



Submission No 21

Australia's trade and investment relations under the Australia-New Zealand Closer Economic Relations Trade Agreement

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Australian Government

The Treasury

22 June, 2006

Dr John Carter
Secretary, Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Carter

AUSTRALIA-NEW ZEALAND CLOSER ECONOMIC RELATIONS TRADE AGREEMENT

Thank you for your letter of 17 May 2006 concerning the review of the Australia-New Zealand Closer Economic Relations (CER) Trade Agreement that is currently being undertaken by the Joint Standing Committee on Foreign Affairs, Defence and Trade.

Your letter asked me to provide the Committee with a statement summarising the Australian perspective on the Single Economic Market (SEM) initiative.

A description of the main features of the SEM and its relationship to the broader CER process is attached to this letter.

During the Committee hearings, Mr Cameron Thompson MP sought information on the flow of migration between Australia and New Zealand. I agreed to take the question on notice to obtain actual statistics. Based on official ABS statistics:

- In 2003-04:
 - 13,685 Australian permanent residents departed Australia for New Zealand with the intention of residing there;
 - 14,420 people came to Australia from New Zealand with the intention of residing here;
 - thus there appears to have been a net flow of 735 permanent residents to Australia from New Zealand in 2003-04.
- In 2004-05:
 - 13,775 Australian permanent residents departed Australia for New Zealand with the intention of residing there;
 - 17,350 people came to Australia from New Zealand with the intention of residing here;
 - thus there appears to have been a net flow of 3,575 permanent residents to Australia from New Zealand in 2004-05.

Caution needs to be exercised when interpreting the figures as they will not include migrants who failed to take out permanent residency and returned to their country of origin after several years. Furthermore, there is no evidence to suggest that the sharp increase in the net flow to Australia in 2004-05 will continue in the future.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Murphy', written in a cursive style.

Jim Murphy
Executive Director
Markets Group

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THE SINGLE ECONOMIC MARKET (SEM) INITIATIVE BETWEEN AUSTRALIA AND NEW ZEALAND

The Single Economic Market (SEM) initiative emerged from a meeting in January 2004 between Australia's Treasurer and New Zealand's Finance Minister. It was subsequently endorsed by the Prime Ministers of both countries. SEM encompasses a range of areas that are intended to reduce regulatory compliance costs and inefficiencies incurred by Australian and New Zealand businesses that have a commercial presence on both sides of the Tasman. Its aim is to move towards the creation of a seamless regulatory environment for businesses that have a commercial presence on both sides of the Tasman. This should have flow-on benefits for investors and consumers.

The SEM initiative is being pursued under the broader umbrella of Closer Economic Relations (CER) between Australia and New Zealand. CER is a series of agreements and arrangements that began in 1983 with the signing of the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). The initial focus under ANZCERTA was on removing barriers to cross-border trade in goods. This has been achieved through the elimination of tariffs and other quantitative restrictions, mutual recognition of product standards and other trade facilitation measures such as customs and quarantine cooperation (although both countries maintain their own quarantine procedures in accordance with their rights and obligations under World Trade Organization (WTO) rules (particularly the WTO Agreement on Sanitary and Phytosanitary (SPS) Measures). A Trade in Services Protocol was added to ANZCERTA in 1989 which has removed barriers to almost all trans-Tasman trade in services. Negotiations are currently underway with New Zealand on adding an investment protocol to ANZCERTA which is aimed at encouraging and further liberalising investment between the two countries.

Over time, the focus of the broad CER agenda has evolved from goods to services, investment and the movement of natural persons. With most of the trade goals met, the CER work program is now addressing "third generation" trade facilitation issues which can foster closer economic integration through regulatory harmonisation, thereby creating a more favourable climate for trans-Tasman business collaboration. The focus has shifted from restrictions at the border (e.g. goods tariffs) to the impact of measures contained in each country's domestic regulatory framework (e.g. capital market regulations). This will reduce regulatory compliance costs for businesses that have a commercial presence in both Australia and New Zealand. This also involves a much deeper level of integration than is likely to be achieved in Australia's other bilateral trading relationships. CER is, therefore, more than a free trade agreement, covering almost all aspects of the Australia-New Zealand trade and economic relationship.

In 2003, Prime Ministers Howard and Clark expressed support for stepping-up the CER agenda and deepening Australia-New Zealand economic relations by harmonising regulations in each country to ease the regulatory burden on companies operating in both countries. The SEM initiative is a response to the growing range of trans-Tasman businesses that have substantial operations in both Australia and New Zealand and are, therefore, potentially subject to two regulatory frameworks governing different aspects of their business operations. The initiative recognises that the most significant barriers to cross-border activities are no longer border restrictions such as tariffs, but so called behind-the-border measures that impact differently on Australian and New Zealand companies in each jurisdiction. The need to comply with two regulatory frameworks can impose significant additional compliance costs on Australian businesses operating in New Zealand and New Zealand businesses operating in Australia.

It has been possible to address some behind-the-border measures by establishing a joint standards-setting framework covering both Australia and New Zealand. This has been done in relation to food standards. Work is now underway on a single regulatory framework governing therapeutic

products in Australia and New Zealand. In other cases, the Australian and New Zealand governments have agreed to harmonise their laws, or at least to make them substantially the same. This has sometimes occurred as a result of international regulatory developments, such as our adoption of International Financial Reporting Standards. Another example is New Zealand's adoption of a similar regulatory framework governing takeovers in that jurisdiction.

There is likely to be greater scope for coordination and harmonisation in the future, however, Australia and New Zealand are likely to retain different regulatory frameworks in many areas. In these cases, SEM can involve mutual recognition initiatives. Under these initiatives, the two countries agree to recognise the functional equivalence of one another's regulatory regimes. An existing example of this is the Trans-Tasman Mutual Recognition Arrangement (TTMRA), which involves mutual recognition of product standards and professional qualifications that apply in one country to apply in the other. A more recent initiative is the mutual recognition arrangement governing offers of securities in each country.

Other current initiatives for better coordination include:

- the Trans-Tasman Council on Banking Supervision;
- the Trans-Tasman Accounting Standards Advisory Group, which regularly considers issues relating to financial reporting by companies operating in both jurisdictions; and
- work being undertaken on reducing the number of documents that need to be lodged in Australia by New Zealand companies registering as foreign companies in Australia.

There is also substantial scope for cooperation between business law regulators in Australia and New Zealand. This helps to ensure that different national regulatory frameworks are administered in ways that recognise the level of commercial integration in the trans-Tasman market. Examples include:

- the recent agreement to enhance cooperation in banking supervision between prudential regulators in Australia and New Zealand;
- the Memorandum of Understanding on Business Law which provides the framework for coordination of business law between Australia and New Zealand, and proposes an extensive work programme to increase trans-Tasman coordination in business regulation; and
- the Australian Competition and Consumer Commission and the New Zealand Competition Commission have agreed to develop a protocol to enhance their cooperation in respect of dealing with applications for approval of trans-Tasman corporate mergers.

The Australia New Zealand Leadership Forum which meets annually and involves senior business leaders, Ministers, academics and other community leaders from both countries strongly supports the SEM initiative.

The SEM agenda covers complex and diverse issues of business regulation from banking to consumer law, from securities offerings to accounting standards. The ultimate objective of SEM is to achieve a trans-Tasman regulatory environment in which businesses can, if they choose, operate in Australia and New Zealand with only minimal additional regulatory and compliance costs.

This statement has been prepared by Treasury in consultation with the Department of Foreign Affairs and Trade.