

# MOOD OF THE BOARDROOM



**GREG MUIR**  
CHAIRMAN, PUMPKIN PATCH

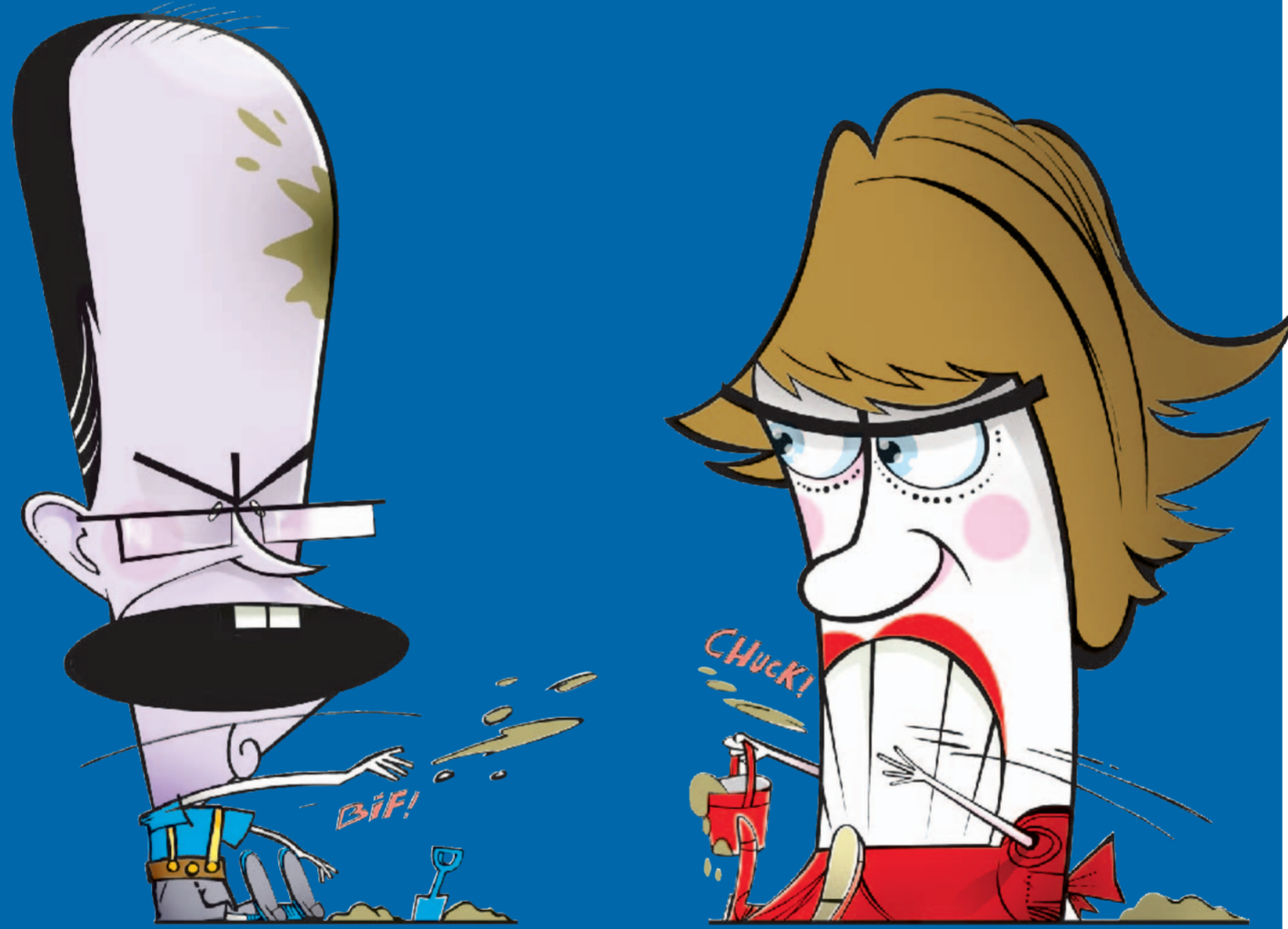
“ Everyone understood that Don Brash and John Key were working behind the scenes on tax cuts to grow the economy and take cost out of existing operations with an aggressive budget. But for Cullen to have nothing one day and a billion the next. The fact that it seems to have slipped under everyone’s radar screen I find bizarre. ”



**ANN SHERRY**  
CHIEF EXECUTIVE, WESTPAC

“ You can’t keep the economy growing if we don’t sort out some of the issues in Auckland that have been talked about forever. You can’t have a city that may run out of power in the next four years. Why would people come here? If there is a billion dollars that we forgo because we haven’t got the roads sorted out then we need to make a noise about that. ”

## WHAT NEW ZEALAND’S LEADING CEOs THINK ABOUT THE ELECTION



**Who will make the best PRIME MINISTER:** Helen Clark or Don Brash.

**Who is best suited to run the COUNTRY’S FINANCES:** Labour’s Michael Cullen or National’s John Key.

**WHAT STEPS** they must take irrespective of who wins next week’s election.

NEW ZEALAND HERALD SURVEY IN ASSOCIATION WITH BUSINESS NEW ZEALAND



**CRAIG NORGATE**  
MANAGING DIRECTOR,  
RURAL PORTFOLIO INVESTMENTS

“ The biggest concern is the increasing gap between Australia and New Zealand. We’ve both got a skills shortage. If that continues on with the different pay rates and standard of living, you’re going to see a real hollowing out of the economy. But we can only arrest it if we get really serious about it. ”



**NICK MAIN**  
CHAIRMAN, DELOITTE

“ If New Zealand is to compete successfully for people in a globally constrained market we have to make the rewards competitive. This means not just pay rates. But what’s left in the hand after the impact of tax. Lowering taxes will clearly help. It will also attract more business and encourage entrepreneurship and growth here. ”

**Deloitte.**

Goldman Sachs

JBWere

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BusinessNZ

The voice of business

Westpac



Simpson Grierson

EMA

# MOOD OF THE BOARDROOM

## TRADE TRAINING

# Attention politicians: We need more skills

Business executives say the political parties need to realise that the skills shortage is an emergency. Fran O'Sullivan and Richard Inder report

**P**OLITICIANS who will form the next Government after the September 17 election are being urged to treat the skills shortage as an emergency.

The Herald's survey rates the shortage as the factor which most concerns chief executives in their workplaces.

Business New Zealand chief executive Phil O'Reilly — whose nationwide organisation represents many SMEs as well as larger employers — says it gets top billing because it "is in everybody's face".

"The political parties need to recognise there is an emergency on right now and that more trade training is absolutely critical.

"They have to move quickly to retain the confidence of businesses and workers, [convince them] they don't have to export jobs and there is a future for them here."

Rural Portfolio Investments chairman Craig Norgate says that focus should extend to the widening gap in living standards between New Zealand and Australia.

"You can forget about the 'rest of the OECD' and start thinking about the reality that we're not a European country — we're not the States.

"The area of the world that most people identify with is right next door to them because that's where all the next door neighbours are heading."

NZ Business Roundtable executive director Roger Kerr points to complex reasons behind the skill shortage and suggests it cannot be addressed in isolation from other growth policies such as lower taxes and less business regulation.

The Labour Government might have been slow to address training issues, maintains O'Reilly, but what is happening now is positive.

"They've got engaged in workplace productivity and skills are a key issue there."

"But they have ignored so far many of the other kinds of productivity issues such as the tax regime... they've done a little bit in depreciation and made a start on infrastructure."

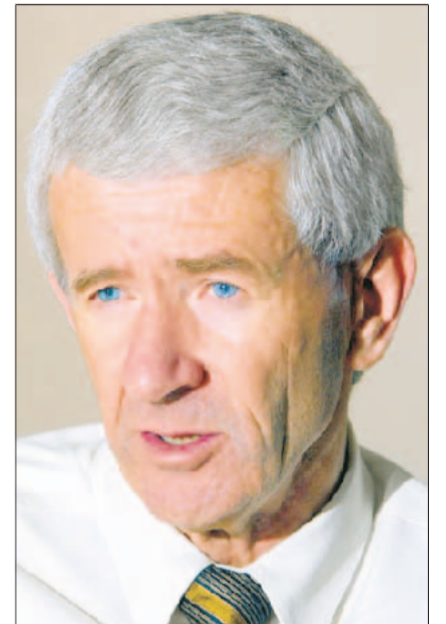
Unions — which are waging a campaign for five per cent pay increases —



LESSONS: Phil O'Reilly, CEO, Business New Zealand



IMMIGRATION WORRIES: Nick Main, Chairman, Deloitte



SOLUTION: Roger Kerr, Exec. Director, Business Roundtable

## NEW ZEALAND RISKS BECOMING GLOBALLY UNCOMPETITIVE

Among comments by the 80 per cent of CEOs who are concerned:

"Look at the data. We are falling in terms of exports and also foreign direct investment as a percentage of GDP. Still too insular. Not willing to make capital investments offshore, probably due to the past track record of some bad investment decisions." (Brett Shepherd, CEO, Deutsche Bank NZ)

"Labour has focused on social reform. Large part of labour force is uneducated. Investors reluctant to invest in NZ. No sense in having 5000 more apprentices and no manufacturers to employ them. Violence and crime is driving New Zealanders out of the country faster than tax relief or jobs will bring them back." (Energy sector CEO)

"Recent changes to employment laws, the continued uncertainty around the resource consent process and the lack of clarity around energy security is allowing the global view of New Zealand to be eroded. This country embarked on a path of a more open and progressive economy, but in recent times

appears to have become fixated with internal issues of wealth equalisation and welfare at the long-run expense of building a more robust and self-sufficient private sector that would ultimately generate superior benefits to all New Zealanders without the need for ever-increasing Government spending and intervention. (Food industry CEO)

What are the missing ingredients?

Business leaders say if New Zealand is to score long-term success there must be:

"Much less of the employee, nanny state, OSH, ACC, welfare, 'she'll be right' culture, and a lot more of culture of grand achievements and striving. Work-life balance — give me a break!" (Consulting firm principal/director)

"Moves to attract and retain experienced — mostly male — people back to New Zealand." (Energy sector CEO)  
"A change in attitude that profit is okay." (Tourism sector CEO)

are restive that the big end of town has been slow to concede that companies will have to pay more to keep staff if they are not to shift and take advantage of better take-home pay in Australia.

