

Rt Hon Helen Clark	Prime Minister
Hon Ruth Dyson	Minister ACC, Labour
Hon Lianne Dalziel	Minister Commerce, Small Business
Hon Judith Tizard	Minister Consumer Affairs
Hon Trevor Mallard	Minister Economic, Industry & Regional Dvpt
Hon Steve Maharey	Minister Education
Hon David Parker	Minister Energy, Transport
Hon David Benson-Pope	Minister Environment
Hon Michael Cullen	Minister Finance, Tertiary Education
Rt Hon Winston Peters	Minister Foreign Affairs
Hon David Cunliffe	Minister Immigration
Hon Mark Burton	Minister Local Government
Hon Peter Dunne	Minister Revenue
Hon Phil Goff	Minister Trade, Trade Negotiations

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## Brief to Government

This briefing contains a number of recommendations for which Business NZ seeks your support during the life of this Government:

- Section 1: *Background: economic issues*
- Section 2: *Background: desired policy outcomes*
- Section 3: *Recommended initial policy outcomes*
- Section 4: *About Business NZ*

**Section 2 Desired policy outcomes** lists many of the desired outcomes promoted by Business NZ during the last Parliamentary term. They continue to represent the outcomes desired to achieve a business-friendly environment and a growing economy.

**Section 3 Recommended initial policy outcomes** lists potential activity areas that would help lead towards our desired policy outcomes and that may be capable of reaching a successful conclusion over the next 12 – 18 months, given the makeup of the Government and Parliament. These are issues where a positive start can be made, and on which we hope to engage with you in constructive dialogue.

Please accept my best wishes for this Parliamentary term.



Phil O'Reilly  
**CHIEF EXECUTIVE**

## ***Section 1. Background: economic issues***

The last Parliamentary term coincided with a period of strong economic growth, fuelled by international commodity prices that are now showing signs of softening. Most forecasters are expecting growth to drop to around two per cent a year over the next three years, about half the growth rate of the last four years.

Despite the general ongoing soundness in the Government's accounts, including continued budget surpluses and retiring debt, threats facing the economy include those of potential immediate effect (oil prices, the possibility of a bird flu pandemic) and ongoing concerns such as lower productivity growth than our major trading partners, trade barriers at the multi-lateral level, and infrastructure constraints.

Recent growth has been on the back of greater use of existing labour resources and running down of 'spare' capacity of resources such as roading and electricity. We are now into a period where resources will be in short supply, with a need to focus on productivity improvements.

Net immigration has effectively dried up after significant growth over the last three years, shortages of skilled and unskilled labour persist, and rising costs threaten the ability of the Reserve Bank to contain inflation within its target band without continued interest rate rises which will adversely impact on exporters and the productive sector generally.

There are indications that the NZ dollar is overvalued and a substantial downward correction can be expected. Current account deficits of around eight per cent are not sustainable, suggesting a correction sooner rather than later. The problem for the Reserve Bank is that a significant drop in the value of the dollar would fuel imported inflation, and given that much imported inflation is beyond New Zealand's control (e.g. oil prices), and that many households have locked-in interest rates, then increasing interest rates would simply make many households - particularly those with substantial debts - poorer. On the other hand, if inflationary expectations become entrenched, there is a risk of stagflation - low growth and persistent inflation.

In this environment a policy response is required to help businesses remain internationally competitive and provide the growth to maintain good employment levels and living standards.

With the rapid mobility of both capital and labour, there is a need for enterprise and Government to focus on ongoing productivity improvements. Competition is vital to spur businesses to achieve productivity gains, and Government must aim for a regulatory and tax regime consistent with international best practice.

## **Section 2. Background: desired policy outcomes**

There is no one magic bullet to achieve high growth; rather, a range of actions are required if the economy is to perform to its potential. The following are some of the desired outcomes that Business NZ has promoted during the last Parliamentary term:

### **A business-friendly environment**

- Government commitment to reducing compliance costs
- Restrictions on central or local government enterprises competing with private enterprise
- Policies to reduce carbon emissions that do not harm our competitiveness, in place of carbon taxes
- Changes to the Resource Management Act so trivial or ideological claimants cannot stop legitimate development
- Tradeable rights for natural resources
- 'Country of origin' labeling of products to be voluntary
- 'Product stewardship' initiatives to be voluntary
- Holidays Act simplified, and 'relevant daily pay' replaced by 'ordinary pay'
- Choice restored to ACC legislation, so private accident cover options available
- All ACC pre-1999 residual claims funded out of general taxation, or at least, the non-work residual claims from pre-1992
- Occupational regulation amended to remove unnecessary restrictions preventing professionals from practicing in New Zealand
- ERA amended to allow freedom to choose either individual or collective bargaining
- Union monopoly over collective bargaining removed from the ERA
- 'Imbalance of power' clauses removed from the ERA
- Rules on initial trial periods and fixed term contracts relaxed
- 'Employer presumed guilty until proven innocent' assumption removed from Health & Safety in Employment Act
- Return of right to insure against fines under Health & Safety Employment Act

