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MOOD OF THE BOARDROOM

New Zealand's leading CEOs talk up an ambitious growth agenda

Ann Sherry
Chief Executive, Westpac

"People don't get out enough. If you look at places like India – the fact they haven't got all the infrastructure doesn't stop them. They just get their own power plants. You go up these dirt roads and find the most sophisticated technological plants. We've got to be much smarter."

Murray Jack
Chief Executive, Deloitte

"It is time to move on from the level playing fields dogma. Why not offer tax concessions to foreign businesses wanting to start up in areas where we need investment to improve our competitiveness. They don't pay us any tax now. So it's not as if we would be losing revenue. We just might gain intellectual property and keep smart people who do pay tax."

SURFING THE DOWNWAVE – NZ's chief executives want Michael Cullen to be BOLD

TAXING STUFF – How to STOP the transtasman EXODUS of our best and brightest young people

Why the country's most effective POLITICAL LEADER cannot be trusted to do the business

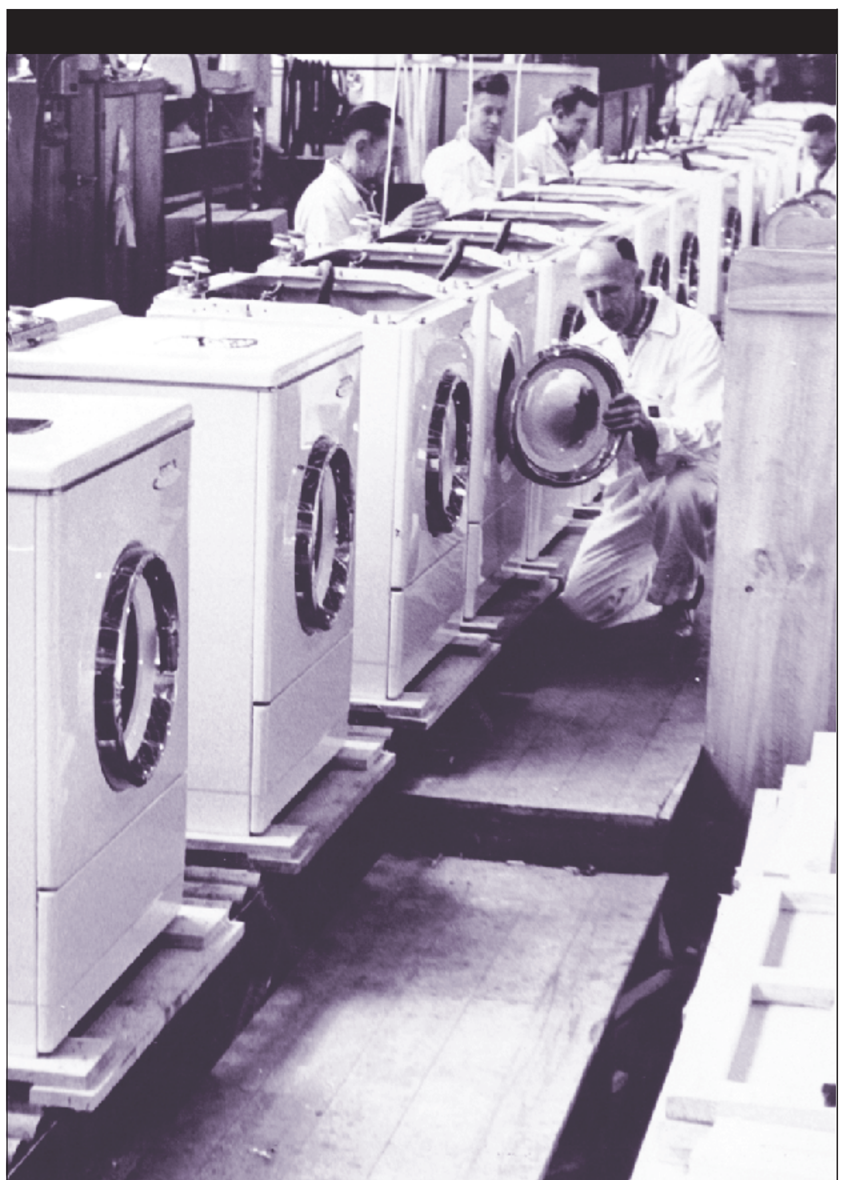
Andrew Ferrier
Chief Executive, Fonterra

"We are a small country. We should all be on the same page, working on the same strategic plan to advance our competitiveness. Look at countries like Sweden with Ericsson, or Finland with Nokia. The governments of those countries actively work to enhance their 'global icon' companies. New Zealand needs to do that to continue to win in the international marketplace."

Simon Allen
Chief Executive, ABN AMRO

"You've got to get up to 80,000ft and look down at what's happening. New Zealand companies are coping against huge global conglomerates who run subsidiaries here. You've got to be careful about layering on too much regulation. If you squeeze the lemon too hard – it's difficult to be competitive."

MOOD OF THE BOARDROOM



BATTLING THE ODDS

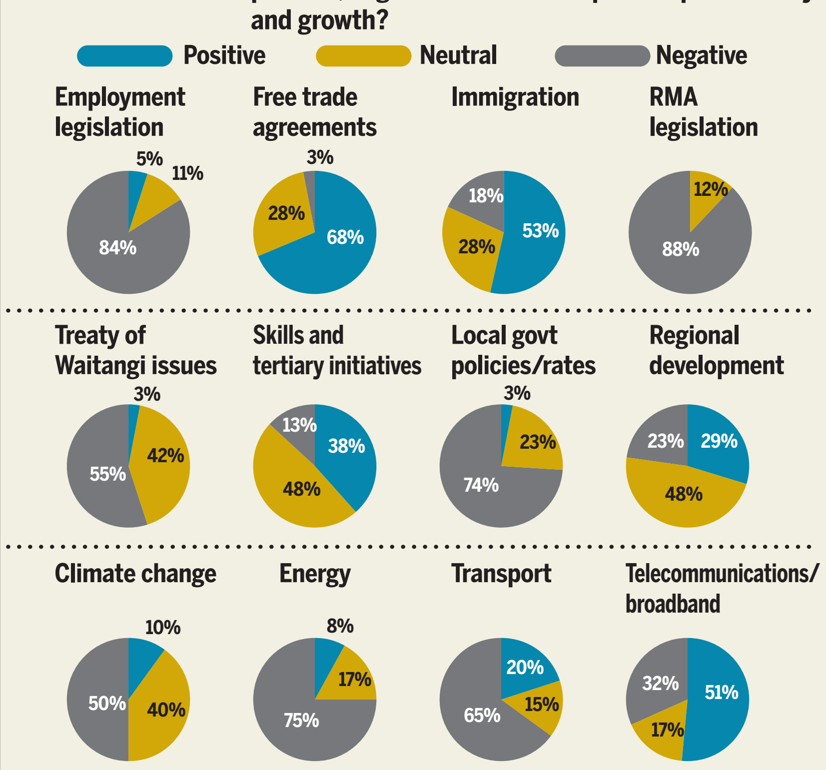
QUESTION Which general economic factors most concern your industry?

- 145 company bosses from New Zealand's largest companies and key small to medium sized enterprises give their rankings:

Wage increases	6.8
Petrol costs	6.6
NZ dollar	6.4
Transport infrastructure	6.4
Corporate tax rate	6.8
Current account deficit	6.3
Inflation	6.0
Interest rate hikes	6.0
Electricity costs	5.9

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

QUESTION Do the following Government policies have a positive, negative or neutral impact on productivity and growth?



Source: New Zealand Herald 'Mood of the Boardroom Survey' August 2006. HERALD GRAPHIC

PRODUCTIVITY

Government in the dark on what business needs

Small business reckons the Government must step up its game on its goal of transforming the economy, writes **Richard Inder**

The Mood of the Boardroom survey shows that the Government's moves to clamp down on Telecom's monopoly over the local loop — the lines connecting homes and businesses to local exchanges — is the only area (of the 12 policy areas examined) viewed by most New Zealand small businesses as a positive step.

The survey, which asked Business NZ members to rate whether government measures would have a positive, negative or neutral impact on productivity and economic growth, showed that 57.6 per cent of respondents said the planned telecommunications regime, due to be introduced next year, would have a positive effect.

But perhaps reflecting the antagonism towards the Government's policies, 24.2 per cent of respondents said it would make no difference.

The Government's policies on employment policies, immigration, the Resource Management Act, the Treaty of Waitangi, Local Government and management, regional development, climate change, energy and transport were at worst negative or would make no difference.

The Government believes boosting productivity — the value of goods and services produced per head of population — is a key way of overcoming the economic hurdles facing New Zealand.

Business reckons the government does not understand what is needed.

Its employment policies were singled out as the area of the greatest failing, with an overwhelming 77.3 per cent saying the planned settings were negative. Some 15 per cent were neutral on the measures, while 3 percent were positive. The remainder were indifferent.

Only last week manufacturers attacked planned legislation to set minimum pay rates for private contractors and measures to protect vulnerable workers as naive and unworkable.

"For a small economic force we are disincentivising good people by creating a massive dependency on the State.

"This will compound and implode when the economy is in more difficult times as our productive base will be diluted.

"The labour laws seem to be heading away from a flexible approach and government may be growing too big," said one small business owner in the survey.

The old bugbears of the Resource Management Act and the Treaty of Waitangi were regarded by 74.2 per cent and 69.7 per cent of small businesses respectively as hurting New Zealand's push towards lifting productivity.

