We agreed in Wellington that any closer economic relationship must be outward-looking ...

The early years of CER saw major changes. Notably, tariffs and quantitative restrictions were eliminated on virtually all goods traded between the two countries by 1990, five years ahead of schedule. The CER agenda was extended from its initial focus on merchandise trade to cover trade in services, business regulation, taxation and government procurement. Provision was also made for greater cooperation between government agencies and engagement of New Zealand officials in meetings of the Council of Australian Governments (COAG). By 2004, these extensions were encompassed in the ambition of creating a 'single economic market' in which businesses, consumers and investors could operate 'seamlessly' across the Tasman.

Generally, economic integration increases the size of markets, which enables countries to capture scale advantages and specialise in activities they do relatively well. Consumers benefit from lower prices and increased choice, as cheaper imports take the place of more costly domestically-produced goods and services within more competitive market settings. There are also increased transfers of knowledge. Labour mobility provides workers with a wider range of employment opportunities and creates flexibility in the economy to respond to structural shocks and cyclical changes.

Further, CER appears to have helped change opinions about trade protection for manufacturing and thereby paved the way for unilateral reductions in general tariffs, particularly in New Zealand. In this way, CER bilateral trade arrangements, unlike many other preferential arrangements, may have acted more as a ‘building block’ than ‘stumbling block’ in the pursuit of wider reform and economic integration.

Overall, there is sufficient evidence to conclude that CER has produced benefits for both Australia and New Zealand, even though there is uncertainty about the magnitudes.

Key themes in further integration

‘Closer’, but still politically separate

Geographic proximity and commonalities between the two countries have enabled governments to pursue economic integration beyond what could be expected with any third country, while preserving the national interests of both countries. Australia and New Zealand are separate countries: political union is not a live option and this rules out some higher forms of integration. In particular, proposals for a monetary union would take integration to the point where it started to generate net costs. Following the recent euro area experience, such proposals would in any case have little support today.

The political autonomy of the two countries has implications for the way the Commissions have applied ‘joint net benefits’ in this study (a term used interchangeably with net trans-Tasman benefits). The Commissions recommend policy initiatives which are likely to benefit both countries, even where the distribution of the benefits favours one country. They have made no attempt to rank recommendations on the basis of how these benefits would be distributed between or within each country. In cases where a policy initiative would provide joint net benefits, but would likely involve a net cost for one country, the Commissions report that finding for possible consideration by governments as part of a wider package of actions.

Deeper integration requires careful assessment

Implementing agreements to reduce behind-the-border barriers — typically regulatory in nature — is more complicated than reducing tariffs. Work programs

have taken many years in some cases. For example, the first consultation paper on establishing a joint therapeutic products agency was released in 2000, yet the new agency is not due to be operational until 2016. In other areas — such as a mooted merger of stock exchanges and the integration of banking supervision and competition policy regimes — deeper integration has not been achieved.

In contrast, there is an ambitious agenda and progress has been made for areas such as business law reform. Some existing initiatives may need to be revisited as circumstances change. However, as advances are made, new integration opportunities will become less obvious, and judgments will require well executed public policy analysis.

The ‘direction of travel’ matters more than the destination

The benefits and costs of integration initiatives alter as technology, preferences and other factors change. This means that the end point — in terms of the extent of economic integration that provides the largest net benefits — cannot be specified in advance. It should evolve with changing circumstances and be based on good public policy processes focused on the achievement of net benefits.

A set of principles, which provides a broad direction of travel for trans-Tasman integration, was endorsed by Prime Ministers in 2009. They point to a single economic market (SEM) characterised by features such as:

- substantively the same regulatory outcomes in both countries, achieved in the most efficient manner
- regulated occupations operating seamlessly between each country
- achieving economies of scale in regulatory design and implementation
- products or services supplied in one jurisdiction being able to be supplied in the other.

Importantly, the Prime Ministers specified that in moving towards a single economic market, policy initiatives would need to pass a cost-benefit test.

The history of the relationship shows that it is better to anchor the future of CER and SEM in sound governance arrangements that can quickly and effectively identify and address issues as they arise, than in a vision.

The bigger regional picture is important

CER should remain outward-oriented, and not become too narrowly focused on the bilateral relationship. This was recognised by the original architects of CER — they understood that it should not get in the way of either country securing beneficial wider integration opportunities.

The fact that multilateral efforts to promote trade liberalisation have lost momentum reinforces the need to consider trans-Tasman integration in a regional and global context. That means generally avoiding actions that would impede trade or investment with other countries and being alert to opportunities to extend trans-Tasman initiatives into broader regional and multilateral fora.

Future trans-Tasman economic integration needs to fit well with the broader challenges and opportunities presented by the ‘Asian century’. Asia accounts for one third of global GDP, double what it was 50 years ago. The continued rise of Asia presents important opportunities for both countries — with benefits that potentially greatly outweigh those on offer through further trans-Tasman integration, significant though these may be. The best way for the two governments to position their economies to benefit from the ‘Asian century’ will be to enhance their productivity and competitiveness.

Domestic policy has trans-Tasman effects

Closer economic integration is one potential source of productivity gains. Larger gains, however, will come from domestic policy and regulatory reforms. Policy actions by one country to increase national income also bring benefits to the other country, through trade and investment. For example, for every 1 percent expansion in Australia’s economy, New Zealand’s exports are estimated to increase by 0.2 percent and its economy to expand by nearly 0.1 percent.

Domestic productivity improvements that are encouraged by good policy in one economy often place competitive pressures on the other. Greater openness to trade and in capital and labour markets by one party can expose rigidities that impede adjustment and thus put pressure on the other government to address these.

Good process matters

Advancing the integration agenda will require good policy processes — both for selecting those initiatives that are likely to generate the largest net benefits and for

avoiding any that would be costly or too difficult to implement. In order to make the biggest contribution to both economies, CER initiatives should: continue to be outward looking; not impede trade opportunities with other partners; take account of linkages with other agreements; and complement initiatives to enhance domestic policy. Analysis of integration policy initiatives needs to take into account the indirect as well as direct costs and benefits, be proportionate to the importance of the issue being addressed, and be publicly available.

Scoping the future CER agenda

Opportunities to strengthen trans-Tasman economic ties can be classified using a framework based on what the European Union has termed the ‘four freedoms’ — relating to trade in goods and services, and the movement of capital and labour. Knowledge transfers and the integration or interaction of government functions are also considered.

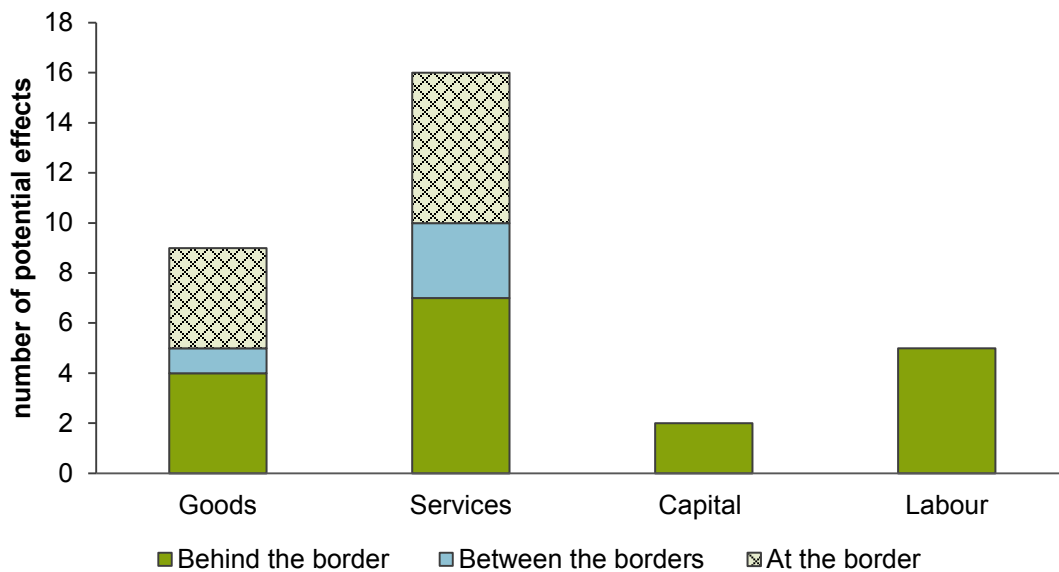
This study focuses on areas where there are unnecessary barriers to integration — whether created intentionally or unintentionally. They may arise between the borders of Australia and New Zealand (typically affecting international transport costs); at the border of one or both countries (for example, tariffs and biosecurity restrictions); and behind their borders.

The last category refers to situations where countries take different approaches to domestic regulation, which may add to the cost of doing business across the countries. Often, this arises because foreign providers are not afforded national treatment; that is, they are not treated as if they were domestic firms. Of the 28 specific initiatives considered in this study, most involve impediments to trade in services (figure 1). Behind-the-border regulation looms particularly large.

The Commissions’ proposals fall into three categories. First, initiatives to which both Governments have committed and are currently underway. These should be completed as soon as possible. Second, recommendations for new CER initiatives assessed by this study to offer net benefits for both countries. Third, recommendations that further work be done to determine an appropriate course of action.

The tables at the end of this overview list the Commissions’ findings and recommendations and indicate where they are dealt with in the report. Some of the more significant proposals are summarised below.

Figure 1 Areas potentially affected by recommendations^a



^a Number of areas substantially affected by the recommendations identified in chapter 4. Some recommendations are likely to affect more than one area.

‘First freedom’: trade in goods

The main remaining impediment to merchandise trade between Australia and New Zealand is the cost of CER ‘rules of origin’. Waiving these for all items where tariffs are no greater than 5 percent would reduce compliance and administrative costs for a significant proportion of trans-Tasman trade. This reform could be built on by reducing the few remaining tariffs that exceed 5 percent to that level.

‘Second freedom’: trade in services

A CER Protocol supports free trade in most services, but excludes some — more in Australia than in New Zealand. The current review of these exclusions should be completed and published. Exclusions should be removed unless retention is shown to generate net benefits.

Reducing transport and telecommunication costs would facilitate trade across the Tasman. While the trans-Tasman air route is already quite competitive, two remaining regulatory barriers to competition could usefully be removed. For shipping, the exemption of ocean carriers from key parts of competition regulation is no longer necessary and removing it would generate gains. Australia has followed a different path from New Zealand in regulating coastal shipping. When reviewing the restrictions on coastal shipping, the Australian Government should

adopt a broad cost-benefit framework and draw on the experience of New Zealand with its different regulatory approach.

Moves towards a more integrated telecommunications market raise complex issues. While the regulatory frameworks across the Tasman seem reasonably aligned, some remaining differences require closer examination. Governments should consider regulatory barriers to trans-Tasman trade in telecommunication services and options for their removal as part of future reviews of their respective telecommunications regulations. A joint departmental investigation into trans-Tasman mobile roaming markets has found evidence of limited competition and high prices. Governments have announced that they will respond to the final recommendations of the joint investigation when they are released at the end of this year.

‘Third freedom’: capital flows

The main areas of interest are foreign direct investment, taxation, banking and insurance.

The two Governments should implement the investment protocol they signed in 2011, which increased the thresholds for screening trans-Tasman investment. There would be further benefits from extending this protocol to lessen the remaining investment restrictions in ‘sensitive’ areas, given the closeness of the two countries.

An issue of greater concern to most business participants is that companies are not allowed imputation credits on trans-Tasman investment, meaning company income is taxed twice in the hands of an individual if it crosses the Tasman. This issue has been debated for more than 20 years, signalling the complexities and judgments involved.

Mutual recognition of imputation credits (MRIC) could expand investment across the Tasman and bring efficiency gains. It could also lead to net income transfers between Australia and New Zealand, which are likely to be larger than the efficiency gains.

A possible outcome is for one country to experience a loss in its gross national income (GNI) — an indicator of community welfare that measures the income of a country’s residents — at the same time that there is a greater gain for the other, leading to a trans-Tasman gain overall.

Principally because Australian investment in New Zealand is larger than New Zealand investment in Australia, Australian income transfers to New Zealand

would probably be greater than transfers the other way, and Australia is likely to be made worse off. It is possible that both Australia and New Zealand's GNI would rise, but this would require markedly asymmetric investment responses.

The two governments should announce either a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure a satisfactory distribution of the gains from MRIC; or that MRIC will not go ahead if they consider that such a mechanism is infeasible.

In relation to banking, the two countries have adopted some differences in approach to prudential supervision. This area of regulation is evolving rapidly, with an existing trans-Tasman forum well placed to assess integration opportunities.

‘Fourth freedom’: people movement

There are opportunities to reduce the costs and complications of trans-Tasman travel through wider implementation of SmartGate arrangements at the border, and development of a trans-Tasman tourist visa for foreigners visiting both countries.

A high degree of integration in the trans-Tasman labour market has been an historical fact and should continue. The current arrangements provide for an efficient matching of people to job opportunities across the two countries.

However, when people move to job opportunities in the other country their residency status changes and they face different policies for welfare supports, access to services and in taxation systems and voting rights. The Commissions are not recommending integration of welfare, taxation or citizenship policies. However, the Australian and New Zealand Governments should provide clearer and more accessible information to prospective migrants, new arrivals and long term residents about their responsibilities and entitlements in their destination country. This would enable people to make better informed decisions about seeking work in the other country.

The Governments could also achieve better alignment of policies that impact on the trans-Tasman labour market by addressing significant negative outcomes for long term residents and any substantive issues for temporary residents.

There are taxation issues, particularly for workers who move back and forwards between the countries and for businesses employing such workers. There are also issues about access to public services and assistance for New Zealand citizens who have been in Australia for many years, many of whom have paid taxes for years. These mainly centre on long term resident non-Protected Special Category

Visa holders and include: limited pathways to Australian permanent residence and citizenship; no access to student loans for their children; and restricted access to some social security payments and other supports. Addressing these would require policy changes by the Australian Government, including:

- developing a pathway for New Zealand citizens living long term in Australia to achieve permanent residency and/or citizenship
- improving access for New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions
- together with the New Zealand Government, reviewing, and making more explicit, the principles governing access to social security and further developing bilateral engagement on migration policies, within the context of CER, the single economic market and the Trans-Tasman Travel Arrangement.

This would continue a tradition of pragmatic responses to problems that have arisen historically in respect of the trans-Tasman relationship.

Benchmarking government and regulatory services

There is considerable cooperation between the public sectors of Australia and New Zealand. This has developed organically as opportunities have emerged. It can improve regulatory outcomes and reduce the cost of providing government services. The two Governments should ensure that their agencies consider opportunities for further cooperation on a case-by-case basis. Additional performance benchmarking of government services and regulation could identify scope for improved service delivery and regulation, and enhance diffusion of best practices across the Tasman.

Making it happen

The areas identified for further policy action vary in their significance, complexity and timescales (see summary list in tables below). Some proposals require more in-depth examination than has been practical in a scoping study of this breadth. This report should assist governments in assessing priorities and sequencing policy actions. Effective ongoing management of the agenda will be crucial.

Current approaches to CER governance are informal and flexible, and appear reasonably effective thus far. However, there are opportunities for improvements through:

- clearer leadership and oversight of CER, including of issues relating to the trans-Tasman labour market and associated movement of people
- requiring new regulatory proposals to account for trans-Tasman implications, where relevant
- identifying and taking opportunities for coordinated action in the quest for greater and better regional and multilateral integration
- formal five-yearly public reviews of CER's direction and achievements.

Conclusion

The 30th anniversary of CER is an opportunity to acknowledge its considerable achievements since 1983 and to reflect on future opportunities to strengthen the trans-Tasman relationship. The depth and breadth of the achievements of the first 30 years of CER make the task of defining a new agenda a challenging one. Nevertheless, the Commissions consider that the recommendations outlined in this report will help to maintain the vibrancy of the relationship and set it up to deliver further benefits to both countries over the coming years.

Findings and recommendations

Table 1 Findings

<i>Findings</i>	
F2.1	The seven Single Economic Market principles, announced by the Prime Ministers in 2009, provide a useful direction of travel for future CER initiatives.
F2.2	Analysis of integration policy initiatives should take into account both direct and indirect costs and benefits, be proportionate to the importance of the issue being considered, and be publicly available.
F2.3	Joint net benefits will be increased if policy initiatives are: outward looking; generally do not impede profitable exchange with other trading partners; take account of linkages with other agreements; and are consistent with domestic policy improvement over time.
F4.1	Mutual recognition of imputation credits (MRIC) would be expected to result in a more integrated capital market and improve trans-Tasman economic efficiency. However, MRIC would lead to a greater fiscal cost for Australia than New Zealand and to some income transfers between Australia and New Zealand. Australian transfers to New Zealand could be expected to be greater than transfers the other way, although their precise magnitude is impossible to predict. A probable outcome would be a net income loss for Australia.
F4.2	The Trans-Tasman Council on Banking Supervision is well positioned to progress any work relating to the further integration of Australian and New Zealand prudential regulation.
F4.3	The prerequisite conditions for a trans-Tasman monetary union do not exist.

Table 2 Recommendations — Initiatives underway

<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.1 The remaining outcomes in the business law single economic market program should be completed on time, unless it can be demonstrated that they would no longer generate net benefits.	Some of the business law reforms are behind schedule. Delivering the program on time will reduce compliance costs, deepen markets and increase competition.	Short term
R4.2 The Australian and New Zealand Governments should proceed with the implementation of a single application and examination process for patents. The trans-Tasman intellectual property reforms, particularly those relating to patents, should be evaluated within three years of implementation.	There are potential operational benefits from closer collaboration between the Australian and New Zealand intellectual property offices.	Short term
R4.3 The Australian and New Zealand Governments should give priority to implementing those recommendations of the Australian Commission's 2009 review of the Trans-Tasman Mutual Recognition Arrangement that were accepted by Governments.	Encourage occupational licensing systems that facilitate the efficient movement of labour within and across the two countries.	Short term
R4.4 Governments should publish a progress report on implementing accepted recommendations of the 2009 review of the Trans-Tasman Mutual Recognition Arrangement before the next review, scheduled in 2013.	The progress of all Australian governments and the New Zealand Government in implementing recommendations from a previous review of mutual recognition is not transparent.	Short term
R4.5 Australian and New Zealand occupational regulators should share knowledge and lessons in developing efficient and effective occupational licensing systems. Relevant Australian and New Zealand regulators should be included in consultations around the development of national occupational licensing systems in the other country.	As occupational licencing is a significant entry point into the trans-Tasman labour market, it is in the interests of both Governments to cooperate and monitor changes in the other country's systems.	Ongoing
R4.6 Given the long time it is taking to set up the Australia New Zealand Therapeutic Products Agency, the Australian and New Zealand Governments should publish regular progress reports. Once the Agency has been established, the Governments should review the lessons for other potential regulatory harmonisation initiatives.	A single trans-Tasman regulator could reduce costs of regulation and increase technical capability. It would also provide useful lessons for other areas of potential harmonisation.	Short to medium term
R4.7 The CER Investment Protocol should be enacted as soon as practicable.	The Protocol should reduce administrative costs for government and compliance costs for firms, and improve capital allocation.	Short term

Table 3 Recommendations — Proposed initiatives

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.8	<p>The Australian and New Zealand Governments should:</p> <ul style="list-style-type: none"> • waive CER Rules of Origin for all items for which Australia’s and New Zealand’s Most Favoured Nation tariffs are at 5 percent or less • consider reducing any tariffs that exceed 5 percent to that level. 	Savings in administrative and compliance costs for government and business and improved resource allocation.	Short to medium term
R4.9	Where cost effective, quarantine and biosecurity agencies in Australia and New Zealand should continue to develop common systems and processes, and enhance their joint approach to risk analysis.	Benefits through sharing of information and resources.	Ongoing
R4.10	The Australian and New Zealand Governments should complete the review of the exclusions from the Trade in Services Protocol, to consider whether retaining each exclusion would generate net benefits. The review should be published.	The removal of exclusions has the potential to generate benefits from enhanced trans-Tasman competition. Exclusions have not been reviewed since 2008.	Short term
R4.11	The Australian and New Zealand Governments should remove the remaining restrictions on the single trans-Tasman aviation market.	Maintain (already significant) competitive pressure in the trans-Tasman air services market.	Short term
R4.12	<p>The Australian and New Zealand Governments should:</p> <ul style="list-style-type: none"> • ensure that the objective of air services policy is explicitly directed at promoting net benefits for the community • pursue the most liberal air services agreements possible, by negotiating reciprocal open capacity and all air freedoms, including cabotage where appropriate • revise designation and ownership requirements. 	Enhanced competition, lower airfares, and an expanded range of services.	Medium term
R4.13	The Australian Government should reconfigure the Passenger Movement Charge as a genuine user charge for border services. The New Zealand Government should review its border passenger charges to achieve full and transparent cost recovery, in line with existing arrangements for cargo.	Increased transparency, and potentially more equitable.	Short term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.14	The Australian and New Zealand Governments should remove — preferably on a coordinated basis — the exemption for international shipping ratemaking agreements from legislation governing restrictive trade practices.	Increased competition and potentially lower costs for businesses.	Short term
R4.15	When reviewing the restrictions on competition for coastal shipping, the Australian Government should adopt a broad cost-benefit framework and draw on the experience of New Zealand with its different regulatory approach.	Net benefits for the wider Australian economy and community, and may reduce trans-Tasman shipping costs.	Medium term
R4.16	Governments should undertake systematic monitoring, data collection and benchmarking of ports' performance in Australia and New Zealand, building on existing initiatives.	Identify opportunities to improve performance of ports and facilitate the diffusion of good practice.	Ongoing
R4.17	The Australian and New Zealand Governments should include in the next reviews of their respective telecommunications regulatory frameworks a term of reference to examine barriers to trans-Tasman trade in telecommunication services and options for their removal.	Identify beneficial opportunities to further harmonise telecommunications regulation.	Medium term
R4.18	The Australian and New Zealand Governments should consider removing remaining restrictions on trans-Tasman foreign direct investment. The policy rationale and the costs and benefits of any restrictions, including exceptions to national treatment left in place, should be made clear.	Further reduce the cost and uncertainty of trans-Tasman investment and more fully realise the benefits from the free movement of capital	Medium term
R4.19	The Australian and New Zealand Governments should either: <ul style="list-style-type: none"> • initiate a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure a satisfactory distribution of the gains from the mutual recognition of imputation credits (MRIC); or • if they consider that such mechanisms are infeasible, announce that MRIC will not go ahead. 	MRIC would be expected to improve trans-Tasman economic efficiency and result in a more integrated capital market. However, MRIC would lead to a greater fiscal cost for Australia than New Zealand and to some income transfers between Australia and New Zealand. A probable outcome would be a net income loss, of uncertain size, for Australia. A workable mechanism would need to address these imbalances and uncertainties.	Short term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.20	Taxation of non-resident employees should be considered when the double taxation arrangements between Australia and New Zealand are next reviewed.	Reduce compliance costs for businesses with employees active in both trans-Tasman jurisdictions.	Short to medium term
R4.21	The Australian and New Zealand Governments should progress the further roll out of SmartGate and associated systems where it is cost effective to do so, focusing on departures from Australia and major regional airports.	Extending availability of SmartGate would simplify customs and immigration checks for a larger number of eligible travellers.	Short term
R4.22	The Australian and New Zealand Governments should consider a 'trans-Tasman tourist visa' for citizens from other relevant countries who wish to travel to both countries. The charges for this visa should be based on a cost-recovery model, with agreed sharing of revenue and costs.	Reducing visa requirements may encourage foreign travellers to visit both countries on a trip.	Short term
R4.23	The Australian and New Zealand Governments should give clear and coordinated, whole-of-government advice to Special Category Visa holders in Australia, and New Zealand citizens contemplating residence in Australia, both before and after arrival, on their obligations and entitlements.	Better information would help New Zealanders contemplating a move to Australia understand the current provisions and plan accordingly.	Short term
R4.24	The Australian Government should address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.	Existing provisions have created anomalies in relation to a number of issues faced by non-Protected Special Category Visa holders living long term in Australia.	Short term
R4.25	The Australian Government should seek to improve access of New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions.	The existing arrangements compromise the opportunity to build skills and capabilities for an increasing number of young New Zealand citizens who have lived in Australia for many years.	Short term
R4.26	Within the context of CER, the Single Economic Market (SEM) and the Trans-Tasman Travel Arrangement (TTTA), the Australian and New Zealand Governments should: <ul style="list-style-type: none"> • review, and make more explicit, the principles governing access to social security 	Given the anomalies in current arrangements, there would be merit in reviewing the principles underpinning access to social security within the context of CER, the SEM and the TTTA.	Medium term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
	<ul style="list-style-type: none"> further develop bilateral engagement on migration policies. 	Further, in order to maintain the integrity of an integrated labour market, there would be advantages to both countries from working towards more aligned immigration policies.	
R4.27	The Australian and New Zealand Governments should encourage government agencies to consider opportunities for trans-Tasman coordination in service delivery and regulation on a case-by-case basis.	Greater coordination may reduce costs, encourage knowledge transfer, and increase technical capability.	Ongoing
R4.28	The Australian and New Zealand Governments should seek beneficial opportunities to undertake joint benchmarking. In particular, they should determine an appropriate approach for New Zealand to participate in the <i>Report on Government Services</i> produced under the auspices of COAG, and also in regulatory benchmarking studies undertaken in Australia.	Benchmarking can help identify opportunities for improvement and facilitate the diffusion of good practice.	Ongoing
R5.1	The Australian and New Zealand Governments should create clearer leadership and oversight of CER, including of issues relating to the trans-Tasman labour market and associated movement of people. The enhanced leadership and oversight should build on existing governance arrangements and the annual meetings of Prime Ministers and other Ministers.	Help maintain momentum of the CER agenda, while providing greater continuity, cohesion and foresight.	Short term
R5.2	Regulatory proposals at the national level should consider opportunities for trans-Tasman collaboration or alignment that would lower costs or deliver benefits for businesses and people active on both sides of the Tasman.	There may be opportunities to design changes in a way that lowers transaction costs for businesses operating across the Tasman.	Ongoing
R5.3	The Australian and New Zealand Governments should continue to identify and take opportunities for coordinated action to achieve beneficial regional and multilateral integration, and greater leverage in international rule making and standard setting.	There may be cases where coordinated action can lead to greater leverage in multilateral fora, including those related to international rule making and standard setting.	Ongoing
R5.4	The Australian and New Zealand Governments should undertake five-yearly public reviews of CER to take stock of what has been achieved and learnt, and to ensure that the agenda remains relevant and forward looking.	Reviews would provide an opportunity to focus on the broad CER agenda and learn from evaluation and research conducted in the interim years.	Ongoing

1 Introduction

Australia and New Zealand have distinct national identities and physical environments. They are also former British colonies, sharing much history and common endeavour. In the late 19th century they contemplated political union. While this did not eventuate, the two countries continue to have much in common, including in culture, institutions and values. And they are close geographically — Sydney being closer to Auckland than Perth. These factors have enabled them to develop a closer relationship than could be expected with any other country.

The Australian and New Zealand Governments have helped foster closer economic relations over a long period by reducing barriers to trade and investment, and facilitating free movement of people. The inaugural Closer Economic Relations (CER) agreement was signed in 1983 — the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). The economic integration agenda has continued to evolve over the past three decades.

Key features of the Australian and New Zealand economies are outlined in table 1.1.

1.1 What have the Commissions been asked to do?

At their annual leaders' meeting in January 2012, the Prime Ministers of Australia and New Zealand agreed that the Productivity Commissions of each country would jointly conduct a scoping study on strengthening trans-Tasman economic relations. The study is to identify reforms that would boost productivity, increase competitiveness and drive deeper economic integration between the two countries. The Commissions were asked to provide analysis on:

- potential areas of further economic reform and integration, including identifying those where benefits are likely to be most significant, with particular focus on critical issues for business, such as investment and productivity
- the economic impacts and benefits of reform
- any significant transition and adjustment costs that could be incurred

Table 1.1 **Country profiles — Australia and New Zealand^a**

	<i>Australia</i>		<i>New Zealand</i>
Land area			
	7 692 000 km ²		268 000 km ²
Population & 3 largest cities			
Australia	22 324 000	New Zealand	4 405 000
Sydney	4 610 000	Auckland	1 377 000
Melbourne	4 170 000	Wellington	393 000
Brisbane	2 150 000	Christchurch	381 000
Political system	Federation of states (6 states and 2 mainland territories) with the Parliament of Australia and most state parliaments being bicameral.		
	Unitary state with a unicameral parliament.		
Economic structure			
GDP (US\$ billion)	1 486		162
GDP PPP (US\$ billion):	914		122
GDP per person PPP (US\$)	40 234		27 668
<i>Contribution to GDP (%)</i>			
Services	80		79
Manufacturing	9		14
Mining	8		1
Agriculture, forestry & fishing	3		6
Exports			
Goods & services exports (US\$ billions)	324.8		46.5
Goods & services exports (% GDP)	22		29
Key goods exports (US\$ billions)			
Iron ore & concentrates	66.8	Milk powder, butter & cheese	9.0
Coal	48.7	Meat	4.3
Gold	15.7	Logs, wood & wood articles	2.5
Services exports (US\$ billions)	52.1		10.1
Trans-Tasman goods trade			
Trans-Tasman trade (% total trade)	3		23
Foreign direct investment (FDI)			
FDI stock in country (US\$ billions)	528.0		76.2
FDI stock abroad (US\$ billions)	352.7		19.5
Government sector			
Government expenditure (% GDP)	37		42

^a Data are for 2011 (population data are for June 2011; FDI data are for December 2011), except for government expenditure as a proportion of GDP and trans-Tasman trade data, which are for 2009. **GDP**: gross domestic product. **PPP**: purchasing power parity.

Sources: IMF (2012); OECD (2011c); RBA (2012); RBNZ (2012a); UN Comtrade database (2012); various Australian Bureau of Statistics and Statistics New Zealand publications.

-
- identification of reform where joint net benefits are highest
 - the means by which reforms might be best actioned
 - the likely time paths over which benefits are expected to accrue.

This report is to inform the next meeting of Prime Ministers, scheduled for early 2013. The terms of reference are included in the preface to this report.

The timing of this scoping study is noteworthy in at least two respects. First, it occurs in the lead up to the 30th anniversary of the ANZCERTA. This anniversary provides an opportunity to take stock of what has been achieved and what remains to be done, and to consider how developments in our region should influence further trans-Tasman integration. In particular, it is important to ensure that CER acts as a 'building block' to broader integration in what is becoming known as the 'Asian century' (Henry 2012).

Second, much of Europe is now going through an economic crisis. This crisis has complex causes, with one strand relating to the failure of economic integration to fully deliver on its promise (despite its evident successes). The European experience with economic integration, both positive and negative, can provide valuable lessons for Australia and New Zealand.

1.2 Strengthening economic relations

Government efforts to strengthen economic relations with other countries are commonly referred to as economic integration initiatives. A higher degree of integration could be expected to increase trade, and flows of capital and labour. Prices for goods, services and factors of production will tend to converge in two countries that are highly integrated, as the costs of exchange (or 'transaction costs') are lowered.

What should the policy objective be?

Increased economic integration expands the extent of markets, enabling countries to capture greater scale advantages and specialise in those things they do relatively efficiently. Resources ultimately shift to these activities and lower priced imports take the place of more costly domestically-produced goods and services. This is a dynamic process that encourages competition and innovation. Consumers benefit from lower prices and greater choice. The integration of labour

markets — a prominent feature of the trans-Tasman relationship — opens up opportunities for people to develop and apply their skills and earn higher wages.

Government efforts to promote economic integration can achieve these types of benefits, but there are potential costs. Aligning regulations can be complicated, administratively costly and politically difficult, and sometimes produces results that are not a good fit for local circumstances. Achieving greater specialisation can bring significant benefits, but can also involve adjustment costs. Moreover, where integration is pursued bilaterally — the focus of this scoping study — there is a risk that it will be at the expense of productive exchanges with other countries. Higher levels of integration, such as through a monetary union, also carry their own risks, as demonstrated by the recent European experience.

Accordingly, rather than promoting economic integration to the maximum extent possible, the policy objective should be to maximise the net benefits from integration, as implied by the terms of reference for this study.

What role for governments?

In market-based economies such as Australia and New Zealand, firms make their own decisions about whether to export to, or purchase inputs from, other countries. Likewise, individuals make independent purchasing decisions, often between domestic and imported goods and services. Individuals also decide whether to move to another country to work.

Accordingly, the main way that governments can promote integration with other economies is by making it easier and less costly to exchange goods, services and capital, and for labour to move internationally in response to economic opportunities. Governments have a more direct role in pursuing worthwhile opportunities to integrate government functions.

Examples of ways that governments promote economic integration include:

- lowering or removing tariffs and other measures that deliberately favour domestic production over imports
- removing regulatory barriers to competition, thereby encouraging greater market participation by both foreign and domestic firms
- aligning so-called ‘behind-the-border’ regulations more closely with those of other countries (for example, aligning product safety regulations), saving exporters the expense of tailoring production to comply with country-specific regulations

-
- pursuing higher levels of integration, by adopting common monetary or fiscal policies.

Governments directly influence the environment in which firms and individuals operate; however they are not the sole driver of economic integration. Geography, institutional and social/cultural factors, and the everyday operation of markets are also important. Markets can reduce transaction costs in many ways, including through innovation in communications, transport and logistics. For example, market-driven processes saw the costs of ocean freight fall by 80 percent (in real terms) between 1930 and 2000. This contributed to an uplift in trade and greater economic integration around the world. The costs of air passenger transport and international communications fell even further (OECD 2007).

Accordingly, economic integration should be seen as something that governments can choose to promote or inhibit, through actions that reduce or increase transaction costs for firms and individuals.

1.3 The Commissions' approach

The Commissions have been guided by the terms of reference and the 'scoping' nature of the study, while meeting the requirements of their enabling legislation (*Productivity Commission Act 1998 (Cwlth)*; *New Zealand Productivity Commission Act 2010*).

The Commissions' approach has centred on identifying opportunities for the Australian and New Zealand Governments to lower the costs of exchange in ways that generate net benefits. Often these opportunities involve modifying existing policies that either deliberately or inadvertently make transaction costs higher than they need to be.

Doing this has involved four main tasks:

- First, gleaning insights from the 30 year experience with CER to help guide the future integration agenda — being cognisant of the economic challenges and opportunities that lie ahead for Australia and New Zealand.
- Second, addressing unfinished business — CER initiatives to which both Governments have committed, but not yet completed. Issues include how to overcome delays to worthwhile reforms and identifying measures that should not proceed.
- Third, identifying new integration initiatives with the potential to generate net benefits across the two countries. There are many potential initiatives,

spanning the traditional four economic freedoms (as set out in the Treaty of Rome 1957) — freedom of exchange of goods, services, capital and labour — together with the free exchange of knowledge. To make this task tractable within the context of a scoping study, filtering criteria have been used to identify those options with the most potential. In some cases, sufficient evidence was obtained to make specific recommendations. In others, areas were identified that potentially offer net benefits, but further work is needed to identify the best way forward. ‘Directions of travel’ were identified for the economic relationship over the longer term.

- Fourth, as with all areas of public policy, implementation is important. The Commissions considered institutional and governance arrangements for managing the trans-Tasman economic relationship and what changes are warranted to advance the future agenda.

The terms of reference request the Commissions to identify reforms where joint net benefits are highest. While the coverage of the scoping study and the time available has made addressing all the issues raised in submissions infeasible, the Commissions have identified the most promising areas for reform on the basis of the available evidence on the breadth and depth of particular impediments to integration. However, comparing the joint net benefits of potential reforms in those areas is challenging in the context of a broad-ranging scoping study. The discussion draft trialled an indicative, two grade ranking of the relative importance of potential reforms, but feedback suggests that it would be of limited value for determining priorities for a future integration agenda. It has also become clearer in preparing this final report that no reforms are ‘stand outs’ in terms of likely net benefits. Given the resultant risk that formal rankings of joint net benefits would be of little value and may even be misleading, such rankings have not been included in this final report.

In any case, the packaging of initiatives into a coherent forward agenda that benefits both countries is primarily a matter for political judgment. Information on potential benefits and costs in each country that would arise from the different reforms, which can assist in such judgments, is included in the Commissions’ assessments, in chapters 4 and 5, and in the associated supplementary papers.

1.4 Conduct of the scoping study

The scoping study was announced at a meeting of the Prime Ministers of Australia and New Zealand, with the terms of reference being received on 14 March 2012.

The two Chairmen and Commissioners from each organisation led the study, supported by a cross-Commission team.

The study was advertised in national and metropolitan newspapers in both countries, and promoted on the Commissions' websites as well as on a joint study website. The Commissions engaged widely with stakeholders, drawing on input from participants through visits, roundtable discussions and written submissions. A technical modelling workshop on mutual recognition of company tax imputation credits was also held (appendix A).

Sixty submissions were received in response to the issues paper released in April 2012. A further 71 submissions were received in response to the discussion draft released in September 2012.

Quantitative modelling has been undertaken to provide insights relevant to various parts of the study. Economy-wide modelling has been used to illustrate the wider effects of economic integration.

Much of the detailed work undertaken for the study can be found in supplementary papers published on the study website.

The Commissions are grateful to participants in this study for meeting with Commissioners and staff, participating in roundtables and making written submissions.

2 Framework for trans-Tasman integration

Key points

- Economic integration is about freedom of exchange, and the consequential flows of goods, services, capital, technology, knowledge and people. Economic integration often involves removing or lowering barriers or distortions created by government policy. These barriers can be intended (for example, tariffs and restrictions on foreign direct ownership) or unintended (for example, compliance costs caused by differences in business regulation).
- Policies to encourage closer economic integration can improve the productivity of the Australian and New Zealand economies. Some policy initiatives can, however, impose net costs.
- The key question for this study, given the existing close economic relations between the two countries, is which opportunities for further integration can improve the wellbeing of Australians and New Zealanders.
- The Commissions' approach is to recommend policy initiatives that provide net benefits for both countries, even where the distribution of benefits favours one country. However, where a policy initiative provides benefits in aggregate, but is likely to have a net cost for one country, results are reported for possible consideration by Governments as part of a wider package of actions.
- The joint net benefits from further integration will be increased if policy initiatives are outward looking and generally do not impede profitable exchange with other trading partners. Initiatives should take account of linkages with other agreements and be consistent with domestic policy improvement.
- Analysis of integration initiatives should take into account both direct and indirect costs and benefits, should be proportionate to the importance of the issue being considered, and be publicly available.
- A 'direction of travel' towards a single economic market has been characterised by Prime Ministers in terms of a seamless market in which people and businesses can have a 'domestic-like' experience in either country. How far Australia and New Zealand go in this direction should emerge from good public policy processes focused on the achievement of net benefits.
- The services sector is likely to be a key part of the future integration agenda, given its significance to both economies and common policy objectives in many areas.

Australia and New Zealand are closely integrated, both economically and socially. Personal ties are extensive and deep with more than 40 000 flights across the Tasman each year, around 480 000 New Zealand-born people living in Australia, and around 65 000 Australian-born people living in New Zealand.

Commercially, Australia is New Zealand's single largest export market and more than half of foreign direct investment (FDI) in New Zealand comes from Australia. As Australia's economy is over seven times the size of New Zealand's (on a purchasing power parity basis), the commercial significance of New Zealand for Australia is smaller but nonetheless important. For example, New Zealand is a significant market for Australia's manufactured exports and Australians held investments in New Zealand worth about A\$74 billion in 2010.

There is considerable cooperation between government agencies. The two countries have similar political, legal and economic institutions, share the same language and have cultural similarities, leading to a relationship that New Zealand's Prime Minister describes as being 'like no other' (Key 2011) and Australia's Prime Minister describes as 'family' (Gillard 2011a).

Governments provide the framework within which people and businesses make integration happen. In the case of Australia and New Zealand, this framework consists of many agreements and a commitment to a single economic market agenda. Although 'the ditch' is a natural impediment to trans-Tasman integration, falling transport costs and new communication technologies are reducing its significance.

The key question for this study, given the existing close economic relations between the two countries, is which opportunities for further integration can improve the wellbeing of Australians and New Zealanders.

This chapter describes the benefits from economic integration in general and from further integrating the Australian and New Zealand economies in particular. There are also costs that need to be accounted for or managed. Finally, the chapter sets out a conceptual framework to help ensure that policy initiatives to promote further integration maximise the *net* benefits — the difference between benefits and costs — that closer integration can bring.

2.1 Economic integration and the role of government

Defining integration

‘Economic integration’ is about the freedom of exchange of goods, services, capital, technology, knowledge and people between countries. All else equal, such integration expands as transaction costs are reduced (box 2.1).

Benefits from economic integration include greater trade and increased mobility of labour, capital and knowledge, which in turn can generate benefits from specialisation and economies of scale.

There are commercial incentives in markets to reduce transaction costs in a myriad of ways — including through innovation in communications, transport and logistics, through information and insurance markets, by adapting institutions including firm structures (such as multinationals), and through agglomeration.

How governments influence integration

Government policies influence transaction costs, thereby facilitating or hindering economic integration. Governments can intervene: between the borders of two countries through mechanisms that affect transport costs; at the border, by imposing barriers such as tariffs; and behind the border through, for example, consumer protection and food safety regulations, which affect market access for foreign producers. Table 2.1 provides examples of where such barriers might affect the movement of goods, services, capital and labour. There may also be impediments to knowledge transfers and to productive interactions between government organisations and services.

Box 2.1 **Transaction costs: why borders matter**

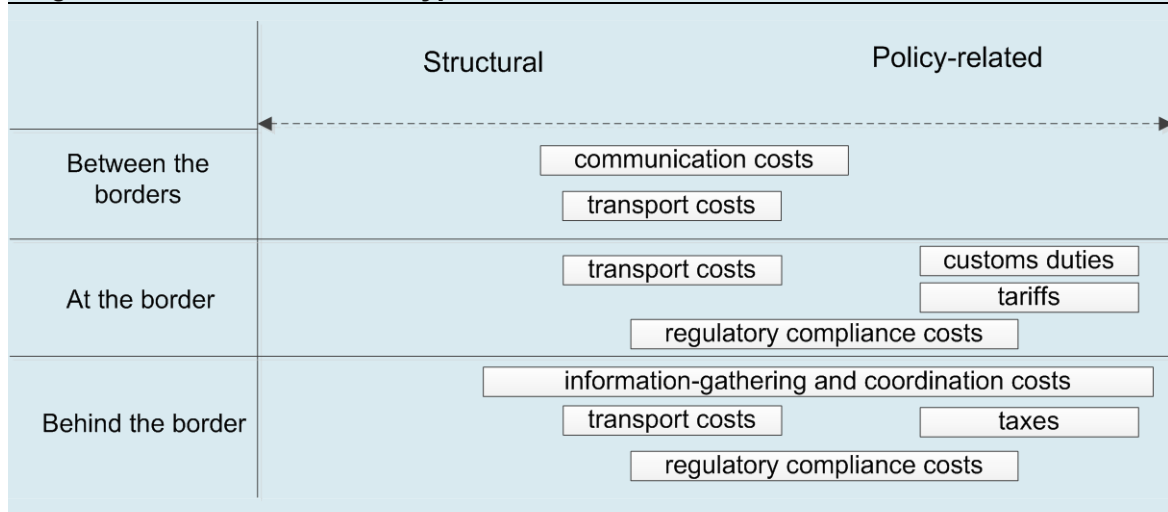
In the context of economic integration between countries, transaction costs refer to costs which are incurred in trade, or the movement of resources across borders. They include a variety of costs ranging from transport and regulatory compliance through to information-gathering and coordination.

Transaction costs can be classified according to their causes — being either policy-related or structural — and where they occur relative to a particular border. The figure below is illustrative, allocating a selection of transaction costs according to whether they are mainly structural or policy-related.

(Continued next page)

Box 2.1 (continued)

Figure Transaction costs: types and determinants



The extent of transaction costs applying to trade across a border has been referred to as the ‘thickness’ of that border. Thinner borders enable closer economic integration. While governments may want to reduce some transaction costs to facilitate economic integration, they may also wish to preserve the benefits of borders — such as tailoring regulatory systems according to their economic characteristics and citizens’ preferences. Accordingly, governments are more likely to be able to reduce the thickness of borders with countries with which they have more compatible institutions and governance.