A meat industry chief executive agrees that pay rates need to rise as "people need more money in their hand to attract immigrants and halt the flow of young people overseas"

Business NZ has campaigned vigorously to get the political parties to make a commitment to tackle skills and productivity issues.

O'Reilly said many have issued useful policies — particularly Economic Minister Jim Anderton's Progressives party.

Anderton has pledged to double the number of people in apprenticeships and industry training by 2007 and offer scholarships for areas identified in "skills shortage stocktakes".

Labour proposes 5000 more Modern Apprenticeship places.

Its potential coalition partner, the Greens, also want to encourage women, Maori and Pacific Islanders to train in industries in which they are under-represented.

United Future wants to increase apprentice numbers and NZ First plans a "community wage" pay top-up.

"We really need to get over the bias against apprenticeships," said O'Reilly.

"When I go down to the beach on Saturday morning, the biggest boats on the ramps belong to carpenters and plumbers."

National has yet to release its policy. But it says it will liberalise employment laws and raise the funding cap for industry training. Act says lowering taxes will lift relative wages.

Deloitte chairman Nick Main says professional firms are also being squeezed by the size of the available pool of skilled and talented people to help us serve clients.

Main is concerned the situation will

be exacerbated by falling immigration figures and an ageing workforce.

Employers & Manufacturers (Northern) chief executive Alasdair Thompson said one of Auckland's biggest employers has suggested the new Government should allow companies to form clusters and be authorised by Immigration NZ to recruit overseas people with needed skills and take the paperwork through to a certain stage so approvals can be fast-tracked.

Increasing the number of immigrants with good English skills is a priority for 95 per cent of business leaders surveyed.

But, warns Thompson, do not forget the fact that some one in five New Zealanders are leaving the education system without achieving competency in literacy and numeracy.

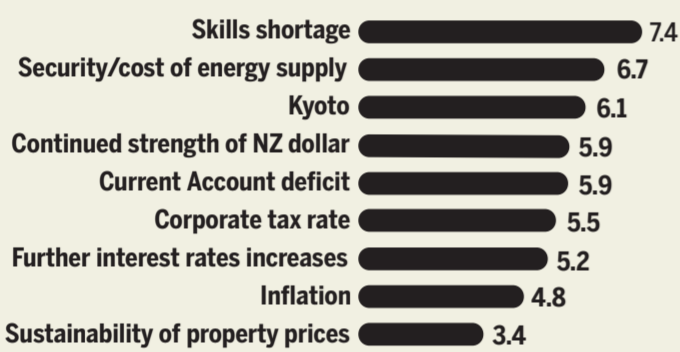
"It's like any manufacturing system, if you are turning out defects you have got to look to the reason why and request them to change their methods."



### OVERCOMING SKILLS SHORTAGE

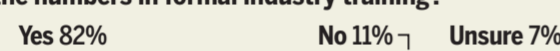
**QUESTION** Which general economic factor most concerns your industry?

● 90 Chief executives and chairmen from New Zealand's largest companies give their ranking:

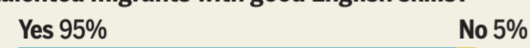


● Ranked on a 0-10 scale where 0 = no concern and 10 = most concern.

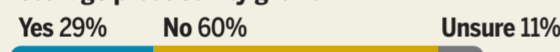
**QUESTION** Should there be specific policies to increase the numbers in formal industry training?



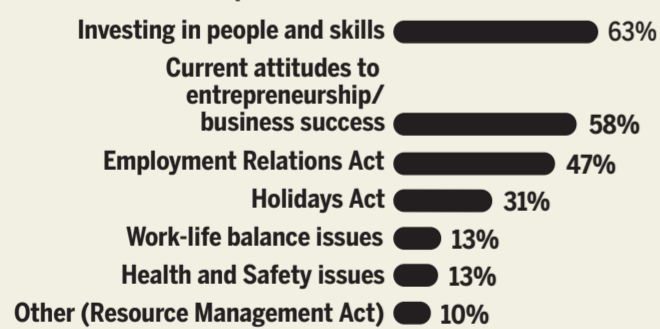
Should targets be set to increase the levels of talented migrants with good English skills?



Do the current skills and training programmes encourage productivity growth?



**QUESTION** Which business environment issues are the most important at this time?



Source: New Zealand Herald 'Mood of the Boardroom Survey' Sept 2005. HERALD GRAPHIC

**"When I go down to the beach on Saturday morning, the biggest boats on the ramps belong to carpenters and plumbers."**

Phil O'Reilly

### CONTENTS

- D3 Leadership:** It's down to the wire for Brash and Clark
- D4 Economy:** Business leaders pinpoint shortage of skilled workers
- D5 Energy:** Call for a rational debate on the options for supply

- D6 Jobs:** Staff in demand as job market gets fired up
- D7 Free trade:** Business behind China deals, with reservations
- D8 Rivals:** Majority of CEOs want Key but hold Cullen in some esteem

### MOOD OF THE BOARDROOM 2005

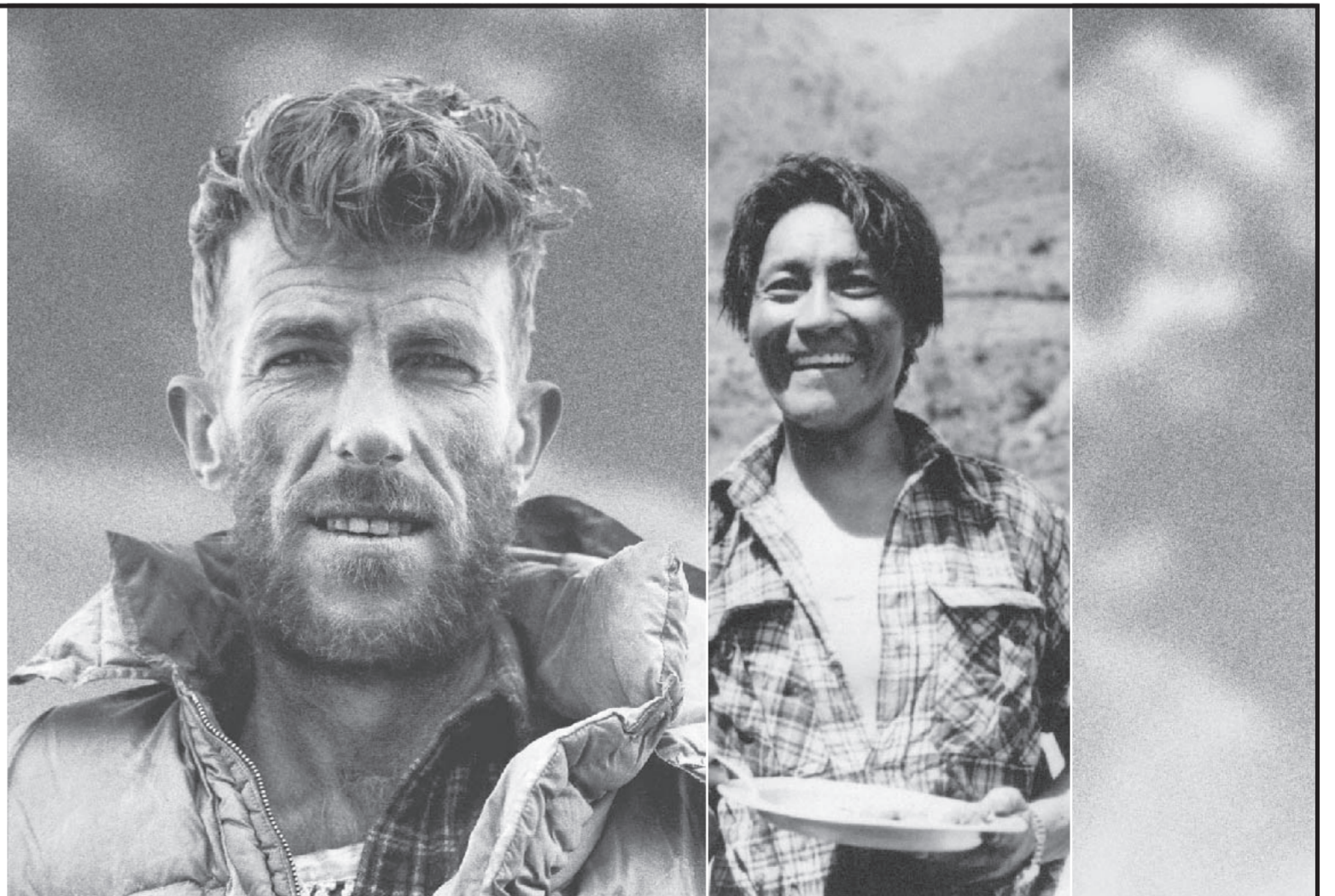
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## Hillary had Tenzing

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Who do you have?

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## LEADERSHIP BATTLE

## It's going down to the wire

Majority of CEOs favour Brash for the top job but Clark has impressed most with her election campaign

**D**on Brash and Helen Clark are now locked in a close contest over who gets to be the next Prime Minister.

The Herald's Mood of the Boardroom survey shows just over 70 per cent of the chief executives surveyed clearly believe Brash will make the best Prime Minister. Clark scores 28 per cent support.

But Clark has emerged the clear winner on the campaign trail, with a 3.23 average performance rating (on a 1-5 scale) against Brash's 2.95 average showing on the Herald's survey.

Clark previously contested three elections as Labour's leader and has notched up two wins on her belt.

This is Brash's first election campaign as a political party leader. The former governor of the Reserve Bank, was used to holding sway at his office across the street from Parliament, but in this fight he is the rookie.

National has again opened a polling lead on Labour. But chief executives — who have displayed uncanny perceptiveness in the way they have rated the pair — have shared their insights into the candidates which suggest the election could go either way.

Clark clearly dominates on leadership skills, rating an average 3.78 to Brash's 3.09 score on the 1-5 scale. She also outranks her opponent on other political attributes such as management and the ability to form a coalition. These judgments are under-scored by the deft hand Clark has played in quickly staking out the Greens as a potential coalition partner, while Brash publicly burnt-off Rodney Hide's Act — the potential coalition partner for National which business clearly favours.

Where the newcomer scores is big-picture attributes.

Brash outranks Clark on a vision and strategy for New Zealand, economic management, putting New Zealand's interests ahead of their parties, courage and trustworthiness.

This reflects the fact that many business people believe Brash entered Parliament to 'do a job'. "He'll only get one term to make a real difference before opposition sets in," observed an Australian chief executive based here. "Clark is more in the (John) Howard mold of cautious stable leadership."

