

## STRENGTHENING ECONOMIC RELATIONS BETWEEN AUSTRALIA AND NEW ZEALAND

### TEMPERZONE LIMITED'S SUBMISSIONS

#### 1. Harmonisation of Standards in general

The failure to enforce the harmonisation of standards has created business costs. We manufacture New Zealand for the local, Australian and International markets, and our manufacturing must comply with the applicable standards of each target market. Harmonised Standards would reduce the number of manufactured variants required in our product range. Current inefficiencies in yields component sourcing and stocking, production, and finished-goods stocking would be improved.

If Australia has a higher level specification than NZ, we have to build to the Australian standard in order to sell in that country. On the other side of the coin, if the "NZ spec" is less demanding, NZ clients don't want to pay more for an "Australian spec" unit of the same capacity, when they could purchase a cheaper NZ standard compliant unit. If we don't meet this demand our competitors will and we will lose market share.

Without harmonisation we must make different versions of every product to satisfy both sides of the Trans-Tasman market. This imposes costs on our business at every level and complicates logistics.

#### 2. Harmonisation of Minimum Energy Performance Standards (MEPS)

On pages 4 and 5 of the "Issues Paper", it states that as far back as 1988 there was an MOU regarding the harmonisation of standards and other technical trade issues, followed by the Agreement to that effect in 1990. A **recent** example of how this is **not** being practiced follows:

On 23 September 2011 and the Australian Government announced that as of 1 October 2011 new MEPS levels for Air Conditioning will be applied. Those levels are published in AS/NZS3823.2:2011, which was itself published, dated 23 September. However it was not actually available from the Standards bodies in Australia or NZ until a few days later. (We got our copy on 29 September.)

This "one minute to midnight" regulation demonstrates a lack of understanding of the practicalities of running a manufacturing operation. We cannot switch the design of a whole range of units over from one efficiency level to another in the space of days.

This rushed action does not comply with an "understanding" that the application of new MEPS levels would not come into effect until 1 year after their publication. Australia effectively gave the Air Conditioning industry less than 1 week's notice. *(This "understanding" is referred to in Australian "E3" (Equipment Energy Efficiency) documents, however a more formal mechanism that would bind governments may be required.)*

The New Zealand Government responded that they would not be enforcing the **joint** (AS/NZS) standard at that point in time and probably not for another year. Although, NZ's more cautious and considerate approach to the implementation of this latest version of AS/NZS3823.2 is praiseworthy the reality is that we have different applications of the same standard on either side of the Tasman.

If the Australian and New Zealand governments could agree on, and signal changes well in advance of their implementation it would be beneficial to Trans-Tasman businesses such as temperzone.

Apart from the Australian Federal Government's failure to act at the same time as the New Zealand Government, there is the separate issue of the propensity for individual Australian states to act independently without consideration of Federal and trans-Tasman impacts.

As a business we have directly suffered the impact of both the Queensland and South Australian State governments quite separately and at different times enacting new MEPS performance levels out of step with the Federal position. In both cases very little notice was given and forced us into semi-crisis mode. We had to shelve development work in progress and rush to re-engineer products to enable them to be legally sold in the particular states. Such unplanned and unnecessary disturbances to business operations do not make for cost-effective commercial activity.

This overall disharmony regarding MEPS has resulted in a huge, incalculable cost upon Temperzone.

### **3. How far should integration go? (Five levels of economic integration)**

#### **Q14. What is the appropriate "end-point" to trans-Tasman integration?**

**The appropriate 'end-point' is harmonisation of corporate tax rates, this being the only element of Economic Union that makes sense from a New Zealand perspective.**

In terms of the levels of integration we comment as follows:

Free Trade– we support the full implementation/retention of Free Trade

Customs Union - being active in both countries, we support common external tariffs

Common Market – being active in both countries, we support the free movement of factors of production (labour and capital)

#### **Q15. Thresholds that should not be crossed on the grounds of sovereignty.**

**Temperzone submits that integration should not proceed to the stages of full Economic Union or of Common Government.**

Economic Union – being a corporate taxpayer in both countries we support harmonised tax rates, but we do not support the other elements of Economic Union, being common currency, and common monetary and fiscal policy due to the varying economic cycles experienced by the two countries.