The climate change agenda, which until recently included plans to introduce a carbon tax was dismissed as benign, with 68.2 per cent saying it would have little effect on productivity.

An overwhelming majority believe the essential ingredients to economic transformation are missing. They highlighted the need for tax cuts, financial incentives for research and development and a shortening of depreciation periods for assets such as high-tech equipment.

Tax cuts were seen as a key way that business could encourage and reward growth, and innovation. Tax reductions could also reduce the compliance burden.

"The Government needs to encourage business not treat it as a necessary evil," said another employer.

Others called for a cultural change in New Zealand and the Government's attitude to work and welfare and called for a repeal of redistributive policies such as the interest free student loans and the working for families' tax package.

"There needs to be less on welfare in order to encourage people to up skill and work," said one employer.

Another employer said: "I have worked in the stainless steel fabrication sector for 43 years, from apprentice to manager and now company owner. This Government needs to understand that over the last 43 years there has been and there still is a shortage of skilled trades' personnel."

Another said: there needs to be a "changed culture for regulation of employers — we need encouraging and nurturing and less government driven red tape and hassles in employing staff."

■ The 2006 Business NZ/KPMG Compliance Cost survey will be published on September 26.

'For a small economic force we are disincentivising good people by creating a massive dependency on the State.'

TAX REFORM IS LONG OVERDUE

Business NZ chief executive Phil O'Reilly (pictured) says the *Mood of the Boardroom* confirms the undeniable fact that New Zealand companies of all sizes could compete and grow better with a better tax system.

He points up some key differences between the way smaller NZ companies view Government policies compared to their larger counterparts.

"This year the difference is evident in responses about tax," said O'Reilly.

The corporate tax rate was rated as the lowest of 11 concerns for small and medium sized companies — behind issues such as petrol costs, inflation, roading and exchange rates — in Business NZ's analysis of responses to surveys sent to its membership.

Petrol prices and road congestion were more 'in your face' on a daily basis and could be expected to rank higher as a concern among SMEs than tax rates.

O'Reilly contends the low corporate tax rating is interesting in light of the Government's Business Tax Review proposals.

"Because the review relates to corporate tax only, the proposals have no relevance to many small businesses," he said.

"The review therefore fails to address the over-taxation of thousands of firms that pay tax at the top personal rate of 39 per cent.

"Reducing the business rate to 30 per cent will not help them. A more integrated solution — of both business and personal taxes — is required."

The Business NZ chief executive makes the point that for large companies, the corporate rate is vitally important. A reduction in the corporate rate to 30 per cent is not a particularly bold step to them. Australia could outflank NZ by reducing its rate below 30 per cent before the Dunne review is even finished.

The importance of lower business tax to larger companies is clearly captured in this year's survey. Asked whether they would invest more in their business if the corporate rate were cut, 81 per cent said they would.

Given that more investment is required for New Zealand companies to improve their assets, upskill, grow and export more, this response is telling.

"More than 80 per cent of large businesses reinvesting at a greater rate as a consequence of a cut in the corporate rate — this is a major outcome, and indicates the need for bold, not timid, reductions in business tax."

"An initial rate of 30 per cent would be useful as a first step only if there were further rapid reductions in the short term, and if consideration was given to alignment of personal and business tax," he said.

"Companies have suffered from our tax regime for too long. It has been nearly 20 years since the last reduction in company tax, and over that time the top personal rate has increased significantly.

"This contrasts with the overall downward trend of taxes in other developed countries.

HOW THEY'RE BOOSTING PRODUCTIVITY

- Staff training
- Investment in plant rather than labour
- Finding the cheapest manufacturing costs
- Introducing more information technology
- Reviewing assets, organisations and finances
- Fostering innovation and encouraging new ideas with the business
- Looking at energy consumption
- Working more hours and outsourcing work
- Investing in brands to maximise life-time customer value
- Product improvements
- Developing new products, developing exports, trying to build a smart modern business leading its fields

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The New Zealand Herald

INTERNATIONAL COMPETITIVENESS

Ramp it up, Michael

The finance minister has put economic transformation and tax cuts on his agenda. CEOs want him to be bolder still, writes **Fran O'Sullivan**

Boldness — that's the quality the many chief executives want Michael Cullen to demonstrate as he fronts the Government's economic transformation agenda.

More than 90 per cent reckon Cullen's recent Budget measures will not of themselves ensure NZ's metamorphosis into an internationally competitive business destination.

The CEOs believe other policies — particularly corporate and personal tax cuts — will have a bigger impact on NZ's international competitiveness and help attract and retain vital human capital.

But there are concerns at the expansion of welfarism and the Nanny State — and the capacity of NZ's taxpayers to ultimately pay the bills.

Cullen's decision to front-foot a business taxation reform agenda to make NZ more competitive against Australia has been taken to mean that he will cut the top company rate to 30 cents from April 1, 2008. At last year's election, National's personal tax cuts package was preferred by 92 per cent of chief executives over Labour's tax relief measures. National finance spokesman John Key was the darling of that campaign.

Only one-third of CEOs said then that the corporate tax should be cut ahead of personal rates.

Now Cullen is stealing some of Key's thunder. Personal tax cuts are not formally on Cullen's agenda — yet. But 90 per cent of CEOs say the corporate and personal rates will need to be aligned to avert tax leakage if the company rate is cut to 30 cents. Sixty-five per cent say they will pay staff more when the company rate is cut. Nearly 90 per cent say they will also retain earnings to invest in and grow their companies.

Among other major ingredients that COEs say are missing from the economic transformation agenda are energy security and a compulsory superannuation savings scheme. "If we are not careful, we will find ourselves unable to compete globally due to high domestic energy costs," said Andrew Ferrier, CEO of Fonterra, NZ's largest exporter.

Seventy-six per cent say the market model has not worked to deliver energy (electricity) supply, and 84 per cent believe it's time for NZ to debate the pros and cons of nuclear energy.

One in five CEOs put compulsory savings on their recommendations. "New Zealand could build a big capital base and reduce its reliance on other savings if it established a compulsory superannuation scheme," said Westpac CEO Ann Sherry.

The Government's decision to boost funds to complete major roading projects is a plus. Nearly 60 per cent say it will make a difference to their business costs. But 93 per cent say public/private sector partnerships should be part of the mix.

Other areas like Telecom's broadband monopoly, a new state-owned enterprises agenda, infrastructure funding and possible change to the competition laws are outlined in the adjoining story.

Missing ingredients:

■ Professional firm CEO: "The government needs to appreciate that tax, research and development, and immigration policies need to be globally competitive if NZ is to transform its economy to achieve the sustainably higher growth rates needed to grow per capita incomes. Without meaningful change, economic transformation is just rhetoric."

■ Entertainment industry CEO: "An environment which recognises and rewards entrepreneurship and enterprise. Recognition of the reality that we are slipping behind every other country."

■ Property CEO: "Stop NZ becoming a welfare state."

■ Construction services CEO: "No common, communicated aspiration."

The loss of skilled staff to Australia — despite staff retention measures — is another concern for nearly 80 per cent of CEOs.

■ Wellington securities market player: "Australia will continue to target New Zealanders — we need to understand this and target keeping our best rather than only focussing on safety nets."

■ Media CEO: "Two years ago the NZ dollar/Australian exchange rate difference was matched by the income tax differential. Now there are better exchange rates, salary, income, tax and superannuation benefits for working in Australia."

— **Tax debate: p5-7**

QUESTION

If corporate tax is cut, would you:	CEOs YES	CEOs NO	SMEs YES	SMEs NO
Pay staff more	65%	35%	54%	46%
Retain earnings for investment	91%	9%	79%	21%
Increase dividends	64%	36%	44%	56%
Is removing Telecom's broadband monopoly in NZ's best interests?	84%	16%	86%	14%
Should the SOEs expand outside their own core businesses?	22%	78%	34%	66%
Should the Government leave the competition environment as it is?	79%	21%	85%	15%
Should the NZ Super Fund invest in NZ infrastructure development?	57%	43%	34%	66%

Source: New Zealand Herald 'Mood of the Boardroom Survey' August 2006. Illustration: **GUY BODY**. HERALD GRAPHIC

Snapshot of board views

The 2006 "Mood of the Boardroom" survey, conducted in association with Business New Zealand, is focused on NZ's international competitiveness.

We set out to capture the responses of chief executives and SME bosses to the economic transformation agenda unveiled in Finance Minister Michael Cullen's 2006 Budget and the options in the later Business Taxation Review. The delays to the taxation review meant this year's survey was a two-part exercise.

Seventy-nine chief executives and company chairs were engaged in the exercise, which was conducted between early July and early August.

The survey database was drawn from the Deloitte/Management Magazine Top 200 list, the NZ Business Council for Sustainable Development and NZ Business Roundtable. It was augmented by the inclusion of CEOs from major national and local government trading enterprises and professional firms. The response rate was 40 per cent, in line with last year.

Nearly 70 SME chiefs from Business New Zealand's membership provided an SME reaction.

Economic Transformation Agenda

CEOs and chairs have strong views on prime elements of the Government's economic transformation agenda:

SOES:

Most CEOs (78 per cent) are against moves to make SOEs "agents of economic transformation" through expansion outside their core businesses.

Nearly all chairs were strongly opposed: "A very dangerous policy. Many SOE boards are populated with party favourites, and some SOEs are influenced politically. Further, most prudent boards think very hard about offshore investment and need experience of doing so, either on the board or by going at it all slowly. SOEs are not equipped and will lose millions," said a meat industry chair.