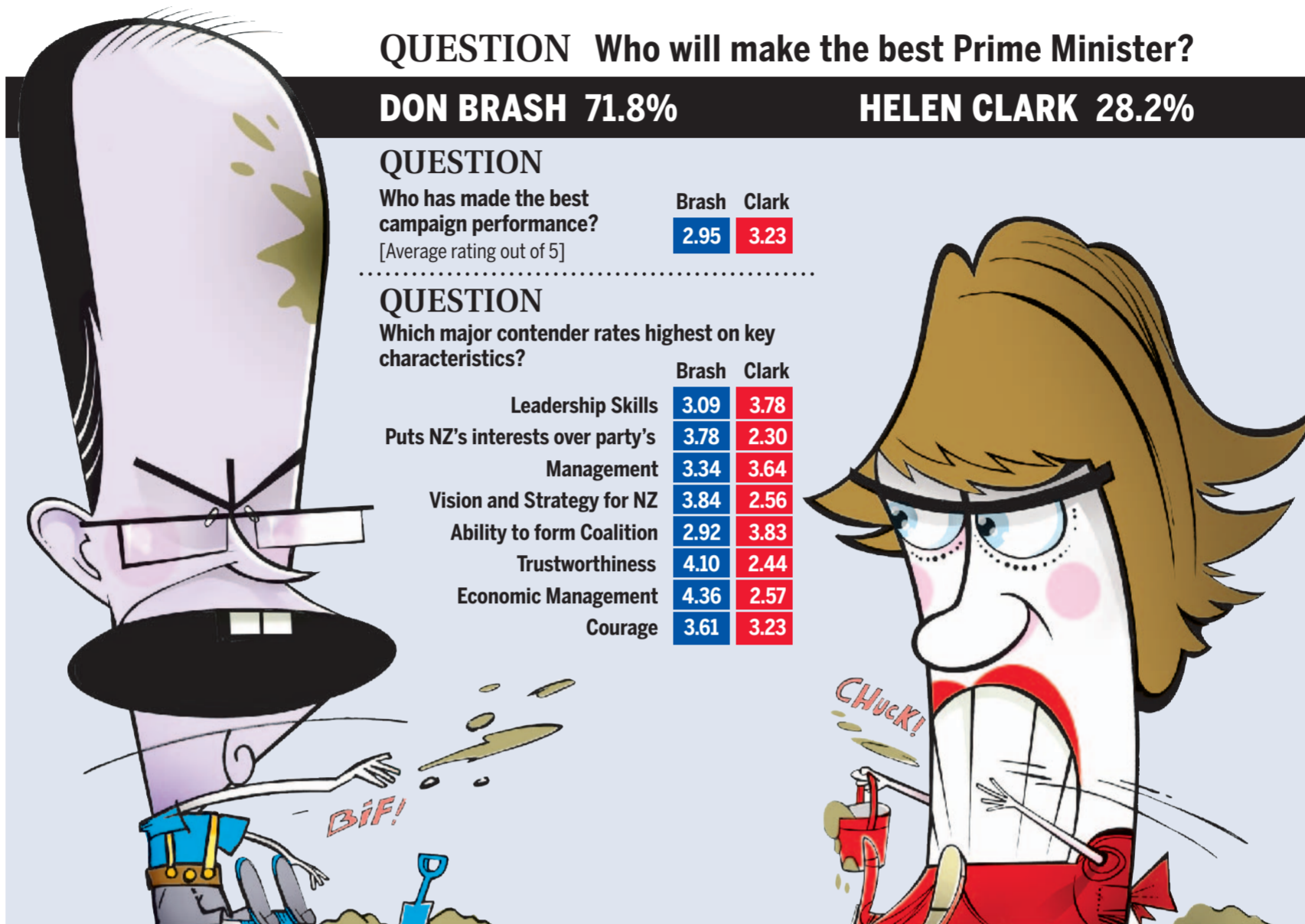
His strong rating on trustworthiness — a 4.10 average ranking against Clark's 2.44 score — suggests her credibility has been eroded by the recent Doonee affair and the speeding ministerial car episode. "Clark rates more highly as a politician... Brash more highly as an authentic leader" was how one pharmaceutical company head summed up their differences.

Where the going gets tricky for Brash is in learning how to read the clear signals that business has sent him through the survey. If he is smart he will brand a Labour/Greens coalition as 'not in New Zealand's best interests'.

He also needs to take a public stroll with more players than United Future's Peter Dunne to demonstrate he is prepared to cut a deal to get into power.

Clark needs to display some humility to offset her apparent arrogance and extend an olive branch to the many New Zealanders Labour has excluded from its election spendup.

Despite poll volatility she has the virtue of incumbency. Rural Portfolio Investments chairman Craig Norgate points to political inexperience on National's front-bench. "When you contemplate a change of government often people don't actually show how capable



## 90 CEOs give their verdict on the major parties

## QUESTION

Which Party offers the best policy mix for business?

National 89.9%

Labour 5.1%

Act 2.5%

Green Party 1.3%

Which is the best coalition partner/s for National?

[Ranked by the 89.9% of CEOs who believe National offers the best business policy].

National/Act/United F./NZ First 19.2%

National/Act/United F. 20.5%

National/Act 26.9%

Which is the best coalition partner/s for Labour?

[Ranked by the 6% of CEOs who believe Labour offers the best policy mix].

Labour/Greens 50%

Labour/United Future 50%



What would be the worst coalition combination for business?

Labour/Greens 57.1%

Labour/Greens/Maori 23.4%

Labour/Greens/NZ First 2.6%

National/Maori 2.6%

National/NZ First 1.3%

National/Act 1.3%

## QUESTION TAX

Do you favour Labour's family oriented 'tax relief' package or National's 'tax cuts' package?

Labour [tax relief] 7.6%

National [tax cuts] 92.4%

Are you concerned 'vote buying' by the two main parties may be fiscally unsustainable?

Labour's 'tax relief' unsustainable 58%

National's 'tax cuts' unsustainable 12%

Both unsustainable 30%

ILLUSTRATION: RICHARD DALE  
HERALD GRAPHIC

a leader they are until they're actually given the mantle. Helen has just grown and grown in the role — although she's perhaps better now internationally than she is domestically."

Westpac chief executive Ann Sherry says that from what she has seen so far in the campaign, Clark "feels" more

confident. "Don's got to find a way of convincing people she's not right, rather than convincing them he's right."

"It's a pretty tough ask, quite frankly."

"Helen Clark's huge strength is she has always got a 20-second sound-bite in her head that gets to the heart of the

matter," added Pumpkin Patch chairman Greg Muir.

Chief executives, who were not prepared to put their heads up above the parapet during the election campaign, were invited to offer unattributed comments. Asked to rate the two candidates on their campaign performances on a 1-5

scale, a top luxury car importer gave them each a 3. "Helen because she acts like a rottweiler and Don because he acts like Don."

National surged into the lead again on polls published at the weekend. But as the cliché goes, "a week is a long time in politics".

## Electorate in two camps

The "hip-pocket" election has divided New Zealanders into two camps: Deserving families (60,000) who stand to benefit from Labour's tax-relief package, and single or better-off people who will gain from National's plan to cut personal taxes (85 per cent will pay only 19c in the dollar). There are winners and losers in both camps.

Those on \$40,000 will get an extra \$28 a week under National. That drops to \$11 for someone on \$35,000.

But business is not worried about the niceties of such equations. When it comes to the policies on offer from the major parties it wants a mix that will spur economic growth.

About 90 per cent of chief executives surveyed by the Herald believe National has the best policy mix on offer at this election. Just 5 per cent plumped for Labour's policy mix. Act and the Greens drew marginal support for their policies.

The same support levels are replicated for National's tax cuts compared to Labour's family-oriented tax relief, which drew support from just 7.6 per cent of respondents.

"National is less inflationary as cutting taxes incentivises productivity and is not necessarily going to increase labour costs," said a forestry chief executive. "Labour's targeted relief is highly inflationary as unearned income will likely be spent. All you need to do is breed — that will make demand for a few products skyrocket for the next 14 to 16 years."

National and Labour have each accused the other of "vote-buying" and "out-right bribery" during the election campaign. Nearly 60 per cent of CEOs surveyed are concerned that Labour's package may be fiscally unsustainable. But National is not off the hook — 12 per cent find its tax package unsustainable. A further 30 per cent say both parties' policies are fiscally unsustainable. "In the short term both are sustainable, but the welfare orientation of Labour's approach risks undermining long-term economic performance and stability," was the refrain.

## Snapshot of board views

The Herald's Mood of the Boardroom survey, conducted in association with Business New Zealand, has been an ambitious initiative.

We set out to capture the views of business chiefs from the CEOs of key corporates to the highly influential heads of advisory firms on major issues relating to the election.

Ninety chief executives and company chairs engaged in the exercise, which was conducted between August 24 and September 4.

They included representatives from Deloitte/Management Magazine's Top 200 list, the Business Council for Sustainable Development and the Business Roundtable.

The research was augmented by including chief executives from major national and local government trading enterprises and professional firms.

Business NZ surveyed its membership mid-year in order to release results at its August 23 Election Year conference. It received 1081 responses from its primarily small-to-medium-size enterprise members.

But the Herald decided to delay surveying the "big end of town" until National had released its tax package.

The delay enabled us to also capture reaction to Labour's unexpected spendup: the student loans package and its decision to expand the Working for Families scheme.

Our CEOs were more reticent than in previous surveys, citing a greater personal risk in making public comments during an election campaign.

But the chief executive response rate reached 40 per cent, which was a satisfactory result.

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# MOOD OF THE BOARDROOM

## SPENDING CONCERNS

### Government urged to balance growth with social goals

#### Balanced growth target

Four out of five of the business leaders polled think the Government needs to balance faster economic growth with social and environmental goals.

Almost all of the rest see faster growth as the Government's main responsibility; only 12 per cent cite social goals.

Their biggest concern about the Government environment is the level and effectiveness of Government spending, with tax rates a close second.

But they think the Government environment is a less important factor in achieving economic growth than a long list of other things: skills and productivity, investment, innovation and entrepreneurship and infrastructure.

Several added immigration and encouraging expatriates to return to that list, as well as improved international relationships especially with Australia and the United States.

One Auckland investment banker said: "We have already missed too many opportunities by not following through on and completing the reforms of the 1980s and 1990s. Today we face the consequences: lowered prosperity, particularly compared with Australia, underperforming lower decile schools, crumbling infrastructure and a tax system that discourages innovation and growth."

