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TRADE SUBCOMMITTEE

Reference: Review of the Australia-New Zealand Closer Economic Relations Trade Agreement

FRIDAY, 12 MAY 2006

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JOINT STANDING COMMITTEE ON

FOREIGN AFFAIRS, DEFENCE AND TRADE

Trade Subcommittee

Friday, 12 May 2006

Members: Senator Ferguson *(Chair)*, Mr Edwards *(Deputy Chair)*, Senators Bartlett, Crossin, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowdon, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Trade Subcommittee members: Mr Baird *(Chair)*, Mr Snowdon *(Deputy Chair)*, Senators Bartlett, Eggleston, Ferguson *(ex officio)*, Johnston, Payne and Scullion and Mr Barresi, Mrs Draper, Mr Edwards *(ex officio)*, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Eggleston, Ferguson and Payne and Mr Baird, Mr Snowdon and Mr Cameron Thompson

Terms of reference for the inquiry:

To inquire into and report on:

Australia's trade and investment relations under the Australia and New Zealand Closer Economic Relations (CER) Trade Agreement with particular reference to:

- The nature of Australia's existing trade and investment relationships
- Likely future trends in these relationships
- The role of Government in identifying and assisting Australian companies to maximise opportunities under CER
- Complementary policy approaches by the two governments.

WITNESSES

Subcommittee met at 1.05 pm

CHAIR (Mr Baird)—I declare open this public hearing of the inquiry into Australia's trade and investment relations with New Zealand by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. On 2 March 2006 the Minister for Trade asked the Trade Subcommittee to inquire into Australia's trade and investment relations under the Australia New Zealand Closer Economic Relations Trade Agreement, CER, with particular reference to the nature of Australia's existing trade and investment relationships, likely future trends and these relationships, the role of government in identifying and assisting Australian companies to maximise opportunities under CER, and complementary policy approaches by the two governments. The CER is a longstanding successful free trade arrangement which is continuing to evolve. It has been in operation since 1983 and has constantly been updated and refined. Aspects of it have been reviewed from time to time. The subcommittee sees a need to take stock of the achievements thus far and to discover where and how the arrangements can be expanded and improved.

Today the subcommittee will hear evidence from and the views of representatives of Telstra, the Australia New Zealand Business Council, the Department of the Treasury and the Department of Foreign Affairs and Trade. We will be conducting the hearing in two sessions. The first session will be a roundtable discussion on sectoral competition. This is a little unusual. We have just had a very successful roundtable in the Human Rights Subcommittee. We hope this one is equally as successful. We have not done it before in a trade hearing and it will be interesting to see how we go with this today. The subcommittee is interested to hear about principles as well as immediate specifics. The second session will examine broader aspects of CER with individual witnesses.

[1.08 pm]

ARCHER, Mr Bradford John Henry, Manager, Energy, Transport and Communications Unit, Department of the Treasury

FRENCH, Mr Steve, General Manager, Competition and Consumer Policy Division, Department of the Treasury

HOWARD, Mrs Rosemary, Executive Committee Member, Australia New Zealand Business Council

KOTLOWITZ, Mr Danny, Solicitor, Regulatory Legal Group, Telstra

MACKAY, Mr Christopher Ian, Executive Director, Australia New Zealand Business Council

MURPHY, Mr James, Executive Director, Markets Group, Department of the Treasury

PATCH, Ms Sandra, Senior Adviser, Competition Policy Framework Unit, Competition and Consumer Policy Division, Department of the Treasury

WALTON, Mr Tim, Representative, Australia New Zealand Business Council

WARREN, Dr Tony, General Manager, Regulatory, Telstra

CHAIR—I welcome all the witnesses at this roundtable discussion on sectoral competition. I remind witnesses that although this session will take the form of a roundtable discussion all questions should be directed through the chair. Do you have any comments to make on the capacity in which you appear?

Mr Walton—I am representing the Australia New Zealand Business Council, but I am with PricewaterhouseCoopers.

Mrs Howard—I am the executive of the Australia New Zealand Business Council but also managing director in Telstra products.

CHAIR—I thank the subcommittee members for their time today, after a very heavy schedule in the budget week, as Treasury officials would know all about. We appreciate them being here today. As you know, the subcommittee does not require witnesses to give evidence under oath, but the hearing does have the same standing as proceedings before the respective houses. Before proceeding to questions, do you have any statements you would like to make at this stage?

Mr Murphy—No.

CHAIR—I would now like to invite you to make your comments and so on, as you see appropriate. I know you do not plan to give your opening statements, but perhaps we could ask

our Telstra people to kick it off. We have seen your submission. Would you like to make some general comments to start?

Dr Warren—Thank you. Our primary interest in these proceedings is that Telstra is a substantial player on both sides of the Tasman and we have really noticed that there is a huge disjuncture in the way that each side of the Tasman is regulated. In a sense, there is just no sense in which it is a single market. We compare the CER—

CHAIR—To what extent are you involved in New Zealand?

Dr Warren—We own the second-largest carrier in New Zealand. It is called TelstraClear. If you have got any specific questions on that, Mrs Howard used to be the CEO of it. But the real issue for Telstra is the CER, which for a long time has been the leading trade agreement in the world in terms of harmonisation. We look at it now in the telecommunications space and see it coming a very poor second to things like the Singapore free trade agreement and the US free trade agreement, which have very specific telco chapters in them. We find that there are huge divergences and, even though both countries are crawling toward some degree of harmonisation—most recently in the last few weeks in New Zealand on telecom reform—for several years now we have been very strong supporters of a much more fulsome discussion of regulatory harmonisation issues in telecommunications within the CER context.

In that respect, we were somewhat disappointed to see telecoms left off the work plan for future reform of the agreement, and we would like to urge the committee to have a look at that decision and see if you can make recommendations to bring it back on. We think there is a huge amount of benefit, both for Australians and New Zealanders, in having a single telecoms market across the Tasman. Telecom New Zealand is a very big player in Australia, with the ownership of AAPT, and, as I said, Telstra is a big player in New Zealand. So we are really hoping that we can see some degree of harmonisation. We would like to see a common market in telecoms.

CHAIR—You are not the only player in New Zealand, of course, and we have not had any input from the other telco organisations in New Zealand. Do you think that is significant in itself?

Dr Warren—It is undoubtedly so. I think Telecom New Zealand, which is the Telstra equivalent in New Zealand and the incumbent over there, has been on the record resisting the push. I am not sure what its position is more recently, following the very recent changes in New Zealand on telco. The committee may not be aware of this but there have been some substantial changes to the New Zealand regulatory regime announced, but not yet implemented, which adopt many of the features of the Australian telco regime. But we still see there is some discordance there. Those policies have only been announced; they have not been implemented. So maybe Telecom will change on that, but there is no doubt that there are many other carriers in the Australian market who would like to see a much greater alignment of regimes.

I am sorry to take so long to answer that question, but I just want to put a final caveat on that. We are not claiming that the New Zealand regime should slavishly follow the Australian regime. We think both regimes have strong points and weak points. What we are really saying is that it seems to make a lot of eminent sense that you have the same regime operating in both markets, because that would substantially reduce the transaction costs.

CHAIR—Why do you think it has been left off the CER in the past?

Dr Warren—I suspect you would have to ask the officials that, but we have our conspiracy theories—

CHAIR—We will. It is a roundtable, though.

Dr Warren—Clearly, the strong resistance from Telecom New Zealand—which, until recently at least, was a quarter of the New Zealand stock market by capitalisation—is an extremely important aspect to this. But I think it is a hard area. We are not denying that, we would just hope that we have started the work.

Senator FERGUSON—Is Telecom New Zealand involved in more than telecommunications?

Dr Warren—No, although it used to own a satellite.

Mrs Howard—It is very analogous to Telstra in terms of scale and scope. It does have some managed IT services, as Telstra does, for large corporate customers. It also has some relationships in terms of pay television resale, although not actually the content provision itself. So it is quite analogous.

Dr Warren—And a big mobile network as well.

Senator EGGLESTON—What do you see as the specific blocks? What are the specific problems in the different regulatory regimes? What is your biggest problem with the New Zealand regime?

Dr Warren—For a long time our biggest problem with the New Zealand regime was the lack of unbundled local loop over there, which is the sort of regulated provision of the last mile, the so-called legacy last mile. As you know, it is a large issue here in Australia. New Zealand was the only OECD country that did not have that. It still does not have it, but the government has most recently announced that it should happen. That has proved extremely difficult for our TelstraClear business over there, because it has been highly dependent on a slavish resale model. The real problem more broadly for it, rather than just talking about our investment over there, is that we like the idea of growing the entire market we serve so that it is just one—it is the equivalent of adding Queensland. To the extent that we can have the scale and scope economies of having a single market, to us, makes eminent sense.

CHAIR—Can you, for the sake of the laymen—and I have just tested this with colleagues to my left and my right—explain about the unbundled last mile. What is it we are discussing?

Senator EGGLESTON—An unbundled local loop.

Dr Warren—I apologise for that. It is a problem we have in our industry—it is an acronym soup. Your house is probably connected to an exchange building by a piece of copper and, in many instances, that is a natural monopoly. In some places it is not, but in many instances it is. What tends to happen is that regulators say that the incumbent who owns the last piece of copper needs to supply that piece of copper to Optus, AAPT or whoever else and then they can use it to

supply telecom services. That is called 'unbundling the local loop'. It is a loop because there are two pieces.

CHAIR—That sounds much simpler now. In reading through the submissions I have found that this looms reasonably large as one major area that has not come under the real provisions of the CER. What is the view of the Australia New Zealand Business Council on that?

Mrs Howard—I think the Australia New Zealand Business Council does say specifically, with telecommunications, that this is an examples of sector-specific regulation—that it would be highly desirable to have the same, particularly since telecommunications is really now recognised as a key contributor to productivity. The big wake-up call in New Zealand literally in these last weeks has been that the uptake of broadband in New Zealand has very seriously lagged behind that in all OECD countries. Because of the lack of competitor access to the copper network, they could not build competitive broadband services. In short, the Australia New Zealand Business Council sees it as very important that we get harmonisation. These are complex issues, as Tony says. We all need to work together to make sure that the regulation provides the best choice and competition for customers and enables players like TelstraClear to invest in New Zealand, as other players have been able to do in Australia.

Mr Chairman, on your earlier point about why there are not some other telcos here, interestingly, when New Zealand was looking at unbundling the local loop a couple of years ago, and it failed at that time to do so because of the very strong lobbying of Telecom New Zealand, other Australian telcos like Optus, Macquarie Telecom and iiNet, to name three of them, were very supportive of what Telstra was doing in New Zealand to argue for the opening up of the local loop so there could be choice and competition.

Senator EGGLESTON—How many telcos do you have in New Zealand?

Mrs Howard—They are very few in comparison to here. In Australia, if you take large telcos and big internet service providers, you can argue the number but, say, up to 80 or 100, if you count the larger ISPs, but certainly 10 very significant telecommunications players. By comparison, in New Zealand you absolutely struggle to get that number of 80 to 100 past 10, so there is no question that the regime there has not encouraged competition. It has not enabled investment a la what Telstra would have liked to have done, and, for example, Optus has not been able to figure out how to successfully invest there either.

CHAIR—I am interested in Treasury's view as to why telecommunications has been left off the CER. Perhaps Foreign Affairs and Trade might want to comment as well? Is it at the distinct request of the New Zealand government that we are in this situation?

Mr Murphy—It is not specifically referred to in the CER or in the memorandum of understanding on business law that underpins the CER, but that is not to say that it cannot be looked at and it is not one of the issues that falls within the concept of a single economic market. That rubric or brand that the Treasurer and Dr Cullen, the finance minister from New Zealand, hit on a couple of years ago was to accelerate movements towards harmonised laws and common regulatory regimes. A lot has been achieved in that. As you know, they signed another agreement in February this year. It listed specific things that they wanted officials to be working on in Australia and New Zealand. At the same time, as part of that document, clause 15 was a sort of

catch-all that said that if there were any other issues that it was felt were worth while looking at or trying to work on common approaches to then they should be addressed.

The reason that officials have not charged into telecommunications regulation is that on both sides of the Tasman at the present time it has been under quite direct policy analysis by governments. It is a matter of public note that the Australian government is still working with the industry to work out proposed new regulatory arrangements. As has been commented here, in New Zealand they have recently announced new regulatory arrangements that, if implemented, would make them very much more consistent with what seems to be proposed in Australia.

CHAIR—I notice that the Australia-New Zealand Leadership Forum met in Auckland on 5-6 May and that there was an impressive range of people there. Was that one of the items on the agenda? We have not seen any outcome of that. There were DFAT people there. I wonder whether DFAT has any comments.

Mr Murphy—I attended that forum.

CHAIR—That is right—you are down here.