SOE chair: "They are public utilities in general, and as such should focus on productivity and efficiency."

Motoring CEO: "Trevor Mallard [Economic Development Minister] is encouraging SOEs to get into business. Shouldn't they be supporting business to succeed?"

Others pointed out there was "plenty of room" for expansion within core businesses and SOEs — particularly from the energy sector — should ensure NZ's energy supplies were underpinned before moving into "adjacent" business or concentrating efforts on offshore expansion.

From the support camp (22 per cent), some CEOs are aligned with the NZ Institute, whose CEO David Skilling has been strongly influential in the development of proposals to expand the SOEs' role.

Just sell, said another: "Privatise them instead — stem the rate of growth of bureaucracy."

COMPETITION:

"Leave the Commerce Act alone to preserve competition and consumer choice" is the clear message from 79 per cent of CEOs and chairs surveyed on Cabinet Minister Lianne Dalziel's initiative to examine whether companies should be able bulk up domestically to better compete offshore.

FMCG boss: "We want increased competition, but in a way that preserves consumer choice. Watch out: Woolworths/Progressive merger and transtasman terms — ultimately detrimental to consumer choice."

FMCG CEO: "There are pseudo cartels abounding in energy, banking, credit cards, petrol/diesel that need to be regulated in the absence of an alternative redress process."

Supporters had a different take: "The Commerce Act assumes NZ is the entire market. It's not, the market is global but our law is not. Offshore international companies can use this to their advantage, not to NZ's advantage" — Auckland CEO.

Wellington investment banker: "Too much regulation of infrastructure industries based on a 'static' view of interests."

A capital markets player noted that there needed to be some stability and certainty on this score.

INFRASTRUCTURE:

Infrastructure bonds are already on the Cullen agenda, but 57 per cent of CEOs agreed with the proposition that the NZ Superannuation Fund (aka Cullen Fund) should be directed to invest in developing NZ's creaking infrastructure. Supporters stressed infrastructure investment should not be a blank cheque "only at commercial rates".

Auckland banker: "The word 'directed' is too strong. Part of the mandate should be the ability to invest if profitable opportunities can be found. The scope should not be limited to specific sectors or projects."

Among investment options: roads and transport infrastructure, all-weather airports, airport-to-city access in Auckland, sustainable energy generation, sewerage and water. Law firm boss: "You name it, there has been under-investment, and we are paying the price."

Broadband

Most chief executives (84 per cent) back the Government's removal of Telecom's effective broadband monopoly. But nearly half (46 per cent) have concerns that the Government has over-ridden private shareholder interests by making a unilateral decision to open the local loop copper wire to Telecom's competitors.

There's a warning also for new Telecom chair Wayne Boyd, as he works to get a grip on the company's financial position. Sixty-three per cent of CEOs believe the removal of the broadband monopoly will make a difference to their business costs — an indication that Telecom's ability to "rent seek" is over. Supporters point out that NZ is the second-to-last country in the OECD to move on this.

"Go faster, get it done", "It should never have been a monopoly in the first place", were common responses from SME bosses.

Auckland law firm boss: "Shareholder interest must be subjucated in this case; investors should have seen it coming. I would not like the Government's intervention to become a trend. While I agree with the outcome, the method used was unfortunate. Telecom should have been given a 'final warning' rather than a budget goodie."

Wayne Boyd Chair, Telecom

Chairmen were particularly scathing. Meat sector chair: "The local loop needed freeing up but not in the way it was done."

SOE chair: "The Government was right to act, but the way they acted was inappropriate. There was no incentive for Telecom to invest in new technology and infrastructure."

Other opponents were direct. Auckland banker: "This is part of a program of socialisation by stealth and the reinserting of Government as the centre of economic power."

Wellington investment banker: "Structural/regulatory separation may well be in our long-term interest, but no evidence of benefits and method of implementation [over-riding property rights] is clearly bad for a country's risk premium."

This outlook was shared by nearly all bankers and capital and securities markets players who were concerned that "sovereign risk" issues might impact on NZ's reputation as "regulators were over-ridden by politics if the Government didn't like it."

Investment banker: "Property rights must be protected — we are already seeing concern around the areas of political risk to NZ as an investment destination. "Governments are there to govern — my issue is not so much about the regulation, but rather: how did Government allow the communication channel between them and Telecom to break down to the extent it did?"

Just 17 per cent said the move would impact on expansion plans.

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MOOD OF THE BOARDROOM

TAX CREDITS

Infrastructure and power generation are key concerns

Looking beyond short-term cyclical factors there are concerns in the boardroom about more structural factors such as infrastructure, longer-term energy supplies and an increasing tendency of the Government to want to pick winners.

"We go through a cycle and you can't do anything about that," Rob Cameron of merchant bankers Cameron Partners said. "But if you are worried about economic growth three or five years out, the concerns we are hearing from our clients relate to infrastructure — whether it's transport, energy or water — and how they react with property rights, network operator rights and with the Government's policy ambitions over the management of the environment."

The question was how the Government set a policy environment that gave certainty for people making major investment decisions. "Or is the Government going to do it all?"

Doug Heffernan, chief executive of the State-owned electricity generator and retailer Mighty River Power, worries not only about the state of the national grid but, longer-term, where the energy to keep the turbines turning will come from.

"In the electricity space up until a decade ago we had almost a century of fuel surplus. While things are still pretty good until the middle of the next decade — largely through renewables such as geothermal and wind, but also e3p [Genesis's gas-fired plant at Huntly] — the big challenge I see is further fuel for electricity beyond then," Dr Heffernan said.

Neil Paviour-Smith, managing director of sharebrokers Forsyth Barr, said: "Issues around personal tax, incentives to work and welfarism gnaw away at business, as do compliance costs and getting through the quagmire of regulation over development that is inhibiting infrastructure development."

He is wary of returning to policies like tax credits for export market development and the Government picking winners.

" There are New Zealand companies which have demonstrated they can compete on a world stage. And we need to be realistic that there may be industries which are just not competitive for reasons of scale, distance or whatever."


ROB CAMERON: Partner, Cameron Partners


DOUG HEFFERNAN: CEO, Mighty River Power


NEIL PAVIOUR-SMITH: MD, Forsyth Barr

FUEL

Spectre of oil prices knocks confidence

Oil prices are the main international factor bearing on business confidence. But concerns about the level of the United States dollar, US growth, China's competitiveness and global inflation rank close behind.

The Reserve Bank's June forecasts contain the optimistic assumption that world oil prices will fall back to around US$45 a barrel.

But ANZ National Bank economists reckon that if oil prices stabilise around US$70 a barrel, a further drop in the exchange rate to the US50c to 55c range would send petrol climbing to $1.90 or $2 a litre at the pump.

As well as adding about 0.9 percentage points to inflation over the year ahead, the impact on business and consumer spending power would make the economic slowdown worse.

Higher oil prices would also tend to push up world interest rates as central banks lean against inflation pressures that are on the rise.

Annual inflation has hit 4 per cent on both sides of the Tasman. Across the OECD as a whole it was 3.1 per cent in the year to May 2006, up from 2.7 per cent a month earlier.

World interest rates, in turn, are a major influence on the cost of funds for the fixed rate mortgage which now represent the overwhelming majority of home loans by value.

The rise of China as the workshop of the world is seen as a double edged sword: reducing the cost of consumer goods and the purchasing power of a basket of New Zealand's commodity exports, but also as a threat to what remains of the manufacturing sector.

The state of World Trade Organisation negotiations — rated by the the Indian Trade Minster as somewhere between intensive care and the crematorium — is more of a concern than such risks as further instability in the Pacific, a bird flu pandemic or the threat of more terrorism in the region.

INFLATION

Time to get used to high interest and wage rates

Inflation has hit 4 per cent and the Reserve Bank warns it will not fall to within its 1 to 3 per cent target band until late next year, **Brian Fallow** reports

An unholy trinity of wage inflation, rising fuel costs and a weakening dollar is weighing on business leaders' minds both at the big end of town and among small and medium-sized enterprises.

They were asked to rate concerns on scale of one to 10, with 10 representing strong concern. None of the options offered stood out as head and shoulders above the others, but there was a clear consensus about a cluster of factors which are pushing up costs at a time when domestic demand is weak and profit margins are under pressure.

Wage increases top the list for corporate chief executives and are a close equal second for SMEs. Wage rates and salaries are running around 5.5 per cent ahead of where they were a year ago.

No wonder, when inflation has hit 4 per cent and even the Reserve Bank is warning that it is likely to stay around that level for several quarters and not fall back within its 1 to 3 per cent target band until late next year.

Nervousness about what headline inflation numbers like that will do to inflation expectations and pay settlements has governor Alan Bollard keeping interest rates high despite a sluggish economy. He needs to be confident, he says, that inflation is heading back comfortably within the target range before easing back on the monetary brakes.

Underlying chief executives' concern about wage inflation may be a recognition that the country has moved to a permanently, structurally tight labour market, at least when compared with the 1990s.

Shedding labour in response to a thinning order book is riskier than it used to be in an environment of chronic skill shortages, and an unemployment rate which is low by historical and international standards.

This is reflected in the fact that despite the economic slowdown and the fact that 61 per cent of bosses are less optimistic about the outlook than they were a year ago, as many CEOs expect to increase staff levels as reduce them over the next 12 months. Among smaller businesses those expecting to increase staff levels outnumber those planning to reduce them by more than two to one.