An electoral system which prevents bold decisive action does not help either, he added.

"We have got to tackle the disincentives to investment: tax, the Resource Management Act and sub-optimal infrastructure. We need better education and enhanced security in an uncertain world and an increasingly unstable region."

Another said: "New Zealand's manufacturing cost structure is getting less and less competitive. There will be a major correction in this sector," adding a plea for "understanding by officials and policy makers of what it takes to be competitive in the international environment".

#### Aussie dollarisation

It may be off the agenda as far as the election is concerned, but currency union with Australia has strong support among respondents to the mood of the boardroom survey.

The kiwi has been above the historical pain threshold of A90c for almost all of these past years.

Asked whether New Zealand should seek to adopt a common currency with Australia if there is a net economic benefit to New Zealand, 62 per cent said yes, 31 per cent no and 8 per cent were unsure.

Respondents were split between doing it by adopting the Aussie dollar or having a combined Anzac dollar. Eight per cent held out somewhat quixotically for having the kiwi dollar as the combined currency.

This is stronger support than the 60 per cent backing a common currency in a mid-year poll by Business New Zealand.

Of the political parties, Labour, New Zealand First, the Greens, the Progressives and the Maori Party all oppose currency union.

United Future says yes, but only if the net economic benefit to New Zealand is clear. Act is open to the idea but notes that it would mean giving away having our own monetary policy to manage inflation.

National says it has no firm policy on this but wants the idea explored.

Back when the issue was widely debated in 1999/2000, Don Brash, then Governor of the Reserve bank, was on

## ECONOMIC SLOWDOWN BITES

### Business leaders wary as confidence falls

Topping the list of general economic factors of most concern is the shortage of skilled workers. Brian Fallow reports



**C**AUTION is the prevailing sentiment among business leaders as they contemplate the economy's prospects over the year ahead.

More than half of the Mood of the Boardroom survey's respondents selected "cautious" from the four options they were given. Among the rest, twice as many declared themselves "confident" as "not at all confident". None were "very confident".

This is in line with declining business confidence seen in the National Bank and New Zealand Institute of Economic Research surveys and other indicators of an economic slowdown.

Topping the list of the general economic factors of most concern is the shortage of skilled workers.

Concern about skill shortages has loomed large in business sentiment surveys for years. It is the tightest labour market in a generation, with unemployment at a world-beating 3.7 per cent.

There are early signs of some easing of that pressure: the Department of Labour's monthly monitor of job advertising recorded 10 per cent fewer vacancies for skilled tradespeople in July than a year earlier.

And NZIER's June survey recorded a sharp fall in firms reporting increased difficulty in finding skilled labour.

The big picture, however, remains one of chronic shortages of skilled labour, a demographic trend of declining labour force growth over the medium and long term and continuing competition from Australia, which has its own skill shortages and can pay a lot better.

All the political parties claim to have policies to lift the number of apprentices and boost formal industry training.

The second biggest concern is the security and cost of energy. World oil prices are soaring, while electricity prices increase relentlessly.

The cancellation of Meridian Energy's Project Aqua, the Nimby issues bedevilling Transpower's plans to upgrade transmission to Auckland and the need for a Government guarantee to make Genesis's new gas-fired plant bankable have created a perception of a hand-to-mouth outlook for electricity supply, compared with the comfortable era when power supplies were underpinned by cheap and abundant Maui gas.

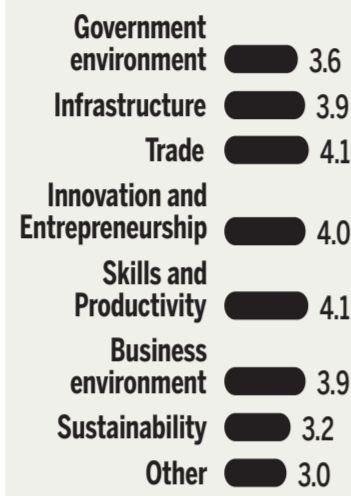
National's policy is to "fix" the Resource Management Act and "facilitate" oil and gas discoveries, while Labour puts its faith in the Electricity Commission and a focus on renewable energy.

The Kyoto Protocol remains a bugbear, ranking third among economic concerns. The climate change treaty represents the beginning of a funda-

**It is the tightest labour market in a generation, with unemployment at a world-beating 3.7 per cent.**

#### QUESTION

What is most important to achieve sustained economic growth?



Ranked on a 0-5 scale where 0 = least important and 5 = the most important.

Source: New Zealand Herald 'Mood of the Boardroom Survey' Sept 2005. HERALD GRAPHIC

the unenthusiastic side and equivocal about the idea.

It would reduce transaction costs and reduce uncertainty for companies trading with Australia, but it would not stop the big swings in other exchange rates, he said.

And it would mean interest rates that were chosen for conditions across the Tasman. "It may well be that that would suit us extremely well, but conversely it may be that it would not suit us at all well."

#### Asset sales

Just over half of the business leaders surveyed favoured the sale of state-owned assets. The rest were almost evenly divided between those opposed and those unsure.

One or more of the state-owned electricity generator/retailers featured most often among those who stated a preference for which assets should go.

Coal miner Solid Energy — a "high risk export business" in the words of one respondent — was cited by several, along with TVNZ, Air New Zealand and Landcorp.

A couple of respondents favoured partial privatisation, along the lines of recently listed electricity and gas distributor Vector.

"There is major shortage of good investment opportunities for New Zealanders in sound, well-run major New Zealand businesses," one said.

"A less than controlling interest in many SOEs could be listed with real benefits to New Zealand — more accountability and transparency of management and governance, price discovery and less possibility of Government intervention."

Two advocated the privatisation of the Accident Compensation Corporation.

Labour, New Zealand First, the Greens, the Progressives and the Maori Party all oppose any asset sales.

National says some Landcorp farms could go and talks of a possible private sector partner for Solid Energy.

Act would review all SOE holdings with a view to sale while United Future would seek to sell minority stakes in some (but not national grid operator Transpower).

— Brian Fallow



**NO TO PYLONS:** Nimby issues are bedevilling Transpower's plans to upgrade transmission to Auckland.

mental shift to rationing through price the right to emit greenhouse gases.

An embarrassingly large revision by officials of the national impact, from being \$500 million to the good over the 2008 to 2012 period to being \$500 million in the red, has not endeared Kyoto to the business community or the public.

Labour's Pete Hodgson remains committed to the treaty and to the carbon tax, the main domestic policy instrument intended to restrain growth in emissions.

National says it would scrap the carbon tax and consider pulling out of the treaty.

Next come the twin concerns of a sky-high dollar and our gaping chasm of a current account deficit.

Six months ago the kiwi dollar hit post-float highs against the US dollar. Relief among exporters when it headed south for a couple of months from early May has turned sour as it has climbed back up above 70c.

It has meant that despite record world prices for our main export commodities the trade gap has widened to a gaping \$5.4 billion as exporters struggle and consumers splurge on cheap imported goods. Associated with that, the current account deficit ranks fifth among businesses' economic concerns



**Pete Hodgson, Climate convener**



**Alan Bollard, Reserve Bank**

— recognition of the risks in having to rely on other people's savings to fund the shortfall, currently to the tune of more than \$10 billion a year.

Among the political parties only New Zealand First and the Greens say more should be done to manage exchange rate volatility.

The Labour Government has given the Reserve Bank a mandate to intervene in the foreign exchange market to shave the tops and bottoms of the exchange rate cycle if it thinks it would do any good. So far it has not, and National would rescind that mandate.

A little surprisingly, in light of the sustained lobbying by business groups

and an international trend towards lower rates, the corporate rate tax weighs in at number six out of nine.

Labour has no plans to cut the company rate from 33 per cent and National has said its planned cut, to 30 per cent, may have to wait until 2008.

Interest rates rank seventh among the business leaders' worries.

After seven interest rate hikes since the start of last year, economists and the money markets believe Reserve Bank Governor Alan Bollard has tightened the screws as much as he is going to this cycle and that the next move in rates will be down.

But combined with the high dollar, the current level of interest rates mean monetary conditions are quite restrictive, a reflection of the fact that inflation (worry number eight) is heading above 3 per cent and perhaps as high as 4 per cent.

Tight monetary policy has so far had only a limited impact on the housing market, which has had its strongest run since the 1990s.

The domestic economy has benefited from homeowners' willingness to borrow and spend some of the increase in their wealth, but the survey respondents worry about the sustainability of property prices.

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## NUCLEAR ENERGY

## Let's look at N-power

CEOs call for rational debate instead of emotional clamour on the options for securing long-term energy supply, writes Fran O'Sullivan



**N**UCLEAR energy is fast-losing its bogeyman status, with 64 per cent of CEOs surveyed saying it should be investigated as a means to help secure New Zealand's long-term energy supply.

The chief executives point out France is 80 per cent powered by nuclear reactors. Common comments were: "More rational debate is needed instead of the emotional clamour of the past decade or so... 450MW Pebble reactors are safe... but waste disposal remains a challenge".

Just 30.4 per cent believed it should not be investigated now, with some adding the rider that "the answer should be yes, but why waste time in the face of obvious public opinion".

Others suggested that coal — "if we can deal with air emissions" — would have huge strategic advantages and provide natural hedging for New Zealand against global oil prices.

What is driving this renewed enthusiasm for tackling one of New Zealand's greatest sacred cows is a looming energy crisis.

Nearly 94 per cent of the 90 chief executives and company chairmen taking part in the Herald's Mood of the Boardroom survey said they were concerned about the future of NZ's energy supply. Nearly two-thirds were concerned that their business operations or future investment intentions would be adversely affected by supply issues or escalating prices.

Chief executives from all sectors of energy-related business — generation, reticulation, fuels and major users — ranked the security and cost of supply in the 8-10 band, on a 0-10 scale where 10 equalled most concerned.

There was widespread unease that the Government had duck-shoved the controversy over bringing new electricity pylons from the Waikato to service Auckland by parking the matter until after the election.

"The high voltage investments in transmission and distribution are already 10 years behind Auckland's requirements," said one chairman with first-hand knowledge.

Another pointed to comments by Meridian Energy's Keith Turner "when he said that as a nation we need to start counting options in rather than counting everything out".

