



Trans-Tasman Joint Study

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MARTIN^IJENKINS

Preface

This report has been prepared for the Productivity Commission by Nick Hill and Nicole Brown from MartinJenkins (Martin, Jenkins & Associates Limited).

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Introduction

This report sets out feedback received on the Trans Tasman Joint Study undertaken by the Australian and New Zealand Productivity Commissions during a focus group held in Wellington on 12 February 2013. Additional comment was also canvassed from interviews with individual invitees who could not attend the focus group itself.

The objective of the focus group was to provide feedback on the Study, with reference to the following key dimensions of the New Zealand Productivity Commission's performance¹:

- The **focus** of the Study's report (significance of the issues covered, whether they were covered in sufficient depth, the relevance of information sourced and people engaged with)
- The **quality** of the analysis of information and the quality of findings and recommendations
- Satisfaction with the **process management** for the Study
- The quality and effectiveness of the Commission's **engagement** in completing the Study
- The effectiveness of **delivering the messages**, as evidenced in the Study's reports and supporting material (summary reports and "cut-to-the-chase" summaries).

The focus group consisted of a small group of representative Study participants, selected by the Commission. A full list of participants is attached at the back of this document.

Introductory remarks

Participants wished to congratulate the Commission for its work in conducting the Study. They commented that the quality of the engagement and analysis were excellent, particularly given that this was the first joint study with Australian Productivity Commission to be undertaken. They acknowledged the challenge of working across two jurisdictions, the complexity and range of the subject matter and the practicalities of bringing all the work together.

¹ For this reason, Australian participants have not been interviewed.

Right Focus

The Focus Group acknowledged the challenge involved in defining the focus for this first joint study.

Impact of multiple expectations

It emerged that participants had quite different expectations of what the Study would focus on. Expectations ranged from the expansive and visionary to the prosaic:

- Taking a “...big picture approach to build on the 30th anniversary of the CER agreement...” by reflecting on the past progress and developing specific opportunities and initiatives to promote CER...”
- Providing “...a refreshed vision to guide trans-Tasman economic relationships...”
- Developing Australasia’s position vis-à-vis the world economy, in particular the Asian economy.
- Raising and surfacing “...tricky or potentially taboo or ambitious issues...” for wider public debate and further examination
- Focusing on promoting “...public sector productivity...”
- Examining and developing “...specific, practical recommendations to enhance CER and a SEM...”
- Identifying “...incremental opportunities...” for improvements in international economic relations

Role of Productivity Commissions

Participants acknowledged the tension that underpins the function and role of the Productivity Commission; the need to maintain a balance between ambition and credibility. That is to say, while it is important to generate ideas that are strongly supported within the business communities and ‘push the envelope’, recommendations for which there is little political appetite (and are hence rejected) will tend to undermine the political credibility of the Commissions’ work.

Having said this, it was acknowledged that independent, evidence-based economic analysis on critical issues is still valuable in the medium term, even though it may not lead to politically executable decisions in the short run.

Breadth of focus relative to depth

Participants noted the Terms of Reference for the Study was weighted in favour of breadth over depth, consistent with being a “scoping study”. This allowed the Commissions to identify where

to focus, with trade offs being made between the “easy to do” options as against the more challenging options with greater potential benefit.

The need to focus and be selective meant that certain topics where particular stakeholders looked forward to progressing specific issues were not dealt with. Examples include:

- Capital markets joint governance options
- Investigating the net trans-Tasman benefit of a single patent law
- The Australasian common customs border.

Developing the Terms of Reference

Participants observed that the Terms of Reference (TOR) for the Study had been developed urgently drawing on input from experts, identified government priorities and topical concerns based on ‘work on hand’ (ie work programmes that were sufficiently progressed so as to enable stakeholders to contribute to the Study).

However, participants wondered whether there had been sufficient time to review or debate the proposed focus. More time and more engagement at the Study formation stage could have been valuable in sharpening the focus.

Mutual recognition of imputation credits (MRIC)

Finally, participants agreed that the Study’s focus on MRIC was important and appropriate given that double taxation for companies with offices in both countries is seen as a significant barrier to trans –Tasman business.

Generally it was felt that a more specific, defined focus for the first joint study might have been better. This would have allowed for a richer debate on specific issues of agreed relevance.

Good Process Management

The general feedback was that the Commission had managed the process well, particularly given the constrained timeframes involved and that the processes used had facilitated high levels of engagement and contribution from the government and private sector – particularly within New Zealand.

Establishing protocols for Government agency contribution

Participants identified a need to clarify the required status of information provided by Government agencies to the Commission and the processes that should be followed to achieve this. Agencies, such as the Ministry of Business, Innovation and Employment (MBIE), had provided substantial, ongoing contributions to the Study, although none of this information was provided in the form of a formal submission on the public record. Other agencies, such as the Financial Markets Authority, did make formal submissions. Given the practice is for formal submissions to be made in Australia, the Australian Productivity Commission was not prepared to rely on the information contained in informal New Zealand submissions in its analysis. This raised questions amongst participants about the extent to which informal submissions had influenced or failed to influence the Study's recommendations.

