

## *Strengthening economic relations between Australia and New Zealand;*

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This is a submission on the impacts and benefits of further Economic Integration of the Australian and New Zealand Economies – Joint Scoping Study by the Productivity Commissions of Australia and New Zealand.

### **Based on the Purpose of this study:**

The governments of Australia and New Zealand are firmly committed to strong economic relations between Australia and New Zealand, including boosting productivity through reducing the regulatory burden on business, increasing competition and encouraging closer economic cooperation, and to strengthening those relations further. These reforms would enhance increased economic integration and improved economic outcomes.

By identifying specific areas for further potential reform and the ways in which they might be best achieved, with the likely impacts of potential reforms. Any, of these significant transitions and adjustment costs that could be incurred, along with the time scale over which impacts are likely to accrue, can provide a further mutuality that makes provision for the underwriting of these reforms to be more durable.

This broad study and scope will allow for the consideration of deeper levels of integration that are envisaged by the current trans-Tasman integration agenda.

### **Scope of the Commonwealth and Dominion:**

The Commissions' report should provide an analysis on the Commonwealth of Australia and the Dominion of New Zealand as these constitutional considerations (Sovereignty) provide the maturity of both nations from colonisation through to the Australia New Zealand Closer Economic Relations Trade Agreement (1 January 1983) and has involved successive rounds of integration of the Australia and New Zealand economies.

This scope can help in the next steps of economic integration and how this progress has evolved in the State of Tasmania, as a micro economic environment that has access to compensatory devices in Australia like common taxation, fiscal equalization and political representation.

- Areas of reform where benefits are likely to be most significant, with particular focus on critical issues for business like investment and productivity.
- The economic impact and benefits of reform on non business and business activities.
- Any significant transition and adjustment costs on the Commonwealth and the Dominion.
- The terms and condition of reform that brings mutual/ joint net benefits that are highest.
- The means by which they might be best actioned through Public Benefit entities and/or For Profit entities.



- With the development of a new external financial reporting framework and accounting standards over which benefits are expected to accrue.
- Methodology to any limitations or weaknesses in the approaches to and for reform evaluation.

There are interactions between efforts to promote bilateral integration and broader regional and multilateral agendas that need to be considered.

### **NZGOAL:**

New Zealand Government Open Access and Licensing (NZGOAL) – applies to State Services agencies. It is also widely recognised, in New Zealand and abroad that significant creative and economic potential may lie dormant in such copyright and non-copyright material when locked up in agencies and not released on terms allowing re-use by others. This potential is two-fold:

- (a) potential for individuals, non-profit and commercial organisations to leverage this material for creative, cultural and economic growth, improved environmental sustainability, greater productivity, and wider public benefit; and
- (b) Potential for experts and others to contribute to improved policy development and more efficient financial performance by government through being able to access, manipulate and provide feedback on such material.

The Government wants to encourage the realisation of this potential. It wants individuals and organisations to be able to leverage State Services agencies’ data stores for their own, agencies’ and others’ benefit.

In essence, NZGOAL:

- (a) sets out a series of open licensing and open access principles, for copyright works and non-copyright material respectively;
- (b) advocates the use of:
  - (i) Creative Commons licences for those State Services agencies’ copyright works which are appropriate for release and re-use; and
  - (ii) Clear “no known rights” statements for non-copyright material released for re-use; and
- (c) Sets out a review and release process to guide agencies through the review of works and other material they consider ought to be released for re-use.

### **Single Economic Market – an Association of Southeast Asian Nations (ASEAN):**

The Agreement establishing the ASEAN – Australia – New Zealand Free Trade Area (ASEAN FTA) will liberalise and facilitate trade in goods, services and investment between New Zealand, Australia and the ASEAN economies.

It contains measures to improve business flows and promote cooperation in a broad range of economic areas of mutual interest.

A core objective of New Zealand trade policy is to broaden and deepen the opportunities available to exporters by removing and reducing barriers to trade and investment, as well as to establish frameworks through which trade and investment linkages can evolve and expand.

It is this ASEAN expansion that can help offset an Australian and New Zealand Single Economic Market into this Free Trade Area (FTA).

### **The Strategic importance of the ASEAN FTA:**

The elimination of tariffs and other barriers to trade under the ASEAN FTA will open up further opportunities for New Zealand exporters throughout the ASEAN markets. Indeed as a result of the ASEAN member countries’ commitments under the FTA, tariffs will be eliminated on all key products of trade interest in major markets within twelve years from 2009.