Mr Murphy—I do not think it was specifically raised. There is a small group that deals with competition policy issues. They have achieved a fair bit in the last 12 months. They are looking at new issues. Obviously, if you are looking at it from an economic policy point of view, the goal of a single economic market for telecommunications services is a very good goal. It is something we should not resile from. I would suspect that, once things settle down within each country, you will have talks about that. I cannot speak for the department of communications, but I think we can pretty well be sure that both countries would be having a weather eye on the other's proposed regulatory regimes when they are developing their own.

CHAIR—Does DFAT have any comments on it?

Senator FERGUSON—None of DFAT are here.

CHAIR—Sorry, I thought they were here.

Dr Warren—I agree with what Jim just said about there being a lot of flux on either side of the Tasman in policy at the moment. Where I would question this position is: wouldn't this now be the time to do it, while things are under change, rather than when things are locked down? If they are locked down it is a matter of trying to work out some kind of agreement a la Singapore, where we both have our regimes captured.

Senator PAYNE—Chair, as you know, this is a new experience for me, having only recently become involved in this subcommittee. It seems to me that if you extrapolate Mr Murphy's theory through to the end then you probably would not put anything under CER because policy is constantly changing and everything is in a state of flux. I sit on more committees than you can poke a stick at in the Senate. The business of the committees is changing policy and addressing the regulatory challenges of all sorts of things. It is confusing for me in the modern world and as a new member to this subcommittee why in 2006 the rather compelling area of telecommunications engagement would not in fact be very much up front in this process.

CHAIR—I would invite you to comment.

Mr Mackay—I listened to Mr Murphy very carefully, because we have previous experience in one specific area that would be of interest to this committee. Throughout the nineties the Business Council was arguing strenuously for a change to the rules of origin and we were told the same things. We were told that the WTO was looking at this and that the WCO was looking at this and therefore we should wait. In linking the remark to the fact that the CER agreement, a free trade agreement, does not refer specifically to telecommunications, that is a fact of history rather than what is currently happening. In the more recently negotiated FTAs the world has come to realise that world's best practice requires a very substantive and very specific telecommunications element to those sorts of agreements for all of the reasons that are advanced. I appreciate the caution displayed by Treasury, but I would like to bring to the attention of the committee the fact that the TTMRA between Australia and New Zealand, which closely followed the agreement for harmonisation between the Australian states and territories, is and should be seen as a bit of a driver in this area.

Senator FERGUSON—What is the TTMRA?

Mr Mackay—I knew you were going to ask me that.

Senator FERGUSON—Well, I have no idea—it is the trans-Tasman something.

Mr Mackay—Trans-Tasman Mutual Recognition Arrangement.

Senator FERGUSON—I am not a lot the wiser.

CHAIR—Sounds very likely—even if you made it up!

Mr Mackay—It is a methodology ensuring that what is recognised in one country is recognised in the other country. In this case it could be used as a guide. I would endorse the remarks made by Telstra—it is something that deserves attention. I believe Senator Payne said it very clearly: if we waited all the time, we would never get anything done.

CHAIR—The briefing papers that we received note that the free trade agreement with the US has achieved greater agreement on this area than we have got with the CER. Obviously, one was negotiated 22 or 23 years later.

Senator FERGUSON—We do not even have an agreement with Mexico and we have a better deal.

CHAIR—It would appear from the Australian end that we do not have any major problems. Mr Murphy, is that right?

Mr Murphy—The question of policy in relation to the telecommunications industry is a matter for the minister for communications and the Department of Communications, Information Technology and the Arts. I can speak from the point of view of economic policy, CER and a single economic market. That is what I was purporting to say. There is a big agenda there. Whether telecommunications is a more important issue that should be addressed more speedily

or go further up the priority list is really a matter for the people who are responsible for telecommunications policy.

Mr SNOWDON—What is the hierarchy of priorities for the Treasury?

Mr Murphy—With regard to the Treasury, there is a long list of stuff. That is what the Treasurer and the finance minister for New Zealand hit on. Probably the key thing last year was banking, trying to get regulatory arrangements in place for prudential regulation. That was important to them. There was the treaty on prospectuses fundraising. That was important to them. They are reasonably solid matters which take a fair bit of work to sort out. If you are going down the telecommunications area and if that is what the committee wishes to recommend to the government, the department of communications takes carriage of that.

CHAIR—We might call the department of communications in a later review and get their input.

Mrs Howard—If I may, I want to point out that Telstra's submission did point out that, at that leadership forum in May 2004 that Mr Murphy just referred to, harmonising and integrating business regulation with particular reference to taxation, banking, telecommunications and intellectual property were specifically mentioned as key issues. Historically, the CER did not have telecommunications in it. No-one realised the criticality of telecommunications 20 years ago. Now there is this very close linkage to productivity through broadbanding et cetera, and the key focus in both countries is on that issue and the lack of resources—particularly in New Zealand—to address all these complex issues. The Commerce Commission do look to the ACCC to help them with some of these issues and do look at Australian drafted legislation as a source of insight. I can only believe that it is something that has been flagged as a priority. There is proven evidence that it is impeding investment and, therefore, productivity in New Zealand, and there is a real opportunity to get work happening to improve that efficiency between both countries.

Senator FERGUSON—If this is something that is flagged as a priority, it seems to be moving very slowly. Since I have been in this parliament, the CER has always been presented to us as the Rolls Royce of trade agreements. They say: 'Nothing we have ever done is as good as the CER. It has covered everything,' The WTO says that the CER is the world's most comprehensive, effective and multilaterally compatible free trade agreement. Yet, according to your figures, we have Telecom New Zealand comprising a quarter of the New Zealand stock exchange. The Australian telcos are not locked out, but there is no agreement between the countries in relation to telecommunications.

Firstly, I want to know how important you all think the telecommunications component is in the free trade agreement, because there is no doubt that telecommunications in 2006 is a much different kettle of fish to what it was in 1983, just with the advances in technology. I want to know from you how important it is. When we came to review the CER, I came with an open mind. Because I have always been told it is so good, I did not know that we would be finding things that cause the agreement to drag the chain a bit. How important is telecommunications? How quickly can it be rectified, if it needs rectifying? Is there goodwill on both sides of the Tasman towards making sure that we get to some agreement? If there is not goodwill on both sides, it probably will not happen.

Dr Warren—I will give you a specific example. This unbundled local loop thing we talked about before is an important issue, but let us not overprioritise it. One of the things that we noticed at the time was that, when the New Zealand regulator decided not to require Telecom to supply that, if that had been the Singaporean or American regulator, we might have had some trade law rights, but we did not under CER. You see why CER is important in that context.

As we have said, the government has changed its position there and things are clearly looking up for Telstra's investment over there, and that is a positive thing. But we still run into the problem that we have a dialogue here and a dialogue over there dealing with essentially the same problems, and, rather than trying to harmonise those dialogues so that we come to some sort of mid-Tasman telecom policy solution, we are basically proposing to have those dialogues, make sure they are bedded in and then try and have some agreement that, ex post, locks that process in. It seems to us that that is the wrong way around. To us, it would seem to make sense to have the New Zealand perspective in our discussions and our perspective in theirs and hopefully over time inch towards a common regime so that when we are investing there and they are investing here it is a single market.

Senator FERGUSON—It might just mean dialogue with each other. Has anybody ever thought of trying that?

Dr Warren—There is an ongoing dialogue between the department of communications and their counterpart in New Zealand, and I believe that is quite a productive dialogue. That came out of the process in 2004 that Rosemary quoted from. To go back to your point: a dialogue is one thing. We see no end in sight where we will end up with a converged point. Rather, we see fits and starts on both sides.

Mrs Howard—Senator, you asked about goodwill on both sides. I was living in New Zealand, leading TelstraClear through the period two years ago when unbundling did not happen. The Ministry of Economic Development in New Zealand were the lead house for what the department of communications has here, and they argued very strongly for unbundling. I know that before then they were working very closely with the department of communications here, and they still are today, so that they do share information. At the relevant department level, I think there is goodwill and a desire to work together. Two years ago the New Zealand government did not unbundle, and there is no question—it is on the public record—that they were strongly influenced in that decision by Telecom, who argued against it from the point of view of defending their monopoly shareholder value et cetera.

I believe that the announcements in New Zealand within the last two to three weeks, where New Zealand have at the political, government level realised that the lack of competition is impeding broadbanding and therefore productivity, would now imply that, at the political, government level, they would be far more willing to work with Australia, because they are now saying explicitly that they want to catch up to where Australia is. Their announcement of two to three weeks ago is talking about what was achieved in Australia eight or nine years ago, so we are still talking about a serious gap in time, which is important from an investment point of view and therefore important from a broadband point of view and therefore important from a productivity point of view. It is not as if we can wait around for 10 years for this to happen. New Zealand will miss the boat.

Senator EGGLESTON—So you are really talking about New Zealand seeking to protect the monopoly of Telecom New Zealand from competition and competitive pressures?

Mrs Howard—Yes.

Senator EGGLESTON—And so we are seeking to have an open access market where there would be a role for Telstra, Optus and perhaps Hutchison in New Zealand.

Mrs Howard—Yes.

Dr Warren—We would like to see Telecom in its home market get the same regulatory treatment as we do in ours. As you know, we are not the biggest supporters of how we are treated—

Senator EGGLESTON—I know.

Dr Warren—but we would really like to see like for like. If it is good enough for us, it is good for them and vice versa.

Senator EGGLESTON—So it is an access pursuit—

Senator FERGUSON—Is Telecom totally privately owned?

Mrs Howard—Yes, it is a 100 per cent publicly listed company.

Senator FERGUSON—That is what I thought.

Mr SNOWDON—What proportion is owned offshore?

Mrs Howard—That number has varied quite significantly. I have just been informed that it is predominantly owned offshore and that 20 per cent is owned by Australians.

Mr SNOWDON—So it is not a New Zealand company?

Senator EGGLESTON—It is New Zealand owned.

Mr SNOWDON—It is registered in New Zealand, but it is owned by foreigners.

Mrs Howard—Correct.

Mr SNOWDON—So what are we protecting?

Mrs Howard—Well—correct! And I think it is on the public—

Senator FERGUSON—Good question.

CHAIR—The foreigners could be Australians.

Mrs Howard—It is on the public record that the New Zealand government felt compelled to protect Telecom a couple of years ago. I now believe that they realise the need for open competition, and that is what Telstra is arguing for. We just want a flat earth policy to get the best regime in both countries.

Mr SNOWDON—A flat earth policy?

Mrs Howard—Well, sand. A level playing field.

Senator EGGLESTON—There is an interesting contrast between the telecommunications policy and the television media approach in New Zealand, which is total deregulation. Here you seem to have a policy of total regulation of the telecommunications area. Do you want to make a comment about the contrast between the unregulated media—and television in particular—and telecommunications? What are the drivers of that difference?

Mrs Howard—There is something that stands right behind this whole debate on telecommunications and media, which is that, generally speaking, New Zealand is a far less regulated country. It has one house of one parliament, compared to our—I think—15 and seven—

CHAIR—That is a big plus!

Mrs Howard—and it just does not regulate things. The notion of personal responsibility is much stronger there. You can do risk sports; here you virtually cannot do some of those risk sports. It is a much less protected environment. So they do not have antisiphoning legislation, for example, so if you want to watch your rugby—

Senator EGGLESTON—Or local content rules.

Mrs Howard—which of course you do, you get pay TV. The penetration there is double what it is here, as a result of that. So there is an underlying theme of a much lighter handed regulation. I think that the copper network, as we described before, is one that is recognised by all countries in the OECD except Mexico as needing some regulation. Without regulation, you just do not get investment and, therefore, competition.

Dr Warren—And this is what I think we mean by our 'mid-Tasman' policy. I think the New Zealanders would look at our cacophony of regulation—which I know you are very aware of, Senator Eggleston—and run a million miles away. They just would not accept it. And I think what we are saying is that we are too far one way and they are too far the other way—and wouldn't it be nice if we learnt from each and maybe got something that is a bit more like the world's best practice?

Mr SNOWDON—How do you describe the difference between the telecommunications elements of the Singapore free trade agreement and the CER?

Mr Kotlowitz—In the free trade agreement with Singapore, there is a list of behind-the-border, domestic regulatory obligations. For example, there is an obligation to provide number portability. That means that when you go to a competing provider for your mobile, you get to

take your number with you. In New Zealand, that is currently not available; it is not mandated. There are various other regulatory protections, such as a right to have reasons given for regulatory decisions. Some of the very basic regulatory protections do exist in New Zealand, and some do not. In 2003, New Zealand elected not to unbundle its local loop. There are obligations in the telecommunications chapters of the free trade agreements with both the US and Singapore whereby unbundling is an obligation. At the time, Minister Vaile, as a matter of the public record, wrote to the New Zealand government and suggested that it should unbundle its local loop in line with its WTO obligations. However, those obligations are a lot weaker than the obligations in the free trade agreements—but those WTO obligations, as weak as they are, do not even exist in the CER. That is how far behind the CER is.