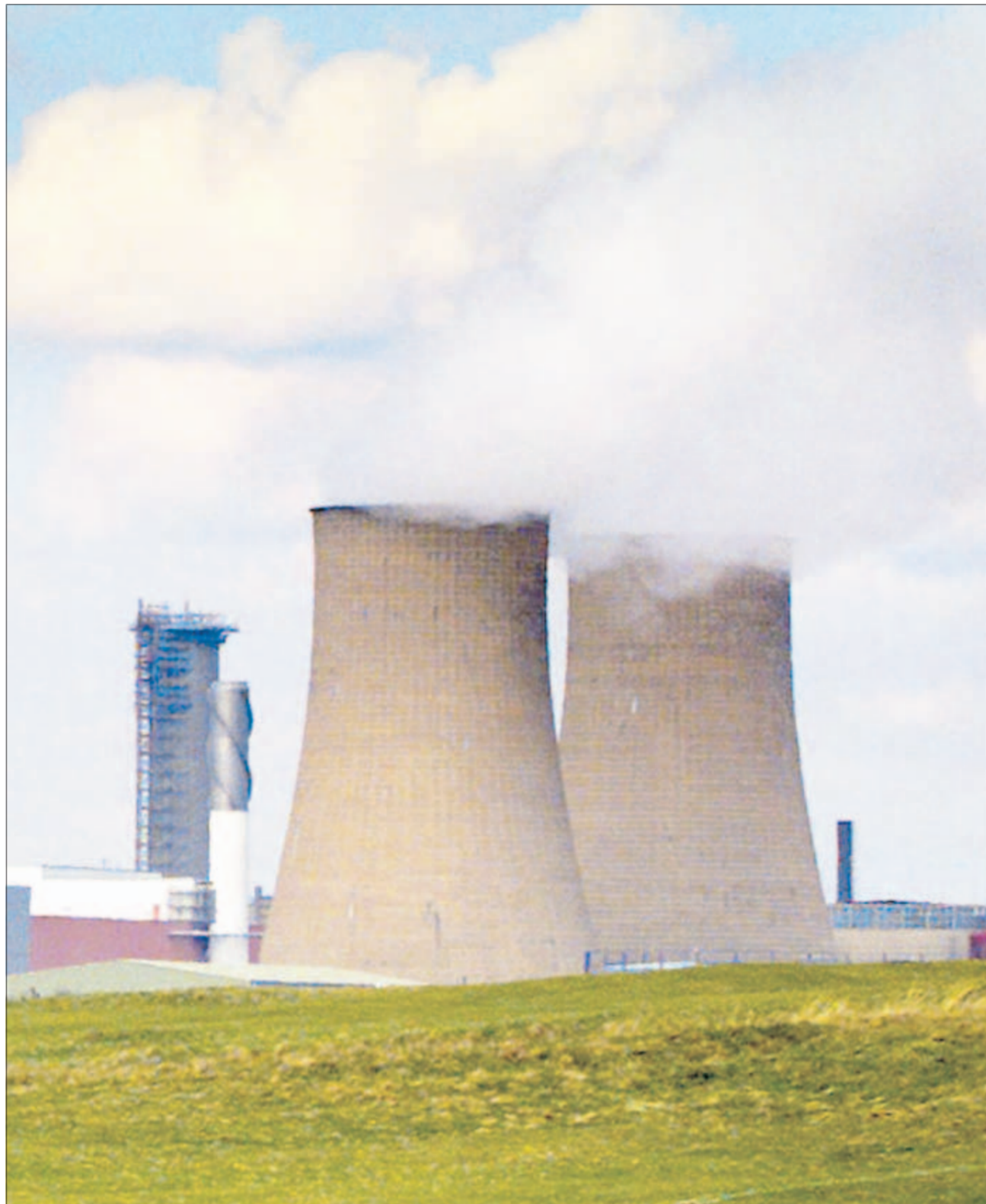
"Choice may well be limited to coal or nuclear if as a nation we are determined to dam no more rivers," he said in a reference to the canned Project Aqua.

There was concern that the Government's "laissez faire" approach would result in a future crisis with sub-optimal decisions made in haste.

Chief executives sound a warning that commodity prices — which have under-pinned the recent golden economic weather — are about to rise on the back of higher fuel prices. Petrol prices, which are now rocketing internationally, were of immediate concern. The effect on business confidence was already apparent.

But surprisingly they ranked outstanding problems with the road network — particularly in completing Auckland's — as the number one infrastructural issue facing New Zealand.

Westpac chief executive Ann Sherry, who now chairs the Government Growth and Innovation Advisory Board, said if there is a billion dollars of revenue that business forgoes "because we haven't got the roads sorted out"



IT WORKS: A chief executives points out that France is 80 per cent powered by nuclear reactors.

then we need to make a noise about that. "That's a billion dollars that goes into the future for our kids... you can't fritter that sort of value away."

Sherry suggests it's time to appoint an Infrastructure Minister — "a senior minister sitting in Cabinet where the money is doled out."

National plans to tackle Auckland's roading problem by setting up a standalone agency, Transport New Zealand, to oversee public transport.

All petrol tax collected from motorists will be spent on the roads instead of going into the consolidated fund as part of a move to commit an extra \$2.1 billion on roads over six years. It also wants to introduce private sector investment in public infrastructure and simplify the Resource Management Act to reduce barriers to road building.

Obligations on Transit NZ to consult with iwi will go, and National will set a target to get projects moved from the drawing board to construction phase within 12 months.

The Greens believe no city has managed to fix traffic congestion long-term by building more roads. It wants petrol tax revenue to fund public transport.

For Labour's part it can boast a substantial roading investment in its two



Ann Sherry



Michael Barnett

terms in Government. Transport Minister Pete Hodgson points out that in 1999/2000 major Auckland projects with a total value of \$130 million were underway. Last year, by the same criterion, the figure was \$1.3 billion. A further multi-million dollar boost was announced last month.

"This represents a quantum leap by Labour in funding the roading and public transport systems which Auckland needs," said Hodgson.

Labour will also investigate the use of biofuels. An Energy Efficiency and Conservation Authority (EECA) commissioned report suggests that at least three per cent of our petrol needs can be competitively met from bioethanol from

forestry waste, straw, and waste paper.

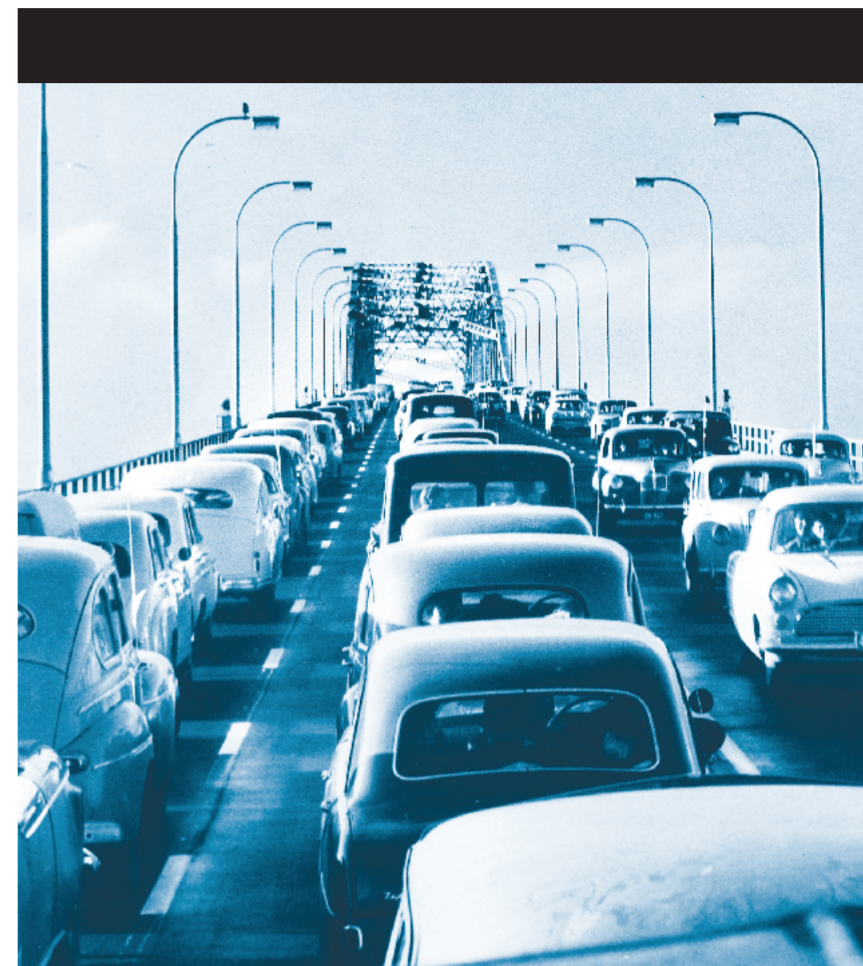
But roads are not the only issue facing the only city in New Zealand with pretensions to international status. "This country needs to promote Auckland. If it does well it will attract New Zealanders home," said one entrepreneur.

Auckland Regional chamber of commerce chief executive Michael Barnett said the city needed to take a hard look at what's good for business. "Infrastructure obviously has to be about roading and upfront it's going to be about your bang for your buck which is probably going to be about completion of the roading network."

But Barnett, who has been appointed chair of the new Auckland Regional Economic Development Forum, says the city also needs to look at what the best economic platform is for either people, or businesses, to operate from.

The forum has taken up where the Areds group left off, but Sherry warns it must not descend into yet another round of paralysis by analysis.

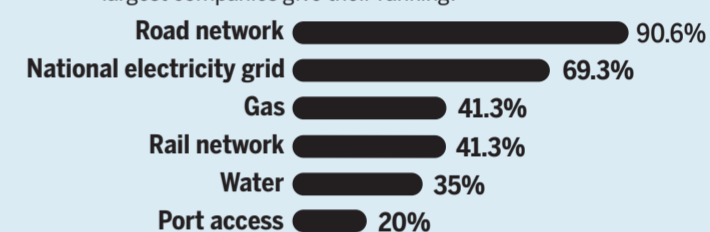
"If we don't get on with it the next generation will look back and think what a useless mob were... it'll all cost twice as much and be much harder to fix."