While policy-related transactions costs, such as tariffs, can be addressed directly by changing government policy, structural transaction costs resulting from geography and technology can only be influenced indirectly. For example, governments can improve transport efficiency by removing distortions in transport and infrastructure markets.

Source: World Bank (2009).

Government actions can affect transaction costs in three main ways.

- Governments can reduce transaction costs by providing the institutional and legal platforms required for well-functioning markets, including the rule of law (to enforce contracts) and a robust system of property rights. These platforms can extend across national borders; for example, linking countries’ intellectual property regimes (discussed in chapter 4).
- Some government policies, whether deliberately or inadvertently, increase transaction costs, impeding exchange and distorting economic activity without correcting a market failure. Such policies — for example, tariffs and other trade barriers — unambiguously reduce efficiency and community wellbeing.

Table 2.1 Organising framework, with illustrative impediments

<i>Type of exchange</i>	<i>Point at which impediment occurs</i>			
	<i>Between-the-borders regulation</i>	<i>At-the-border regulation</i>	<i>Behind-the-border regulation</i>	
			<i>Lack of national treatment</i>	<i>Other</i>
Goods	Maritime and air transport costs	Tariffs and non-tariff barriers	Bias in government procurement	Consumer law
Services				
<i>Mode 1: Cross-border trade</i>	Post and tele-communications costs		Bias in government procurement	
<i>Mode 2: Consumption abroad</i>	Transport costs	Migration laws		
<i>Mode 3: Commercial presence</i>		Foreign investment laws	Ownership requirements	Impediments to establishment and operations
<i>Mode 4: Movement of persons</i>	Transport costs	Migration laws	Eligibility for government programs	Occupational licensing
Capital		Screening of foreign investment	Ownership requirements	Prudential regulation
Labour	Transport costs	Migration laws	Eligibility for government programs	Occupational licensing

- The third situation is more complex. When governments intervene to correct market failures, their intervention may increase transaction costs for domestic and foreign businesses and impede cross-border trade. If these interventions are efficiently implemented to address a clearly specified problem such as pollution, they will enhance community wellbeing even if they reduce trade. But if the transaction costs are unnecessarily high — say, because of poorly designed intervention — they may impede trade that could have benefited both countries.

Only case-by-case analysis can reveal whether reducing transaction costs has net benefits. Box 2.2 provides a hypothetical example.

Box 2.2 Different product safety standards that increase transaction costs: improved wellbeing or a barrier to integration?

Suppose that two countries have different product safety standards for electrical products. Exporters from the country with less stringent standards (A) have to redesign products for export to the other country (B). This is a transaction cost that may impede exports from country A to country B. But is this an economic problem?

One way to remove the cost of redesigning the product for different markets would be for the two countries to harmonise their safety standards at the more stringent level of country B. But this will increase the prices that domestic customers in country A will have to pay for electrical products, although they will benefit from a higher level of safety. Another approach, mutual recognition, would enable producers in country A to export to country B without redesigning their products. But this may expose consumers in country B to products with lower safety standards, although they may benefit from lower prices.

Whether to implement harmonisation or mutual recognition, or retain different standards in cases such as this, depends on factors such as: the extent of differences in attitudes and preferences; the number of firms operating in both jurisdictions; and the size of policy-related transaction costs.

The challenge for policy makers is to ensure that transaction costs are not excessive, and do not unduly impede the movement of goods, services, labour and capital across borders. The benefits of international trade are more likely to be achieved under these conditions. Countries are able to specialise in producing those goods and services in which they have a comparative advantage, firms can reap scale economies in production and there is increased dynamism in local industries that are no longer sheltered from international competitors. Knowledge is transferred more freely across borders, and capital and labour move to higher value uses.

These benefits, however, are associated with economic integration in general. This study is about economic integration between Australia and New Zealand. What are the potential benefits and costs of policies that focus on closer integration between Australia and New Zealand, in a world with other integration opportunities?

2.2 What are the potential impacts of trans-Tasman economic integration?

To provide a framework for assessing policy initiatives, this section sets out the potential benefits of bilateral integration and then the potential costs.

There are significant potential benefits

Specialisation and economies of scale

In small economies it is difficult to achieve scale economies by supplying only domestic markets. A free international trading environment enlarges markets, helping to overcome this problem. When there is free international trade, ‘the benefits of large country size fade away’ (Alesina and Spolaore 2005, p. 13), at least in relation to traded goods. When trade or other barriers remain, negotiating better market access to specific countries — particularly ones that are larger — becomes a means to specialise production, expand market size and achieve economies of scale.

There is considerably less trade across the Tasman in services than in goods (chapter 3). Although the services sector is only partly amenable to cross-border trade, recent technological advances are making services more tradeable. For example, lower communication costs are making remote medical consultations feasible. This suggests that the services sector should be a focus of the future integration agenda, especially given that much of the agenda for integrating the goods sector has already been completed.

Increased competition

Many industries have only a small number of competitors due to the relatively small size of some markets in Australia, and even smaller markets in New Zealand. As the Chair of the New Zealand Commerce Commission observed:

Being a small economy, New Zealand businesses understandably face challenges in acquiring the scale to operate efficiently and compete effectively, especially in global markets. The level of aggregation that may be tolerated in New Zealand markets is therefore higher than in some larger economies. (Berry 2011, p. 1)

To the extent that integration between Australia and New Zealand increases market size, it may increase the number of competitors in markets and reduce

barriers for potential entrants. Greater competition can encourage firms to be more efficient and innovative.

The relationship between competition, capital markets and innovative economies, where scale and specialisation play out, is important. It results in complex activity and greater productivity, which is difficult to quantify, although some evidence is presented in Chapter 3.

Scale and government services

Cooperation between governments can generate economies of scale that reduce the cost of the services they deliver. Food Standards Australia New Zealand (FSANZ) and the proposed Australia New Zealand Therapeutic Products Agency (ANZTPA) are examples of the two Governments jointly providing a regulatory service.

The New Zealand regulatory impact statement on ANZTPA observed that:

The economies of scale and removal of duplication that would result from regulating jointly with Australia would lower overall administrative and compliance costs. The actual impact on New Zealand would depend on how the costs were shared between the two countries in the longer term, but the overall compliance costs for New Zealand industry would be lower in a joint scheme. (ANZTPA 2002, p. 6)

Integration of government services can involve considerable redesign of systems when values and preferences differ between countries — as the history of ANZTPA illustrates (chapter 3) — and so opportunities for joint provision need to be selected carefully.

Labour mobility

People mobility has been an important feature of the trans-Tasman relationship since the 19th century. Movement of people between countries — as currently applies under CER — allows labour to be allocated to its most productive use and to acquire new skills. The prospect of better employment opportunities abroad should encourage more people to pursue education, which can help raise productivity. Trans-Tasman labour flows have helped to address short-term imbalances in the Australian and New Zealand labour markets (PC 2010).

The overall economic effects of migration depend on a complex set of factors. The Australian Commission (PC 2006a) identified various ways in which immigration and population growth might be linked to increased productivity and income per person, including through: effects on sectoral reallocation of economic activity; the

supply of labour; scale economies and competition; taxation; and government expenditure on services and transfer payments. The overall outcome is an empirical matter as some factors contribute positively and some negatively.

Supplementary paper D discusses labour mobility in detail.

Knowledge transfers

Knowledge is a key source of innovation. The pathways through which knowledge can be transferred between Australia and New Zealand include:

- business linkages, such as through ‘learning through exporting’ and through FDI. Foreign investment often brings with it new technology, some of which may be passed on to local firms, and new skills for local workers, which they take with them when they move to other employment. Knowledge transfer might be further enhanced if foreign firms find a larger, integrated, Australia-New Zealand market more attractive in which to establish a presence. Chapter 4 discusses whether restrictions on FDI between Australia and New Zealand should be relaxed
- integration within the government sector, as illustrated by the Australia and New Zealand School of Government (ANZSOG). ANZSOG was established in 2002 by the New Zealand, Australian, and three state Governments and a consortium of universities and business schools from both sides of the Tasman. It provides Masters and leadership programs for public servants, and funding for research relating to public administration, with a trans-Tasman focus. Collaborative government funding of research projects is another example
- cross appointments of senior staff
- education exports, where students travel across the Tasman to study.

Knowledge transfer can also happen in policy areas. A clearly superior policy approach in one jurisdiction might be adopted by others, particularly if there is transparent assessment, benchmarking, and evaluation of costs and benefits. Chapter 3 describes cases where policy knowledge has travelled across the Tasman.

Promoting good domestic policy

Domestic policies that improve the productivity of industries in one economy’s traded goods sector increase pressures on industries in the other economy to increase their productivity, in order to remain competitive (box 2.3). Greater openness to trade and factor flows can expose rigidities that impede structural

adjustment and thus puts pressure on governments to address those rigidities. The negotiation of integration agreements offers an opportunity to identify and leverage such initiatives. Integration agreements may reduce domestic concern over reform by making it a quid pro quo for improved market access in partner countries (PC 2010). The negotiation process also provides opportunities to identify best practices to improve regulation and policy development.

Box 2.3 **Modelling trans-Tasman effects of productivity improvements**

Productivity improvements in one country (country A) affect output in its trading partner (country B) through various mechanisms.

- They increase the relative competitiveness of country A, expanding its global market share and output, and decrease that of country B, decreasing its output.
- They increase returns to factors of production and incomes in country A, which increases demand for imports from country B and its aggregate output.
- An increase in returns in country A causes factors to shift from country B to country A. This contributes to increasing aggregate output in country A and decreasing it in country B.

The net effect on country B is an empirical matter, which depends on the nature and extent of its connections with other economies.

The ANZEA model (box 2.9) was used to illustrate the effects of domestic policy initiatives in Australia and New Zealand. The two simulations consist of a 1 percent improvement in the productivity of all factor inputs in each economy, which translates into a 1 percent increase in GDP.

Productivity improvements in New Zealand are estimated to have very little effect on Australia. There is a small substitution in favour of New Zealand sourced production in both Australia and New Zealand as a result of reduced production costs in New Zealand (in particular, in agriculture and food processing). This is compensated by an increase in New Zealand's demand for Australian exports, which are required for additional construction activity and investment.

Somewhat larger effects are at work when productivity improves in Australia. An increase in Australian income and consumption leads to an increase in Australia's demand for New Zealand exports, most notably food and other manufactured products. This partly offsets the export contraction that New Zealand firms experience in other foreign markets as a result of increased Australian competitiveness.

Source: Supplementary paper E.

Benefits for consumers

Consumers benefit from a wider range of price and quality offerings when integration brings specialisation, exploitation of economies of scale, competition, mobility and better government services than would otherwise have been possible.

There are also potential costs

While bringing potential benefits, integration initiatives can give rise to costs that should be taken into account.

Trade diversion

Trade agreements that give member countries more favourable market access than to non-member countries can lead to ‘trade diversion’.¹ This means that more profitable exchanges with non-members can be crowded out by the induced expansion of exchange among members, possibly to the extent that national incomes in the member countries decline, despite gains to producers.

This issue is most commonly raised in the context of preferential tariffs on merchandise trade. Preferential easing of other cost-raising barriers at the border (such as screening of FDI or quarantine procedures), where this can be done without compromising legitimate government objectives, reduces costs on the exporting partner countries and could reduce prices for the importing partner. Prices could, however, be lower still if unnecessary barriers were removed for all trading partners (box 2.4).

Many remaining barriers to trade in services and factor flows lie behind the border. In certain cases, these impediments will arise because foreign firms and individuals are treated differently from locals (for example, schemes that give preference to local suppliers). With integration, gains will flow to those foreign suppliers with preferential access to the local protected market. The local economy will gain from any increase in competition that lowers prices. In these cases, there would be no diversion from suppliers in non-partner countries, but there would be crowding out of local suppliers by lower-cost suppliers in the partner country with

¹ Investment diversion can also occur where investors in partner countries face lower barriers to foreign investment relative to investors in non-partner countries. Supplementary paper C on FDI has a description of investment diversion and its possible effects.

preferred access. Again, prices could be lower still if the local preference were removed from all imports that met the required quality standard.

Box 2.4 Preferential easing of barriers at the border

A preferential tariff provides the equivalent of an export subsidy to exporters in partner countries, as it increases their competitiveness relative to exporters in the rest of the world. If the resulting exports from partners simply replace lower cost ones from elsewhere (trade diversion) then the country giving the preferential treatment is worse off — total imports are unchanged but it has forgone tariff revenue to the benefit of exporters in partner countries. With reciprocity of preferential tariffs, each country could be worse off even though their exporters would be better off.

For a country to benefit from giving a tariff preference, it is necessary (but not sufficient) for domestic prices of the import to decrease. In this case there will be benefits from the additional lower-priced imports (trade creation), but there will still be trade diversion losses from the replacement of lower-cost third-party goods with higher-cost partner-country goods. Thus, even in this more favourable circumstance, it is unclear whether giving a tariff preference yields national gains. Gains are more likely when partner country exporters are low-cost producers by world standards and their export supply is responsive to price changes.

Where barriers at the border impose real costs on foreigners (such as screening of foreign direct investment capital or unnecessary quarantine procedures), preferential treatment (without compromising legitimate domestic policy objectives) would reduce costs for exporters in the partner country and generate gains to the importing country to the extent the domestic price fell. An expansion of exports from the partner would crowd out exports from third-party suppliers, but this diversion would not impose a cost on the importing country. That said, prices could be lower still if purely protective barriers were removed for imports from all countries.

Behind-the-border barriers will often simply reflect a country's way of doing business, or local circumstances and preferences. Harmonising regulations to reduce the costs for businesses operating across partner countries would inevitably require some change in regulations in one or both of the partner countries. Such changes could increase the cost of regulation for trade-exposed businesses in one or both countries, potentially reducing their international competitiveness.

Implementation costs

Integration initiatives typically create implementation costs for governments and the private sector. Most of the initiatives discussed in chapter 4 would require

negotiation, redesigning or setting up new systems, and training people to use these systems.

Fiscal costs of labour mobility

Trans-Tasman migration has implications for government expenditure on services (such as education and health) and transfer payments (such as social security). It also affects taxation revenue. While migration can lead to more efficient allocation of labour, open access to taxpayer-funded resources when there are uneven people flows can be a drain on budgetary resources in the destination country. There can also be pressures on the other country if, for example, emigrants return home when they become eligible for pensions, having worked and paid taxes in the source country. Chapter 4 considers options for balancing these opposing pressures.

Trans-Tasman versus local preferences

Regulatory integration usually involves some degree of acceptance by each country of the regulatory settings of the other. The gains from harmonising regulatory systems might be reduced if the agreed uniform regulations, standards or policy settings differ from what communities would otherwise choose. People in the two countries might prefer different trade-offs between costs and regulatory outcomes. The slow progress towards establishing ANZTPA is an example of disagreement about where this trade-off is best set.

Potential risks for domestic policy

While a bilateral agreement can encourage domestic policy improvements, focusing on bilateral initiatives could divert attention from the domestic policy agenda. Ai Group noted that it:

... 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. (sub. 38, p. 3)

And while economic integration provides opportunities to transfer policy knowledge across the Tasman, both countries should be receptive to better practices elsewhere. Federated Farmers of New Zealand noted that:

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 ...

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 UK, the US, or the rest of the world. (sub. 33, pp. 5–6)

There is a risk that finalising an agreement becomes an end in itself and that negotiators accept a sub-optimal outcome. For example, changes to the duration of copyrights and other intellectual property provisions negotiated as part of the Australia United States Free Trade Agreement have reduced the likelihood of an appropriate balance between supplier and user interests in Australia's intellectual property system (PC 2010).

Chapter 3 includes a discussion on the relationship between the implementation of CER and the domestic policy agendas in Australia and New Zealand.

Adjustment costs

Integration may bring structural adjustment and distributional effects as production methods and patterns change. This can happen whether integration is driven by market pressures or policy changes. For example, integration can impact directly on an industry's workers and owners by increasing the scope for specialisation. It can also indirectly affect the wider community (box 2.5).

The transition costs of change are normally less long-lived than the benefits from moving resources to more productive uses. Nevertheless, adjustment costs can be concentrated in particular industries or regions. Small costs at a national level can be substantial for particular sectors or communities.

Where it appears that a policy will generate significant adjustment costs, governments can respond by:

- relying on generally-available adjustment measures (such as government provided job search services and the social security safety net)
- accompanying the policy change with specific adjustment assistance measures (for example, financial compensation to those most affected)
- modifying the policy to reduce adjustment costs, to allow people to plan for change (for example, phasing it in)
- considering the case for modifying a policy following its initial implementation.

To improve on generally-available adjustment measures, specific measures need to be targeted, involve an equitable sharing of their financing costs, interact efficiently with other programs and policies, and be transparent and subject to appropriate accountability mechanisms (PC 2001).

Box 2.5 Economic integration and ‘hollowing out’

‘Hollowing out’ typically refers to the transfer of high-value economic activities or capacities from one community to another, as a result of changes in economic forces (Easton 2007; OECD 2011a).

The ‘hollowing out’ concern most relevant to this study is associated with agglomeration economies, which occur when economic activity gathers together, resulting in high density and scale (World Bank 2009). A larger country may be better able to exploit such economies, leaving the smaller country to specialise in activities for which agglomeration economies are smaller or insignificant. Both capital and labour may then shift to the larger country (Fujita, Krugman and Venables 2000; World Bank 2009). This suggests that under certain conditions, increased trans-Tasman economic integration could lead to a net flow of labour and capital to Australia, with resources moving in order to take advantage of larger agglomeration economies — widening the gap in GDP per capita between the two countries over time (McCann 2009; Easton 2007). While this might be a legitimate concern, the following observations can be made.

First, agglomeration diseconomies exist alongside agglomeration economies; for example, congestion and high land prices in cities. The preferred location for economic activities is dependent on the balance between these forces — and is different for each activity (Hugo 2011). Also, the location of some activities is determined by immobile inputs; for example, minerals and agricultural land (Becker, Glaeser and Murphy 1999). This suggests that productive economic activities will continue to be spatially distributed.

Second, economic changes in Australia and New Zealand are driven by many factors. Global forces such as technological developments and changes in the relative scarcity of resources are important. Outcomes reflect the interaction of all these forces, and their individual effects are difficult to disentangle.

Third, evidence does not support fears of a ‘brain drain’ of skilled workers from New Zealand to Australia (supplementary paper D).

Fourth, economic integration is a means by which small countries can participate in and benefit from the wider and deeper markets of larger countries (World Bank 2009).

Integration carries some risks. However, policy in small countries can best address these risks by enhancing the adaptability of communities within a productive and open economy (World Bank 2009) and targeting adjustment support where appropriate to directly-affected individuals or communities.

2.3 How much trans-Tasman integration?

The benefits and costs of integration will alter as technology, preferences and a host of other factors change. This means that the end point — in terms of the extent of beneficial economic integration — will evolve with changing circumstances. It can be thought of as a moving target that should naturally emerge from good public policy processes focused on the achievement of net benefits.

Some submitters suggested that both the direction of travel and the end point matter and that the Commissions should develop a vision for the economic relationship. The Australia New Zealand Leadership Forum stated that the draft report ‘could, and should, be strengthened by providing a clear strategic vision for the economic relationship between Australia and New Zealand’ (sub. DR120, p. 1). The Commissions consider that the history of the relationship shows that it is better to anchor the future of CER and SEM in sound governance arrangements that can quickly and effectively identify and address issues as they arise, than in a vision. Chapter 5 looks at strengthening governance arrangements for this purpose.

This conclusion is consistent with the seven principles for the Single Economic Market (SEM) that Prime Ministers announced in 2009 (box 2.6). New Zealand’s Minister of Commerce explained that:

... the single economic market vision is not an articulated grand outcome but one built on principles that should govern our approach and accelerate the construction of key regulatory outcomes that will deliver a low-cost, innovative, and more seamless trans-Tasman operating environment for businesses. (Power 2009)

While the first six SEM principles were developed in the context of business regulation, the Commissions consider that they provide a ‘direction of travel’ for future CER initiatives more generally.

The seventh principle — to optimise net trans-Tasman benefit (referred to as ‘joint net benefits’ in the study terms of reference) — provides an over-arching test for the other six. It conveys that the other principles in box 2.6 should not be interpreted as objectives to be achieved in an absolute sense. For example, it is unlikely to be consistent with optimising joint net benefits for persons in Australia and New Zealand *never* to have to engage in the same process or provide the same information twice. Individuals who earn income in both countries, for instance, are likely to have to fill in tax returns in both countries unless tax systems are harmonised. Nevertheless, policy initiatives that reduce duplication of information provision are likely to be part of the single market agenda.

Building on the seventh SEM principle, the Commissions have sought to identify initiatives that would improve the wellbeing of the Australian and New Zealand communities.

Box 2.6 **Single Economic Market principles**

In 2009, the Prime Ministers of Australia and New Zealand announced seven principles for the SEM.

1. Persons in Australia or New Zealand should not have to engage in the same process or provide the same information twice.
2. Measures should deliver substantively the same regulatory outcomes in both countries in the most efficient manner.
3. Regulated occupations should operate seamlessly between each country.
4. Both Governments should seek to achieve economies of scale and scope in regulatory design and implementation.
5. Products and services supplied in one jurisdiction should be able to be supplied in the other.
6. The two countries should seek to strengthen joint capability to influence international policy design.
7. Outcomes should seek to optimise net trans-Tasman benefit.

Source: Rudd and Key (2009).

F2.1

The seven Single Economic Market principles, announced by the Prime Ministers in 2009, provide a useful direction of travel for future CER initiatives.

2.4 Identifying the most promising initiatives

Selecting initiatives for analysis

There are many areas in the economy where opportunities for integration could be explored — tariffs, transport costs, migration laws, consumer protection and government procurement are just a sample (table 2.1). For each of these areas, there are many possible impediments to integration, and many options for addressing each impediment.

The Commissions have focused on areas that seemed most likely to offer joint net benefits. They have then considered how much analysis to undertake in each of these areas, to test these expectations. There is no formula for doing this. To inform judgments about which areas might yield the largest joint net benefits, the Commissions used a set of filtering criteria, based on those used in similar scoping studies (box 2.7).

Box 2.7 **Filtering criteria for integration initiatives**

Criteria encouraging inclusion:

- width of reach (the number of entities and/or value of activity affected)
- depth of reach (the extent to which entities are affected, including by high compliance costs)
- information that the issue is critical for stakeholders from previous reviews, from submissions to the study, and from the Commissions' engagement program
- barriers that do not impose large costs, but 'add up' or cause unnecessary irritation and prevent a 'domestic like' experience in the other country
- any other information that reform would generate large gains.

Criteria discouraging inclusion:

- likely high costs of the preferred policy option
- affects an area where national autonomy matters.

Sources: Australian and New Zealand Productivity Commissions, drawing on Business Regulation and Competition Working Group (2011) and Regulation Taskforce (2006).

Most of these criteria need little explanation. However, the role of national autonomy is less obvious. Many options for bringing about a closer relationship between Australia and New Zealand involve trading off some policy autonomy. This is not unusual, as there are many areas where national governments accept some loss of autonomy (for example, to local government or to international bodies, such as the World Trade Organisation) in order to achieve an overall benefit. But there will be limits on how large a reduction of autonomy is acceptable or indeed efficient.

The impact of CER on the Māori population is an important issue for New Zealand to take into account when new policy initiatives are being considered (box 2.8). The New Zealand Government will need to recognise any valid concerns that further integration initiatives are inconsistent with Treaty of Waitangi obligations.

Box 2.8 **Trans-Tasman integration impacts for Māori**

The Treaty of Waitangi places upon the New Zealand Government a responsibility to consider the impact of policy decisions on Māori.

The Māori economy historically included a strong focus on international trade, and there is ongoing interest in developing and maintaining international markets. The Māori Economic Development Panel (2012) noted that there is significant room for growth within the Māori economy. This, however, requires stronger connections with foreign markets. As such, trans-Tasman integration initiatives that aim to create a more ‘domestic-like’ business environment are likely to generate benefits for Māori businesses, many of which view Australia as a natural extension of their ‘home base’.

There are varying views among Māori about the merits of closer economic relations. Nga Hapu o Niu Tirenī expressed concern that measures to enhance the trans-Tasman economic relationship impinge on the rights of Māori under the Treaty of Waitangi:

...we have seen major breaches [of the Treaty] with the formation of the Trans Tasman Food Standards Authority which undermines the mana and tino rangatiratanga of Hapu and whanau management of their own food in our home, farms, businesses, and marae, and also the Trans-Tasman Agency on Therapeutic Products which affect hapu and tohunga to practice our traditional medicines without consultation to hapu.^a (sub. 20, p. 4)

While integration initiatives can raise questions about national autonomy, closer economic relations with Australia and the New Zealand Government’s ability to respect the Treaty of Waitangi are not necessarily incompatible.

^a Māori words are explained in the glossary.

In the limit, economic integration could extend to political union. The Commissions have not detected support for this option in either Australia or New Zealand, which is in any event outside the study’s terms of reference. Ruling out political union rules out or limits the scope for some economic integration initiatives that would necessitate adherence to common political and policy positions, such as a monetary union, common fiscal policy and harmonised tax systems.

While the consequential loss of autonomy may rule some policy options out of scope, many others do not raise autonomy concerns, particularly where preferences are similar in both countries. In these cases, the Commissions used the criteria in box 2.7 (other than the last one) to select areas for further analysis (chapter 4).

How much analysis?

Equally important to selecting initiatives for analysis, is gauging how much analysis is needed to demonstrate that a proposal is the right one, while avoiding the risk of ‘paralysis by analysis’. This is a common problem in public policy, and is

particularly significant when there is a large number of potential policy initiatives and there are multiple policy approaches to each of them. For example, table 2.2 lists some of the different approaches to the coordination of behind-the-border regulation.

Table 2.2 Types of regulatory coordination

<i>Type of coordination</i>	<i>Trans-Tasman illustration</i>	<i>Strengths (S) and weaknesses (W)</i>
Unilateral		
Borrowing (New Zealand independently models a policy on Australian policy or vice versa)	New Zealand plans to introduce a single business number	S: Lower compliance costs for trans-Tasman businesses W: Countries may interpret laws differently; consistency lost if one country alters its laws and the other does not
Unilateral recognition of regulatory settings	New Zealand recognises Australian safety standards without requiring Australia to reciprocate	S: Lower business compliance costs; simple to implement W: Home country stakeholders have less say in overseas regulator's decision making and limited or no appeal rights
Cooperative		
Cooperation between regulators and enforcement agencies	Competition, tax and customs agency information sharing and enforcement assistance	S: More effective enforcement of business activity that crosses borders W: Higher administrative cost
Mutual recognition	Trans-Tasman Mutual Recognition Arrangement	S: Lower business compliance costs W: Countries may have differing preferences for level or type of regulation; home country stakeholders have less say in overseas regulator's decision making; administrative cost of recognising more than one regime
Adopting common rules for separate institutions	Planned joint regulatory regime for Patent Attorneys	S: Lower business compliance costs; reduced costs in law-making; efficiencies in interpreting and applying the law W: Inefficiencies if countries differ in preferences for level or type of regulation; administrative cost of ensuring common understanding of rules; higher cost of running separate institutions.
Adopting common rules, and establishing a single trans-Tasman institution	Australia New Zealand Therapeutic Products Agency (in progress)	S: Lower business compliance costs; reduced costs in law-making; efficiencies in interpreting and applying the law; economies of scale W: Inefficiencies if preferences for level or type of regulation differ; cost of establishing a single regulator; loss of country-level flexibility; each country has less say in regulator's decision making.

Source: Adapted from Goddard (2002).

Comparing options means assessing their costs and benefits, to discover the one that generates the largest joint net benefits. Some costs (for example, implementation costs) are direct and quantifiable; others may not be, yet still need to be considered. For example, if reducing a tax that is distorting Australia-New

Zealand commerce leads to a loss of revenue that has to be replaced by increasing another tax, the distortionary effects of this replacement tax should be included in the analysis.

The Commissions have used an economy-wide model to illustrate orders of magnitude of some integration initiatives considered in chapter 4 (box 2.9).

Box 2.9 Australia — New Zealand Economic Analysis model

The Australia–New Zealand Economic Analysis (ANZEA) model has been used to illustrate mechanisms at work in integration, especially where the outcome is an empirical matter that depends on a large number of assumptions. The ANZEA model is a multi-country general equilibrium model derived from the GTAP model and database. The GTAP model has been widely used to analyse the effects of policy initiatives.

A general equilibrium model represents — at an aggregate level — all economic transactions that take place within and between economies. It includes data and behavioural equations that describe international trade in goods and services, the use of labour, capital, land and other inputs in production, incomes paid to households, private and government consumption and investment, and taxes and transfers.

The ANZEA model differs from the GTAP model in two respects. First, the ANZEA model is built on a comparatively simple structure and has fewer equations than the original GTAP model. This simple structure facilitates modifications of the model to address issues relevant to the study and sensitivity analysis. Second, the ANZEA model accounts for bilateral capital flows at the industry level, which enables analysis of initiatives that relate to the commercial presence of services and FDI more broadly.

The ANZEA model divides the global economy into 25 separate economies including Australia and New Zealand, as well as the USA, the EU and the main economies in Asia.

Supplementary paper E provides details of the model and simulations.

Analysis can, however, be resource-intensive and time consuming. And there will be limits to what is feasible. Hence judgments have to be made about the appropriate depth of analysis, and about the point at which conclusions can be reached, based on the underlying concepts and available quantitative assessments. The appropriate depth of analysis will be influenced by factors such as the size of potential costs and benefits (as suggested by the criteria in box 2.7), the number of feasible options, the availability of pre-existing evidence and analysis, and the cost of obtaining new data. A detailed analysis would take into account both direct and indirect costs and benefits, but the breadth and depth of analysis needs to be proportionate to the importance of the issue at hand.

This means that a proportionate approach will in some cases require detailed analysis, whereas in other cases options can be more readily ruled in or out (box 2.10).

Box 2.10 Depth of analysis — rules of thumb

A ‘proportionate’ approach would see some initiatives being ruled in or out without the need for extensive analysis. For example, the slow progress towards the national harmonisation of occupational health and safety regulation in Australia is a sign that the costs of achieving trans-Tasman agreement in this area are likely to be high in the foreseeable future. Unless the benefits of integration are expected to be very large, it seems reasonable to conclude without a great deal of analysis that the net benefits are unlikely to be positive.

The costs of trans-Tasman integration are also likely to outweigh the benefits when national governments have different objectives, reflecting different community preferences. For example, as the ACTU and the NZCTU point out, ‘many health and safety standards incorporate an element of judgement over acceptable risk that may differ between societies’ (sub. 17, p. 6).

On the other hand, situations where the two Governments have common objectives and similar policy instruments would be stronger candidates for integration, warranting less detailed analysis, because the costs are likely to be lower.

F2.2

Analysis of integration policy initiatives should take into account both direct and indirect costs and benefits, be proportionate to the importance of the issue being considered, and be publicly available.

2.5 Desirable features of trans-Tasman integration initiatives

Initiatives that are compatible with broader integration and complement domestically-focused reforms are more likely to generate net benefits, and so the Commissions have sought to identify options with these characteristics.

Compatibility with broader integration

Trans-Tasman agreements sit within the context of both countries having other bilateral, regional and multilateral agreements. This has two implications.

First, analysis of bilateral integration policy options should examine implications arising from other trade agreements to which either Australia or New Zealand is a party. For example, does a change to a CER agreement trigger changes in other agreements?

Second, a non-preferential approach to reducing barriers to trade avoids diversion effects and typically yields larger benefits (box 2.4). This was recognised at the inception of the CER by the intention that it be outward-looking, including through strengthening trading relationships with third countries.

There are, however, exceptions to this non-preferential approach. For example, mutual recognition of occupational licensing is based on acceptance by both governments of the standards in the other country. While extension of mutual recognition to other countries would extend markets, *automatic* multilateral extension could require a country to accept service providers from a third country whose standards are considered to be unacceptable. It is also difficult to envisage either government extending the freedom of trans-Tasman labour mobility multilaterally.

The general presumption in favour of non-discriminatory approaches, alongside the existence of significant exceptions, suggests that bilateral initiatives should not stall progress towards multilateral or plurilateral liberalisation unless there is a clear case for doing so. This can be achieved by aiming for non-discriminatory policies that permit similar arrangements with other trading partners, unless the benefits of a discriminatory approach clearly exceed its costs.

Initiatives should complement domestic policies

Both Australia and New Zealand have a strong interest in good public policy across the Tasman and bear some of the (opportunity) cost of poor policy in the other country. While many domestic policy initiatives do not feature on the trans-Tasman agenda, there are interdependencies that, if managed well, can promote both countries' domestic policy reforms.

First, it is in each country's interests to implement some initiatives unilaterally that are also on the trans-Tasman agenda. For example, reducing one country's tariff barriers is nationally beneficial, irrespective of what the other country does. Taking this insight into discussions about the next steps for CER, rather than holding out for offsetting concessions, will accelerate progress.

Second, some domestic policies may increase, or create the potential to increase, trans-Tasman integration. For example, reforms to either country's transport

sectors that contribute to reducing trans-Tasman transport costs would facilitate integration. The costs involved in harmonising regulatory frameworks will be lower where there are nationally agreed approaches within Australia.

Third, political and bureaucratic effort needs to be allocated efficiently between the domestic and trans-Tasman policy agendas, which is more likely to happen when there is:

- proportionate, publicly-available analysis of options (as discussed earlier)
- an effective governance framework
- regular evaluation and benchmarking of policy initiatives, to inform government decisions about whether to extend, amend or end an initiative.

F2.3

Joint net benefits will be increased if policy initiatives are: outward looking; generally do not impede profitable exchange with other trading partners; take account of linkages with other agreements; and are consistent with domestic policy improvement over time.

2.6 Cross-country distributional effects

The benefits from removing barriers to integration between Australia and New Zealand may be distributed unevenly. A further consideration is how to take account of the large number of Australian and New Zealand citizens who live in the other country.

Transfers between countries

Policies that deliver efficiency gains for the two economies in aggregate might involve income transfers between them. One view is that only policies that generate benefits for both countries should proceed. An alternative view (box 2.11) is that an uneven distribution of benefits, or even losses to one country, from a particular integration initiative, should not matter provided a ‘win-win’ outcome can be achieved overall. If the two countries agreed not to seek immediate reciprocity, but rather to act in the confidence that their cooperative actions will benefit both in the long term, more policy initiatives are likely to be accepted, certain complementary packages of initiatives could become attractive, and joint net benefits could be larger than otherwise.

The underlying reasons for the difference between these two views may be found in the limited use of formal compensation mechanisms between the two countries. Some commentators may have limited confidence that informal compensation will occur through the ‘swings and roundabouts’ of initiatives that benefit one country or the other over time.

Box 2.11 A ‘balanced benefits’ approach

In a speech in 2010, Mr Simon Power (then New Zealand Minister of Commerce) considered whether net benefits should be measured on a case-by-case basis or as a package.

The net trans-Tasman benefit] principle is explicitly designed to encourage both sides to think about and address issues in the context of strengthening the trans-Tasman economy. It requires each of us to move beyond a narrower national benefit calculation on an issue-by-issue basis.

The principle is designed to encourage both sides to address co-ordination issues in the longer-term context of the New Zealand and Australian economies becoming more deeply integrated and our respective national interests being more deeply linked to the health of the Australasian economy.

The principle encourages an overall balanced benefits approach across the range of areas under the Outcomes framework and more broadly to achieve the goals of a more seamless market. It allows for trade-offs.

This means that sometimes New Zealand may concede something in the interest of achieving other objectives and advancing the goal. At other times Australia will.

Source: Power (2010).

Cases where a policy change would benefit both countries are recommended by the Commissions, even where the distribution of the benefits favours one country. The Commissions have made no attempt to rank recommendations on the basis of how these benefits would be distributed between or within each country.

A different approach is appropriate in the event that a policy initiative provides joint net benefits, but is likely to have a net cost for one country. Neither Commission considers that it could recommend an option in isolation that disadvantaged its country’s citizens, even if there are net trans-Tasman gains overall. In this event, the Commissions report the proposal and its potential impacts, for consideration by governments as part of a wider package of actions. Governments are better placed to combine multiple initiatives into a package that provides a win-win outcome over time.

Impacts on trans-Tasman residents

There are different options for taking account of the impacts of trans-Tasman residents (citizens of one country who live in the other) (box 2.12).

Box 2.12 Accounting for trans-Tasman residents

A national cost-benefit analysis would assess the effects of policy changes at a national level, based on the welfare of residents. Spatial aspects of integration — such as the potential for ‘brain-drain’ — raise a question about the welfare of *citizens*, wherever they reside, versus the welfare of *residents*, because the two can diverge. With about 10 percent of New Zealanders living in Australia, and projection of a further 400 000 or so New Zealanders leaving New Zealand in the next 15 years (Yang and de Raad 2010), this is a significant issue. That said, population movements and their motivations are complex. Although many New Zealanders migrate, a significant proportion return, and many other migrants from around the world settle in New Zealand and Australia.

People who move between the two countries gain from having an opportunity to move to their location of choice. There are other effects, particularly associated with the taxation and social security systems. For example, elderly immigrants may receive pension and health entitlements in their new country without having contributed through taxation in that country. On the other hand, young emigrants have typically benefited from subsidised education before moving to another country where they pay taxes.

Options for considering the impacts on these residents in a cost-benefit framework include:

- not separately identifying the potential net benefits accruing to citizens of one country who live in the other
- always separately identifying the potential net benefits accruing to citizens of one country who live in the other and attributing them to their country of citizenship
- identifying the potential net benefits separately only in the case of policies that affect disproportionately the citizens of one country living in the other.

The ACTU and NZCTU support the second option, arguing that when considering the benefits and costs for each country, the outcomes for citizens of one country who are resident in the other should be identified separately (sub. 17). However, for many issues it would be difficult to do this, and those separate impacts will likely be negligible.

For most issues, it would be both difficult and unnecessary to identify separately the impacts of policy initiatives on these people. As Lloyd points out:

... there are few issues in which the choice of the current New Zealand population or the current population plus NZ-born people living in Australia will make a difference to the policy choice. (sub. 5, p. 13)

Some issues, however — such as entitlements to social security benefits (discussed in chapter 4) — do affect trans-Tasman residents disproportionately. In these cases, the Commissions have separately identified the impacts on these residents.

3 CER — achievements and implications for the future

Key points

- CER dates from the 1983 ANZCERTA agreement. It started slowly, but rapid progress on economic integration was made after a review in 1988. Tariffs and quantitative restrictions on virtually all goods traded across the Tasman were eliminated by 1990 and the CER expanded into services trade and behind-the-border regulatory barriers.
- Since 1990, CER initiatives have incrementally increased the extent of trans-Tasman integration. Progress has also been made through informal engagement between government agencies.
- There have been marked similarities in economic policy approaches taken in the two countries, and mutual policy learning has been a feature of the relationship.
- CER has been highly successful in removing explicit restrictions on trade and substantial progress has been made on reducing other barriers to integration.
- Australia and New Zealand have greatly reduced their import barriers against other countries, producing large benefits for both countries. It is likely that CER helped pave the way for wider reductions in tariffs, particularly in New Zealand.
- CER has produced net benefits for Australia and New Zealand, notwithstanding uncertainty about the magnitudes.
- Following the 30 year experience with CER, it is apparent that:
 - economic integration initiatives should generally be outward looking
 - the shift in focus towards reducing barriers to services trade and investment should continue
 - further integration is becoming more difficult as the focus shifts to these more complex areas
 - domestic reform remains important for lifting productivity, and CER can play a useful complementary role
 - regulatory harmonisation can be costly and will only be the best option in some circumstances
 - a pragmatic approach to setting integration priorities, and light-handed governance arrangements have worked well
 - political leadership is likely to remain important to progressing integration.

3.1 Evolution of the CER agenda

The first trade agreement between Australia and New Zealand, signed in 1922, extended British preferential tariff rates across the Tasman on some goods. However, trade relations between the two countries were not a high priority until the 1960s (BIE 1995). Australia and New Zealand were more competitors than trade partners as both countries concentrated on agricultural and resource exports and sought to protect domestic manufacturers from import competition (including from one another).

By contrast, most Australians and New Zealanders have been free to move across the Tasman since pre-colonial times. In 1973, formalisation of the free flow of people occurred through the Trans-Tasman Travel Arrangement (TTTA), which allows all citizens of Australia and New Zealand to travel, work and reside in both countries indefinitely (supplementary paper D). With the exception of the European Union, such free movement of people is rare.

Australia and New Zealand began to pay greater attention to their bilateral trading relationship in the mid 1960s, in part because of concerns about the consequences of the United Kingdom joining the European Economic Community (BIE 1995). In 1965, the New Zealand Australia Free Trade Agreement was signed. This was a 'positive list' agreement, with tariff reductions and relaxation of quantitative trade restrictions applying only to an agreed list of products on each side.

New products were intended to be added to the list over time, but the process for doing this floundered. Some sense of the tortuous nature of the negotiations can be gained by considering the three additions made in 1976:

- meat extract preparations in solid forms (for example, Oxo)
- heraldic badges and crests (polyester)
- photomechanical process plates (not aluminium grained and anodised, and not further worked) for use as lithographic printing plates (Holmes 2003, p. 16).

No additions at all were made in the following year. This glacial rate of progress was attributable to both the process and the philosophy underlying the agreement. It had been decided not to expand duty-free coverage to goods where this might harm domestic producers in either country (Alchin 1990).

By the late 1970s it was clear to both Governments and to some in the business community that a new approach to improving economic relations was needed. In New Zealand, support came from various politicians, senior government officials and business leaders who shared a view that the domestic economy should be

redirected from import-substitution to export-led economic growth. (There were also sections of business in New Zealand that remained strongly opposed to trade liberalisation.) On the Australian side, the Government was keen to respond to the rise of other trading blocs and manufacturers sought the improved access to New Zealand markets that the existing agreement had not delivered (Alchin 1990).

Inception of ANZCERTA and early years

Following earlier ground work by Deputy Prime Ministers Anthony and Talboys, a meeting between Prime Ministers Fraser and Muldoon in Wellington in 1980 set in train negotiations for what became the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) (box 3.1). Both Governments sought an outward-looking agreement that promoted broader regional integration. The Australian Prime Minister stated:

If the two countries can cooperate more closely in their own trading relationship, with each concentrating on what it can do best, it will help both countries to grow stronger and to compete in wider markets. We agreed in Wellington that any closer economic relationship must be outward-looking, helping to strengthen our trading relationships with third countries, particularly in the South East Asian and Pacific Regions. (Fraser 1980, quoted in Snape, Gropp and Luttrall 1998, p. 508)

Box 3.1 What exactly is CER?

The Australia New Zealand Closer Economic Relations Trade Agreement (1983) is one of the few agreements with 'Closer Economic Relations' in its title. However, some subsequent agreements are known as 'protocols' to the agreement, giving the impression of being linked to the original ANZCERTA document. Other agreements seem to stand alone, although they also cover integration issues. And since 2004, the concept of a single economic market (SEM) has resulted in initiatives across a range of issues.

It is not clear that there are meaningful distinctions between labels such as 'CER', 'CER and related agreements' and 'SEM' (which some might consider to be a rebranding of the evolving CER agenda). Accordingly, this report uses the terms 'CER' and 'CER agenda' to refer collectively to all of these trans-Tasman integration initiatives. ANZCERTA is used to refer specifically to the 1983 agreement.

The ANZCERTA came into force in 1983. Under the agreement, both countries agreed to extend preferential market access to each other. The stated objectives were to:

- strengthen the broader relationship between Australia and New Zealand

-
- develop closer economic relations through a mutually beneficial expansion of free trade between the two countries
 - eliminate barriers to bilateral trade in a gradual and progressive manner under an agreed timetable and with a minimum of disruption
 - develop trade between the two countries under conditions of fair competition.

In addition, the ANZCERTA served as a means of exposing the tradeable goods sectors in both countries to greater international competition. It included:

- the gradual elimination of tariffs on all goods not specified in the annexes to the agreement by 1988 (that is, a 'negative list' approach)
- the progressive elimination of quantitative restrictions by 1995 (such restrictions, in the form of import licences, were a major element of New Zealand's protectionist policies)
- a commitment to work towards the elimination of export subsidies on goods traded between Australia and New Zealand.