Mr SNOWDON—Where is the blockage? Is it the New Zealanders who will not cop this stuff, or is it us who will not cop this stuff?

Mr Kotlowitz—We signed up to the 'stuff'—the obligations—with the US and Singapore.

Mr SNOWDON—I appreciate that, but in the context of this negotiation—

Mr Kotlowitz—As Mrs Howard and Dr Warren have indicated, we believe the blockages come from the New Zealand side. However, there is one additional comment I want to make—that is, although primarily communications is the responsibility of the department of communications, telecommunications regulation is a species of competition law. It is sectoral competition law. Unbundling of the local loop in Australia is part XIC and part XIB of the Trade Practices Act. So we accept Treasury's point that the department of communications should be involved in this; however, the memorandum of understanding on coordination of business law deals extensively with competition law, and this is part of competition law.

Mr French—Just to be clear, those provisions of the Trade Practices Act are the responsibility of the minister for communications; they are not the responsibility of Treasury.

Mr Kotlowitz—But the ACCC is the party that carries them out. It is a mixed responsibility.

Mr Murphy—As a matter of policy, they are the responsibility of the minister for communications—that is, parts XIB and XIC. That is all. That is what you are saying. If you really want a definitive statement as to policy—

CHAIR—You are sitting close together in this roundtable, and we are missing part of your input.

Mr Murphy—The point we were making was just to clarify that under the Trade Practices Act parts XIB and XIC, which deal with telecommunications policy, are the responsibility of the minister for communications. Treasury is responsible for competition policy law but that is carved out. It is the responsibility of Minister Coonan and her department. It is administered by the ACCC.

Mr SNOWDON—So is the policy formulation a joint responsibility or is it the responsibility of the telecommunications department or Treasury?

Mr Murphy—No, the communications department. We will have an input like everyone else in all these meetings we have had with Telstra over the last 12 months. But at the end of the day it is the minister for communications.

Senator EGGLESTON—This question is to the Business Council in particular. Do you think there is any political will in New Zealand to deregulate in a way that we are seeking to or is the political will not to deregulate and to protect Telecom New Zealand from competition? Unless there is political will not much is going to happen.

Mr Mackay—The political will to do anything under CER waxes and wanes, depending upon I think the pressure that occurs from time to time. We had an example, again back in the nineties, where CER literally went off the agenda whilst Australia and New Zealand concentrated on matters that they felt had a higher priority. I think perhaps to a certain extent Mr Murphy indicated in this hearing that it is a question of priority for him as well—what priorities are being demanded. At the moment—and I want to say a little about this in the next session—we think that there is certainly a falling off of political will. There has been a lot achieved in recent years, but people on both sides now are again looking in a third direction rather than looking trans-Tasman. Without answering the specific question about Telecom that you put right at the end, I would suggest that at the moment large advances are highly unlikely to occur under CER, from where I am coming from as an observer.

Mr Murphy—I think what you have been discussing here today are really matters of trade negotiation on the telecommunications industry. In terms of the things that are in the MOU under business law, the distinguishing features between those areas and I suppose the telecommunications areas are (1) they are areas where both governments have commitment for harmonisation or give access to each other and (2)—and this is a very important point—there is largely industry support on both sides of the Tasman for moves in these areas. We have found that, even when that is the case, it is a hard row to hoe when you have two regulatory regimes and you are trying to harmonise or ensure that you remove impediments. The key feature of most of this stuff under the MOU is that the private sector on both sides of the Tasman strongly supports the government doing something. I think that might contrast with the telecommunications industry on both sides.

Mrs Howard—I think Telecom New Zealand has definitely exploited the differences in the two regimes and has done so very successfully. The question then becomes whether there is a willingness between the two governments to say, 'Telecommunications is so important to our two economies that we are going to make sure that there can be cross-investment in these two markets,'—even if it means that you have to trade apples for telecommunications. Maybe there are leverage points that can be used.

Mr SNOWDON—I was just going to raise that point.

Senator PAYNE—Big call, Mrs Howard.

CHAIR—Apples are another round.

Mrs Howard—Or trout.

CHAIR—Thanks for your attendance here today. If you have been asked to provide additional material, please take that on notice. You will be sent a copy of the transcript, as I am sure you are aware. If you have any problems please let us know. Thanks very much.

[1.51 pm]

HOWARD, Mrs Rosemary, Executive Committee Member, Australia New Zealand Business Council

MACKAY, Mr Christopher Ian, Executive Director, Australia New Zealand Business Council

WALTON, Mr Tim, Representative, Australia New Zealand Business Council

CHAIR—Welcome. Do you wish to add anything about the capacity in which you appear?

Mr Walton—I am also a partner at PricewaterhouseCoopers.

Mrs Howard—I am also an executive of Telstra.

CHAIR—As you will recall, there is no requirement to give evidence under oath, but the same requirements apply here as apply before the parliament. Do you wish to make a brief opening statement before we proceed?

Mr Mackay—We have a very short statement that we would like to talk to. There are things that you cannot put into a written document. We welcome the inquiry because we think that a vigorous dialogue about CER is beneficial from the angle of competition. It has recently been encapsulated in the words 'single economic market'. We have a view that, whilst heads of agreement may have been reached in many of the areas, starting with the head agreement of CER itself and progressing through those TTMRAs and other instruments, there is still much to do. Maybe it is at another level, but it certainly does need the political will on both sides to keep momentum and to ensure that the Australian and New Zealand presence in world best practice is evident. That is where, over the years, we have had some problems in focusing attention on CER.

Our principal concern is in the delays in completing elements of the CER. There are matters outstanding under the services protocol. They are simple matters, we believe. An instance is the customs documentation matter. We cannot understand why it is going on and on. These are all businesses facilitation matters that I refer to. Taxation reform is another issue. We believe that that debate will be with us until we have regimes that are much closer together. There are certain elements that we will come to. I do not think we could necessarily use the word 'stagnation' but there has certainly been a slowing down.

This matter that we have just been discussing about telecommunications is a good example. While it appears to be a relatively simple matter, there is obviously nobody pushing it as a priority. For the previous example of the rules of origin to become an issue, it took Australia entering into a separate free trade agreement. Previously, it had been swept under the table for years. We do not want the rest to be swept under the table.

The harmonisation element was achieved in the late 1990s, but people are beginning to talk about integration as distinct from harmonisation, and there is a specific difference in the use of the two words. Whether we ever achieve integration is a bigger question than is in the terms of reference but it certainly could be referred to under the heading 'Where is CER going?' If that is a question being posed by the minister and that has been referenced to this committee by the parliament, then it is worth putting to the fore.

I would like to invite Mrs Howard to talk about the single economic market and then Mr Walton will talk about specific taxation issues. In this context, we believe there needs to be, about now and certainly by the time that we come to the 25th anniversary of CER, a body of good serious research work commissioned by both governments that states where we are and where we think we are going.

Mrs Howard—On the single economic market, here are some facts about the degree of interwovenness of these two economies: Australia is the No. 1 investor in New Zealand; Australia is the No. 1 market for New Zealand produce; the vast majority—80 per cent plus—of major Australian companies have representation and investment in New Zealand, and therefore their success and well being are dependent upon how well that goes; and there is a very significant movement of people—more than a million a year—between the two countries as we holiday and work in each other's communities. We are incredibly interwoven and incredibly interdependent as two economies.

Obviously, we want a strong Australia, we want a strong New Zealand and we want a strong Pacific region. We talk, as we have recently, about how fantastic it is that Australia has reached $1 trillion in terms of our economic size, and yet we need to realise that that is still remarkably small by global comparison. We have less than two per cent of global capital within Australia. Therefore if you look at New Zealand's case, which is significantly smaller than 20 per cent of Australia, it is even much more difficult for them to get the scope and scale that we sometimes struggle to get. When we look at the Pacific nations, they are remarkably dependent on New Zealand particularly but also on Australia for economic skills and social stability support in the region.

The point I would like to make is that Australia and New Zealand have some fantastic differences. As Chris was just saying, there are many ways in which we are not the same people. In fact, living and working there for 3½ years, I could not quite fathom how we have gotten to be so different in just over 100 years. We are very different. They are much better at being early adopters and risk takers and innovators than we are. On the other hand, they do not have the financial scale to then commercialise some of the great creativity that they have. My argument is that there is a great opportunity for both countries to understand each other better than we sometimes do—in their minds, they are not a seventh state. We need to look at how we can take the best of both and use that to make a stronger single economic market.

Before finalising some comments on that, I have to say that all is not well in terms of New Zealand's economy. Looking at the wealth per family in New Zealand, I think I am correct in saying that it is the only OECD country in the last 12 months where the wealth per capita has gone down, not up. Approximately, it is a bit less than $70,000 per family in New Zealand, and it is around about $260,000 per family in Australia. That is a very significant difference, and it is not going in the same direction. The economic performance of New Zealand is not secured.

Our argument is that a single economic market offers an opportunity at the national level, at the corporate level, to say: 'Let's not make us all the same, but how do we take the best of both and how do we make sure that the two economies can leverage off each other and work in the most efficient manner so we are not doing things twice in, say, some of the regulatory issues we have just been discussing? How do we make sure that the skills are developed to meet the needs of both countries? They've got some strengths; we've got some strengths.' At the moment New Zealand is quite dependent on Australia for some of the very senior leadership and management skills. There is a movement of bureaucrats, as you may be aware, to head up some of the government departments in New Zealand; similarly with some of the companies. Also, New Zealand gets quite concerned about the brain drain from New Zealand to Australia. We need to address some of these issues in a holistic way.

I guess a final statement is that, given the degree of interdependence, we believe the single economic market is the way that you can take the scope and scale of these two small countries and make sure that they are truly as strong and as efficient as they can be so that we have a strong New Zealand, which is good for Australia and Australian companies and obviously good for the region, because the Pacific region is critically dependent on both our countries.

Mr Walton—I will move on to the taxation area. It is worth stating up front that taxation is a very significant cost and one of the first non-business issues that companies turn to when looking at a cross-Tasman investment. Harmonisation or even integration of the two tax systems is not advocated. That is too politically sensitive and it would be ridiculous to even suggest that, but there are certainly significant measures that can be taken to ease the cost of doing business trans-Tasman and making it more seamless. One of the main areas is franking credits or imputation credits. Three years ago both governments introduced rules relating to trans-Tasman imputations such that the imputation of franking credits could be passed out from both countries' tax systems back to shareholders in their own jurisdictions. But that was on a pro rata basis and it really has had very little impact on business. What we are advocating is that both governments move towards looking at mutual recognition of franking and imputation credits such that tax paid in one country is treated as tax paid in the other and can be distributed as franking credits to shareholders in that country. That is supported by business, the investment community and the leadership forum which was referred to in the previous session.

CHAIR—It would be interesting to find out to what extent it is supported by Treasury on both sides. We will ask them after.

Mr Walton—I know that costs, which I will come to, are obviously going to be a factor. There has been, as Mrs Howard said earlier, an increasing level of Australian corporate investment in New Zealand. Tax, as I said earlier, is a real cost not just to those businesses but to the shareholders of those businesses. There are significant efforts made to reduce the tax paid by those companies in New Zealand. So there is an enormous amount of effort that goes, legally, into that reduction in tax, but it is not that productive in the overall sense; and vice versa, in terms of the investment that comes from New Zealand into Australia—albeit on a smaller scale, it is exactly the same impact. Mutual recognition would remove that entirely; it would just be seamless investment and treated as domestic. Mutual recognition does not appear on either government's agenda or policy, as far as we are aware.

We recommend that agreement be reached by this committee to recommend that both governments look at detailed costings. No costings have been made in terms of the introduction of such a policy. We recommend a joint government report be produced to look at the pros and cons and the mechanical aspects of this and that the two governments include in that report the benefits or otherwise of entering into a cost-sharing agreement for the introduction of such a move.

I want to talk about other areas very briefly—firstly, withholding taxes. Globally there are trends for the reduction or abolition of withholding taxes on cross-border transactions, in particular interest, royalties and dividends. The recent Australia-USA and Australia-United Kingdom double tax treaties have reduced withholding taxes significantly. Yet there are still high withholding taxes on a trans-Tasman basis. While the two governments have announced a review of the double tax treaty, we recommend a strong case be put for a reduction or, at the very least, an alignment of the withholding tax with the US and the UK position.

There are also significant changes happening to cross-border legislation, particularly in this country but also in New Zealand. I think in both countries those changes are to be commended. But it would appear, certainly to an outsider, that there have been no attempts to coordinate the changes on those cross-border rules. Given the close relationships between the two countries, we recommend that a joint advisory committee be set up to specifically focus on matters of tax policy implications that have an impact on the flow of trade and people.