Timeframes

Participants felt that the process was well-signalled and were impressed that the Commission had been able to meet the timeframes imposed.

However, they questioned the amount of time allocated for them to respond on some occasions. For example, the time constraints potentially limited the opportunity to make significant progress on specific technical issues associated with MRIC modelling (ie strengths and weakness of the MRIC modelling were identified but there was limited time to adjust aspects of the modelling or to test the insights generated using the adjusted modelling with stakeholders).

High Quality Work

Overall participants commented favourably on the quality of the analysis, noting that the level of expert input, scrutiny and debate of issues was excellent.

Joint Net Trans-Tasman Benefits Test

Participants acknowledge that Joint Net Trans-Tasman Benefits Test is not a well understood concept and may be interpreted differently (ie give emphasis to specific versus diffuse benefits and or the expectation of reciprocity across different issues). However, there was general agreement amongst participants that the test was inconsistently applied across the topics examined in the Study. For example, MRIC was assessed only in terms of generating specific joint benefits, while in other cases, (eg Rules of Origin) specific and diffuse benefits were considered. Participants believed that these inconsistencies contributed to the Commissions' inability to make a clear recommendation for or against the introduction of MRIC.

Depth of analysis on MRIC

Participants expressed some concern that the MRIC modelling work tended to result in an overly negative view of the costs and benefits of MRIC (ie failed to account of dynamic efficiencies and reduced compliance costs for example). However, the process around the modelling of MRIC was generally viewed as positive, and as having helped to advance joint Australian and New Zealand understanding of a critical and difficult issue.

There was also an awareness of the Australian Productivity Commission's preference for the use of economic modelling to support analysis, and the fact that less reliance is placed by them on qualitative analysis. A number of stakeholders were concerned the emphasis placed on the Australian Productivity Commission's economic modelling constrained exploration of important questions (such as dynamic effects of MRIC) that could not be easily modelled and did not draw sufficiently on economic modelling undertaken by other groups. A particular concern was that there was little chance to test the Australian Productivity Commission's assumptions which led to their conclusion that MRIC was likely to have reasonably small effects. While the experts day allowed certain assumptions to be challenged² and led to amendments in the APCs modelling, the subsequent analyses suggested MRIC would have reasonably small effects. The tight time constraints prevented further opportunity to discuss and debate these conclusions and did not allow other groups to make adjustments to their own economic modelling work to further inform this debate.

Other Comments

Other comments on the quality of the analysis included noting:

² That is, that there would be little backfilling of capital when Australian firms invest more in New Zealand

- The Australian Productivity Commission has made extensive use of economic modelling, and they have undertaken work to assess the costs and benefits of a single national economy. This work could have been usefully applied to progress and inform debate relating to the trans-Tasman relationship and the establishment of a Single Economic Market (SEM)
- Detailed cost-benefit analysis was only undertaken in relation to imputation credits but not undertaken for other initiatives, making it difficult to assess the relative economic importance of each recommendation and adding to the inconsistency of approaches across the areas reviewed
- Lack of a conceptual framework for thinking about 'jointness'. Some participants commented that the emphasis placed on the relatively small costs of MRIC (ie \$US \$74 million in the context of a 1.2 trillion economy) may be partly influenced by the lack of broader conceptual framework for thinking about the trans-Tasman economy as a collective whole. They noted that there is a tendency to consider Australasia as two separate economies and this leads to an approach that is focused on reducing the transaction costs that exist at the edges where economies 'butt up' against one another. As a result, specific direct costs and benefits for individual economies tend to be given greater prominence in analyses (and in recommendations) than the longer term diffuse dynamic effects.

Quality of the recommendations

Overall, participants expressed mixed views about the recommendations, which tended to reflect differing assumptions and expectations about the about the purpose of the Study and what it could have realistically achieved. For example, some participants were disappointed about the lack of a clear vision statement for closer economic relations (CER) and a SEM.

Most participants also felt the inability to make clear recommendations was out of keeping with the broad mandate of the Commission.

Participants were generally agreed that the Commissions' inability to make a clear recommendation for the introduction of MRIC was a failure. The lack of a clear and positive recommendation was the most problematic and disappointing aspect of the report, particularly given the level of engagement and efforts made to explore the strengths and weaknesses of MRIC at a technical level. With respect to this issue, participants drew a strong distinction between the quality of the report and the quality of the outcome – ie the report's ability to progress decision-making on key issues. However the compromise reached in leaving governments to decide was deemed preferable to a clear negative recommendation on MRIC.

The common view could be summarised as follows:

'There's a bunch of useful, good stuff in there – it's all business as usual and will deliver incremental gains, but no big gains'

Effective Engagement

The focus group was generally pleased with the overall quality of the engagement undertaken by the Commission. However participants' views on engagement reflected their specific expectation and response to the recommendations.

Positive aspects of engagement included:

- The ability of both Commissions to demonstrate flexibility and move beyond ideological differences to engage on issues – particularly with respect to MRIC
- A high level of engagement between the New Zealand Commission and MBIE
- The detailed level of technical expert engagement relating to MRIC assisted in removing the taboo associated with the topic, reinvigorated the debate generally as well as progressing technical difficulties of assessing costs and benefits.