The initial agreement has been characterised as 'cautious, even timid' (Scollay, Findlay and Kaufmann 2011, p. 22). The 'negative list' consisted of a large number of manufactured products for which the phasing out of trade restrictions and support schemes was delayed or scheduled to occur over a longer period. There were also modified arrangements for some agricultural products, including dairy products, wheat, sugar and tobacco.

The Australian Bureau of Industry Economics found that manufacturing industries affected by immediate reductions in trade restrictions accounted for only 5.5 percent of total trans-Tasman manufactured trade in 1986-87 (BIE 1989). Industries scheduled for later liberalisation (through the negative list) accounted for 44 percent of manufacturing trade, while around 50 percent were in sectors that were free of trade restrictions before 1983. The share of bilateral trade in manufactured goods immediately affected was thus quite small. However, trade in this relatively small group grew rapidly after CER came into force (BIE 1989).

There were some tensions in the early years of ANZCERTA. New Zealand business was concerned about the growing use of production subsidies in Australia to compensate for reductions in tariff protection. Australian exporters complained that New Zealand competitors received an unfair advantage from a 20 percent devaluation of the New Zealand dollar. There was also an escalation in anti-dumping actions between the two countries (Scollay, Findlay and Kaufmann 2011).

Despite limited effects in the early years, the strengths of ANZCERTA were that it was comprehensive, with procedures that although gradual, were automatic and progressive. These features gave industries time to adjust, while avoiding protracted political renegotiations.

Rapid progress after the 1988 review

The political environment was conducive to making progress on trans-Tasman integration when the first review of ANZCERTA took place in 1988. Both the Australian and New Zealand Governments had embarked on domestic economic reform agendas that were complementary with increased trans-Tasman integration (box 3.2). Alchin (1990) has also suggested that Australia developed a renewed sense of the importance of the relationship after the United States suspended its security obligation to New Zealand under the ANZUS Treaty.

The review culminated in the signing of the CER Second Phase Agreements in August 1988. These accelerated the liberalisation of goods trade, so that remaining tariffs and quantitative restrictions on virtually all goods traded between the two countries were eliminated by 1990, rather than 1995 as originally scheduled. Agreement was also reached to eliminate anti-dumping actions on trade between the two countries.

Beyond this, much of the focus was on pushing the CER agenda into new areas, to free up trade in services and reduce behind-the-border barriers to trade and investment caused by differences and deficiencies in standards, regulations and policies. Second Phase Agreements included the:

- *CER Services Protocol*, committing the countries to eliminating restrictions on the trade in services by 1989, except for prescribed industries
- *Protocol on the Harmonisation of Quarantine Administrative Procedures*, seeking to achieve consistent quarantine administration in both countries
- *Memorandum of Understanding on Technical Barriers to Trade*, committing both countries to harmonising technical specifications and testing procedures
- *Memorandum of Understanding on Harmonisation of Business Law*, committing both countries to work towards identifying and pursuing potential areas for harmonisation with the aim of reducing transaction costs for firms that operate in both markets
- *Agreement on Standards, Accreditation and Quality*, aiming to achieve a single system for product standards and accreditation (this led to the Joint Accreditation System of Australia and New Zealand (JAS-ANZ) in 1991).

Box 3.2 Three decades of shared economic reform

Both Australia and New Zealand commenced wide ranging economic reforms in the mid 1980s. In essence, the reforms aimed to free up markets, promote competition and ensure prices provided appropriate market signals. During the 1980s and 1990s:

- the reduction in tariffs that had begun in the 1970s continued, and quantitative import controls were abolished
- financial and capital markets were significantly liberalised, including floating the currencies and the removal of interest rate and capital controls
- there was a shift from centralised wage fixing to enterprise bargaining and individual employment contracts
- inflation targeting commenced and reserve bank independence was formalised (1989 in New Zealand, and 1993 and 1996 respectively in Australia)
- many government business enterprises were commercialised, corporatised and/or privatised and some network sectors, such as electricity, were opened up to competition
- major reforms to the public sector were introduced, including frameworks for sound fiscal management and accountability, and output-based budgeting (Maher 1995; Goldfinch 2006).

These reforms were influenced by international economic thought, and by direct linkages and learning between the two countries. For example, New Zealand officials visited Australia to examine the float of the Australian dollar carried out in December 1983, before floating the New Zealand dollar in March 1985 (Goldfinch 2006).

The composition of reforms in each country over this period were similar, but with some differences in timing, sequencing and detail. For example, New Zealand introduced a broad-based consumption tax in 1986, while a similar tax was not introduced in Australia until 2000. New Zealand is said to have adopted more of a 'big bang' approach, whereas Australia took an incremental approach to reform (Brash 1996).

Subsequent reforms built on earlier measures and strengthened links between the two countries. For example, in Australia, the 1995 National Competition Policy reforms and the 2005 National Reform Agenda sought to establish a broad competition policy framework that does not impede economic activity, productivity, or constrain the scope of markets for infrastructure and other services (Banks 2010). These reforms have been progressed through the Council of Australian Governments (COAG). New Zealand is a member or observer on the majority of the COAG ministerial councils, and in some cases has voting rights where issues impact on the Trans-Tasman Mutual Recognition Arrangement (Goldfinch 2006).

Recent economic reforms have included: the establishment of pension reserve funds in order to meet future superannuation liabilities (2003 in New Zealand and 2006 in Australia); and the introduction of market-based policy instruments to reduce greenhouse gas emissions (2008 in New Zealand and 2012 in Australia).

The priority given to CER fluctuated during the 1990s, with pressure for deepening integration coming mainly from the New Zealand side (Lloyd 1995). Scollay, Findlay and Kaufmann (2011, p. 35) report:

... the maintenance of momentum owed much to the intensive programme of regular meetings established between various groups of officials and ministers to give effect to the understandings reached between the two governments, as well as the formal reviews of ANZCERTA which took place, for example, in 1992 and 1995.

The CER agreements made during the 1990s were largely about following through on commitments made in 1988. The main agreements were the:

- *Agreement Concerning a Joint Food Standards System* (or 'Food Treaty') (1996), establishing what is now called Food Standards Australia New Zealand (FSANZ) (box 3.3)

Box 3.3 A case study: trans-Tasman food safety regulation

Food Standards Australia New Zealand (FSANZ) was set up to develop a joint food standards code under the Food Treaty (1996). The Australia New Zealand Food Standards Code (ANZFS Code) was adopted by both Governments in 2002.

The Food Treaty aimed to harmonise food standards between the two countries, reduce industry compliance costs and help remove regulatory barriers to trade in food. The 'single-regulator/many jurisdictions' model sees FSANZ researching and developing changes to the ANZFS Code, which are incorporated, subject to amendment, into the Food Acts of New Zealand and each of the Australian states and territories. The ANZFS Code covers food standards that apply in both countries, as well as food hygiene standards and primary production standards that apply in Australia only. Enforcement and interpretation of the code is undertaken by different regulators in each jurisdiction (including local governments in Australia).

Despite the joint approach, the food safety system is not fully harmonised between Australia and New Zealand, or even across the Australian states. The Food Treaty contains provisions that allow New Zealand to opt out of jointly set standards relating to safety and health outcomes, environmental concerns and trade or cultural issues. New Zealand also has separate food hygiene standards for consumer food safety that are more prescriptive than Australia's (PC 2009b).

FSANZ is generally regarded as a success, despite operating in a complex multi-jurisdictional environment where regulatory differences remain. Submissions to the scoping study were largely positive about the joint food safety regulator. In particular, the Australian Food and Grocery Council (sub. 22) supported retaining FSANZ as the lead agency and mechanism for developing food regulation in Australia and New Zealand, and the New Zealand Food and Grocery Council (sub. 34) also strongly supported the joint food standards setting system, while not supporting an expansion of its scope.

- *Trans-Tasman Mutual Recognition Arrangement* (TTMRA) (1996), aiming to allow producers and people in registered occupations to meet only a single set of regulatory requirements to do business in Australia and New Zealand
- *Australia New Zealand Government Procurement Agreement* (1997), creating a single trans-Tasman government procurement market.

Implementing agreements to reduce behind-the-border barriers has been complicated and time consuming. A striking example is the Australia New Zealand Therapeutic Products Agency (ANZTPA), which is due to commence by 2016, 17 years after Ministers agreed to explore a joint agency (box 3.4).

Box 3.4 The long journey to a joint therapeutic products agency

Therapeutic goods are one of the exemptions in the Trans-Tasman Mutual Recognition Arrangement (TTMRA). Following the signing of the TTMRA in 1996, various options for harmonising regulation of therapeutic goods were explored. The preferred option was to create a joint regulatory scheme administered by a single regulator — the Australia New Zealand Therapeutic Products Agency (ANZTPA). One reason for this was that the increasing complexity of therapeutic products was making it difficult for New Zealand in particular to maintain the necessary level of regulatory capacity. The journey towards the introduction of the ANZTPA has been a long and difficult one, and it is yet to be completed:

- 1999 Australian and New Zealand Ministers agree to explore the viability of establishing a joint agency.
- 2000 A consultation paper on a possible framework for a joint agency is released. A regulatory impact analysis for a joint therapeutics agency finds modest net economic gains for both countries.
- 2003 The Agreement for the Establishment of a Joint Scheme for the Regulation of Therapeutic Products (the Treaty) is signed. The Therapeutic Products Interim Ministerial Council is established to facilitate the creation of the joint regulatory scheme and joint agency.
- 2006 Enabling legislation is introduced in New Zealand, but fails to pass, due to concerns that the proposal would make complementary medicines and natural health products (including those used in Māori medicine) more expensive and that some could become illegal.
- 2007 Negotiations suspended (but the Treaty remains in place).
- 2011 The Prime Ministers sign a statement of intent to implement the ANZTPA progressively over a period of up to five years. The New Zealand Government announces it will develop a separate framework for domestic regulation of complementary medicines and natural health products.

Sources: Gillard (2011b); TGA (2012).

Towards a single economic market

Countries in the Asia-Pacific region, including New Zealand and Australia, actively pursued preferential trade agreements at the start of the new millennium (box 3.5). Scollay, Findlay and Kaufmann (2011, p. 58) report:

These developments raised questions over the degree of priority that both countries would in future place on their bilateral relationship, especially as they chose to pursue their new preferential arrangements individually rather than jointly. Rather than allow the bilateral economic relationship to wither, however, the two countries decided instead to try to rejuvenate it.

Box 3.5 The broader trade policy context

Australia and New Zealand are members of a number of bilateral, regional and multilateral trade and investment agreements. Both countries have also undertaken significant unilateral trade reform.

Both countries are foundation members of the World Trade Organization and its long-standing predecessor, the General Agreement on Tariffs and Trade, as well as the Asia-Pacific Economic Cooperation (APEC) forum.

New Zealand has signed many bilateral preferential trade agreements, including Free Trade Agreements with China and Malaysia, and Closer Economic Partnership agreements with Hong Kong, Singapore and Thailand. It is also a member of the Trans-Pacific Strategic Economic Partnership (known as the P4 Agreement) and the Pacific Agreement on Closer Economic Relations. It is negotiating agreements with India, Korea, the Gulf Cooperation Council (GCC), and with Russia, Belarus and Kazakhstan. New Zealand is also part of the negotiations on the Trans-Pacific Partnership Agreement, an extension of the Trans-Pacific Strategic Economic Partnership.

Australia has signed preferential trade agreements with Chile, Malaysia, Singapore, Thailand and the United States. It is currently negotiating agreements with China, the GCC, India, Indonesia, Japan and Korea. It is also negotiating with other countries to join the Trans-Pacific Partnership Agreement. Similarly it is negotiating, along with New Zealand, an extension of the Pacific Agreement on Closer Economic Relations (PACER Plus).

Australia and New Zealand are also both members of a trade agreement with the 10 ASEAN nations (the ASEAN-Australia-New Zealand Free Trade Agreement). Both countries are also negotiating a Regional Comprehensive Economic Partnership Agreement with the ASEAN countries and China, Japan, India and South Korea.

There are many single-issue international organisations that impact on global trade levels and patterns, covering intellectual property, telecommunications, banking, shipping, aviation and the environment issues (PC 2010). Australia and New Zealand are members of many of these organisations.

This rejuvenation was effected through establishing a Single Economic Market (SEM) agenda in 2004. This involved a continuation of the existing integration agenda, but with new impetus given to efforts to harmonise elements of business law.

- A 2004 review by the Australian Commission led to enhanced cooperation between the Australian Competition and Consumer Commission (ACCC) and the Commerce Commission New Zealand on cross-border competition and consumer issues (PC 2004a).
- The Trans-Tasman Council on Banking Supervision was established in 2005 to promote a joint approach to banking supervision and to deliver a more seamless regulatory environment in banking services.
- A Treaty on Mutual Recognition of Securities Offerings was signed in 2006.

In the first two cases, ‘full integration’ options were considered but were rejected because assessed costs exceeded benefits. On competition and consumer protection regimes, the Australian Commission concluded:

Full integration, requiring identical laws and procedures and a single institutional framework, would have high implementation and ongoing costs, change the operation of the existing national regimes and achieve only moderate benefits. (PC 2004a, p. xiv)

On banking regulation, the Reserve Bank of New Zealand reported that various options were assessed in the mid 2000s, including:

... the creation of a single new regulator as well as a model in which the Australian Prudential Regulation Authority would become the supervisor for banks operating on both sides of the Tasman. The [New Zealand] Government concluded at that time that the risks and costs associated with a single regulator model outweighed any benefits. (sub. 12, pp. 4–5)

The creation of the Australia New Zealand Leadership Forum was also part of the move to add momentum to the CER agenda. This forum is a business-led initiative designed to further develop Australia and New Zealand's bilateral relationship as well as joint relations in the region. It brings together leaders from business, government, academia and the public sector. The Forum plays an active role in supporting progress on trans-Tasman integration initiatives (ANZLF, sub. 15).

In 2009, the Australian and New Zealand Prime Ministers agreed to a set of SEM principles. A list of trans-Tasman outcomes spanning areas of business law and designed to accelerate and deepen trans-Tasman regulatory integration was also agreed.

The Trans-Tasman Outcomes Implementation Group, jointly chaired by representatives of the Australian Treasury and New Zealand Ministry of Business, Innovation and Employment, was set up to oversee implementation of the agreed outcomes. The Implementation Group's most recent progress report noted the considerable progress toward achieving many of the outcomes. It also drew attention to some areas where progress was slowing (box 3.6).

Recent developments in the trans-Tasman economic relationship include:

- The signing of an Investment Protocol in 2011. The Protocol, which is yet to be enacted, reduces restrictions on trans-Tasman investments.
- Implementation of a framework for the effective resolution of trans-Tasman civil disputes and regulatory enforcement, through legislation passed in 2010 and 2012 (Commonwealth Attorney-General's Department, sub. DR129).

Box 3.6 Single Economic Market: progress made but more to do

The Trans-Tasman Outcomes Implementation Group (TTOIG) assessed that, as at September 2012, one of the 19 medium term outcomes had been completed, 12 were on track for completion by the end of 2014, four were slowing or on hold, and two have been removed, with ministerial agreement. Eight short term outcomes have been completed and one has been delayed.

Insolvency law: The Australian and New Zealand Governments have agreed to create a single cross-border insolvency proceeding with equivalent outcomes for insolvents in both countries. A cross-border working group is currently considering a discussion paper, which should be released for public consultation early in 2013. Joint policy approval is expected to be sought in mid to late 2013.

Financial reporting policy: Governments have agreed that entities can use a single set of financial statements to meet the requirements in both countries. This outcome has been achieved for publicly accountable for-profit entities and is on track for non-publicly accountable for-profit entities. The TTOIG has removed the outcome for private not-for-profit entities because very few entities would benefit from harmonisation. Two other outcomes achieved are that auditors registered in one country can operate in the other, and that financial reporting standards bodies in Australia and New Zealand have functional equivalence.

Financial services policy: Governments have agreed to: make comparable the required disclosures by issuers of financial products (on track); enable recognised financial advisers to operate across the Tasman without the need for further approvals (completed); align corporate trustee regimes for financial products (slowing, because of other priorities in Australia); and align business regulatory obligations in relation to anti-money laundering and countering the financing of terrorism (on track).

(continued next page)

Box 3.6 (continued)

Competition policy: Governments have agreed that firms operating in both markets should face the same consequences for anti-competitive conduct (on track), and that Australian and New Zealand competition and consumer law regulators share information for enforcement purposes (delayed). High level cross membership between the ACCC and the New Zealand Commerce Commission has been achieved.

Business reporting: Governments have agreed to deliver a standard set of representations of electronic financial and performance data for the purposes of business-to-government reporting (on hold) and a single business identifier for use in both countries (on track).

Corporations law: Governments have agreed that trans-Tasman businesses should only need to file company information once in order to meet the requirements of both governments. Progress has been made but is currently slowing.

Personal property securities law: Governments had agreed to a single trans-Tasman register for personal property securities. However, the TTOIG has removed this outcome because finance stakeholders in both countries have expressed little interest in it.

Intellectual property law: Governments have agreed to introduce a single regulatory framework for patent attorneys, a single trademark regime, a single application and examination processes for patents filed in both countries, and a single plant variety right regime. Progress is on track for all outcomes except the plant variety rights regime (slowing).

Consumer law: Governments have agreed to: harmonise consumer law enforcement and consumer credit requirements; streamline arrangements for mutual recognition of product safety standards; harmonise or coordinate product labelling regimes; and introduce equivalent approaches to trade measurement regulation. All outcomes have been achieved except the one relating to consumer credit, which is on track.

Source: TTOIG (2012).

3.2 Achievements of CER

Various commentators have concluded that CER compares favourably to other preferential trade agreements. For example, in the mid 1990s Lloyd argued:

The CER between Australia and New Zealand has already achieved some notable successes in relation to non-border policies as well as in the traditional coverage of trade liberalisation; and it is the most clean and the most outwardly open of all of the regional trading arrangements approved under the GATT. (1995, p. 267)

More recently, Scollay, Findlay and Kaufmann concluded that:

Economic integration between Australia and New Zealand, with the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) as its central instrument, is today widely regarded as a success story. (2011, p. 18)

This section explores the achievements of CER in reducing barriers to trade, investment flows and the movement of people, increasing trans-Tasman trade and factor flows, and producing net benefits for both countries.

Trade in goods is largely liberalised

The CER agenda has reduced transaction costs for trade in goods between Australia and New Zealand in various ways.

- Tariffs and quantitative restrictions on goods have been fully liberalised between the two countries for goods deemed to have originated in the partner country under the CER rules of origin.
- Rules of origin have been amended over the life of the agreement, in part with an aim of reducing compliance costs.
- Administrative procedures for biosecurity and quarantine have generally been harmonised, and customs authorities in both countries cooperate on trans-Tasman issues.
- A mutual recognition agreement (TTMRA) allows goods that can be sold in one country to be sold in the other without meeting further regulatory requirements, with some exceptions (such as industrial chemicals).
- Neither country allows its businesses to initiate anti-dumping claims against businesses of the other.
- Standards for food safety have been aligned and a single trans-Tasman food authority develops standards.

Influence on trade

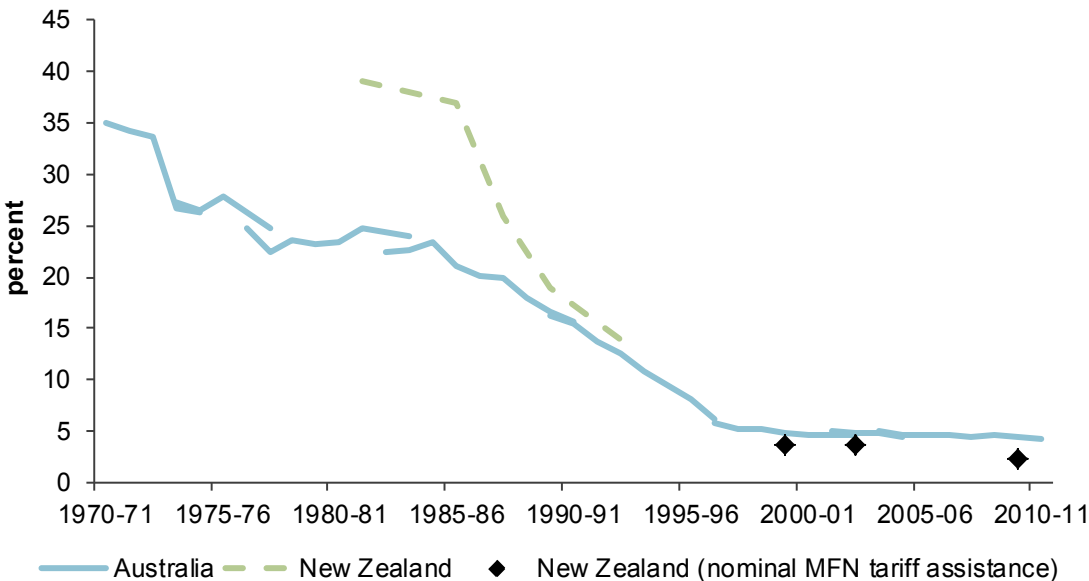
As described above, CER initiatives have largely eliminated at-the-border barriers, while behind-the-border barriers have also been reduced. This would be expected to result in increased trade in goods between Australia and New Zealand, relative to what would have occurred otherwise.

However, there are many other influences on trans-Tasman trade, one of which is changes in trade barriers with other countries. From 1983 to 1990, as

trans-Tasman at-the-border trade barriers were eliminated, a substantial gap opened up with protection rates for other countries. However, this gap soon narrowed as both countries reduced trade restrictions unilaterally on a ‘most favoured nation’ basis. Figure 3.1 shows the reduction in trade restrictions and other forms of assistance to domestic manufacturers in Australia and New Zealand over time.

Accordingly, CER would be expected to have lifted trans-Tasman goods trade up to 1990 relative to trade with other countries. However, after 1990 trade policy increasingly encouraged Australian and New Zealand exporters to look to other markets and this would be expected to have resulted in a decrease in the proportion of trans-Tasman trade (other things being equal). Reductions in behind-the-border barriers brought about through CER would be expected to partially offset this influence, although other factors are also prevalent (figures 3.2 and 3.3).

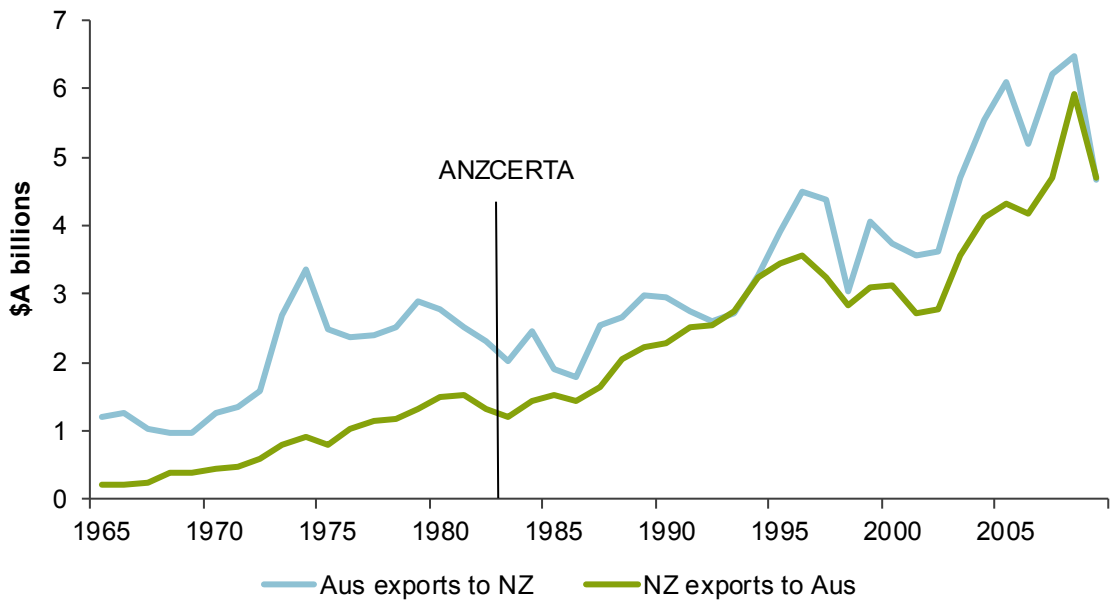
Figure 3.1 Falling effective rates of assistance to manufacturing^a



^a The effective rate of assistance is a combined measure of tariff, budgetary and regulatory assistance (including quantitative measures such as quotas), expressed as a proportion of an industry’s value added. As quantitative and other forms of assistance have largely been eliminated in New Zealand, the nominal ‘most favoured nation’ (MFN) rate of tariff assistance can be used as a proxy for the effective rate of assistance — although it is not a perfect substitute.

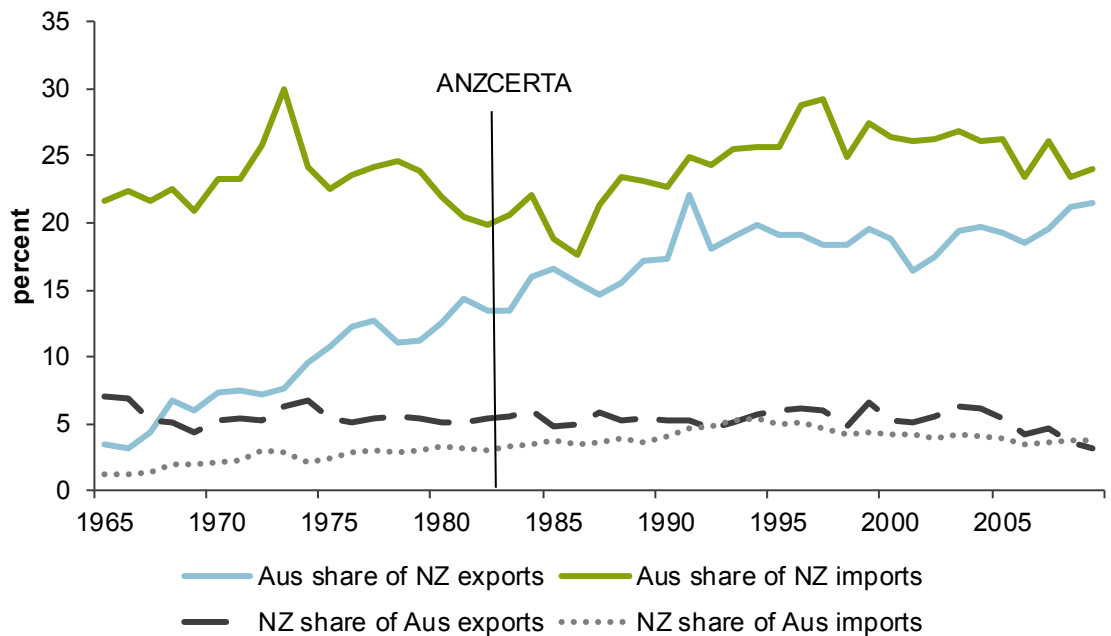
Sources: Duncan, Lattimore and Bollard (1991); MED (2003); NZIER (2010); OECD (1985, 1991); PC (2012a).

Figure 3.2 Trans-Tasman merchandise trade, 2010 prices



Source: UN Comtrade database (2012).

Figure 3.3 Trans-Tasman merchandise trade as a share of total trade



Source: UN Comtrade database (2012).

Trends in New Zealand's exports to Australia are reasonably consistent with these expectations. The share of New Zealand's exports destined for Australia increased from 13 percent immediately before CER to 22 percent in 1991 (although the

upward trend pre-dates CER). Thereafter this share remained fairly flat (figure 3.3). Australia has become New Zealand's largest trading partner based on the value of imports and exports.

By contrast, the share of Australia's exports destined for New Zealand remained between 5 and 6 percent throughout most of the past 30 years (figure 3.3). This has declined to around 3 percent over the past few years, despite the value of Australia's exports to New Zealand being at historically high levels. This is largely due to the rising share of mineral and energy exports to Asia. New Zealand is now Australia's seventh largest trading partner.

New Zealand exports mainly manufactured goods to Australia, including processed food. Other exports include light crude oil and gold. Australia is New Zealand's most diversified export market. Australia's exports to New Zealand are also dominated by manufactured goods, including computer parts, medicaments, passenger motor vehicles and processed food (DFAT 2012; UN Comtrade database 2012). Evidence suggests that trade in processed food in particular has been boosted by CER initiatives (box 3.7).

Box 3.7 Trans-Tasman trade in processed food has increased

Trade in processed food products between Australia and New Zealand has grown substantially over the last three decades. Integration in this sector has progressed to the extent that 'the trans-Tasman market for food has become almost an extension of the domestic market of both countries' (MAF 2011, p. 21). New Zealand exports to Australia include wine, dairy products, other processed food (including baked goods and confectionary) and seafood. Australian exports to New Zealand include oils and fats, and cereals. As shown in the figure below, the proportion of each country's food product exports to the other has steadily increased since CER commenced.

CER initiatives removed barriers to trans-Tasman trade in processed food in two main ways. First, bilateral trade restrictions on many food products were lowered, and eventually removed. For instance, the tariff on wine valued above \$2 per litre was reduced from A\$0.65 per litre in Australia and NZ\$0.85 per litre in New Zealand in 1985 to zero in 1990. Similarly, tariffs on preserved milk and butter in Australia were reduced to zero from A\$0.05 per kilogram and A\$0.10 per kilogram respectively (Commonwealth of Australia 1983; *Customs Tariff Act 1982 (Cwlth)*; BIE 1995).

Fonterra stated:

Since the establishment of the Australia-New Zealand Closer Economic Relations Trade Agreement in 1983, the trans-Tasman dairy market has been open to trade from both countries. Fonterra and its predecessors have built up a substantial business in Australia under this framework. (sub. 14, p. 2)

(continued next page)

Box 3.7 (continued)

Second, regulations concerning food standards have been progressively harmonised since 1995 under the Food Treaty (box 3.3). A major milestone was the introduction of a joint food standards code in 2002, which likely contributed to the sharp increase in trade that occurred about this time. The Food Treaty was complemented by the Trans-Tasman Mutual Recognition Arrangement which came into effect in 1998, removing regulatory barriers to the sale of goods between Australia and New Zealand.

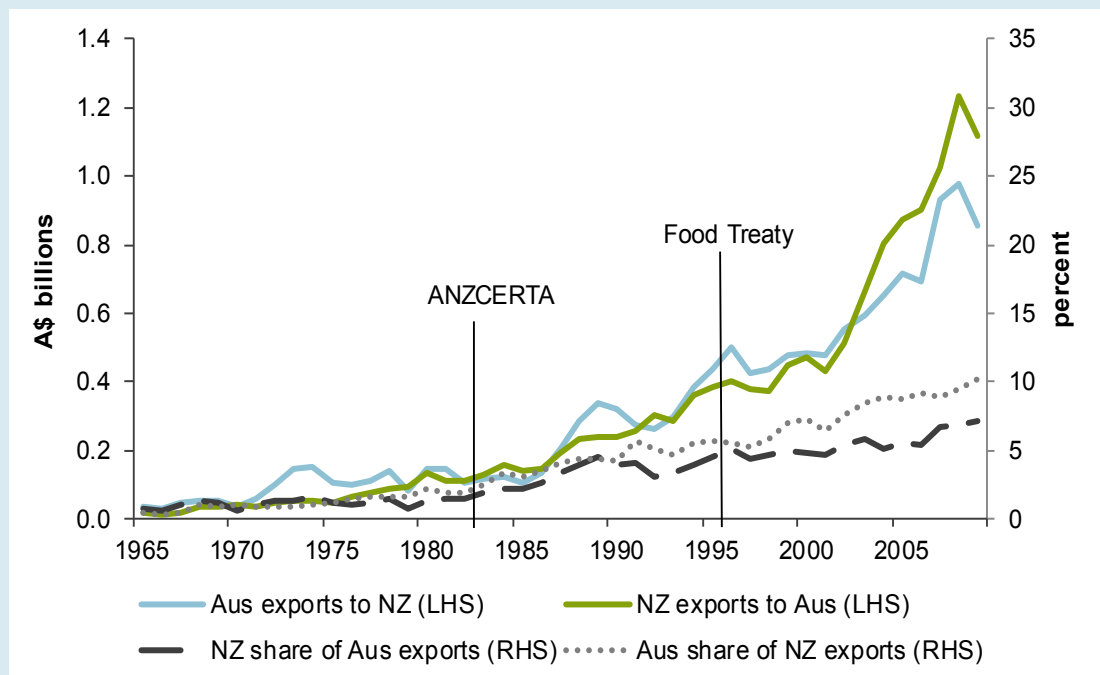
The Australian Food and Grocery Council reports that under this regime:

... for the most part, food regulation in the two countries is uniform, and in those few areas of non-uniformity, there is no trade barrier that prevents the compliant good of one country from being sold in the other. (sub. 22, p. 8)

In addition to CER, other market and policy developments have contributed to increased integration of food products markets. These include:

- the merger of the New Zealand Dairy Board with two cooperative dairy companies, to form a single cooperative entity (Fonterra) (this provided Fonterra with the scale and capability to make acquisitions, particularly in Australia)
- Progressive Enterprises acquiring Woolworths NZ in 2002, followed by Woolworths Australia acquiring Progressive Enterprises in 2005
- the entry of the German supermarket chain Aldi into the Australian market in 2001 (this coincided with the introduction of 'store brands', which created opportunities for New Zealand firms to break into the Australian market).

Figure Trans-Tasman trade in processed food products, 2010 prices



Source: UN Comtrade database (2012).

Econometric studies can be employed to attempt to isolate the trade effects of trade agreements from other influences. Studies have found that CER has increased trade across the Tasman (box 3.8). For example, the Australian Commission concluded that CER had had a positive, though small impact (PC 2010).

At least some of the increased trade between partner countries resulting from preferential trade agreements can come at the expense of trade with other countries (as discussed in chapter 2). This is known as ‘trade diversion’ — as a result of reduced barriers being offered to one (or more) countries, goods imported from lower-cost suppliers are displaced by goods from higher-cost suppliers due to the latter facing lower barriers.

Trade diversion erodes the potential gains from measures seeking to increase trade openness. The significance of trade diversion depends on the differences between preferential and non-preferential trade restrictions.

Only a few econometric studies have sought to assess the impacts of CER on trans-Tasman and wider trade. Some early studies found that the CER may have been, on balance, trade creating, but two more recent studies suggest that CER has been net trade diverting (box 3.8).

Net benefits

The question of whether CER’s influence on trade in goods has produced net benefits for Australia and New Zealand is partly dependant on whether it has been net trade creating or trade diverting. Trade creation generates benefits from increased specialisation, economies of scale, competition and consumer choice as discussed in chapter 2. By contrast, trade diversion means shifting trade from lower-cost to higher-cost suppliers.

The more recent studies referred to in box 3.8, and in particular PC (2010), have benefited from developments in theory, data and statistical methods. These studies typically find that CER has been net trade diverting. While recognising that the results of such studies could not be considered definitive, the Australian Commission observed:

... the analysis suggests that the preferential nature of the [ANZCERTA] agreement appears to have altered the focus of many exporters (and importers) in these economies to the smaller markets within the agreement, forgoing some of the potential gains that would otherwise have been expected from exploring trading opportunities in markets elsewhere. (PC 2010, p. 143)

Box 3.8 Past analyses of CER's impact on merchandise trade

Assessing whether a particular agreement is trade creating or trade diverting is not straightforward, because there are often difficulties in isolating the impacts of trade agreements on trade flows from those caused by growth, changes in market conditions and shifts in policy settings. Further, most studies do not account for potential scale effects associated with access to larger markets or productivity improvements that might arise from greater import competition (although such effects will normally be correlated with the net trade creating effects of the agreement, positive or negative).

Against that background, past studies of CER (and other preferential trade agreements) have yielded varying results:

- The Australian Bureau of Industry Economics (BIE) examined the impact of CER on Australian manufacturing industry in 1989, and concluded that CER likely had had a small trade creating effect in affected sectors. It noted that any trade diversion effects of CER were likely outweighed by the separate trade creation effects of simultaneous general reductions in tariffs. The benefits of CER were attributed principally to rationalisation within industries, and specialisation across industries.
- BIE (1995) undertook modelling that indicated that CER had had a small positive impact on gross domestic product and welfare in both countries.
- Adams et al. (2003) found that a large number of trade agreements were net trade diverting, including CER. However, the authors noted that the results were less robust for agreements with few members, such as CER, and that their treatment of transport costs was likely to have underestimated the increasing attractiveness of Australia and New Zealand trading with other countries.
- DeRosa (2007) found that most preferential trade agreements have had net trade creating effects, but results for CER were often negative, although they varied with model specification.

In a more recent study of the impacts of trade agreements, including CER, the Australian Commission drew on data on trade flows between 140 countries for the period 1970–2008 (PC 2010). It also introduced methodological innovations to address deficiencies identified in earlier studies. While recognising the need for careful interpretation of the results, the Commission estimated that CER had had a small positive impact on trade between Australia and New Zealand, but a larger negative impact on both countries' trade with the rest of the world.

While it seems probable that CER caused net trade diversion in the past, the potential for trade diversion has been greatly reduced, as recognised by a number of study participants, including Lloyd (sub. DR62) and Greig (sub. DR123). Both countries have reduced barriers to imports generally and entered into agreements that extend preferential tariff rates to other countries. Moreover, CER may have helped bring about these broader tariff reductions, by helping to change opinions about trade protection for manufacturing, particularly in New Zealand (Scollay,

Findlay and Kaufmann 2011). The broader tariff reductions have greatly reduced tariff preferences for trans-Tasman trade.

Accordingly, it is unclear whether CER reductions in tariffs and quantitative restrictions on goods trade yielded overall net benefits or net costs for Australia and New Zealand in the past. What is clear is that CER tariff preferences are now low and so would be expected to provide only a modest ongoing boost to trans-Tasman trade, with minimal incentive for trade diversion. Therefore, any ongoing economic effects of CER tariff preferences are likely to be small.

The net benefits calculus for CER initiatives that aim to reduce behind-the-border barriers to goods trade is somewhat different. Such measures can increase trans-Tasman trade, but have a lower propensity to give rise to trade costs.

Reducing behind-the-border barriers can also save on resources devoted to complying with and enforcing regulations. For example, mutual recognition of product standards results in firms only having to comply with one set of regulations rather than two. This can increase the gains from trade even if it does not increase the quantity of trade.

One source of evidence on the influence of behind-the-border CER initiatives on trans-Tasman trade is provided by the Australian Commission's Review of Mutual Recognition Schemes. This review examined the Mutual Recognition Agreement that operates within Australia as well as the TTMRA. The Review found:

The views expressed by participants to this review, along with analysis undertaken by the Commission, suggest that the schemes have been effective in increasing the mobility of goods and labour within Australia and across the Tasman In so doing, they have almost certainly promoted efficiency, by allowing people and products to move to those uses that contribute more to community wellbeing. (PC 2009b, p. xxiii)

However, initiatives to reduce behind-the-border barriers are sometimes costly to achieve, as demonstrated by efforts to introduce the ANZTPA (box 3.4). While this initiative may in time prove to be worthwhile, so far considerable time and resources have gone into this process in expectation of future gains.

Trade in services is partly liberalised

Many services (such as banking, education and health services) that previously have been considered purely domestic activities are becoming more tradeable due to new communication technologies. The increasing importance of services trade has led to multilateral efforts to liberalise such trade, most notably through the

General Agreement on Trade in Services, which commenced in 1995. The CER Services Protocol pre-dates the General Agreement on Trade in Services.

Under the CER Services Protocol both countries agreed to treat service providers in the other country in the same way as they treat their own (the 'national treatment' principle). Each country maintains some protections for particular services inscribed on a 'negative list' specified in an Annex to the Protocol. Articles 10 and 20 of the Protocol provide for the items on the list to be reviewed regularly, 'with a view to the liberalisation of trade in such services and whether, and if so how, removal from the Annex could be achieved'. The number of exclusions on this list has been progressively reduced, as domestic economic reforms removed restrictions on competition in areas such as health insurance services, workers' compensation insurance and some postal services.

The remaining exclusions, specified in an Annex to the Protocol dated March 1999, are in the areas of air services, broadcasting, third-party motor vehicle insurance, postal services and coastal shipping for Australia. Air services and coastal shipping are the only remaining New Zealand exclusions.

The exemption from the Protocol applies only to some aspects of the services concerned. For example, in the case of the Australian inscriptions:

- coastal shipping: the exemption applies to cabotage policy
- broadcasting and television: limits on foreign ownership as set out in the Broadcasting Services Act 1992
- third-party insurance: compulsory third-party motor vehicle insurance
- postal services: the exclusive right, set out in legislation, of Australia Post to carry letters for reward within Australia, whether the letters originated inside or outside Australia, subject to four specified exceptions.

Even though air services are excluded in both countries, substantial progress to open this sector to competition has been made through the Single Aviation Market Arrangements and Open Skies Agreements.

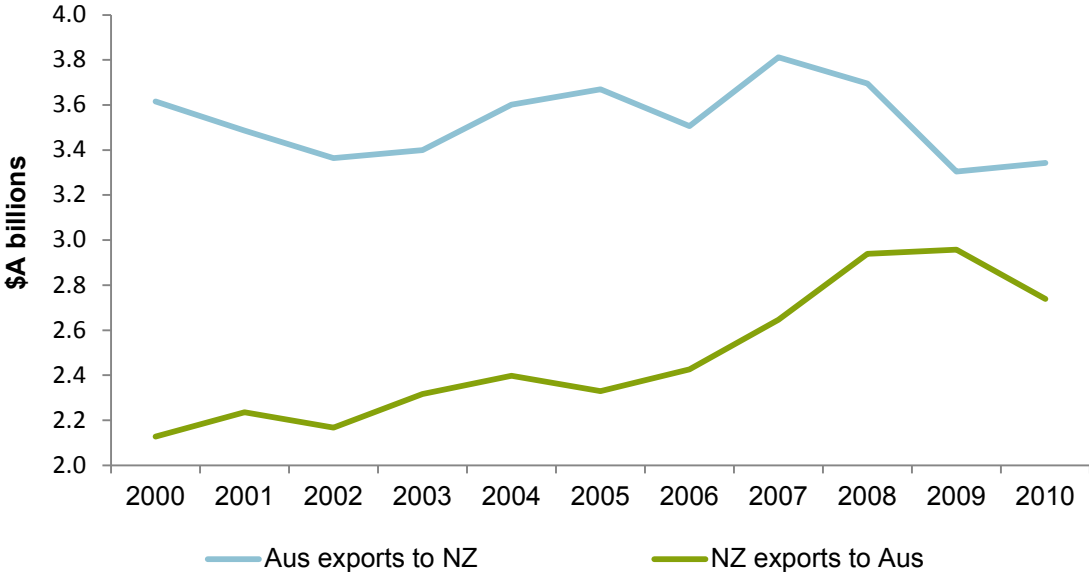
The BIE (1995) reported that the main significance of the CER Services Protocol was that it created an outward looking framework for services trade. Features of this framework include the use of a negative list (which prevents the exclusion of new services as they become tradeable) and the elimination of export subsidies for trans-Tasman trade. Ochiai, Dee and Findlay (2009) found the CER Services Protocol to be relatively liberal compared to other agreements in the Asia-Pacific region. This was mainly due to CER having few excluded sectors and no reservations that apply across all sectors.

As with goods, there have also been efforts to reduce barriers to services trade caused by regulatory differences between Australia and New Zealand. For example, the Trans-Tasman Council on Banking Supervision was established in 2005 to promote a joint approach to banking supervision and to deliver a more seamless regulatory environment in banking services.

Influence on trade and net benefits

Available data shows that two way trade in services between Australia and New Zealand amounted to about A\$6 billion in 2010 (figure 3.4). New Zealand is a considerably more important destination for Australia’s services than for its merchandise, receiving 6 percent of services exports versus 3 percent of merchandise exports.

Figure 3.4 Trans-Tasman services trade, 2010 prices



Source: ABS (2011b).