Beyond market access for goods, the ASEAN FTA will provide more opportunities, and greater certainty and transparency, for New Zealand service suppliers and investors wishing to operate in the ASEAN markets. ASEAN FTA provides a strong base from which to further build services trade, particularly in those services sectors where New Zealand has a rapidly growing commercial interest and **relative comparative advantage**, as ASEAN economies continue to develop and open up further to, foreign service providers.

Reflecting on this growing investment relationship between New Zealand and the ASEAN economies, the ASEAN FTA will provide greater security for New Zealand investors and investments in these markets, including through the potential for recourse to binding **investor state arbitration procedures**.

#### **FTAs in the wider Trade Agenda:**

Good quality FTAs' can also usually contribute to moving the WTO and APEC processes by highlighting and reinforcing the benefits of trade reform. It is therefore essential that New Zealand is part of this activity to strengthen economic links and obtain improved access to and protect existing markets.

A key benefit of the ASEAN FTA for manufacturers is that 'Rules of Origin' can be met on a regional basis. This means that New Zealand manufacturers will benefit through both **improved direct access** and also through the ability to include New Zealand materials in the origin assessment of goods manufactured and traded within the region by Australia and the ASEAN manufacturers and exporters. This will allow New Zealand manufacturers to better integrate themselves into **regional supply chains**.

In broad terms, New Zealand's offer follows a similar structure to the offers of Australia and ASEAN countries in the context of the ASEAN FTA, with 90 percent of tariff lines contained in a "normal track" (with elimination between entry into force and 2012) and 10 percent of lines in a "sensitive track" with tariffs to be eliminated between 2013 and 2020.

Consistent with New Zealand's previous FTAs, the ASEAN FTA contains a number of protections, including preserving New Zealand's ability to take measures it deems necessary to accord more favourable treatment to Maori in fulfilment of its obligations under the Treaty of Waitangi.

Integration is fundamentally concerned with reducing the costs of understanding all forms of exchange. Both markets and governments influence these markets.

#### **Cash Conversion Cycles:**

In New Zealand society and industry are notoriously late payers for many reasons. This Cash Conversion Cycle is more often than not the reason requests for change is relevant and required in the New Zealand contexts. On average the Cash Conversion Cycle in New Zealand is 235 days, in the USA it is 65 days. These, Cash Conversion Cycle operate within the areas of Retail, Manufacturing, Trade and Service.

To future-proof our ASEAN economies within a present or future economic recession, cash conversion cycles can provide business turnover within the above industry sectors that are economically sustainable. This provision ensures productivity and a means to managing our way through any potential recession.

#### **Moving Forward:**

The ASEAN FTA recognises the importance of establishing a framework to directly support implementation of the Agreement for trade and investment economic cooperation designed to enable maximum commercial benefit to be derived from it.

A key platform for such cooperation is the establishment of an initial work programme that focuses on the provision of implementation support and capacity building in eight mutually agreed areas as follows:

- ROO and other Aspects of Implementation of Tariff Commitments;
- SPS Measures;
- Standards, Technical Regulations and Conformity Assessment Procedures;
- Services;
- Investments;
- Intellectual Property;
- Sectoral Integration; and
- Customs

A general review will take place in 2016 and every five years thereafter where there is an opportunity to accelerate or expand these commitments, under the ASEAN FTA.

#### **Some outstanding consideration for Australia & New Zealand:**

##### **Legal issues;**

A single cross-border insolvency proceeding to address forum shopping, duplication and regulatory gaps is an issue.

The current proposals being developed that take the FTA into account will provide the legal premise for **Insolvency law** in Australia and New Zealand.

Under **Corporations law** both governments have agreed trans-Tasman businesses need file company information only once to reduce compliance costs and a single entry point for people to search both countries' corporate registers.

**Personal property securities (PPS)** law has a single trans-Tasman register that has been agreed to enable improved risk management for trans-Tasman businesses providing credit and now that Australia has implemented its new PPS regime it is expected to progress.

Agreement has been reached on the introduction of a single regulatory framework for **Intellectual property law** and regime application and examination processes to save time and money for business. This framework is being developed and an implementation plan for this single process is in place.

Underway is the harmonisation and coordination of product labelling regimes, **consumer law** enforcement, consumer credit requirements and enforcement, and approval/verification of weighing and measuring, to reduce costs and improve clarity for businesses and consumers.