Petrol costs, which top the SMEs' list of concerns and are a close equal second among the corporate CEOs, have risen by nearly a third over the past year.

After bobbing around the 80c a litre mark through the 1990s the petrol price jumped to $1 in 2000, then drifted back a little before soaring to more than $1.70 now.

Domestic taxes make up about 40 per cent of the price at the pump, diluting only partially the instability premium built into world crude prices at a time of war in Lebanon, insurgency in Iraq and a pretty serious failure of minds to meet between the Western powers and Iran over the latter's nuclear ambitions.

> '...inflation has hit 4 per cent and even the Reserve Bank is warning that it is likely to stay around that level for several quarters...'


TROUBLE: Unrest around the world, such as this in Lebanon, is pushing oil prices sky high. PICTURE / REUTERS

Electricity prices are the lesser concern but not by much.

As measured by consumers price index, electricity prices are up 6 per cent over the past year and by a third over the past four years.

Prices for commercial and industrial users have risen less rapidly than for households but they have still been climbing in real terms.

The level of the New Zealand dollar is another major concern. Since the start of the year it has fallen 11 per cent against the US dollar and 14 per cent on a trade-weighted basis.

A weaker exchange rate benefits exporters — eventually and provided they have enough power in the chimerically relationship to ensure the gain does not all go their offshore counterparties.

But New Zealand Inc imports more than it exports, about 20 per cent more in the year ended July.

A weaker kiwi dollar pushes up the cost of imported fuel and other inputs such as materials and components, as well as capital plant and machinery.

Despite a weaker dollar making imported capital goods more expensive, the survey suggests the lift in the level capital expenditure which has marked the past few years will be maintained.

More firms expect to increase capex over the next year than reduce it, especially in information technology. Together with the evidence of labour hoarding, that suggests firms are "looking through" the current downturn.

But the possibility of further interest rates rises remains a concern, along with the corporate tax rate, the state of transport infrastructure and the implications of a gaping current account deficit.

That is despite the fact that Dr Bollard has maintained in monetary policy pronouncements that he does not expect to have to raise the official cash rate again this cycle.

And it is despite the Government's business tax reform discussion paper that includes the prospect that the company tax rate will be cut to 30 per cent.

Increased funding for roads was a major theme of the last Budget but the deficit in transport infrastructure, not least in Auckland, may take long to correct.

And the current account deficit, which at $14.5 billion or 9.3 per cent of gross domestic product is spectacularly bad by international standards, remains the economy's Achille's heel.

That degree of dependence on the willingness of the rest of the world to fund the deficit leaves its vulnerable to a change of sentiment towards New Zealand. Even short of that it increases the extent to which the economy's output belongs not to New Zealanders but to the foreign providers of capital and credit.

QUESTION

Rate the impact of international factors on business confidence

Ranked on a 0-10 scale where 0 = least important and 10 = the most important.

Source: New Zealand Herald 'Mood of the Boardroom Survey' August 2006. HERALD GRAPHIC

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The New Zealand Herald

BUSINESS TAXATION REVIEW

'Found wanting'

While CEOs rate NZ's ability to compete with Australia as important, they question whether the review will do the business, writes **Fran O'Sullivan**

Chief executives do not believe that the Government's menu of business taxation options will enable New Zealand to strongly compete with Australia.

They rated the proposed drop in the corporate rate to 30 cents in the dollar as the most important measure on the list released by Finance Minister Michael Cullen and Revenue Minister Peter Dunne two weeks ago.

But they also believe other options should have been tabled, such as the alignment between corporate and personal rates and the mutual recognition of imputation credits with Australia.

NZ's ability to compete with Australia is important to CEOs, who rated it at 4.5 on a scale of one to five, making it the most important of nine criteria set by Deloitte as a framework for measuring review options. Other criteria included the ability to invest in capital infrastructure, R&D, plant and machinery, the ability to attract and retain foreign capital, the ability to retain labour and attract it from overseas, and the ability to invest or expand into foreign markets.

CEOs considered taxation as an important factor in attracting and retaining foreign capital (rated at 4), just marginally ahead of the importance they see it as playing in NZ's ability to compete with Australia. But there is a gap between ambition and reality when the impact of the business taxation reviews are measured against the same criteria. For instance, the impact of the initiatives on NZ's ability to compete with Australia was rated at just 2.6.

Other criteria such as the ability to attract and retain foreign capital fared marginally better, as did investment in R&D, plant and machinery, and capital infrastructure.

The package does little for the 80 per cent of CEOs who are concerned about the loss of skilled staff to Australia. The impact of the review options on the labour drift or on the ability to attract new labour from offshore was rated 1.8.

The 40 per cent of businesses that are not registered as companies are particularly affected, says Auckland Regional Chamber of Commerce CEO Michael Barnett: "They might get export incentives but will miss out unless the personal rate is cut."

Fonterra CEO Andrew Ferrier said it "was a shame" that the review had not addressed a key issue in New Zealand's competitiveness with other major trading partners, in particular Australia, where the mutual recognition of imputation/franking credits and the reduction of withholding tax on dividends, interest and royalties, in line with the recently renegotiated Australian double tax treaty with the US, would increase NZ's ability to remain competitive.

Deloitte CEO Murray Jack pointed to the need for coherent policies to improve NZ's capacity to be competitive: "It's not necessarily about picking winners."

Business Roundtable executive director Roger Kerr, who has played a leading role in challenging the Government's taxation assumptions, is disappointed with the review options.

The Business Roundtable, Federated Farmers and the NZ Chambers of Commerce, with support from the NZ Institute of Chartered Accountants, had argued that the basic strategy of the review should be to lower and flatten the income tax scale in line with the key recommendation of the 2001 Tax Review led by Rob McLeod (now Business Roundtable chair). Their menu included a cut in the top personal tax rate to 28 per cent and a cut in company tax to 25 per cent, together with a "responsible funding package".

McLeod is concerned that a return to tax concessions would lead to distortions in the economy: "A reduction in the company tax rate is desirable, particularly in the context of cross-border investment, but it should not be made in isolation from other income tax rate reductions."

McLeod's stance is reflected in the survey responses which indicate that 90 per cent of chief executives agree with the general structure of NZ's tax system: a broad-based income tax with no comprehensive capital gains tax and a broad-based consumption tax. A similar proportion says the corporate and personal rates need to be aligned.

"The alignment of corporate/trust/top personal tax rates would be the best answer, with the corporate rates below Australia's and double tax agreements in line with Australia's treaties with the UK and USA," an Auckland banker said.

What is also notable is that while the Government rejected the McLeod review, chief executives still rate its relevance at 3.4 as part of an overall tax package — the same importance they accorded to R&D incentives, the second rated option from the Government's paper.

The taxation debate has been dominated by business lobbyists who prefer a neutral system. NZ Institute CEO David Skilling — who is playing an influential role with Cabinet ministers in the tax debate — argues that changes are needed to reduce the financial disincentives for firms investing offshore. In a report out yesterday, Skilling proposed a rebate for international market development which would enable firms to cover off 50 per cent of their expenses in establishing a presence in an offshore market.

CHANGES: Michael Cullen (left) and Peter Dunne launching their discussion paper. MARK MITCHELL

David Skilling
CEO, NZ Institute

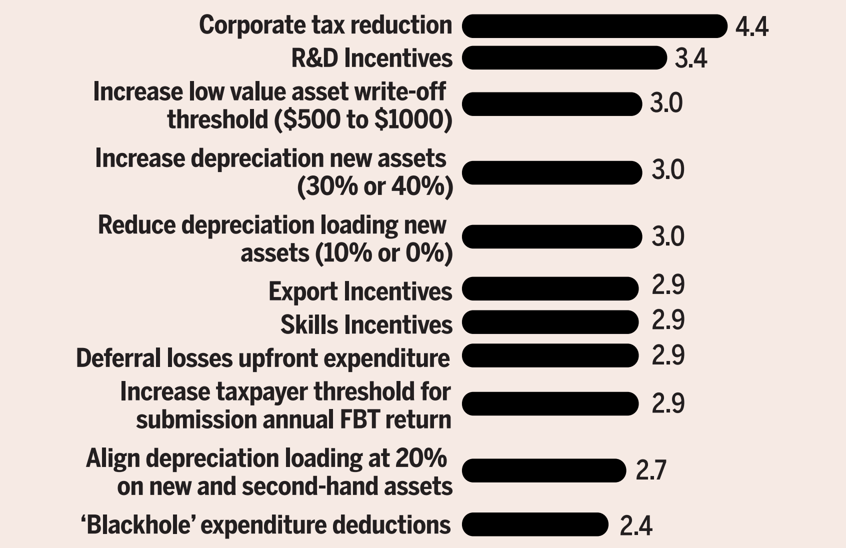
Rob McLeod
Chair, Business Roundtable

Murray Jack
CEO, Deloitte

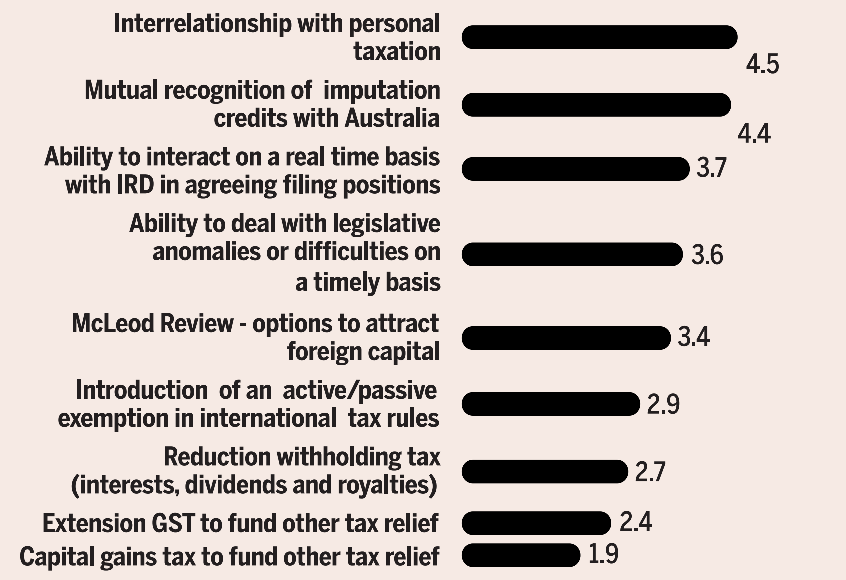
Roger Kerr
CEO, Business Roundtable

BUSINESS TAXATION REVIEW

QUESTION Rate the relevance of review options



QUESTION Rate whether these options (not contained in the Business Taxation Review) should be considered in the overall tax package