The value of New Zealand’s services exports to Australia has grown over the last 10 years, while there is no clear trend in the value of Australia’s services exports to New Zealand. However, little can be inferred from these data about the effects of CER on services trade, due to there being only 10 years of data and because the data is far from comprehensive (for example, it excludes trade via commercial presence). As such, there is value in examining the experience of particular services sectors. Some sectors have experienced marked increases in trans-Tasman trade since CER commenced and CER initiatives may have played a role (table 3.1).

Table 3.1 Effects of CER in selected services sectors

<i>Sector</i>	<i>Role of CER and other factors</i>
<p>Air services</p> <p>Since 1992, Australia and New Zealand have negotiated agreements that have progressively strengthened competition in the trans-Tasman air services market. While Qantas and Air New Zealand continue to dominate the market, more airlines now fly across the Tasman. Low-cost carriers have emerged and there has been an increase in the diversity of routes. As a result of greater competition, downwards pressure has been placed on airfares, resulting in broad community benefits.</p>	<p>CER-related agreements have made the trans-Tasman market one of the most liberal in the world. They allow fifth freedom rights (under which carriers from third countries are able to operate), as well as seventh freedom rights for cargo services. Eligible Australian and New Zealand airlines are also able to operate domestically in each country. Ownership restrictions have also been relaxed.</p>
<p>Financial services</p> <p>Australian banks now own almost 90 percent of the New Zealand banking sector. There is also a high level of Australian ownership of the New Zealand insurance industry. The integrated financial systems have played a role in each country's economic growth. Sound allocation of capital has enabled funding of economic opportunities, while at the same time encouraging efficiency in financial services.</p>	<p>Unilateral financial market deregulation in both countries appears to have been the major driver of increased trans-Tasman integration. However, it seems likely that the CER has produced benefits by harmonising certain regulatory procedures in ways that reduce transaction costs.</p>
<p>Telecommunications</p> <p>Until the late 1980s, telecommunications markets in both countries were dominated by vertically integrated, government-owned monopolies. Both markets now have significant trans-Tasman and international commercial presence. For example: TelstraClear (purchased by Vodafone from Telstra in 2012), operates in New Zealand; and AAPT (owned by Telecom NZ), operates in Australia. Greater integration has generated benefits from increased competition and the availability of foreign skills and technology. Consumers and producers face lower prices and improved availability of services.</p>	<p>Technological change, domestic policy reform, and CER and WTO agreements have driven integration. From 1989, microeconomic reforms in both countries opened markets to new entrants. The CER Services Protocol and the WTO's Basic Agreement on Telecommunications supported these reforms, furthering integration. CER initiatives, such as the harmonisation of consumer and competition law played a role by reducing business costs in the sector.</p>

Establishing a commercial presence is the primary way that many services are traded internationally (Hardin and Holmes 1997). This could involve, for example, a New Zealand architecture firm establishing an office in Australia. Establishing a commercial presence usually involves foreign direct investment (FDI). This means that there is a close link between services trade and investment.

Investment flows have increased substantially

Until recently CER had not made progress in formally liberalising investment flows between the two countries. An Investment Protocol has now been signed, but is

yet to be enacted. Despite this, there are some CER initiatives that have reduced barriers to firms expanding across the Tasman.

There is cooperation on securities regulation in both markets, including mutual recognition of securities offer documentation. The Australian Securities and Investments Commission (ASIC) found that this measure had reduced the cost of firms extending offers across the Tasman by between 55 and 95 percent (ASIC 2009). There are agreements resolving issues of double taxation of personal income (although little progress has been made on removing double taxation of company profits) and an agenda to continue harmonisation of business law. There is also an agreement between competition regulators in each country. Relevant competition legislation concerning misuse of market power has been amended to consider its impacts in the trans-Tasman market.

A large number of firms now do business across the Tasman (through both trade and investment), although they continue to face some barriers. Box 3.9 provides some insights into their experiences.

The lack of a CER investment protocol has not prevented a strong bilateral investment relationship developing between Australia and New Zealand. Australia is the largest foreign investor in New Zealand with Australians holding investments worth around A\$74 billion in New Zealand in 2010. FDI (that is, investment where the foreigner creates, or gains a significant interest in, a local firm) makes up over half of this investment (ABS 2012a). In the other direction, New Zealand is Australia's ninth largest source of foreign investment. In 2010, New Zealanders held investments worth around NZ\$34 billion in Australia, just under a fifth of which was FDI (SNZ 2011).

Figure 3.5 shows that the stock of Australian FDI in New Zealand has more than tripled in real terms over the past 18 years. The stock of New Zealand portfolio investment in Australia has more than doubled over this period.

The rise in the stock of Australian FDI in New Zealand may be explained by a variety of factors. Capital has become more mobile across national borders generally. In addition, movements in exchange rates and labour costs are likely to have made some Australian investments in New Zealand more attractive. New Zealand made extensive changes to regulation of its finance sector between 1984 and 1987, including removing restrictions on foreign firms, including Australian firms, from acquiring New Zealand banks. CER initiatives are likely to have also played a role, but it is difficult to isolate their effects.

Box 3.9 Firm level experience with trans-Tasman integration

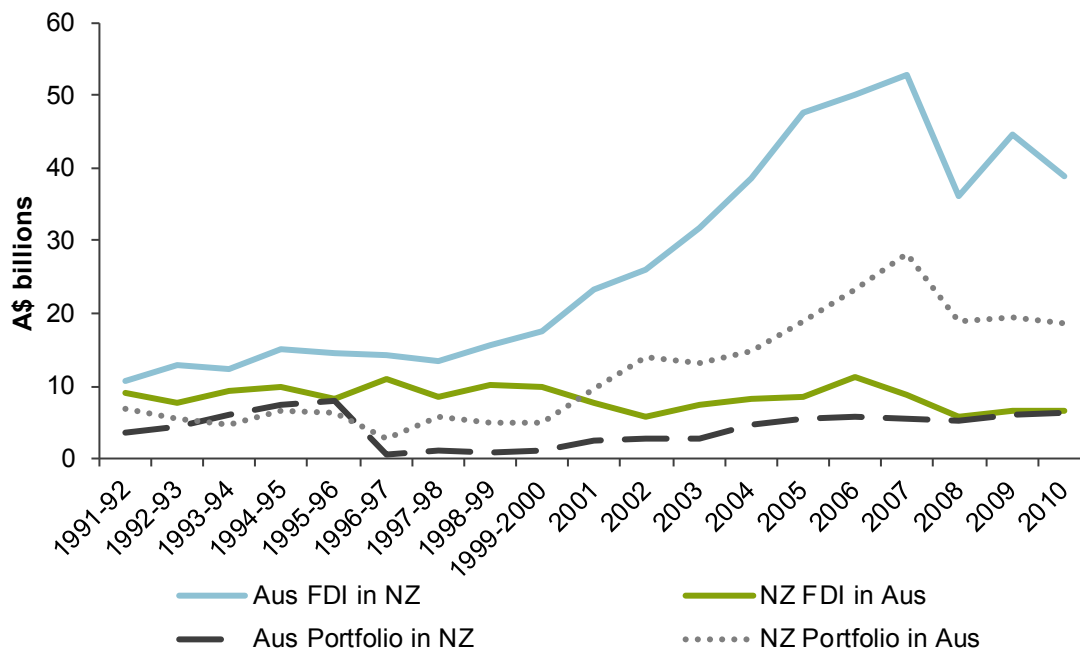
In 2004, the New Zealand Ministry of Economic Development commissioned a study to better understand the complex web of trans-Tasman business connections (ACIL Tasman and LECG Economics-Finance 2004). Firms from various sectors were interviewed, including manufacturing, health IT, telecommunications, legal services, banking, food and beverage, travel and retail. The study found that:

- over half of the New Zealand firms saw growth across the Tasman as crucial, while nearly all of the Australian firms saw it as incidental to wider ambitions
- it was more common for relatively small New Zealand firms to expand into Australia than vice versa (small Australian firms tend to grow by expanding into other Australian states first)
- reasons for involvement across the Tasman include incremental revenue and economies of scale, proximity and similarity, market diversification, outgrowing home markets, and a test market or learning experience for subsequent expansion elsewhere
- there were different types of integration experiences, covering different stages of the production and distribution chain (weak integration was often confined to distribution and sales, while strong integration generally involved multiple points in the process of production (and sometimes design))
- many New Zealand firms found Australia difficult, especially at first, due to 'bureaucratic hurdles, a strong need for local networks and a more ruthless business culture' (p. ix)
- spin-offs from integration included: better positioning for eventual expansion elsewhere; greater interest from Australian venture capitalists; cross-fertilisation of ideas and products that can then be used elsewhere; improved ability to manage stocks through intra-firm trade; and improved career prospects for staff
- intermediaries, such as law firms, banks and telecommunication firms, have facilitated integration and been stimulated by it.

Barriers to integration identified by respondents included: travel, transport and communication costs; legal, bureaucratic, insurance and other start-up costs in Australia; tax differences; differences in legal systems; regulatory differences; and rules of origin.

The Business Operations Survey provides more recent information about international engagement by New Zealand firms (SNZ 2012). The 2011 survey found that of New Zealand firms that export, 76 percent export to Australia (17 percent export to Australia only and 59 percent to Australia and other countries). The proportion of firms that exported solely to Australia was higher in services sectors, such as construction, finance and insurance and communication services. Barriers to exporting to Australia included limited experience in expanding beyond New Zealand and limited access to finance.

Figure 3.5 Stocks of trans-Tasman investment, 2010 prices^{a,b}



^a In 2010, foreign direct investment (FDI) plus portfolio investment made up 61 percent of total Australian investment in New Zealand and 74 percent of total New Zealand investment in Australia. ^b Data for New Zealand portfolio investment in Australia in 2001 was unavailable and has been intercalated from 2000 and 2002 data.

Source: ABS (2012a).

Inward FDI produces significant benefits for Australia and New Zealand. The OECD (2005) argues that liberalisation of FDI is associated with increased investment, trade and economic growth in the host country. New Zealand Treasury (2009) has stated that FDI inflows have improved economy-wide productivity by allowing domestic firms to access international supply chains, new technologies and foreign expertise and skills. Recent growth in Australia’s mining sector has been financed in part by a more than four-fold increase in FDI in the sector between 2001 and 2010 (PC 2012b). In terms of trans-Tasman flows, Australia accounts for over half of all FDI in New Zealand. Makin, Zhang and Scobie (2008) estimated that foreign investment in New Zealand between 1988 and 2006 (including direct and portfolio flows) increased incomes by NZ\$3300 per worker and national wealth by NZ\$14 000 per person (in 2007 dollars).

As international supply chains have developed, intra-firm trade has played an increasingly important role in economic integration (De Backer and Yamano 2012). Such trade can involve a firm producing an intermediate good for export to an affiliated company that undertakes further processing. For example, Cadbury, as part of a decision to specialise production across the whole trans-Tasman market, now produces chocolate crumb at its upgraded Dunedin factory for export to

Australia, where it is made into block chocolate. Data from the Australian Taxation Office indicates that intra-firm trade with New Zealand accounted for 6.2 percent of Australia's total intra-firm trade in 2010 (ATO unpublished). This is significantly higher than the 3.7 percent of Australia's total trade in goods and services that was with New Zealand in that year. Approximately 25 percent of Australian firms that engaged in intra-firm trade did so with affiliates in New Zealand. FDI facilitates intra-firm trade by allowing the establishment of foreign affiliates.

The free movement of people remains a key feature

Free movement of people between Australia and New Zealand far pre-dates CER, but remains an important aspect of trans-Tasman integration. From this base, there have been some CER initiatives that have had some influence in addressing barriers to people movement, such as TTTA, TTMRA and SmartGate (an automated passenger clearance system). However, changes have also been made to limit access to social security for some New Zealand citizens living in Australia (supplementary paper D).

People have moved between Australia and New Zealand since pre-colonial times, with a long history of labour exchange at all skill levels (DoL 2010). Since the 1970s, there has been a substantial increase in New Zealand-born people living in Australia, outpacing growth in Australian-born people living in New Zealand (figure 3.6).

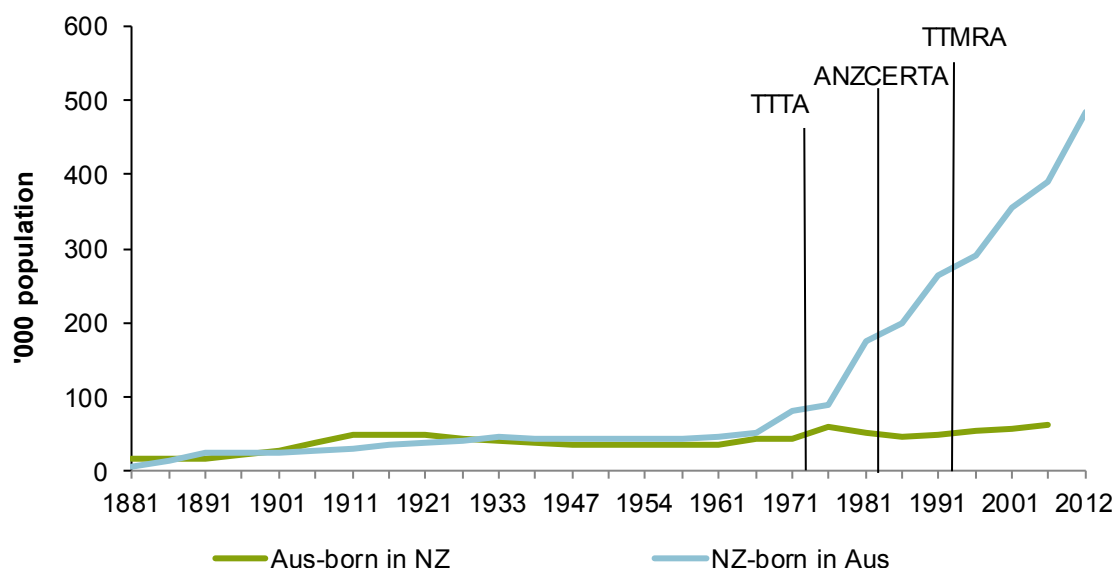
The proportion of people living in Australia who were born in New Zealand has increased from around 1 percent in the early 1970s to just over 2 percent in 2006. In contrast, the proportion of New Zealand's population born in Australia has steadily fallen from around 5 percent in the early 1900s to just under 2 percent by 2011 (supplementary paper D).

The TTTA and TTMRA are likely to have had an influence on trans-Tasman people movement. The TTTA formalised existing freedom of people movement, and extended freedoms to some citizens that previously faced restrictions. The TTTA and TTMRA have benefited both countries by allowing people to move to higher value employment, although there are some concerns in New Zealand about the number of people emigrating (supplementary paper D). The free movement of people has assisted in the development of business links between Australia and New Zealand (Greig, sub. DR123).

Analysis suggests that economic factors — mainly higher wages in Australia — have been the main ongoing drivers of net migration flows of New Zealanders to Australia (DIAC 2011; Green, Power and Jang 2008; Hamer 2008; Stillman and

Velamuri 2010). Poot (2009) highlights the correlation between divergence of real incomes on either side of the Tasman from the late 1960s and migration flows from New Zealand to Australia.

Figure 3.6 **Australia's New Zealand-born population has increased sharply**



Sources: ABS (2012b); Poot (2009).

Intergovernment cooperation is extensive

Collaboration between the Australian and New Zealand Governments is extensive and takes many forms, including:

- annual meetings of Prime Ministers
- regular ministerial and officials meetings (table 3.2)
- New Zealand ministers and officials being members, along with Australian federal and state counterparts, of many COAG Ministerial Councils
- shared representation on other councils, boards and other bodies (such as the appointment of Commissioners from the other country to the ACCC and the New Zealand Commerce Commission)
- joint ventures or other unincorporated activity
- joint body, company or other incorporated institution (such as FSANZ and JAS-ANZ).

Table 3.2 New Zealand ministerial and government agency interactions with counterparts in Australia, 2012^a

New Zealand agency	Ministerial meetings		Officials meetings		Other interaction	
	Number of groups	Total number of meetings per year	Number of groups	Total number of meetings per year	Number of bilateral instruments	Staff exchanges
Ministry of Foreign Affairs and Trade	8+	10+	14	17+	6	1
Ministry of Business, Innovation and Employment	9	10+	14+	21+	9	–
The Treasury	2	2	1+	1+	–	–
Inland Revenue Department	–	–	2+	2+	4	–
Ministry for Primary Industries	4	7+	6+	10+	6	1
New Zealand Defence Force/Ministry of Defence	3+	3+	2+	5+	2	1
New Zealand Customs Service	1	1	2	2+	3	1
Ministry of Education	2	2+	2	2+	–	–
Ministry for the Environment	1	2+	3	3+	–	–
New Zealand Police	1	2	2	6+	–	1
Ministry of Civil Defence and Emergency Management	1	1	1	4	2	–
Ministry of Health	1	3	1	3	1	–
Department of Internal Affairs	2	3	8+	10+	3	–
Others surveyed	3	2	5+	8+	7	1

^a These data are drawn from a non-comprehensive survey of New Zealand government agencies that interact with Australian counterparts. Meetings planned for the remainder of 2012 are included. – Nil or rounded to zero.

Sources: NZ PC and New Zealand Ministry of Foreign Affairs and Trade.

The CER agenda is developed and progressed through such collaboration, both formally and informally, including initiatives to coordinate regulations. The relationships and shared understanding developed through government-to-government contact have allowed each country to learn from the policy approaches of the other. This has allowed policy and regulatory frameworks to move closer together, which promotes increased integration.

Although Australia and New Zealand have mostly negotiated regional and bilateral trade agreements individually, they have sometimes taken a joint approach. The most notable example of Australia-New Zealand joint cooperation with other regional fora is the ASEAN Free Trade Area-CER dialogue. This initiative dates back to 1995. Since then, Australia and New Zealand have jointly negotiated further agreements with ASEAN, including the AFTA-CER Closer Economic Partnership, signed in 2002. Negotiations for a free trade area involving the 10 countries of ASEAN as well as Australia and New Zealand commenced in 2005. The agreement creating the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) came into force in 2010. AANZFTA provides for the progressive reduction or elimination of tariffs, market access commitments for services, and investment liberalisation commitments.

In social policy, both countries have agreed to reciprocal emergency health access for short term visits by residents of the other, and recognise child support determinations made by each jurisdiction. In addition, agreements have been made about access to social security for trans-Tasman migrants.

Summing up — CER has produced net benefits for both countries

The data presented above on trade, investment and people movement suggest that the Australian and New Zealand economies have become closely integrated and that CER has played a role in this. The conclusion is consistent with other measures of integration (box 3.10).

CER has been successful in removing explicit restrictions on trade and substantial progress has also been made in reducing behind-the-border barriers. Until recently, little progress had been made in reducing formal barriers to trans-Tasman investment, but this has not prevented a strong bilateral investment relationship from developing. Free movement of people between Australia and New Zealand was in place long before ANZCERTA commenced and this key feature of the relationship has been maintained.

Box 3.10 **How integrated are we?**

Measures of economic integration are often based on the extent to which a single market operates across national borders. Increasing cross-border flows of goods, services, capital, people and information should lead economies to display increasingly consistent characteristics.

Assessments of integration from this perspective are based on 'de facto' measures of economic interdependence, as opposed to 'de jure' measures of policy barriers to integration. As such, one weakness is that they capture both policy and non-policy factors. So they cannot, for example, distinguish between the impacts of CER and improvements in transportation and communications technology. However, they provide a useful complement to assessments of policy barriers and have been widely used to measure integration in other economically close countries (see, for example, European Commission 2008).

What do these techniques reveal about economic integration across the Tasman? First, the Australian and New Zealand business cycles have become more synchronised over recent years. This could be indicative of increased integration, driven by demand-side spillovers and financial linkages, or simply reflect greater synchronisation of the world business cycle. Perhaps more conclusively, price changes for the same products have become more strongly correlated across Australia and New Zealand over the medium to long term, and financial markets appear highly integrated. These results indicate that significant progress has been made towards achieving a single trans-Tasman market.

Notwithstanding this progress, the international border between Australia and New Zealand is estimated to be considerably 'thicker' than state boundaries within Australia. For example, the linkages between economic cycles and relative prices are tighter across states than they are across the Tasman. Greater economic interdependence across Australian states reflects internal trade and people flows that are much larger than between New Zealand and Australia. In addition, trans-Tasman price movements in services markets are less correlated than in goods markets, indicating a greater extent of market fragmentation. Consequently, this suggests that the opportunities for future economic integration across Australia and New Zealand predominantly lie in the services sector.

Source: Conway, Meehan and Zheng (forthcoming).

As documented above, the CER agenda is made up of many agreements dealing with diverse issues. CER has also progressed through close government-to-government contacts and cooperation. This has promoted a subtle process of mutual learning that has improved domestic policy in both countries, and brought regulatory and policy approaches closer together.

The quantitative evidence on the benefits and costs of CER is not definitive. To some degree this simply reflects the difficulty of isolating CER's effects from other

policy and market influences. There is evidence of trade diversion in merchandise, but the potential for this to occur has diminished greatly as both countries have dismantled trade barriers more broadly.

Some CER initiatives have worked better than others. For example, it is clear that TTMRA has enabled transaction costs to be reduced on a broad front. It is reasonable to infer that this has brought considerable benefits and, as the cost associated with this initiative is modest, that net benefits have resulted. In contrast, efforts to harmonise the regulation of therapeutic goods through the creation of a trans-Tasman regulator have been protracted and costly, with the gains remaining prospective.

However, in the main CER has avoided integration options that would be costly to secure. This is evident, for example, in the approach taken to more closely aligning competition and consumer protection regimes.

It is also likely that CER has helped engender reform to broader policy settings in Australia and New Zealand. CER appears to have helped to change opinions about trade protection for manufacturing and paved the way for unilateral reductions in tariffs generally, particularly in New Zealand (Scollay, Findlay and Kaufmann 2011). In this way, and unlike some other bilateral or regional agreements, CER appears to have acted more as a 'building block' than 'stumbling block' in the pursuit of wider integration. Wider integration has in turn brought large benefits, including higher standards of living in both countries.

Overall, the Commissions' assessment is that CER has produced net benefits for Australia and New Zealand, notwithstanding uncertainty about the magnitudes.

3.3 Implications for the future agenda

Experience with CER over the past 30 years yields some insights that are relevant to the future trans-Tasman integration agenda.

Future progress will require careful assessment

The early years of CER saw major advances, with restrictions on virtually all goods traded between the two countries eliminated by 1990. The agenda then moved into new areas, such as services trade and behind-the-border regulatory barriers. Implementing agreements on reducing behind-the-border barriers has proven more complicated than the early agenda focused on merchandise trade.

That said, there is an ambitious agenda of business law reform, and progress towards integration in many other areas. However, as advances are made, new integration opportunities are becoming less obvious. Extending or deepening the trans-Tasman integration agenda will generally require tackling more complex and difficult areas of policy and regulation. This makes it particularly important to identify those initiatives that offer a satisfactory payoff. Good public policy processes will be instrumental in ensuring that the best policy initiatives are selected.

Policy initiatives to encourage economic integration should be outward looking

CER was established to be outward oriented, rather than focusing inwards on the bilateral relationship. Originally motivated by the need to find replacements for European markets, the trans-Tasman integration agenda now needs to ‘fit’ with the broader challenges and opportunities being created by the rise of Asia (box 3.11).

Box 3.11 Australia and New Zealand in the Asian Century

The Australia in the Asian Century white paper, released by the Australian Government in October 2012, argues that the extraordinary ascent of Asia means that Australia is ‘entering a truly transformative period in our history’ (Australian Government 2012, p. 1). It reports that Asia’s share of global output increased from 20 percent in 1970 to 36 percent in 2010, and that this share is forecast to reach 47 percent in 2025 (based on GDP adjusted for purchasing power parity). Asia accounted for two-thirds of Australia’s goods trade in 2010 and this proportion is rising.

The white paper summarises the opportunities created by the rise of Asia as follows:

The Asian century offers a wealth of opportunities and career choices in a variety of businesses (including small and medium-sized enterprises), especially for Australia’s young people:

- in mining and resource related sectors — continued economic development in the region will drive demand for energy and mineral resources
- in tourism, sport, education, the arts and creative industries, professional, banking and financial services, and science and technology — thanks to growing affluence in Asia
- in agriculture — rising food demand, connected to rising populations and an expanding middle class in Asia, offers an opportunity for Australia to be an important supplier of high-value food, requiring greater investment by agribusinesses to boost output and research, adapt to regulatory change and build capacity

(continued next page)

Box 3.11 (continued)

- in manufacturing and services — as Australian businesses join regional and global value chains and over time become increasingly integrated and specialised, they will offer high-value and innovative products and services
- in environmentally sustainable growth, natural resource management, infrastructure development, urban design and health and aged care — as Australians leverage their expertise to do business with their neighbours. (Australian Government 2012, p. 8)

There is also recognition that not all parts of the Australian economy are facing the same opportunities and that some industries and regions are working through difficult transitions, due in part to intense competition from a rapidly industrialising Asia.

The proportion of New Zealand's trade accounted for by Asia has increased from 29 to 43 percent over the last 30 years. The opportunities and challenges for New Zealand in the Asian century are broadly similar to those for Australia, but with greater emphasis on agriculture, and less on mining and resources. Over the last two years the New Zealand Government has published country and regional strategies, known as NZ Inc strategies, with the first two publications focusing on India and China and another under way on ASEAN.

Australia and New Zealand's trade and investment links with Asia mean that what happens in Asia has repercussions for the trans-Tasman partners (box 3.12).

At the same time that Asian economies have expanded, multilateral efforts to promote trade liberalisation have lost momentum. The Doha Round began 11 years ago, but is yet to be concluded and its future is uncertain. This has reinforced the need to consider trans-Tasman integration in a broader regional and global context. It means avoiding actions that impede integration with other countries and extending trans-Tasman initiatives to reap further gains from broader integration in multilateral fora and at a wider regional level. Finding ways to ensure that trade and investment creation predominates more generally should continue to be an objective for CER.

The rise of Asia presents great opportunities for both countries — with benefits that potentially far outweigh those on offer through further trans-Tasman integration, significant though these may be. The best way to position both economies to capture the benefits of the 'Asian Century' will be to enhance their productivity and competitiveness. This means that each country needs to remain outwardly focused, and continue to pursue domestic policies that enhance efficiency and improve productivity.

Opportunities for Australia and New Zealand from growth in Asian economies depend on there being sufficient flexibility and business capability to respond to changing patterns of demand. Hence, it is important that the integration initiatives

and domestic reforms develop in ways that increase the capability of both economies to adjust to, and make the most of, changing economic circumstances.

Box 3.12 Transmission of Asian growth to Australia and New Zealand

The ANZEA model was used to illustrate the effects on Australia and New Zealand of growth in Asia. The first-round expansion was modelled as a uniform expansion in labour and capital (and corresponding incomes) in all Asian economies.

Asian growth of 10 percent contributes to gross national product (GNP) growth in Australia and New Zealand to a small extent — far less than 1 percent (see table). Growth in Asia:

- increases demand for Australian and New Zealand exports
- improves Asian competitiveness, crowding out Australian and New Zealand exports.

At the industry levels, growth in the Asian construction sectors (especially in China) translates into increased demand for Australian mineral exports. Growth in Asian consumer demand (especially in ASEAN) translates into increased demand for agricultural products, especially dairy and meat products from New Zealand.

Lower bound results in the table are associated with high substitutability between domestic and imported products. Growth in input supplies in Asia decreases production costs and prices. To the extent that cheaper domestic products can be substituted for imports, this domestic production crowds out Australian and New Zealand exports. This is especially the case for agriculture. Upper bound results occur when low substitution is assumed — the expansion effect dominates as Asian economies expand their use of unique Australian and New Zealand products and little crowding out occurs.

Table Economy-wide effects of 10 percent growth in Asia, percent

	<i>Australia</i>	<i>New Zealand</i>
GNP	0.02 – 0.11	0.00 – 0.12
Exports	1.07 – 1.83	0.02 – 0.86
Value-added		
Agriculture	0.12 – 0.50	0.12 – 0.29
Mining	1.40 – 2.00	0.38 – 0.67
Exports to Asia		
Agriculture	1.83 – 3.11	2.16 – 3.09
Mining ^a	4.62 – 5.16	5.13 – 5.69

^a Mining accounts for only 0.64 percent of New Zealand exports. Thus even a relatively large percentage change in mining production contributes only small changes to New Zealand output. In contrast, mining accounts for more than 21 percent of Australian exports, and contributes significantly to Australian output.

Source: Australian Commission estimates.

CER also has the potential to be a model for reducing integration barriers in the Asia-Pacific region. That said, there are aspects of CER that are unlikely to be able to be extended to countries that do not share the two countries' institutional similarities. For example, mutual recognition of occupational licencing would not be likely to work well between countries with very different licencing requirements.

Finally, an integrated Australasian economic area with similar (high-quality) regulatory approaches, greater critical mass in high-value competencies and relatively seamless internal interactions can position itself as a more attractive economic region in the eyes of Asian businesses and consumers.

The focus has shifted towards the services sector

CER began as a trade agreement, and gradually evolved to have a broader coverage. This is consistent with the evolving composition of the Australian and New Zealand economies. In common with other developed countries, both economies are oriented towards services, which in aggregate account for around 80 percent of each country's GDP (gross domestic product) (chapter 1). Moreover, there has been a significant increase in the share of services in global trade, particularly with developed countries.

While manufacturing was more important at the inception of CER — which is one reason why trade in manufactures was the focus of the initial agreement — it remains significant in both economies. That said, with the services sector dominating and with barriers to trade of manufactures having been substantially reduced under CER, initiatives that affect services trade and investment could be expected to absorb an increasing share of future policy effort.

Scale remains an issue

A driver for CER was the expectation that improved access to trans-Tasman markets, in an environment where access was being denied to Europe, would enable firms in both countries to specialise and achieve economies of scale.

Thirty years on, the small scale of domestic markets remains an issue, particularly for New Zealand. Australia and New Zealand rank 13th and 55th respectively amongst world economies when size is measured by GDP (IMF 2012). Australia's population and labour force are each approximately five times the size of New Zealand's and its GDP is over seven times as large (on a purchasing power parity basis). In terms of population, New Zealand is about the same size as Queensland, Australia's third largest state. These size differences have increased

over time because of Australia's higher trend rate of growth in both population and GDP per person.

The difference in size of the two economies carries over to individual industries and sectors. For example, the Australian telecommunications market has between four and five times as many customers as New Zealand's across fixed line, mobile and internet services. Industries with large fixed costs such as telecommunications and transport infrastructure suffer higher unit costs in small markets and are forced to pass these on to customers. Small markets also limit the scope for competition to drive efficiency and innovation (Berry 2011).

Both countries also face the challenge of their distant location from major markets and from places that are prime sources of creativity and innovation. According to empirical estimates in one study (Boulhol and de Serres 2010), the GDP per person of both countries is around 10 percent less than it would be if their distance from world economic activity was around the average for OECD countries.

The challenges of size and distance highlight how important it is that CER remains outward oriented. They also explain why New Zealand firms place such importance on having access to the Australian market. Services delivered by commercial presence, as well as government services and regulatory functions, have better opportunities to reap economies of scale and scope in an integrated trans-Tasman market.

The combined GDP of Australia and New Zealand would rank as the 12th largest world economy. This is only one place higher than Australia on its own, but obviously represents a significant increase in ranking for New Zealand. It follows that closer integration is likely to be particularly attractive to New Zealand. It is through the twin track of a larger 'domestic' market and greater international integration that CER can contribute most effectively to overcoming the problems of scale.

People mobility is beneficial, but brings with it some complex issues

Large numbers of people on both sides of the Tasman have taken advantage of opportunities to move between the two countries, for both short and long-term visits (or permanent migration). This has brought gains, particularly for those involved, but some complex issues have arisen.

In particular, there are concerns about:

- adjustment costs, including possible 'hollowing out' of the New Zealand economy (chapter 2)
- whether New Zealanders who have lived and worked in Australia for an extended period have appropriate access to social security entitlements and pathways to citizenship
- potential future costs to the New Zealand Government from New Zealand citizens returning after an extended absence and then accessing the age pension.

CER should continue to complement domestic reform

Domestic imperatives in each country, rather than CER, were the primary drivers of the market-based reforms that commenced in the 1980s. Yet, as box 3.2 shows, there have been marked similarities in the policy approaches taken in the two countries, with Australia leading in some cases (such as in the removal of capital controls and floating the exchange rate) and New Zealand leading in others (such as central bank independence and the goods and services tax). While the countries have taken their own approaches to economic policy, cooperation with and learning from the other have also been a feature.

A further important implication is the need to strike the right balance between domestic reform, trans-Tasman reform and other regional and multilateral reforms. Developing and implementing policy absorbs resources and the scarce time of ministers, parliamentarians, officials, and private-sector players. The wrong balance can have large opportunity costs. Consideration of trans-Tasman integration initiatives must take this into account, particularly given the ongoing importance of domestic reform for productivity growth.

Pragmatism can be a virtue

CER has benefited from the pragmatic approach taken by governments and bureaucracies over the years. In general, effort has been focused on areas identified as being important to business and consumers, and for which practical and politically feasible solutions could be anticipated (Scollay, Findlay and Kaufmann 2011). Institutional arrangements for managing the integration agenda have been kept simple and light-handed. Some joint institutions have been established, but supranational institutions have been avoided.

A pragmatic approach has also been useful in relation to the unequal nature of the trans-Tasman relationship. As noted, Australia has a much larger economy and this means that trans-Tasman integration is a ‘higher stakes game’ for New Zealand. In the main, both Governments have understood this imbalance and worked constructively with its consequences. On the Australian side this has meant appreciating that integration brings larger adjustment pressures for New Zealand which need to be managed. On the New Zealand side, it has meant understanding that integration is a lesser priority for Australia, and that progress needs to be made when opportunities arise. In some cases, the best option for New Zealand may be to simply adopt Australia’s regulatory approach.

The future CER agenda should retain this pragmatic approach, within the conceptual framework developed in chapter 2.

Harmonisation is challenging

Implementing a reduction in tariffs is generally straightforward. By contrast, decisions to pursue regulatory harmonisation or other mechanisms to reduce behind-the-border barriers are usually more challenging. Agreement must be reached on the extent to which regulatory differences should be removed and whether institutional changes should be made (such as moving to a joint regulator). Implementation may require extensive changes to legislation, administrative procedures and regulatory institutions. For example, consideration needs to be given to how laws relating to privacy, Ombudsman oversight and the review of decisions should apply to joint regulators (Office of the Australian Information Commissioner, sub. DR74).

The experience with regulation of food safety and therapeutic goods demonstrates the challenges of harmonisation (boxes 3.3 and 3.4). The success of FSANZ suggests that some level of flexibility for countries to respond to domestic issues and preferences within a harmonised regime can help to reduce the costs associated with the loss of national autonomy. The perceived lack of such flexibility in the original arrangements proposed for therapeutic products appears to have contributed to delaying the introduction of the ANZTPA. Further, the case of FSANZ illustrates the point that harmonisation across the Tasman has a higher probability of success if it builds on reform and alignment that has already occurred across Australian jurisdictions.

The scope of ANZTPA’s activities is to include the enforcement of regulations, while FSANZ does not perform this function. Accordingly, ANZTPA represents a more far-reaching model for harmonisation, and this has also contributed to the

delays and costs of its introduction. The lesson here is that more complex forms of harmonisation generally bring added costs and so should only be embarked on where the net benefits can be substantiated as larger than for alternative options.

More broadly, harmonisation efforts should draw on the best regulatory approaches in both countries. Aligning regulatory arrangements changes the magnitude and incidence of regulatory costs (compliance costs for businesses and broader efficiency costs). These effects should be considered when evaluating harmonisation proposals, as noted by some industry participants (box 3.13).

Box 3.13 Benefits and risks of harmonisation — industry perspectives

Many submissions called for greater alignment of regulatory arrangements between Australia and New Zealand. For example, the Pharmaceuticals Industry Council made the case for harmonising the rules and regulations for conducting clinical trials for new pharmaceutical products:

Harmonising ... would allow faster, easier and ultimately cheaper access to research sites across the two jurisdictions. This would not only give researchers the ability to recruit more patients into clinical trials, but also give patients in both jurisdictions faster access to new healthcare technologies. (sub. 43, p. 3)

However, it noted a risk of harmonisation:

... Australia and New Zealand must ensure that a more harmonised system builds on existing strengths of each jurisdiction and does not impose one's weaknesses on the other. (sub. 43, p. 3)

In a similar vein, Accord Australasia noted that closer alignment of Australia's chemical regulations with those of New Zealand could significantly reduce industry costs while maintaining good health and safety outcomes. However it also cautioned:

... we also do not believe that the regulatory requirements in either country should be increased to achieve this end — outcomes should optimise net trans-Tasman benefit. (sub. 54, p. 10)

Fonterra referred to an instance where it believed harmonisation was desirable. It also emphasised the importance of selecting the right model for harmonisation:

Laws relating to criminalisation of cartels should be harmonised, but not by adopting the Australian model. There is no sound policy basis for criminalising cartels, in particular no evidence that criminalisation increases compliance where there are already significant sanctions for breaches of the relevant laws. (sub. 14, p. 3)

Standards Australia noted the challenges associated with harmonisation, specifically in the context of standards, but observed that there were opportunities:

Where economic imperatives differ between countries, the harmonisation of standards can often prove challenging and avoiding a 'race to the bottom' is critical. However, the aforementioned high rate of adoption of international standards both regionally and internationally is an excellent opportunity to achieve harmonisation. (sub. 44, p. 2)

The immediate benefits of harmonisation generally accrue to firms and individuals who already operate across or move between different jurisdictions. Harmonisation may also induce some firms and individuals to extend their activities from one to both countries. However, for those who continue to operate entirely within one jurisdiction, harmonisation can be a negative. There may be one-off costs from the need to change systems to suit new rules and ongoing costs if the new regulations are more onerous. Accordingly, it is important to consider the costs and benefits of harmonisation on a case-by-case basis.

There are many areas of regulation where harmonisation even across Australia's own jurisdictions has not been achieved. Where this is the case, the prospect of — and potential benefits from — harmonising across the Tasman can be much reduced. In these and other cases, mutual recognition provides a worthwhile alternative as demonstrated by the TTMRA. Mutual recognition can also act as an effective precursor to harmonisation.

Political leadership is important

Trans-Tasman integration initially had little active support from the business community in Australia and New Zealand, and strong vested interests opposed it. The steps taken during the New Zealand Australia Free Trade Agreement era and the early years of CER depended on advocacy by individual politicians, although key business leaders, academics and government officials also played an important role. Although many of these steps were small, they were important in building a constituency for change. Political leadership was instrumental in achieving the breakthrough reforms arising from the 1988 review. At various times political support has been important in regaining momentum for further integration.

Public opinion surveys suggest that there is support in both Australia and New Zealand for at least the current extent of integration, although the recent problems in Europe may create public scepticism about further trans-Tasman integration initiatives. History suggests that political leadership is likely to continue to play an important role in carrying forward the CER agenda.

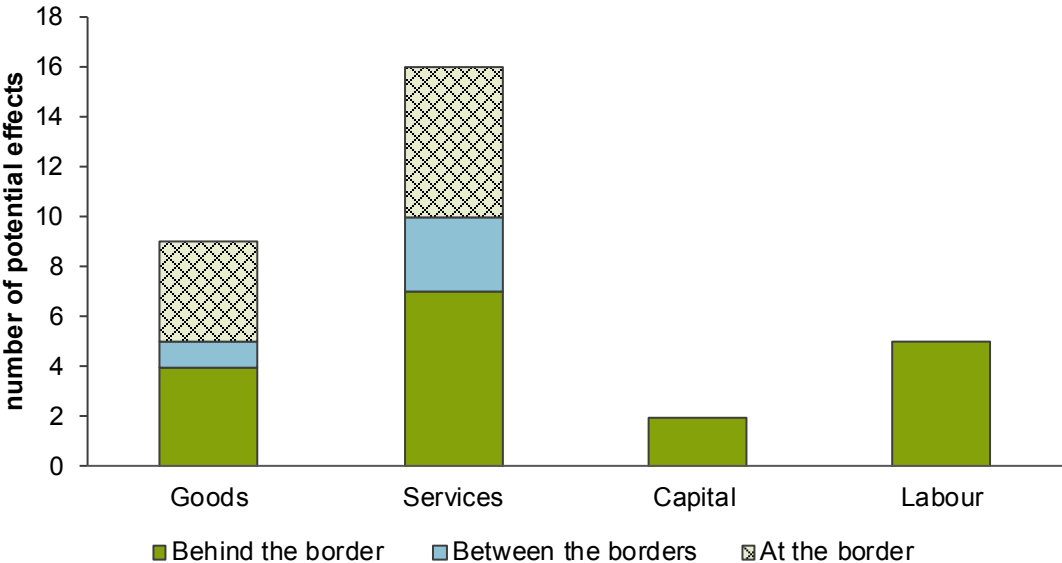
4 Opportunities for further integration

Key points

- This chapter identifies 28 policy initiatives to strengthen trans-Tasman economic relations in ways that could yield joint net benefits.
- Most address regulatory barriers (typically behind the border) to services trade and commercial presence, and some remaining impediments to integration in goods, capital and labour markets.
- Some involve initiatives underway (initiatives to which both Governments have committed but have not yet completed). Others are new initiatives, some of which will require more detailed consideration.
- There is also greater scope for each Government to cooperate with and learn from the other in policy development and service delivery.
- Waiving rules of origin for traded goods for which tariffs are at 5 percent or less would reduce compliance and administrative costs for a significant proportion of trans-Tasman trade. Building on this reform, each country could reduce tariffs that exceed 5 percent down to that level.
- While the trans-Tasman air route is already quite competitive, two regulatory barriers to competition on this route could usefully be removed.
- The exemption of ocean carriers from key parts of competition regulation is no longer necessary and should be repealed.
- The two Governments should implement the Investment Protocol they signed last year and consider removing the remaining restrictions.
- Mutual recognition of tax imputation credits (MRIC) on trans-Tasman investment could expand investment and bring efficiency gains, but would involve sizeable fiscal losses and income transfers, which are more likely to leave Australia worse off. The two Governments should either initiate a process for determining whether there is an efficient, equitable and robust mechanism to ensure a satisfactory distribution of the gains from MRIC; or announce that MRIC will not go ahead if such a mechanism is considered infeasible.
- Different social security and tax systems have placed some New Zealanders resident in Australia for long periods in anomalous situations. The Australian Government should enhance information for arriving and long term resident New Zealanders; address the issues faced by non-Protected Special Category Visa holders living long term in Australia including by developing pathways to citizenship; and seek to improve their access to tertiary education.
- Within the context of the CER, the SEM and the TTTA, the Australian and New Zealand Governments should review the principles governing access to social security and further develop bilateral engagement on migration policies.

This chapter assesses initiatives to further integrate the Australian and New Zealand economies. Some are ‘initiatives underway’, that is, initiatives to which both Governments have committed, but have not completed (section 4.1). Others are new initiatives (sections 4.2–4.6). The areas and impediments covered in these sections have been selected drawing on the filtering criteria outlined in box 2.7. Most involve impediments to trade in services. Regulations behind the border are particularly important (figure 4.1).

Figure 4.1 Areas potentially affected by recommendations^a



^a Number of areas substantially affected by the recommendations identified in chapter 4. Some recommendations are likely to affect more than one area.

The chapter also considers initiatives that the Commissions consider should not proceed (section 4.7).

The Commissions’ analysis is summarised in this chapter. Supplementary papers examine many of the initiatives in more depth.

4.1 Initiatives underway: key areas to deliver

The Commissions have identified four areas — business law, mutual recognition of occupational licensing, therapeutic products regulation and the CER Investment Protocol — in which the Australian and New Zealand Governments have committed to policy initiatives that have not been completed at the time of writing.

Business law reforms are mostly on track

The program as a whole

In September 2012, the Trans-Tasman Outcomes Implementation Group (TTOIG) reported that one of the 19 medium term outcomes in the business law SEM program had been completed, 12 were on track for completion by the end of 2014, four were slowing or on hold, and two have been removed, with ministerial agreement (box 3.6). Eight short term outcomes have been completed; one has been delayed. The delays to outcomes were explained as follows.

