

**KEY ECONOMIC DEVELOPMENT
OPPORTUNITIES AND CHALLENGES**

**BRIEFING FOR INCOMING MINISTERS
NOVEMBER 2008**

Prepared by the Ministry of Economic Development

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INTRODUCTION

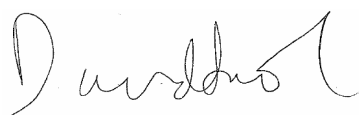
New Zealand's biggest immediate challenge is to respond effectively to the global economic situation. As you have said in your Economic Plan, we also need to address longstanding economic issues so the economy can recover and grow strongly.

Chief among these issues is a low level of productivity. It therefore makes sense for responses to the current financial crisis to aim to tackle New Zealand's long term productivity problem, as well as providing short term relief. This will require concerted effort across many portfolios and departments.

This overview briefing summarises our view of the areas likely to be most critical to increased productivity, based on the Government's stated intentions and the Ministry's practical experience of advising on and implementing economic growth policies across the business-focused portfolios that we support. In preparing this briefing, we have sought the views of other government agencies, and reflected them where appropriate.

We have provided more detailed information in separate briefings for each Minister holding a portfolio supported by the Ministry. We have also provided you with a *Guide to the Ministry of Economic Development* which details the Ministry's role, structure, and functions.

We would welcome an early opportunity to meet you to get a more detailed understanding of your objectives, and discuss how we can help you achieve them.



David Smol
Chief Executive

OVERVIEW

The productivity challenge

The immediate priority is to respond to the global economic situation...

1. The global financial turmoil is limiting the availability and raising the cost of credit. The resulting economic slow down will also have an effect on New Zealand's economy via weaker export demand, lower commodity prices, reduced asset values and weaker confidence. Growing evidence suggests that this slow down is likely to be severe, with recession already happening or expected in several developed economies.
2. New Zealand's flexible economy will allow for some of the necessary adjustment to happen automatically (for instance, through exchange and interest rates). The demand stimulus provided through your planned tax cuts and signalled infrastructure investment will also help mitigate the effects, along with initiatives to maintain the flow of credit to firms and consumers - such as the bank deposit guarantee scheme. But the implications of the crisis are still likely to be long lasting and long term.
3. While this situation poses great policy challenges, it also provides the Government with an opportunity to build a sense of urgency around action to address longstanding economic weaknesses.
4. Many of the immediate issues to be addressed are at a macroeconomic (economy-wide) level – and therefore fall within the Finance portfolio. But there are also a number of critical microeconomic (firm-level) issues that fall within the portfolios supported by the Ministry of Economic Development. It will be important for the overall government response to focus on addressing these microeconomic, as well as macroeconomic, weaknesses.
5. As part of the overall Treasury-led work, we have been working on sector-specific and firm-level responses to the global economic and financial crisis. We are keen to engage with you on this at an early stage.

