**Cover image.
The Australian Productivty and New Zealand Productivity Commission logos.
The title is Strengthening trans-Tasman economic relations. It is a joint study. It is the final report. Published in 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 Commission](http://www.trans-tasman-review.productivity.govt.nz)s, is licensed under a [Creative Commons Attribution 3.0 Unported License](http://creativecommons.org/licenses/by/3.0/) (<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 **Murray Sherwin** CNZM**,** Chair  
**Jonathan Coppel**,Commissioner **Dr Graham Scott** C.B., Commissioner  
Australian Productivity Commission 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 Wayne Swan**Minister of Finance Treasurer  
Deputy Prime Minister 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** | *Hapū*: kinship group, clan, tribe, or subtribe (section of a large kinship group).  *Mana*: prestige, authority, control, power, influence, status, spiritual power, charisma; as well as jurisdiction, mandate, or freedom.  *Marae*: courtyard – the open area in front of the *wharenui* (meeting house) where formal greetings and discussions take place. Often also used to include the complex of buildings around the *marae*.  *Tino rangatiratanga*: self-determination.  *Tohunga*: a skilled person, chosen expert or priest. A person chosen as a leader in a particular field.  *Whānau*: extended family or family group. |
| **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 *Overseas Investment Act 2005*. |
| **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. |