
Overview

Key points

- The Australian and New Zealand economies have become closely integrated, beyond what could be expected with any third country. This has been facilitated by institutional, legal and cultural similarities, as well as geographic proximity.
- Closer Economic Relations (CER) initiatives have contributed significantly to trans-Tasman integration over the past 30 years. Tariffs and quantitative restrictions have been eliminated on virtually all goods traded between the two countries; people move freely across the Tasman; and the CER agenda has expanded into new areas, such as services trade and behind-the-border regulatory barriers.
- The Commissions' assessment is that CER has produced benefits overall for Australia and New Zealand, even though evidence is limited in some areas.
- Barriers to further integration remain and new issues will emerge. Addressing them is becoming more challenging, as the focus shifts to more complex areas, including the regulation of services.
- To ensure that integration policies make the biggest contribution to both economies, future CER initiatives should continue to: be outward looking; take account of linkages with other agreements; and complement domestic policy improvement.
- A 'direction of travel' towards a single economic market has been characterised by Prime Ministers in terms of a seamless market in which people and businesses can have a 'domestic-like' experience in either country. How far Australia and New Zealand go in this direction should emerge from good public policy processes focused on the achievement of net benefits.
- This scoping study identifies more than 30 initiatives to promote beneficial integration. Most address regulatory barriers to services trade and commercial presence, and some remaining impediments to integration in goods, capital and labour markets.
- Some of these initiatives will require more detailed consideration.
- There is further potential for each government to cooperate with and learn from the other in policy development, service delivery and regulatory approaches.
- Current governance approaches for CER are informal and flexible, and appear reasonably effective. This scoping study identifies some opportunities for improvement.

Overview

The year 2013 marks the 30th anniversary of the historic Closer Economic Relations (CER) agreement between Australia and New Zealand. The close relationship goes back much further, with people moving freely across the Tasman since colonial times. Integration has increased over the past three decades, with trade, investment and people movement yielding benefits for both countries.

Personal ties are extensive and deep, with some 480 000 New Zealand-born people living in Australia and around 65 000 Australian-born people living in New Zealand. The two countries have similar political, legal and economic institutions, as well as language and culture, leading to a relationship that the two Prime Ministers have recently described as being 'like no other' (Key 2011) and 'family' (Gillard 2011a).

The CER agreement has a more prominent place in New Zealand than in Australia. More than half of New Zealand's foreign direct investment comes from Australia and Australia is New Zealand's largest export market. Australia's economy is over seven times the size of New Zealand's, so the commercial significance of New Zealand for Australia is smaller. New Zealand is nevertheless a major market for Australia's manufactured exports and tourism industry, and Australians hold investments in New Zealand worth around A\$74 billion.

Against this backdrop, the Prime Ministers requested that the two Productivity Commissions jointly conduct a 'scoping study' to identify further initiatives to strengthen the trans-Tasman economic relationship and improve economic outcomes. The Commissions were asked to identify initiatives where joint net benefits would be highest and how they might best be implemented, noting any potentially significant transition and adjustment costs.

Tables at the end of this overview outline the Commissions' proposals for strengthening economic relations between Australia and New Zealand. The Commissions scoped a wide range of issues and focused on those most likely to offer joint net benefits. The broad scope of the study has inevitably limited the feasibility of undertaking an in-depth analysis of all the areas identified. Some of these will need more detailed consideration.

While the Commissions have used filtering criteria to identify the most promising initiatives, ranking reforms according to their likely joint net benefits is difficult to do with precision in such a broad-ranging scoping study. Indeed, feedback on the two grade star rating of recommendations in the draft report suggested that it would be of limited value for determining priorities for a future integration agenda. Moreover, no recommendations stand out in terms of providing markedly higher likely benefits, although some will obviously be more significant. The star rating system has therefore been removed from the final report. The packaging of initiatives into a coherent forward agenda that benefits both countries is primarily a matter for political judgment.

What has been achieved?