...without losing sight of New Zealand's biggest challenge - productivity

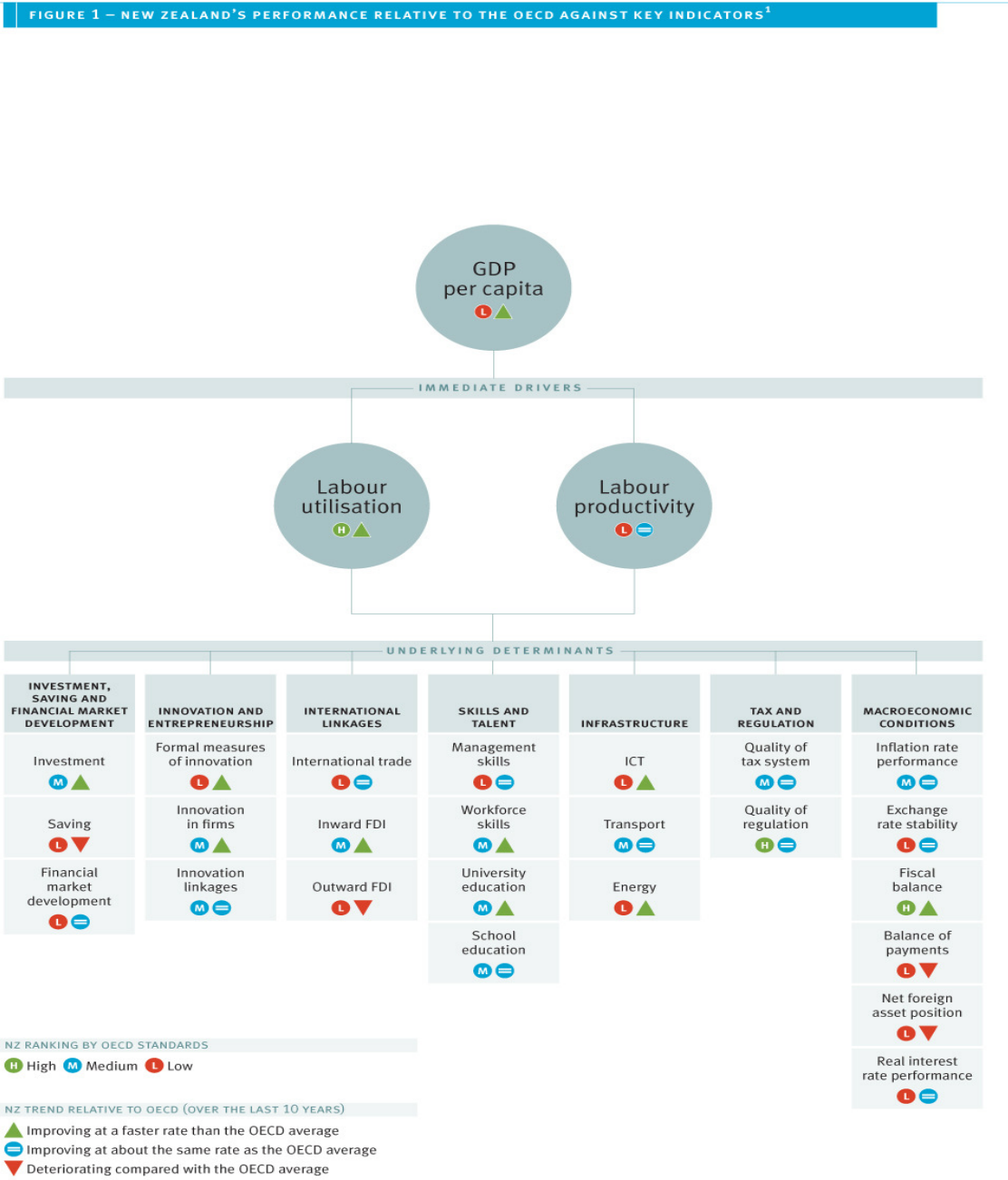
6. New Zealand's past successful decade of economic growth has been largely due to increases in labour utilisation. As a result, New Zealand now has one of the highest national rates of labour utilisation, with a large share of the population being of working age, high labour participation rates, a high average number of hours worked per person, and low unemployment.
7. Conversely, New Zealand's levels of productivity are low relative to Australia and the rest of the OECD. Productivity growth over the last 15 years or so has broadly matched Australia's growth, but has not been sufficient to make up the large gap with Australia or with other countries.
8. As you have indicated, future growth in national income to achieve your goal of closing the income gap with Australia by 2025 will therefore be critically

dependent on achieving bigger productivity gains. Responses to the current economic situation that also serve this goal will generate long term benefits.

Lifting productivity

New Zealand's performance across productivity-supporting areas is mixed

- Figure 1, from the 2007 Economic Indicators report¹, gives a more detailed picture of performance in a range of areas critical to productivity growth.



¹ The comparisons in this diagram are relative to the performance of other OECD countries. The report was prepared jointly by the Ministry of Economic Development, the Treasury and Statistics New Zealand.

