

**Submission
No 33**

ESTABLISHMENT OF SPECIAL ECONOMIC ZONES

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ATT: Mr David Elliot MP (Chair)

Committee on Economic Development,
Parliament House,
Macquarie Street,
SYDNEY NSW 2000

By email: economicdevelopment@parliament.nsw.gov.au

Dear Mr Elliot,

The NSW Business Chamber (NSWBC) welcomes the Legislative Assembly's Committee on Economic Development *Inquiry into the establishment of special economic zones*.

The NSWBC is one of Australia's largest business support groups, helping around 30,000 businesses each year. Founded in 1885, the NSWBC works with thousands of businesses, from owner operators to large corporations, from product based manufactures to service provider enterprises. The Chamber is a leading business solution provider and lobbying group with strengths in workplace management, occupational health and safety, industrial relations, human resources, international trade and improving business performance.

Operating throughout a network in metropolitan and regional NSW, NSWBC represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

As the Committee would be aware, over recent years, NSW's share of the nation's GDP has declined. It's time to reverse that decline and build a stronger, more resilient NSW economy.

NSW cannot simply rely solely upon Sydney for future growth. We need to look towards our regions to drive the economy and build new centres of industry.

The NSWBC believes that the State Government has a critical role to play in attracting and retaining business in our regions. Maintaining a competitive tax system, minimising compliance burdens, and running efficient and effective services are all ways in which businesses can be attracted to set up and grow in NSW.

While the NSWBC position remains that to make NSW as competitive as possible, harmonisation of regulation should be undertaken at a state level, we also recognise that establishing special economic zones in our regions is one way in which we can kick start regional economies and better manage growth.

The case for the establishment of Special Economic Zones

A Special Economic Zone is a specific geographic region with relatively more favourable business and regulatory conditions than those prevailing outside the Zone.

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Regardless of where they are located, Special Economic Zones can provide significant incentives for business growth in a specific area. This submission will however focus on the establishment of Special Economic Zones in NSW border regions as establishing such Zones in these regions can help to offset many of the cross border anomalies that negatively impact on border region businesses and communities. The significant impact that border anomalies can have on investment, employment and in some case the quality of life for border towns means that establishing Special Economic Zones in NSW border regions should be a priority for Government.

NSW businesses located close to the State border are likely to operate across State boundaries, either through selling goods interstate, hiring staff based interstate or looking to expand their operations across the State border. For these businesses, their day-to-day operations are complicated by the regulatory differences which exist between States.

Businesses that operate close to State borders are faced with additional compliance costs associated with having to understand two different sets of State legislation and regulation, which has a direct impact on business costs and compromises profitability. This is a real burden for small businesses. Simply put, the red tape burden is twice as high when you need to comply with two sets of regulations.

In addition, differences in tax rates between the States act like a tariff barrier on businesses located near the border. Shaw and Associates Consulting found that "Border Anomalies act like a tariff on border businesses by increasing an organisation's costs without any offsetting increase in productivity. In order to maintain their viability organisations would need to supply their goods and services at a higher price in line with their higher cost structure."¹

Regulatory inconsistencies can distort business decisions and drive investment to the side of the border with the more favourable regulatory environment. This is particularly concerning for NSW, as our State taxes are typically higher than those in Queensland and Victoria, which results in businesses relocating across the border reducing employment opportunities for NSW residents.

NSW Government response to border anomalies

The NSW Government has acknowledged the need for greater cross-border harmonisation for many years. The NSW and Victorian Governments established the Border Anomalies Committee in 1979 with the objective of addressing regulatory inconsistencies faced by border communities. While many issues have been referred to the Committee over the decades, cross-border issues are still a significant concern for businesses operating in these regions.

It's impossible to be certain exactly how many regulatory inconsistencies exist between NSW and its neighbouring States, Albury businesses have however reported that payroll tax, land tax, transport regulation, and trade training are all areas where they are at a significant competitive disadvantage when compared to their neighbours in Wodonga.