Common Government – We do not support this loss of sovereignty.

#### **Q16. Advantages and disadvantages of implementing a currency union with Australia.**

**We submit that there are no advantages to be seen in currency union with Australia.**

Due to the varying economic cycles and the variation in trading patterns, particularly in commodities (Australia principally exports minerals and NZ exports agricultural produce), there would be disadvantages for NZ in a common currency. NZ economic activity is a small fraction of Australia's and our economic cycles would be lost in the united economy. Events in Europe show that a member country with economic problems is disadvantaged as their currency (Euro) does not adjust to the individual member country's circumstances.

## 4. Capital Flows

### Q28. What would be the costs and benefits of mutual recognition of imputation credits?

**From the perspective of the private shareholders of Temperzone companies and for the New Zealand's economic future, the benefits that would arise from mutual recognition of imputation credits are enormous.**

We have NZ\$Xmillion (actual figure supplied under separate cover as "commercial in confidence") of tax paid profits locked up in Australia as these profits cannot be distributed to the New Zealand shareholders without double taxation. This amount increases by approximately NZ\$Ymillion per annum (actual figure supplied under separate cover as "commercial in confidence"). Since around 75% of the group's turnover is in Australia, these "locked up" tax paid profits far exceed the profit made in New Zealand, which can be distributed (without further tax) to the shareholders.

This leads to a lack of options available to the shareholders in terms of their investment of profits. It leaves them no choice but to further invest all Australian tax paid profits back into Temperzone's Australian company operations even though better investment opportunities may be available in NZ or elsewhere. This hampering of investment choice is harmful not only to the shareholders investment portfolio (since it progressively becomes less and less diverse) but even more so to the long term growth of the New Zealand economy.

If Australian franking credits were made available to New Zealand shareholders, then a owners of the tax paid profits, those shareholders would be freely able to decide between competing choices for re-investment of the funds.

Of course, Temperzone is only one small part of the economy but by extrapolation to other companies that are similar in terms of structure, products and export markets, the sum total of inefficiently utilised profits must be enormous.

We say this as, according to the Technology Industry Network's TIN100 Industry Analysis 2011, private companies make up over half of all technology based companies in NZ and have total revenues of NZ\$3.4 Billion. Their export revenues are NZ\$2.6Billion, i.e. 77% of total revenue which is not dissimilar to Temperzone's exports which are 83% of our total turnover.

Page 5 of the Issues Paper states **"2004** *The countries agree to the creation of a single economic market (SEM), and to commit to identifying and eliminating further obstructions to businesses and individuals operating in both jurisdictions"*.

**The continuing lack of mutual recognition of imputation credits is in direct contravention of the above agreement.** In denying this recognition, the Australian government is ignoring the findings of the Henry Tax Review (2010) and they should be reminded of their SEM obligation.

As New Zealand investors and tax payers, in addition to the harm it does to New Zealand's economic activity, we find **the lack of mutual recognition of imputation credits is inequitable for the following reasons;**

- a. If our investments had been made wholly within NZ, the shareholders would not be suffering double taxation on New Zealand owned company earnings. So, lack of mutual recognition is a disincentive to new Zealanders investing overseas, especially in Australia which is such a key export market for NZ manufacturers and technology companies.
- b. If the investments had been by way of loan to an Australian company, or even by way of a Term Deposit in an Australian bank, the Australian (NRWT) tax paid would be available to reduce NZ tax payable.  
Why are dividends (returns on active investments) being treated so harshly by both the Australian and New Zealand governments?

**The lack of mutual recognition is discouraging to New Zealand's efforts to expand the growth in exports of goods and services and the inefficiency of capital investment decisions as a result is detrimental to the New Zealand economy.**

**Q29. What other policy-related barriers are there to trans-Tasman capital flows? What should be done about them?**

**Temperzone submits that differing business tax rates and policies are detrimental to the efficient investment of capital over both countries.**

The inefficient investing of capital results in lower productivity due to the location of capital being influenced by differing tax and depreciation rates and differing incentives for Research and Development.

**Company Tax and plant depreciation rates should be aligned.**

Research and Development incentives may be more problematic due to the different industrial landscape between the two countries. One imagines that New Zealand's R&D priorities may never be in step with Australia's.