- *Aligning corporate trustee regimes for financial products*: Other priorities in Australia continue to delay the review of the corporate trustees regime for debentures.
- *A standard set of financial and business performance data for reporting to governments*: Progress in New Zealand has been affected by the creation of the Ministry of Business, Innovation and Employment. It is expected that the outcome will be further progressed in 2013.
- *A single plant variety rights regime*: It may be difficult to achieve a single application process for trans-Tasman plant breeder's rights until New Zealand ratifies the International Union for the Protection of New Varieties of Plants Convention 91. The intellectual property regulators are considering revising this outcome so that it does not depend on this ratification.
- *Sharing confidential information between competition and consumer law regulators in both countries*: The necessary legislation has been passed in both countries. The memorandum of understanding between the two competition agencies will need to be revised to comply with new statutory requirements.
- *Single filing of company information*: Financial reasons have delayed progress in both countries, although the relevant regulators are exploring how to make progress within current funding (TTOIG 2012).

The TTOIG should complete those parts of the business law integration program for which it remains responsible according to the specified timetable, unless it considers that the net benefits are no longer evident or need further investigation.

A single application and examination process for patents

A single application and examination process for patents, which is part of the business law reform agenda, is intended to simplify the process for those seeking a patent in both Australia and New Zealand and to facilitate closer coordination

between the Australian and the New Zealand Intellectual Property Offices. A facility that allows for a single patent application will be introduced in 2013, while joint examinations will be phased in from 2014 (TTOIG 2012). Separate patents will still be granted in each jurisdiction, avoiding the need for full alignment of the two countries' patent laws.

This initiative should have benefits for both countries. The patent examination process is complex, and it may be increasingly difficult for small countries to maintain the necessary capacity to conduct effective examinations (Barton 2004). Closer cooperation between the Australian and New Zealand Intellectual Property Offices will offer knowledge transfer and greater specialisation which can improve the ability of both offices to respond to current and future demands (TTOIG 2012).

On the cost side, the New Zealand Institute of Patent Attorneys (NZIPA, sub. 30) and the intellectual property firm Baldwins (sub. 45) suggest that a single process would increase applications by overseas owners of intellectual property for patents in both countries (when previously they would have only applied in Australia), to the disadvantage of New Zealand innovators. The NZIPA (sub. DR89) suggests that the experience of countries that have recently joined the European Patent Convention — a regional patent system that shares some similarities with the proposed trans-Tasman reforms — supports this contention.

IP Australia (sub. DR89, p. 5) accepts that the single examination process could increase patent filings in either country, but for two reasons expects any increase to be 'modest'. First, although the proposed reform is anticipated to reduce costs, the commercial viability of seeking patent protection in an additional jurisdiction depends on a range of other costs associated with prosecuting, maintaining and enforcing patent rights. Second, Australia and New Zealand are both members of the Patent Cooperation Treaty, an international patent law treaty, which already provides a streamlined approach for filing applications in multiple jurisdictions. As such, the proposed changes merely present another option for applicants who wish to file in Australia and New Zealand. IP Australia also suggests that increased patent filing will not necessarily diminish local innovation. It notes that the threshold for granting a patent (for example, the required levels of inventiveness and disclosure) has a more important impact, and that both countries are taking steps to strengthen the thresholds for granting patents.

As evident in the contrasting opinions raised in submissions, the impact of a joint application and examination process on the rate of patent filing is difficult to predict — particularly given that many other factors also influence the decision to seek patent protection. The extent to which innovation opportunities might be constrained by increased patent filing in either country is also unclear.

On balance, given the potential operational benefits from closer collaboration between the Australian and New Zealand Intellectual Property offices, the Commissions consider that this reform should be completed within the current TTOIG process and timeframes. As noted in chapter 5, arrangements to review the effectiveness of major programs are an important part of good governance and, as a general rule, significant trans-Tasman initiatives should include a commitment to cost-effective evaluation. The trans-Tasman intellectual property reforms, particularly those relating to patents, should be evaluated within three years of implementation to assess their economic impacts and to identify lessons that can be drawn from this collaboration.

R4.1

The remaining outcomes in the business law single economic market program should be completed on time, unless it can be demonstrated that they would no longer generate net benefits.

R4.2

The Australian and New Zealand Governments should proceed with the implementation of a single application and examination process for patents. The trans-Tasman intellectual property reforms, particularly those relating to patents, should be evaluated within three years of implementation.

Mutual recognition schemes

The trans-Tasman Mutual Recognition Arrangement (TTMRA) seeks to promote economic integration by reducing regulatory impediments to the movement of goods and provision of services across the Tasman. In the case of goods, mutual recognition enables goods produced in or imported into one jurisdiction, and that may lawfully be sold in that jurisdiction, to be sold in a second jurisdiction without meeting additional regulatory requirements in that jurisdiction. In the case of services provided by a range of occupations, mutual recognition means that registration in an occupation in one jurisdiction is sufficient grounds for registration in the equivalent occupation in another jurisdiction (PC 2009b). Mutual recognition principles do not apply in circumstances that are covered by provisions for exclusions, exceptions and exemptions (temporary and permanent).

The Australian Commission reviewed the TTMRA in 2009, in line with a requirement in the TTMRA that it be reviewed every five years. The Commission's overall assessment was that:

Mutual recognition — under both the MRA and TTMRA — has served the Australian and New Zealand economies well. ... However, many of the gains have been captured and fulfilment of the full potential of the schemes is now stymied by ambiguities and omissions in the Acts, and by weaknesses in their implementation. There is also a strong case for extending the coverage and scope of the schemes, given the many changes that have occurred in the goods and labour markets over the past decade or so (PC 2009b, p. xxxviii).

The Commission recommended a number of ways to improve the TTMRA (box 4.1).

Box 4.1 Key Australian Productivity Commission's recommendations for improving the TTMRA

The Commission recommendations included:

- Changes should be made to the exemptions of some occupations and goods from mutual recognition. For example:
 - the exemption for medical practitioners should be removed for those who have gained their medical qualifications within Australia or New Zealand
 - some categories of goods subject to special exemptions from mutual recognition across the Tasman should be mutually recognised. Others should continue to be special exemptions, while the remainder should be converted into permanent exemptions.
- Amendments to the mutual recognition legislation are urgently needed to remedy ambiguities and omissions in the Acts. In particular:
 - mechanisms for regulators and stakeholders to seek advice and declarations from the Trans-Tasman Occupations Tribunal should be clarified and/or created
 - requirements for the use of goods, insofar as they prevent or restrict the sale of goods, should explicitly be brought into the scope of mutual recognition.
- Australia and New Zealand should take into account the possible impacts that international agreements will have on the mutual recognition framework when negotiating future initiatives with third countries.
- The Cross Jurisdictional Review Forum (the joint Australia–New Zealand government body with carriage of mutual recognition) should report annually to COAG on its program and achievements.

Source: PC (2009b).

The joint response of the Commonwealth, State and Territory Governments of Australia and the New Zealand Government to these recommendations has not been published. However, the Commissions understand that the situation is as follows.

-
- The Governments decided that the special exemptions that previously applied to five categories of goods should become permanent exemptions. This was effected in 2010.
 - As noted in chapter 3, in June 2011 the Governments of Australia and New Zealand agreed to establish a joint Australia New Zealand Therapeutic Products Agency (ANZTPA). Therapeutic products were previously subject to a special exemption from mutual recognition.
 - In April 2010, the Australian Parliament passed the *Health Insurance Amendment (New Zealand overseas trained doctors) Act 2010*, which relaxed restrictions on New Zealand citizens and permanent resident doctors who gain their first medical degree from a New Zealand or Australian university.
 - Some of the recommendations for legislative change have been rejected and others (for example, use of goods requirements and new judicial remedies) are still being considered. In some cases, the Governments considered that the recommendations could be taken up without recourse to legislation through, for example, updating *the User's Guide to the Mutual Recognition Agreement and Trans-Tasman Mutual Recognition Arrangement*. This work is underway and will include case studies and other relevant examples, where they are available, to help avoid any remaining ambiguity about how to implement the TTMRA (MBIE, pers. comm., 5 November 2012).
 - Advice was taken on possible changes in approach to streamline the legislative process, as currently legislation has to be enacted in 10 legislatures. This advice has not been acted upon to date, given other priorities.
 - The Cross Jurisdictional Review Forum considered the five-yearly review process provided the appropriate means for reporting to COAG on progress with mutual recognition matters. In between, reporting to COAG senior officials should be on an as-needed basis.
 - Amongst the jurisdictions, there is interest in the review's recommendations to broaden mutual recognition to the direct provision of services in regulated occupations (so that registration in one jurisdiction would permit provision of services across jurisdictions). Proposed work in this area by the New Zealand Government was put on hold pending the conclusion of this joint scoping study.
 - There has been little progress on trans-Tasman occupational mutual recognition, pending development of national licensing arrangements for a number of occupations in Australia. It was felt that any changes needed to be advanced in Australia before their implications for trans-Tasman mutual recognition were further explored. That said, examples such as the recent mutual recognition of financial advisers suggest that the TTMRA continues to generate benefits, and the Commissions did not come across evidence of firms

lacking access to adequate information about mutual recognition. Occupational licensing is discussed further in the next section.

In summary, some changes have been made following the recommendations of the 2009 review but it appears that, with the exception of work on ANZTPA, other priorities on both sides of the Tasman have prevented non-essential work involving the TTMRA from being undertaken.

R4.3

The Australian and New Zealand Governments should give priority to implementing those recommendations of the Australian Commission's 2009 review of the Trans-Tasman Mutual Recognition Arrangement that were accepted by Governments.

It would be unsatisfactory for the next review of the TTMRA, due to begin in 2013, to proceed without stakeholders in that review knowing the Governments' response to the 2009 review and any impediments to implementing those recommendations that were accepted. To enable stakeholders to contribute effectively to the upcoming review, a report outlining progress since the 2009 review should be published.

R4.4

Governments should publish a progress report on implementing accepted recommendations of the 2009 review of the Trans-Tasman Mutual Recognition Arrangement before the next review, scheduled in 2013.

The national system of occupational licensing

Where the scope of authorised activities differs across jurisdictions, regulators can impose conditions on licensees, in order to define the boundaries of mutual recognition. This, however, complicates the task that regulators face and can result in labour mobility being lower than otherwise.

While agreement on a national occupational licensing system within Australia would address inter-jurisdictional differences within Australia, it will be some time before such regimes are developed across all occupations. Moreover, it may not be worth developing licensing regimes for less significant occupations or where licensing is only required in a few jurisdictions, or when there is little cross-jurisdiction movement (PC 2009b).

Even when there is an Australia-wide licensing scheme, New Zealand generally will not be part of it, which means that the TTMRA remains important and that its interface with Australian licensing needs to be considered. For this reason, the Australian Commission's view in 2009 was that:

... Given the importance of regulator cooperation in the operation of the TTMRA, engagement of New Zealand regulators in the development of new systems in Australia appears highly desirable. (PC 2009b, p. 110)

COAG continues to work on a national occupational licensing system, and the New Zealand Government is undertaking a scoping study of occupational regulation. Ongoing consultation across the Tasman would allow regulators to harness synergies from these separate national developments without undermining trans-Tasman mutual recognition.

R4.5

Australian and New Zealand occupational regulators should share knowledge and lessons in developing efficient and effective occupational licensing systems. Relevant Australian and New Zealand regulators should be included in consultations around the development of national occupational licensing systems in the other country.

The Australia New Zealand Therapeutic Products Agency (ANZTPA)

The ANZTPA — the first trans-Tasman authority to enforce regulation as well as set standards — should be fully operational by 2016 (box 4.2).

Given the difficulties that have been experienced in progressing this project since it was first contemplated in 1999 (chapter 3), regular publication of progress reports (similar to the six-monthly report published by the TTOIG) would assist stakeholders to plan and would signal the need for remedial action if implementation schedules slip.

After the ANZTPA has been set up, it would be useful to review: why this project has taken so long; how the barriers to establishing ANZTPA were overcome; and whether other approaches could have achieved similar outcomes more quickly. Insights from this review should help to channel future efforts towards initiatives with the largest net benefits and improve their implementation.

Box 4.2 **Towards the Australia New Zealand Therapeutic Products Agency**

A three stage approach has been adopted to progressively achieve, over a period of up to five years, the goal of a single regulator.

1. The two countries' regulators, the Therapeutic Goods Administrator (TGA) and Medsafe, will immediately begin sharing work and doing more operations jointly. This is intended to enhance each country's regulatory system, through sharing data, information and training, and establishing centres of expertise in each country.
2. Building on this, a single entry point for industry will be established and a common trans-Tasman regulatory framework will be agreed.

During these two preliminary phases, each country will retain its own regulator and continue to make its own regulatory decisions. Business should benefit from having to comply with only one set of requirements to operate in the two countries.

3. As operations become increasingly integrated and following a review of progress, the single regulator will be established.

Source: Department of Health and Ageing (2011).

R4.6

Given the long time it is taking to set up the Australia New Zealand Therapeutic Products Agency, the Australian and New Zealand Governments should publish regular progress reports. Once the Agency has been established, the Governments should review the lessons for other potential regulatory harmonisation initiatives.

CER Investment Protocol

Australia and New Zealand signed a CER Investment Protocol in 2011, but have not yet enacted it. The Protocol lifts some investment screening thresholds and establishes a legal framework of investor rights. However, various exclusions will limit its liberalising effect.

Despite this, the Protocol offers joint net benefits and should be implemented as soon as practicable (supplementary paper C). Section 4.4 discusses the case for further liberalisation of trans-Tasman investment restrictions.

R4.7

The CER Investment Protocol should be enacted as soon as practicable.

Portability of retirement savings

In 2009 the Australian and New Zealand Governments agreed to legislate to enable residents of either country to transfer their retirement savings across the Tasman if they emigrated permanently to the other country (ATO 2011). In New Zealand, the *Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver and Remedial Matters) Act 2010* enables trans-Tasman portability of retirement savings.

In the draft report, the Commissions noted that the relevant Australian legislation had not been enacted. On 22 November 2012, the Australian Parliament passed the *Superannuation Legislation Amendment (New Zealand Arrangement) Bill 2012*, to establish a trans-Tasman retirement savings portability scheme.

Standards

Standards Australia and Standards New Zealand have a working relationship that the latter considers is 'unique in the world' (sub. 52, p. 1). The formal relationship dates back to an Active Cooperation Agreement signed in 1992 and a subsequent memorandum of understanding, which recognises joint standards as a means to assist trade harmonisation between Australia and New Zealand and between both countries and the rest of the world (Standards New Zealand, sub. 52). Joint standards now account for 35 percent of the Australian catalogue and 80 percent of the New Zealand catalogue (Standards Australia, sub. 44). Standards New Zealand contends that the development of robust joint standards for therapeutic products could have created the conditions for a smoother transition to harmonised regulatory arrangements, and so accelerated the introduction of ANZTPA.

Work is underway in the international standards community to consider how standards could contribute to emissions trading schemes. Telstra has argued that Australian and New Zealand networks should adopt international standards where possible (sub. DR108).

There is not unfinished business in the standards area in the sense of a government commitment that has not been completed. However, development of standards is an ongoing process that needs to continue to contribute to economic integration between Australia and New Zealand and between both countries and the rest of the world.

4.2 ‘First freedom’: trade in goods

Tariffs and rules of origin: remaining issues

Following reform programs in both Australia and New Zealand dating back to the 1980s, quotas on imports have all but been eliminated and general tariffs in both countries are low — generally 5 percent or less. Two key exceptions are:

- second hand cars in Australia — which attract a flat rate of A\$12 000 in duty
- various textiles, clothing and footwear (TCF) items in both Australia and New Zealand, which attract tariffs of 10 percent — although in Australia these will be reduced to 5 percent by 2015.

Barriers to goods trade across the Tasman are even lower. Through the CER agenda, imports from the partner country enter duty free, provided they are deemed to have originated in the partner country under the CER rules of origin (RoO).

Both countries also have a range of preferential trading agreements (PTAs) with other countries (with overlaps, but also some differences).

The upshot is that a sizeable proportion of imports into both countries enter duty-free, and the protective value of remaining tariffs will continue to be eroded as further free trade deals take effect.

However, tariffs in both Australia and New Zealand continue to generate costs. These include administrative costs borne by the customs services, compliance costs borne by businesses, and distortions to production and consumption incentives. The pockets of remaining high tariffs are also likely to have a regressive impact, harming lower income consumers most. The Commissions consider that if governments seek to assist any activities or industries in the future, assistance should generally take the form of direct and transparent taxpayer-funded subsidies. Against this background, the goal of free trade in goods with all trading partners should be the longer term objective for both countries.

Policy options

The main issue for bilateral trade between Australia and New Zealand is the distortions and compliance costs that arise from the CER RoO. As the Australian Commission found in recent reports, the cost of re-exporting typically exceeds 5 percent of the value of imports (PC 2004b; 2010). Thus, when tariffs are at

5 percent or less, there is little incentive for third parties to engage in re-exporting, and so little value in requiring compliance with the RoO. Accordingly, the Commissions recommend that CER RoO should be waived for all items for which tariffs in Australia and New Zealand are at 5 percent or less. This would reduce economic distortions as well as compliance and administrative costs for a significant proportion of trans-Tasman trade.

Following the discussion draft, some participants expressed concern that waiving the CER RoO requirements would have adverse side-effects on the administration of other government functions, including the application of anti-dumping measures and quarantine requirements. As discussed in supplementary paper A, the CER RoO are not necessary for these purposes. Another concern was that the waiver proposal might enable re-exporting for some items, including high value-added products and bulk, homogenous commodities, where the cost of doing so is less than the 5 percent average. However, even if some re-exporting were to occur, the Australian and New Zealand Governments could respond in a variety of ways (supplementary paper A), including by simply welcoming the lower prices and added competition that it could bring.

Building on the waiver initiative, each country could also reduce tariffs that exceed 5 percent down to that level (by, say, 2015), which would allow the trans-Tasman RoO to be waived for these items too. The additional elements of this proposal would mainly affect the New Zealand textiles, clothing and footwear industries and imports of second hand cars into Australia, to the benefit of consumers of those products. The implications for these activities, and related policy issues, could be reviewed first. The Commissions see merit in this option, which is discussed further in supplementary paper A.

The Commissions considered, but do not support, the formation of a customs union. Under such an arrangement, the partners would need to adopt a common external tariff and align other border regulations covering substantially all trade in goods. A customs union could bring about reductions in tariffs and abolition of the RoO. However, depending on its implementation, tariffs on some items could rise and disparities in assistance could widen. It would also restrict the freedom of the partners to pursue trade arrangements with third countries. Among other concerns, the costs of designing the rules for a customs union could be large. Some supporters of a customs union consider that it would increase the countries' combined bargaining power in trade negotiations, but they can already negotiate together.

R4.8

The Australian and New Zealand Governments should:

- waive CER Rules of Origin for all items for which Australia's and New Zealand's Most Favoured Nation tariffs are at 5 percent or less
- consider reducing any tariffs that exceed 5 percent to that level.

Quarantine and biosecurity

While biosecurity functions are administered by separate national agencies, there is a long history of trans-Tasman cooperation (box 4.3). Indeed, New Zealand's Ministry of Foreign Affairs and Trade considers that '[t]oday, the overwhelming majority of trans-Tasman biosecurity/quarantine issues have been resolved, with few remaining outstanding' (MFAT 2010).

Box 4.3 A cooperative approach to biosecurity

Biosecurity measures were excluded from ANZCERTA and the Trans-Tasman Mutual Recognition Arrangement.

However, Australia and New Zealand agreed to a Protocol on the Harmonisation of Quarantine Administrative Procedures in 1988, which established a basis for closer collaboration. The Protocol recognised that further progress towards harmonising processes would benefit both countries. The Protocol also commits to the principle that biosecurity should not be deliberately used to create a barrier to trade, where this is not scientifically justified (Australian and New Zealand Governments 1988).

A Consultative Group on Biosecurity Cooperation was established in 1999 to provide impetus and direction for trans-Tasman biosecurity harmonisation (CGBC 1999). Comprising Australian and New Zealand officials, it reports annually to relevant Australian and New Zealand ministers, focusing on:

- streamlining risk analysis approaches in Australia and New Zealand
- ensuring that biosecurity requirements are based on sound science
- reviewing the mechanisms for information exchange and other interaction between the two countries on biosecurity issues (MFAT 2010).

There are also extensive trans-Tasman ministerial and government agency interactions.

Despite sharing some similarities, Australia and New Zealand have different environments and biosecurity risks. These limit integration and rule out options

such as adopting the same quarantine standards for imports from third countries and removing quarantine restrictions on a trans-Tasman basis.

The issue, therefore, is how much additional cooperation is beneficial, given that differences in biosecurity restrictions will inevitably remain. Formal and informal cooperation, sharing of information and resources, and some collaboration in risk analysis, benefit both countries and should continue. The relationship needs to be flexible, given that new approaches may be required as new biosecurity risks emerge.

A more collaborative approach to risk identification and analysis is likely to benefit both countries. The two agencies have recently begun to undertake some aspects of risk analyses jointly. Findings from joint analysis will usually — but not always — need to be applied separately in each country. There is also scope for the two countries to review risk assessments carried out by their counterparts. The New Zealand Customs Service points out that the two customs agencies already consider opportunities for trans-Tasman coordination on a case-by-case basis (sub. DR114, p. 2).

The ACTU and NZCTU (sub. DR118, p. 12) suggest that collaboration will generate a reasonable balance of benefits in both directions. As the smaller partner, New Zealand stands to gain significantly from access to the greater scale and capacity of Australia's biosecurity agencies. For Australia, access to staff with complementary experience and knowledge of different environments could be worthwhile, while New Zealand also offers 'flexibility and smaller scale to test initiatives and do research'. Both countries are also likely to benefit from pooling biosecurity resources, particularly for costly new technology such as testing and laboratory equipment.

R4.9

Where cost effective, quarantine and biosecurity agencies in Australia and New Zealand should continue to develop common systems and processes, and enhance their joint approach to risk analysis.

Emissions trading

Australia is pursuing its target for limiting greenhouse gas emissions through a Carbon Price Mechanism (CPM), with supplementary policy initiatives targeting areas such as energy efficiency standards. New Zealand is pursuing its target

through the New Zealand Emissions Trading Scheme (NZETS) and a range of supplementary policies.

The cost of reducing emissions is likely to be different between the two countries. Opportunities for trade should therefore enable emissions to be reduced at a lower cost than would otherwise be possible. Facilitating trade would, however, require some harmonisation between the CPM and the NZETS.

There would be even larger trade benefits from linking the CPM and NZETS into multilateral mechanisms, given that other countries may have less costly abatement opportunities. The NZETS is linked to the European Union's emissions scheme, and the Australian Government recently announced that the CPM will also be linked, with mutual recognition of carbon units to be in effect by 1 July 2018 (Combet 2012).

The Australia-New Zealand Carbon Pricing Officials Group has a mandate from both governments to work towards linking the CPM and the NZETS. It is well positioned to assess the compatibility of the schemes and to deal with the complicated legal and practical issues that would result from either country pursuing multilateral harmonisation, or more binding treaty arrangements.

4.3 'Second freedom': trade in services

The CER Protocol on Trade in Services aims to strengthen the relationship between Australia and New Zealand through, for example, both Governments treating providers of services from the other country in the same way as providers from their own. The Protocol covers all services except those that are explicitly excluded.

Exclusions from the CER Protocol on Trade in Services

In the case of Australia, the exclusions are: some intrastate air services; limits on foreign ownership of broadcasting and television (as set out in the *Broadcasting Services Act 1992*); broadcasting and television (short wave and satellite broadcasting); compulsory third-party motor vehicle insurance; specified postal services, and coastal shipping cabotage policy. Air services and coastal shipping are excluded in the case of New Zealand.

The impact of the New Zealand exclusions is unlikely to be large. As explained below, a Single Australia-New Zealand Aviation Market (SAM) has been in place

since 1996 and restrictions on coastal shipping in New Zealand have been largely removed. Australian exclusions cover a larger number of significant service industries, and so may have greater impact.

The practical impact of exclusions is that Australia's market access and national treatment obligations under the Protocol do not apply in respect of the excluded services sectors or sub-sectors.

The intention of excluding a service from the Protocol is to support a domestic policy objective. For example, specified postal services in Australia have been excluded from the Protocol not to limit competition specifically from New Zealand suppliers. Rather, exclusion is required because of a policy decision to provide Australia Post with a statutory monopoly on specified services, to enable it to provide a letter service that is reasonably accessible to all people in Australia on an equitable basis.

The rationales for other exclusions are also founded in Australian domestic policy considerations.

- As a matter of policy, the Australian Government carves out air services from all broad-based trade agreements.
- Compulsory third party motor insurance is excluded from all of Australia's free trade agreements, because state governments have jurisdiction over these markets.
- The Australian Government regulates access to the Australian coastal shipping trade.
- The broadcasting and television exclusion was intended to ensure that New Zealand firms and individuals continued to be bound by the then foreign investment restrictions under the Broadcasting Services Act 1992. These restrictions on foreign investment in Australia's media sector were removed in 2006. However, the media remains a 'sensitive sector' under the Foreign Investment Policy that operates under the Foreign Acquisitions and Takeovers Act 1975 (DFAT, pers. comm., 7 November 2012).

Key questions, therefore, are whether the domestic policy objectives continue to be important to the Australian Government and whether the objectives can only be achieved by restricting competition. If an objective continues to be important and can only be achieved by restricting competition, the restrictions should apply equally across Australia and New Zealand. If the restrictions are not warranted, they should be removed.

From this perspective, it is important to consider whether exclusions from the Protocol that were justified on domestic policy grounds when they were included on the list, remain justified today, given any subsequent policy changes or market developments. Article 20 of the Protocol provides for regular review of the operation of the Protocol. The latest published review (exchange of letters) on the official website is dated 1995 (DFAT nd), although further reviews were undertaken in 1997 and 1999. The exclusions from the Annex have not been amended since 1999.

However, the 2007 CER Ministerial Forum Joint Statement noted that a further review would be timely and the 2008 Statement commented that:

... both countries should continue to look for opportunities to remove or liberalise those services still exempted from coverage under the Protocol. (Crean and Goff 2008).

Exclusions from the Protocol — while possibly justified on domestic policy grounds — do have costs in so far as they restrict the gains from trans-Tasman trade in services that were seen as justifying the negotiation of the Protocol in the first place. Given the potential benefits from trans-Tasman competition, services should be removed from the exclusions list unless there are demonstrated net benefits from retention. The current review should be completed and published as soon as possible.

R4.10

The Australian and New Zealand Governments should complete the review of the exclusions from the Trade in Services Protocol, to consider whether retaining each exclusion would generate net benefits. The review should be published.

Air services

The close links between the two economies are evident from the more than 40 000 flights across the Tasman each year (BITRE 2012).

Air service regulation

International air services arrangements are governed by a complex system of negotiated bilateral rights between countries, contained in air services agreements. The air services arrangements between Australia and New Zealand are relatively liberal. However, there remains potential for reforms that would provide joint net benefits (supplementary paper B).

Single Australia-New Zealand Aviation Market

Even though air services are excluded from the CER Services Protocol, major steps have been taken to integrate and liberalise the Australian and New Zealand air services markets. A Single Australia-New Zealand Aviation Market (SAM) has been in place since 1996 and the Australian and New Zealand Governments signed an Open Skies Agreement in August 2002. This agreement enables airlines from either country to operate between Australia and New Zealand without regulatory restrictions on capacity, frequency and routes. It also enables them to operate without these regulatory restrictions within both countries and to third countries on routes with an origin or destination in the home country. For airlines to take advantage of this agreement, they must meet certain 'designation' criteria relating mainly to the ownership and control of the airline (NZ PC 2012).

The Open Skies Agreement makes the trans-Tasman air transport market one of the most liberal in the world (Vowles and Tierney 2007). The routes between New Zealand and the eastern seaboard of Australia are among the most competitive in the region, with passenger services provided by Qantas, Air New Zealand, Jetstar, and Virgin Australia. Some third-country carriers, such as Emirates and LAN airlines, also provide trans-Tasman services using separate bilateral agreements with their home countries. Extensive code sharing arrangements also exist on flights across the Tasman. However, Qantas and Air New Zealand carry the dominant share of trans-Tasman passengers. Australian airlines (such as Jetstar and previously Qantas and Virgin Blue) have also entered the New Zealand domestic market.

Two remaining measures restrict the market.

- 'Seventh freedom rights' for the movement of passengers are denied. These would allow carriers to operate services between two foreign countries without requiring the carrier to originate or terminate the service in its home country. (For example, without seventh freedom passenger rights, Air New Zealand is only able to fly between Australia and Singapore if it incorporates a leg back to New Zealand.) Granting seventh freedom rights would provide benefits by enabling improvements in the range and quality of services from Australia and New Zealand to third countries and by exerting downward pressure on airfares.
- The current airline designation requirements (which determine the airlines that can fly under an air services agreement) limit carrier entry to the trans-Tasman market and thereby lessen competition. The requirements are inconsistent with the policy positions taken recently by the Australian and New Zealand Governments. Liberalising designation requirements, including the requirements for ownership and control under the Australia-New Zealand Open

Skies Agreement, would enable airlines to pursue broader commercial opportunities and more tailored ownership structures. The community would also benefit from increased competition.

Removing these restrictions is unlikely to have a major impact on the trans-Tasman route, given that competition is already strong. However, the restrictions do not serve a worthwhile purpose, and fully liberalising the market should produce benefits, particularly on international routes to and from Australia and New Zealand.

R4.11

The Australian and New Zealand Governments should remove the remaining restrictions on the single trans-Tasman aviation market.

Beyond the Single Aviation Market

Given the complex, restrictive and inefficient regulation of the broader international aviation market, reform of international air services is likely to yield larger benefits for both countries, including having spillover benefits for trans-Tasman travel. Both Governments have committed to pursuing more liberal aviation arrangements and would gain from working together, given the international nature of the necessary reforms.

Policy objectives for air services should be clearly defined and focus on improving the wellbeing of the community as a whole. At present, Australia's policy goal for international aviation balances the interests of the Australian aviation industry and of the broader community (DITRDLG 2009). New Zealand's aviation objective is to help grow the economy and deliver greater prosperity, security and opportunities for New Zealanders (MoT 2012). Both Governments should ensure that the objective of air services policy is to enhance the wellbeing of the community as a whole.

Negotiating liberal air services agreements continues to offer benefits, given the constraints of global air services regulation. Both countries should re-commit to pursuing the most open air services agreements possible, by negotiating reciprocal open capacity and all air freedoms, including cabotage where appropriate. Governments should also seek to remove any remaining regulatory impediments to accessing regional airports. Further liberalisation will reduce constraints on market entry, and loosen controls on airlines' rights to service particular routes. Greater flexibility and contestability would enhance economic efficiency by encouraging airlines to innovate and expand services and/or

minimise their costs, including by operating their networks more efficiently. Under these circumstances, consumers could benefit from greater choice of carriers and/or services, and lower airfares.

Both countries have committed to seeking a designation criterion of 'incorporation and principal place of business' in their bilateral agreements. This is in contrast to the more restrictive approach of limiting airline designation to airlines that are 'substantially owned and effectively controlled' by nationals of the designating country. In practice, the more liberal designation approach has not always been possible. However, both countries should continue to adopt it as their default position in negotiations.

In addition to continuing to revise designation requirements, Australia and New Zealand could review their ownership restrictions for national airlines, including for Qantas and Air New Zealand. Both countries currently limit foreign ownership in national airlines to 49 percent, with various sub-limits on certain investors, such as foreign airlines. Both Governments have indicated an intention to change these sub-limits, and in the case of Air New Zealand to review them in the context of a mixed government/private ownership model. Restrictions on foreign direct investment are discussed in section 4.4.

R4.12

The Australian and New Zealand Governments should:

- ensure that the objective of air services policy is explicitly directed at promoting net benefits for the community
- pursue the most liberal air services agreements possible, by negotiating reciprocal open capacity and all air freedoms, including cabotage where appropriate
- revise designation and ownership requirements.

Passenger movement charge

Introduced in July 1995 to replace the Departure Tax, the Australian Passenger Movement Charge (PMC) was intended to recoup the cost of customs, immigration and quarantine processing of inward and outward passengers, and the cost of issuing short-term visitor visas. The PMC is expected to generate A\$794 million in 2012-13 (with around 8 percent from trans-Tasman travel), rising to over A\$1 billion in 2015-16.

Several study participants called for the removal, restructure or reduction of the PMC on Australia-New Zealand routes. The PMC forms part of the cost of the

ticket of a person departing Australia for any other country. Participants highlighted the potentially disproportionate impact of the charge on trans-Tasman travel, as a short and otherwise low-price flight. Reducing or removing the charge for flights to New Zealand would see them treated more like an Australian domestic flight.

There are issues associated with the PMC that go beyond its impact on the trans-Tasman route. Legally, it is a tax, levied under the *Passenger Movement Charge Act 1978* and collected under the *Passenger Movement Charge Collection Act 1978*, with proceeds going to consolidated revenue. At different times, the PMC has been found to have over-collected and under-collected the costs of providing border services. Most recently, the *Review of Australia's Future Tax System* concluded that the PMC does not recover all the costs of border services, nor does it reflect specific costs (Commonwealth of Australia 2010).

As a result, the PMC should be replaced with a user charge for services provided. While some stakeholders raised concerns about moving to a user charge arrangement, this would have benefits. It would:

- provide greater transparency through requiring border agencies to clearly identify the costs of services provided
- increase users' awareness of the costs of the service they pay for, increasing pressure for efficiency in service delivery
- be more equitable, as it would require those who use a service to pay for its costs.

Whether the level of the charge should be higher or lower than the current PMC — and the consequent impact on travel costs — would depend on whether the efficient cost of service provision exceeds or is less than the PMC.

The New Zealand Government funds the costs of providing biosecurity and customs passenger clearance processes out of general revenue, with the costs of aviation security services met by the airline industry (Carter 2010). Border services for cargo, on the other hand, are fully cost recovered through user charges. The New Zealand Government should review the appropriateness of current arrangements for funding passenger clearance services, given the potential advantages from moving to a cost recovery model.

R4.13

The Australian Government should reconfigure the Passenger Movement Charge as a genuine user charge for border services. The New Zealand Government should review its border passenger charges to achieve full and transparent cost recovery, in line with existing arrangements for cargo.

Sea freight

Ships carry nearly all of Australia's and New Zealand's international trade (by volume), including trade across the Tasman.

International container shipping

Currently, exemptions from key parts of the *Competition and Consumer Act 2010 (CCA Act) (Aus)* and the *Commerce Act 1986 (CA Act) (NZ)* allow ocean carriers to form agreements on prices, capacities and schedules. These exemptions reflect a view that allowing collusive agreements between ocean carriers is necessary because the sector's characteristics (high fixed costs and economies of scale and scope) could otherwise lead to market instability.

Both Commissions have reviewed the exemptions and recommended removing or narrowing them in order to increase competition and enhance productivity (NZ PC 2012; PC 2005b). These reviews found little evidence that reliable shipping services depended on the ability to make collusive agreements or that the agreements should be presumed to be in the public interest. The New Zealand Commission (2012) also found there would be benefits in coordinating reform of the exemptions across Australia and New Zealand.

For these reasons, the Australian and New Zealand Governments should remove the exemptions for ratemaking agreements. The Australian and New Zealand Governments should also examine the potential costs and benefits of further action, particularly in light of ongoing changes in international practices. This may occur in New Zealand through the Government's current consultation on the changes recommended by the New Zealand Commission, and in Australia through the scheduled review of Part X, due to occur in 2014. The opportunity and potential benefits of trans-Tasman co-ordination are strong reasons to bring forward this review.

R4.14

The Australian and New Zealand Governments should remove — preferably on a coordinated basis — the exemption for international shipping ratemaking agreements from legislation governing restrictive trade practices.

Coastal shipping

Australian coastal shipping regulations currently require foreign-flagged vessels to obtain a licence and to employ crew under Australian conditions and rates of pay while engaging in coastal trade in Australian waters. Until recently, if licensed ships could not meet all coastal shipping demand, the responsible Minister could issue single or continuous voyage permits (lasting up to three months), which allowed foreign vessels to operate without having to satisfy cabotage requirements. However, a package of changes in 2011 and 2012: included new requirements for foreign-flagged vessels to pay award rates in Australian waters; abolished single and continuous voyage permits for foreign-flagged vessels; and established a new licensing system to protect the domestic shipping industry, with tax concessions for Australian registered ships.

By contrast, restrictions on coastal shipping have largely been removed in New Zealand. The *Maritime Transport Act 1994* (s. 198) allows international operators to compete on coastal routes against domestic operators, provided they do so as part of an international voyage and do not operate in New Zealand longer than a continuous period of 28 days (NZ PC 2012).

Protecting domestic shipping from overseas competitors assists the local shipping industry at the expense of its customers and, ultimately, the wider community. The National Bulk Commodities Group Inc (sub. DR93) and the Cement Industry Foundation (sub. DR94) both argued that the new Australian coastal shipping regulations will increase freight costs and reduce the competitiveness of local industries. The experience in New Zealand suggests that removing restrictions on coastal shipping has reduced freight rates, and improved the range and quality of shipping options (Cavana 2004).

The application of different policy approaches to coastal shipping across the Tasman provides an opportunity for an independent body to undertake a comparative review of the impacts of the two approaches on each economy and on trans-Tasman trade.

R4.15

When reviewing the restrictions on competition for coastal shipping, the Australian Government should adopt a broad cost-benefit framework and draw on the experience of New Zealand with its different regulatory approach.

Ports

While the performance of Australian and New Zealand container ports has improved significantly since the early 1990s, large variations within and between each country point to scope for further productivity improvements. For example, the Australian Commission found that full implementation of the National Reform Agenda could improve productivity of container ports by, for example, 3 percent in South Australia and 10 percent in New South Wales and Western Australia (PC 2006b).

A range of issues impeding port efficiency in Australia and New Zealand remain. For instance, the ACCC and the New Zealand Commission found that limited competition, restrictive work practices and behaviours and difficulties in resolving multiple objectives in publicly owned ports are impeding productivity and innovation (ACCC 2012; NZ PC 2012).

Given that many factors contribute to efficient port operation, collaborative monitoring, data collection and benchmarking of ports' performance across the Tasman would help to identify opportunities to improve productivity. (The benefits of benchmarking are discussed in section 4.6.)

R4.16

Governments should undertake systematic monitoring, data collection and benchmarking of ports' performance in Australia and New Zealand, building on existing initiatives.

Telecommunications

Australia and New Zealand have significantly liberalised their telecommunications markets, but there remain five potential barriers to integration:

- differences in regulation and technical standards
- deficiencies in regulation
- high prices in Australian and New Zealand mobile roaming markets

-
- restrictions on foreign direct investment
 - regulation of information services over the internet.

Differences in regulation and technical standards

Differences in regulations and technical standards between the telecommunications markets in Australia and New Zealand can discourage integration by increasing compliance and transaction costs for telecommunications businesses operating in both markets. It can also be more expensive for governments to administer two regulatory systems than a single system. There may, however, be sound reasons for some differences in approach. The question is whether the regulatory differences exceed those that are justified by the special circumstances of each country.

Regulation of telecommunications markets occurs within the context of national competition and consumer protection regimes. The Australian Commission's review of the Australian and New Zealand regimes found that there had been significant harmonisation and that the regimes were not significantly impeding businesses operating in Australasian markets (PC 2005a). The report noted that a transitional approach to further integration could yield some benefits. Two Australian parliamentary inquiries in 2006 found that there would be benefits from reducing divergence in telecommunications-specific regulation between Australia and New Zealand.¹

Telstra and TelstraClear, in a joint submission, noted that recent reform has resulted in largely similar laws governing telecommunications in the two countries (sub. 48). Telstra suggested that a telecommunications chapter in the CER could be one way to 'lock in' the current alignment in telecommunications regulation and to minimise future deviation between the regulatory regimes (sub. 56). However, Telstra also identified some remaining differences in existing telecommunications regulation and technical standards that they argued may impose costs or impede trans-Tasman operations (sub. 56). Table 4.1 outlines some of these differences.

¹ The Joint Standing Committee on Foreign Affairs, Defence and Trade reviewed the ANZCERTA agreement, and the Joint Standing Committee on Legal and Constitutional Affairs investigated opportunities for further harmonisation of legal systems between the two countries.

Table 4.1 Examples of differences between Australian and New Zealand telecommunications regulation^a

<i>Issue</i>	<i>Australia</i>	<i>New Zealand</i>	<i>Degree of alignment</i>
Is there a telco-specific competition law?	Yes – part XIB of the Competition and Consumer Act 2010.	No – general competition law regulates competition in telecommunications markets.	Not aligned.
'Misuse of market power' offense by a carrier or carrier service provider	Offense is subject to a 'purpose' and 'effect' tests.	Offense is subject to a 'purpose' test only and is interpreted differently.	Aligned to the extent there is a 'misuse of market power' offense with a 'purpose' test in both countries.
Enforcement powers under competition laws	The ACCC may issue 'competition notices' to stop anticompetitive conduct if it 'believes' such conduct has occurred.	The NZCC cannot issue 'competition notices'.	Not aligned.
Procedure for deciding if a 'service' is subject to regulation	The ACCC has the power to 'declare' a service.	The NZCC recommends 'designation' of a service to the Minister for final decision.	Aligned but the Australian process is more independent of the political process.
Penalties for failure to provide access to networks	The Federal Court may make orders requiring compliance and imposing penalties. Fines up to A\$10 million for a carrier or A\$250 000 for a non-carrier.	The NZCC may serve a civil infringement notice imposing a penalty, or apply to the High Court for a pecuniary penalty of up to NZ\$300 000.	Not aligned – significantly lower penalties apply in New Zealand.

^a The complete list of differences identified by Telstra can be found in submission 56 on the study website.

Source: Telstra (sub. 56).

Telecom NZ concurred with Telstra's view that the existing regulatory approaches in the two countries were broadly aligned (sub. DR102). It stated that it was unclear whether the continuing differences were material, noting that they 'likely reflect the different circumstances of the different markets' (Telecom NZ, sub. DR102, p. 1).

Telstra (sub. 56) identified potential future barriers to trans-Tasman trade in telecommunications (and other) services delivered over the broadband networks currently under construction in both countries (the National Broadband Network (NBN) in Australia and the Ultra-fast Broadband Network in New Zealand). Telstra argued that the builders of the networks do not appear to be coordinating technical standards that would allow interoperability between networks for access services.

... the Local Fibre Companies (LFCs) [in New Zealand] on the one hand, and NBN Co [in Australia], on the other, appear to be developing their networks and operational support systems (OSS) including wholesale technical interfaces without reference to each other. Ideally, the new fibre networks should be deployed to the same or interoperable technical standards, thus lowering barriers to developers in both countries. (sub. 56, p. 5)

Telstra argued that alignment should be encouraged through consultation rather than by regulation and that this could be undertaken ‘within the context of a CER work program’ (sub. DR108). They also noted that as ‘technology takers’ the Australian and New Zealand networks should adopt international standards where possible. The potential for a lack of coordination in other standards and regulations to create barriers to trade in services over the internet is discussed below.

Deficiencies in regulation

Deficiencies in domestic telecommunications regulation may limit trans-Tasman integration by discouraging carriers in one country from entering and expanding in the other.

Participants in the 2006 Australian parliamentary inquiries mentioned above pointed to some deficiencies in competition regulation in New Zealand’s telecommunications market. Since then, technological change and New Zealand policy reforms have improved competition. Rapid technological change is expected to continue to improve contestability in telecommunication services.

Government policies and regulatory settings in both countries will also have a dramatic impact on competition. The structural separation of the dominant fixed line carriers in each country should increase retail competition in fixed line services. (Telecom NZ ‘demerged’ in 2011, while Telstra has committed to structurally separate by 2018.) In addition, governments in both countries are funding the construction of fibre optic broadband networks and have committed to restrict the network operators to wholesaling basic connectivity services.

