# 3 CER — achievements and implications for the future

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| 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. |
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## 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)

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| 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. |
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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).

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| 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). |
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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)

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| 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. |
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* *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).

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| 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). |
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### 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.

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| 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. |
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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).

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| 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). |
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| 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). |
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## 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 manufacturinga

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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

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*Source*: UN Comtrade database (2012).

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

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*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).

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| 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) |
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| 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** | | |
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| Source: UN Comtrade database (2012). | | |
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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)

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| 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. |
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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 Protocolboth 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**

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*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

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| Sector | | Role of CER and other factors |
| **Air services** | |  |
|  | 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. | 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. |
| **Financial services** | |  |
|  | 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. | 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. |
| **Telecommunications** | |  |
|  | 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. | 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. |

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.

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| 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. |
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Figure 3.5 Stocks of trans-Tasman investment, 2010 pricesa,b

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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

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*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.

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| 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). |
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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.

## 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).

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| 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 |
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| 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. |
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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.

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| 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**   |  |  |  | | --- | --- | --- | |  | Australia | New Zealand | | 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 | | Mininga | 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. |
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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).

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| 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) |
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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.