The genesis of CER was a meeting of Prime Ministers Fraser and Muldoon in Wellington in 1980, where it was agreed that, as the Australian Prime Minister expressed it:

If the two countries can cooperate more closely in their own trading relationship, with each concentrating on what it can do best, it will help both countries to grow stronger and to compete in wider markets. We agreed in Wellington that any closer economic relationship must be outward-looking ...

The early years of CER saw major changes. Notably, tariffs and quantitative restrictions were eliminated on virtually all goods traded between the two countries by 1990, five years ahead of schedule. The CER agenda was extended from its initial focus on merchandise trade to cover trade in services, business regulation, taxation and government procurement. Provision was also made for greater cooperation between government agencies and engagement of New Zealand officials in meetings of the Council of Australian Governments (COAG). By 2004, these extensions were encompassed in the ambition of creating a 'single economic market' in which businesses, consumers and investors could operate 'seamlessly' across the Tasman.

Generally, economic integration increases the size of markets, which enables countries to capture scale advantages and specialise in activities they do relatively well. Consumers benefit from lower prices and increased choice, as cheaper imports take the place of more costly domestically-produced goods and services within more competitive market settings. There are also increased transfers of knowledge. Labour mobility provides workers with a wider range of employment opportunities and creates flexibility in the economy to respond to structural shocks and cyclical changes.

Further, CER appears to have helped change opinions about trade protection for manufacturing and thereby paved the way for unilateral reductions in general tariffs, particularly in New Zealand. In this way, CER bilateral trade arrangements, unlike many other preferential arrangements, may have acted more as a ‘building block’ than ‘stumbling block’ in the pursuit of wider reform and economic integration.

Overall, there is sufficient evidence to conclude that CER has produced benefits for both Australia and New Zealand, even though there is uncertainty about the magnitudes.

Key themes in further integration

‘Closer’, but still politically separate

Geographic proximity and commonalities between the two countries have enabled governments to pursue economic integration beyond what could be expected with any third country, while preserving the national interests of both countries. Australia and New Zealand are separate countries: political union is not a live option and this rules out some higher forms of integration. In particular, proposals for a monetary union would take integration to the point where it started to generate net costs. Following the recent euro area experience, such proposals would in any case have little support today.

The political autonomy of the two countries has implications for the way the Commissions have applied ‘joint net benefits’ in this study (a term used interchangeably with net trans-Tasman benefits). The Commissions recommend policy initiatives which are likely to benefit both countries, even where the distribution of the benefits favours one country. They have made no attempt to rank recommendations on the basis of how these benefits would be distributed between or within each country. In cases where a policy initiative would provide joint net benefits, but would likely involve a net cost for one country, the Commissions report that finding for possible consideration by governments as part of a wider package of actions.

Deeper integration requires careful assessment

Implementing agreements to reduce behind-the-border barriers — typically regulatory in nature — is more complicated than reducing tariffs. Work programs

have taken many years in some cases. For example, the first consultation paper on establishing a joint therapeutic products agency was released in 2000, yet the new agency is not due to be operational until 2016. In other areas — such as a mooted merger of stock exchanges and the integration of banking supervision and competition policy regimes — deeper integration has not been achieved.

In contrast, there is an ambitious agenda and progress has been made for areas such as business law reform. Some existing initiatives may need to be revisited as circumstances change. However, as advances are made, new integration opportunities will become less obvious, and judgments will require well executed public policy analysis.

The ‘direction of travel’ matters more than the destination

The benefits and costs of integration initiatives alter as technology, preferences and other factors change. This means that the end point — in terms of the extent of economic integration that provides the largest net benefits — cannot be specified in advance. It should evolve with changing circumstances and be based on good public policy processes focused on the achievement of net benefits.

A set of principles, which provides a broad direction of travel for trans-Tasman integration, was endorsed by Prime Ministers in 2009. They point to a single economic market (SEM) characterised by features such as:

- substantively the same regulatory outcomes in both countries, achieved in the most efficient manner
- regulated occupations operating seamlessly between each country
- achieving economies of scale in regulatory design and implementation
- products or services supplied in one jurisdiction being able to be supplied in the other.