Telstra noted that an agreement between the two countries that entrenched this ‘wholesale only’ commitment would improve certainty for investors wishing to provide telecommunication (and other) services over the networks, and would ‘underpin the development of a trans-Tasman market’ in such services (sub. 56).

This scoping study has been presented with little evidence that differences or deficiencies in the current regulatory arrangements are significantly impeding trans-Tasman integration of telecommunications markets. In recent years, there

has been substantial trade in telecommunications services across the Tasman, primarily through commercial presence.²

However, this trade likely represents a relatively small proportion of total telecommunications activity in the two countries — estimated to be more than A\$20 billion in 2010 (ABS 2012c; Statistics NZ, Wellington, pers. comm., 5 June 2012). In terms of SEM principles (such as creating a seamless, ‘domestic-like’ experience), Australian and New Zealand telecommunications services continue to be produced and consumed largely in segmented markets.

Telstra and Telstra Clear have proposed that the Australian and New Zealand Governments investigate opportunities for further harmonisation of telecommunications regulations that could lead to a ‘SEM in telecommunications services’ (sub. 48, p. 4). Telstra noted that such a study would require:

... comprehensive research and consultation with telecommunications providers and other stakeholders on both sides of the Tasman. (sub. 108, p. 3)

Net benefits may be available from further harmonisation in telecommunications regulation. However, a thorough review of the frameworks in both countries would be needed to assess where such opportunities exist. To capture any potential welfare gains, the Australian and New Zealand Governments should include in the next reviews of their respective telecommunications regulations a term of reference to examine barriers to trans-Tasman trade in telecommunications service and options for their removal.

R4.17

The Australian and New Zealand Governments should include in the next reviews of their respective telecommunications regulatory frameworks a term of reference to examine barriers to trans-Tasman trade in telecommunication services and options for their removal.

² For trans-Tasman commercial presence trade, in New Zealand, Telstra owned 100 percent of Telstra Clear (the second largest provider of fixed line and internet services in New Zealand) until its sale to Vodafone New Zealand in October 2012, while in Australia, Telecom NZ owns 100 percent of AAPT (a provider of business and wholesale telecommunication services). For trans-Tasman cross-border trade, two way trade was estimated at around A\$120 million in 2011 (ABS 2011b).

Trans-Tasman mobile roaming

Mobile roaming (including voice calls, short message services (SMS) and data usage) occurs when customers of one mobile network use a network owned by another provider. Research has found that international roaming charges paid by users in many countries were ‘unreasonably high’ compared with the underlying costs of provision, including for Australian and New Zealand users roaming in third countries (OECD 2009a; 2011b; ACCC 2005).

A joint Australia-New Zealand investigation into trans-Tasman roaming prices (being undertaken by the Australian Department of Broadband, Communications and the Digital Economy and New Zealand Ministry of Business, Innovation and Employment) released a discussion draft in August 2012. It found that there is limited competition in the trans-Tasman retail and wholesale roaming market, and that while prices and margins have been trending down since 2009 (particularly for data roaming), they are still high (DBCDE 2012).

The two departments are now consulting on a range of options to reduce roaming prices including continued monitoring of the markets, requiring more transparent provision of price information, requiring operators to provide local-access services to roamers, and the imposition of wholesale and/or retail price caps. A final report is expected to be released at the end of 2012. The Australian and New Zealand Governments have announced that they will consider and respond to the report’s findings.

Foreign investment restrictions

Both Australia and New Zealand restrict foreign direct investment in telecommunications markets (through screening regimes and foreign ownership limits on carriers). Such restrictions can impede trans-Tasman and broader integration by increasing transaction costs and creating uncertainty for investors. Restrictions can also reduce the transfer of skills and technology and restrict competition by limiting the entry and operations of new carriers. Enacting the CER Investment Protocol, as recommended earlier, will reduce trans-Tasman impediments to a limited extent. The merits of further liberalisation in telecommunications and other sectors are considered in the next section.

Trade in services over the internet

Rapid changes in information technologies and the spread of high speed internet have dramatically changed the economics of data transport, storage and

processing in recent years. For example, data centres have become the central nodes of the internet, exploiting economies of scale to deliver a 'utility' model of computing that enables businesses and households to access computing services and digital content on demand.

These changes have created opportunities for cross-border trade in many services that have traditionally been delivered locally through other means. Opportunities include trade in information services (such as data storage and cloud computing), information processing services (such as financial, accounting, and health services), and entertainment services (such as the provision of digital content including television, movies, music and computer gaming). In principle, these services can be supplied from any location where it is efficient or convenient to do so and consumed anywhere with a sufficiently fast internet connection.

These types of trade in services can be impacted by a myriad of existing rules that regulate the transmission, storage and use of data and digital content (in addition to the telecommunications specific rules discussed above that apply to the delivery platforms themselves — the broadband networks). For example, governments can impose data security requirements on the storage of financial information, privacy requirements on the use of health records or restrictions on the types of content that can be accessed. While these regulations exist to achieve specific benefits (such as avoiding fraud, protecting privacy, or maintaining cultural standards) some submissions noted that they can also impose costs and restrictions that limit or prevent services trade.

Telstra (sub. 56) argued that non-telecommunications specific regulations in Australia and New Zealand will limit future trans-Tasman trade in services over the broadband networks under construction in both countries.

... there are a range of regulations which may be well outside the ambit of traditional telecommunications regulation, for example privacy and confidentiality protections for medical records, which could be harmonised ... to reduce barriers to the development of applications and services that would scale across the Tasman ... (sub. 56, p. 6)

Fujitsu Australia and Fujitsu New Zealand (sub. DR79) noted that privacy and financial regulations in both countries limit the offshore transmission and storage of commercial trading, financial and citizens' data, and that this restricts trans-Tasman trade in data storage and 'cloud computing' services. Fujitsu argued that trans-Tasman harmonisation of these regulations would facilitate trade in this area.

Existing domestic regulation designed when trade in services tended to occur locally and through more traditional means may not be well suited to addressing trade in services over the internet. Differences in regulation between countries that

were previously of little importance when cross border trade was more limited may now act as barriers to such trade. Regulation that does not appropriately adapt to services trade over the internet may lead to new barriers to trans-Tasman and wider trade and prevent countries from capturing potentially substantial gains from emerging trading opportunities.

To avoid this, governments should ensure that the regulatory settings applying to data and digital content (and other relevant areas) achieve domestic policy objectives without unnecessarily impeding internet-based services trade. Chapter 5 includes a recommendation that regulatory proposals at the national level in Australia and New Zealand should consider opportunities for trans-Tasman collaboration that would lower costs and deliver benefits. Regulations that affect trans-Tasman trade in services over the internet should be included in such collaboration.

Insurance

Submissions from the insurance industry raised four issues, which are discussed, in turn, below.

Regulatory harmonisation

The Insurance Council of New Zealand (sub. 49, and sub. DR96) argued that governments need to re-think trans-Tasman regulatory differences, although differences in market size and scope mean that 'Australian regulations and market conditions may not be workable, or even appropriate in New Zealand'. In spite of these market differences, the Council noted that if the two Governments 'are seriously considering integrating New Zealand and Australia's insurance markets, they need to completely rethink these regulatory differences' (sub. DR96, pp. 1–2).

The Commissions have not been able in this scoping study to review the advantages and disadvantages of further integrating regulation of the insurance industry. However, worthwhile integration would be fostered if future regulations affecting the insurance industry that are the subject of national regulatory impact statements in either country take account of trans-Tasman impacts (see chapter 5).

Solvency standards

In both Australia and New Zealand, standards are in place requiring insurers to hold enough capital so that, taking into account the probability of certain risks (such as those relating to claims, investments and assets, and catastrophic events), the insurer can continue to meet its obligations to its policyholders as they fall due.

The Insurance Councils of Australia (sub. 36) and New Zealand (sub. 49) consider that the decision by the Reserve Bank of New Zealand (RBNZ), to increase the catastrophe risk capital charge for non-life insurance to a 1 in 1000 years loss return period compared with the 1 in 250 year requirement of the Australian Prudential Regulation Authority (APRA), has created a material difference between the Australian and New Zealand regulatory environments. This difference, they suggest, exceeds the difference in catastrophe risk profile between the two countries, and will make New Zealand less attractive to international insurers and discourage diversified insurers in both markets. Insurance Australia Group (sub. 23) made a similar point and added that this difference is exacerbated by differences across the Tasman in definitions, immaterial prudential requirements and documentation, and overly prescriptive compliance and governance requirements. Vero (sub. DR76) considers that the disparity in solvency standards should be reviewed.

New Zealand's higher catastrophe risk capital charge may discourage Australian firms from providing catastrophe insurance in New Zealand. However, the 1 in 1000 year loss return period has been set in regard to the risks of earthquakes, which are a more significant risk in New Zealand than in Australia. Moreover, different solvency standards across the Tasman may reflect different attitudes to risk as well as differences in the risks themselves. The regulatory impact statement that assessed this requirement pointed out that calibrating the catastrophe risk at a prudent level is 'judgmental' (RBNZ 2012b, p. 22).

The Commissions are not qualified to comment on solvency standards, but note that the reasons for choosing the 1 in 1000 year loss return period have been set out in a regulatory impact statement.

Taxation

Insurance Australia Group (sub. 23) supports eliminating or reducing insurance taxes and charges (fire services levy and stamp duty in Australia and fire services levy and earthquake commission levy in New Zealand). The Insurance Council of

New Zealand (sub. 49) supports reducing the general levies and taxation placed on insurers.

The fire services levy and stamp duties on insurance in Australia are the responsibility of state governments. Other commentators have supported removing taxes on insurance. For example, the review of Australia's Future Tax System (Commonwealth of Australia 2010, section E8–1) recommended that:

... specific taxes on insurance products, including the fire services levy, should be abolished. Insurance products should be treated like most other services consumed within Australia and be subject to only one broad-based tax on consumption.

Some state governments are already moving to modify their insurance taxes. This decentralised approach may well be more effective than bringing the issue within a trans-Tasman framework, and seeking a coordinated approach between governments.

Disclosure requirements

The Insurance Council of New Zealand (sub. 49) suggests that New Zealand should require insurance brokers to declare their remuneration, as is the case in Australia.

The website of the Insurance Council of New Zealand indicates that most persons advising on insurance products are deemed to be financial advisers, because they offer 'financial advice' on contracts of insurance. Financial advisers are regulated under the *Financial Advisers Act 2008*. Sections 22 and 23 (2) (f) of this Act require financial advisers to disclose their remuneration to a client before providing a service to a retail client or as soon as practicable afterwards. This suggests that only insurance brokers who do not provide financial advice are not legally obliged to disclose their remuneration.

Insurance brokers who are members of the Insurance Brokers Association of New Zealand are guided by a Code of Professional Conduct that covers: minimum standards of ethical behaviour; client care; competence knowledge and skills; and professional training (Insurance Brokers Association of New Zealand Inc 2011). The Code does not require disclosure of remuneration. This implies that the disclosure requirement issue raised by the Insurance Council of New Zealand could be addressed by the industry choosing to amend its Code of Professional Conduct.

Alternatively, the New Zealand Government could consider regulation. Before regulating, the benefits and costs of requirements for disclosure of remuneration

would need to be assessed in the context of the market and prevailing regulatory conditions of New Zealand. While the assessment should have regard for disclosure requirements in Australia, it should also recognise that these requirements have been determined in a different regulatory and market environment, and may not necessarily be appropriate in New Zealand.

4.4 ‘Third freedom’: capital

Foreign direct investment

Australia and New Zealand both restrict foreign direct investment (FDI) through screening regimes, foreign equity limits on specific businesses and other means. The CER Investment Protocol that has been signed, but not yet enacted, will reduce some of these restrictions for trans-Tasman investment — primarily by raising the monetary thresholds below which some investments will no longer require screening. Equity limits in both countries are not affected by the Protocol.

Under the Protocol, Australia is to apply more lenient screening thresholds for some types of investment by New Zealanders. However, screening thresholds for ‘sensitive sectors’ (such as telecommunications, media and transport) remain unchanged. This is similar to the preferential treatment provided to US investors under the Australia United States Free Trade Agreement.

For Australian investment in New Zealand, the Protocol also lifts some screening thresholds. However, the effects of this are likely to be modest, because many proposals involve some element of ‘sensitive land’, for which the screening requirements are unchanged.

New Zealand’s approach to screening sensitive land appears to be unduly restrictive and creates unnecessary uncertainty for Australian and other foreign investors. This is because the definition of ‘sensitive land’ captures land that may not actually be ‘sensitive’, and screening criteria permit a high degree of discretion as to how relevant costs and benefits are weighted. There is scope to improve this aspect of New Zealand’s foreign investment policy.

Given that the effects of the CER Investment Protocol are likely to be limited, the two Governments should consider the costs and benefits of further foreign investment liberalisation. Restrictions on FDI can bring several types of economic costs.

-
- Screening regimes entail administrative costs for governments and compliance costs for firms.
 - Restrictions may deter FDI and result in higher cost domestic capital being used in its place.
 - Restrictions may deter FDI that would have brought with it firm-specific assets, such as human capital, technology and international reputation. This can be particularly important in the services sector, where foreign investment restrictions can result in less competition, less diversity and innovation and higher prices (as foreign service suppliers must enter markets via alternative, less efficient, means than FDI — if they enter at all).

Restrictions on foreign investment can also bring benefits by preventing investments that would have adverse effects on competition, the environment, national security or local culture in the host country. However, domestic policies (for example, competition policy, environment regulation or targeted support for cultural activities) are often better placed to deal with these issues. That said, foreign investment restrictions do have a role to play, for example, in considering issues arising from investment proposals from entities that are owned or controlled by foreign governments.

The OECD's FDI Regulatory Restrictiveness Index suggests that Australia and New Zealand have more restrictive investment regimes than many other OECD countries (OECD 2012b). While there is debate about the methodology and content of this index, there is clearly scope to reduce the costs of restrictions, which would promote further integration of the Australian and New Zealand capital markets, bilaterally and globally.

An option is for Australia and New Zealand to extend to selected other countries the preferential arrangements they have already agreed to provide to each other. This would be consistent with the outward-looking approach outlined in chapter 2 and would follow the historical precedent of Australia and New Zealand liberalising trade restrictions with each other first and then with other countries.

In the context of the trans-Tasman relationship, there is considerable scope to move beyond the limited changes in the CER Investment Protocol. The 'direction of travel' should be towards a broader application of national treatment of investors from the other country. There may be legitimate reasons for retaining some restrictions (for example, relating to national security or the Treaty of Waitangi), but the reasons should be made clear.

Supplementary paper C provides more detailed information and analysis on foreign direct investment restrictions.

R4.18

The Australian and New Zealand Governments should consider removing remaining restrictions on trans-Tasman foreign direct investment. The policy rationale and the costs and benefits of any restrictions, including exceptions to national treatment left in place, should be made clear.

Taxation

Differences between the tax systems of Australia and New Zealand may influence the character and location of economic activities across the Tasman in many ways. Study participants pointed to the absence of mutual recognition of imputation credits (MRIC) across the Tasman; costs of having to be familiar with two different systems (AiGroup, sub. 38); issues with dividend and interest withholding tax (Australian Bankers' Association, sub. 37); and tax residency issues (Fielding, sub. 41), taxation of non-resident employees and tax base integration (The Corporate Taxpayers Group (New Zealand)) (sub. DR65).

Mutual recognition of imputation credits

The lack of trans-Tasman recognition of imputation credits was the biggest concern for a number of participants, including: the Australia New Zealand Leadership Forum (subs. 58, DR70 and DR120); Australian Bankers' Association (sub. 37); Corporate Taxpayers Group (sub. 35); New Zealand Venture Capital Association (sub. 32); Temperzone Holdings Limited (sub. DR63); Auckland Chamber of Commerce (sub. DR63); Contact Energy (sub. DR63); and Peter Ferguson (sub. DR63). They support the introduction of mutual recognition of imputation credits, and some also acknowledge the complexities involved and that the issue has been on the agenda for more than 20 years.

What is the issue?

In both Australia and New Zealand, shareholders are entitled to 'imputation' (in New Zealand or 'franking' in Australia) credits on dividends, when companies have paid corporate income tax. When tax is paid on corporate income at the company level, dividend recipients can credit this tax against their personal (or institutional) income tax liability. Imputation credits only apply domestically: Australian shareholders, for example, can use imputation credits from Australian-sourced income from local companies, but cannot use imputation credits arising from company income earned and taxed in New Zealand.

This means that the overall tax rate faced by a top-tax-rate Australian investor in a New Zealand company is 60.4 percent compared to 45 percent for income from an Australian company. For a top-tax-rate New Zealand investor in an Australian company, the comparable figures are 53.1 and 33 percent. This amounts to a significant tax wedge between domestic and trans-Tasman investment.

This has adverse consequences for investment allocation between Australia and New Zealand, creating:

... a home bias in investment decisions: even though from a pure economic perspective an investment opportunity looks a better bet in the destination economy, the impact of the tax policy determines that it makes sense to forego that opportunity and put money into a potentially less efficient investment domestically.

As a result, trans-Tasman resource decisions are distorted: resources are not being allocated to their optimal locations. (ANZLF sub. 58, attachment, p. 4)

The combined effect of taxing company and personal income in this way creates incentives to minimise tax through choice of business organisational form (incorporated or unincorporated); financial structure (debt or equity), and distribution policies (earnings retention or distribution). While such arrangements can lessen tax-induced investment misallocation, setting up these structures involves some costs. They can also unnecessarily complicate management of businesses and reduce financial resilience.

The lack of mutual recognition of imputation credits is unlikely, however, to affect the investment decisions of all firms. Many large firms in both countries can access global capital markets for equity finance. For such firms, dividend imputation does little to affect their cost of capital and hence their incentive to invest:

For companies with access to the international stockmarket, an imputation system has no impact on the cost of corporate capital and hence no impact on investment incentives. ... Indeed, on those assumptions the only effect of the system is to transfer ownership of shares in domestic companies from foreign to domestic shareholders. (Sorensen and Johnson 2009)

In other words, the absence of MRIC may only affect the investment choices of those firms in Australia and New Zealand without access to global capital markets that are or are contemplating operating across the Tasman, and is less likely to affect the cost of capital for large firms with such access. There would, however, be a shift in the ownership of such firms toward shareholders who can benefit from MRIC. In the short term, there would be upward pressure on share prices brought about by increased demand from those shareholders.

A possible solution: mutual recognition of imputation credits

One possible solution to the challenges facing smaller companies that cannot access global equity markets is to extend the imputation system described above across the Tasman (see supplementary paper F). Each country would recognise the imputation credits attached to the dividends distributed by companies in the destination country to shareholders resident in the home country. Shareholders would then face the same marginal tax rate on income generated by equity investments in both countries. For those firms whose cost of capital is not set in global capital markets, this would remove the tax-induced incentive to invest in the home economy. This could result in efficiency gains as investment funds are allocated between Australia and New Zealand on their economic merits, rather than according to their taxation consequences. As under current arrangements, equity investments to and from third countries would not benefit from trans-Tasman recognition of imputation credits.

More two-way investment, and penetration by the firms of each economy of the markets of the other, could also deliver dynamic efficiency gains through, for example, increased competition or technology transfer. It would also reduce the costs of tax mitigation arrangements, outlined above.

MRIC also involves trans-Tasman income transfers

The full consequences of introducing MRIC would, however, be more complicated than these static and dynamic efficiency effects. An evaluation of MRIC needs to take account of other potential effects.

The initial effect of introducing MRIC would be to increase returns to existing owners of trans-Tasman capital and reduce tax revenues in the countries recognising the imputation credits. The share prices of companies in each country that do not have access to global equity markets would rise, reflecting the increase in the expected after-tax income from dividends. Before allowing for the effects of any capital movements induced by MRIC or possible changes in company distribution policies, using Australian Bureau of Statistics data on trans-Tasman investment, the reduction in tax revenues might be in the vicinity of NZ\$135-NZ\$220 million for New Zealand and NZ\$190-NZ\$750 million for Australia. Based on Statistics New Zealand data, the reduction in tax revenues might be in the vicinity of NZ\$100-NZ\$160 million for New Zealand and NZ\$275-NZ\$1015 million for Australia (supplementary paper F). The larger reduction in Australian tax revenue occurs because Australian investment in New Zealand is larger than New Zealand investment in Australia.

These changes are, however, only the initial impacts. MRIC can be thought of as the combination of the unilateral application of imputation credits by each country. For example, introducing imputation credits in Australia for company tax paid in New Zealand would increase the after-tax returns to Australian owners of capital invested in New Zealand. Some Australian capital would relocate to New Zealand in search of higher returns.

By making investment across the Tasman more attractive, MRIC would transfer some of the benefit of the tax reduction from one country to the other. This happens because the movement of capital shifts a part of the company tax base from one country to the other. The movement may also affect the relative returns to capital and to other factors (such as labour and land) in each country. In turn, this will have second-round effects on revenues from company and income taxes. The asset price impacts of MRIC would be instantaneous; the impacts on real investment and associated relative prices would take more time. Box 4.4 describes the channels through which these effects would operate. In addition, introducing MRIC would require each Government to increase other taxes, reduce spending or increase debt.

Box 4.4 Allocative and distributional effects of MRIC

The effects of MRIC can be explained by considering unilateral recognition by either Australia or New Zealand of the tax credits of the other. MRIC is simply the combination of unilateral recognition by both countries.

Firms accessing domestic equity markets

For firms that cannot access global equity markets, additional equity from the trans-Tasman partner would tend to drive down their cost of capital, and thus encourage additional investment. This reallocation of capital to higher valued uses across the Tasman would generate efficiency gains. The changes in relative prices that induce this shift would have a series of distributional consequences.

In the destination economy:

- increased returns to complementary factors as the increase in the capital stock increases their productivity, mirrored by a reduction in returns to substitutable factors (notably capital, both domestic and foreign owned)
- an increase in company and income tax revenue from the increased output and income.

In the source economy:

- decreased returns to complementary factors as their productivity decreases with reduced capital

(Continued next page)

Box 4.4 (continued)

- a decrease in company and income tax revenues as output and income falls and imputation credits are recognised.

Therefore, unilateral recognition of imputation credits results in a gain to the destination economy and a loss to the source economy.

Firms accessing global equity markets

For firms whose capital costs are set in global equity markets, an increase in after-tax returns to trans-Tasman investors would simply result in an increase in their trans-Tasman ownership relative to ownership by third-country investors, but would not induce additional net national investment. Hence, it is possible that increased trans-Tasman capital flows would not affect the total stock of capital in the destination economy, because new capital replaces existing capital. Similarly, it is possible that the reduction in capital in the source country would be replaced by capital from other sources. If this happens, economic activity and factor returns would remain unchanged and there would be no efficiency gains from MRIC. There would, however, be an increase in post-tax returns to equity holders.

The net effects

The effects of MRIC in practice, therefore, will depend on the pre-existing levels of trans-Tasman investment, the share of firms with access to global equity markets, the relative magnitudes of investors' and firms' responses to changes in after-tax returns, and the extent to which those responses shift returns in each country between capital and other factors. Assessing the balance of these forces needs to be explored through quantitative analysis.

Unilateral recognition of imputation credits almost certainly would reduce the income of the country adopting it and benefit its partner (Benge and Slack 2012). How the effects outlined in box 4.4 net out when there is mutual recognition depends on the existing amount of investment owned by each country and located in the other, and the magnitude of changes in incentives (returns to capital owners and cost of capital for firms) and reactions to them, all of which are uncertain. There are also potential gains from dynamic effects associated with the net increase in investment and avoidance of tax mitigation costs and complexities. In principle, each country could gain or one could gain while the other loses.

What can modelling indicate about the effects of MRIC?

For this study, the Commissions used modelling to gain insights into the efficiency and inter-country distributional effects of MRIC and to understand the key drivers of these effects.

Model results hinge on model structure, with different models invariably giving different ‘answers’. For these reasons, the Commissions drew on two models and conducted extensive sensitivity and scenario analysis given uncertainty about parameter values and crucial behavioural responses such as the:

- investment responses of firms when their cost of capital changes. If investment by firms is not responsive to changes in the cost of capital, there will be little change in output or income
- responsiveness of capital owners to changes in post-tax returns across the world. This is related to the share of firms that have access to global capital markets. When the responsiveness is low, imputation credits largely result in domestic transfers to the owners of capital, and output effects are small, consistent with a large share of firms with access to global equity. A high responsiveness is consistent with a low share of firms with access to global equity
- substitutability between capital and other inputs in production processes. The more substitutable they are, the less will relative prices change and the larger the investment responses and efficiency gains. Conversely, the lower the scope for substitution, the smaller the efficiency gain and the larger the change in relative prices
- share of profits that is distributed as dividends to shareholders and the share of credits claimed by taxpayers, which are affected by imputation credit policies. The larger the proportion of dividends, and the greater the eligibility of taxpayers to claim imputation credits, the larger the impacts on output, income and taxation revenue.

The modelling analysis was particularly helpful for tracing through the static or ‘allocative’ efficiency impacts from these behavioural responses. The Centre for International Economics (CIE) undertook modelling on behalf of the Australian New Zealand Leadership Forum, which suggested that under a particular set of assumptions, MRIC would improve the allocation of trans-Tasman capital and in turn increase gross domestic product (GDP, a measure of economic activity within a country) by NZ\$94 million per year in Australia, NZ\$196 million per year in New Zealand and NZ\$290 million per year for both countries combined (sub. 58). The CIE did not report the impacts on gross national income (GNI, a closer proxy for national economic welfare).

The Commissions also explored the economic impacts of MRIC on GNI, GDP and tax revenues in both countries and, in particular, the sensitivity of MRIC impacts to key parameters and assumptions. For this purpose, the Australian Commission

developed the SMRIC model (PC 2012) (supplementary paper G) and the Commissions conducted a technical workshop (PC 2012c).

The Commission's modelling indicated that, to the extent MRIC drives down the cost of capital for investment across the Tasman, it unambiguously improves the allocation of capital, producing trans-Tasman efficiency gains. This leads to an increase in trans-Tasman economic activity as measured by GDP, ranging from zero to in the order of US\$300 million per year, depending on assumptions about investors' responses to MRIC and assumptions about data, dividend distribution and credit redemption rates. Increases in trans-Tasman GNI are of the same order of magnitude as the GDP gains. In both the CIE and Commission modelling, the dynamic efficiency gains, given their nature, were not quantified.

The Commission's modelling also provided insights into the distribution between Australia and New Zealand of the gains and losses from MRIC. These impacts are especially sensitive to model parameters and assumptions for, inter alia, corporate profit distribution policies and imputation credits claimed. Other major drivers are the initial stocks of Australian capital in New Zealand and vice versa, and the investment responses to MRIC in each direction.

The modelling analysis offers several useful observations about the broad distributional impacts of MRIC. Firstly, it shows that the larger the gains to one country the larger the losses to the other. This simply reflects that trans-Tasman efficiency gains from MRIC are the sum of the gains and losses generated by each country's unilateral recognition of imputation credits. Secondly, in most scenarios modelled in SMRIC, Australia would incur a larger reduction in tax revenue than New Zealand and a net loss of GDP and GNI. This outcome reflects Australia's relatively larger existing stocks of capital in both Australia and New Zealand, the larger amount of Australian capital that shifts to New Zealand in response to MRIC and hence its correspondingly larger tax-revenue and factor-income losses. Thirdly, for MRIC to lead to increased GNI in both countries, there would need to be markedly asymmetric responses in each country.

Supplementary paper G offers an in depth sensitivity analysis of the gains and losses from MRIC in each country, based on the SMRIC model.

Models are a tool for providing insights by capturing many of the effects of policy changes in a stylised way. By their nature they do not replicate all of the complex interactions in and between economies. For example, as noted, the modelling abstracts from the potential dynamic effects of increased net investment flows. Hence, in forming their judgement on MRIC, the Commissions have taken account of a broad range of factors, some included in the modelling and some not.

Conclusions

MRIC would be expected to lead to a more integrated capital market and improved trans-Tasman allocative efficiency. The analysis undertaken for this study supports this finding. It also concludes that the allocative gains from more efficient capital allocation may be relatively small. MRIC is more likely to reduce the cost of capital for smaller than larger firms, as the latter already access global capital markets.

There are also potential dynamic efficiency gains associated with MRIC, to the extent that additional investment across the Tasman results in increased penetration of the markets of each economy by the firms of the other. The size of these gains depends on the extent to which competition and innovation would increase. These effects, by their very nature, are virtually impossible to quantify.

The Commissions' analysis demonstrates that MRIC could lead to net income transfers between Australia and New Zealand, and that these are likely to be larger than the allocative efficiency gains.

A possible outcome is for one country to experience a loss in its GNI at the same time that there is a greater gain for the other, leading to a trans-Tasman gain overall.

Principally because Australian investment in New Zealand is larger than New Zealand investment in Australia, it is probable that Australian income transfers to New Zealand would be greater than transfers the other way. It is possible that both Australia and New Zealand's GNI would rise, but this would require markedly asymmetric investment responses.

This study's analysis of MRIC, to the best of the Commissions' knowledge, is more comprehensive than any undertaken in the 20 years that this issue has been debated. Nevertheless, uncertainty about the distribution of the welfare effects of MRIC for the two countries remains and is unlikely to be resolved by further economic analysis.

MRIC would entail significant tax transfers within each country, from governments to shareholders. These would require increased taxes or reduced government spending, irrespective of the size of efficiency gains.

As explained in chapter 2, in cases where a policy initiative would provide trans-Tasman net benefits but would likely involve a net cost for one country, the Commissions' approach is not to recommend that initiative, but to report the finding for consideration by Governments.

Such considerations could include whether there are means by which the efficiency gains of MRIC can be captured, while both countries experience an increase in GNI. As noted, it is not possible to predict precisely the distribution of the welfare effects.

One approach would be for the two Governments to share the fiscal cost of the credits recognised. This would acknowledge that the problem MRIC is trying to resolve is two governments each claiming taxing rights to what is a single pool of 'trans-Tasman' income.

The Commissions have not been in a position to design, or test the feasibility of, these kinds of approaches. This would need to be undertaken by the two tax agencies and Treasuries. Other aspects of the trans-Tasman tax arrangements could be considered in parallel.

In the Commissions' view, the long-standing debate about MRIC needs to be settled. Achieving that will depend importantly on resolving the distributional questions.

One option is for the Governments to initiate a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure an acceptable distribution of the gains from MRIC.

On the other hand, if Governments conclude that such a mechanism is infeasible, they should announce that MRIC will not go ahead, rather than allow ongoing debate on an issue that cannot be resolved, and could complicate progress on other business taxation improvements.

F4.1

Mutual recognition of imputation credits (MRIC) would be expected to result in a more integrated capital market and improve trans-Tasman economic efficiency.

However, MRIC would lead to a greater fiscal cost for Australia than New Zealand and to some income transfers between Australia and New Zealand. Australian transfers to New Zealand could be expected to be greater than transfers the other way, although their precise magnitude is impossible to predict. A probable outcome would be a net income loss for Australia.

R4.19

The Australian and New Zealand Governments should either:

- initiate a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure a satisfactory distribution of the gains from MRIC; or
- if they consider that such mechanisms are infeasible, announce that MRIC will not go ahead.

Other tax issues

The Corporate Taxpayers Group (New Zealand) (sub. DR65) considered that the tax implications arising from the presence of employees providing services in the other trans-Tasman jurisdiction is a significant barrier to the conduct of business across the Tasman. Issues arise when the presence of a company and its employees triggers the rules for classifying an Australian business or its employees as having a taxable presence in New Zealand, thereby requiring the filing of New Zealand income tax returns (and vice versa for a New Zealand company and its employees in Australia). As a result, companies have a purely tax-driven incentive to move staff in and out of both countries to try to ensure they remain within specified exemption periods. Fonterra (sub. 14) and Australian Industry Group (sub. 38) also noted the taxation-related costs to business of transferring staff across the Tasman.

This issue relates to the double taxation arrangements between Australia and New Zealand. Any changes to these arrangements would need to be made on a reciprocal basis and would therefore be a matter of negotiation and agreement between Australia and New Zealand. The next review of the arrangements is due to commence by March 2015.

R4.20

Taxation of non-resident employees should be considered when the double taxation arrangements between Australia and New Zealand are next reviewed.

Corporate Taxpayers Group also considered that current taxation law provides incentives for Australian investors to take 100 percent ownership of New Zealand businesses, rather than a lower level of ownership. It suggested that this can result in the 'crowding out' of New Zealand minority investment and that, from a tax policy perspective, a tax system should be neutral regarding the level of ownership that investors acquire.

Despite this issue having some connection with imputation credits, it is not specifically a trans-Tasman matter. The Commissions note that the Inland Revenue Department is talking to Corporate Taxpayers Group about the issue in a broader context.

The Australian Bankers' Association (sub. 37) expressed concerns about New Zealand dividend and interest non-resident withholding taxes. Neither of these is specifically a trans-Tasman issue; however they do relate to the division of taxing rights between the country from which the income is sourced and the country of residence of the taxpayer. As previously set out, this is a core issue in the mutual recognition of imputation credits. There may be opportunities in the next review of double taxation arrangements between Australia and New Zealand to make an overall assessment of the balance of this division and, at the same time, consider the issues raised by the Australian Bankers' Association.

Banking

Prudential regulation

The Australian and New Zealand banking systems are closely linked, with predominant Australian ownership of New Zealand's banking institutions. Almost 90 percent of New Zealand bank assets are owned by Australian banks. This constitutes around 15 percent of the total assets of Australian banks (Bollard 2011; Doan et al. 2006).

The frameworks for prudential regulation in Australia and New Zealand have broadly the same high-level objectives of promoting the safety, stability and efficiency of their respective financial systems. Both country's banking supervision operates within the framework established by the Basel Committee on Banking Supervision.

However, there are some differences in approach.

- The Australian framework emphasises risk-based supervision by the Australian Prudential Regulation Authority (APRA) and has a depositor-preference regime covering deposits in Australia for all locally incorporated authorised deposit-taking institutions (ADIs). This is in addition to the disclosure and other requirements imposed on banks under the *Corporations Act 2001* in Australia.
- The New Zealand regime places comparatively more emphasis on disclosure, and on the legal responsibilities of banks' boards of directors for what is disclosed. This is in addition to the disclosure and other requirements imposed

on all companies under the *Companies Act 1993*. New Zealand does not have a depositor preference regime. The RBNZ's supervision is intended to complement and not duplicate APRA's oversight of the New Zealand operations of Australian-owned banks.

In the event of an Australian-owned bank failing — either the New Zealand subsidiary or the parent bank in Australia — there would be trans-Tasman failure management issues to resolve. These involve some matters where national interests could differ. The Australian depositor preference regime means that without some form of 'ring-fencing', New Zealand depositors could be disadvantaged. Whether or not to use taxpayer funds to support a distressed bank is a matter for the respective governments to decide.

So that each country has some ability independently to manage a bank failure, the regulators in both countries require the (major retail) banks to operate at arms-length from their parent/subsidiary banks in the other country. This includes:

- local incorporation requirements
- requirements that the separate banks in each country maintain core operational capabilities that would be resilient to the failure of service providers, including of a parent or subsidiary to which core functions are out-sourced. This limits, for example, the scope for trans-Tasman banks to use a single IT platform to serve the operational needs of the banking group across both countries (ANZ, sub. 50)
- limits on provision of funding (and other intra-group credit exposures) between the parent bank in Australia and the subsidiary in New Zealand (and vice versa).

Given the extensive Australian ownership of New Zealand's banks, steps have been taken to harmonise, where appropriate, the prudential standards that apply in each country, and to establish arrangements that would assist in the handling of the failure of a trans-Tasman bank.

Ministerial and officials' meetings in 2004 resulted in the pursuit of an 'enhanced home-host' model for supervision, which aims to avoid imposing unnecessary compliance and operating costs on banks, while preserving national autonomy in approaches to bank crisis and failure management. Also, the Trans-Tasman Council on Banking Supervision (TTCBS) was established, with the role of promoting ongoing coordination, cooperation and harmonisation of trans-Tasman banking regulation, while maintaining the safety, stability and efficiency of both financial systems. This ongoing work has led to significant progress.

On the advice of the TTCBS, in 2006 each country passed legislation that requires the respective prudential regulators to consider the impact of their actions ‘across the Tasman’ (APRA 2011; Doan et al. 2006). Specifically, the legislation requires that each regulator: support the other in meeting their statutory responsibilities and, to the extent practicable, avoid any action that would be likely to harm financial system stability in the other country; or, to the extent considered practicable given the urgency of the situation, to consult with the other before taking such action.

Further to those statutory provisions, in September 2010, the TTCBS agencies signed a Memorandum of Co-operation on the management of trans-Tasman bank distress (Financial Stability Board 2011), and in 2011-12 a trans-Tasman crisis management exercise was conducted to test the arrangements.

Submissions received by the Commissions support further integration of bank supervision to achieve as much alignment as possible in supervisory standards and to reduce compliance costs. Commercial banks noted that current and proposed differences in approaches to prudential regulation and bank failure management create additional operational costs, while also increasing the costs of raising funds from overseas and the ability of Australian banks to invest in New Zealand. Examples provided included New Zealand’s open bank resolution and outsourcing policies, differences in each country’s implementation of the Basel III reforms and APRA’s proposed changes to related party exposure limits and related entities (Australian Bankers’ Association, sub. 37; ANZ, sub. 50; New Zealand Bankers’ Association, sub. 24).

The RBNZ (sub. 12) noted that harmonising New Zealand’s regulatory regime with Australia’s is an ongoing task. While there may be benefits from integrating approaches to prudential regulation, there are also important benefits from New Zealand being able to pursue a regime suited to its own circumstances. In particular, the RBNZ (sub. 12) considers that New Zealand needs the capacity to manage bank failures and crises affecting banks with large scale operations in New Zealand. This is so that the interests of the New Zealand economy and New Zealand customers of banks can be adequately protected in a crisis, when the interests and judgments of New Zealand and Australia, and the respective Governments, may differ.

Prudential regulation is constantly evolving, with significant developments occurring in multilateral fora in response to the global financial crisis. The most notable case is the Basel III capital reforms. While there are differences in the proposed implementation of these reforms in Australia and New Zealand (Australian Bankers’ Association, sub. 37 and sub. DR11; ANZ, sub. 50; New

Zealand Bankers' Association, sub. 24), regulators in both countries are working to align regulatory rules and supervisory practices where sensible. They have also improved information sharing, crisis preparedness and cooperation considerably in recent years (RBNZ, sub. 12).

F4.2

The Trans-Tasman Council on Banking Supervision is well positioned to progress any work relating to the further integration of Australian and New Zealand prudential regulation.

Banking: international transfer fees

Some submissions (Cole, sub. 4; Fonterra Co-operative Group, sub. 14) raised the matter of the fees for and delays involved in transferring funds and making payments across the Tasman through the banking system. These issues arise because transfers occur across different national payments systems.

The standard fee for sending funds by bank telegraphic transfer appears to be between NZ\$20 and NZ\$25 (possibly with additional fees applied by the receiving bank). The Commissions are not in a position to assess whether the fees are excessive, nor whether fees charged to frequent customers (for example, exporters and importers, or firms with a trans-Tasman business presence) are lower than the standard fee.

However, developments in technology are enabling banks, and a range of other providers, to provide payments services at lower cost, at least for 'retail' amounts. These include facilities that enable funds to be transferred cross-border from person to person using stored value cards, and internet-based payment channels.

These developments suggest that technology and competition may reduce the fees for trans-Tasman payments over time.

Financial services

Australian investment is prominent in New Zealand's wider financial services sector — which includes wealth management (including superannuation), insurance and the securities market.

Australian and New Zealand financial sector regulators have broadly similar principles and objectives, but with some differences. Regulators in the two

countries share a strong commitment to remove or reduce regulatory barriers that unnecessarily inhibit the flows of capital between the two countries (ASIC 2010).

Integration has been pursued through unilateral initiatives and mutual recognition, where appropriate.

- Mutual recognition of securities offerings has allowed offer documents that comply within one country to be offered in the other (ASIC 2010).
- Mutual recognition of arrangements for financial advisers will enable them to work in both countries — subject to their qualifications and experience (ASIC 2012).
- The Financial Markets Authority (FMA) recently implemented an Effective Disclosure Guidance regime modelled on an Australian scheme, after extensive consultation with ASIC (FMA, sub. 57).

Some submissions suggested that further trans-Tasman integration in financial services regulation may lower compliance costs for financial institutions operating in each market (Business NZ, sub. 40; FMA, sub. 57; ICA, sub. 36; IAG, sub. 23; Nottage, sub. 55). The FMA (sub. 57) noted that differences in institutional arrangements impede further trans-Tasman integration of financial services, and that more comprehensive integration is desirable. For example, it supports cross-membership of the FMA and ASIC (sub. 57).

4.5 ‘Fourth freedom’: cross border movement of people

Short term travel across the Tasman

Trans-Tasman travel by Australian and New Zealand citizens

There are over 2 million trips per year across the Tasman by Australian and New Zealand residents, and trans-Tasman arrivals are the largest source of visitors to both countries. Fast-track border entry processes can reduce the costs and waiting times of trans-Tasman travel for eligible Australian and New Zealand citizen passengers. The Australian and New Zealand Governments have introduced reciprocal fast-track entry for Australian and New Zealand ePassport holders, under their SmartGate systems (ACBPS 2012a, b and c).

The Australian Customs and Border Protection Service and the New Zealand Customs Service have undertaken a trans-Tasman trial at Gold Coast airport, aimed at further integrating Australia's and New Zealand's SmartGate systems (ACBPS 2012b). The trial commenced in July 2011, and operated for 12 months.

Further integration of the two countries' SmartGate systems would simplify customs and immigration checks for eligible travellers. Australia could usefully adopt SmartGate for departures as well as arrivals. Traditional checks by customs officers could then be better targeted at higher-risk passengers (Evans 2010).

The benefits of SmartGate will be constrained if it is only available at major airports. However, the costs of the infrastructure used to operate SmartGate, as well as other operating costs, should be factored into decisions about how widely and when it is implemented.

R4.21

The Australian and New Zealand Governments should progress the further roll out of SmartGate and associated systems where it is cost effective to do so, focusing on departures from Australia and major regional airports.

Trans-Tasman travel by other citizens

Many foreign visitors to this region travel to both Australia and New Zealand. In the year ending March 2012, 51 percent of all tourists from the Republic of Korea and 71 percent of all tourists from China visited both Australia and New Zealand (MBIE 2012). More than four in every ten arrivals into New Zealand travel from Australia, according to the Tourism and Transport Forum (sub. 25).

A single trans-Tasman tourist/visitor visa, enabling travel to both Australia and New Zealand, would reduce the inconvenience and cost, and thereby increase the attractiveness, of such travel for people who currently require separate visas to visit the two countries (for example, nationals from the People's Republic of China). The Tourism and Transport Forum (sub. DR107) also submitted that such a visa would encourage higher international tourist numbers for trans-Tasman major sporting events (for example, the 2015 Cricket World Cup).

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.) The two Governments would also need to agree on an appropriate sharing of the costs and revenues.

R4.22

The Australian and New Zealand Governments should consider a 'trans-Tasman tourist visa' for citizens from other relevant countries who wish to travel to both countries. The charges for this visa should be based on a cost-recovery model, with agreed sharing of revenue and costs.

Long term trans-Tasman residents

There is a long history of both short and longer term movement of people as well as permanent migration between Australia and New Zealand, facilitated by the Trans-Tasman Travel Arrangement (TTTA) and the TTMRA.

The flows of New Zealanders and Australians in each direction were relatively even until the early 1970s. However, following the TTTA and as Australia's economy and wage levels started to grow more quickly than New Zealand's, the flows of citizens responded accordingly. There are now estimated to be around 480 000 New Zealand-born people living in Australia, compared to around 65 000 Australian-born people living in New Zealand.

Empirical studies consistently show that the net effects of migration on the receiving country are small and positive, with the so-called 'migration surplus' larger for skilled immigrants (PC 2011). While the focus for source countries tends to be on 'brain drain' and 'hollowing out' issues (chapter 2), the net effects of emigration depend on the skill level of replacement immigrants and return migration of emigrants, who often bring back additional skills and know-how (Coppel, Dumont and Visco 2001). Box 4.5 illustrates the effect of a 1 percent increase in trans-Tasman migration to Australia from New Zealand on gross national product and gross national product per worker in both economies.