Scale 1-5 where 1=less relevant and 5=most relevant

Source: New Zealand Herald 'Mood of the Boardroom Survey' August 2006. NZ Herald/Deloitte. HERALD GRAPHIC

A

MOOD OF THE BOARDROOM

Auckland

Call to streamline local government and reduce costs

Rapidly rising local government rates and charges means the case for a return to single city in Auckland Council with one main council.

That's the view of EMA (Northern) chief executive Alasdair Thompson who is concerned at the impact on business of escalating charges and infrastructural issues.

EMA analysis shows local government rates hikes are running up to three times faster than inflation — well ahead of population growth — and are projected to keep up the pace for the next 10 years, despite the slowing economy.

"Local government is expanding rapidly as the rest of us tighten our belts," said Thompson. "There needs to be an end to finger pointing and to Auckland dysfunction."

He says the failures in Auckland's infrastructure — transport, electricity supply and storm water — that are causing investors to delay new projects or business expansion.

"The same bottlenecks are threatening our quality of life overall."

The Mood of the Boardroom shows chief executives from both big companies and smaller enterprises rate local government policies and rates as having a negative impact on productivity and growth.

Some 62.5 per cent of SMEs from Business NZ's membership rated the factor as a negative — a third were neutral. At the "big end of town", 74 percent of corporate leaders rated local government polices and rates as a negative for productivity and growth; 23 per cent said they had a neutral impact. Just three percent gave a positive rating.

Federated Farmers' analysis of 83 local body plans shows rates are forecast to rise an average of 7-8 per cent each year for the next three years. The Auckland situation is much worse: In the next decade Auckland Regional Council is planning to increase its rates by 77 per cent.

"These figures underscore the need for urgent reform to restrain council spending, as well as to sort out a standardized, more equitable basis for funding local councils," said Thompson.

"While business supports new council projects funded in part by borrowing, the EMA wants to go beyond tinkering. We want to see Auckland reunited again under a single city council and governance structure."

That would mean the eight councils that currently oversee cross-boundary developments would reduce to one council with the ability to address and overcome the infrastructure obstacles that hold back the Auckland region's business and economic growth.

"Aucklanders see themselves as one entity already but we pay property taxes to eight different councils. You have to ask why?

"A city our size with just over 1.2 million people, does not need four city councils, three district councils and a regional council with 290 elected persons to represent us.

"Brisbane with much the same population has one council with 40 elected councillor. What's so special about Auckland that we need seven times more elected representatives than Brisbane?"

Barfoot & Thompson director Peter Thompson is confident about the long-term future of the Auckland property market where prices have continued to rise in defiance of the doom-sayers.

Thompson says real estate agents are having to work harder to "make the sale" in the tighter economic conditions. Properties are taking around 30-35 days to sell — instead of the 20-25 days average of a year ago — but prices are firm.

Thompson believes New Zealand is under-appreciated as a property investment destination by some local investors. But the country's reputation as a "safe haven" — in a world increasingly troubled by terrorism — and the return to a positive immigration scenario will underpin the market for years to come.

ALASDAIR THOMPSON: Chief executive EMA (Northern)

PETER THOMPSON: Director Barfoot & Thompson

The NZ dollar's drop has also provided an incentive for offshore investors to come into the NZ market again.

Auckland's growth is having an impact on regional infrastructure which has not kept pace with growing population numbers.

But conversely that growth rate supported the property market.

"New Zealand's a great place to live . . . you may have to go overseas and come back to appreciate it."

But he underscores it is now more difficult for young people to save enough to make their first home purchase. He is also concerned that some buying houses or apartments on mortgages at 95-100 per cent of the property's value could get caught as interest rates rise in the tightening economy.

Thompson notes the effect of rising petrol costs is pushing more of his agents into up-skilling to use mobile and internet technologies to reduce their costs.

"This was happening anyway, but the fuel price rise has pushed it faster."

Even the Auckland apartment market — where prices have dropped at the bottom end due to an oversupply of cheap small stock — has not turned into an outright crash of that particular market segment along the scale of the Sydney apartment market collapse.

Investors are staying in for the long-haul betting on a price recovery as Auckland population numbers swell.

Thompson said while there will inevitably be some casualties in the short-term, many long-term investors were prepared to take a rental drop in the meantime.

Many, he said, are betting that their overall equity position would be protected when prices eventually recovered as more Aucklanders became residents of the CBD, or, high-density projects in inner Auckland suburbs.

The trend for younger people to buy units or small apartments as their "first-home buy" would likely continue he said.

Tax rates

Business tax review — plenty of puff, no detail

Thomas Pippos and Joanne McCrae cast a critical eye over the Government's Business Tax Review and find it wanting

Under any objective standard the Business Tax Review document doesn't live up to expectations regarding depth of analysis and the destination of the journey. But the document itself isn't the real issue.

More important is that we have a signal of a considerable softening to the current tax rates, explicitly in relation to corporates and implicitly in relation to individuals. In that respect it is a material and welcomed movement from the status quo which is a credit to those involved that have driven it to where it currently is.

The sentiment is also right around initiatives "designed to enhance productivity and boost New Zealand's international competitiveness and increase our competitiveness with Australia". The detail however is just not there.

Where to from here? Rates are likely to be the key issue followed by some initiatives around R&D. Missing somewhat from the document, but also materially relevant to the current debate, is attracting people and capital to New Zealand.

Competitiveness with Australia can not really be ascertained from what is in the document and will only be able to be ascertained when the full raft of actual measures are announced, presumably in the next two years and certainly before the next election.

If Australia has shown us anything, it is that it will compete aggressively, to grow its economic base domestically and internationally.

There are clear differences in the tax regimes as between the two countries. Sure, one can highlight the ways in which New Zealand could be considered better than Australia, particularly having regard to the broader base of tax collection measures that exist across the ditch, including payroll tax, stamp duties, compulsory pension contributions and of course a publicly acknowledged capital gains tax. But not all of the differences work in our favour.

They have generous R&D rules, rates are generally better, they have an active passive exemption to make life better for domestic Australian businesses that operate globally through subsidiaries, they have considerably more generous rules around non residents coming in and residing in Australia, they also have lower withholding tax rates operating in material Double Tax Agreements recently entered into, and in terms of capital gains tax, they have just moved to largely take non residents out of that tax net.

> 'If Australia has shown us anything, it is that it will compete aggressively, including by way of taxation, to seek to stimulate and grow its economic base. . .'