10. It suggests that in some areas, New Zealand is performing well. But it also highlights a number of areas where performance is failing to keep up, or close the gap, with the OECD average.

Size and distance account for much of New Zealand's productivity gap

11. Many of the specific characteristics of New Zealand's economy – in particular its small size, the relative absence of large enterprises and our distance from global markets – make lifting our productivity performance even more of a challenge. The OECD recently suggested that our GDP per capita could be around 11 percent higher if we were located at the same distance from world economic activity as the average OECD country.
12. While we can learn from the experiences of other countries, and take account of initiatives that have worked elsewhere, overcoming and compensating for these specific disadvantages will require a New Zealand-specific approach.

Getting the basics right is important...

13. Most of New Zealand's macroeconomic settings are sound, although there are areas for improvement, especially in the current global economic environment. Getting these settings right is critical, because a stable and sustainable macroeconomic environment is the essential foundation for growth. Such an environment stimulates productivity improvement by reducing uncertainty, lowering interest rates, providing incentives for wealth creation, and increasing resilience to economic shocks.
14. As you have noted in your State services policy, lifting public sector productivity should also be a focus in order to ensure effective use of increasingly scarce government resources.
15. The Treasury is the government's primary advisor in these areas, and their briefing summarises the key macroeconomic and public sector productivity challenges and opportunities.
16. At the microeconomic level – where the portfolios supported by the Ministry of Economic Development sit, and where this briefing is therefore focused - many of the basic settings are also sound. For example, the World Bank rates New Zealand as having a business-friendly regulatory environment relative to other countries, although some other countries are making rapid improvements, so we need to keep improving to stay ahead.

...but New Zealand needs to do more to address its poor productivity performance

17. While getting the basic macroeconomic and microeconomic frameworks right is essential, it will not be sufficient to address poor productivity performance. Figure 1 highlights the wide range of complex and inter-related factors – such as entrepreneurship and innovation - that build on these frameworks to contribute to increased productivity. These factors run

across government agencies and Ministerial portfolios, and are affected by the behaviour of firms and entrepreneurs, workers and consumers, as well as the particular characteristics of our economy.

18. All OECD countries pursue policies aimed at enabling and enhancing the ability of market forces to improve these factors. Such policies are particularly important in New Zealand given the nature of the challenges we face. They are likely to become more important as you work to help New Zealand's economy emerge from the economic downturn as quickly and strongly as possible.

The role of the Ministry of Economic Development

The Ministry has led recent work on increasing productivity...

19. The Ministry has been responsible for leading cross-government work aimed at enhancing economic development. This has been developing in recent months into a more comprehensive programme of micro-economic and macro-economic work, co-led by the Ministry and Treasury, focused on increasing productivity.

...and brings a productivity focus to the range of issues we work on

20. We apply the same productivity focus across each of the Ministerial portfolios and Votes we support. Addressing all of these portfolios in one Ministry enables links to be made across closely-related work areas, as well as yielding economies of scale.

We use our strong links to business to bring a firm-focused perspective to our work...

21. The Ministry works closely with other economic policy agencies and business interests to build our understanding of the structure and dynamics of the New Zealand economy, and of how to promote economic growth. This includes supporting and working with private sector advisory groups like the Growth and Innovation Advisory Board, the Small Business Advisory Group, and the Capital Markets Development Taskforce. We also lead the Government Urban and Economic Development Office (GUEDO) – a network of nine central government agencies² that work together to promote Auckland's economic development.
22. We can draw on this experience to help you establish a high quality advisory group on how to close the income gap with Australia by 2025.
23. You have also indicated that you want to explore the concept of a New Zealand Productivity Commission associated with the Productivity Commission in Australia. The Ministry has a close association with the Australian Productivity Commission and has had informal discussions with them about the possibility of strengthening linkages with New Zealand. We

² Economic Development, Transport, Environment, Labour, Agriculture and Forestry, Internal Affairs, State Services Commission, Treasury and Department of Prime Minister and Cabinet.

are consequently well placed to contribute to thinking about a possible New Zealand Productivity Commission.