There are two areas in particular where this has happened recently. New Zealand at the moment is changing its taxation rules on portfolio investment, which will have a real impact on Australian funds in this country. If these proposals go ahead, New Zealand will be removing investment from New Zealand funds effectively because of an unrealised capital gains tax being introduced across the waters. There are changes for temporary residents in both countries, and they have gone in different directions. I can see situations arising where decisions by individuals to move from one country to another are going to be distorted by the tax impacts because of the differences. Again, this advisory group which we are recommending should be established should look at these areas as well as superannuation, where significant changes have recently been made in both countries. The changes in both countries have been beneficial, but they have not solved all the issues for superannuation and share incentives.

Mr Mackay—Those are all business related. We naturally have not mentioned foreign currency as an issue because it is not an issue for the business community overall. Political union, of course, is not on anybody's agenda from a business community perspective. There is a lot of talk under the CER. We have a lot of trans-Tasman movement by officials and by business people. We have tried to highlight for you some of the areas that we believe are still extant and which are just not being dealt with—and that is what we are asking for.

CHAIR—That is quite an interesting listing. Obviously we will be talking to Treasury again this afternoon to ask what their views are in terms of the cross-border issues of imputation credits and withholding taxes. Who do you see making up the joint advisory committee? Do you see it as predominantly government officials, people from the private sector or a mixture of both? How do you see it working?

Mr Walton—I think a mixture of both—certainly both governments. I would see some external input, if not directly then at least on the fringes in terms of looking at the policies.

CHAIR—Considering your financial backgrounds, gentlemen, have any costings been done of what you are proposing, particularly on imputation credits and withholding taxes?

Mr Walton—I have done my own costings. It is a big exercise. Mine was a back-of-the-envelope sort of calculation that took a couple of days to do, but it is a big exercise.

CHAIR—What did your back of the envelope show?

Mr Walton—It would have been a cost of about $1 billion to Australia, which is why we think a joint sharing agreement—

Senator FERGUSON—I presume it was a business size envelope!

CHAIR—And the cost to New Zealand?

Mr Walton—That was a net cost. But it was very much back of the envelope.

Senator FERGUSON—I would like to ask some general questions. I wonder what we are really trying to get at when we get to the end of the discussions in relation to CER. I have heard all of these things said today about trying to have a common view on so many things, such as withholding taxes, and we have heard talk of harmonisation all the way through, of common regulatory frameworks, of integration. Your view is that investment by Australian companies in New Zealand and by New Zealand companies in Australia should be regarded as domestic investment. What are we really trying to achieve? It seems as though, on the one hand, we are trying to get everything so common that we act as though we are one and yet, on the other hand, we insist on being two.

I wonder what the overall driving force is in the CER that wants us to be identical in every way and yet we insist on being two. Is some of the impediment to getting some of these things in place the fact that every time something is made more common, people on either side—and particularly on the New Zealand side because if you are the smaller country you always feel under more threat than if you are the larger and more powerful domestically and economically—are worried about losing identity because some of these things are coming into place? Someone has to make the decision about whether we want to have a common economic relationship which makes us act as one. I am surprised that you do not even talk about common currency.

I will relate a discussion I had six years ago, when I was at the UN, with a senior representative of New Zealand. After many discussions and talks he was of the view that in his lifetime he would see a common currency. I did not say in my lifetime because I think his genes are a lot better than mine. But, somewhere along the line, both countries will have to say what they want to see as an end result of the CER. I think there will always be inhibiting factors while one country wants to maintain an identity or does not want to see any of their identity being diminished. So we will go so far and then it will stop. You want harmonisation for this, common rules for that, and treating investment as domestic investment. How much more common can

you get than that and yet still want to be two countries? I would like your overall view on those sorts of issues.

Mr Mackay—That was a big bagful.

Senator FERGUSON—I am sorry, it is just that I do not know where we are going if we are going to try and have something holding us back all the time.

Mr Mackay—In New Zealand there is a small lobby that does talk about a common currency, and they talk about it having looked at it very deeply. They are much in favour of it, but they are not talking about the Australian dollar; they are talking about the US dollar as being the currency that both Australia and New Zealand should adopt. When you adopt another country's currency or a world currency then effectively you give away monetary policy, so that is an issue to some, as an instrument when it comes to controlling elements of an economy.

Senator FERGUSON—That is true.

Mr Mackay—With the other issues, we are here today, as much as you are, to try to understand what a single economic market is. The original focus of the CER was not to be a southern version of the European Union. And nobody has suggested political union as something to be striving greatly for. Over the years we have talked about harmonisation, about all of the things that make businesses efficient and about the comparative advantage that Australian and New Zealand companies would then achieve in terms of approaching third markets. There has been a sense of walking down the path together, but not becoming one nation. As we are all aware, at the time of the negotiations leading to the Australian Federation accommodation was made for New Zealand and it was only late in the proceedings when New Zealand opted not to go ahead. I forget the exact year—

Senator FERGUSON—About 1897.

Mr Mackay—It was about 1897 but I was not going to make a guess.

Senator FERGUSON—It is a pity.

Mr Mackay—They disengaged at that point. In the time that I have been involved with this council, going back to 1991, there has been a sense on the New Zealand side of being a unique and separate nation and there has been no wish to become as complicated as Australia is. It has been said to me on many occasions: 'We don't need your regulations because we are not as big as you. We don't have so many t's to cross and i's to dot.' I will not put it as crudely as saying, 'We just ring up Frank or Bob or Harriet.' But they are very proud of the fact that they are not as regulated. I think Mrs Howard referred earlier to their sense of adventure, which Australia is increasingly finding superscribed by the fact that we seem to have become more litigious in Australia when it comes to, say, a swollen ankle sustained while walking over Cradle Mountain.

There have been others who have had a view that at some time there will be a geopolitical event in this region which will force Australia and New Zealand to become one. However, nobody is advancing that argument as a matter of priority. It is just an observation more than anything else.

So, in dealing with a free trade agreement, we are saying that there is something unique about Australia and New Zealand. That seems to be the preface to almost any submission put forward by governments—they refer to the relationship as being unique. We do not refer to that same uniqueness when we talk about Australia and Singapore. We do not talk about it if we are talking about Australia-New Zealand-ASEAN. We do not refer to that sense of uniqueness in other ways. That is only a partial answer, and some views that I have. I would like to open it up for both sides to continue to address the points that you made, which I think are all very important.

Mrs Howard—I would like to add a couple of points. My punchline is: if France and Germany can cooperate in the EU, then I believe that Australia and New Zealand must be able to cooperate better as well. It is an interesting model for us that we did start off incredibly closely; it was the model free trade agreement. Indeed, it was a bit of a geopolitical event because the New Zealand economy was not well in the early 1980s, and it was really that, I think, which overcame some of those issues of sovereignty and proud independence and led to CER in the first place.

I think we need to separate the things that are emotionally and proudly different about the two countries and celebrate those differences, just as I see France and Germany celebrating their differences within the EU economy. But then we must recognise that, in fact, we are the two most interwoven economies in the world. So if we have inefficiency in our trans-Tasman business—which we do—it is going to impede the efficiency of our overall economy more than it would for any other pair of countries in the world. That is just a fact.

CHAIR—I agree. That is a very good point, Rosemary.

Senator FERGUSON—Yes, that is a good point.

CHAIR—I know Cameron Thompson had a question he wanted to ask but I did not want to stop the flow because I thought that was very useful.

Mr CAMERON THOMPSON—Mrs Howard, you mentioned that you were surprised how far apart the societies were. There was a comment about a geopolitical event forcing us to become one country. I wonder, within your observation of the relationship, whether there is the threat or the danger of a geopolitical event forcing us apart. I recently visited New Zealand and met Helen Clark. She remarked on the differences between the countries and said to our group that, in a society sense, the two societies were growing apart. That worries me a bit, given the strength of the reliance here. I wonder whether, in your view, there is a threat of our facing an event that could push us further apart and destroy some of this relationship.

Mrs Howard—The short answer is yes. I think we are doing it right now, today, by allowing the differences in the styles of our two societies to drive through into how we are economically managing ourselves. The fine line that we are trying to explain here is difficult to do but, coming back to the France-Germany thing, who I think have done it quite well, it is about recognising the differences and celebrating them. That is a strength. It is just like Western Australians being a bit different from us on the east coast: there are differences.

Mr CAMERON THOMPSON—The State of Origin!

Mrs Howard—Having differences is great as long as we say, 'Okay, those are the differences, but then there are some things that can drive economic efficiency, which is for the greater whole.' That is what the EU is about and that is what the CER should be about. There are some strikingly good examples like food and therapeutics where it is recognised that it is hopelessly inefficient to do things twice. You need to regulate once. You need to have free movement of food and therapeutics that meet certain standards across the two economies. Obviously, I believe telecommunications is another one of those.

If you are a business like Telstra and trying to service these trans-Tasman businesses, I cannot tell you how inefficient it is to do that when you are facing these different regulations and different tax regimes and using armies of accountants and lawyers to make sure that you are doing everything as a company or as an individual that you should. That is making these businesses, these economies, inefficient. It is separating that from the proud 'differentness'. We are never going to make Western Australia like the east coast. How do we proudly celebrate those differences but then make sure that economically we are supporting each other? You are right: at the moment New Zealand is not in all respects going in the right direction. And I am sure Australia will do better when New Zealand does better, and then of course there are the Pacific nations which are dependent on both of us.

Mr CAMERON THOMPSON—You talk about differences of style. Can you give us some examples of that? I can imagine what you might be talking about, but I would just like to hear it in your words.

Mrs Howard—In my words, it is being early adopters and risk-takers. You could see it, for example, with the America's Cup. What, in my eyes, was this disastrous breaking of the mast, the boom and the hull of the vessel was not the case for the gentlemen whom I spoke to who had made some of all of that. I said, 'You must have felt devastated,' and he answered, 'No, we just pushed it a little bit too far.' He was really happy that they had almost got it right; they had just pushed it a bit too far. I was devastated that the whole thing had fallen apart. It is an attitude of risk-taking and innovation, which they have, and there is a lot that Australians can learn from that. On the other hand, as I say, they do not have the financial ability to scale and scope some of that innovation. That, to me, is the single biggest difference.

Senator PAYNE—This is probably, again, a question for Mrs Howard. A lot of the council's discussion and your submission concentrate on the single economic market and, from your perspective, the priority for that. But, as I understand it in relation to the submissions that have been received for this inquiry, it has not been as enthusiastically pushed in quite the same way by other parties, other industry bodies and even individual corporations. I wonder what level of priority it is for other groups. I understand that the business council has a particular job to do, but what level of priority do you think it is for other groups—whether you spend a lot of time talking to your members and other organisations about it and whether that is attracting supporters to your passion?

Mr Mackay—There is a specific instance under banking regulation that would interest this committee. The ANZ Bank recently merged with the Bank of New Zealand. Because of the way the regulator wanted things to happen prior to the agreement signed in Melbourne in February, ANZ was going to have to spend $57 million this year and then another $136 million over a period of three years to meet New Zealand banking regulations because it was a merger and not

an acquisition. It defies the intelligence as to why the New Zealand regulators required ANZ to place a certain functioning part of their operation in a specific place in New Zealand when that function could take place within existing facilities within ANZ in Australia.

When we talk about a 'single economic market', we are not too sure what that term means. We are talking about the efficiencies of business and the costs of doing business. That is why we ask for some work to be done on what is a single economic market. Some people may not want that defined because it may lock them into something they do not want to be locked into. But we are not talking about that; we are talking about this research which would be available for discussion.

Senator FERGUSON—Didn't Mrs Howard say there was less regulation in New Zealand?

Mr Mackay—Yes, but less may still cost you if you go about it in a different way.

CHAIR—We think of the heady days of the 1980s when Thatcherism and economic rationalism was the way to go. New Zealand embraced Rogernomics, as it was called at that stage.

Senator FERGUSON—Roger Douglas.

CHAIR—Yes. They were leading the way and everyone was rushing over to look at what they were doing in New Zealand. What has gone wrong that the economy has stalled at this stage?

Mrs Howard—Perhaps because of its small size and having one house and one parliament, it does tend to go to extremes. Pre CER, New Zealand was almost broke. By the way, 75 per cent of the CER agreement was in favour of New Zealand. We were very generous at that time in reaching CER because we knew that we had to to make sure New Zealand had a strong economy. When agriculture is going well and so on New Zealand is in seventh heaven. It has a very strong economy but it is not a diverse economy. There is a lack of diversity in the economy and they do not have the resources we do—it is very much tourism and agriculture—and because of the lack of regulation it does tend to swing. It goes from very good to very bad much more than Australia, which, because it is more regulated and managed as an economy, tends to control itself through the peaks and troughs.