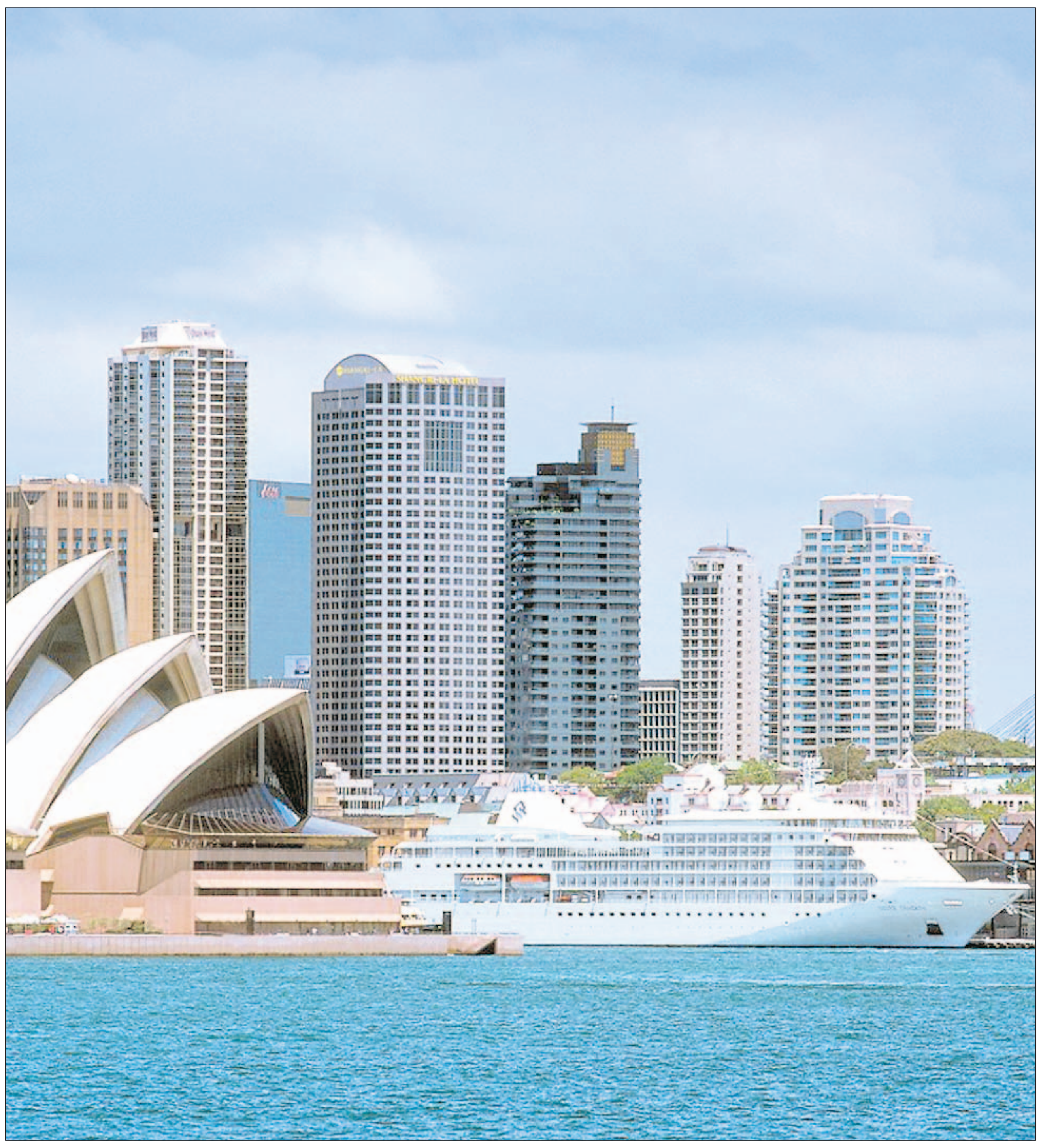
The Business Tax Review touches on some of these areas of difference and indicates movement from the current status quo, whether stated as being part of the Business Tax Review or not — that is positive. Time will tell what will materialise from these positive indications.

Competitiveness is not static and it is as much about a state of mind that tax rules cannot operate in a theoretical vacuum, particularly when other jurisdictions do not feel as constrained.

The end result shouldn't be about the wholesale inclusion of incentives in the tax system but a more competitive tax environment and, in terms of global participation, the attraction of individuals and activity not currently here.

Time will tell whether this is achieved. Until then the tax pendulum for many taxpayers does not swing towards New Zealand.

■ Thomas Pippos is managing tax partner (Deloitte) and Joanne McCrae specialises in providing transtasman tax advice.



BUYING SPREE: Australian super funds are being used to buy Kiwi companies from willing sellers.

NZ IS BECOMING A STATE OF AUSTRALIA

Australian private equity firms are on the hunt for prime NZ assets as the 'Australianisation' of this country quickens and headlines — seemingly weekly — publicise the sale of yet another NZ 'icon' into Australian ownership.

At the 'big end of town' most CEOs surveyed (64 per cent) are sanguine about the 'Aussie buy-up' reckoning it is inevitable given the impact of globalization and our low savings rate.

"There is an increasing wealth gap between New Zealand and Australia — economically New Zealand is becoming more and more a 'state' of Australia," said an Auckland transport sector CEO.

" New Zealand's critical mass is such that globalisation will force even Australianisation to become Asia-Pacificisation," said a leading car industry player.

"You will find that Australia is worried about the Americanisation of its business sector," a banker noted. "It is an inevitable consequence of being a small nation and we need to learn how to manage the situation."

Many of the 36 per cent who are concerned about Australianisation point to the potential loss of entrepreneurial ability in New Zealand.

"It's important to maintain the New Zealand identity — more needs to be done to understand how to grow businesses and keep them here," said an agriculture exporter.

A major risk from Australianisation is the concern that with no ownership New Zealand will end up (if not already) in a poverty trap."

"The current asset grab is a direct result of wealthy Australian superannuation funds which have cash to invest and the willingness of Kiwis to sell," notes a capital markets player.

HUMAN CAPITAL

Holding on to talent is the biggest challenge

The Government should cut personal taxes in order to stop the exodus of our best and brightest young people, **Fran O'Sullivan** reports

Simpson Grierson chairman Rob Fisher believes that the war on human capital is one of the major challenges facing New Zealand.

Fisher has watched bright young lawyers head overseas — just like they've always done — once they've packed two or three years of work experience under their belts.

But it's harder now to get them to come back. It's not just the higher offshore pay rates or the more challenging work on offer that troubles Fisher.

"Taxation is a part of incentivising young people to stay here ... We're training up young lawyers, and just when they become useful, they're off overseas.

"If we gear our system to redistribute wealth and punish risk it will be harder to attract back the people we want."

Chief executives have plenty of tales to tell about their employees — or their children — who have decided to forge their careers offshore rather than return home.

Rob Fisher
Chair, Simpson Grierson

They are disappointed that the Government's taxation review does nothing to address human capital — even though Finance Minister Michael Cullen implicitly acknowledges that personal income taxes will have to be considered if a 30 cent company tax is introduced.

National Leader Don Brash has made political capital out of the average 600 New Zealanders a week who have joined the Australian exodus in recent months.

So far, there's no open evidence of the Government's willingness to slash the top personal tax rates or to significantly shift upwards the $60,000 threshold at which the top 39 cent rate kicks in as a major incentive to persuade young Kiwis to come back.

All that's on offer are policies to allow New Zealanders who have been out of New Zealand for at least 10 years and then take up permanent residence again to qualify for a tax holiday on most overseas income earned up to 48 months after their arrival. Just two types of income do not qualify for the tax holiday: wages or salary earned from overseas employment during the 48-month period and business income relating to services performed offshore in the same period.

On paper that seems like an attractive option. But tax experts say the move is paltry when compared to Singapore's war on capital and talent which extends not only to considerably lower tax rates across the board but also to specific tax incentives around foreign companies, goods traders and manufacturers, start-ups, tourism promotions and ventures abroad.

Nearer to home, Australia has recently introduced a permanent tax exemption for overseas income for migrants who are only temporary residents of Australia. Australia has also largely taken non-residents out of their capital gains taxes.

In a recent visit to New Zealand, Singapore Prime Minister Lee Hsien Loong stipulated that his country was on the hunt for talented NZ companies to relocate to Singapore to form hubs for their Asian activities.

But what Australia is doing is clearly more relevant: "Not only can we compete with them but we need to," said a leading tax expert.

In last year's pre-election *Mood of the Boardroom* survey, 65 per cent of chief executives said they wanted the company tax rate to be less than Australia's 30 cent rate; 28 per cent nominated a 25 cent rate as their preferred option.

Michael Cullen says a "little reality check is needed".

"We are proposing to match Australia's corporate rate without burdening business with all the other onerous taxes Australians offer — namely a capital gains tax, stamp duties, payroll taxes and compulsory superannuation. So if adopted, that must make us more competitive with Australia."

The message appears to be sinking in: 46 per cent of chief executives this year say that a comparable corporate rate with Australia would do fine. The number wanting a noticeably lower rate has dropped from 65 per cent to 50 per cent.

Thirty-five per cent believe the differential between the corporate rate and the top personal rate should not exceed 3 per cent.

Deloitte CEO Murray Jack believes that tax policy needs to be repositioned as part of a strategy to improve NZ's growth performance — particularly its international performance.

"It's time to move on from the dogma of level playing fields. Why not offer tax concessions to foreign businesses wanting to start up in NZ in key areas where we need investment to improve our competitiveness, such as R&D facilities, design centres, and software development capability?

"They don't pay us any tax now, so it's not as if we would be losing revenue, and we just might gain intellectual property and keep or attract smart people here."

ABN Amro chief executive Simon Allen says the quest for human capital is the major issue facing New Zealand.

On the company front, Allen notes, "We've missed the opportunity to bring tax rates down in the last five years — unlike our competitors — and now we're paying the price.

"You can't have a discussion on the corporate tax rate when the implications for personal tax rates are not on the table."

The Government calculates that a reduction in the company tax from 33 cents to 30 cents will cost $540 million on an annualised basis. If targeted tax credits are added — as advocated by the revenue minister — the cost will mount to between $800 million and $1 billion.

Shifting the personal taxation thresholds and cutting the top rate from 39 cents to 36 cents will quickly pump overall costs to the $2 billion mark.

A cut to 28 cents for the personal top rate and 25 cents for the corporate rate — as advocated by business lobby groups — is a step too far for the Government, which does not believe the dynamic efficiency gains from the move would offset initial tax flow losses.

Australian Treasurer Peter Costello has made an open pitch for talented New Zealanders to shift across to Australia as he lowers the personal tax burden for Australian taxpayers.

Ideological debates

Export tax incentives are shaping up as the new battleground in the taxation debate nearly two decades after they were axed because of their economic distortionary effects. "It's a return to the bad old days of cosying up to Government to get tax rorts," a transport sector CEO said.

But CEOs rated its relevance at 2.9/5 on a taxation survey prepared by Deloitte. The Government included further export market development activities as an option in the Business Taxation Review. But so far it has failed to provide any costings.

Wayne Brown

Business Roundtable chair Rob McLeod points out that a return to tax concessions (as the OECD has advised the Government) would signal that the "no exception" policy of the past 15 years is being loosened — "thus encouraging lobbying for more significant relaxation measures in the future."