Box 4.5 Modelling the effects of trans-Tasman migration

The ANZEA model (box 2.9) was used to simulate the effects of a 1 percent increase in the number of New Zealanders working in Australia. This translates into a movement of approximately 3 000 workers, equivalent to a 0.13 percent decrease in the supply of labour in New Zealand and a 0.02 percent increase in the supply of labour in Australia.

The trans-Tasman wage differential is allowed to adjust in response to this movement. The migrating workers are assumed (i) to have similar qualifications as Australians (and New Zealanders who remain in New Zealand), and (ii) to be accompanied by a typical family (the structure of families in Australia and New Zealand is similar). The new demand for goods and services (for example, schools and health) generated by the migrants is assumed to be similar to that generated by Australians. The analysis abstracts from foreign remittances (as these have been a small fraction of income earned by New Zealanders abroad) and does not account for the impacts on other sources of migration. The modelling does not allow for replacement migration or return migration.

The increased supply of labour in Australia allows output and income to expand, while the reverse occurs in New Zealand (see below table). Output per worker in Australia declines as more workers are spread across the existing capital stock, while the converse occurs in New Zealand.

Table **Illustrative effects of trans-Tasman migration^{a,b}**
Percentage changes relative to base

	<i>Australia</i>	<i>New Zealand</i>
Gross National Product (GNP)	0.01	-0.08
GNP per worker	-0.01	0.06

^a 1 percent increase in New Zealand labour in Australia. ^b Sensitivity analysis did not produce ranges that are significantly different from the results reported.

Source: Australian Commission estimates.

Long term residents in Australia

While migration can improve the allocation of resources and increase aggregate economic output, open access to taxpayer funded resources is generally not desirable from the receiving country's perspective. Hence, access limits to social security and/or residency arrangements are appropriate.

Over time and incrementally, the Australian Government has limited the access of various cohorts of New Zealand migrants to social security and Australian permanent residency and citizenship, in response to various developments. As a result, social security arrangements for many New Zealand citizens have become relatively complex. Some individuals and their families who have lived in Australia for a considerable time are denied, or have limited access to, some social safety nets.

Eligibility for social security

Australian and New Zealand citizens living in the other country can access a variety of social payments and supports, and medical benefits.

Arrangements for Australian citizens living in New Zealand are relatively simple and rarely leave individuals and families without access to a safety net. They have the same social security entitlements as New Zealand citizens, provided waiting periods (generally around 2 years) have expired. Moreover, they have immediate access to publicly funded health and disability services if they can demonstrate an intention to live in New Zealand for two or more years. Budgetary costs of some benefits are shared between the two Governments, in proportion to the time an individual spends in each country.

New Zealand citizens living in Australia have immediate access to family payments (such as Family Tax Benefit, Baby Bonus, Child Care Benefit, and Parental Leave Pay), and health care under Medicare Australia. But they also face various limitations on access to social security (supplementary paper D), which were introduced to limit the cost to taxpayers.

The result is that social security treatment of New Zealand citizens in Australia sits somewhere between the treatment of temporary residents and of newly-arrived permanent residents. For example, non-Protected Special Category Visa (SCV) holders (generally New Zealanders who arrived in Australia after 26 February 2001; box 4.6 and box D.2 in supplementary paper D) have less generous social security entitlements than newly arrived permanent resident visa holders to Australia, but have more generous social security entitlements than temporary resident visa holders.

Because non-protected SCV holders have no or restricted access to some Australian welfare payments (namely Newstart, Youth and Sickness Allowances and Special Benefit) they have limited options if they require such support. They can return to New Zealand, or seek permanent Australian residency and/or citizenship. The latter course was made more difficult following changes introduced in 2001, which require New Zealand citizens to go through the same process as other applicants for permanent residency and citizenship (DIAC 2011). In Australia, permanent residency is a prerequisite for citizenship, and permanent residency visas are subject to selection criteria and quotas.

Box 4.6 Visa arrangements for Australian and New Zealand citizens

Australia

On entering Australia, under the TTTA New Zealand citizens are considered to have applied for a temporary entry visa and, subject to health and character considerations, are automatically provided with a temporary entry visa, which is recorded electronically. Unlike other temporary visas, this visa — known as Special Category Visa (SCV) subclass 444 — has no time limit while the holder is a New Zealand citizen.

Under current social security legislation, SCV holders are either Protected or non-Protected SCV holders. Protected SCV holders generally arrived prior to 26 February 2001, while non-Protected SCV holders generally arrived after that date.

New Zealand

On entering New Zealand, Australian citizens and people who hold a current Australian permanent residence visa or a current Australian resident return visa are automatically granted a residence visa.

Sources: DIAC (2010); Immigration New Zealand (nd).

There are challenges within both the ‘demand-driven’ and ‘supply-driven’ pathways to Australian permanent residence and citizenship, for a growing cohort of New Zealand citizens who have arrived since 2001.

- Australia’s ‘demand-driven’ pathway is largely met through employer sponsorship. While New Zealand holders of subclass 444 visas are exempt from the skills and English language capability criteria under the two visa categories in the Employer Sponsored Migration program, they are generally not exempt from the requirement that applicants be under 50 years of age and are not eligible for the Temporary Residence Transition stream (DIAC 2012). Also, for some individuals and employers, the A\$3060 application fee may be a significant ‘post-border’ transaction cost.
- The ‘supply-driven’ pathway is now based on a framework of developing ‘specialised skills’. In practice, the new process means that ‘supply-driven’ applicants are sorted on the basis of their points test scores. The mark will vary each year so that the volume of invited applications roughly balances the annual allocation of these skilled visas (Cully 2011).

Accordingly, a proportion of New Zealand citizen residents, who may have been working in Australia for many years, may not be employed in an occupation that is defined as ‘in need’ and on the Skilled Occupation List when they seek to become permanent residents. Indeed, the ease with which New Zealand citizens can be employed by Australian businesses to meet their specific needs also means that

these occupations may never be defined as ‘in need’ or, if they were, may no longer be defined as ‘in need’ at the time of the New Zealand citizen’s application.

As at 30 June 2011, there were around 240 000 New Zealand citizens in Australia who had arrived after 26 February 2001 (DIAC, pers. comm., 13 April 2012). Based on its analysis of passenger cards, the Australian Department of Immigration and Citizenship (sub. DR126) estimated that between 40 and 60 percent of adult, New Zealand citizen, permanent and long term arrivals would be eligible to apply for a permanent visa. This suggests that the remaining non-Protected SCV holders (that is, between 100 000 and 144 000 people) would be ineligible for a number of safety net payments and social policy supports. In addition, Protected SCV holders are not eligible to access some types of state and territory government social support (for example, HECS-HELP loans and disability supports) (see below).

The Commissions have not been able to quantify the number of people who have been unable to access safety net payments. However, submissions from a considerable number of individuals and community groups have provided many examples of difficulties to this and other studies (boxes D.4 and D.5 in supplementary paper D). A particular concern is that SCV holders are eligible for Commonwealth supported higher education places but are not eligible for the accompanying student loan arrangement (known as HECS-HELP) and the associated study-related social security payments. Similarly, within the vocational education and training system, SCV holders are not eligible for student loans (known as VET FEE-HELP).

There is a strong case for providing more information to New Zealand citizens before they arrive in Australia, to ensure that the conditions applying to social security payments and social policy supports are transparent and readily understood. This is because the ‘domestic like’ travel experience under the TTTA, combined with the unlimited duration of the temporary visa, may lead some individuals to misconstrue the potential ‘post-border’ costs when considering staying for long periods in Australia. Some submissions suggested that many non-Protected SCV holders were unaware before and after arrival of limitations on access to some Australian benefits. There are various options for improving the information available to new arrivals from New Zealand.

R4.23

The Australian and New Zealand Governments should give clear and coordinated, whole-of-government advice to Special Category visa holders in Australia, and New Zealand citizens contemplating residence in Australia, both before and after arrival, on their obligations and entitlements.

There may be concerns that easing non-Protected SCV holders' access to Australian social security payments and social policy supports may impose a fiscal burden on Australia. Further work is needed to assess these complicated effects.

Analysis of the fiscal risks from trans-Tasman movements need to account for offsetting tax revenues as well as other considerations. For example, in 2001 social security outlays directed to New Zealand citizens living in Australia were estimated to be A\$1 billion, compared to an estimated tax revenue of A\$2.5 billion collected from this group as a whole in that year (MFAT 2011). And based on a partial analysis in 2000, the NZIER (2000) estimated that New Zealand citizens living in Australia generated direct fiscal benefits for Australia of around A\$3000 per person, at that time. Whether the net benefits for Australia (taking into account a wide range of costs and benefits) generated by this group of migrants is higher than would be generated by other groups of migrants is difficult to gauge. It requires a judgment by government based on a wide range of considerations.

Permanent residency and citizenship

As noted, the more limited pathways to Australian permanent residence and citizenship for some members of this group compound the problem for non-protected SCV holders. For many SCV holders living long term in Australia, access to citizenship is the key to gaining access to social policy payments and supports and the ability to vote across all Australian jurisdictions. Moreover, the undesirable social outcomes experienced by a small but growing share of these 'indefinite temporaries' may develop into a point of irritation within the trans-Tasman relationship.

The Commissions understand that both Governments are aware of the situation and that the Australian Government is working towards a resolution (Gillard 2012).

R4.24

The Australian Government should address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.

Student loans

New Zealand citizens resident in Australia have access to Commonwealth-assisted university places but not to HECS-HELP. Hence, even if an alternative pathway to Australian permanent residency and/or citizenship were developed for long term resident New Zealand citizens, there would remain a cohort of young New Zealand citizens whose access to HECS-HELP, VET FEE-HELP and other study-related assistance would depend on their parents obtaining Australian permanent residency and/or citizenship. This process inevitably takes time and money. In some cases, parents will not seek to obtain permanent residency and citizenship for themselves and their children.

One option — suggested in many submissions — could be to give the children of New Zealand citizens, who have been living in Australia for a minimum period of time, access to HECS-HELP (and VET FEE-HELP). However, it may be problematic for the Australian Government to provide access for HECS-HELP to New Zealand citizens ahead of Australian permanent residents, who are not able to access HECS-HELP unless they become Australian citizens. That said, the barriers to HECS-HELP (and VET FEE-HELP) are lower for Australian permanent residents than for non-Protected SCV holders.

Student loan arrangements in both countries also have debt collection arrangements. Broederlow (sub. DR88) suggested that both Governments ‘... allow each other’s countries to pursue outstanding debts whereby residents return to their country of origin’ (p. 10). Green (sub. DR85) also suggested that a bilateral agreement could be developed to enable student loan repayments to be collected in both countries.

Subject to the usual cost-benefit analysis, the Commissions support this approach within the context of an international tax agreement with New Zealand.

R4.25

The Australian Government should seek to improve access of New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions.

A single trans-Tasman labour market?

The free mobility of labour within a single economic market enables labour resources to work where their marginal product is highest. At the same time, it is important to limit incentives for government transfer shopping and the negative

social consequences arising from long term residence without citizenship in another country.

Any formal agreement to a single labour market should optimise net benefits for the participating countries, taking into account a broad range of considerations and factors affecting the wellbeing of their communities. These include the benefits of labour mobility, access to social security and social policy supports and voting rights. Moreover, as migration is a significant component of a single labour market (as are occupational licences), participating countries have a mutual interest in each other's policies in these areas.

Given the previous Australian and New Zealand Governments' agreement to a single trans-Tasman labour market (through the TTTA which subsequently underpinned the CER and the SEM), some new principles governing access to social security would seem appropriate along with arrangements governing migration policy. These inter-related issues are discussed, in turn, below.

A new framework for access to social security

Principles might usefully be developed to guide the treatment of New Zealand citizens who are long-term resident in Australia. Based on European Union experience and certain characteristics of an integrated labour market (supplementary paper D), some possible principles are:

- Policy independence — the country in which a person lives should determine the social security legislation under which the person is covered.
- Prevention of government transfer shopping — access to social security should not encourage migration of citizens from one country to another. Waiting periods to prevent this should apply in most circumstances.
- Equal Treatment — individuals should have the same rights and obligations as citizens or permanent residents in the host country, subject to the relevant waiting periods or other initial conditions.
- Portability — each country should have its own portability rules for the payments that each country covers.

Historically both Australia and New Zealand have benefited from labour mobility, both informally as well as formally through the TTTA, CER and SEM. There is a risk, however, that this arrangement may become increasingly problematic for both countries. While the Commissions' recommendations have the potential to ameliorate the anomalous economic and socially marginal outcomes for some long term trans-Tasman residents, a 'watching brief' remains important.

Accordingly, the Commissions support the development of a broad framework around which to determine access to social security within the context of the CER, the SEM and the TTTA.

Migration policy

The above principles nevertheless contain inherent tensions. For example, in principle, equal treatment could only be implemented if Australia's and New Zealand's migration and citizenship programs were aligned with respect to nationals from third countries. This is because migration is the key point of entry to the labour markets for both countries. Seeking to maintain an integrated labour market between two countries, with a growing gap in incomes per person, will inevitably push the focus of attention in this direction. Lloyd (sub. 5) observed:

As with trade policy, both countries have retained independent screening of potential immigrants from outside the Tasman area. Differences in immigration criteria and assessment methods mean that there is a possibility of "people deflection" analogous to trade deflection. This occurs if potential immigrants wanting to emigrate to one Tasman country are prevented to do so by that country's assessments but are able to enter the other Tasman country and after acquiring residence and citizenship to then move to their country of first choice. Because of its higher per capita incomes and larger established immigrant population, this means in practice emigrants going first to New Zealand then to Australia. (p. 11)

The extent of future 'back door migration' is difficult to assess, although there is evidence that New Zealand's current policy settings may be effectively managing the risks of such migration (DIAC, sub. DR126). While fully aligning migration policies to achieve a single trans-Tasman labour market may be desirable, in practice it would be possible to implement the principle of 'equal treatment' without this alignment, provided that there is ongoing cooperation, trust and engagement over migration and citizenship policy with respect to nationals from third countries.

The Commissions understand that there is considerable engagement between immigration officials of the two nations, including an annual formal bilateral forum (ANZIF), and project and program activity under the auspices of the 'Five Country Conference' (which also includes the UK, Canada and the United States). In addition, officials engage regularly in dialogue and cooperation on both policy and operational issues and areas of interest.

The impacts on national security would need to be considered in parallel with any consideration of migration policies.

R4.26

Within the context of CER, the Single Economic Market (SEM) and the Trans-Tasman Travel Arrangement (TTTA), the Australian and New Zealand Governments should:

- review, and make more explicit, the principles governing access to social security
- further develop bilateral engagement on migration policies.

Fiscal risks for New Zealand Superannuation

New Zealand Superannuation (NZS) is the New Zealand Government's flat-rate, non-means tested basic age pension. Eligibility is conditional on an age and residency requirement — one must have reached 65 and have lived in New Zealand for at least 10 years since the age of 20, with at least five of these after the age of 50. There are no specific contributions or work-related requirements.

Dale et al. (2011) noted the fiscal risks to NZS from the return migration of New Zealanders:

In the future, with an increasing state pension age in Australia, a harsher income test, and because 'totalisation' can be applied under the Social Security Agreement, it may become relatively attractive for New Zealanders to return home to retire, especially if New Zealand does not increase the state pension age. This would increase the burden on the working age population of New Zealand, without the benefit of the earlier tax contribution from these retirees. (pp. 8–9)

These factors may also make it attractive for some Australian citizens to retire in New Zealand with their privately managed superannuation monies, which would also not be subject to means testing (abatement) under NZS rules.

4.6 Government and regulatory services

Opportunities for coordination

Integrating markets for goods, services, labour and capital requires coordination in many parts of the public sector. While the Australian and New Zealand Governments are sovereign entities, coordination between them is extensive and takes many forms, as described in chapter 3.

Such coordination can reduce compliance costs for trans-Tasman businesses, enable more effective regulation of business activity that crosses borders and, in the case of joint bodies, increase economies of scale. However, coordination may also impose administrative costs and reduce local accountability and flexibility.

In the private sector, the profit motive drives innovation, inter-firm cooperation and decisions about firm size and scope. In government agencies, however, the profit motive is typically absent, so there is a need to think differently about how to promote integration of government functions. Governments can, for example, motivate agencies to consider coordination by attaching greater weight to such coordination when setting Ministerial expectations and performance measures for agencies.

R4.27

The Australian and New Zealand Governments should encourage government agencies to consider opportunities for trans-Tasman coordination in service delivery and regulation on a case-by-case basis.

Joint action in multilateral fora

In some circumstances, there may also be benefits from the Australian and New Zealand Governments taking coordinated action in multilateral fora. Where both countries have a shared interest or objective, coordination may reduce the cost of representations or increase the chances of achieving an international outcome favourable to both countries. However, as noted above, coordination may also impose administrative costs and reduce local accountability and flexibility.

Telstra and Telstra Clear note a possible example of this type of cooperation. Recent coordination by Australian and New Zealand regulators and industry representatives, to develop and promote an Asia-Pacific approach to using the radio spectrum frequencies freed up by the switch from analogue to digital television, led to a trans-Tasman plan being adopted by Asian-Pacific regulators (sub. 48).

There may be other cases where such coordination can generate joint benefits (see chapter 5). For example, Australia and New Zealand could work together to promote a multilateral air services reform agenda.

Performance benchmarking

Government services

Regular monitoring and reporting of government service and program results is a key component of evidence-based public management and identifying opportunities to improve public sector performance (Wholey and Hatry 1992). Performance monitoring can:

- provide transparent indicators of policy performance, enabling assessment of whether and how well program objectives are being met
- promote analysis of the effectiveness of relationships between agencies and programs, enabling governments to better coordinate policy within and across agencies
- help clarify government objectives and responsibilities and inform the wider community about government service performance
- encourage ongoing performance improvements in service delivery and effectiveness, by highlighting improvements and innovation (SCRGSP 2010).

Both countries separately undertake performance monitoring, benchmarking and reporting. Examples are New Zealand's quarterly reports on the performance of District Health Boards (Ministry of Health 2012), the performance measurement framework developed for Auckland Metropolitan Crime and Operational Support (Alach and Crous 2012) and the Department of Infrastructure and Transport's (2011) 'Waterline' report, which measures performance in Australia's five main ports. Both countries also participate in international reports such as OECD's *Education at a Glance* (OECD 2012a).

Benchmarking may enable governments to learn from or adopt the practices of their counterparts, as was suggested above in the case of ports. Where one country already benchmarks a particular service, it may be cost effective for the other government to 'borrow' or adopt their data collection and reporting mechanisms, rather than develop entirely new methods.

Trans-Tasman benchmarking may be particularly useful:

- for government services for which there are potentially significant gains from improved effectiveness or efficiency
- when New Zealand and Australian government service providers have similar objectives, against which performance can be compared using the same performance indicators

-
- when data for performance indicators is already collected in both countries or, if it is not being collected, the cost of doing so would be less than its value.

Report on Government Services

The Report on Government Services (RoGS) is an important source of performance data in Australia. This annual publication (prepared since 1995 under the auspices of COAG) compares the efficiency and effectiveness of Commonwealth and State/Territory government services such as education, health, justice, emergency management, community services and housing. The Australian Commission compiles the report and chairs a Steering Committee comprised of senior representatives from Australian, State and Territory Governments.

There is evidence that RoGS has contributed to improved equity, efficiency and effectiveness of government services, and the accountability of service providers to governments and the public. It does this by providing meaningful, balanced, credible, comparative information about government services, which can facilitate the development of improved policy or management practices (box 4.7).

Box 4.7 Improving government services through benchmarking

There is evidence that the information in RoGS has played a significant role in informing policy development across a broad range of services.

In the education sector, RoGS was instrumental in the introduction of standardised national testing of student learning outcomes.

In the health sector, RoGS illustrated the beneficial impact of the introduction of 'case mix' funding by Victoria on the average cost of hospital separations. Over time, other jurisdictions introduced some form of activity based costing of hospital services, and the approach is now being adopted at a national level.

In the justice sector, RoGS illustrated the significant efficiency gains associated with Victoria's use of electronic courts for minor traffic infringements, which has been adopted by other jurisdictions.

Source: Productivity Commission and Forum of Federations (2012).

New Zealand produces *The Social Report* annually, which reports 43 indicators in ten key policy areas such as health, economic standard of living, and safety and social connectedness (Ministry of Social Development 2010). *The Social Report* includes a similar set of information to RoGS, although RoGS includes a more detailed range of indicators in a wider range of policy areas.

Given that similar information in each country is published separately, both countries would benefit from greater integration of performance reporting. Publication of comparable information, in the same format, with a single source would enable direct comparison between jurisdictions. Three main reasons for reporting comparative performance information across jurisdictions are:

- to verify high performance and identify agencies and service areas that are successful
- to enable agencies to learn from peers that are delivering higher quality and/or more cost effective services
- to generate additional incentives for agencies and services to improve performance (SCRGSP 2010).

For New Zealand, RoGS presents a well-established performance monitoring system, which is more detailed and comprehensive than most current reporting in New Zealand. Australia would also benefit from New Zealand's participation in RoGS, as an additional benchmark would create the potential for State and Federal Governments to learn from policies and programs delivered in a different context.

The costs of producing RoGS include the Australian Commission's expenditure (approximately A\$2.8 million per year), and part-time assistance from around 20 Steering Committee members, 180 working group members and over 200 data providers.

While these costs can be exceeded by the benefits from even small improvements in the service areas covered by the RoGS — because the areas covered are so large — the costs of performance benchmarking are not trivial. Hence, it is important that the additional benefits from New Zealand's participation in the RoGS — additional to the benefits already generated from other regular reports — exceed the additional costs. Focusing on a small number of areas — initially at least — may be prudent. Options include New Zealand independently expanding its own parallel report to include areas not covered in *The Social Report*, and becoming involved in benchmarking some or all of the government services covered by the RoGS. The Australian experience through RoGS has been that a mix of policy and pragmatism has guided the selection of service areas for reporting.

The benefits of trans-Tasman benchmarking within the RoGS are strong in principle, and more detailed work should be undertaken to determine how best to proceed. Factors for consideration include the extent to which RoGS performance indicators are applicable in both jurisdictions, the availability of robust data, and a

suitable approach for New Zealand to participate in the existing RoGS governance structure.

Regulatory benchmarking

In February 2006, COAG agreed that all governments would aim to adopt a common framework for benchmarking, measuring and reporting the regulatory burden on business. Since that time, the Australian Commission has undertaken benchmarking studies of seven regulatory regimes.

Such benchmarking can shed light on where and how differences in the costs of complying with regulation might be reduced.

The increased transparency afforded by benchmarking would also increase government accountability for the design, administration and enforcement of regulation. Indeed, it could help promote greater 'yardstick' competition among jurisdictions, whereby there is more careful assessment of regulation to ensure that it is efficient and does not disadvantage a jurisdiction's performance. (PC 2007, p. xx)

In its exploratory study of the scope for regulatory benchmarking, the Australian Commission suggested that in the longer term, the benchmarking program could potentially include New Zealand for some areas of regulation, given the similarity in institutional arrangements between the two countries and the emphasis on trans-Tasman harmonisation. This would facilitate greater benchmarking of regulation, including at the Commonwealth level (PC 2007, p. xxx).

The only study involving New Zealand so far has been of food safety regulation (PC 2009a). Benchmarking against agreed performance targets was able to be undertaken because amendments to the food standards code in Australia and New Zealand are managed by the same regulatory agency (Food Standards Australia New Zealand) (PC 2007, p. 71).

Some regulatory benchmarking topics would not be suitable for a trans-Tasman approach; for example, when regulatory objectives differ between Australia and New Zealand. However, there will be instances where a trans-Tasman approach will provide insights for both countries about opportunities to improve regulation. COAG's Business Regulation and Competition Working Group should take into account opportunities for trans-Tasman cooperation when developing topics for regulatory benchmarking studies.

R4.28

The Australian and New Zealand Governments should seek beneficial opportunities to undertake joint benchmarking. In particular, they should determine an appropriate approach for New Zealand to participate in the *Report on Government Services* produced under the auspices of COAG, and also in regulatory benchmarking studies undertaken in Australia.

4.7 Options that should not proceed

The Commissions have identified some areas where further integration is not justified.

- As discussed in chapter 2, excluding political union as a realistic option also rules out or limits the scope for some economic integration initiatives that would require adherence to common political and policy positions, such as common monetary and fiscal policies.
- The considerable differences between the two countries' tax systems indicate that harmonisation is not a viable option.
- For reasons discussed earlier in the chapter, the Commissions do not support a customs union.
- The TTOIG has determined that some components of the business law reform program are not worth pursuing.

Regulatory areas where there are significant differences among Australian states are also unlikely to be promising candidates for integration with New Zealand, although the Commissions would not permanently rule out such areas.

Monetary union

The possibility of a monetary union between Australia and New Zealand has often been raised in the past and was discussed in a number of submissions.

Determining which economies might benefit from forming a monetary union is a complicated task (Mundell 1961), and the available research provides only an overview of the benefits and costs entailed (RBNZ, sub. 12).

On the benefits side, monetary unions remove the exchange rate risk on trade between member countries and permit easier price comparisons. This potentially increases investment and trade, and facilitates specialisation and productivity

growth (Mundell 1961; Rose 2008). However, the consequent increases in trade are generally small (Cote 1994). This would probably be the case for Australia and New Zealand, since Australia accounts for only 23 percent of New Zealand's merchandise exports (table 1.1), and New Zealand accounts for a much smaller share of Australia's trade.

On the costs side, in forming a monetary union, a country surrenders autonomy over monetary policy and exchange rate flexibility, which are important tools for macroeconomic stabilisation. This means that in the event of an economic shock to New Zealand, but not to Australia (or vice versa), adjustment through the exchange rate or through monetary policy would no longer be possible. Instead, adjustment would need to occur through prices, wages and employment. Adjustment through these channels is typically slower and can result in more volatile prices and output (Rose 2008; RBNZ, sub. 12). The size of such effects depends in part on the frequency of asymmetric shocks and on how synchronised are the business cycles of the economies within a monetary union. Business cycle synchronisation will itself depend on policy settings, the structure of the economies and their resilience to economic shocks.

Studies of whether to form a trans-Tasman monetary union suggest that the potential costs would outweigh the benefits. For example, Drew et al. (2001) and Hall (2005) found that if New Zealand had adopted Australia's monetary policy in the 1990s, aggregate output in New Zealand would have been slightly higher, but at the cost of higher inflation and more volatility in both output and inflation. McCaw and McDermott (2000) and others have also shown that a common trans-Tasman monetary policy would have increased volatility.

Further, there are few instances where monetary union has worked effectively without some degree of political union.

Overall, the Commissions do not consider that the prerequisite conditions for a trans-Tasman monetary union exist — a view that is shared by most participants in the study (box 4.8).

F4.3

The prerequisite conditions for a trans-Tasman monetary union do not exist.

Box 4.8 **Participants' views about a trans-Tasman monetary union**

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. (FFNZ, sub. 33, p. 5)

Available research for New Zealand does not provide conclusive answers about the economic desirability of a currency union with Australia. While currency union with Australia could provide many important benefits, the loss of autonomous monetary policy would expose New Zealand to the possibility of increased inflation and output volatility in general and larger adjustment costs in the event of significant New Zealand-specific shocks. As such, the sustainability of a currency union will depend on the effectiveness of alternative adjustment mechanisms like price and wage flexibility and particularly common fiscal arrangements in helping the economy cope with shocks. Because currency union membership involves the loss of monetary autonomy (and possibly fiscal sovereignty), the decision to enter into a currency union must ultimately be determined within a broader economic and political context. Maintaining effective union-wide fiscal arrangements may be difficult without significant steps toward political integration. (RBNZ, sub. 12, p. 3)

I see no material net benefits for the short through to medium term if pursuing any of the other level 4 elements of Common Currency, Common Monetary Policy or Common Fiscal Policy. (Hall, sub. 31, p. 1)

We [Lloyd and Seng 2006] concluded that a case for monetary union has not been established and that is still my view. (Lloyd, sub. 5, p. 5)

5 Making it happen

Key points

- The Commissions have identified a wide range of integration initiatives that offer significant joint net benefits.
- Economic integration between Australia and New Zealand is well advanced and some of these new initiatives will be more complex and challenging.
- Successful implementation requires sound governance arrangements, including the capacity for ongoing evaluation and review.
- CER governance arrangements have been light-handed and pragmatic. They have worked reasonably well. There is scope to build on them to match the more complex policy challenges that lie ahead and enhance capacity for evidence-based policy.
- Recommendations cover:
 - a clearer leadership and oversight role within CER
 - regulatory proposals at the national level should consider opportunities for trans-Tasman collaboration that would lower costs and deliver benefits
 - opportunities for coordinated action in regional and multilateral fora
 - five-yearly public reviews of CER's achievements and direction.

Implementation of a policy can be a formidable challenge, regardless of how good it looked on the 'drawing board'. Effective implementation requires governance arrangements that are suited to the task. This chapter looks at existing arrangements for the leadership, implementation and management of CER reforms. It considers whether improvements could be made in the light of experience, and to better match the requirements of an evolving CER agenda.

5.1 The forward agenda

In chapter 4 the Commissions proposed completing some unfinished CER business and a set of new initiatives deemed worthwhile on the basis of available evidence. The chapter categorised the proposed initiatives into the markets for goods, services, capital and labour. Closer integration and benchmarking of government services were also explored.

Taken as a whole, these proposals amount to a substantial forward agenda for CER, and one that contains ongoing challenges if the two countries are to maximise joint net benefits.

That said, CER initiatives need to take their place alongside domestic reforms and participation in broader regional or multilateral initiatives. It is outside the scope of this study to compare relative priorities within this wider landscape. The task here is to identify CER initiatives that are worth pursuing in their own right.

Many of the proposed initiatives would reduce impediments to trade in services. Compared to conventional border restrictions on merchandise trade, these can pose special challenges for reform. For one thing, the impediments often arise as an unintended by-product of pursuing a domestic policy objective. This may be a social or environmental objective not seen primarily in economic terms, or not publicly accepted as a legitimate subject for international negotiation. The impediments themselves are typically regulatory and can involve multiple interacting dimensions.

This places a premium on governance arrangements for CER that can play an effective role in marshalling evidence, establishing priorities and monitoring outcomes. Such arrangements can also help provide a coherent agenda and support its communication and public acceptance.

Cohesive political leadership and effective communication are key to the successful implementation of reforms (Tompson and Dang 2010). This is likely to be more difficult where two Governments are involved. Yet the past achievements of CER indicate the scope to implement the forward agenda successfully.

Good processes are a necessary, if not sufficient, condition for good outcomes. Acharya and Johnston (2007, p. 264) have examined a number of regional international institutions and found that their design is a deliberate and complex process that reflects multiple factors. They conclude that ‘institutional design does affect the nature of cooperation, especially when it comes to the realization of their [the parties’] initial goals’.

It is timely to ask whether CER’s governance remains fit for purpose, given the 30-year evolution of CER, changes in external circumstances and the types of initiatives in the forward agenda.

5.2 Past and current governance of CER

CER governance can be characterised as light-handed and pragmatic. It has been held up as a workable alternative to EU-style integration with its grander visions and powerful supra-national institutions (Leslie and Elijah forthcoming).

The key CER decision-making processes remain within the respective Governments of Australia and New Zealand. While no Ministers have formal responsibility for the trans-Tasman relationship, the two Prime Ministers hold de facto ministerial responsibility for CER and meet periodically. There are also regular trans-Tasman meetings at ministerial and departmental levels, which drive efforts to coordinate and integrate.

At the level of government officials, the Trans-Tasman Outcomes Implementation Group (TTOIG) has served since 2009 providing oversight and coordination of a program to integrate Australian and New Zealand business laws as part of the Single Economic Market phase of CER. It consists of senior officials jointly chaired by the Australian Treasury and the New Zealand Ministry of Business, Innovation and Employment. It oversees and reports six-monthly on progress towards achieving 28 outcomes across nine areas of business law (section 4.1 has more detail) and has been largely successful in keeping the program on track.

The Council of Australian Governments (COAG) is another important component of CER governance arrangements (box 5.1). In some areas, CER reform has taken its cue from the efforts of COAG to remove barriers to create a 'seamless national economy' within Australia. One example is FSANZ, the trans-Tasman joint agency for food standards, which grew from the Australian national food standards developed through COAG.

Ministers from both Governments attend the annual Australia-New Zealand Leadership Forum, where business and government leaders come together to focus on CER.

Box 5.1 **New Zealand's participation in the Council of Australian Governments**

New Zealand Ministers have had observer status at relevant COAG Ministerial Councils for nearly two decades. Full membership was recommended in a 2008 report by the Australian House of Representatives Standing Committee on Legal and Constitutional Affairs. The Australian Government accepted this recommendation in relation to Ministerial Councils that consider matters where New Zealand has an interest. When the new COAG structure was put in place in 2011 New Zealand was invited to (and opted to) join the Ministerial Councils and Fora detailed below.

<i>Standing Councils</i>	<i>Select Councils</i>	<i>Legislative and Governance Fora</i>
Community and Disability Services	Climate Change	Consumer Affairs
Energy and Resources	Housing and Homelessness	Food Regulation
Environment and Water	Immigration and Settlement	
Health	Women's Issues	
Law and Justice	Workplace Relations	
Police and Emergency Management		
Primary Industries		
Regional Australia		
School Education and Early Childhood		
Tertiary Education, Skills and Employment		
Transport and Infrastructure		
New Zealand does not participate in the Select Councils on Disability Reform and Gambling Reform or in the Fora on Corporations, Gene Technology and the Murray-Darling Basin.		

Sources: NZ PC and Ministry of Foreign Affairs and Trade.

Benefits of light-handed CER governance

As described in chapter 3, progress on CER has been incremental and pragmatic. This style has generally worked well, in that it has:

- delivered significant integration with broad public support in both countries
- taken into account political, cultural and social preferences
- had relatively low transition and administrative costs.

An early examination of trans-Tasman integration (Holmes 1995) noted its low administrative costs and a relative absence of bureaucracy:

There has been no need for the creation of a regional bureaucracy like the European Union's, or to devote large amounts of official time to managing the operation. (p. 47)

In its review of Mutual Recognition Schemes, the Australian Commission commended TTMRA as a ‘low maintenance’ system that does not establish a new bureaucracy or require repeated updating (PC 2009b).

Trans-Tasman governance differs markedly from arrangements in the EU, where member states have delegated monitoring and some rule-making functions to supranational institutions, notably the European Commission and the European Court of Justice (box 5.2). CER also differs from the North American Free Trade Agreement, which has several administrative bodies, and other regional trading arrangements (Lloyd 1996). A closer comparator is the arrangements of the Nordic countries (box 5.2).

Box 5.2 Differing styles of governance of economic integration

The European Union (EU) stands out for the breadth and depth of its economic integration. Trans-Tasman integration bears both similarities to and important differences from European integration. Both regions aim to achieve a single market for goods, services, labour and capital. In both, the principle of mutual recognition by member states of each other’s national regulations, standards and qualifications has been important in furthering integration. In the EU this has proven relatively easy for goods, but more difficult for services.

The designers of the EU created supranational institutions — the European Commission, the European Parliament and the European Court of Justice. These function alongside the inter-governmental European Council. Member states have ceded some decision-making powers to these supranational institutions, which have wide authority and can create policies and laws that have ‘direct effect’ in the member states.

Australia and New Zealand have created some joint institutions — the Joint Accreditation System of Australia and New Zealand (JAS-ANZ); Food Standards Australia New Zealand (FSANZ); and the planned Australia New Zealand Therapeutic Products Agency (ANZTPA) — but their authority is limited to specific issue areas. The two Governments also maintain some (ministerial) control over these institutions.

The Nordic countries — Denmark, Finland, Iceland, Norway and Sweden — share a long history of cooperation and cultural and linguistic similarities. This smaller group of similar countries has more in common with CER, in contrast to the greater size and diversity of the EU (27 member states).

The Nordic Council of Ministers is the inter-governmental body of Nordic cooperation. It brings together Ministers from national governments with a focus on policy cooperation in areas such as culture, leisure and media; economy, business and working life; education and research; and environment and nature.

(Continued next page)

Box 5.2 (continued)

The Nordic Passport Union enables passport-free movement of Nordic citizens and establishes their right to live, work and study with full equality with nationals in other Nordic countries. The public information service ‘Hello Norden’ is an initiative that provides information to potential migrants about rules relating to living, studying and working in other Nordic countries.

Too light-handed?

‘Kiwi-Aussie pragmatism’ (as a roundtable participant described it) in CER governance appears to have served the two countries well thus far. However it has had some downsides.

A number of commentators and reviews have expressed concerns about the fragmented and ad hoc character that CER has sometimes displayed. They point to the absence of an oversight role, lack of cohesion, and cyclical variations in activity (box 5.3).

Box 5.3 Perspectives on CER governance

A number of participants in the study, as well as commentators and reviews, have expressed concerns about CER governance:

... the absence of a single goal statement is a problem for making progress... At the moment there is a list of outstanding issues that are being addressed in various ways, but no real sense of impetus. (Nicklin, sub. 11, p. 2–3)

... there have been variations over time in the pace at which the overall integration agenda, and individual issues within that agenda, have been pursued. (Scollay, Findlay and Kaufmann 2011, p. 4)

Certainly ministerial level engagement provides leadership and a semblance of co-ordination. However, it is an open question whether these provide the necessary degree of capacity for change. (Mahony and Sadleir, sub. 28, p. 3)

... there does not seem to be one driving force behind the implementation of CER. (JSCFADT 2006, p. 20)

A key success factor will be ensuring that governance doesn’t focus on a long list of activities, but is instead focused on the achievement of high-level objectives. (New Zealand Customs Service, sub. DR114, p. 3)

... we suggest ... a trans-Tasman institution to monitor, engage and support ANZCERTA as a vehicle for deepening the economic and social aspects of this relationship. Such an institution might have the character of a steering committee... (Mahony and Sadleir, sub. DR95, p. 1)

The Commissions have been struck by the number and variety of the different parts of what could loosely be called the 'CER enterprise'. There is no overall design or management, which makes it a major task to document the many agencies and players involved and their interactions.

5.3 Strengthening CER governance

Despite the largely positive past experience, the likely more complex and challenging nature of CER's future suggest that improvements could usefully be made to CER's governance arrangements. These improvements should be in keeping with the past light-handed and flexible approach and build on existing institutional structures. They should strengthen oversight and enhance support for an evidence-based approach to policy.

The Commissions consider that key opportunities for improving CER governance are:

- clearer leadership and oversight of CER
- regulatory proposals at the national level should consider opportunities for trans-Tasman collaboration that would lower costs and deliver benefits
- coordinated action in the pursuit of beneficial regional and multilateral integration, and greater leverage in global rule making and standard setting
- five-yearly public reviews of CER's direction and achievements.

Clearer leadership and oversight of CER

The current decentralised model of CER governance risks fragmenting the integration agenda leading to lapses in continuity and direction. Policy areas and associated governance arrangements are diverse. No single minister or agency is responsible for setting the overall agenda, overseeing the relationship, and monitoring progress and performance.

TTOIG comes closest to performing an oversight role. However, TTOIG focuses on a program of business law reform which is due to be completed in 2014. In addition, TTOIG's co-chairs are senior officials in the departments with direct responsibility for delivery of most of the outcomes (the New Zealand Ministry of Business, Innovation and Employment and the Australian Treasury). This has been important in facilitating good progress towards these outcomes.

The ACTU and NZCTU see merit in a more representative oversight body (sub. DR118):

The Trans-Tasman Outcomes Implementation Group is too narrowly constituted to oversight changes affecting the welfare of citizens of both countries. ... We call for establishment of a broadly representative oversight body in which unions and non-government organisations are recognised with a place at the table. (p. 25)

Leadership and oversight of the CER agenda as a whole could usefully encompass responsibility for setting direction and priorities, communication of key messages, monitoring progress, and holding officials to account. These would arguably enhance the profile and momentum of CER, better guide its future 'direction of travel' (see Finding 2.1), and quickly and effectively identify and address issues as they arise. But the benefits would need to be weighed against the costs of additional bureaucracy.

Change could be realised in different ways. Possibilities include having a senior Minister in each country with overall responsibility for CER, an enhanced role for the annual CER Ministerial Forum, or a partnership between government and non-government organisations. A surer way forward would be to build stronger administrative support for the annual meetings that already take place at the highest political levels — between the two Prime Ministers, between the Treasurer (Australia) and the Minister of Finance (New Zealand), and at the CER Ministerial Forum.

For this purpose, a group of senior, trans-Tasman officials could be designated to:

- operate along the lines of TTOIG, but have coverage of all CER issues
- continue and broaden TTOIG's existing monitoring function
- improve continuity of institutional knowledge about CER
- provide foresight about future opportunities and challenges.

The core membership of the group would likely come from the departments of prime minister and cabinet, treasury, foreign affairs and business in each country, with others involved according to agenda priorities, for example from social welfare or border-control agencies.

This group's responsibilities should include monitoring issues relating to the common trans-Tasman labour market and the associated movement of people. It is important to promote a more integrated treatment of the various problems that can arise with cross-border movement of workers and their families and which can impact on efficiency, fairness and sustainability. The issues currently include

pathways to citizenship, eligibility for some forms of state support and the interplay of tax obligations and access to benefits (see section 4.5).

R5.1

The Australian and New Zealand Governments should create clearer leadership and oversight of CER, including of issues relating to the trans-Tasman labour market and associated movement of people. The enhanced leadership and oversight should build on existing governance arrangements and the annual meetings of Prime Ministers and other Ministers.

Regulatory proposals should consider trans-Tasman implications

When either country is introducing new or modified regulations, the opportunity to design the changes in a way that lowers transaction costs for businesses and people operating across the Tasman could be overlooked. This is another risk of the current fragmented governance arrangements. Two examples where regulations differ, but could have been aligned, are internet copyright violations and film censorship classifications.

New areas of regulation at the national level constantly arise (for example ‘cyber bullying’, privacy laws relating to social media) and there could be gains from a more collaborative approach across the Tasman.

Regulatory impact analysis (RIA) processes are well developed in each country and are required for all significant new regulations and modifications of existing ones. The RIA could be an appropriate point for the responsible government agencies to consider whether trans-Tasman collaboration or alignment would bring tangible gains. The choice among options would still need to be based on an overall cost-benefit test.

The COAG Best Practice Regulation Guide requires officials to seek and include comments from the New Zealand Treasury’s Regulatory Impact Analysis Team (RIAT) on any trans-Tasman issues. This worthwhile step should include assessment of whether there is scope for beneficial trans-Tasman regulatory alignment. But many national regulatory proposals are developed outside of COAG — and hence avoid COAG’s requirement for trans-Tasman scrutiny — yet have potential trans-Tasman dimensions.

Some areas already have a co-ordinating body, such as the Trans-Tasman Council on Banking Supervision (banking and prudential regulation) and FSANZ (food safety). There could be gaps in other areas, particularly if they do not have a history of collaboration. A way to cover these gaps would be a prompt in the RIA guidance material for Australian and New Zealand national proposals. The New Zealand Treasury is intending to include such a prompt in the next edition of its RIA Handbook.

A further and stronger step would be for the Office of Best Practice Regulation in Australia and the RIAT in New Zealand to comment critically on draft Regulatory Impact Statements that, in their assessment, overlook significant opportunities to reduce, or avoid raising, barriers to trans-Tasman commerce.

R5.2

Regulatory proposals at the national level should consider opportunities for trans-Tasman collaboration or alignment that would lower costs or deliver benefits for businesses and people active on both sides of the Tasman.

Facilitating joint action

Chapter 3 noted the outward-looking nature of CER and its ability to act as a building block for Asia-Pacific integration. As Sir Frank Holmes noted some years ago:

Cooperation between the two countries in developing external relationships must inevitably assume increasing importance in their bilateral dealings with one another. (Holmes 1995, p. 32)

CER governance arrangements are likely to influence the way in which Australia and New Zealand interact with the wider region and how often they work collaboratively to pursue their aspirations in the region and more widely.