CHAIR—Yet they have been more successful in terms of tourism growth in percentage terms than we have, haven't they?

Mrs Howard—Yes. The world sees New Zealand as a country; it sees Australia as a country. In other people's minds they are the same size, if I can put it that way, and they like the fact that they can get around and see the whole country fairly quickly. It is a long way to come to visit either of our countries. Going back to Senator Payne's question, the reason why there is not more interest in Australia and New Zealand is that many companies think that the debate is over. Many Australian companies will talk about New Zealand as the seventh state and they are onto the big agendas of China, the USA or whatever. However, when you come to being in a company like a Telstra, an ANZ or a Westpac that is facing the actual difficulties of managing a company on a trans-Tasman basis, I can assure you that you get far more interested and involved

because you can really see (a) how it is impeding your own business and (b) how the two economies are not maximising themselves.

Mr Walton—Chair, I would like to add to the comments that have been made in answer to your question in terms of what has gone wrong in New Zealand. Rogernomics as it was referred to, and as you referred to it, during the 1980s did take New Zealand a long way forward. But then mixed member proportional representation came in in New Zealand and the government has stagnated essentially because you have to reach agreement with minorities before anything happens, and nothing has happened since. So you had this Rogernomics and then this period of 'let's just carry on doing this'. That is what has gone wrong.

Mr SNOWDON—We have a submission from Dr John Knight, who is in the marketing department of the University of Otago. His concerns are about apples—you mentioned apples earlier. Is there an issue around quarantine which is an impediment to the relationship?

Mr Mackay—Not from a point of principle. I am talking as an Australian. I am used to food bins between borders in Australia whenever I have travelled since I was a kid. The fact of having a bug in Queensland that should not be in Victoria because it cannot fly seems to be a fairly accepted principle when it comes to quarantine and quarantine issues. I do not know the detail of apples but I understand that there is an argument that says the risk is slight and that Kew gardens in Victoria is full of it anyway so what is the issue? We apparently have a similar problem with trout to New Zealand.

CHAIR—The New Zealand agriculture minister has threatened to take us to the WTO.

Mrs Howard—Yes. In fact I think they have already written to the WTO. I think there are ways of treating the apples. It is an issue that can, presumably, be worked through, although it is no simpler than trans state border movements. Then there are the people. Are you going to mention the people issue?

Mr SNOWDON—Why don't you mention it?

Mrs Howard—It is still hugely inefficient. We have been talking for ages about having some degree of lack of customs for at least people who go back and forwards terribly frequently. There is a large population that are literally weekly commuters. Despite all of that it has not been achieved. Again, if we could have some different people movement arrangements to some extent that too would also be an improvement to efficiency.

Mr SNOWDON—I would like to pursue that a little further. What are the differences between the quarantine protocol that Australia uses and the ones which New Zealand uses? How different are they from the WTO policies? Any idea?

Mr Mackay—I am unsure of the actual detail. The principle is that if it is known that there is a certain bug in another country and you do not have it in your country there are protocols so that you do not get it. The banana skipper in Papua New Guinea is a good example as to why we will not import bananas from Papua New Guinea into Australia. Don't ask me what a banana skipper is, please! It is a matter of protecting the livelihoods of farmers, largely, when it comes

to quarantine. The extent to which you argue that in world forums or against each other is a matter of detail and record.

Mrs Howard—My understanding with the apples is that we have not allowed them to come in, full stop, period, because of the threat of the moth they may bring with them. But now we are looking at the possibility of treating them before they arrive so that that scare can be removed. I think it was that black and white refusal to have them come in, period, which was the issue which New Zealand considered in breach of WTO obligations. However, as my colleagues pointed out earlier, there is a very good argument quid pro quo that the lack of the unbundling of that copper network is in breach of WTO obligations as well. So it is an interesting quid pro quo.

CHAIR—Thanks very much for coming today and for the quality of your input, which we found valuable. We also request that, if you do not mind, you monitor our progress with this report, as you are probably the group that have the most direct interest in it. You might want to come back to us and suggest things that we could look at and so on. We are also hoping to spend a couple of days in New Zealand. Our equivalent in New Zealand did this review from their side a couple of years ago. We are a little late in entering the process. We appreciate your input today. Thanks for coming.

[2.37 pm]

WALTON, Mr Tim, Representative, Australia New Zealand Business Council

BECKETT, Mr Ian, Manager, Trade Policy Unit, Foreign Investment and Trade Policy Division, Department of the Treasury

FRENCH, Mr Steve, General Manager, Competition and Consumer Policy Division, Department of the Treasury

McBRIDE, Mr Paul David, Manager, Tax Treaties Unit, Department of the Treasury

MURPHY, Mr James, Executive Director, Markets Group, Department of the Treasury

PATCH, Ms Sandra, Senior Adviser, Competition Policy Framework Unit, Competition and Consumer Policy Division, Department of the Treasury

SMITH, Ms Ruth Viner, Manager, Market Integrity Unit, Corporations and Financial Services Division, Department of the Treasury

STREET, Miss Celia, Policy Analyst, Consumer Policy Framework Unit, Competition and Consumer Policy Division, Department of the Treasury

WHITE, Mr Damien William, Manager, Prudential Policy, Banking Unit, Department of the Treasury

CHAIR—This is an impressive group of people. Thank you for coming. The committee has received your submission, which is numbered 4. As with the roundtable discussions, the committee prefers all evidence to be given in public. Should you prefer to go in camera, I am sure you will let us know. Would you like to provide us with a brief opening statement?

Mr Murphy—This representation reflects the amount of work which Treasury is putting into the relationship with New Zealand.

CHAIR—Is this the entire group or are there more?

Mr Murphy—These are the senior people.

CHAIR—How many people all together would be involved in this?

Mr Murphy—These people do not work full time on New Zealand matters. These are quite senior people within the markets or revenue group. We would say about 10 to 12 people work on New Zealand matters. That is because over the last couple of years we have accelerated the amount of work that is being done on the New Zealand relationship. That is primarily for two reasons. One is the ministerial interest in New Zealand matters on our side. I also think it is a fact that both governments feel that they can do things which will bring them closer together in

terms of ensuring that they facilitate trans-Tasman business. We see that as a fair ongoing agenda. I suppose that whether other things should be added to the agenda is a matter for the report of this committee. At the present time a fair bit of effort is being put into this trans-Tasman relationship.

Mr SNOWDON—What is the next step in terms of where you think this might all go?

Mr Murphy—From a broader policy perspective we have an agenda from the Treasury point of view set for us by the annual meeting between the Treasurer and the New Zealand finance minister. That is one agenda. At the same time we have a very good working relationship with the New Zealand Treasury and the New Zealand Ministry of Economic Development and things arise through that relationship that we both agree are worth looking at. I suppose also, in the broader policy context, this Australia-New Zealand business leaders forum is another way that issues are aired. At that forum, as well as business leaders there are some officials, and I think the idea is for officials to hear about the issues that business thinks the government should be looking at. So that is another angle or another way for things to come forward and be put on the agenda. Plus, I suppose, there is this process—parliamentary committees reviewing the CER and giving a report. Once that report is made ministers will examine it and decide what they want to implement or what they want to do or not do.

Mr SNOWDON—Within that broad framework what would you see as the most critical task or the task of highest priority for Treasury in building that relationship?

Mr Murphy—I suppose the goal would be a close working business relationship which can, I suppose, manifest itself into what we would see as a single economic market. We have done some work on how you define that, and you can have lots of definitions. In theory—and what you are aiming for—is the free flow of goods and services across borders while of course recognising that both sovereign governments will impose restrictions on that in their own best interests. There might never be any formal agreement between governments that there is a complete relaxation of borders, but at the same time you can bring improvements into the relationship which will benefit business and individuals.

Mr SNOWDON—The CER has been going now for a generation almost. How long do you think it will be before we get to the point where we will be able to say that we have achieved that single economic market?

Mr Murphy—I think that it is very hard to say. We have found that in the last couple of years things which had been talked about and then discarded have come back of the agenda and have been completed. I do not really know, but I would just say that there are so many things in common between Australia and New Zealand that it is hard to understand why you cannot do things in terms of that single economic market.

Mr SNOWDON—A bit like Victoria and New South Wales?

Mr Murphy—There are a lot of common values. There are different political systems, yes, but there is a common language, there are common values and common interests and there is goodwill towards each other.

Mr SNOWDON—Are there many senior exchanges administratively between officers of the Treasury and the New Zealand finance department?

Mr Murphy—Annually we have a secondee from the Australian Treasury working in the New Zealand Treasury. We have had New Zealanders working in Australia—we did not this year or last year. We have got an Australian person working in the New Zealand Treasury. The New Zealand Treasury and the Australian Treasury have a meeting of the senior people annually to discuss common issues and where we think both countries are going economically. So there is quite a close relationship.

Mr SNOWDON—Where do the trade policy people sit alongside you in the way Australia presents itself in the CER process? What generates the movement—your discussions with Treasury officials or a trade policy initiative from DOFA or the minister?

Mr Murphy—The stimulus could come from either party. We have a trade policy function within the Treasury, but in the Department of Foreign Affairs and Trade it is the trade minister.

CHAIR—As you rightly pointed out, you are member of the Australia-New Zealand Leadership Forum. Does that set the overall policy objectives or are you generating it internally?

Mr Murphy—It seems that the forums—there are three now—differ. Initially, the view was: 'Let's have a common currency, and if we cannot have a common currency why are we even talking about things?' I felt that people then saw that there was not an appetite within governments to do that. It has sort of swung now towards trying to work on things that are achievable. So it went that way, whereas at the forum last weekend the questions were: is this group addressing the big issues; should we return to some of these bigger challenges? It is a very fluid, very general discussion. The agenda is set by the Department of Foreign Affairs and Trade, and they will probably have a position on what they see the forum achieving.

Mr CAMERON THOMPSON—I caught a bit on the radio yesterday about the budget here and lower tax rates being introduced in Australia causing a kerfuffle in New Zealand. They are saying that, because of lower rates in Australia, it is creating a brain drain or exacerbating what brain drain there is between New Zealand and Australia. Can you quantify that brain drain for me? How many top taxpayers are leaving New Zealand and coming to Australia? Is that an increasing trend?

Mr Murphy—I do not have that information here. I do not know whether we have done that analysis. We often hear analyses from the Australian business community that there is a brain drain out of Australia to the US. We have done some analysis of that, and we do not think it is the case.

CHAIR—Nevertheless, aren't one million Australians working overseas?

Mr Murphy—Yes, but oftentimes they go over and come back.

Mr SNOWDON—The brightest ones have stayed home.

Mr Murphy—I do not know about that. A couple of expert reports have been done on those types of issues. I do not know whether they focused on New Zealand, but a couple of reports have been done in the last four or five years on the brain drain issue. It is not as bad as it is painted.

Mr CAMERON THOMPSON—To what extent does the imbalance in migration between New Zealand and Australia impact upon the economies of both those nations? We have a flow of people coming here.

Mr Murphy—That is not a bad thing. Australia and New Zealand benefit from the flow—it is both ways. We would not see that that is a problem or an economic issue.

Mr CAMERON THOMPSON—Isn't there an imbalance? Isn't it from New Zealand to Australia more than from Australia to New Zealand?

Mr Murphy—Again, we would have to give you some numbers. We could find some numbers on that. I think you have to be definite about it and clear on the actual statistics.

Mr CAMERON THOMPSON—Can I put that on notice.

Mr Murphy—Yes.

Senator FERGUSON—What are the current personal income tax rates in New Zealand—do you know?

Mr Murphy—No, I do not know.

Senator FERGUSON—Does anybody know?

Mr McBride—Not off the top of my head. I always thought they were broadly comparable and that there is not an alarming difference between the two.

Senator FERGUSON—I understood that they have dropped them. I am sure the Australia New Zealand Business Council could tell us.

CHAIR—If you do not know, perhaps it might be useful if we invite Mr Walton from the business council to the table so we can have the figure.

Senator FERGUSON—I understood they dropped significantly at the time of the introduction of the GST.

CHAIR—This is interesting, having the private sector advising Treasury!

Mr Murphy—No, we can—

Mr Walton—I'll send them a bill! The top rate of personal tax in New Zealand is 39 per cent—there is no Medicare levy—but it comes in at $60,000, so it is coming in at a very low level. I think it is 33 per cent from $38,000 up to $60,000, and then—

Senator FERGUSON—It was put up to 33, wasn't it?

Mr Walton—There are three levels—19 per cent is the first—but there is no zero bracket so it is taxed from dollar one, and there are very few allowances. So, with all the family allowances here, there is a significant difference at the lower level.

Senator FERGUSON—Didn't the government increase the level from 30 to 33 not long ago? Or was it 36 to 39?