24. We can also use our experience of working with the private sector to contribute some suggestions on possible private sector members of your planned task forces to review government spending, and other advisory groups you are planning to establish, if you would like us to do so.
25. It will be important to ensure that the roles and membership of all these advisory groups and task forces, as well as existing groups, are considered together so that the overall structure is coherent. You may also want to review the membership and focus of existing groups, especially since particular groups or their members may be possible candidates for the new advisory groups and task forces.

...and contribute to resolving tensions between economic and environmental issues...

26. You have indicated that economic growth and improving the environment can and must go hand in hand. But effective mechanisms are needed to ensure these objectives are well balanced. We help to ensure that an economic development perspective is brought to bear in the development of environmental policy, with a view to ensuring that natural resources are used efficiently, and that environmental regulation imposes least cost on business.
27. Our work also aims to help firms take advantage of the opportunities offered by the increasing importance of environmental performance - and the scope this offers to them to use environmental integrity for economic advantage.

There are several factors critical to a successful productivity strategy

28. In thinking about how to take forward work focused on lifting productivity, you may want to consider the following factors that we and the Treasury think are likely to make such work most effective:
 - a single, focused, and consistent approach across all agencies and portfolios;
 - senior Ministerial leadership;
 - strong and consistent involvement of the private sector;
 - a sharp focus on delivering a few high priority results;
 - strong links between identification of policy priorities and Budget processes.

PRIORITY AREAS

29. The remainder of this briefing summarises what we see as the biggest opportunities and challenges for improving productivity in the light of the Government's stated intentions in the portfolios we support. At this stage, we have not offered detailed policy advice, but would welcome an early opportunity to do this.

30. These opportunities and challenges are organised into six areas:

- enterprising and innovative businesses
- international linkages
- dynamic and trusted markets
- ease of doing business
- efficient, reliable and responsive infrastructure services
- Auckland, a world class city.

Enterprising and innovative businesses

Government can help develop enterprising and innovative businesses...

31. Government can support the development of enterprising and innovation businesses both by creating an environment in which these firms can thrive, and through programmes that directly help them to overcome market failures. Such programmes are standard in most of the countries with which we compare ourselves. They are particularly important here, because of the specific difficulties firms face in the New Zealand economy.

...by helping them through the credit crunch and recession...

32. There would be little benefit in the government assisting non-viable firms to stay afloat as conditions tighten. But there are some general things it could do to help the firms with most potential to get through immediate difficulties and emerge strongly placed to achieve growth as markets improve.

33. The Ministry is leading work to assess the firm-level impacts of the current economic situation, and what actions might best help businesses to recover and become more productive in the long term. The wide variety of information we gather from our various functions (from tourism arrivals to insolvency statistics to business registrations), along with the Ministry's and New Zealand Trade and Enterprise's extensive formal and informal linkages with business, will help us provide you with an accurate, up-to-date picture.

...focusing on growing the capability of firms to help them internationalise...

34. The Ministry undertakes extensive evaluation and research to help ensure that the government's economic development policies are soundly based and implemented. This work suggests that productivity improvements precede and support successful internationalisation. Given this, business capability programmes are likely to have the most positive impact on productivity by focusing on innovation, investment and effective management in the lead up to internationalisation. Building international capability is discussed further in the section on International linkages.

...helping lift management capability...

35. Low productivity is at least partly explained by skill deficiencies. This applies at all levels within the economy and in individual firms. A lack of capability at management level can, though, particularly constrain growth by reducing firms' abilities to identify and maximise business opportunities.

Perception-based studies suggest these capabilities are lower in New Zealand than in many OECD countries. There are numerous services available to help companies develop them, but the market is cluttered and confusing, services are highly variable and demand for them is weak. We are developing advice on how this situation might be remedied.

...providing focused and well-coordinated support for innovation...