Importantly, the Prime Ministers specified that in moving towards a single economic market, policy initiatives would need to pass a cost-benefit test.

The history of the relationship shows that it is better to anchor the future of CER and SEM in sound governance arrangements that can quickly and effectively identify and address issues as they arise, than in a vision.

The bigger regional picture is important

CER should remain outward-oriented, and not become too narrowly focused on the bilateral relationship. This was recognised by the original architects of CER — they understood that it should not get in the way of either country securing beneficial wider integration opportunities.

The fact that multilateral efforts to promote trade liberalisation have lost momentum reinforces the need to consider trans-Tasman integration in a regional and global context. That means generally avoiding actions that would impede trade or investment with other countries and being alert to opportunities to extend trans-Tasman initiatives into broader regional and multilateral fora.

Future trans-Tasman economic integration needs to fit well with the broader challenges and opportunities presented by the ‘Asian century’. Asia accounts for one third of global GDP, double what it was 50 years ago. The continued rise of Asia presents important opportunities for both countries — with benefits that potentially greatly outweigh those on offer through further trans-Tasman integration, significant though these may be. The best way for the two governments to position their economies to benefit from the ‘Asian century’ will be to enhance their productivity and competitiveness.

Domestic policy has trans-Tasman effects

Closer economic integration is one potential source of productivity gains. Larger gains, however, will come from domestic policy and regulatory reforms. Policy actions by one country to increase national income also bring benefits to the other country, through trade and investment. For example, for every 1 percent expansion in Australia’s economy, New Zealand’s exports are estimated to increase by 0.2 percent and its economy to expand by nearly 0.1 percent.

Domestic productivity improvements that are encouraged by good policy in one economy often place competitive pressures on the other. Greater openness to trade and in capital and labour markets by one party can expose rigidities that impede adjustment and thus put pressure on the other government to address these.

Good process matters

Advancing the integration agenda will require good policy processes — both for selecting those initiatives that are likely to generate the largest net benefits and for

avoiding any that would be costly or too difficult to implement. In order to make the biggest contribution to both economies, CER initiatives should: continue to be outward looking; not impede trade opportunities with other partners; take account of linkages with other agreements; and complement initiatives to enhance domestic policy. Analysis of integration policy initiatives needs to take into account the indirect as well as direct costs and benefits, be proportionate to the importance of the issue being addressed, and be publicly available.

Scoping the future CER agenda

Opportunities to strengthen trans-Tasman economic ties can be classified using a framework based on what the European Union has termed the ‘four freedoms’ — relating to trade in goods and services, and the movement of capital and labour. Knowledge transfers and the integration or interaction of government functions are also considered.

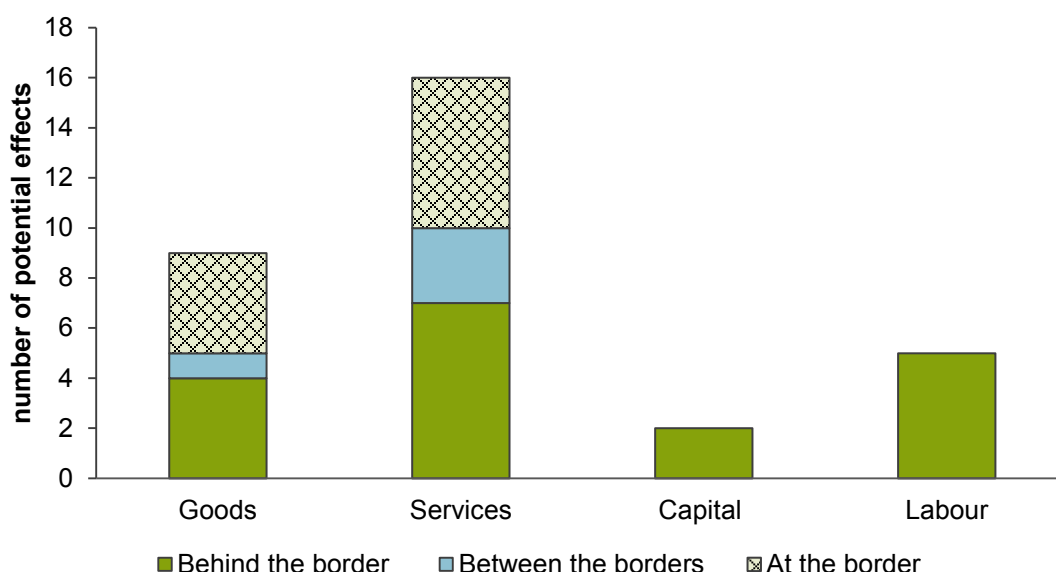
This study focuses on areas where there are unnecessary barriers to integration — whether created intentionally or unintentionally. They may arise between the borders of Australia and New Zealand (typically affecting international transport costs); at the border of one or both countries (for example, tariffs and biosecurity restrictions); and behind their borders.