Australia and New Zealand acted together in negotiations with the Association of Southeast Asian Nations (ASEAN) to eventually form the ASEAN-Australia-New Zealand Free Trade Area (section 3.2). Close cooperation and joint approaches have occurred in other cases (for example, overseas development assistance in the Pacific and the 'Cairns Group' in WTO trade rounds).

There are benefits from working jointly where appropriate opportunities arise. However, as noted earlier (section 4.3), Australia and New Zealand should retain discretion about when they negotiate jointly or individually with other countries (thus removing one argument for a Customs Union). Working jointly may prove

beneficial where the two countries can exert greater leverage by coordinating their stances in multilateral fora such as the WTO, and in rule-making and standard-setting bodies for areas such as customs, biosecurity, telecommunications, intellectual property and aviation.

It is important that the two countries stay alert to such opportunities for coordinated action.

R5.3

The Australian and New Zealand Governments should continue to identify and take opportunities for coordinated action to achieve beneficial regional and multilateral integration, and greater leverage in international rule making and standard setting.

Regular reviews

Reviewing the effectiveness of major programs is an important part of good governance. The monitoring, evaluation and review of CER can be improved. This can be achieved through adopting guidelines for appropriate evaluation of initiatives, evidence-based policy making, and by periodic reviews of CER's outcomes and direction. It is important to learn whether initiatives are achieving their intended benefits and whether there are unintended effects. Such feedback can also help build the evidence base for improving policy settings and developing new initiatives.

There is little research on CER reforms and their effects to date, apart from in the merchandise trade area.

Current mechanisms for the evaluation of CER initiatives are quite fragmented. Each of the multitude of agreements between the two countries tends to contain a clause requiring some form of review. For example, the 2011 CER Investment Protocol states that 'The Parties agree to meet in or shortly after the first year of entry into force of this Protocol, and regularly thereafter, to review the operation of this Protocol.' However, there is no consistent approach to such reviews, which have varied in quality and frequency. As a general rule, any significant trans-Tasman initiative should include a commitment to cost-effective evaluation.

Good evaluation of CER policies and comparisons of policy effectiveness across Australia and New Zealand depend on the availability of good data. Motu Economic and Public Policy Research (2012) is investigating the merits of New Zealand developing a longitudinal household panel survey along the lines of the

Household, Income and Labor Dynamics in Australia survey (HILDA). There could be a case for the two Governments to support these surveys and coordinate and synchronise them in ways that help build a CER evidence base for policy evaluations and research on topics such as trans-Tasman people movement.

There is also merit in formal reviews that examine the overall health of CER. These were to be conducted 'in house' as part of the annual CER Ministerial Forum, led by Trade Ministers (Australian High Commission, New Zealand 2012). The character of these meetings can pre-dispose them to focus on immediate or short-term issues. Further, they have limited capacity to commission or consider more substantive analysis.

As Leslie submitted (DR111, p. 3), reviews also provide opportunities for public engagement on CER and to promote transparency.

Much integration of the Australian national and trans-Tasman markets has been achieved on a foundation of 'executive' and 'cooperative' federalism. This 'cooperative' federalism takes place within the structures of COAG, its ministerial councils and standing committees of officials. ... these structures represent only the executives of the various jurisdictions involved. Without strong measures to enforce transparency, decision-making in these bodies might also be used to shield decision makers from public accountability for their actions. Transparency of decision-making is necessary to maintain democratic accountability with regard to who has made decisions and why they have done so. This is especially important in issue areas surrounding market integration that are potentially political but often technocratic in nature.

The original ANZCERTA was formally reviewed in 1988, 1992 and 1995. There would be merit in re-introducing comprehensive CER reviews conducted publicly at around five-yearly intervals. These reviews should focus on the broad direction of the CER agenda and draw together what has been learnt from the individual project evaluations and other relevant research conducted in the interim.

R5.4

The Australian and New Zealand Governments should undertake five-yearly public reviews of CER to take stock of what has been achieved and learnt, and to ensure that the agenda remains relevant and forward looking.

A Stakeholder engagement

Roundtables

Melbourne, 20 April 2012

ANZ
Australian Confederation of Commerce and Industry
Australian Industry Group
Business Council of Australia
Food & Beverage Importers Association
Medicines Australia
Pharmaceutical Industry Council
Shipping Australia

Auckland, 16 May 2012

Air New Zealand
ASB Bank
Fletcher Building
Australia New Zealand Leadership Forum
Fonterra
Institute of Finance Professionals New Zealand Inc
QBE Insurance (International) Limited
Westpac Institutional Bank

Wellington, 16 May 2012

Business NZ
Manufacturing and Export NZ
Ministry for the Environment
New Zealand Bankers' Association
New Zealand Council of Trade Unions
New Zealand Trade and Enterprise
Pacific Fibre
Tourism Industry Association

Melbourne, 15 October 2012

Accord Australasia
ANZ
Australia New Zealand Leadership Forum
Australian Bankers' Association
Australian Food and Grocery Council
CPA Australia
Fonterra
Food & Beverage Importers Association
Shipping Australia
Standards Australia
Telstra
Tourism and Transport Forum

Canberra, 16 October 2012

Australian Customs and Border Protection Service
Department of Agriculture, Fisheries and Forestry
Department of Broadband, Communications and the Digital Economy
Department of Education, Employment and Workplace Relations
Department of Families, Housing, Community Services and Indigenous Affairs
Department of Finance and Deregulation
Department of Foreign Affairs and Trade
Department of Immigration and Citizenship
Department of Industry, Innovation, Science, Research and Tertiary Education
Department of Infrastructure and Transport
Department of Resources, Energy and Tourism
Department of the Prime Minister and Cabinet
Intellectual Property Australia
The Treasury

Canberra, 16 October 2012

Christel Broederlow
Kalesi Toga — Pacific Island Reference Group
Jimaima Le Grand — Pacific Island Reference Group
Vicky Va'a — Pasifika Pioneers, Pacific Indigenous Nations Network & Nerang Neighbourhood Centre

Auckland, 24 October 2012

ASB Bank Limited
Australia New Zealand Leadership Forum
Blackburn Croft & Co Limited
Fletcher Building Limited
Fonterra Co-operative Group Limited
Independent Maori Statutory Board
Institute of Finance Professionals NZ Inc

NZ Private Equity & Venture Capital Association
NZ Shippers' Council Inc
NZ Superannuation Fund
Westpac New Zealand

Wellington, 24 October 2012

Business NZ (Export NZ and Manufacturing NZ)
Corporate Taxpayers Group
Federated Farmers of New Zealand
Insurance Council of New Zealand
New Zealand Council of Trade Unions
New Zealand Food & Grocery Council
New Zealand Institute of Patent Attorneys
New Zealand Law Society
New Zealand Law Society (Intellectual Property Law Reform Committee)
Telecom
Victoria University of Wellington
Vodafone

Wellington, 25 October 2012

Commerce Commission
Department of Prime Minister and Cabinet
Financial Markets Authority
Inland Revenue Department
Ministry for Primary Industries
Ministry of Business, Innovation & Employment
Ministry of Foreign Affairs and Trade
Ministry of Social Development
New Zealand Trade and Enterprise
Reserve Bank of New Zealand
The Treasury

Technical workshop

Mutual recognition of imputation credits, Melbourne, 31 October 2012

Matt Benge — Inland Revenue Department of New Zealand
Peter Crone — Business Council of Australia
Lee Davis — The Centre for International Economics
Matthew Gilbert — New Zealand Treasury
Emma Grigg — Inland Revenue Department of New Zealand
Tingsong Jiang — The Centre for International Economics
Peter Lloyd — University of Melbourne
Tony McDonald — Australian Treasury
Bob Officer — Acorn Capital

Robin Oliver — OLIVERSHAW
Lucas Rutherford — Australian Treasury
Peter Swan — University of New South Wales
John Yeabsley — New Zealand Institute of Economic Research

Presentations

Murray Sherwin and Jonathan Coppel 2012, *Strengthening economic relations between Australia and New Zealand: Joint study*, presented to the Australia New Zealand Leadership Forum, Sydney, 13 April.

Gary Banks 2012, *Whither trans-Tasman economic relations?*, presented to CEDA's State of the Nation Conference, Canberra, 18 June.

Lynne Dovey 2012, Presentation to the Australia and New Zealand Customs High Level Steering Group, Auckland, 15 August.

Visits

Auckland Chamber of Commerce
Australian Council of Trade Unions
Australian Department of Finance and Deregulation
Australian Department of Foreign Affairs and Trade
Australian Department of the Prime Minister and Cabinet
Australian Department of the Treasury
Australian High Commission, New Zealand
Australia and New Zealand Customs High Level Steering Group
David Walker, Ministry of Foreign Affairs and Trade
Dr Tom Richardson, AgResearch
Federation of Māori Authorities
Fonterra
Financial Markets Authority
Kea New Zealand
Māori Economic Development Panel
New Zealand Inland Revenue Department
New Zealand Bankers' Association
New Zealand Council of Trade Unions
New Zealand Customs Service
New Zealand Institute of Economic Research
New Zealand Ministry of Business, Innovation and Employment
New Zealand Ministry of Foreign Affairs and Trade
New Zealand Ministry of Health
New Zealand Shippers' Council
New Zealand Trade and Enterprise
New Zealand Treasury
OLIVERSHAW
Paul Hamer, Victoria University of Wellington
Peter Mumford, Ministry of Business, Innovation and Employment
PricewaterhouseCoopers New Zealand

Professor Jacques Poot, University of Waikato
 Professor Klaus Zimmerman, Institute for the Study of Labor, Bonn University
 Reserve Bank of Australia
 Simon Murdoch, former New Zealand High Commissioner to Australia and former Secretary of Foreign Affairs and Trade
 Simon Power, former Minister of Commerce, New Zealand
 Sir Michael Cullen, former Deputy Prime Minister and former Minister of Finance, New Zealand
 Telstra
 TelstraClear
 Vodafone NZ

Submissions

<i>Company/Individual/Organisation</i>	<i>Sub No.</i>
Accord Australasia Limited	54
Action Key Trust Foundation	39
Air New Zealand	DR100
Alison Green	DR85
Anglicare Southern Queensland	DR112
ANZ	50
Attorney-General's Department	DR129
Auckland Chamber of Commerce	42, DR80
Australia New Zealand Leadership Forum	15, 58, DR70, DR120
Australian Bankers' Association Inc	37, DR110
Australian Council of Trade Unions & New Zealand Council of Trade Unions	17, DR118
Australian Customs and Border Protection Service	DR127
Australian Financial Markets Association	9
Australian Food and Grocery Council	22, DR119
Australian Industry Group	38
Australian Multicultural Council	DR113
Australian Peak Shippers Association Inc	DR109
Baldwins Intellectual Property	45, DR104
Bob Catley	1
Bottom-line Ownership and Management Services	19
BusinessNZ	40, 59
BusinessSA	8
Cement Industry Federation	DR94
Chapman Tripp	DR84
Christchurch International Airport Limited	21, DR87
Christel Broederlow	DR88
Colin Rayner	DR78
Contact Energy	DR86
Corporate Taxpayers Group (New Zealand)	35, DR65

<i>Company/Individual/Organisation</i>	<i>Sub No.</i>
CPA Australia	53
David Faulkner	DR67, DR72, DR128
David Greig	DR123
Department of Immigration and Citizenship	DR126
Department of Industry, Innovation, Science, Research and Tertiary Education	DR73
Department of Tourism, Major Events, Small Business and the Commonwealth Games	DR131
Doug Calhoun	29
Family Business Australia	3
Federated Farmers of New Zealand	33
Financial Markets Authority	57
Fonterra Co-operative Group	14
Fujitsu Australia and Fujitsu New Zealand Limited	DR79
Geoff Cole	4
Germana Merle Nicklin	11
Greg Cutbush and Malcolm Bosworth	51
Greg Mahony and Chris Sadleir	28, DR95
Heinz Wattie's Limited	DR122
Institute of Finance Professionals New Zealand Inc	DR92
Insurance Australia Group	23
Insurance Council of Australia	36, DR106
Insurance Council of New Zealand	49, DR96
International Container Lines Committee (New Zealand)	DR105
IP Australia	DR89
Joel Krose	2
John Fielding	41
John Leslie	DR111
Joseph Qiangfu Jin	7, 27
Lima Berking	DR71
Lindsay Clarke	60
Luke Nottage	55
Mark Naber	DR61
Ministry of Transport	DR99
Moeroa Moeara	DR91
Multilink Community Services Inc. and the CAMS Network	DR90
Murray Newth	DR125
National Bulk Commodities Group Inc	DR93
New Zealand Bankers' Association	24
New Zealand Customs Service	DR114
New Zealand Food and Grocery Council	34
New Zealand Institute of Chartered Accountants	DR116

<i>Company/Individual/Organisation</i>	<i>Sub No.</i>
New Zealand Institute of Patent Attorneys Incorporated	30, DR77
New Zealand Law Society	6
New Zealand Manufacturers and Exporters Association	DR97
New Zealand Privacy Commissioner	16
New Zealand Shippers' Council Inc	46, DR83
New Zealand Private Equity & Venture Capital Association Inc	32
Nga Hapu o Niu Tireni/Treaty of Waitangi Partners (On behalf The Hapu of New Zealand/Tiriti o Waitangi)	20
Nuplex Industries Limited	47
Office of the Australian Information Commissioner	10, DR74
Pacific Communities Council of Far North Queensland	DR115
Pacific Island Reference Group	DR82
Pacific Steel Group	DR124
Pasifika Pioneers, Pacific Indigenous Nations Network and Nerang Neighbourhood Centre	DR81
Peter Ferguson	DR66
Peter Lloyd	5, DR62
Pharmaceuticals Industry Council	43
Qantas Airways Limited	DR117
QUT–Griffith University	DR75
Reserve Bank of New Zealand	12
Robin Oliver	DR130
Shipping Australia Limited	DR68
Standards Australia	44
Standards New Zealand	52
Stokes Partners International	18
Tania Voon	DR69
Te Kahui Rongoa Trust	DR103
Telecom NZ	DR102
Telstra Corporation	56, DR108
Telstra Corporation and TelstraClear Limited	48
Temperzone Holdings Limited	13, DR63
Tim Kirby	DR64
Tourism and Transport Forum	25, DR107
Townsville Maori and Pacific Island Family Reference Group; Assisted by TMSG	DR98
Universities Australia	26
Vero Insurance New Zealand Limited	DR76
Viv Hall	31
Vodafone New Zealand Limited	DR101
Winstone Wallboards Limited	DR121

References

- ABS (Australian Bureau of Statistics) 2011a, *International Investment Position, Australia: Supplementary Statistics, Calendar year 2010*, Cat. no. 5350.2, Canberra.
- 2011b, *International Trade in Services by Country, by State and by Detailed Services Category*, Cat. no. 5368.0.55.004, ABS, Canberra.
- 2012a, *International Investment Position, Australia Supplementary Statistics, Calendar year 2010, tables 2 and 5*, Cat. no. 5352.0 <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5352.0Calendar%20year%202010?OpenDocument>.
- 2012b, *Migration Australia*, Cat. no. 3412.0, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/productsbyCatalogue/0A0D0E76A3B89EC2CA2572AC0018114C?OpenDocument> (accessed 3 September 2012).
- 2012c, *Australian Industry*, Cat. no. 8155.0, ABS, Canberra.
- ACBPS (Australian Customs and Border Protection Service) 2012a, *01: SmartGate Introduction*, Fact Sheet, January 2012, Australian Customs and Border Protection Service, Canberra, http://www.customs.gov.au/webdata/resources/files/01SmartGateintroduction_January2012.pdf (accessed 3 September 2012).
- 2012b, *06: SmartGate Trans-Tasman Trial*, Fact Sheet, Australian Customs and Border Protection Service, Canberra, http://www.customs.gov.au/webdata/resources/files/SmartGatetrans-Tasmantrial_January2012.pdf (accessed 17 April 2012).
- 2012c, *03: Epassports*, January 2012, Australian Customs and Border Protection Service, Canberra, http://www.customs.gov.au/webdata/resources/files/03ePassports_January2012.pdf (accessed 17 April 2012).
- 2005, *Mobile Services Review: International inter-carrier roaming*, [http://www.accc.gov.au/content/item.phtml?itemId=708242&nodeId=8704f59d82052c729e45e7408ecec91d&fn=Final+report%E2%80%94international+inter-carrier+roaming+service+\(September+2005\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=708242&nodeId=8704f59d82052c729e45e7408ecec91d&fn=Final+report%E2%80%94international+inter-carrier+roaming+service+(September+2005).pdf), (accessed 5 June 2012).
- ACCC 2012, *Container Stevedoring: Monitoring Report no 14*, October 2012, Canberra.

Acharya, A. and Johnston, A. 2007, *Crafting Cooperation: Regional International Institutions in Comparative Perspective*, Cambridge University Press, Cambridge.

ACIL Tasman and LECG Economics–Finance 2004, *New Zealand–Australia Economic Interdependence*, report prepared for the Ministry of Economic Development, 4 May.

Adams, R., Dee, P., Gali, J. and McGuire, G. 2003, *The Trade and Investment Effects of Preferential Trading Arrangements — Old and New Evidence*, Productivity Commission Staff Working Paper, Canberra.

Alach, Z. and Crous, C. 2012, *A tough nut to crack; Performance measurement in specialist policing*, AIC reports, Technical and Background paper 53, Australian Institute of Criminology.

Alchin, T. 1990, 'The role of the CER in improving Australia–New Zealand relations', *The Australian Quarterly*, vol. 62, no. 1, pp. 21–35.

Alesina, A. and Spolaore, E. 2005, *The Size of Nations*, MIT Press, Cambridge, Massachusetts and London.

ANZTPA (Australia New Zealand Therapeutic Products Agency) 2002, 'Regulatory impact statement: A proposal for a trans-Tasman agency to regulate therapeutic products', <http://www.anztpa.org/about/0211nzris.pdf> (accessed 3 September 2012).

APRA (Australian Prudential Regulatory Authority) 2011, *APRA Annual Report 2011*, Sydney, http://www.apra.gov.au/AboutAPRA/Publications/Documents/AR_2011_ALL.pdf (accessed 3 September 2012).

ASIC (Australian Securities and Investments Commission) 2009, *Effects of the Australia–New Zealand mutual recognition regime for securities offerings*, report 174, Australian Securities and Investments Commission, October.

—2010, 'Responding to the Global Financial Crisis: the ASIC story', Speech by Tony D'Aloisio (Chairman) to the Trans-Tasman Business Circle, 30 November 2010. [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/speech-responding-global-crisis-nov-2011.pdf/\\$file/speech-responding-global-crisis-nov-2011.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/speech-responding-global-crisis-nov-2011.pdf/$file/speech-responding-global-crisis-nov-2011.pdf) (accessed 3 September 2012).

—2012, *Trans-Tasman Mutual Recognition of Financial Advisers Announced*, Media Release <http://www.asic.gov.au/asic/asic.nsf/byheadline/12-149MR+Joint+ASIC+-+Financial+Markets+Authority+media+release%3A+Trans-Tasman+mutual+recognition+of+financial+advisers+announced?openDocument> (accessed 3 September 2012).

ATO (Australian Taxation Office) 2011, Trans-Tasman retirement savings portability, <http://www.ato.gov.au/content/00302200.htm> (accessed 3 September 2012).

—unpublished, Data compiled from ATO Schedule 25A.

Australian and New Zealand Governments 1988, 'Protocol on Harmonisation of Quarantine Administrative Procedures to the Australia New Zealand Closer Economic Relations – Trade Agreement', Canberra, 18 August.

Australian Government 2012, *Australia in the Asian Century*, White Paper, October.

Australian High Commission New Zealand 2012, *Closer Economic Relations (CER)*, <http://www.newzealand.embassy.gov.au/wltn/CloseEconRel.html> (accessed 3 September 2012).

Banks, G. 2010, *An Economy-wide View: Speeches on Structural Reform*, Productivity Commission, Melbourne.

Barton, J. 2004, 'Issues posed by a world patent system', *Journal of International Economic Law*, vol. 7, no. 2, pp. 341–57.

Becker, G.S., Glaeser, E.L., and Murphy, M.M. 1999, 'Population and economic growth', *American Economic Review*, vol. 89, no. 2, pp. 145–49.

Benge, M. and Slack, H. 2012, 'Mutual Recognition: A framework for considering costs and benefits', Paper presented to Australian and New Zealand Productivity Commissions Technical Workshop on Mutual Recognition, 31 October.

Berry, M. 2011, 'The New Zealand approach to monopolisation, mergers and cartels', Speech to the Taiwan Fair Trade Commission, 22 February, <http://www.comcom.govt.nz/taiwan-fair-trade-commission-22-february-2011/> (accessed 3 September 2012).

BIE (Bureau of Industry Economics, Australian Government) 1989, *Trade Liberalisation and Australian Manufacturing Industry: The Impact of the Australia–New Zealand Closer Economic Relations Trade Agreement*, AGPS, Canberra.

—1995, *Impact of the CER Trade Agreement: Lessons for Regional Economic Integration*, AGPS, Canberra.

BITRE (Bureau of Infrastructure, Transport and Regional Economics) 2012, *International Airlines Operated Flights and Seats*, released May, http://www.bitre.gov.au/publications/ongoing/international_airlines-operated_flights_seats.aspx (accessed 23 August 2012).

-
- Bollard, A. 2011, 'The role of banks in the economy — improving the performance of the New Zealand banking system after the Global Financial Crisis', Speech to the New Zealand Shareholders Association Annual Meeting, Tauranga, 6 August, <http://www.rbnz.govt.nz/speeches/4487002.html> (accessed 7 September 2012).
- Boulhol, H. and de Serres, A. 2010, 'Have developed countries escaped the curse of distance?' *Journal of Economic Geography*, vol. 10, no. 1, pp. 113–39.
- Brash, D. T. 1996, New Zealand's Remarkable Reforms, address to the Fifth Annual Hayek Memorial Lecture, London, 4 June, <http://www.rbnz.govt.nz/speeches/0031201.html> (accessed 5 November 2012).
- Business Regulation and Competition Working Group 2011, *Future COAG Regulatory reform Agenda Stakeholder Consultation Paper* http://www.finance.gov.au/publications/coag-future-regulatory-paper/docs/future_coag_regulatory_reform_agenda_stakeholder_consultation_paper.pdf (accessed 22 August 2012).
- Carter, D. 2010, 'Airports (Cost Recovery for Processing of International Travellers) Bill – First Reading', *New Zealand Parliament Hansard (debates, 15 September 2010)* The New Zealand Parliament, Wellington.
- Cavana, R.Y. 2004, 'A qualitative analysis of reintroducing cabotage onto New Zealand's coasts', *Maritime Policy and Management: An International Journal of Shipping and Port Research*, vol. 31, no. 3, pp. 179–98.
- CGBC (Consultative Group for Biosecurity Cooperation) 1999, 'Terms of Reference for the Consultative Group on Biosecurity Cooperation', provided by the New Zealand Ministry for Primary Industries.
- Combet, G. 2012, *Australia and European Commission agree on pathway towards fully linking emissions trading schemes*, Media release, <http://www.climatechange.gov.au/~media/Files/minister/combet/2012/media/august/Combet-MediaRelease-20120828.pdf> (accessed 3 September 2012).
- Commonwealth of Australia 1983, Australia New Zealand Closer Economic Relations Trade Agreement, and Exchange of Letters, Australian Treaty Series, no. 2, AGPS, Canberra.
- 2010, *Australia's Future Tax System*, (Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G.), Report to the Treasurer, Canberra, December.
- Conway, P., Meehan, L. and Zheng, G. (forthcoming), 'How integrated are the Australian and New Zealand economies?' *New Zealand Productivity Commission Working Paper*.

-
- Coppel, J., Dumont, J., and Visco, I. 2001, 'Trends in immigration and economic consequences', *OECD Economics Department Working Papers*, no. 284, OECD, Paris.
- Cote, A. 1994, 'Exchange Rate Volatility and Trade: A Survey', *Working Paper*, no. 94-5, Bank of Canada.
- Crean, S. and Goff, P. 2008, 2008 CER Ministerial Forum Joint Statement, 15 August, http://www.trademinister.gov.au/releases/2008/sc_cer_joint_communique.html (accessed 15 October 2012).
- Cully, M. 2011, 'Skilled migration selection policies: Recent Australian reforms', *Migration Policy Practice*, vol. 1, no. 1, <http://www.immi.gov.au/media/publications/research/pdf/skilled-migration-policies.pdf> (accessed 2 September 2012).
- Dale, C.M., Lazonby, A., St John, S. and Littlewood, M. 2011, 'Overseas pension policy: the next steps', *Working Paper*, no. 2011-1, Retirement Policy and Research Centre, University of Auckland.
- DBCDE (Department of Broadband, Communications and the Digital Economy, Australia) 2012, *National Broadband Network*, http://www.dbcde.gov.au/broadband/national_broadband_network, (accessed 30 April 2012).
- De Backer, K. and Yamano, N. 2012, *International Comparative Evidence on Global Value Chains*, OECD Science, Technology and Industry Working Papers, 2012/03, OECD Publishing.
- Department of Health and Ageing, Australia, 2011, *Therapeutics Goods Administration Australia New Zealand Therapeutic Products Agency (ANZTPA)*, Fact sheet, <http://www.tga.gov.au/about/international-anztpa-factsheet.htm> (accessed 3 September 2012).
- Department of Infrastructure and Transport, Australia, 2011, 'Waterline 50', http://www.bitre.gov.au/publications/2011/files/water_050.pdf (accessed 3 October 2012).
- DeRosa, D. 2007, 'The trade effects of preferential trading arrangements: New evidence from the Australian Productivity Commission', *Peter G. Peterson Institute for International Economics, Working Paper Series*, WP 07-1, Washington.
- DFAT (Department of Foreign Affairs and Trade, Australia) 2012, *New Zealand Country Brief*, http://www.dfat.gov.au/geo/new_zealand/nz_country_brief.html (accessed 3 April 2012).

—nd, Australia-New Zealand Closer Economic Relations Trade Agreement, Trade in Services 1995 Review (Exchange of Letters) <http://www.dfat.gov.au/fta/anzcerta/index.html> (accessed 28 November 2012).

DIAC (Department of Immigration and Citizenship, Australia) 2010, *Fact Sheet 17 — New Zealanders in Australia*, <http://www.immi.gov.au/media/fact-sheets/17nz.htm> (accessed 19 April 2012).

—2011, 'Population flows: Immigration aspects 2009-10 edition', <http://www.immi.gov.au/media/publications/statistics/popflows2009-10/pop-flows.pdf> (accessed 11 April 2012).

—2012, 'Employer Sponsored Migration, Booklet 5', <http://www.immi.gov.au/allforms/booklets/books5.htm> (accessed 2 September 2012).

DITRDLG (Department of Infrastructure, Transport, Regional Development and Local Government, Australia) 2009, *Flight Path to the Future*, National Aviation Policy White Paper, Canberra, December.

Doan, C., Glanville, V., Russell, A., and White, D. 2006, 'Greater international links in banking — Challenges for banking regulation' *Economic Roundup*, Volume 25, pp. 111-20, Canberra.

DoL (Department of Labour, New Zealand) 2010, *Working across the ditch — New Zealanders working in Australia*, Wellington.

Drew, A., Hall, V., McDermott, J. and St. Clair, R. 2001, 'Would adopting the Australian dollar provide superior monetary policy in New Zealand?', *Reserve Bank of New Zealand Discussion Paper*, no. 3, August.

Duncan, I., Lattimore, R. and Bollard, A. 1991, *New Zealand Tariff Reform and the International Playing Field*, Report for Officials Working Group, Contract No. 387, New Zealand Institute of Economic Research, Wellington.

Easton, B. 2007, *Globalisation and the Wealth of Nations*, Auckland University Press.

European Commission 2008, *EMU@10: Successes and challenges after 10 years of economic and monetary union*, Directorate-General for Economic and Financial Affairs.

Evans, C. 2010, *New Zealand and Australia cooperate to strengthen border security*, media release, 1 July, <http://www.minister.immi.gov.au/media/media-releases/2010/ce10057.htm> (accessed 19 April 2012).

Financial Stability Board 2011, *Peer Review of Australia*, Basel, Switzerland.

-
- Fujita, M., Krugman, P. and Venables, A. 2000, *The Spatial Economy: Cities, Regions, and International Trade*, Cambridge University Press.
- Gillard, J. 2011a, 'Address to the Parliament of New Zealand', Wellington, 16 February, <http://www.pm.gov.au/press-office/address-parliament-new-zealand-wellington> (accessed 9 August 2012).
- 2011b, *Landmark agreement to achieve world standards in therapeutic products*, Media release 20 June, <http://www.pm.gov.au/press-office/landmark-agreement-achieve-world-standards-therapeutic-products> (accessed 6 September 2012).
- 2012, 'Transcript of Joint Press Conference, Melbourne', Prime Minister's Press Office, Sunday 29 January, <http://www.pm.gov.au/press-office/transcript-joint-press-conference-melbourne-3> (accessed 16 July 2012).
- Goddard, D. 2002, 'Business laws and regulatory institutions: Mechanisms for CER coordination', In Grimes, A., Wevers, L. and Sullivan, G. (eds) *States of Mind: Australia and New Zealand 1901-2001*, Institute of Policy Studies, Wellington, pp. 179–222.
- Goldfinch, S. 2006, 'Shared state experiments: Policy transfer and convergence in Australia and New Zealand', *The Otemon Journal of Australian Studies*, vol. 32, no. 25, pp. 61–81.
- Green, A.E., Power, M.R. and Jang, D.M. 2008, 'Trans-Tasman migration: New Zealanders' explanations for their move', *New Zealand Geographer*, vol. 64, no. 1, pp. 34–45.
- Hall, V. 2005, 'An Australasian currency, New Zealand adopting the US dollar, or an independent monetary policy', *Centre for Applied Macroeconomic Analysis Working Paper*, no. 21/2005, Australian National University.
- Hamer, P. 2008, 'One in six? The rapid growth of the Māori population in Australia', *New Zealand Population Review*, vol. 33/34, pp. 153–76.
- Hardin, A. and Holmes, L. 1997, *Services Trade and Foreign Direct Investment*, Industry Commission Staff Research Paper.
- Henry, K. 2012, 'Presentation to the Ai Group National Forum', 20 August, <http://asiancentury.dpmc.gov.au/> (accessed 23 August 2012).
- Holmes, F. 1995, *The Trans-Tasman Relationship*, Institute of Policy Studies, Wellington.
- 2003, *The Rocky Road to CER*, Institute of Policy Studies policy paper no. 17, Victoria University of Wellington.

Hugo, G.J. 2011, 'Is Decentralisation the Answer?' Proceedings from 'the 2011 Productivity Commission Roundtable, A 'Sustainable Population' — Key Policy Issues, Productivity Commission, Canberra.

IMF (International Monetary Fund) 2012, World Economic Outlook Database, April, <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>, (accessed 5 September 2012).

Immigration New Zealand and, Visa waiver countries, <http://glossary.immigration.govt.nz/visafreecountries.htm> (accessed 12 June 2012).

Insurance Brokers Association of New Zealand Inc 2011, Code of Professional Conduct, 1 April, http://www.ibanz.co.nz/Folder?Action=View%20File&Folder_id=81&File=Code%20of%20Professional%20Conduct.pdf, accessed 2 October 2012.

JSCFADT (Joint Standing Committee on Foreign Affairs Defence and Trade) 2006, *Review of Australia-New Zealand Trade and Investment Relations*, Commonwealth of Australia: Canberra.

Key, J. 2011, 'Address to the Australian Parliament', 20 June, <http://www.beehive.govt.nz/speech/address-australian-parliament> (accessed 3 September 2012).

Leslie, J. and Elijah A. (forthcoming), 'Does N=2? Trans-Tasman economic integration as a comparator for the Single European Market', *Journal of Common Market Studies*.

Lloyd, P. 1995, 'The future of trans-Tasman Closer Economic Relations', *Agenda*, vol. 2, no. 3, pp. 267–80.

—1996, 'Should AFTA and CER link?' in Tan, J. (ed) *AFTA in the Changing International Economy*, Institute of South East Asian Studies, Singapore, pp. 178–193.

MAF (Ministry of Agriculture and Forestry, New Zealand) 2011, 'Situation and Outlook for New Zealand Agriculture and Forestry', June.

Maher, D. 1995, 'Comparison of recent Australian and New Zealand economic performance', *Current Issues Brief*, no. 10, Parliamentary Research Service, Canberra.

Makin, A., Zhang, W. and Scobie, G. 2008, 'The contribution of foreign borrowing to the New Zealand economy', *Treasury Working Paper* 08/03, <http://www.treasury.govt.nz/publications/research-policy/wp/2008/08-03/twp08-03.pdf> (accessed 31 August 2012).

-
- Māori Economic Development Panel 2012, 'Discussion Document', <http://www.tpk.govt.nz/documents/medp-discussiondocfinal-2012.pdf> (accessed 20 August 2012).
- MBIE (Ministry of Business, Innovation & Employment, New Zealand) 2012, 'International Visitor Survey, year ending March 2012', Wellington.
- McCann, P. 2009, Economic geography, globalisation and New Zealand's productivity paradox, *New Zealand Economic Papers*, 43:3, pp. 279–314.
- McCaw, S. and McDermott, J. 2000, 'How New Zealand adjusts to macroeconomic shocks: Implications for joining a currency area', *Reserve Bank of New Zealand Bulletin*, vol. 63, no. 1, pp. 35–51.
- MED (Ministry of Economic Development, New Zealand) 2003, *Post-2005 Tariff Review*, Report to the Minister of Commerce, MED, Wellington.
- MFAT (Ministry of Foreign Affairs and Trade, New Zealand) 2010, *Australia: Biosecurity and Quarantine*, <http://www.mfat.govt.nz/Foreign-Relations/Australia/0-biosecurity-and-quarantine.php> (accessed 14 July 2012).
- 2011, 'Treaties under International Law: New Zealand-Australia Social Security Agreement', <http://www.mfat.govt.nz/Treaties-and-International-Law/03-Treaty-making-process/2-National-Interest-Analyses/0-NZ-Australia-Social-Security.php> (accessed 2 August 2012).
- Ministry of Health, New Zealand 2012, 'How is my DHB performing? – 2011/12', <http://www.health.govt.nz/new-zealand-health-system/health-targets/how-my-dhb-performing/how-my-dhb-performing-2011-12> (accessed 3 October 2012).
- Ministry of Social Development, New Zealand 2010, *The Social Report*, <http://www.socialreport.msd.govt.nz/> (accessed 2 October 2012).
- MoT (Ministry of Transport, New Zealand) 2012, *New Zealand International Air Transport Policy*, August, Wellington.
- Motu Economic and Public Policy Research 2012, 'Investigation of options for a new longitudinal household survey', discussion document, http://www.motu.org.nz/files/docs/Draft_Issues_Options_Paper_for_Circulation.pdf (accessed 19 November 2012).
- Mundell, R. 1961, 'A theory of optimum currency areas', *American Economic Review*, vol. 51, no. 4, pp. 657–65.
- New Zealand Treasury 2001, *Tax Review 2001: Final Report* (Chatterjee, S., Jones, S., McLeod, R., Patterson, D.), October, Wellington.

-
- 2009, 'International connections and productivity: Making globalisation work for New Zealand', *Productivity Paper*, no. 09/01, Wellington.
- NZIER (New Zealand Institute for Economic Research) 2000, *The Net Fiscal Cost of Sub-Groups of the Australian Population*, Report to the Ministry of Social Policy, http://nzier.org.nz/sites/nzier.live.egressive.com/files/Net_fiscal_cost_of_sub-groups_of_the_Australian_population.pdf (accessed 4 July 2012).
- 2010, 'Tariffs in New Zealand: The economic impacts of retaining tariffs in New Zealand, a dynamic CGE analysis', *NZIER Viewpoint, Working paper*, 2010/1, Wellington.
- NZ PC (New Zealand Productivity Commission) 2012, *International Freight Transport Services*, Inquiry Report, Wellington.
- Ochiai, R., Dee, P. and Findlay, C. 2009, 'Services in free trade agreements,' Research Institute of Economy, Trade and Industry Discussion Paper Series 07-E-015.
- OECD 1985, *Economic Survey: New Zealand*, Paris.
- 1991, *Economic Survey: New Zealand*, Paris.
- 2005, 'The benefits of liberalising product markets and reducing barriers to trade and investment in the OECD', *Economics Department Working Paper*, no. 463, Paris.
- 2007, *OECD Economic Outlook No. 81*, Paris.
- 2009a, *International Mobile Roaming Charging in the OECD Area*, Working Party on Communication Infrastructures and Services Policy, <http://www.oecd.org/dataoecd/41/40/44381810.pdf>, (accessed 10 June 2012).
- 2011a, *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing, Paris.
- 2011b, *International Data Roaming*, Working Party on Communication Infrastructures and Services Policy, <http://www.oecd.org/dataoecd/57/62/48127892.pdf>, (accessed 10 June 2012).
- 2011c, *National Accounts at a Glance 2011*, Paris.
- 2012a, *Education at a Glance 2012: OECD Indicators*, OECD Publishing, <http://dx.doi.org/10.1787/eag-2012-en> (accessed 1 October 2012).
- 2012b, 'FDI Regulatory Restrictiveness Index', http://www.oecd.org/document/45/0,3746,en_2649_34529562_47216237_1_1_1_34529562,00.html (accessed 29 May 2012).
- 2012c, Technical workshop on mutual recognition of company tax imputation credits, <http://transtasman-review.pc.gov.au/newsroom/announcementnews/>

technical-workshop-mutual-recognition-company-tax-imputation-credits
(accessed 28 November 2012).

PC (Australian Productivity Commission) 2001, *Structural Adjustment — Key Policy Issues*, Research Paper, Canberra.

—2004a, *Australian and New Zealand Competition and Consumer Protection Regimes*, Research Report, Canberra.

—2004b, *Rules of Origin under the Australia-New Zealand Closer Economic Relations Trade Agreement*, Research Report, Canberra.

—2005a, *Australian and New Zealand Competition and Consumer Protection Regimes*, Research Report, Canberra.

—2005b, *Review of Part X of the Trade Practices Act 1974: International Liner Cargo Shipping*, Report No. 32, Canberra.

—2006a, *Economic Impacts of Migration and Productivity Growth*, Research Report, Canberra.

—2006b, *Potential Benefits of the National Reform Agenda*, Report to the Council of Australian Governments, Canberra.

—2007, *Performance Benchmarking of Australian Business Regulation*, Research Report, Melbourne.

—2009a, *Performance Benchmarking of Australian and New Zealand Business Regulation: Food Safety*, Research Report, Canberra.

—2009b, *Review of Mutual Recognition Schemes*, Research Report, Canberra.

—2010, *Bilateral and Regional Trade Agreements*, Research Report, Canberra.

—2011, *Annual Report 2010-11*, Annual Report Series, Canberra.

—2012a, *Trade & Assistance Review 2010-11*, Annual Report Series, Canberra.

—2012b, *Impacts of COAG Reforms: Business Regulation and VET, Supplement to Research Report, Economy-wide Modelling of Impacts of COAG Reforms*, Canberra.

Poot, J. 2009, 'Trans-Tasman migration, transnationalism and economic development in Australasia', *Asian and Pacific Migration Journal*, vol. 19, no. 3, pp. 319–42.

Power, S. 2009, 'Remaking the Trans-Tasman World', 13 October, <http://www.beehive.govt.nz/speech/remaking-trans-tasman-world> (accessed 3 September 2012).

—2010, 'Speech to Trans-Tasman Business Circle', 14 April 2010, <http://www.beehive.govt.nz/speech/speech-trans-tasman-business-circle> (accessed 3 September 2012).

Productivity Commission and Forum of Federations 2012, *Benchmarking in Federal Systems, Roundtable Proceedings*, Melbourne, 19–20 December 2010, eds A. Fenna and F. Knüpling, Productivity Commission, Canberra.

RBA (Reserve Bank of Australia) 2012, Exchange Rate Data, <http://www.rba.gov.au/statistics/hist-exchange-rates/index.html> (accessed 3 September 2012).

RBNZ (Reserve Bank of New Zealand) 2012a, Downloading RBNZ statistics, <http://www.rbnz.govt.nz/statistics/exandint/b1/download.html> (accessed 3 September 2012).

—2012b, Regulatory Impact Assessment: Prudential Regulation of Insurance: Solvency Standards.

Regulation Taskforce 2006, *Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business*, Report to the Prime Minister and the Treasurer, Canberra, January.

Rose, A.K. 2008, 'Currency Unions' in Durlauf, S.N. and Blume, L.E. (eds) *The New Palgrave Dictionary of Economics*, Second Edition. Palgrave Macmillan, http://www.dictionaryofeconomics.com/article?id=pde2008_C000567 (accessed 20 August 2012).

Rudd, K. and Key, J. 2009, 'Joint Statement by Prime Ministers Rudd and Key', 20 August 2009, <http://www.beehive.govt.nz/release/joint-statement-prime-ministers-rudd-and-key> (accessed 3 September 2012).

Scollay, R., Findlay, C. and Kaufmann, U. 2011, *Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and Regional Integration*, Institute of Southeast Asian Studies, Singapore.

SCRGSP (Steering Committee for the Review of Government Service Provision) 2010, *Report on Government Services 2010*, Australian Productivity Commission, Canberra.

Snape, R.H., Gropp, L. and Luttrell, T. 1998, *Australian Trade Policy 1965–1997: A Documentary History*, Allen & Unwin, St Leonards.

SNZ (Statistics New Zealand) 2011, 'Balance of payments and international investment position: year ended 31 March 2011, 22 June', Statistics New Zealand, Wellington http://www.stats.govt.nz/browse_for_stats/economic_indicators/balance_of_payments/info-releases.aspx (accessed 23 May 2012).

-
- 2012, Business Operations Survey: 2011 Tables, Statistics New Zealand, Wellington <http://www.stats.govt.nz/searchresults.aspx?q=Business%20Operations%20Survey> (accessed 1 October 2012).
- Sørensen, P.B., Johnson, S.M. 2009, 'Australia's future tax system', *Taxing Capital Income: Options for Reform in Australia*, pp. 179–235, http://www.taxreview.treasury.gov.au/content/html/conference/downloads/conference_report/09_AFTS_Tax_and_Transfer_Policy_Conference_Chap_9.pdf (accessed 28 September 2012)
- Stillman, S. and Velamuri, M. 2010, *Immigrant Selection and the Returns to Human Capital in New Zealand and Australia*, Department of Labour, Wellington, <http://dol.govt.nz/publications/research/trans-tasman-skill-return/immigrant-selection-and-the-returns-to-human-capital-in-nz-and-australia.pdf> (accessed 19 April 2012).
- TGA (Therapeutic Goods Administration) 2012, *Australia New Zealand Therapeutic Products Agency (ANZTPA), Fact sheet*, <http://www.tga.gov.au/about/international-anztpa-factsheet.htm> (accessed 1 October 2012).
- Tompson, W. and Dang, T. 2010, 'Advancing structural reforms in OECD countries: lessons from twenty case studies', *OECD Economics Department Working Papers*, no. 757, OECD, Paris.
- TTOIG (Trans-Tasman Outcomes Implementation Group) 2012, *Trans-Tasman Outcomes Implementation Group Report*, Canberra, September.
- UN Comtrade database (United Nations Commodity Trade Statistics Database) 2012, United Nations Statistical Division, New York.
- Vowles, T. and Tierney, S. 2007, 'The geographic impact of 'open skies' policies on trans-Tasman air passenger service', *Asia Pacific Viewpoint*, vol. 48, no. 3, pp. 344–54.
- Wholey, J. and Hatry, H. 1992, 'The case for performance monitoring' *Public Administration Review*, vol. 52, no. 6, pp. 604–10.
- World Bank 2009, *World Development Report 2009: Reshaping Economic Geography*, http://siteresources.worldbank.org/INTWDR2009/Resources/4231006-1225840759068/WDR09_00_FMweb.pdf (accessed 13 August 2012).
- Yang, Q. and de Raad, J-P. 2010, *Flight of the Kiwi*, New Zealand Institute of Economic Research (NZIER) Insight Paper, Wellington.