Auckland District Hospital chairman Wayne Brown — who has a range of private businesses — is scathing. "Tax consultants on $300 an hour aren't going to go out and develop export markets. If the only lever the Government has to get people into exporting is tax, then it should give it to exporters."

He talks of difficulties of competing offshore against bigger companies which are armed with tax breaks from their governments.

Others, such as Carter Holt Harvey chairman John Maasland, caution that there should not be a wholesale return to the tax breaks of old, but say there is "no harm" in exploring some of the options put forward by the NZ Institute to boost NZ's international profile.

The review's sponsors — Finance Minister Michael Cullen and Revenue Minister Peter Dunne — have underscored a cautious approach. They say the Government considers tax concessions to be a more effective way of supporting the development of export markets than discretionary assistance alone.

Air NZ chairman John Palmer — who is a member of the Australia New Zealand Leadership Forum — maintains that personal tax rates are fundamental.

But Fonterra chief executive Andrew Ferrier cautions that we should not get too focused on the Australian angle. "We seem to have an inferiority complex on our competitiveness in Australia.

"However, there is no need for that. The main thing for international competitiveness is to think in a market like the people who live in that market, not like New Zealanders"

Some chief executives believe that the finance minister will only agree to a significant cut in personal tax rates if compulsory superannuation is part of the policy mix. There is a strong view that compulsory superannuation is now inevitable — not just to underpin New Zealanders' retirement savings but also to provide a pool of savings for future investment.

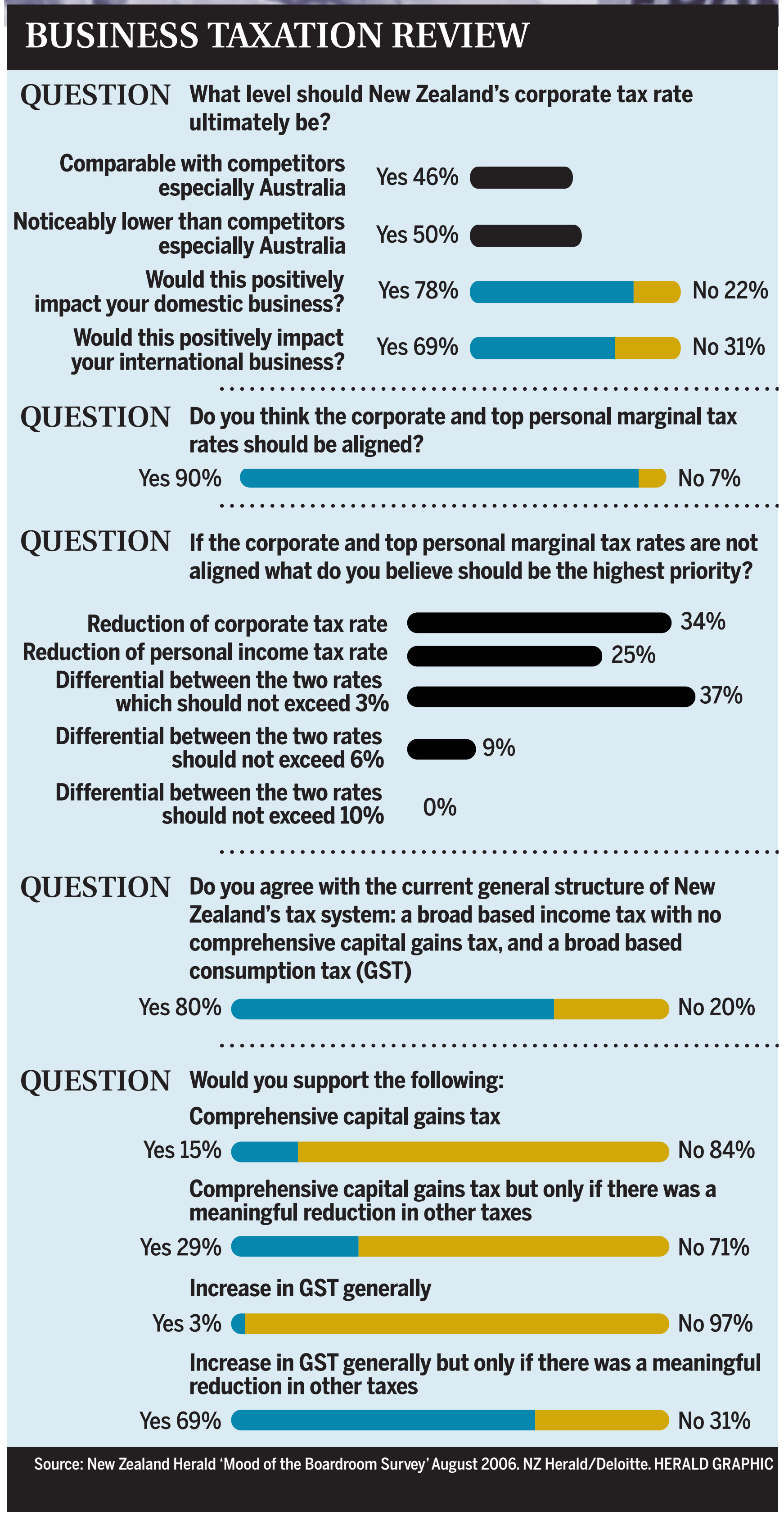
Chief executives were open to the prospects of tax-trade offs. Unsurprisingly, given New Zealanders' love affair with property investment, 84 per cent were opposed to a comprehensive capital gains tax, but 29 per cent said they would support such a tax if there was also a meaningful reduction in other taxes.

GST TRADE-OFF?

Nearly 70 per cent of CEOs supported an increase in the 12.5 per cent GST rate — but only if there was a meaningful reduction in other taxes. Craig Norgate, deputy chair of Rural Portfolio Investments, said there had been no debate as to why an increase in GST was "unpalatable".

"As a tax on consumption it will curb excess expenditure and is proven to be the most efficient tax to collect when our tax system was last fundamentally reformed, when we aligned rates and bought in the imputation rate to neutralise tax structuring," said Norgate.

"The imputation regime incentivises distribution rather than reinvestment of profits and results in the relatively high dividend yield and low capital growth in the NZ stockmarket ... We should consider scrapping the imputation regime and funding a very low corporate regime, 20 per cent, which would incentivise profit maximisation and reinvestment."



Source: New Zealand Herald 'Mood of the Boardroom Survey' August 2006. NZ Herald/Deloitte. HERALD GRAPHIC

MOOD OF THE BOARDROOM

Referendum on MMP

MMP holding country back

Mastering MMP is the key to Helen Clark's lengthy stay in power — but is it really the answer to New Zealand's needs? **Fran O'Sullivan** reports

Chief executives may decry her incrementalist style of Government, but it is clear they rate Prime Minister Helen Clark as head and shoulders above the pack as New Zealand's most effective political leader.

Thirty-four percent of chief executives gave Clark an excellent rating on the effectiveness scale.

National Leader Don Brash's rating as excellent was just nine per cent.

Other leaders, such as NZ First's Winston Peters and United Future's Peter Dunne, rated at three per cent or under in the excellent category on the effectiveness table.

The survey results do not bode well for the right-of-centre parties.

Act NZ's Rodney Hide has paid the price for his antics on 'Dancing with the Stars' as far as chief executives are concerned. Just two per cent believed he deserved a tick for excellent effectiveness. Worryingly for the star struck Hide, more than 80 per cent put him in the indifferent category. He will have to up his game to increase Act's profile by the next election or find himself relegated to dilettante status.

Green leader Jeanette Fitzsimons shares Hide's position at the bottom of the political leadership effectiveness table. But unlike Hide, she has the benefit of a co-leader to lift the Green's profile.

Some CEOs considered Clark's high rating was due to the fact that she was focused on effective leadership not policy performance.

"Helen Clark is an effective political leader but the economic and social policies of her Government need challenging in significant areas, said a leading Auckland transport sector CEO."

Others believed New Zealand was poorly served by its political leaders.

"I have very little faith in any of them. I'm trying hard not to come across as a cynic," said a small business boss.

Clark's effectiveness is illustrated by her mastery of the MMP political process where she has made coalitions, or, support arrangements, with differing political parties at the last three elections to form her governments.

Her overall mastery is admired.

But can she or her Government — be trusted to 'do the business' given the exigencies of New Zealand's political system?

Finance Minister Michael Cullen hit the nail on the head when he warned business there were parliamentary issues that would impinge on just how much cash he could dish out to the business sector in the form of corporate tax cuts.

Cullen was alluding to the impact of the mixed member proportional representation system — otherwise known as MMP — which forces the reigning minority government to make deals with other parties in order to stitch up enough votes to pass tax-cuts legislation.

The Finance Minister did not say so out loud at his press conference to unveil the skimpy Business Taxation Review.

The unveiling of the long-waited review — widely decried by business as "tax-cuts lite" was evidence enough of MMP in action.

CEOs canvassed by the *Herald* have differing views on MMP's impact.

An Australian CEO operating a major company here said MMP was "surely New Zealand's biggest issue".

"A compromised Government equals compromised policy equals compromised economic performance.

"New Zealand will be at best an average performer while it is constrained by MMP."

A NZ motoring boss noted: "Challenges to be faced by future generations are not being adequately addressed because of political differences: climate change, energy and aging population issues (health and retirement benefits). "A minority Government struggles to pass bold new legislation needed to deal with major sustainability issues and we are starting to pass all our big problems on to our children and grandchildren."