##### **Policy and Reporting issues;**

**Financial reporting policy** in Australia and New Zealand have agreed that entities can use a single set of accounting standards to prepare one set of financial statements for publicly accountable for-profit entities. Over the next two years the development of Financial Reporting Standards for Public benefit entities and Non for Profits is to be established.

There is an agreement for **Financial-services policy**, to enable comparable disclosures for uses of financial products to lower the cost of trans-Tasman capital raising. There are processes underway to align corporate trustee regimes for financial product, which will reduce the costs of issuing debt products in trans-Tasman capital markets.

Firms operating in both countries should face **Competition policy** in order to deter firms from choosing jurisdictions with more lenient penalties. New Zealand introduced criminal penalties for cartel behaviour. Both countries competition and consumer law regulators have agreed to share information for enforcement.

**Business reporting** to standardise business performance data, that reduces compliance costs and improve efficiency. There is also a proposal for a single business identifier similar to the Australia Business Number.

### **Social Effects:**

The concern and impact of Foreign Direct Investment (FDI) on New Zealand broadly is summed up as;

- National sovereignty and ownership value that are assets that are in overseas ownership may reduce wellbeing.
- Overseas Investor behaviour may behave in a manner that is inconsistent with domestic behavioural norms, with undesirable impacts on economic, political and cultural life
- Investors willing to pay more for assets than New Zealanders are, resulting in a growing share of wealth-generating sectors to overseas ownership.

These concerns are centred around issues that involve land purchase, which is partly why the most stringent screening is applied to those investments under the OIA. Investments by Australians which involves sensitive land or fishing quota will still require prior approval at the same level of investment as investors from other economies. The Protocol strikes a balance between protecting particularly sensitive New Zealand assets and facilitating Australia investment in New Zealand's significant business assets through a preferential arrangement.

### **Cultural Effects:**

The Protocol includes certain safeguards that ensure that New Zealand preserves the ability to pursue certain cultural objectives, such as supporting the creative arts and taking measures in relation to Maori. The aims to maintain and protect the unique cultural identity, art, language and heritage of the Maori, as an Australia-based national organisation (Wahine Maori of Queensland Inc), including in the fulfilment of the Treaty of Waitangi. The effect of the Protocol on New Zealand cultural values, via the following articles:

- Article 19 of the Protocol (Exception) provides New Zealand with the ability to adopt measures necessary to protect public morals or to maintain public order or necessary to protect national works or specific sites of artistic, historic or archaeological value. Such measures do not have to comply with the four core obligations and may be adopted provided that they are not arbitrary, unjustified or a disguised trade restriction.
- Article 23 of the Protocol (Treaty of Waitangi) provides that nothing in the Protocol prevents the New Zealand government from adopting measures it deems necessary to fulfil its obligations under the Treaty of Waitangi, provided that such any such measures are not arbitrary, unjustified or a disguised trade restriction.

The schedules of reservations list a number of New Zealand's existing measures protecting cultural elements. Where there are schedules and existing measures that cannot be made more restrictive over time and a "no roll-back clause" applies, the following reservation is listed:

- restrictions on acquisition of radio frequency spectrum licenses and management rights.

The following policy areas are listed, meaning that the government is able to introduce new measures which might otherwise breach the obligations reserved against – by the reservation:

- film co-production agreements
- local content requirements for public television and radio broadcasting;
- gambling, betting and prostitution services; and
- cultural, public archives, library and museum services, and the preservation of historical or sacred sites or buildings.

Additionally, any investments made in New Zealand will under the Protocol still need to comply with existing legislation such as the Historic Places Act, and the Resource Management Act. These types of legislation, ensures that investment activities are not contrary to generally accepted New Zealand cultural norms.

### **Indigenous Cultural Heritage;**

The indigenous cultural heritage of tangata whenua relates to whanau, hapu, and iwi groups. It shapes identity and enhances well-being and it has particular cultural meanings and values for the present, and associations with those who have gone before. Indigenous cultural heritage brings with it responsibilities of guardianship and the practical application and passing on of associated knowledge, traditional skills and practices.

The Treaty of Waitangi is the founding document of our nation. Article 2 of the Treaty recognises and guarantees the protection of tino rangatiratanga and so empowers kaitiakitanga as customary trusteeship to be exercised by tangata whenua. This customary trusteeship is exercised over their taonga, such as sacred and traditional places, built heritage, traditional practices, and other cultural heritage resources. This obligation extends beyond current legal ownership wherever such cultural heritage exists.