Mr Walton—It was 33 to 39, and they left the company rate at 33. That was about six years ago, and that was because of MMP, I think—the minority.

CHAIR—Thank you, Mr Walton.

Senator PAYNE—This question may pertain to the question Mr Baird was asking as I just came back into the room then. It seems to me that the CER agreement, now decades on, was driven as a trade agreement but the work that is being done now, particularly that which is articulated in Treasury's submission, is substantially different from that. I am trying to get a real hold in my own mind on where the engine is. Is the engine now in Treasury as opposed to in Trade?

Mr Murphy—I could not comment on that really. I would just say that Treasury and the Treasurer see that there are opportunities of pursuing those matters, the regulatory side of things, down the path which we have set out, where there are common interests. Mr Beckett, do you want to comment on the trade side?

Mr Beckett—One point that can be made is that the initial focus of the CER agreement was on the trade in goods and the elimination of tariffs on goods trade between our two countries. I think it has moved on since then to look at issues like services and investment, behind the border issues. When you are looking at services and investment, you are much more concerned with domestic regulatory frameworks than with border regulation. I think, as the economies have become more closely integrated with one another, domestic regulatory issues in each area have become more important, and that is why the finance minister and the Treasurer are asking us to look at the coordination of business law, because that becomes much more important as the relationship deepens.

Senator PAYNE—That goes some way towards answering my question, but it does not really tell me who is, if you like, coordinating the process from a government perspective. I suppose I am asking whether Treasury is going to claim that coordination or whether there is a coordination driven out of PM&C or a coordination driven out of DFAT. Somebody must be coordinating it. I assume we are not all running off in our own departmental directions, doing whatever feels good to make the relationship work better.

Mr Murphy—I suppose it is coordinated. As with any other issue, if you are just looking at it from the bureaucratic point of view, various different departments will be involved in things. The prime ministers meet annually. The treasurers meet annually. The foreign ministers meet annually. So I suppose—

Senator PAYNE—The defence ministers meet annually.

Mr Murphy—Yes, they are all involved.

Senator PAYNE—There are New Zealand ministers on all our ministerial councils, I know, and that has been going on for decades.

Mr Murphy—Yes.

CHAIR—I think Senator Payne's question is a very good one—that is, who is driving the coordination and the reform program? The answer is nobody really.

Mr Murphy—I think you should ask Foreign Affairs and Trade.

Senator PAYNE—You can count on that, Mr Murphy—no problems there.

Mr Murphy—As I made the point, we are quite energetically pursuing the agenda that we think is worth while in terms of these issues.

Senator PAYNE—In some ways, what I am trying to do is to pay Treasury a compliment.

Mr Murphy—That is hard to take!

Senator PAYNE—Do not all run out of the room screaming in hysterics as a result. It seems to me that your submission is in fact quite informative, quite—

CHAIR—Comprehensive.

Senator PAYNE—Yes, and comprehensive about what you are doing. It gives me the impression, when I read it side by side with, say, DFAT's submission, that you are in fact in a key leadership role in this process. So what I was subtly trying to do—and it did not work as a plan—was to get you to take that up. But if you do not want to that is fine. We will keep pursuing it elsewhere.

Mr Murphy—All I will say is that, realistically, ministers have decided they feel that it is worth while devoting resources to this relationship. We have built a good relationship with our New Zealand colleagues. Both sides of the Tasman think it is worth while pursuing these things. It is in Australia's best interest and, happily, it is in New Zealand's best interest.

Mr SNOWDON—But there is no CER secretariat that sits somewhere and has the job of bringing people together?

Mr Murphy—I think DFAT might have that.

Senator PAYNE—You refer in your submission to some work being done through a process of cross-appointments for various committees and positions and things. How do you avoid duplication in that process, or does that avoid duplication and that is your effort to do that?

Mr Murphy—We are trying to take a small step to try to integrate our regulatory regimes. Through cross-appointments—and, again, this probably reflects the comments made by Mr Beckett—we are trying to push the integration even further. That has been quite useful. It could go further. A lot of our stuff is business regulation. Business has responded very favourably to the cross-appointments. They see it as a positive thing that the governments are talking to each other.

Senator PAYNE—Finally, there is a reference to the policy forum on international financial reporting standards, which was held towards the end of last year, I think. I know that was not simply Australia and New Zealand; I know it was more multinational than that. What is New Zealand's relationship with us in the processes for things we are doing in areas like the comprehensive anti-money-laundering approach, which we are taking as a result of the FATF recommendations and other things? Are they doing the same sorts of things? Are we working through that together?

Mr Murphy—We are working very closely with them on international accounting standards, how they operate on the ground. In terms of money-laundering, Ruth might wish to comment.

Ms Smith—It is included in the work program and the MOU. But at this stage I do not think there has been great contact or coordination.

Senator PAYNE—The last time I was on an official visit to New Zealand, which was in another committee incarnation, it was raised with us as a concern on the New Zealand side—that is, the distance we were moving, some of the decisions we were taking vis-a-vis the FATF recommendations and what was not happening. I think there is some interest in that as well.

Mr Murphy—In some of these areas where governments are still seeking to work out their own position on policy you can have discussions with, say, your trans-Tasman colleagues but it is more difficult because you are really in a position where your own government has not really decided what it wants to do. So we keep each other abreast, but we have to have a clear position for ourselves before we can conclude something with them. But that is the type of thing where you would hope that we would have pretty standard rules.

Senator PAYNE—Indeed. That would be entirely logical.

Senator EGGLESTON—I was looking at this bit you had in section 2 on foreign investment and the bilateral investment relationship. I am interested in foreign investment. You talk about an agreement to commence negotiations on an investment protocol to form part of the Australia-New Zealand CER Trade Agreement and you say you are looking at:

... improved investor protection provisions; the provision of a transparent, stable, and predictable regulatory framework; and, importantly, improved access for Australian investors through more relaxed rules on takeovers and new business investment.

Can you tell us perhaps in a little more detail the differences between the operations of the regulations in New Zealand regarding foreign investment and our own regulations in Australia—the FIRB process and so on compared to that in New Zealand—just to help us understand what you are driving at in seeking to come to an agreement?

Mr Beckett—Australia and New Zealand basically have quite similar foreign investment screening frameworks. We both screen foreign investments in significant businesses from outside and we both look at investments in land. There are some differences in the details relating to treatments and thresholds, but we both have similar frameworks. A view was taken that it was somewhat anomalous for there not to be a chapter on investment in the CER when there was a chapter on investment in our other free trade agreements. This is something that the government has asked us to do to rectify this situation.

What it would involve is an intergovernmental agreement under which both countries would agree to provide certain protections to one another's investors, such as safeguards in relation to performance requirements and safeguards from appropriation and general national treatment. Then there would possibly be some relaxing in the current screening thresholds that apply to investors from each jurisdiction. That would be where the increased flexibility would come in. We are working towards higher screening thresholds than are currently the case.

Senator EGGLESTON—Okay. You said that while the frameworks are basically the same there are differences in thresholds. Is it, for example, easier or more difficult for, say, Japanese investors to invest in Australia or New Zealand?

Mr Beckett—It is pretty similar. We have similar types of screening frameworks that take a similar amount of time to process. They have a screening framework that examines investments of $NZ100 million; we have one that does so for ones of $50 million, but we only notify up to $100 million, so the frameworks are pretty similar.

Senator EGGLESTON—What you are proposing to do is to facilitate and make easier investment between Australia and New Zealand?

Mr Beckett—Yes.

Senator EGGLESTON—What sort of thresholds, if any, might apply in that kind of situation between Australia and New Zealand?

Mr Beckett—This is something to be determined. We have not begun discussing market access issues yet. When the Treasurer announced this initiative in February, he said that Australia would like to offer New Zealand treatment as favourable as it offers the United States. That is what the Treasurer said at the time; that is what we are working towards. But it is a bilateral negotiation, so it would depend on what New Zealand is prepared to offer as part of that negotiating process.

Senator EGGLESTON—Thank you very much. That clarifies it for me.

CHAIR—Can I ask some of the questions that were raised by the Australia New Zealand Business Council? In terms of the imputation credits and withholding taxes, have you costed them out? Are your back-of-the-envelope figures in the same ballpark? Are they on the agenda from our side?

Mr McBride—The issue of the recognition of imputation credits was considered most recently in the review of international tax arrangements. We looked at Australia's position in the world and not just in terms of our relationship with New Zealand. It fundamentally set about making sure Australia places itself most competitively in the world in attracting investment. In doing that we relaxed a lot of our rules, making it easier for Australians to invest offshore and bring profits back tax-free, making Australia more attractive to offshore investment. This issue was considered in that context and not in the context of New Zealand specifically.

With the imputation system, if you pay Australian tax, you can then pass that on to shareholders, who can claim it as a credit against their own personal tax. But you have to pay Australian tax. So there is a real built-in driver for companies to pay tax in Australia if they have Australian investors. If you start recognising tax paid offshore and let that flow through to the shareholder level, then you lose that driver for companies to pay tax in Australia. Our concern was that it would be very difficult to just offer it to New Zealand. New Zealand are an important investment partner, but they are not our strongest. If we offered it to New Zealand, what would stop the US, the UK and other key investment partners asking for the same? Our colleagues sitting behind us said about $1 billion in the New Zealand context. If you start looking at our serious investment partners, then you are looking at enormous amounts of money in terms of not just the tax you give up immediately but the restructuring that would result, meaning that there would no longer be the incentive to base and pay tax in Australia. On that basis it was not given a favourable response in the review of international tax arrangements.

CHAIR—There is a nodding of heads from the table up the back.

Mr McBride—On a slightly more positive note, on the withholding tax front, what we did with the US and the UK was commented on favourably. We met with New Zealand last year. That amending protocol to our tax treaty has just been reviewed by JSCOT—favourably, I am happy to say. We advocated those lower withholding tax rates that we did with the US and the UK. New Zealand are considering it. We said that if they come back with a positive response then that will go to the top of the tree in terms of our tax treaty negotiation priorities and we would be more than happy to have a tax treaty with New Zealand comparable to those with the US and the UK and to have that quickly. The mutual recognition of tax credits would, I think, be a benefit to the businesses involved, but the case has not yet been made that it would be of net benefit to Australia.

CHAIR—Could I take the unusual step of inviting a member of the council just to briefly respond, seeing we have been in semi-roundtable mode. Would you like to join us again just briefly, Mr Walton?

Mr Walton—Thank you very much. My response in terms of comparison between the New Zealand and the US position is that New Zealand and Australia are just about the only two

countries left with imputation systems—most have removed them. Certainly the US does not have one. I do not see this as an issue for the US. They do not pass the imputation credits on. So it is a fairly unique scenario—from my perspective, anyway—between Australia and New Zealand.

CHAIR—But surely the claim about the impact in terms of tax benefits for Australian taxpayers is valid?

Mr Walton—Yes, it will have significant benefits for Australian taxpayers and shareholders et cetera. I could perhaps answer that in a different way—

CHAIR—I think Mr McBride was saying it would have the reverse, wouldn't it—a significantly negative impact?

Mr McBride—If we did it then it would have favourable benefits for Australian shareholders, but it would come at a significant cost to Australian revenue. If you have to build a tax base, you have to get it from somewhere. If you lose it from somewhere, you have to get it from somewhere else. While the US does not have an imputation system, it will not affect them, but us allowing credits for tax paid in New Zealand against our revenue will come at a significant cost to us.

Mr Walton—There could be a quid pro quo here in that New Zealand would be a net loser with the withholding tax position—that is, if there is a reduction in the withholding taxes through renegotiation of the treaty. I think the generally held view is that New Zealand would lose out on that, so there would be some alignment of costs through the two measures coming together.

CHAIR—It would be interesting to see reform. Is there anything further?

Mr McBride—I think New Zealand are looking at the withholding tax issue in isolation, and with good reason, because it will be the basis for their treaty policy with the world and not just Australia. They have to make sure that it is of net benefit to New Zealand on that basis. That is probably the right approach.

CHAIR—So obviously it is an issue that should be kept on the agenda—

Mr McBride—I expect so.

CHAIR—and from the private sector and shareholders on both sides there would be interest in doing it. In terms of the question of Treasury's view, we have heard the New Zealand council's view on why they see the economy is stalling. Do you have a view in terms of the Australian Treasury on the reason why we have seen a slowing of the New Zealand economy?

Mr Murphy—It is hard to comment on that. The New Zealand government is pretty transparent about their views on the economy so I would not purport to comment on that.

CHAIR—Finally, on the competition policy area, we have talked about having a competitive environment and in the world scheme we have got two relatively small economies side by side,

one much bigger than the other. Has competition policy been taken too far, do you think, when you look at the recent decision in relation to Qantas and Air New Zealand in following the trend that has occurred around the world for greater coordination?