The last category refers to situations where countries take different approaches to domestic regulation, which may add to the cost of doing business across the countries. Often, this arises because foreign providers are not afforded national treatment; that is, they are not treated as if they were domestic firms. Of the 28 specific initiatives considered in this study, most involve impediments to trade in services (figure 1). Behind-the-border regulation looms particularly large.

The Commissions’ proposals fall into three categories. First, initiatives to which both Governments have committed and are currently underway. These should be completed as soon as possible. Second, recommendations for new CER initiatives assessed by this study to offer net benefits for both countries. Third, recommendations that further work be done to determine an appropriate course of action.

The tables at the end of this overview list the Commissions’ findings and recommendations and indicate where they are dealt with in the report. Some of the more significant proposals are summarised below.

Figure 1 **Areas potentially affected by recommendations^a**



^a Number of areas substantially affected by the recommendations identified in chapter 4. Some recommendations are likely to affect more than one area.

‘First freedom’: trade in goods

The main remaining impediment to merchandise trade between Australia and New Zealand is the cost of CER ‘rules of origin’. Waiving these for all items where tariffs are no greater than 5 percent would reduce compliance and administrative costs for a significant proportion of trans-Tasman trade. This reform could be built on by reducing the few remaining tariffs that exceed 5 percent to that level.

‘Second freedom’: trade in services

A CER Protocol supports free trade in most services, but excludes some — more in Australia than in New Zealand. The current review of these exclusions should be completed and published. Exclusions should be removed unless retention is shown to generate net benefits.

Reducing transport and telecommunication costs would facilitate trade across the Tasman. While the trans-Tasman air route is already quite competitive, two remaining regulatory barriers to competition could usefully be removed. For shipping, the exemption of ocean carriers from key parts of competition regulation is no longer necessary and removing it would generate gains. Australia has followed a different path from New Zealand in regulating coastal shipping. When reviewing the restrictions on coastal shipping, the Australian Government should

adopt a broad cost-benefit framework and draw on the experience of New Zealand with its different regulatory approach.

Moves towards a more integrated telecommunications market raise complex issues. While the regulatory frameworks across the Tasman seem reasonably aligned, some remaining differences require closer examination. Governments should consider regulatory barriers to trans-Tasman trade in telecommunication services and options for their removal as part of future reviews of their respective telecommunications regulations. A joint departmental investigation into trans-Tasman mobile roaming markets has found evidence of limited competition and high prices. Governments have announced that they will respond to the final recommendations of the joint investigation when they are released at the end of this year.

‘Third freedom’: capital flows

The main areas of interest are foreign direct investment, taxation, banking and insurance.

The two Governments should implement the investment protocol they signed in 2011, which increased the thresholds for screening trans-Tasman investment. There would be further benefits from extending this protocol to lessen the remaining investment restrictions in ‘sensitive’ areas, given the closeness of the two countries.

An issue of greater concern to most business participants is that companies are not allowed imputation credits on trans-Tasman investment, meaning company income is taxed twice in the hands of an individual if it crosses the Tasman. This issue has been debated for more than 20 years, signalling the complexities and judgments involved.