## INFRASTRUCTURE

## QUESTION What infrastructure issues in NZ concern you?

● 90 Chief executives and chairmen from New Zealand's largest companies give their ranking:



## QUESTION Does the future of NZ's energy supply concern you?

Yes 93.7% No 6.3%

## Are you concerned future energy supply or prices will adversely impact your operations or future investment?

Yes 63.6% No 31.2% Unsure 5.2%

## Should New Zealand investigate nuclear power?

Yes 63.3% No 30.4% Unsure 6.3%

## Will using public-private partnerships to supply infrastructure help obtain greater investment?

Yes 86.3% No 6.3% Unsure 7.4%

## Is the Government doing enough to increase the Internet broadband penetration rate?

Yes 12% No 58.2% Unsure 26.6%

Source: New Zealand Herald 'Mood of the Boardroom Survey' Sept 2005. HERALD GRAPHIC

## Get broadband up to speed

Cripplingly slow internet broadband services have been targeted by top chief executives for Government action.

Nearly 60 per cent of respondents to the Herald's survey do not believe enough is being done to increase broadband penetration rate at cost-competitive rates. A number made disparaging comparisons with the rate of broadband expansion elsewhere. The Government's digital strategy commits it to investing \$400 million to get most homes connected at 5Mbps by 2007.

Trouble is, other countries with Knowledge Economy pretensions are more ambitious. Telecom chief executive Theresa Gattung last month unveiled figures showing internet growth was a standout feature for the June 2005 result. Broadband numbers quadrupled from 52,592 to 205,927 over the period. Telecom's quasi-monopoly of the local loop is also an issue. "It's time to get tough and force Telecom to allow TelstraClear real access to local loop," said one business leader.

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# MOOD OF THE BOARDROOM

## ECONOMIC SLOWDOWN

### Challenging times create chances as some firms struggle

#### Mergers and acquisitions

Investment bankers should do well in the coming year if the respondents to Herald's Mood of the Boardroom survey are to be believed. Forty eight per cent expected more mergers and acquisitions in the coming year, while only 32 per cent said there would be less. Ten per cent were unsure.

Bill Gallagher, chief executive of the Hamilton-based electric fence group Gallagher, sees potential in the downturn. "I would say my view is that it is neutral to more opportunistic."

"In challenging times there are a few companies not doing so well. And that creates opportunities."

But Lance Jenkins, chief executive of investment bank Goldman Sachs JB, says while he's not brimming with optimism, maintaining merger and acquisition activity would be steady.

"The pipeline is okay but it does not look as attractive as it was this time last year. We have gone from 4.5 per cent growth and we are going through a slowdown, but it is not a crash."

"The US economy remains strong, Europe is not great, but it is not a disaster, and Asia driven by China has been much stronger for longer. I do not think it is a time for doom and gloom."

#### Corporate governance

Managing resources sustainably and maintaining robust standards of corporate governance are high on the agenda for most business leaders.

Asked if business activity and Government regulation should be directed to achieving sustainable outcomes for business as well as for the community and the environment, almost 90 per cent replied in the affirmative. Just 7 per cent replied no, while 4 per cent were unsure.

A clear majority (65 per cent), however, believe compliance is hindering business performance. Twenty per cent of respondents said compliance costs were having no effect, while a quarter were unsure.

Respondents generally believed better standards of corporate accountability were good for business, but the standards had to be taken up wholeheartedly. Corporate governance had to be more than "box ticking".

"Compliance must be part of a board's responsibilities. But, in some instances, it has become almost an obsession and that is not desirable," said one leader.

Another said: "Overall I think corporate governance is tolerated as a necessary component of maintaining investor confidence. But no amount of governance control will stop committed fraudsters. That issue is not well understood by those seeking to ramp up governance practices."

ASB managing director Hugh Burrett said business also needed to engage with the community. "I think that is the healthy situation because we are all in this pot together."

Meanwhile, respondents highlighted the compromise between sustainability and the wealth of economy.

Many feel regulations such as the Resource Management Act and the Government's commitment to the Kyoto protocol has tipped the balance away from wealth generation.

One business leader said the Government did not seem to recognise that taxes could not be increased indefinitely.

"If there is a belief that it is important for New Zealand's development to join Kyoto, there has to be a trade off. We must then ask what are we prepared to forgo because we just cannot go on adding more tax."

The leader added, however, that



INVESTMENT: Peter Thompson, Director, Barfoot & Thompson



POTENTIAL: Bill Gallagher, CEO, Gallagher Group



ENGAGE: Hugh Burrett MD, ASB Bank

many developments requiring business to think of the environment were to be welcomed.

The quota management system for fisheries would ensure New Zealand did not suffer the same fate as many countries in the Northern Hemisphere. Meanwhile, many of the country's waterways had been cleaned up.

Bill Gallagher echoed a wider sentiment when he said a clean environment was the product of a rich economy.

"Just go to India. I am having trouble getting capital works underway. The Resource Management Act is inhibiting industry."

#### Information technology

Peter Thompson, director of real estate agent Barfoot & Thompson, is one who is authorising more investment in information technology.

The real estate industry was being transformed as technology forced estate agents to provide higher levels of service.

Potential house buyers came to real estate agents with a particular property in mind, while they also expected agents to front up regularly with suggestions.

"We are dealing with fewer people on a one-to-one basis, but we are giving better service so that is bringing more people into the market," Thompson said.

## LOW UNEMPLOYMENT CONSTRAINTS

# Staff in demand as job market gets fired up

Demand for workers is outstripping supply as the creation of jobs surges ahead of growth in the labour force. Richard Inder reports



**B**USINESS leaders' brooding pessimism over the prospects for the New Zealand and global economies is not sufficient to dent their determination to hire new workers.

Almost 65 per cent of respondents to the New Zealand Herald's Mood of the Boardroom survey said they planned to take on more staff in the coming year. Only 18 per cent of respondents expected to hire less, while another 17 per cent were unsure.

To be sure, many of the business leaders said the tight labour market had left them with vacancies. Unemployment now stands at around 3.7 per cent — close to a 20-year low — and demand for new workers is outstripping supply.

In the three months to June the economy created 11,000 new jobs. This compares with growth in the labour force of around 5000.

"While we all welcome such low levels of unemployment in a social sense it has got to the point where it is a major constraint," said the chairman of one of New Zealand's major companies.

Nevertheless, most leaders surveyed do not dispute Treasury forecasts for the economy to grow — albeit at the somewhat slower clip of around 2 per cent compared to the 4.2 per cent of the previous year.

In such an environment demand for staff will remain strong. ASB managing director Hugh Burrett said: "We are growing the business. If you still have GDP growing at 2 per cent some businesses are going to want more people."

This sort of optimism is also apparent in business leaders' spending plans. Around 44 per cent of respondents said they would authorise more capital expenditure in the coming year. A slight majority (51 per cent) said they would authorise less, while five per cent said they were unsure.

Spending intentions on information technology were relatively evenly split — 48 per cent said they would spend less and 42 per cent said they would spend more. Ten per cent were unsure.

Bill Gallagher, chief executive of the Hamilton-based electric fence group Gallagher, reckons the figures suggest caution. "We would be authorising more capex but it's more replacement capex."

Peter Thompson, director of real estate agent Barfoot & Thompson, is also nervous about the economic outlook. "We are being cautious from where we were two years ago at the height of the property boom."

For example, Barfoot & Thompson was more often leasing new offices and waiting to see whether they delivered, rather than buying new properties.

Almost three-quarters of those sur-

"There has been a most unseemly throwing of money at any segment of society."



HUNTING FOR WORK: It's an employees' market as bosses look to hire more staff.

veyed said they were more pessimistic about their prospects than they were this time last year. Only 15 per cent said they were more optimistic and 13 per cent were unsure.

Generally, they feel better about the global economy — more than a quarter of respondents said they were more optimistic than they were this time last year. Still, two-thirds of respondents said they were more pessimistic. Only nine per cent said they were unsure.

Much of the pessimism is founded on the muted outlook for the economy. The kiwi dollar, still near post-float highs against the greenback, fears of rising energy costs as oil rises above US\$70 a barrel, high interest rates and falling immigration are expected to drag on business results.

"There is the recognition New Zealand has had a good run and we are beginning to understand that the country can not sustain that level of growth," said one business leader. "There is a fall-off in the housing market and we are facing increased interest rates."

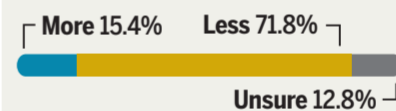
The respondent also highlighted the slowing activity on the New Zealand exchange. Over the last six months the NZX has lost eight companies with a combined market value of almost \$5 billion.

Trading activity was strong in the first three months of the year, but has declined every month in the second half. Business would struggle to prosper if capital markets were not strong.

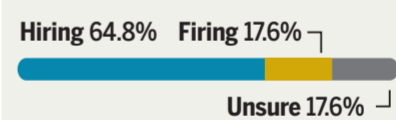
Meanwhile, most business leaders

#### QUESTION

Are you more or less optimistic than you were one year ago about business conditions in your industry?



Are you hiring or firing? (on balance over the next year)



Source: New Zealand Herald 'Mood of the Boardroom' Survey Sept 2005. HERALD GRAPHIC

are gloomy about the prospects of the Labour Party leading the next government. Recent polling still suggests a Labour-Green coalition, even though National has drawn ahead in some polls.

One senior primary industry executive said: "The current Government does not understand the effects of incentivising the population for pro-

ductivity. In short it is now engineering the cake smaller and is trying to give non-producers bigger pieces than the producers. It is a communistic in approach and likely to kill all incentive to produce. The message is: just breed!"

This was one of a number of references to packages such as the Working For Families scheme, which allows households earning more than \$100,000 to claim income support. The package will also impose tax rates of almost 60 per cent on swathes of the population.

Another leader said the Government had until recently handled the nation's purse strings prudently. However, it had blown any political capital earned in the past three years in the lead-up to the election.

In May, Finance Minister Michael Cullen had declared the cupboard bare, then as the campaign kicked off he promised an extra \$1 billion in new spending.

"If Labour go into a third term they will be looking to deliver on social policies that have been their desire but on which they have been unable to deliver on so far."

"It is open slather on spending — dental clinics, private healthcare. There has been a most unseemly throwing of money at any segment of society."

Bill Gallagher also objects to government's industrial development policies.

"We are seeing industrial welfare. My guys have got their hands out as well, but that doesn't make it right. It is poor quality spending. We would be much better with a lower tax rate."

