



# Making sense of a trans-Tasman currency

An Australian newspaper once suggested the name Kiwaussie or Auskiwi, and a former Australian Deputy Prime Minister conjured up the name Zac – what would you call the single currency between Australia and New Zealand if and when it finally arrives?

How often have you found an Aussie coin in your change, wondering if you can palm it off to the next retailer as an inconvenient substitute for the Kiwi McCoy? Well if the colossus of opinion on both sides of the Tasman is anything to go by – eventually you won't have to. Within business, political and economic circles there's growing belief that a common Australia/New Zealand currency makes sense.

The common currency debate is far from new, but the sentiment now coming out of Australia

suggests that New Zealand will – sooner or later – adopt the Australian unit out of economic necessity. While a common currency is one of many moves towards a single economic market – based on common regulatory frameworks – it's by no means the most important.

## **Aussie thumbs-up**

Nevertheless, there's a mounting Australian view that Kiwis' should agree to trade-in



Sir Edmond Hillary on the five dollar note for the Aussie version with a picture of the Australian parliament on it.

Australian high commissioner Dr Allan Hawke gave Australia's strongest-yet official thumbs-up for the common currency idea in the official talks held in the lead-up to the recent inaugural Australia/New Zealand Leadership Forum attended by 70 top business and political leaders in Wellington.

Designed to strengthen trans-Tasman integration through the coordination of business, competition and regulatory law – big wigs attending the forum were:

The Australian Foreign Minister, Alexander Downer, Qantas chairwoman Margaret Jackson, Australian Council of Trade Unions (ACTU) president Sharan Burrow, Australian Stock Exchange chief executive Richard Humphry and Telstra chief Ziggy Switkowski, Telecom chief executive Theresa Gattung, Reserve Bank Governor Allan Bollard, Commerce Commission chairman Paula Rebstock, and NZX CEO Mark Weldon.

### **Adopt Aussie dollar**

Hawke's advocating New Zealand adopts the Aussie dollar as a common Anzac currency. But he is adamant this will mean neither an Aussie take-over nor any threat to New Zealand's sovereignty. "You don't see the euro making the French any less French, or the Germans any less German," says Hawke, a former head of the Australian Department of Defence. "There are a couple of countries in the Pacific Islands area that do have the Australian dollar as their currency."

### **Australia's 7th state?**

But instead of having a common trans-Tasman currency controlled by a group central bank – as is the case amongst EU countries - Hawke envisages New Zealand being adopted into the Australian economic system. Under this system, New Zealand would enjoy the same status as other Australian states and territories, which run their own budgetary affairs, despite interest rates being decided at a commonwealth level by the Reserve Bank. "If you had that sort of union, maybe you'd contemplate appointing some Kiwis to the Reserve Bank of Australia to take their interests into account, and New Zealand would run its own fiscal policy," says Hawke.

But as long as Hawke perpetuates rhetoric that's perceived to threaten NZ sovereignty the more likely, argues NZX CEO Mark Weldon, the real benefits will get lost in the mire of nationalist sentiment.

**Around 60% of those polled favour a common currency, while 62% backed a combined Australia/NZ stock exchange.**

### **Australia's ambitions**

Monetary unity with NZ is clearly one way for Australia to harmonise with one of its largest trading partners. But Victoria University professor of economics Roger Bowden believes Australia has much more to gain from a single currency than closer economic relations with NZ. In other words, having the Aussie dollar underwritten by a considerably larger economy – including New Zealand – would aid Australia's ambition of becoming a financial and economic powerhouse in the Asia-Pacific region.





Above: Prime Minister Helen Clark  
Below: Deputy Prime Minister  
Michael Cullen



With around 700,000 Aussies and 500,000 Kiwis visiting each others shores annually - common currency benefits to tourism-related businesses and SMEs could be significant.

Above: Sydney Skyline. Below: Auckland Viaduct Harbour.



At face value, the current government seems to be taking a much cooler stance towards a common currency than its Aussie counterparts. To illustrate this point Foreign Affairs Minister Phil Goff, who attended the recent forum, said a common currency would be at the end of the regulatory process, not at the beginning. Deputy Prime Minister Michael Cullen argues that a common currency is not on the current agenda. Nevertheless, former rhetoric by the prime minister, Helen Clark suggests that a joint currency with Australia could be inevitable.

### **Businesses say yes**

Meantime, recent support for a common currency with Australia on this side of the Tasman has taken the Government totally by surprise. Results of a New Zealand Herald survey showed strong support among 120 leading CEOs and chairmen for a single trans-Tasman market. Around 60% of those polled favour a common currency, while 62% backed a combined Australia/NZ stock exchange. Support was 80% or higher for other proposals, including common corporate tax

rates, common tariffs, a single aviation market, joint competition framework and joint accounting standards.