36. Innovation is fundamental to productivity growth. In considering policies to support innovation, choices need to be made between generic policies that benefit all firms equally, or more targeted policies that focus on areas with the potential to reap greater benefits. In general, though, particularly in a small economy, resources aimed at supporting innovation are likely to be more effective if they are focused on a few priorities where New Zealand has a competitive advantage over other countries. The Ministry has been working with other government agencies in the innovation area to help the government identify and make progress on these priorities.
37. Greater coherence within the complex and multilayered system of government support for innovation, which is largely spread across three Votes - Tertiary Education, Research Science and Technology and Economic Development - is also likely to generate greater benefits.

...encouraging more R&D and increased commercial use of R&D...

38. You have stated your intentions to boost research, science and technology funding in a range of areas, funded by discontinuing the R&D tax credit and the Fast Forward Fund.
39. In the light of this, we would welcome an early opportunity to discuss options for addressing the key R&D challenges New Zealand faces. Private sector R&D is low in New Zealand relative to other OECD countries and may be particularly vulnerable in the current economic climate.
40. Another issue is how to encourage more commercial use of R&D – which is the most challenging but also most important part of the innovation system. One way of doing this will be to build greater incentives and encouragement for universities and Crown Research Institutes to collaborate more effectively both between themselves and with industry.

...improving use of intellectual property and standards...

41. We are reviewing whether intellectual property could be used more effectively as a driver for innovation and economic growth. We are similarly carrying out a review to identify strategic opportunities for lifting the contribution which standardisation makes to our productivity, innovation, and international trade performance.

...exploiting opportunities from growing environmental awareness...

42. There are a number of things government can do to help firms to improve their environmental performance, and make verifiable environmental product and service claims. Better environmental performance may become a prerequisite for keeping up with our competitors, as demand strengthens for more sustainable goods and services. Better environmental performance would also help ensure that our environmental performance matches our international marketing positioning, and provide a basis for building potential competitive advantage based on New Zealand's strong environmental brand.

...and improving access to capital

43. Established companies with good business propositions can usually obtain funding. But this is not always the case for innovative high-technology-based firms with unproven ideas and products and low-to-zero cash flow. There is a role for government support both in helping such firms become investment-ready, and in supporting the development of the market for early stage finance.
44. These issues are discussed in more detail in the Economic Development, Tourism and Commerce briefings.

International linkages

Government can help strengthen international linkages...

45. International linkages improve the flow of new ideas and skills into the country; increase incentives for firms to innovate by exposing them to competitive pressure; and facilitate access to capital and to larger markets that help to compensate for scale disadvantages at home.
46. These linkages enable businesses to organise themselves across many countries, tapping differences in costs, skills and resources to optimise the effectiveness of their overall operations. New Zealand's internationalising firms face the challenge of adopting such business approaches if they are to survive and prosper.
47. As you have indicated in your Trade policy, domestic policies on education, infrastructure (including ultra-fast broadband) and compliance costs for instance are the big drivers of international performance, but trade negotiations and the services government provides to exporters are also important.

...by continuing to reduce trade and regulatory barriers...

48. Both trade negotiations, and maintaining and strengthening efforts to reduce "behind the border" regulatory barriers, can facilitate trade and investment. Your Trade policy identifies progressing multilateral negotiations through the World Trade Organisation as the top trade policy priority.

49. We are also working with the Ministry of Foreign Affairs and Trade (MFAT) to progress bilateral negotiations under the Trans Pacific Agreement (which includes the US) with Korea and Malaysia, and under the ASEAN Australian NZ Free Trade Agreement. Joint work with MFAT also includes developing deeper economic partnerships with India, Japan and the European Union and pursuing opportunities to build on the Free Trade Agreement with China.

...making it easier for our firms to do business with and in Asia/Pacific...