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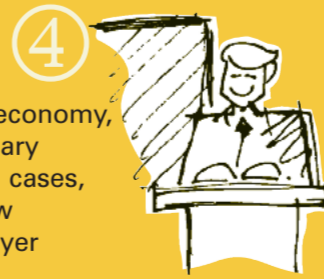


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## FREE TRADE

# Business behind China deal — with reservations

Surging Chinese demand represents an opportunity but **Fran O'Sullivan** reports there's concern at China's "extractive" relationship with the world

**B**usiness is strongly behind a free trade agreement with China but concerns are emerging over the impact on New Zealand companies and jobs from growing competition from the Asian giant.

Just over 75 per cent of chief executives and chairmen surveyed by the Herald support the deal which the Government began negotiating late last year.

"I strongly support this... huge capital inflows to China so NZ should follow the money," said a technology company chief executive.

"It has both benefits and threats. Cheaper and better-quality manufacturing aids my competitiveness, plus there are huge market opportunities in China. But their technology competitiveness is also improving. It is a huge market with a surging demand to be exploited."

A joint New Zealand-China governmental study predicts our exports to China between 2007 and 2027 will swell by between \$260 million and \$400 million a year, mostly for agricultural products.

The Herald survey shows some resistance by about 8 per cent of respondents with 11 per cent unsure about the agreement. Some cautioned New Zealand should proceed with care. "We are dealing with a dragon that focuses on an extractive relationship with the world," said an energy sector head.

The terms of the deal were also critical, added another. "When they float the yuan maybe... now we would be pigs to the slaughter."

But one rural sector player said the reality was China was a "commodity game".

"Like it or not we rely on commodity markets to drive both the prices and quantities of most of what we export. We have to adjust to the implications of what China does well in terms of some of our other industries but the challenge is to make sure we are aware of them."

Added another: "Australia is dry and New Zealand should be a food bowl rather than a pine plantation."

While 82 per cent of respondents said their company or industry was not facing a competitive threat from cheaper Chinese prices, 16 per cent were. And 21 per cent were either outsourcing, or about to, a considerable portion of their business to China. Forty-three per cent were concerned at the competitive threat China and India pose; 53 per cent were sanguine.

Deloitte chairman Nick Main said the trend could not be turned back and was another illustration why this country must increase its skills base.

"The company bosses accept it will be 'business as usual' whether Labour's Helen Clark (who would like to put her pen to the deal), or National's Don Brash, forms the next Government. But they are nervous at the potential impact of the Greens on a Labour-led coalition.

Likewise, New Zealand First, whose leader Winston Peters been critical of the China focus, is a potential risk factor.

The "China syndrome" ranked marginally lower than concerns about the United States economy among international issues CEOs believe could negatively affect business confidence.

The soaring US current account deficit, which reached an all-time high



OVER IT: Three-quarters of business bosses say we should open ports to nuclear-powered ships. PICTURE / FOTOPRESS

of US\$780 billion (\$1100 billion) in the first quarter of 2005 (an increase of 15 per cent over the fourth quarter of 2004) rated equally with the weakness of the US dollar as the issue with the most negative impact.

A UN report maintains it is wrong to blame China's surging exports for its big trade imbalance with the US. Supachai Panitchpakdi, Unctad's new secretary-general, said China represented only roughly 8 per cent of the total global current account surplus in 2004.

But the reality is the issues are intertwined in CEOs' minds.

Upcoming talks at the World Trade Organisation in December are being closely watched. A breakthrough on agriculture liberalisation will spur economic growth.

Some CEOs who responded to the survey after Hurricane Katrina's assault on America's southern states, pointed to emerging weather extremes (not surveyed), a potential oil shock and galloping insurance levies as potential international hazards.

On the trade front there is concern that political capital is being squandered by doing deals ("tokenism") with lesser partners such as Thailand and Singapore, rather than concentrating efforts on key targets US, China and Japan. Sixty per cent do not believe



Greg Muir



Jim Sutton

enough is being done by either Trade Negotiations Minister Jim Sutton's officials, or business itself, to leverage agreements to provide a greater net economic benefit.

Emotions are also raised by the way the relationship with the US — a major trading partner — became a political football early in the election campaign. Labour's foreign policy stance and defence strategy was hindering the economy, according to nearly 70 per cent surveyed. Twenty-five per cent had a neutral outlook.

Among comments: "Labour's virtuous views on Kyoto and blind ignorance of the importance of engaging with the US has done little to promote development" and "There is no doubt that our anti-nuclear stance makes an already difficult FTA prospect with the US even

more difficult." Some 85 per cent agreed National's intention to form great links with the US, UK and Australia would be more appropriate. But some took issue — "absolutely not... based on 'colonial' legacy thinking rather than recognition of China's emerging power".

What is important, said Pumpkin Patch's Greg Muir, was that irrespective of which party gets to form the next Government, the US relationship must be made a priority.

"It's not until you've really spent some time digging your toes under the sand in the US that you really realise what an outstanding market it is. It's the enormity of it... the disposable incomes and the variety.

"The fact is an FTA into the US would have given New Zealand a lot more opportunity. I just think it is a real shame we haven't progressed that fast from an export point of view."

Where the chief executives are ahead of the public is in their desire to see the next Government allow nuclear-propelled ships into New Zealand ports. Labour says no. National has squared its bets saying it would first seek approval by referendum. But 75 per cent of business heads surveyed support change.

They draw the line at allowing nuclear weapons in — 78 per cent oppose such a move.



## CHINA AND INTERNATIONAL ISSUES

**QUESTION** Do you support a Free Trade Agreement with China?  
 Yes 75.6% No 7.7% Unsure 16.7%

Is your company/industry facing a competitive threat from cheaper Chinese prices?  
 Yes 15.8% No 81.6% Unsure 2.6%

Are you considering out-sourcing to China?  
 Yes 21.1% No 76.3% Unsure 2.6%

Are you concerned at the implications for NZ companies and jobs from growing competition from China and India?  
 Yes 43% No 53.2% Unsure 3.8%

Is New Zealand doing enough to stay competitive in global markets?  
 Yes 11.5% No 77% Unsure 11.5%

**QUESTION** What impact do you believe the following international issues have on business confidence today?  
 Ranked on a 0-10 scale where 0 = no impact and 10 = the most severe impact



**QUESTION** Should the next Government change the legislation to allow nuclear propelled ships into New Zealand.  
 Yes 75% No 18.8% Unsure 6.2%

Should the next Government change the legislation to allow nuclear weaponised ships into NZ?  
 Yes 21.8% No 78.2%

Do you perceive that Labour's foreign policy and defence strategy is helping or hindering economic growth?  
 Hindering 68.8% Helping 6.5% Neutral 24.7%

If hindering, do you believe National's intention to form greater links with the US, UK and Australia would be more appropriate?  
 Yes 84.6% No 7.7% Neutral 7.7%

Has Labour's electioneering claims hindered New Zealand's chances of a free trade deal with the US?  
 Yes 61.3% No 20% Unsure 18.7%

Do you believe the nuclear policy would be "gone by lunchtime" if National forms the next government?  
 Yes 3.8% No 88.6% Unsure 7.6%

Source: New Zealand Herald 'Mood of the Boardroom Survey' Sept 2005. HERALD GRAPHIC

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# MOOD OF THE BOARDROOM

The New Zealand Herald

## FINANCE RIVALS

# Key, Cullen take gloves off

While a big majority of CEOs would prefer John Key as Finance Minister, there is some affection, and even admiration, for Michael Cullen

**B**EFORE the election campaign began, Michael Cullen and John Key frequently surprised many CEOs with their collegial approach in each other's company.

But as the race has tightened, Key's chirpiness and confident aggression has clearly rattled Cullen — particularly in television or radio debates — as they each seek to convince prospective voters of the merits of their competing policies.

The incumbent Finance Minister has stung back with his trademark cutting sarcasm. But the arrival of a new contender on the scene, who has, as one leading CEO maintains, "already demonstrated an ability to turn very detailed policy into something that is consumable by the masses" has raised the stakes.

Recent polls show National's tax-cutting policies are making headway with ordinary voters — not just a captive corporate sector which has been subject to Key's salesmanship for months. Cullen must increase his "tax relief" pitch and convince voters of the recklessness of his opponent's "bribes".

The irony is that while 90 per cent of those who took part in the Herald's survey believe Key would make the better Finance Minister, a raft of CEOs who have got to know Cullen well during his six years in power admire him.

Westpac chief executive Ann Sherry likes Cullen and rates him a "very sharp, seasoned operator". Sherry, who has crossed swords with Cullen over transtasman banking issues, said she's watched Cullen work audiences that are politically hostile and turn them round.

"John has got a passion for New Zealand and issues," she said. "But he is greener. He is much more about the specifics of what he would do. Michael tends to smooth the gloss a bit more."

Pumpkin Patch chairman Greg Muir also admires the way Cullen tackled New Zealand's finances to post year-on-year Budget surpluses. "He was incredibly conservative in that respect and I guess everyone has been grateful for that over the last six years."

But Muir was "flabbergasted" when Labour started dishing out "voting bribes" just weeks after the Cullen's sixth Budget.

Cullen has publicly emphasised that policies such as the \$300 million pledge to wipe interest from student debt is "Labour Party policy ... not Government policy." But he has staunchly promoted Labour's expansion of the Working for Families package which the Cabinet has cunningly sold as "tax relief".