Mr French—In that case there were processes on both sides of the Tasman which ultimately came to different conclusions. What is being looked at at present is whether there cannot be some greater cooperation between the ACCC and the New Zealand Commerce Commission. The matter was looked at initially in the Productivity Commission research study on integrating the regimes more effectively and they were throwing up suggestions of much more integrated assessments of merger processes. I think that is a fairly difficult thing to do particularly at present when Australia itself is looking to change its merger arrangements and having some difficulty having that passed through the parliament.

CHAIR—Through our parliament?

Mr French—Yes, in terms of the Dawson review—

Mr Murphy—Senator Joyce's views—

CHAIR—Now we are specific, yes, I am with you.

Mr French—It is very difficult for us to pass the proposed merger changes that have resulted from the Dawson review let alone considering other legislative proposals for change.

CHAIR—It seems a little curious when you can have the merger of the ANZ and the Bank of New Zealand, which are very large organisations in both places. They were seen as restricting competition, and you have got Emirates that fly over there and Thai Airways and Virgin and so on. We will undoubtedly speak to the ACCC at some stage on it, but I think that it is interesting in terms of the competition policy.

Mr French—In terms of commenting on particular cases, that really is a matter for the ACCC. That is the responsibility of the regulator to enforce the law. I was trying to point out that the ACCC and the NZCC are looking at ways in which they can bring their processes together more than they are at present.

CHAIR—Thanks very much for your presentation and for being with us today.

[3.18 pm]

HOOTON, Mr Peter, Assistant Secretary, Pacific Regional and New Zealand Branch, Department of Foreign Affairs and trade

SAXINGER, Mr Hans, Director, New Zealand Section, Department of Foreign Affairs and Trade

WEINBERG, Ms Sonja, Executive Officer, New Zealand Section, Department of Foreign Affairs and Trade

CHAIR—Welcome. The committee has received your submission, which we have numbered 7. As you know, the committee prefers all evidence to be given in public but, should you wish, you can ask to go in camera. Thank you for your attendance today. I invite you to make a brief opening statement—longer, if you wish—and then we will proceed to questions.

Mr Hooton—I will take advantage of the opportunity to make a short opening statement. Australia's relationship with New Zealand is our closest and most comprehensive with any country. It is exemplified by a range of regular ministerial-level bilateral exchanges: the prime ministers, treasurers and defence and trade ministers meet annually and the foreign ministers meet twice a year.

New Zealand participates in some 25 Australian ministerial council meetings. We share a common heritage, based on the rule of law, democracy and the Westminster parliamentary system. People-to-people links are very strong, with more than a million New Zealand visitors to Australia annually. Both governments are strongly committed to closer economic integration, including the close alignment of our respective legal and regulatory regimes.

The Australia New Zealand Closer Economic Relations Trade Agreement, or CER, is the cornerstone of the bilateral economic relationship. It is among the earliest and most comprehensive of trade agreements, signed in 1983, and has been acknowledged by the WTO as a model of its kind. CER covers a wide range of trade issues—substantially all the trans-Tasman trade in goods, including agricultural products and services. The trade in services protocol, signed in 1988, brought services into CER from January 1989.

CER is not a static agreement. It continues to evolve, as evidenced by recent agreement to change the rules of origin provisions, involving the adoption of a change of tariff classification approach, and the decision to begin work on an investment protocol. There is no recent government study on the economic benefits of CER, but the trade figures themselves tell a good story. Since 1983, two-way trade with New Zealand has expanded fivefold, at an annual average growth rate of around nine per cent. Two-way trade in goods and services totalled some $19.2 billion in 2004-05. New Zealand is Australia's fifth largest market, taking around five per cent of our exports, and it is our largest market for elaborately transformed manufactures. Australia is New Zealand's No. 1 export market, taking about 20 per cent of New Zealand's exports, up from 13 per cent in 1983. In 2004, two-way investment between Australia and New Zealand stood at $61.8 billion. New Zealand is in fact the third largest market for Australian investment abroad,

with Australia the largest investor in New Zealand. New Zealand, for its part, is the sixth largest investor in Australia.

There is a high level of trans-Tasman economic integration. CER is in fact supported by a quite remarkable web of bilateral arrangements. More than 80 government-to-government bilateral treaties, protocols and other arrangements of less than treaty status underpin the trans-Tasman relationship, covering trade, the movement of people, aviation, business law coordination, mutual recognition, taxation, health care, social security and government procurement, among other things. With most of the trade goals met, the CER work program now focuses on third generation trade facilitation aimed at fostering closer economic integration through regulatory harmonisation and the creation of a generally more favourable climate for trans-Tasman business.

Significant initiatives in the early phases of integration include the establishment in July 1996 of a system for the development of joint food standards; the Trans-Tasman Mutual Recognition Arrangement, which came into effect in May 1998 and which creates a single market for the sale of goods and recognition of professional qualifications; the signing of a treaty in December 2003 to establish a trans-Tasman therapeutics agency; and an absence of antidumping or safeguards measures, with both countries relying on their domestic competition policy regulations to address unfair trade practices affecting trans-Tasman trade.

In 2004, the Australian Treasurer and the New Zealand Minister of Finance launched the single economic market initiative, affirming a commitment to enhance trans-Tasman business integration and reduce transaction costs for business by harmonising regulatory frameworks. There has been good progress on a range of behind-the-border initiatives to this end, with the establishment of the joint Trans-Tasman Council on Banking Supervision; the decision to begin work on an investment protocol; the conclusion of a treaty establishing a regime for the mutual recognition of securities offerings; agreement to amend domestic legislation to require APRA and RBNZ to assist each other in banking and prudential matters; the establishment of the Trans-Tasman Accounting Standards Advisory Group to look at ways of aligning Australian and New Zealand financial reporting standards; and the establishment of a working group to consider means of streamlining court proceedings and regulatory enforcement trans-Tasman. I might also mention that an Australia New Zealand Leadership Forum was established in 2004 and now meets annually. This business-led second-track mechanism provides a platform for creative and constructive examination of the bilateral relationship.

I might just make a couple of broad observations in conclusion. The first is that CER long ceased to be just a trade agreement. It signifies a steadily expanding economic relationship which includes a range of component parts of varying age and stages of growth. The single economic market initiative is to be seen in this light, too. It has not replaced CER but is rather a natural outgrowth of it. The second observation I would make is that commentators on both sides of the Tasman are regularly heard to say things like: 'The relationship has stalled,' or 'CER has run out of steam.' This is just not the case. As I think this afternoon's proceedings will have demonstrated, there is a lot going on. While much of this activity is, frankly, not very exciting—rules of origin, mutual recognition, harmonisation of business law and accounting standards, and joint regulation—it is good for business and it is contributing to an ongoing process of trans-Tasman economic integration.

Senator FERGUSON—Mr Hooton, you have read out a long litany of successes and initiatives that have happened in the past. I am actually more interested in what we hope to achieve in the future. I do not think you were here earlier when I was talking to the Australia New Zealand Business Council, but where do we hope to be? Do we want to reach a situation where we have identical taxation laws, harmonisation in every respect, integration in every respect and two countries operating under exactly the same conditions but wanting to stay two countries? The question that I asked them was: 'Do you think that some of the slowing down or some of the reasons for not wanting to agree to some of the proposals in the future are that, on either side—but particularly on the other side—of the Tasman, people are afraid of losing their national identity by being consumed in a relationship which is identical in every way?' The business council is even talking about treating investment as domestic arrangements. So I wonder what your view is on where we really want to be with the CER 10 years in the future.

Mr Hooton—First, I would say that what I have read out this afternoon is, in many if not most cases, an ongoing thing. Very little of this can be said to have been done and dusted, effectively, and just about everything that is going on under the SEM initiative at the moment is a work in progress.

Senator FERGUSON—What is the SEM initiative?

Mr Hooton—I am sorry: it is the single economic market initiative.

Senator PAYNE—Can I just clarify something. Mr Hooton, when you talk about the SEM initiative—and it is dotted throughout other submissions as well—is SEM regarded as fitting under the CER rubric or is it regarded as something operating in parallel and separately?

Mr Hooton—No, as I think I said in my opening statement, we see it really as a natural outgrowth of CER. CER is no longer a trade agreement; it is a relationship, and SEM is basically an outcome or a function of that relationship. So we see it as a seamless process, in fact. Does that not help?

Senator PAYNE—Well, it is 'an outgrowth' and it is 'seamless'. We still talk about CER obviously—that is what we are doing here—so that is still an extant, overarching cover.

Mr Hooton—I think CER could be seen as the framework within which everything else happens. It is the closer economic relationship.

Senator PAYNE—All right. That is what I wanted to understand. Thank you.

Mr Saxinger—If I could just add: perhaps an easy way to understand it is that the ANZCERTA is about barriers at the border—that is, tariffs, movement of people and services and so on—whereas we have now moved beyond that and we are now looking at behind-the-border type activities, more government regulation and those sorts of activities. That is where the single economic market initiative and others come into play.

Senator EGGLESTON—So we are talking about something like the EU.

Mr Hooton—I realise I have not answered Senator Ferguson's question yet, so I should probably come back to that. As to where we might want or expect to be in 10 years, that is a difficult question to answer definitively. You raise the issue of sovereignty concerns, which I think are felt on both sides of the Tasman. We see that coming into the conversation sometimes in relation to things like common currency, or some of the unease that we find in the New Zealand media about banking regulation and so forth. So these are definitely concerns, reservations, that have to be taken fully into account and managed. There is no point in trying to rush the two countries in a direction they are simply not ready to go. We have a great deal of relatively unglamorous activity going on at the moment. The objective of all that activity is to make it easier and cheaper to do business across the Tasman. We think we are making pretty good progress in that direction.

Senator FERGUSON—We talk about harmonisation and integration. Do we retain the differing income tax rates, differing business taxation, differing treatment of shares, all of which affect business investment? There is a whole range of things. If the aim is harmonisation and we do not tackle all those things, could it not increase the tensions? If it is more attractive to come to Australia from New Zealand to live and earn and work because the taxation arrangements are better, that puts a strain on the relationship. The same thing would apply if taxation arrangements were much lighter in New Zealand—there might be a tendency for Australians to want to go there. We are almost identical in cultural background. Unless there is harmonisation in all those areas, I cannot see how there is not going to be tension on a national level.

Mr Hooton—We are a long way from a single tax regime. It is not an area in which I feel I have any competence to speak. It is for our Tax and Treasury colleagues.

Senator FERGUSON—Even in 10 years time?

Mr Hooton—I won't shut the door on it in 10 years time, but it is not something that it is easy to foresee at this stage.

Senator FERGUSON—Common currency the same, I presume?

Mr Hooton—A common currency is not on the agenda, and I do not think it is particularly attractive to the New Zealanders. Their sense of it is that having some sort of a common currency would mean adopting the Australian dollar and our monetary policy. That does not appeal to them.

Senator FERGUSON—When it was down to about $1.06 it was getting closer, but it is $1.23 today and it might not be quite so close.

Senator PAYNE—One of the issues we were discussing with Treasury earlier was the level of activity in which they are engaged under the SEM and what I guess we now have decided is a CER framework, even though according to Mr Saxinger we are going behind that, which I think is directionally challenging. You said, Mr Hooton, that there is 'a lot going on', which I assume includes all of that Treasury activity and the other things you have mentioned. So who is in charge?

Mr Hooton—We try these days to work more effectively than we have perhaps done in the past on a whole-of-government basis across a whole range of issues. The relationship with New Zealand is an example of that. The government drives the agenda. The public servants implement it. But we work very closely with our counterparts in a number of agencies, not just Treasury but with others such as Health and Family Services. This is a very big relationship. It involves in one way or another most of the departments of state. It is our responsibility, and particularly the responsibility of my branch, to try to stay across that range of activity without necessarily getting in the way of it.

Senator PAYNE—I am not sure that that provides me with a significant amount of reassurance, to be honest. We began this afternoon with a roundtable comprising three parties: the Australia New Zealand Business Council, the Department of the Treasury and Telstra. Unsurprisingly, the issues for discussion were matters of telecommunications: regulation, cooperation, interaction—and that there was lot more of that than Telstra would like. I think it is fair to say that the Department of the Treasury's response at that discussion—in summary, and without wishing to verbal them—was effectively a nonverbal response of shrugging their shoulders and saying: 'It's not our gig. That is for DCITA to take up. If you want telecommunications inserted in the CER review and discussions then that is a matter for DCITA.' It seems to me that it is a big gap. It is 2006; it is not 23 years ago. Telecommunications is a massive issue. I think Mrs Howard described it as having an unprecedented level of criticality in terms of modern society. So when someone says, 'That is another department's responsibility,' I still want to know who is in charge. Who then says that telecommunications should be on the agenda? This committee can do that, if it is so minded. Who then implements that if the government is so minded?