### **Sustainability**

- Ongoing and increasing capital investment by business, underpinned by supportive government tax and depreciation policy

### **Infrastructure**

- All petrol tax revenue committed to roading
- Land Transport Management Act changed to give higher priority to building and maintaining roads
- Relevant legislation changed to facilitate private sector investment in infrastructure
- Streamlining of the RMA and consent processes to reduce delays in building infrastructure
- Upgrading of the Transpower grid
- NZ joining Asia Pacific Partnership for Clean Development and Climate
- Government research focus on development of new energy technologies

### **Fiscal and tax policy**

- Tax burden lowered through caps on government expenditure
- Government commitment to restraining spending (including Super Fund assets), to less than 30% of GDP by 2010
- Government commitment to reducing net Crown debt (including Super Fund assets) to below -5% of GDP by 2010

- Government commitment to reducing company tax to 30% in the short term and to 20% over time
- Flattened personal tax rates
- Inflation-indexed income thresholds for personal tax rates.
- Depreciation rates reflecting shorter economic life of assets and the changing economy

#### **Investment, innovation and entrepreneurship**

- Greater deductibility for R&D and capital investment
- More coordination of publicly funded research intended for commercial application

#### **Regulatory Policy**

- Property rights clearly defined where there is uncertainty, to assist in efficient resource allocation
- The power of the state to take, even with appropriate compensation, used as a last resort, backed up with threshold test that the taking is necessary for an essential public good.
- Regulatory policies that do not unnecessarily increase costs for businesses or harm their ability to respond rapidly to changing market circumstances
- Continued support for voluntary industry-led (self) regulation, unless particular exceptional circumstances require an industry-specific approach
- Regular reviews of all legislation and regulations to ensure that they are achieving the original objectives and to check whether the regulation is still required, assisted by use of sunset clauses in all new legislation or regulation
- Adoption of a Regulatory Responsibility Act to complement Reserve Bank Act and Fiscal Responsibility Act (now part of the Public Finance Act)
- Continued support for light-handed regulatory approach under the Commerce Act 1986 to allow mergers/acquisitions that are beneficial to the economy
- Product and service markets open to competitive pressures wherever possible to ensure strong incentives on management to improve productivity outcomes

#### **Trade**

- Continued Government commitment to working towards bilateral and multilateral trade agreements as well as a comprehensive WTO agreement
- Government commitment to policies that would allow a free trade agreement with the US
- Government commitment to policies that help NZ firms' international competitiveness
- Greater on the ground support for exporters in foreign markets
- Comprehensive trade deals that recognise foreign investment, non trade barriers and other issues

#### **Skills and productivity**

- Less public money spent on courses with low relevance and value to the economy, and more on industry training
- Cap removed from the industry training fund
- Enough immigrants with relevant skills and good English to meet business needs
- Government commitment to requiring schools to achieve minimum levels of literacy and numeracy for all school leavers
- NCEA made more reliable and easier to understand

### ***Section 3. Recommended initial policy outcomes***

Business NZ's support for the above desired outcomes is ongoing, however some activity areas that would help lead towards those desired policy outcomes may be more capable of reaching a successful conclusion in the immediate future. **Business NZ recommends the following actions as having the potential to make progress towards our desired policy outcomes over the next 12 – 18 months:**

#### **Tax/compliance**

Lowering the tax and compliance burden would provide significant relief for business, allowing for earlier retirement of debt, greater investment of time and resources in people and plant, and improved ability to plan for future enterprise. Business NZ recommends the following actions for implementation by the Government during this Parliamentary term:

- Lower the tax burden by capping Government spending (as a percentage of GDP).
- Complete and deploy the review of business tax, including the achievement of a lower headline rate than Australia without delay.
- Remove the carbon tax policy and review our commitment to the Kyoto Protocol.
- Implement the compliance-saving initiatives in the Taxation (Depreciation, Payment Dates Alignment, FBT & Miscellaneous Provisions) Bill.
- Continue work towards implementing the recommendations of the 2001 Ministerial Panel on Compliance Costs and also relieve compliance issues that have arisen since then, including compliance issues from KiwiSaver.
- Investigate the 'Dutch model' for assessing the compliance cost of policy options to business (estimating non-compliance, estimating risk of non-compliance, calculating cost/benefit ratio of regulations to inform decisions to regulate).
- Investigate the use of a sectoral approach to compliance costs - solving issues in one sector then applying relevant solutions to other sectors.
- Continue the Small Business Advisory Group's engagement with small business owners on proposed changes involving compliance costs.
- Review R&D tax policies to ensure they do not unnecessarily constrain investment compared to our major trading partners.