Feedback from NSWBC members in border regions has made it clear however that the current arrangements for dealing with cross-border issues in NSW are not satisfactory and that more needs to be done to address this issue.

COAG Reform Council

Obviously, harmonisation at a national level would resolve many of the regulatory inconsistencies currently facing businesses located near State borders. National harmonisation will also reduce the compliance burdens faced by larger businesses operating across a number of jurisdictions.

¹ Shaw & Associates Consulting, *Creating the Perfect Border: Border Anomalies Study for the Murray Regional Development Board*, 4 February 1997

The NSW Business Chamber is strongly supportive of COAG's efforts to move towards greater harmonisation through the *National Partnership Agreement to Deliver a Seamless National Economy*.

National reforms of this type are however complex and time consuming. The COAG Reform Council's latest progress report found that while progress was on track in many areas, it had stalled in a number of key areas and there were significant risks that not all of the reform objectives would be achieved.

Furthermore, while the NSWBC supports the work of the COAG Reform Council in working towards a seamless national economy, many of its priorities will not have the effect of improving the competitiveness of conditions for NSW businesses. For example, in its *Seamless National Economy: Report on Performance* dated 23 December 2011, the Council noted that it has met its priorities in relation to payroll tax harmonisation. The Council's priorities under this reform measure are however targeted at harmonising the administrative framework of the tax between states only and not at aligning the thresholds and rates paid by individual states. Accordingly, for businesses in NSW border areas, the changes agreed to by COAG will make it easier to comply with pay roll tax requirements between states but will have no effect on increasing the relative competitiveness of doing business in NSW.

The way forward; what to include in a Special Economic Zone

While the objectives of COAG's National Partnership are admirable, achieving harmonisation across all eight jurisdictions is a slow and difficult process, with no guarantee of ultimate success.

The NSWBC believes that Special Economic Zones can complement the national reforms being pursued through COAG as a more immediate solution to cross border issues.

Cross-border harmonisation, under a Special Economic Zone, can be achieved much more quickly than national harmonisation as it is easier to find common ground between two States which share a border than it is to get all the States and Territories to agree to the same outcome. Additionally, an individual state can also implement unilateral measures in a Special Economic Zone that make it a relatively more competitive area than its neighbours to do business (such as applying a lower pay roll tax rate / or higher threshold within a Zone). As a result, Special Economic Zones can provide immediate relief to businesses located on State borders as an interim measure while more comprehensive national reforms are pursued separately.

While there is yet to be a clear indication from the NSW Government on the capacity of the newly appointed cross-border commissioner for NSW to effect change in relation to border anomalies, the NSWBC would strongly support the Government providing the role of commissioner with significant powers, including the power to establish/ or recommend the establishment of Special Economic Zones, to ensure NSW is as competitive as possible.

For border regions, some of the key regulation areas which could be considered for a Special Economic Zone include:

- Pay roll tax rates / thresholds and reporting
- Stamp duty and land tax
- Public holidays / shop trading hours / daylight savings
- License arrangements
- Tendering arrangements for state based contracts
- Insurance
- Truck load Limits
- Skills / access to training

If a special economic zone were to be developed, it would also provide an opportunity to consider closely the effectiveness of regional incentive schemes such as the regional relocation grants scheme and whether adjustments need to be made to get more people moving into our regions.

Conclusion

The NSWBC strongly supports any measure that increases the competitiveness of doing business in NSW. For NSW border regions duplicate state regulation can have the effect of stymying business investment, employment and economic growth. To overcome cross border anomalies and to ensure that NSW is open for business, the State Government should consider the establishment of Special Economic Zones in border regions. The recently appointed NSW Cross Border Commissioner could play a key role in driving the development of these zones.

Please contact Luke Aitken of the NSW Business Chamber's Policy unit via email at [REDACTED] or on phone [REDACTED] should you have any queries about this submission.

Yours sincerely

A handwritten signature in black ink that reads "Paul Orton". The signature is written in a cursive, slightly slanted style.

Paul Orton
Director, Policy & Advocacy