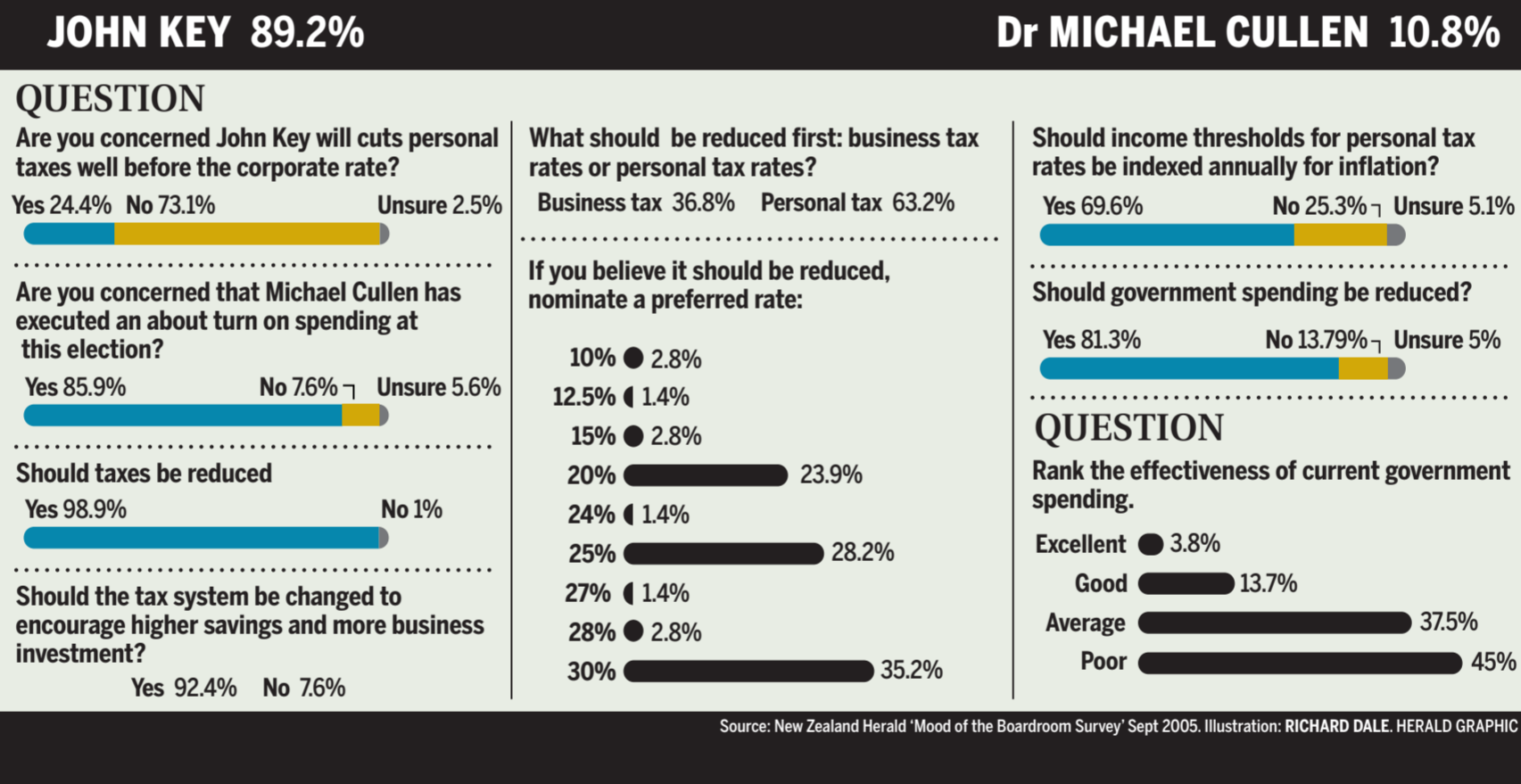
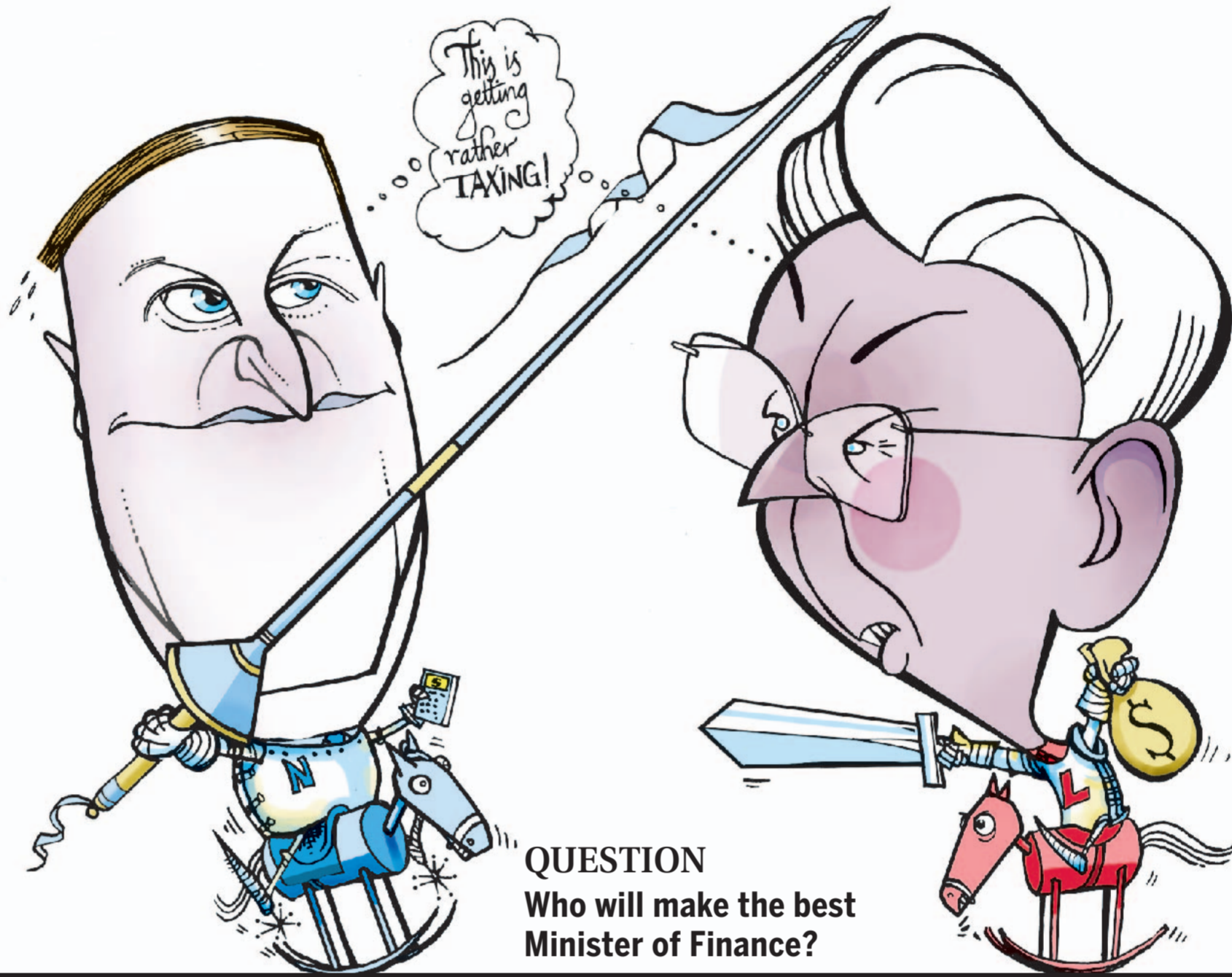
The scepticism over this shift in Cullen's public stance is reflected by the 86 per cent of survey respondents who are "concerned" at the election about-turn. Some were not concerned at the size of the shift — more at the target.

One chief executive said it had undone the work of the past five years. "It must have been directed by Clark. He will not stay after the election as Minister of Finance if they win."

Others speaking on a not-for-attribution basis were cutting. "Every day Labour uncovers stuff it did not know about during the recent Budget. Too smart!" said the CEO of an Auckland car importer.

A well-connected Auckland advisory firm head differed: "He knew at the time of the Budget he was going to announce the election bribes."

Another said: "The student loan bribe would be the worst. But understand that Key is also buying the election with tax cuts."



Source: New Zealand Herald 'Mood of the Boardroom Survey' Sept 2005. Illustration: RICHARD DALE, HERALD GRAPHIC

The business sector has repeatedly tried to twist Cullen's arm to slash corporate taxes to match Australia's 30 cents rate. The Finance Minister argues that is irrational given Australia has a raft of other business taxes that New Zealand companies don't face.

But, ironically, the very sector which has continually bashed him is prepared to go along with Key's proposals to defer a company tax rate for two years in favour of first cutting personal taxes. A typical refrain was: "While I believe the reduction should have also been at corporate level next year, National need to gain the Treasury benches first."

Another pointed to a surprise benefit: "There remains a lot of momentum in corporate earnings. I think delaying these tax cuts will provide the stimulus at the right time."

Sixty per cent of those surveyed also believed National's promised corporate rate of 30 cents was not sufficiently aggressive to maintain international competitiveness. Nearly 30 per cent opted for a 25 per cent rate; 24 per cent for a 20 per cent rate.

## Call for tax cuts

Entrepreneur Craig Norgate reckons Labour should swallow its pride and introduce tax cuts if it wins the election.

But he says the chances of that occurring "depend on how big a hole is dug during the campaign".

Almost 100 per cent of businessmen surveyed by the Herald want taxes cut, with a substantial number — 63 per cent — saying personal taxes should be cut first.

"The reality is that what Labour's offering today is different to what they were offering two months ago," said Norgate.

"I actually think — and this is my personal view — that the National tax package offers more for Labour's core constituency. I don't believe it is fiscally prudent because I actually think it will be self-financing with the energy that gets created when people really do get back their focus."

He believes that Michael Cullen has done a "bloody good job" as Finance Minister.

"It's not just the prudence... I think he's gone past that. But it's just unfortunate there seems to be a doctrine attitude from within his party that it's 'anything but tax cuts'."

"I don't blame him for that... I don't think it's his view."

Norgate says if Labour could sit down and talk to the unions — "without the pull from the left" — the vast majority, who earn above \$40,000, would support a policy shift to embrace tax cuts.

"It's very hard for people like Ross Wilson (Council of Trade Unions boss) to deny there's anything in this for people."

"So I'd just like to see when the dust settles — as I don't think there will be a change of Government — that they [Labour] do realise we can afford it and that it is better policy."



Craig Norgate

## Backing for tax index

Finance Minister Michael Cullen's plan to "inflation-proof" incomes by indexing the threshold rates at which tax rates kick in against price movements is strongly supported by business.

But 70 per cent of those canvassed by the Herald believe indexing should take place on an annual basis, rather than the three-year period Cullen pledged in his May Budget. Only a quarter opposed annual indexing.

"They also want the tax system changed to encourage higher savings and investment. NZ Institute CEO David Skilling says New Zealand has the lowest household savings rate in the OECD. Experience elsewhere shows countries that offer financial incentives such as tax breaks have better savings records. "People tend to procrastinate if left to their own devices."

Opinions diverge on the different parties policies.

"NZ First has some interesting ideas... but he's got to first get back into Parliament," said a finance sector CEO.

Most (81 per cent) back a cut in Government spending.

Forty-five per cent rank the effectiveness of current Government spending as "poor".

"The Maori singalong, the Wananga stuff-ups — this just compounds the image that the Government has lost control of spending to PC idiots," said a Christchurch manufacturing firm CEO.

With trade figures showing New Zealand's export gap with the rest of the world is growing, one Auckland manufacturer suggests it's time to redirect some spending into offering exporters incentives.

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