Mutual recognition of imputation credits (MRIC) could expand investment across the Tasman and bring efficiency gains. It could also lead to net income transfers between Australia and New Zealand, which are likely to be larger than the efficiency gains.

A possible outcome is for one country to experience a loss in its gross national income (GNI) — an indicator of community welfare that measures the income of a country’s residents — at the same time that there is a greater gain for the other, leading to a trans-Tasman gain overall.

Principally because Australian investment in New Zealand is larger than New Zealand investment in Australia, Australian income transfers to New Zealand

would probably be greater than transfers the other way, and Australia is likely to be made worse off. It is possible that both Australia and New Zealand's GNI would rise, but this would require markedly asymmetric investment responses.

The two governments should announce either a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure a satisfactory distribution of the gains from MRIC; or that MRIC will not go ahead if they consider that such a mechanism is infeasible.

In relation to banking, the two countries have adopted some differences in approach to prudential supervision. This area of regulation is evolving rapidly, with an existing trans-Tasman forum well placed to assess integration opportunities.

‘Fourth freedom’: people movement

There are opportunities to reduce the costs and complications of trans-Tasman travel through wider implementation of SmartGate arrangements at the border, and development of a trans-Tasman tourist visa for foreigners visiting both countries.

A high degree of integration in the trans-Tasman labour market has been an historical fact and should continue. The current arrangements provide for an efficient matching of people to job opportunities across the two countries.

However, when people move to job opportunities in the other country their residency status changes and they face different policies for welfare supports, access to services and in taxation systems and voting rights. The Commissions are not recommending integration of welfare, taxation or citizenship policies. However, the Australian and New Zealand Governments should provide clearer and more accessible information to prospective migrants, new arrivals and long term residents about their responsibilities and entitlements in their destination country. This would enable people to make better informed decisions about seeking work in the other country.

The Governments could also achieve better alignment of policies that impact on the trans-Tasman labour market by addressing significant negative outcomes for long term residents and any substantive issues for temporary residents.

There are taxation issues, particularly for workers who move back and forwards between the countries and for businesses employing such workers. There are also issues about access to public services and assistance for New Zealand citizens who have been in Australia for many years, many of whom have paid taxes for years. These mainly centre on long term resident non-Protected Special Category

Visa holders and include: limited pathways to Australian permanent residence and citizenship; no access to student loans for their children; and restricted access to some social security payments and other supports. Addressing these would require policy changes by the Australian Government, including:

- developing a pathway for New Zealand citizens living long term in Australia to achieve permanent residency and/or citizenship
- improving access for New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions
- together with the New Zealand Government, reviewing, and making more explicit, the principles governing access to social security and further developing bilateral engagement on migration policies, within the context of CER, the single economic market and the Trans-Tasman Travel Arrangement.

This would continue a tradition of pragmatic responses to problems that have arisen historically in respect of the trans-Tasman relationship.

Benchmarking government and regulatory services

There is considerable cooperation between the public sectors of Australia and New Zealand. This has developed organically as opportunities have emerged. It can improve regulatory outcomes and reduce the cost of providing government services. The two Governments should ensure that their agencies consider opportunities for further cooperation on a case-by-case basis. Additional performance benchmarking of government services and regulation could identify scope for improved service delivery and regulation, and enhance diffusion of best practices across the Tasman.

Making it happen

The areas identified for further policy action vary in their significance, complexity and timescales (see summary list in tables below). Some proposals require more in-depth examination than has been practical in a scoping study of this breadth. This report should assist governments in assessing priorities and sequencing policy actions. Effective ongoing management of the agenda will be crucial.

Current approaches to CER governance are informal and flexible, and appear reasonably effective thus far. However, there are opportunities for improvements through:

- clearer leadership and oversight of CER, including of issues relating to the trans-Tasman labour market and associated movement of people
- requiring new regulatory proposals to account for trans-Tasman implications, where relevant
- identifying and taking opportunities for coordinated action in the quest for greater and better regional and multilateral integration
- formal five-yearly public reviews of CER's direction and achievements.