Particular matauranga, or knowledge of cultural heritage meaning, value, and practice is associated with places. Matauranga is sustained and transmitted through oral, written and physical forms determined by tangata whenua. The conservation of such places is therefore conditional on decisions made in associated tangata whenua communities, and should proceed only in this context. In particular protocols of access, authority, ritual, and practice are determined at a local level and should be respected.

### **Tangata whenua governance organisations:**

The main difference between the New Zealand Standard Classification of Non-profit Organisations (NZSCNPO) and the International Classification of Non-profit Organisation (ICNPO), is the inclusion under the category **“Development and housing”** of a new subgroup of tangata whenua governance organisation. This subgroup cover a rich array of organisations which provide stewardship for the affairs of iwi,hapu, and marae. The roles that these organisations take in relation to the Maori people vary in terms of the origins of their mandates:

- Most have roles that originate in the past, prior to European settlement and which encompass the ongoing governance or stewardship of the iwi/whanau in perpetuity
- Some have statutory responsibilities, such as those resulting from financial settlements based on claims against the Crown.
- Still others may be established at different points by iwi/whanau in response to contemporary issues.

What all of these entities share in common is a focus on the ongoing health and vitality of the iwi/whanau, the transfer from generation to generation of the essence of the iwi/whanau, as well as the care and protection of iwi/whanau interests in general and specific matters.

### **Investment Ready;**

The valuation of a business is important and often the most difficult point to agree on. Each party wants to get the best deal, which usually ends up with a debate over valuation. There is no set scientific method to value an early stage business; it is really a subjective art and often can be the first point of real tension between the investor and investee business. Investors should be able to add more value than just money, through experience and networks.

You can spend too much time arguing over a valuation when the business is in fact only worth what someone will give you. So when you negotiate with investors there is a need to focus more on what you see as the end result, and less on what the business is valued at today.

It is important to have a realistic valuation expectation some New Zealand businesses tend to have inflated valuation expectations and underestimate the challenge of international success and possible return. There needs to be flexibility by the investee business to adjust its valuation expectations, to meet an investor's on some middle ground.

Investors like to see you've thought about the end of the relationship. Make sure you address this exit issue, they're only in for a set period of time before they want to cash in their investment. The investors are making a judgement on the trade-off between risk and the growth potential. So explain why you think that your business will grow.

### **A Systematic Investment Strategy;**

The architecture for a Systematic Trading Strategy is based on independent elements performing specialised tasks, each generating a part of overall performance.

Stylized Facts –

- **Equities;** Volatility is dynamic and appears in clusters. Returns exhibit extreme-events and heavy-tails. Correlations are dynamic.
- **Bonds;** The five major risks: Migration and Default Risk, Recovery Risk, Spread Risk, Liquidity Risk, Market Risk.
- **FX;** FX overlays and alpha trading, No buy and hold, Volatility is dynamic, Trading is usually supported by quantitative models.
- **Hedge Funds;** Large spectrum of quantitative properties, Time-varying exposure to traditional assets, Key success factor: quantitative and qualitative due.

### **Key Success Factors for Portfolio Optimization**

Accurate measurement of idiosyncratic risks

Robust modelling of asset-dependence, also for the extreme case

Avoidance of the constraint satisfaction case

Choice of suitable risk measure

Awareness of over-optimization

Risk and performance attribution

Definition of a Systematic Investment Strategy

- A Systematic Investment Strategy is characterised by the exclusive use and reliance on defined rule sets and/or mathematical model
- The rule sets and mathematical models are designed to be employed without discretionary input by an investment manager
- The Systematic Investment Strategy is generally designed to operate under certain, predefined market conditions

- The robustness of the Systematic Investment Strategy is a measure for the region of the market conditions under which the strategy may stably operate
- The risks involved with Systematic Investment Strategies are not only of a financial nature but these are some of the other substantial additional risks.

Conclusion;

Trans-Tasman capital flows can be enhanced by a number of fixed issues, some of which I have outlined here as part of what would constitute New Zealand Cultural Life and Australian Cultural Life. Existing economic relations and its organising frameworks by their nature have a number of impediments.

The nature of impediments to knowledge creation and transfers and/or impediments to government functions in integrating government institutions, services and learning from each other's successes. The development and implementation of a Systematic Investment Strategy will provide both countries with opportunities to be more productive where we can maintain our market share within the world markets.

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