



Hon Bill English
Minister of Finance
Deputy Prime Minister



Hon Wayne Swan
Treasurer
Deputy Prime Minister

Mr Gary Banks AO
Chairman
Australian Productivity Commission
GPO Box 1428
Canberra City ACT 2601
Australia

Mr Murray Sherwin CNZM
Chair
New Zealand Productivity Commission
PO Box 8036
Wellington 6143
New Zealand

Dear Messrs Banks and Sherwin

We are writing to request that the Australian and New Zealand Productivity Commissions undertake a Joint Scoping Study on the *Impacts and Benefits of Further Economic Integration of the Australian and New Zealand Economies*. This request is pursuant to the relevant provisions of the Australian *Productivity Commission Act 1998* and the New Zealand *Productivity Commission Act 2010*.

The signed Terms of Reference for this Study are enclosed and reflect the details of the Joint Scoping Study, which were announced by the Prime Minister of Australia, the Hon Julia Gillard MP, and the Prime Minister of New Zealand, the Rt Hon John Key, at their Leaders' Meeting of 29 January 2012.

The Terms of Reference request you to submit the final report to the Prime Ministers, through us, by 1 December 2012.

We look forward to receiving the Commissions' report.

Yours sincerely

BILL ENGLISH
enc

WAYNE SWAN

Strengthening economic relations between Australia and New Zealand

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

Purpose of the 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. The two countries have a long history of working together through the Australia New Zealand Closer Economic Relations Trade Agreement which first came into effect on 1 January 1983 and has involved successive rounds of integration of the Australia and New Zealand economies. This has been highly beneficial to both countries.

At their annual leaders meeting, the Prime Ministers of Australia and New Zealand agreed that, to promote further reform and economic integration, the Productivity Commissions of each country would conduct a joint study on the options for further reforms that would enhance increased economic integration and improve economic outcomes. The Commissions' final report should be completed by 1 December 2012 in order to inform the next meeting of leaders, expected to take place in early 2013.

With 2013 marking 30 years of the operation of the Closer Economic Relations Trade Agreement, the Commissions' report will help advise the Australian and New Zealand Governments on next steps in economic integration.

The report should identify specific areas for further potential reform, the ways in which they might be best achieved, the likely impacts of potential reforms, any significant transition and adjustment costs that could be incurred and the time scale over which impacts are likely to accrue.

Scope of report

The Commissions' report to leaders should provide analysis on:

- potential areas of further economic reform and integration, including identification of the 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 impacts and benefits of reform;
- any significant transition and adjustment costs that could be incurred;
- identification of reform where joint net benefits are highest;
- the means by which they might be best actioned; and
- the likely time paths over which benefits are expected to accrue.

Methodology

The Commissions should provide an explanation of the methodology and assumptions used in its analysis. The Commissions should also provide guidance concerning the sensitivity of results to the assumptions used and bring to leaders' attention any limitations or weaknesses in approaches to reform evaluation.

Consultation and timing

In the course of preparing the report, the Commissions should consult and hold public hearings as appropriate. While these consultations would inform the Commissions' assessment, responsibility for the final report would rest with the two Productivity Commissions.

The Commissions should produce both a draft and a final report. The Commissions' final report should be submitted to leaders, through the Treasurer of Australia and the Minister of Finance of New Zealand, by 1 December 2012. The reports will be published.



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New Zealand



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