From an investment viewpoint a common currency also makes sense. With A\$21bn invested locally, it's logical that Australian businesses would want to eliminate unnecessary foreign exchange risk by pushing for a common trans-Tasman currency. Included among Kiwi assets to be recently acquired by Aussie firms are INL (now Fairfax), Tranz Rail (now Toll NZ) and the National Bank. Meantime, Australian companies already control all five major trading banks, the two leading newspaper chains, a sizable chunk of the retail industry and the railways. Interestingly enough, New Zealand also has around A\$30bn invested across the ditch.

But, like New Zealanders with investments in Australia, they face different laws when operating on the other side of the Tasman.

### **New currency unrealistic**

Margaret Jackson, Qantas Airways chairwoman doesn't believe it's a foregone conclusion that New Zealand would have to adopt the Australian dollar. But opposition leader Don Brash knows all too well they're not about to abandon the Australian dollar for a new currency to accommodate Kiwis. As a result, he believes the business community's expectation of a brand new "Anzac" dollar could be in vain. "The question we have to ask is not would you like an Anzac currency, but would you be happy with the Australian dollar and Australian bank notes and policy determined in Sydney?"

While he admits a common currency is a contentious issue, former economist and BNZ chairman Kerry McDonald believes removing the currency issue between the two countries has significant benefits. Before the Australia/NZ Leaders Forum opened in Wellington, he said a common currency would be a beneficial and important step in strengthening ties. To McDonald, currency is just one amongst a litany

of issues that make trans-Tasman business a nightmare. Beyond currency, the more immediate problems to be solved, says McDonald include the differences in the tax systems and harmonisation of business laws.

### **Commodity influences**

With around 700,000 Aussies and 500,000 Kiwis visiting each others shores annually - he says common currency benefits to tourism-related businesses and SMEs could be significant. "Simplifying the pricing, accounting and fund management will have tangible benefits, as will being able to invoice and receive funds in a common currency," says McDonald, one of the Forum's organisers.

But Australia's Foreign Minister, Alexander Downer isn't so confident New Zealand would benefit from a single currency. Downer can see

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the potential benefits of a much larger economy behind the currency. But he says the jury's out on whether a different set of commodity influences is necessarily beneficial for Kiwis.

"With Australia's economy about six times the size of New Zealand's, everything from monetary policy to interest and exchange rates would all be determined in Australia."

### Understanding the drivers

A common currency arguably creates opportunities for trans-Tasman traders. But

Chris Nixon economist with the NZIER questions whether it will necessarily be a good thing for companies trading with the rest of the world. He says there needs to be much greater understanding of the drivers of both economies before a common currency is blindly given the thumbs up. "The commodity drivers that make the Australian economy go well – primarily mining resources - could have a corresponding downward spiral for NZ's rural-based commodities like wool, forestry and dairy. So there could be a double whammy effect," says Nixon.

He says there's going to have to be a lot of synchronisation of both economies before a common currency could seriously be mooted as an option. If the cycles of both economies aren't going in the same direction, Nixon says the repercussions for NZ – being the smaller one – could be huge.

Admittedly, having a trans-Tasman currency is an easier undertaking than European monetary unity. But Nixon believes the jury's still out on whether it's really worked in Europe. "Companies doing business in Australia will need to convince the community at large, and those businesses trading beyond Australia, why a common currency is a good idea."

### Net impact

For Bowden the key to the Euro's success is the way its integrated capital markets across Europe.



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In fact, as well as being the single most important reference system for interest rates (globally), he says the Euro is now equal to Stirling as a major debt market currency.

Other economic considerations aside, Bowden believes the net impact of a single currency on Kiwi investors is arguably beneficial. What it does, explains Bowden is eliminates the foreign exchange component. A major headache for Kiwi investors is the chronic instability of the NZ\$. Over the longer term currency volatility shouldn't be a major issue.

The trouble, says Bowden is that all too often Kiwi investment cycles aren't long enough to offset the currency issue associated with investing offshore. "Those who invest offshore at the wrong time within the currency cycle - and then have too short an investment cycle - can end up being in a lot of trouble," says Bowden. "A single currency also simplifies things enormously for fund managers who take a currency hit every time they make a transaction."


### Focus on benefits

Like Phil Goff, Weldon believes it's only prudent to talk about a common currency after the

necessary regulatory hurdles are put into place. The ultimate goal is the free-flow of capital, investment and goods between NZ and Australia.

**"With Australia's economy about six times the size of New Zealand's, everything from monetary policy to interest and exchange rates "would all be determined in Australia."**

But without the necessary harmonisation of tax laws and other regulatory hurdles, Weldon says there's no compelling base-case for a common trans-Tasman currency.

Once we get some infrastructural, tax and trade issues agreed upon, we'll be in a much better position to start talking about a common currency. He says quick wins to help nudge the debate forward - that would make cross-border trading easier - would be harmonisation of the Companies and Securities Acts, imputation and franking credits. "The 10 years it took to launch the Euro could be a reasonable benchmark for getting a trans-Tasman currency. But we have to look beyond the emotive elements and focus on the benefits of two small economies at the end of the world having one currency." 

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