50. There is also further scope for the government to pursue closer Asia-Pacific economic integration, particularly with Australia, which is the largest source of foreign direct investment into New Zealand, the largest market for our offshore investment, and the place where many of our businesses cut their teeth before going global. Increased integration that reduces regulatory barriers, builds economies of scale, and enhances industry and innovation policy cooperation would make it easier for our firms to do business in and with our nearest neighbours.

...and providing effective support for increased exports

51. We work closely with MFAT and New Zealand Trade and Enterprise to ensure the development and delivery of effective support for exporting. We will work with these two agencies to develop advice for you on what measures could be taken to help achieve the goal in your Trade policy of increasing the ratio of exports to GDP by ten percentage points by 2020.
52. As indicated in your policy for Tourism, given limited resources, and declining tourist numbers, it is also critical that tourism marketing overseas is effective and well targeted. We will be providing advice on how to improve this through the Ministry of Tourism, which is part of the Ministry of Economic Development.
53. These issues are discussed in more detail in the Economic Development, Commerce, Consumer Affairs, Tourism, and Communications and Information Technology portfolio briefings.

Dynamic and trusted markets

Government can continue to support well-functioning markets...

54. On the whole, New Zealand's markets work well, and our institutions are sound. But there are three areas on which we think the Government could particularly focus to mitigate the impacts of the global credit crunch, respond to the challenges created by the size and isolation of our markets, and keep up with improvements in other countries.

...by restoring confidence and stimulating efficient growth in the finance sector...

55. Global action will be needed to resolve the major weaknesses in financial systems exposed by the credit crunch. This global action, as well as the credit crunch itself, will impact on New Zealand, as on other countries. You

will need to decide to what extent the Government participates in this global action, and how it should respond within New Zealand. Responses at both global and national level will need to take account of the key factors that have led to the current crisis including regulatory factors. But finding the right balance in regulatory design to rebuild confidence in the financial sector and manage risk, while encouraging investment and innovation, will be challenging.

56. Another issue is how government responses can support the development of broader and deeper capital markets in New Zealand to ensure that investment and savings are allocated as efficiently and effectively as possible, and that our businesses have access to the full range of financial products available in other markets. A Capital Market Development Taskforce is due to report back by September 2009 with recommendations for the development of these markets. They are also likely to provide a submission in the next week or two recommending changes to lower the costs for businesses of raising capital.

...balancing the need for competition against the benefits of building scale...

57. There are a range of issues which the Government might wish to consider in developing our legal and institutional framework for competition. These include the importance of maintaining competitive pressures in a small economy, while also recognising that some mergers may provide net national benefits – for instance, through economies of scale and increased exports.

...and improving consumer protection while securing the benefits of open and innovative markets...

58. There is an increasing requirement for the government to ensure that consumers are getting accurate information and good levels of protection. This stems from the increasing complexity of goods and services, the impact on consumer confidence of the financial crisis and increases in product safety incidents, rapidly increasing levels of identity theft and identity fraud, and consumers' often low levels of financial capability.
59. Better information for, and protection of, consumers will help them to make more effective purchasing choices, and seek satisfaction where their expectations are not met. This will in turn encourage firms to innovate and compete. Strong consumer protection frameworks are also important to ongoing public support for open borders, free trade and innovation and to creating and maintaining a level playing field for honest businesses.
60. These issues are discussed in more detail in the Commerce, Consumer Affairs and Economic Development portfolio briefings.

Ease of doing business

Government can make it easier for firms to do business in New Zealand...

61. Government interactions with business – whether through the regulatory environment or the delivery of services – can impact significantly on how easy it is for firms to do business.
62. In particular, poor-quality regulation can make it difficult to do business and constrain growth by increasing costs, diverting scarce entrepreneurial talent into socially unproductive activities, and reducing certainty for investment.
63. Conversely, high-quality regulation can encourage innovation, achieve public health and safety objectives, and secure social and environmental outcomes, as well as providing a framework for the effective operation of markets. Less regulation is not always better. The key aim is to ensure the right balance between certainty and flexibility and between protection and innovation.