Conclusion

The 30th anniversary of CER is an opportunity to acknowledge its considerable achievements since 1983 and to reflect on future opportunities to strengthen the trans-Tasman relationship. The depth and breadth of the achievements of the first 30 years of CER make the task of defining a new agenda a challenging one. Nevertheless, the Commissions consider that the recommendations outlined in this report will help to maintain the vibrancy of the relationship and set it up to deliver further benefits to both countries over the coming years.

Findings and recommendations

Table 1 Findings

<i>Findings</i>	
F2.1	The seven Single Economic Market principles, announced by the Prime Ministers in 2009, provide a useful direction of travel for future CER initiatives.
F2.2	Analysis of integration policy initiatives should take into account both direct and indirect costs and benefits, be proportionate to the importance of the issue being considered, and be publicly available.
F2.3	Joint net benefits will be increased if policy initiatives are: outward looking; generally do not impede profitable exchange with other trading partners; take account of linkages with other agreements; and are consistent with domestic policy improvement over time.
F4.1	Mutual recognition of imputation credits (MRIC) would be expected to result in a more integrated capital market and improve trans-Tasman economic efficiency. However, MRIC would lead to a greater fiscal cost for Australia than New Zealand and to some income transfers between Australia and New Zealand. Australian transfers to New Zealand could be expected to be greater than transfers the other way, although their precise magnitude is impossible to predict. A probable outcome would be a net income loss for Australia.
F4.2	The Trans-Tasman Council on Banking Supervision is well positioned to progress any work relating to the further integration of Australian and New Zealand prudential regulation.
F4.3	The prerequisite conditions for a trans-Tasman monetary union do not exist.

Table 2 Recommendations — Initiatives underway

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.1	The remaining outcomes in the business law single economic market program should be completed on time, unless it can be demonstrated that they would no longer generate net benefits.	Some of the business law reforms are behind schedule. Delivering the program on time will reduce compliance costs, deepen markets and increase competition.	Short term
R4.2	The Australian and New Zealand Governments should proceed with the implementation of a single application and examination process for patents. The trans-Tasman intellectual property reforms, particularly those relating to patents, should be evaluated within three years of implementation.	There are potential operational benefits from closer collaboration between the Australian and New Zealand intellectual property offices.	Short term
R4.3	The Australian and New Zealand Governments should give priority to implementing those recommendations of the Australian Commission's 2009 review of the Trans-Tasman Mutual Recognition Arrangement that were accepted by Governments.	Encourage occupational licensing systems that facilitate the efficient movement of labour within and across the two countries.	Short term
R4.4	Governments should publish a progress report on implementing accepted recommendations of the 2009 review of the Trans-Tasman Mutual Recognition Arrangement before the next review, scheduled in 2013.	The progress of all Australian governments and the New Zealand Government in implementing recommendations from a previous review of mutual recognition is not transparent.	Short term
R4.5	Australian and New Zealand occupational regulators should share knowledge and lessons in developing efficient and effective occupational licensing systems. Relevant Australian and New Zealand regulators should be included in consultations around the development of national occupational licensing systems in the other country.	As occupational licencing is a significant entry point into the trans-Tasman labour market, it is in the interests of both Governments to cooperate and monitor changes in the other country's systems.	Ongoing
R4.6	Given the long time it is taking to set up the Australia New Zealand Therapeutic Products Agency, the Australian and New Zealand Governments should publish regular progress reports. Once the Agency has been established, the Governments should review the lessons for other potential regulatory harmonisation initiatives.	A single trans-Tasman regulator could reduce costs of regulation and increase technical capability. It would also provide useful lessons for other areas of potential harmonisation.	Short to medium term
R4.7	The CER Investment Protocol should be enacted as soon as practicable.	The Protocol should reduce administrative costs for government and compliance costs for firms, and improve capital allocation.	Short term

