

Hon Grant Robertson

MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation



31 October 2022

Dr Ganesh Nana
Chair
Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

Dear Ganesh

TERMS OF REFERENCE FOR AN INQUIRY INTO THE RESILIENCE OF NEW ZEALAND ECONOMY TO SUPPLY CHAIN DISRUPTIONS

On behalf of myself and the Ministers of Energy and Resources, for Trade and Export Growth, for Economic and Regional Development, for Māori Development and of Commerce and Consumer Affairs, I am pleased to refer to you the Terms of Reference for an inquiry into *the resilience of the New Zealand economy to supply chain disruptions*.

The shock to the global economy over the last three years from the COVID-19 pandemic has been considerable. While New Zealand's supply chains have shown resilience, there are ongoing challenges to our access and integration into global supply chains from potential long-term impacts of the pandemic and the changing geo-political and environment. This inquiry will enable us to identify vulnerabilities and how to best mitigate risks from disruption to our supply chains.

I welcome an inquiry into the resilience of the New Zealand economy to supply chain disruptions focusing on medium-term persistent disruptions. This inquiry will complement work by other agencies including addressing short-term and critical risks led by Ministry of Foreign Affairs and Trade, and the long-term development of transport infrastructure that underpins supply chains, led by Ministry of Transport. I expect the Commission to engage with agencies throughout the inquiry process, including on draft reports prior to their public release.

I wish you all the best as you commence this inquiry and look forward to your findings.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson'.

Hon Grant Robertson
Minister of Finance

Terms of Reference - New Zealand Productivity Commission Inquiry into the Resilience of the New Zealand Economy to Supply Chain Disruptions

Issued by the Ministers of Finance, of Energy and Resources, for Trade and Export Growth, for Economic and Regional Development, for Māori Development and of Commerce and Consumer Affairs (the "referring Ministers").

Pursuant to sections 9 and 11 of the New Zealand Productivity Commission Act 2010, we hereby request that the New Zealand Productivity Commission ("the Commission") undertake an inquiry into *the resilience of the New Zealand economy to supply chain disruptions*.

Purpose

The purpose of this inquiry is to identify policies and interventions that can enhance the resilience of New Zealand's economy and living standards to persistent medium-term supply chain disruptions. The Commission will apply its independent analytical capacity and engage with stakeholders to select a definition of resilience appropriate to the inquiry, identify industry level supply chain vulnerabilities, and recommend policy responses that assist in anticipating, preparing for, responding to, recovering, and learning from persistent medium-term supply chain disruptions.

Context

Global supply chains deliver goods and services underpinning the wellbeing of New Zealanders. They enable productivity-enhancing specialisation, production, and distribution across the globe. However, the environment that global supply chains relied on for the past three decades is challenged by the emergence of escalating geopolitical, environmental, societal, natural hazards, economic, infrastructural and health risks.

New Zealand, as a small open economy relying on global exchange far from global markets, is exposed to increased risk of disruptions while also having limited power to influence global supply chains. In response to recent supply chain pressures, the Government has initiated a range of workstreams covering various aspects of economic and supply chain resilience (see out of scope section).

Resilience to supply chain disruptions is often best addressed by firms that have incentives, knowledge, and capability to respond to risks. However, the resilience to new or increased risks may be enhanced by various forms of public-private collaboration and interventions at the national, regional, and community level. At the same time, these interventions need to be co-ordinated, well-calibrated, and embedded into existing policies in ways that minimise potentially adverse effects (including distributional impacts on firms, sectors, consumers, and communities), while also maximising opportunities, thereby protecting or enhancing wellbeing overall.

Scope

The inquiry should complement existing agency work by providing an independent view on resilience to persistent disruptions that require economic adaptation in the medium-term. It should cover both fiscal and non-fiscal instruments for enhancing resilience through various policy tools which may include industry transformation plans, infrastructure, energy and any innovation focused strategies, just transition, agile regulation, stewardship practices and market studies. These tools may improve resilience by enhancing competition, diversification, enabling substitution of vulnerable inputs, innovation, stockpiling, or on-shoring (ie domestic production), and help to balance costs and trade-offs that resilience improvements may entail.

For the inquiry the Commission should investigate:

- factors that make New Zealand economy vulnerable to supply chain disruptions within the context of increasing risks and the pandemic experience;
- New Zealand importer and exporter dependencies on global supply chains, to identify vulnerabilities;

- a Te Ao Māori perspective on resilience considering He Ara Waiora dimensions and how it applies within Māori businesses and communities; and
- drivers of variation in firm, sector, and community, resilience to supply chain disruptions.

Drawing on the findings of the above investigation the Commission will develop evidence-based recommendations which should:

- identify possible policy responses and interventions to persistent, medium-term disruptions that can support resilience, productivity and wellbeing in a manner compatible with other relevant policy objectives and New Zealand's particular circumstances;
- identify a framework for targeting support for firm, sector, and community resilience in response to particular vulnerabilities to supply chain disruptions;
- assess whether and how the portfolio of sectoral policies addresses vulnerabilities and dependencies in global and domestic parts of export and import supply chains; and
- assess whether and how resilience objectives are integrated into existing policies and, if necessary, recommend the development of additional or cross-cutting initiatives.

Out of scope

While the inquiry may reference policies that enhance individual and household resilience such as social unemployment insurance and similar welfare state arrangements, its primary focus is on fiscal and non-fiscal instruments for enhancing resilience through various policy tools.

While the inquiry will need to consider the wider context and impact of the existing government work programme on resilience, the inquiry will complement, but not replicate, ongoing initiatives on resilience to supply chain disruptions, including the work on:

- the long-term development of transport infrastructure underpinning supply chains (Ministry of Transport and Infrastructure Commission);
- Ministry of Foreign Affairs and Trade led inter-agency work on supply chain resilience, including the identification of essential goods (and services) that New Zealand needs to be able to access, and policy options for dealing with six-month to one-year scenarios (Ministry of Foreign Affairs and Trade, Department of Prime Minister and Cabinet, The Treasury, Ministry of Primary Industries, Customs, Ministry of Business Innovation and Employment, Ministry of Health, Pharmac and National Emergency Management Agency);

International environmental and human rights standards (currently led by Ministry of Foreign Affairs and Trade, and Ministry of Business Innovation and Employment) are out of scope, except insofar as implementation affects the resilience or efficiency of New Zealand supply chains.

Consultation Requirements

In undertaking this inquiry, the Commission should:

- consult with key interest groups and affected parties (including firms; industry peak bodies; Māori trusts, incorporations, and enterprises; and trade unions) working alongside other agencies where possible;
- engage with relevant government agencies, international organisations, and experts; and
- draw from international research, perspectives, and experience.

Timeframe

The Commission must publish a draft report and/or discussion paper(s) on the inquiry for public comment, followed by a final report or reports, which must be submitted to each of the referring Ministers by 15 February 2024.