...by improving regulatory efficiency and reducing compliance costs...

64. By some international measures, New Zealand's regulatory environment looks relatively business-friendly. But unnecessary or outdated regulations, compliance hurdles, duplication, and overlaps remain. Dealing with these involves tackling the often complex, multi-layered nature of regulatory regimes.
65. Regulatory differences with key trading partners and competitors also require scrutiny. In an increasingly globalised world, adopting a New Zealand-specific approach (where this is not necessary to deal with specific local issues) can reduce the willingness of firms and individuals to locate or invest here. It also creates an additional hurdle for New Zealand firms seeking to internationalise.
66. We would welcome an opportunity to provide you with further advice in this area to help you pursue your programme of regulatory reform. This could include ideas for the better assessment of the cumulative impact of regulation on business, and the better use of business compliance cost measurement tools in the design and review of regulation.

...including through an ongoing programme of regulatory review....

67. It could also include an ongoing and substantial programme of regulatory review, which we have been exploring together with the Treasury. Given your priorities, the first area for review could be the Resource Management Act where further improvements are required to reduce uncertainty and minimise delay and costs, while maintaining a balance with environmental, social and cultural considerations. Other candidates include the Hazardous Substances and New Organisms Act, the Holidays Act and employment-related law more generally. We would welcome a discussion to get your views on priorities.

68. It will be important that these reviews go beyond primary legislation since problems usually stem from the multi-layered rules that sit underneath. Untangling these webs of rules is difficult and time-consuming and, as a consequence, is often passed over in favour of new regulations, tweaking the primary statute, or providing additional information, which often does not solve the real problem.

...through reviewing regulatory frameworks...

69. You have indicated that the Regulatory Taskforce, which will be created following on from work on the Regulatory Responsibility Bill, will play a key role in the regulatory reform agenda. The Ministry has provided substantial support for the Commerce Committee's consideration of the Regulatory Responsibility Bill and is well placed to assist this work.

...and by simplifying transactions between government and business

70. Government agencies, both individually and collectively, could also simplify their transactions with business, for instance through cross-agency standard business reporting to reduce the costs and frequency of providing information by enabling firms to send it directly, and only once, from their own systems. We are working on this idea with other agencies.
71. Ease of doing business issues are discussed more fully in the Commerce and Consumer Affairs portfolio briefs.

Efficient, reliable, and responsive infrastructure services

Government can increase the efficiency and reliability of infrastructure...

72. As you have indicated in your policy for Infrastructure, major new infrastructure investment could both provide short term stimulus to the economy and play a key role in improving long term productivity.
73. Efficient and reliable infrastructure services reduce production costs, increase the attractiveness of a country as a location for investment, and facilitate the flow of ideas, goods, services and people. But our infrastructure is perceived to be of lower-quality than in most high-income countries. Respondents to the World Economic Forum's last Global Competitiveness Report also rated an inadequate supply of infrastructure as one of the most problematic factors for doing business in New Zealand.

...by improving the environment for infrastructure investment...

74. Your proposals for a 20-year national infrastructure plan, priority consenting for major infrastructure projects of critical national importance, streamlining of the Resource Management Act, and the introduction of new and more flexible funding arrangements, all offer significant prospects for improving the general environment for infrastructure investment. We look forward to discussing how we can help you implement these policies.

...improving access to high-quality, fast and reliable broadband...

75. You have set out a vision of ultra-fast broadband for all New Zealanders in your Communications and Information Technology policy. Recent telecommunications reforms aimed at addressing limited competition in the sector will promote some increased investment, although this is not likely to be sufficient to meet your objectives. We will provide you with advice on how you might best supplement this private sector investment.

...promoting development of digital content and capability...

76. Supplementary action may also be required to realise the full benefits of this broadband investment by promoting the development of digital content and capability, for instance through investments in related research and development, skills supply and market development, encouragement of interaction between firms and research or education providers and changes in the way government services are delivered.

...factoring convergence into the regulatory environment...