Mr Hooton—I am not sure that I can give you a satisfactory answer to that. If you are looking for a single agent to assume responsibility for the full range of trans-Tasman activity, I think as a relationship it has long outgrown the capacity of any one department or agency to manage it on their own. Relationships between the different agencies on both sides of the Tasman are so good and so direct that it is simply not possible to monitor everything that goes on. In the case of my own department and of the High Commission in Wellington and, I would imagine, in the case of my colleagues from the New Zealand High Commission here in Canberra, we sometimes lament the fact that we do find it difficult to stay across the full range of exchanges and activities that are going on. But we tend to find out when something is not going particularly well. I think it is a particular role of my department to become involved when there are problems to be sorted out. When there are not problems then there really is no need to become involved, but when there are we certainly step in and do our best to resolve them. So in terms of identifying some sort of a point of coordination I think you could probably point the finger at Foreign Affairs and Trade.

Senator PAYNE—There you are, Chair: I have an answer. I am so relieved. Thank you very much, Mr Hooton.

Mr Hooton—My pleasure.

Mr CAMERON THOMPSON—We have the big list of things that are going more and more towards integration, but I remember a little while back we changed all the passport and other arrangements between Australia and New Zealand to strengthen them up, to make them more stringent; to make it more difficult, I suppose. I know that was in the context of improved border

protection and all those sorts of things, but I wonder if you could comment on the impact of that and whether that is something that should be reviewed?

Mr Saxinger—I will have a go at answering that, but it is probably best to talk to DIMA on it. It is certainly my understanding that we are moving closer to New Zealand, to make travel across the Tasman easier. You probably know that Australians travelling to New Zealand do not require visas; they only require a passport. New Zealanders coming to Australia do require a visa but that is granted on entry, subject to some good character issues. We recently, in November last year, introduced in Australia joint Australia-New Zealand immigration queues in Sydney, Melbourne and Brisbane to facilitate travel from New Zealand to Australia. New Zealand had done that some time before: when you go and visit New Zealand you will see Australia-New Zealand lanes at Wellington and Auckland. More generally, I think the move is, notwithstanding the security implications, to work very closely with New Zealand and share a lot of information on passport and travel et cetera so that we can manage the people travelling across the Tasman. You were saying that it has been toughened up. At one level it possibly has, in terms of information. But in terms of flow of people, I think it has perhaps been made easier to get across the Tasman in recent years for Australians and New Zealanders.

Mr CAMERON THOMPSON—My query was to do with what struck me in New Zealand as rather porous borders between New Zealand and the Pacific islands. Is there any concern that people can find their way from anywhere in the Pacific islands to Australia through New Zealand? Is that an issue?

Mr Saxinger—Again, it would be better to give that question to DIMA, but I understand that there is some concern and, as a result of that, our immigration authorities are working very closely with the New Zealanders on the sharing of information and on procedures to tighten up those areas.

Mr CAMERON THOMPSON—Given that we still have the desire to try to make it easier to travel between Australia and New Zealand, is there some pressure being put on New Zealand to make the borders with the Pacific stronger? Obviously, if people can find their way into the Pacific from other parts of the world, it is a worry. Is some pressure being put on New Zealand or some focus being given to making the border less porous?

Mr Hooton—There are two different things here, in the sense that it is extremely easy for New Zealanders and Australians to cross the Tasman, but anyone who enters New Zealand from other parts of the world still requires a visa for Australia, so there is sill that check at the border before they get on any aircraft to come to this country.

Senator FERGUSON—Is that why we do not have Australian and New Zealand customs lines in Australia?

Mr Hooton—We do now, as of some months ago.

Senator FERGUSON—How long have they had them in New Zealand?

Mr Saxinger—We have had ours since November last year and I think they have been in New Zealand for at least a year—

Senator FERGUSON—I see.

Mr Saxinger—But only for passport holders, not for residents. They must be passport holders.

Senator FERGUSON—Perhaps I have not been through since November.

Mr CAMERON THOMPSON—The sort of context I was looking at there was that I understand that Cook Islanders get New Zealand citizenship or something. I think that also applies to other places, whereby they get an easy accommodation with New Zealand citizenship there. Are there any concerns about that? Is there any pressure to change those arrangements as they apply in New Zealand?

Mr Hooton—No, there is no pressure from us on New Zealand to change those arrangements.

Mr CAMERON THOMPSON—To whatever extent we have toughened up those passport arrangements or the arrangements to travel, whatever they may be between Australia and New Zealand, is it possible that we may be able to open them up in line with these joint Australian-New Zealand queues? Are we looking to reduce them again? That is what I am driving at.

Mr Saxinger—I cannot really answer that in detail, but if they are New Zealand passport holders and Australian passport holders then they are entitled to access. If they have a background from somewhere else, once they are entitled to a passport and citizenship then they become New Zealanders and Australians.

Mr CAMERON THOMPSON—So then they are able to cross without any problems?

Mr Saxinger—Yes, subject, as I say, to people coming from New Zealand being able to demonstrate good character, and clearly there are record exchanges on information in that area.

Mr CAMERON THOMPSON—Is there much of a flow of people from New Zealand coming to Australia who have an initial starting point of somewhere else in the Pacific?

Mr Saxinger—I do not have the answer to that, unfortunately.

Mr Hooton—I do not think we really know the answer to that question. To be honest, the only people in the Pacific who are entitled to New Zealand citizenship, as I understand it, are people from the Cook Islands and Niue, and possibly from Tokelau. Those numbers are extremely small.

CHAIR—In terms of the relationship between Australia and New Zealand, some people have suggested that the perception is that the relationship is not as strong as it has been in the past or that there is a widening of the relationship. To what extent does the fact of having a centre-right government relating to a government which is made up of a group of Greens, New Zealand First and a left-wing indigenous group make the relationship more challenging?

Mr Hooton—The relationship at the moment is perhaps as strong as it has ever been. It does very much depend on personalities, as we have found in the past. The prime ministers have an

extremely good personal relationship. The foreign ministers meet twice a year. Mr Costello and Dr Cullen get on extremely well personally, irrespective of any political differences they might have. We probably have more challenges in the bilateral relationship when the governments are of the same colour in Wellington and Canberra than we do when they are different.

CHAIR—What would you see as the greatest challenges that you face in terms of a relationship with New Zealand?

Mr Hooton—I hesitate because I have not really thought of the relationship in that way. There is, I think, a need to sustain momentum on both sides of the Tasman. There is a need also, I think, to convince observers and commentators that the level of activity really is proportionate to the relationship and that we are getting the returns that we claim to be getting. I think we have some very convincing evidence of that, but sometimes getting the message out is a bit of a challenge. But the relationship itself is in remarkably good shape, I think. It has some irritants particularly in relation to quarantine issues that have a bit of a life of their own but they are not of themselves huge obstacles—

CHAIR—Symbolically, I think. I notice that one of the quotes here is that the WTO has described CER as the 'world's most comprehensive, effective and mutually compatible free trade agreement', and yet the New Zealand Minister for Biosecurity wants to take us to the WTO for dispute settlement, so it is somewhat ironic from that point of view. So it is more symbolic, I suppose.

Mr Hooton—More symbolic. We would still hope that it is not likely to happen. That particular apples issue we still hope to resolve bilaterally.

Mr SNOWDON—What about possums?

Mr Hooton—That is a difficult issue.

Mr SNOWDON—Within the broad framework, how do you prioritise which issues are the most important in the context of furthering the relationship? What do you see as the most important issues at the moment to be worked through in terms of that ongoing relationship? We have heard from Telstra and we know what they think.

Mr Hooton—Our view will always be a little different, I suppose, from those who have specific interests to pursue. We do find the single economic market agenda at the moment, which is largely driven by Treasury, to be perhaps the most stimulating area of new activity and we do have a very close and comfortable working relationship with Treasury on all of that. The decision to look at introducing an investment protocol as an addition to the CER is another area of work in which we are closely involved and which we see currently as one of the big ticket items. The establishment of a joint therapeutic products agency as a first example of genuine trans-Tasman regulation is, again, something that is not necessarily driven by the Department of Foreign Affairs and Trade but certainly an exercise in which we are very closely involved with other departments, including Health, Finance and so forth. Those are three areas of work that come immediately to mind. Do you have others in the CER context, Hans or Sonja?

Mr Saxinger—I think that covers it pretty well. Clearly, the SEM agenda is a high priority. I think our Treasury colleagues mentioned the meeting last week of the Australia New Zealand Leadership Forum, which is a very high-level group of 60 or so senior chairmen of the board type individuals. Clearly, they were focused on the SEM agenda and what we go to there as well.

Mr SNOWDON—It appears that DFAT is able to walk and chew gum because, while you are juggling these other free trade agreements and negotiations, the intensity of the CER relationship is maintained. Is that a fair assessment?

Mr Hooton—That raises a good point. We would like to see the judgment that the WTO made of this agreement some years ago sustained, and it will not necessarily always be the case unless we continue to work to keep CER at the forefront of FTAs. That definitely will require ongoing work, and it is receiving attention, but we cannot automatically assume that the CER will always be the frontrunner. In fact, one of the reasons for recently looking at a change to the rules of origin is partly a consequence of the concern that the rules of origin that were in the original agreement are now outdated and are no longer appropriate to the needs of industries or to current modes of production. So the new rules concerning the change to tariff classification are in the process of being introduced. In fact, they are following on and are consistent with rules that we have in place in the US FTA and the Thai FTA.

Mr SNOWDON—Is there an ongoing review mechanism which might be stimulated by activity which may have happened elsewhere?

Mr Hooton—Officials continue to keep an eye on the situation, but ministers also review CER annually or semi-annually when trade ministers get together. We try to get them together on an annual basis.

Senator PAYNE—May the committee have a copy of the list of members of the leadership forum?

Mr Saxinger—Yes, we can provide that. That is not a fixed group of members. They change over time—

Senator PAYNE—From the last forum?

Mr Saxinger—but we can send you the list of the ones from last week.

Senator PAYNE—Thank you very much.

Senator EGGLESTON—You were talking about broad, general issues. I want to come back to something perhaps more pragmatic or practical—that is, professional qualification mutual recognition. You mentioned that it is a feature of this CER. What professional qualifications are mutually recognised? I know that medical and legal qualifications are. Do we include engineering, architecture, physio and so on? You probably will not be able to provide this information to us now, but can it be provided on notice in the form of a document for the committee so that we know what professional qualification mutual recognition applies to?

Mr Saxinger—Yes, we can certainly provide you with a list. Essentially, it comes under the Trans-Tasman Mutual Recognition Agreement or TTMRA, which falls under the purview of PM&C. It says that all professions that can be recognised in New Zealand and in Australia will be recognised by each other—that is, those that are controlled by government decision making. The medical profession is excluded from that, but there is a separate agreement that says that people who are registered as medical practitioners in Australia and New Zealand can practise in each other's countries. We can give you the list of those areas.

Senator EGGLESTON—I would be interested in that. Among the issues that have been bubbling along are: what is the purpose of the CER? What is its objective? How is it supervised? I think they are reasonable questions to ask, yet there does not seem to be any sort of working group in any department which overviews the progress of the relationship between Australia and New Zealand through the CER in a broad way. I wonder whether any consideration has been given to setting up some broad overview body. We have discussed the question of preserving national identities and sovereignties. Is the objective something akin to an EU status where you have, in this case, two countries that recognise qualifications, have similar lots of agreements but nevertheless operate as separate identities? Is that a fair statement of perhaps an unstated objective?

Mr Hooton—On the first question, relating to oversight and the establishment of a working group, that is certainly something we could give some thought to. We see that process, though, as effectively covered by the annual meetings of what we call CER ministers. They used to be the two trade ministers; in recent years, though, we have broadened that group to include ministers for industry and agriculture and their approximate equivalents in New Zealand. That meeting is preceded by a gathering of senior officials from both sides of the Tasman, bringing in a number of departments. The specific purpose of that gathering is, in fact, to review the closer economic relationship and everything that comes under it. So, in a sense, that process is already available to us, and we think it works pretty well.

As to how we might look a few years down the track and whether Australia and New Zealand might develop some sort of an EU look, the answer to that is a fairly clumsy one, but I suspect there will be similarities and differences. We are never going to need that bureaucracy. The fact is that we are just two countries and we should really be able to work things out in ways that are relatively straightforward and kept as simple as possible. In fact, most of our efforts are directed to simplifying business across the Tasman and basically making the relationship a lot more fluid and a lot less demanding and costly to manage. I think that will continue to differentiate us from the EU quite definitely.

CHAIR—We thank you for attending today's hearing. Congratulations on your new role, Mr Hooton.

Mr Hooton—Thank you.

CHAIR—We might be seeing you in the future as we proceed with this inquiry.

Resolved (on motion by **Mr Snowdon**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 3.57 pm