Table 3 Recommendations — Proposed initiatives

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.8	<p>The Australian and New Zealand Governments should:</p> <ul style="list-style-type: none"> • waive CER Rules of Origin for all items for which Australia's and New Zealand's Most Favoured Nation tariffs are at 5 percent or less • consider reducing any tariffs that exceed 5 percent to that level. 	Savings in administrative and compliance costs for government and business and improved resource allocation.	Short to medium term
R4.9	Where cost effective, quarantine and biosecurity agencies in Australia and New Zealand should continue to develop common systems and processes, and enhance their joint approach to risk analysis.	Benefits through sharing of information and resources.	Ongoing
R4.10	The Australian and New Zealand Governments should complete the review of the exclusions from the Trade in Services Protocol, to consider whether retaining each exclusion would generate net benefits. The review should be published.	The removal of exclusions has the potential to generate benefits from enhanced trans-Tasman competition. Exclusions have not been reviewed since 2008.	Short term
R4.11	The Australian and New Zealand Governments should remove the remaining restrictions on the single trans-Tasman aviation market.	Maintain (already significant) competitive pressure in the trans-Tasman air services market.	Short term
R4.12	<p>The Australian and New Zealand Governments should:</p> <ul style="list-style-type: none"> • ensure that the objective of air services policy is explicitly directed at promoting net benefits for the community • pursue the most liberal air services agreements possible, by negotiating reciprocal open capacity and all air freedoms, including cabotage where appropriate • revise designation and ownership requirements. 	Enhanced competition, lower airfares, and an expanded range of services.	Medium term
R4.13	The Australian Government should reconfigure the Passenger Movement Charge as a genuine user charge for border services. The New Zealand Government should review its border passenger charges to achieve full and transparent cost recovery, in line with existing arrangements for cargo.	Increased transparency, and potentially more equitable.	Short term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.14	The Australian and New Zealand Governments should remove — preferably on a coordinated basis — the exemption for international shipping ratemaking agreements from legislation governing restrictive trade practices.	Increased competition and potentially lower costs for businesses.	Short term
R4.15	When reviewing the restrictions on competition for coastal shipping, the Australian Government should adopt a broad cost-benefit framework and draw on the experience of New Zealand with its different regulatory approach.	Net benefits for the wider Australian economy and community, and may reduce trans-Tasman shipping costs.	Medium term
R4.16	Governments should undertake systematic monitoring, data collection and benchmarking of ports' performance in Australia and New Zealand, building on existing initiatives.	Identify opportunities to improve performance of ports and facilitate the diffusion of good practice.	Ongoing
R4.17	The Australian and New Zealand Governments should include in the next reviews of their respective telecommunications regulatory frameworks a term of reference to examine barriers to trans-Tasman trade in telecommunication services and options for their removal.	Identify beneficial opportunities to further harmonise telecommunications regulation.	Medium term
R4.18	The Australian and New Zealand Governments should consider removing remaining restrictions on trans-Tasman foreign direct investment. The policy rationale and the costs and benefits of any restrictions, including exceptions to national treatment left in place, should be made clear.	Further reduce the cost and uncertainty of trans-Tasman investment and more fully realise the benefits from the free movement of capital	Medium term
R4.19	The Australian and New Zealand Governments should either: <ul style="list-style-type: none"> • initiate a process, preferably with a clear deadline, for determining whether there is an efficient, equitable and robust mechanism that would ensure a satisfactory distribution of the gains from the mutual recognition of imputation credits (MRIC); or • if they consider that such mechanisms are infeasible, announce that MRIC will not go ahead. 	MRIC would be expected to improve trans-Tasman economic efficiency and result in a more integrated capital market. However, MRIC would lead to a greater fiscal cost for Australia than New Zealand and to some income transfers between Australia and New Zealand. A probable outcome would be a net income loss, of uncertain size, for Australia. A workable mechanism would need to address these imbalances and uncertainties.	Short term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
R4.20	Taxation of non-resident employees should be considered when the double taxation arrangements between Australia and New Zealand are next reviewed.	Reduce compliance costs for businesses with employees active in both trans-Tasman jurisdictions.	Short to medium term
R4.21	The Australian and New Zealand Governments should progress the further roll out of SmartGate and associated systems where it is cost effective to do so, focusing on departures from Australia and major regional airports.	Extending availability of SmartGate would simplify customs and immigration checks for a larger number of eligible travellers.	Short term
R4.22	The Australian and New Zealand Governments should consider a 'trans-Tasman tourist visa' for citizens from other relevant countries who wish to travel to both countries. The charges for this visa should be based on a cost-recovery model, with agreed sharing of revenue and costs.	Reducing visa requirements may encourage foreign travellers to visit both countries on a trip.	Short term
R4.23	The Australian and New Zealand Governments should give clear and coordinated, whole-of-government advice to Special Category Visa holders in Australia, and New Zealand citizens contemplating residence in Australia, both before and after arrival, on their obligations and entitlements.	Better information would help New Zealanders contemplating a move to Australia understand the current provisions and plan accordingly.	Short term
R4.24	The Australian Government should address the issues faced by a small but growing number of non-Protected Special Category Visa holders living long term in Australia, including their access to certain welfare supports and voting rights. This requires policy changes by the Australian Government, including the development of a pathway to achieve permanent residency and/or citizenship.	Existing provisions have created anomalies in relation to a number of issues faced by non-Protected Special Category Visa holders living long term in Australia.	Short term
R4.25	The Australian Government should seek to improve access of New Zealand citizens to tertiary education and vocational training through the provision of student loans, subject to a waiting period and appropriate debt recovery provisions.	The existing arrangements compromise the opportunity to build skills and capabilities for an increasing number of young New Zealand citizens who have lived in Australia for many years.	Short term
R4.26	Within the context of CER, the Single Economic Market (SEM) and the Trans-Tasman Travel Arrangement (TTTA), the Australian and New Zealand Governments should: <ul style="list-style-type: none"> review, and make more explicit, the principles governing access to social security 	Given the anomalies in current arrangements, there would be merit in reviewing the principles underpinning access to social security within the context of CER, the SEM and the TTTA.	Medium term