77. Convergence of broadcasting, telecommunications and internet services promises significant new services and benefits. But it also means that a discrete approach to the regulation of these sectors is no longer appropriate and that a converged regulatory environment may need to be considered.

...improving the security of electricity supply...

78. As indicated in your Energy policy, security of energy supply must be a priority. We can provide advice on how you can best achieve your immediate aim of streamlining Resource Management Act processes. We will also provide the Minister of Energy and Resources with regular updates and advice on the current programme of work by the Electricity Commission, which will provide important information for the Government to consider in relation to decisions about security of supply. In addition, we will provide advice on the other possibilities for streamlining investment and decision-making processes for new electricity transmission that you have set out in your Energy policy.

...promoting the efficient use of energy...

79. Energy efficiency offers a substantial opportunity to improve security of supply as well as advancing environmental objectives. Given potential costs, it will be important to ensure that energy efficiency initiatives are well targeted. We will provide you with advice on how you can achieve your aim of supporting it through the Energy Efficiency and Conservation Authority, while also ensuring that projects do not get bogged down in red tape.

...creating the right framework for oil and gas exploration...

80. If more exploration can be encouraged, it is likely that future oil and gas discoveries will be made, since exploration efforts to date have barely scratched the surface of New Zealand's potential. Such discoveries could provide the necessary income to help create a step change in New Zealand's economic development.
81. You have already indicated in your policy for Energy that you would like to explore risk reward arrangements for the industry. We will offer you advice on arrangements to ensure that New Zealand is an attractive destination for exploration and returns to the Crown are appropriate.

...and using market-based mechanisms to integrate environmental and economic concerns

82. As indicated earlier, effective mechanisms are needed to ensure environmental and economic issues are well balanced. As well as RMA reform, greater pricing of environmental services and impacts and more use of market-based mechanisms would help to ensure this balance. We would welcome an opportunity to provide you with advice on how these mechanisms might be developed and implemented. We also stand ready to give you advice on your review of the emissions trading system.
83. Infrastructure issues are discussed more fully in the Communications and Information Technology, Energy and Resources, and Economic Development portfolio briefings.

Auckland – a world class city

Government can support Auckland's development...

84. Successful countries have at least one large international facing city. Auckland is our only city positioned to play this role. It is our key attractor of internationally mobile flows of skilled workers, international companies, capital, and high value economic activities.
85. To help Auckland compete with Australian and other cities for these mobile resources, all layers of government will need to work together to develop and implement a coherent set of economic, social and environmental priorities. The Government Urban and Economic Development Office (GUEDO) led by the Ministry helps central government to make its contribution to this process and to prioritise its substantial investment in the region.

...by reforming governance...

86. Auckland's current governance arrangements are preventing effective decision making. The Government will have a significant opportunity to address this by responding to the recommendations of the Royal Commission of Inquiry on Auckland Governance, due next March.

87. In the meantime, some progress has been made towards overcoming fractured decision making in the region by aligning Auckland's priorities and actions for implementation in a "One Plan" for the region.

...investing in quality infrastructure and growth management...

88. Your plans for increased infrastructure investment are particularly vital for Auckland, as infrastructure investment has lagged behind rapid population growth there.
89. The next version of the "One Plan" is expected to include a prioritised regional infrastructure plan. It will be important to integrate this work into your National Infrastructure Plan so that Auckland's infrastructure issues are addressed in a well planned and prioritised way.

...and improving a weak innovation system

90. The ability of Auckland to contribute to New Zealand's economic prospects depends both on the performance of key sectors concentrated in the region and the effectiveness of the regional innovation system. But, as discussed previously, connections between industry, Crown research institutes and universities are weak, partly as a result of current incentives and funding arrangements. There are practical actions central government could take at a regional level to strengthen and improve these connections, such as investing in new forms of industry-focused research and bringing together stakeholders to support the take-up of collective opportunities.
91. More information on Auckland issues is included in the Economic Development portfolio brief.