Less favourable aspects of engagement included:

- The lack of involvement at the outset to assist in developing a clearer scope. If more time had been available greater consultation on scope could have been achieved. This would have facilitated better and more effective engagement from the outset, particularly from the business community and private sector and would have assisted in managing stakeholder expectations and responses to the recommendations.

Interaction between public sector and private sector stakeholders

There was also comment that the public sector and private sector interactions with the Commission were different in style and nature. Officials tend to be more sanguine about the process and the outcomes, while private sector contributors tend to be more demanding of action and results. It was suggested that greater interaction between the two groups of submitters during the process of making submissions could be valuable in improving understanding all round.

This is particularly the case given the differing perceptions as to the quality of the recommendations that emerged between the private sector participants and those from the public sector. (See the comment on *Quality of the Recommendations* above.)

Clear Delivery of Message

Overall participants commented favourably on the Study's report and noted that commentators and stakeholders were aware of its findings and recommendations indicating that it had been received with interest and widely read.

However, participants felt that with additional time the content and quality of the report could have been improved. They identified the following gaps:

- Limited presentation and discussion of the insights and implications arising from the MRIC modelling work. They also noted that contextual considerations could have been presented and discussed in greater detail. For example, the relative size of possible income transfer from Australia to New Zealand as estimated through the modelling is extremely small (ie US\$ 74m) when considered in the context of the wider economy (of US\$ 1.2 trillion).
- No discussion of a vision statement to help guide the future development of CER and limited discussion or presentation of information to progress discussion about the establishment of a SEM.

There was also comment that the delivery of the report was possibly low key, and perhaps more could have been done to generate interest at its release.

However participants acknowledged that their perceptions about the report's quality and impact were strongly shaped by their initial expectations about the purpose of the Study and how it would contribute to the trans-Tasman relations. For those expecting specific recommendations relating to MRIC, the report is seen as disappointing in the short term at least. Those who saw the Study as seeking incremental improvements within a context of political sensitivity felt the report had made an important contribution to progressing trans-Tasman relationships.

Overall Performance

Right Focus

Participants acknowledged that this was the first joint study undertaken by the Australian and New Zealand Productivity Commissions and accordingly, was necessarily more complex to frame and manage. It was apparent that participants had widely differing expectations as to what the Study might deliver, ranging from defining an ambitious vision for the future economic relationship through to a programme of incremental gains based on the existing agenda.

All participants acknowledged the need to focus on critical issues and felt that the focus on MRIC was important. However, a number felt other important, tractable issues could also have been addressed and weren't.

Good Process Management

The Commission managed the process effectively, although the timeframes were tight. Participants identified the need to resolve whether submissions from Government agencies (often important in supporting the final recommendations) should be formal and on the public record, as is the case in Australia. This was considered important given that the Australian Productivity Commission was not prepared to rely on the information contained in informal New Zealand submissions in its analysis.

While strengths and weakness of the MRIC modelling were identified, the tight timeframes limited stakeholders opportunity to adjust aspects of the modelling or to test the insights generated using the adjusted modelling.

High Quality Work

Overall participants commented favourably on the quality of the analysis, noting the level of expert input, scrutiny and debate was excellent. The inability to make a clear recommendation for MRIC was seen as a failure. However the compromise reached in leaving governments to decide was deemed preferable to a clear negative recommendation on MRIC.

The Joint Net Trans-Tasman Benefits Test was seen to be inconsistently applied across the topics examined in the Study. Participants believed that these inconsistencies contributed to the Commissions' inability to make a clear recommendation for or against the introduction of MRIC.

Effective Engagement

The Commission's engagement was generally rated well. However, participants' views on engagement reflected their specific expectations and response to the recommendations. The concerns about engagement tended to be with the framing of the Study, the mismatch in expectations and the final recommendations, rather than with the evidence gathering and analytical process itself.

Clear Delivery of Message

The report itself was considered to be well written and presented. There was some comment that more could have been included in the report on the context and analysis of MRIC.

Overall Performance

Generally, participants considered the Commission did a good job with respect to the parts of the Study it controlled. The failure to provide a clear recommendation on MRIC coloured the report unfavourably for private sector participants. However, overall the following captures the focus group sentiment: *'there's a bunch of useful, good stuff in there – it's all business as usual and will deliver incremental gains, but no big gains'*

List of participants

Focus Group

Jeff Langley	Divisional Manager, Australia	Ministry of Foreign Affairs & Trade
Peter Mumford	Director of Regulatory Reform	Ministry of Business, Innovation & Employment
Matt Benge	Assistant Deputy Commissioner	Inland Revenue
Fiona Cooper Clarke	Australia New Zealand Leadership Forum	NZ Secretariat (a programme of BusinessNZ)
Robin Oliver	Director	OliverShaw Limited
Doug Calhoun		Attending as an individual

By Interview

Sean Hughes	Chief Executive	Financial Markets Authority
Richard Bargh	Manager International Relations	NZ Customs
Nick Tuffley	Chief Economist	ASB