	<i>Recommendation</i>	<i>Rationale</i>	<i>Time scale for implementation</i>
	<ul style="list-style-type: none"> further develop bilateral engagement on migration policies. 	Further, in order to maintain the integrity of an integrated labour market, there would be advantages to both countries from working towards more aligned immigration policies.	
R4.27	The Australian and New Zealand Governments should encourage government agencies to consider opportunities for trans-Tasman coordination in service delivery and regulation on a case-by-case basis.	Greater coordination may reduce costs, encourage knowledge transfer, and increase technical capability.	Ongoing
R4.28	The Australian and New Zealand Governments should seek beneficial opportunities to undertake joint benchmarking. In particular, they should determine an appropriate approach for New Zealand to participate in the <i>Report on Government Services</i> produced under the auspices of COAG, and also in regulatory benchmarking studies undertaken in Australia.	Benchmarking can help identify opportunities for improvement and facilitate the diffusion of good practice.	Ongoing
R5.1	The Australian and New Zealand Governments should create clearer leadership and oversight of CER, including of issues relating to the trans-Tasman labour market and associated movement of people. The enhanced leadership and oversight should build on existing governance arrangements and the annual meetings of Prime Ministers and other Ministers.	Help maintain momentum of the CER agenda, while providing greater continuity, cohesion and foresight.	Short term
R5.2	Regulatory proposals at the national level should consider opportunities for trans-Tasman collaboration or alignment that would lower costs or deliver benefits for businesses and people active on both sides of the Tasman.	There may be opportunities to design changes in a way that lowers transaction costs for businesses operating across the Tasman.	Ongoing
R5.3	The Australian and New Zealand Governments should continue to identify and take opportunities for coordinated action to achieve beneficial regional and multilateral integration, and greater leverage in international rule making and standard setting.	There may be cases where coordinated action can lead to greater leverage in multilateral fora, including those related to international rule making and standard setting.	Ongoing
R5.4	The Australian and New Zealand Governments should undertake five-yearly public reviews of CER to take stock of what has been achieved and learnt, and to ensure that the agenda remains relevant and forward looking.	Reviews would provide an opportunity to focus on the broad CER agenda and learn from evaluation and research conducted in the interim years.	Ongoing