#### **Infrastructure**

Deficiencies in New Zealand's infrastructure – energy and roading in particular – are largely the results of under-investment by different governments over several decades; other problems stem from resource management and environment-related decisions. Given the importance of infrastructure to the ability to travel, communicate and do business, Business NZ recommends the following:

- Streamline the RMA and consent processes to reduce delays in building infrastructure.
- Join the Asia Pacific Partnership for Clean Development and Climate.
- Focus Government research on the development of new energy technologies.
- Promptly deploy the resources promised to address roading bottlenecks in Auckland and Wellington.

### **Regulatory/economic/trade policy**

Business NZ advocates a business-friendly environment, where legislation is framed so that it is consistent with business growth and does not impose unnecessary compliance costs and constraints. Areas where such an environment could be advanced within this Parliamentary term include:

- Support the Bill of Rights (Private Property Rights) Amendment Bill, including its provision (clause 4) that: *'no person is to be deprived of the use or enjoyment of that person's property without just compensation'*.
- Introduce a Regulatory Responsibility Act to complement Reserve Bank Act and Fiscal Responsibility Act (now part of the Public Finance Act).
- Continue to support voluntary industry-led (self) regulation, unless particular exceptional circumstances require an industry-specific approach.
- Support voluntary not mandatory country of origin labeling.
- Support voluntary not mandatory product stewardship initiatives.
- Adjust depreciation rates to reflect shorter economic life of assets and the changing economy.
- Review FORST public good funds to ensure that projects funded provide the best return to 'New Zealand Inc.' given the changing nature of the economy.
- Continue Government commitment to bilateral and multilateral trade agreements and a comprehensive WTO agreement.
- Provide greater 'on the ground' support for exporters in foreign markets.
- Restrict central or local government enterprises competing with private enterprise.
- Change local government legislation to limit the scope of power of general competence and remove the authority to impose business differential rating.

### **Labour policy**

Surveys of our members show many difficulties with employment, holidays and accident compensation law, as indicated by the substantial list of desired outcomes in Section 2.

We recommend the following as a positive start towards resolving those difficulties:

- Review the Holidays Act to eliminate unintended consequences and simplify.
- Amend the Employment Relations Act to allow a grievance-free probationary period of 90 days for new employees.
- Ensure no legislative intervention in succession contracting.
- Amend occupational regulation to remove unnecessary restrictions preventing professionals from practising in New Zealand.
- Undertake and publish audits by independent actuaries of ACC proposed premiums and rationales.
- Retain the ACC employers and self-employed accounts as separate accounts.
- Research alternatives to the minimum wage (e.g. reviewing tax rates).
- Support voluntary not mandatory initiatives regarding pay equity and work/leisure balance.

### **Skills and productivity**

Business NZ endorses the Government's advocacy of improved skills training and increased productivity, and suggest the following as useful short and medium term actions towards those ends:

- Implement changes to NCEA and Scholarship as recommended by recent reviews.
- Increase participation in industry training without a drop in quality, by removing or raising the cap on the industry training fund or rebalancing the EFTS/Student Component and Standard Training Measure Funding streams.
- Ensure an adequate intake of immigrants with relevant skills and good English to meet business needs, by reviewing whether skill shortage lists are still necessary in the current environment, reviewing business investor migrant and other rules.
- Continue to focus on improving the quality, cost and relevance of tertiary courses using greater business input.
- Continue the commitment to requiring schools to achieve minimum levels of literacy and numeracy for all school leavers.
- Continue the commitment to greater support and co-ordination for workplace literacy and numeracy programmes.
- Implement an independent review of adequacy of management training in New Zealand.

## **Section 4. About Business NZ**

*Business NZ is New Zealand's largest business advocacy body representing combined members of regional business organisations Employers and Manufacturers Association (EMA) Northern, EMA Central, the Canterbury Employers' Chamber of Commerce (CECC) and the Otago-Southland Employers' Association (OSEA), which offer services and support to 14,500 companies. Business NZ also represents 60 national industry associations, with a combined membership of some 76,000 employers in the private sector, from large firms to the self-employed. Together these employ around 80% of private sector employees.*

*In addition to advocacy on behalf of enterprise, Business NZ contributes towards Governmental and tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development (OECD).*

*Business NZ, the voice of business  
committed to New Zealand's success by promoting sustainable growth through free  
enterprise*

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