CEOs don't need to look far for proof positive of the defects of MMP in action.

The "bold and innovative" tax review that Michael Cullen and Revenue Minister Peter Dunne promised last year demonstrates how the compromises deemed necessary in the MMP system could turn a tax tiger into a mouse within a matter of months.

Chief executives surveyed for the *Mood of the Boardroom* are concerned that even if the Government wanted to be bold, MMP is hindering it from implementing the type of policies necessary for New Zealand's success.

MMP also forces the major political party to do deals that can run counter to its principles to get a Government together. One example cited was Labour's decision last year to agree to NZ First leader Winston Peter's request to abandon plans to toll motorists on a second Tauranga harbour bridge.

A capital markets CEO said that MMP "suits incrementalism".

"Most people probably like this style — but it prevents anything that is vaguely bold ever happening. At present, we are heading in the direction of death by 1000 cuts."

But others said MMP had some upside given the inherently cautious approach that both Cullen and Clark have displayed in Government.

"Consensus politics based on collaboration around specific issues will achieve better political outcomes," said an Auckland energy sector boss. "First past the post results in unfair majority governments."

The Business Taxation Review itself would not have got off the ground if United Future leader Peter Dunne had not demanded it as part of his price for supporting Labour.

But it is notable that since the review was published, Dunne has 'gone over' Cullen and publicly promoted a 30 cents corporate tax rate to match Australia as his preferred option rather than wait for submissions from the business sector to close at the end of September.

Some business cynics suggest Dunne is simply trying to shift the focus from his original push for New Zealand to have a competitive company rate with Australia and lower expectations to prepare business for a simple matcher,

Some 74 per cent of CEOs surveyed are concerned over MMP's impact.

Just 21 percent were not concerned.

This stance is replicated among small-to-medium sized business heads where 71 per cent of those canvassed from Business NZ's membership had issues with MMP in practice and just 25 per cent did not.

Australian parties also have to make compromises to achieve power.

But New Zealand's more extreme form of proportional representation is considered to stand in the way of the major party — in this case Labour — from forging the type of policy agenda that New Zealand needs for long-term success.

There is strong anecdotal support for a public referendum on MMP.

Some chief executives suggested that after 10 years of MMP in action, a public push should be made to re-examine it.

But a top Auckland lawyer notes it may be difficult to implement.

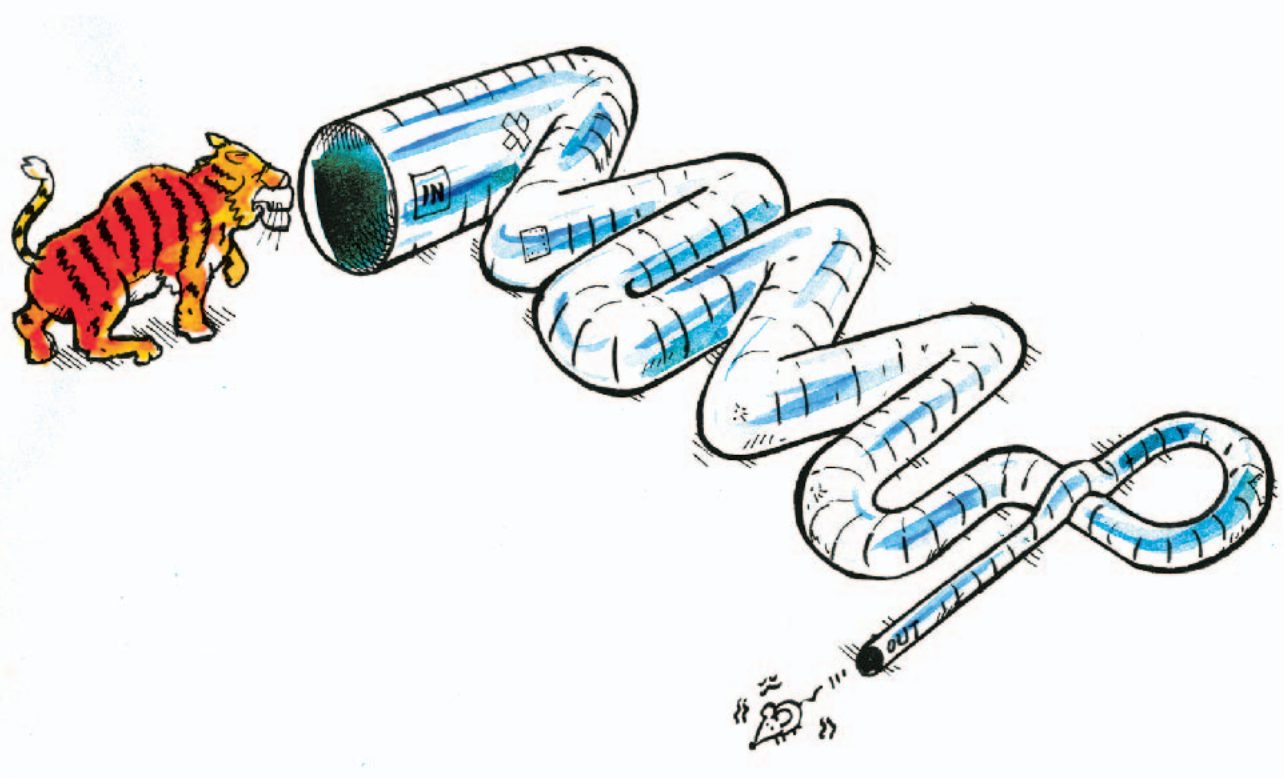
"MMP means we are pandering to the margin all the time. We need a referendum on the issue. However with 'smart' people heading for Australia and immigration bringing in welfare beneficiaries, it may be too late to ever revert."

Typical comments included:

■ Auckland banker: "Undue influence by small minority parties:

■ Auckland motoring CEO "On their own, the parties promise a lot - in coalition they offer very little - a hopeless model! Except to the lowest common denominator."

■ Auckland energy CEO: "Competition is also needed in politics. In France, or Australia - politicians would have rushed millions of dollars of aid to the Canterbury farmers affected by snow."



CEOs give their verdict on the major parties

QUESTION

Are you concerned MMP is hindering Governments from implementing the type of policies necessary for NZ success?

CEOs	YES 74%	NO 21%
SMEs	YES 71%	NO 25%

CEOs deliver their verdict on the effectiveness of NZ's political leaders

	Excellent	Good	Indifferent
Helen Clark	34%	56%	10%
Don Brash	9%	38%	53%
Winston Peters	3%	21%	76%
Peter Dunne	2%	20%	76%
Tariana Turia		29%	71%
Rodney Hide	2%	14%	84%
Jeanette Fitzsimons	2%	14%	84%

CEOs - Rate the effectiveness of the Government's economics team

	Excellent	Good	Indifferent
Phil Goff	16%	58%	26%
Lianne Dalziel	12%	36%	52%
Trevor Mallard	5%	38%	57%
Michael Cullen	4%	37%	59%
David Parker	9%	21%	70%
David Cunliffe	9%	30%	61%
Ruth Dyson	4%	4%	92%

ILLUSTRATION: GUY BODY
HERALD GRAPHIC

ANOTHER NAIL IN THE BRASH COFFIN

National leader Don Brash scored more than double Labour leader Helen Clark's rating when chief executives were asked. 'Who would make the best Prime Minister?' at last year's election.

Less than 12 months later, Brash's poor rating as an effective political leader by CEOs must raise questions over whether he will achieve the necessary political skills to head off the formidable Clark.

It's not just the fact that Clark outweighs him when it comes to scoring in the excellent category. The real issue is that 53 per cent rate of CEOs have put him in the indifferent slot.

"National's momentum from the last election has dissipated with their diversion into personal attacks on Labour cabinet members. It has backfired and strengthened Labour's coalition partnership," observed a leading motoring sector CEO.

Some were cutting: "All including Clark are a bunch of wasters. Brash has the ideas but no nous."

Ok, Trevor this time it's better to be criticised than ignored

If chief executives got to vote on who they thought should ultimately succeed Michael Cullen as Labour's Finance Minister, Phil Goff would probably get their nod.

Goff who holds the trade portfolio and is also an associate finance minister is well ahead of the next ranked player, Commerce Minister Lianne Dalziel.

But in this particular game, who business thinks is the most effective among Labour's economic lineup does not count.

This is politics.

Prime Minister Helen Clark is the person who calls the shots and will decide on who should be Cullen's heir.

Political insiders point to Trevor Mallard as the Cabinet Minister most likely to make the cut.

The normally affable Mallard displays the occasional mean streak. But he has noticeably curbed his sarcasm as far as business is concerned since Clark appointed him economic development minister in the post-election reshuffle.

If his trainer-wheels period is anything to go by, a Mallard-led finance ministry would be a more radical place to work in than Treasury mandarins have experienced in the Cullen era.

He has already urged state-owned enterprise bosses to transform their businesses into 'agents of economic transformation'.

But as the *Mood of the Boardroom* survey reveals, there is considerable scepticism over that particular Mallard initiative; a scepticism that is shared, if not flagrantly, by some of the mandarins he wants to boss.

Trevor Mallard

Unfortunately for Mallard's new found standing, a majority (57 per cent) of chief executives rated his effectiveness as indifferent.

The standout up-and-comer is Dalziel.

She is a trade union lawyer-turned-MP who received more excellent ratings on the effectiveness scale than any other economic minister apart from Goff.

Dalziel is an effective communicator and is viewed to be "genuinely well motivated".

But getting business brownie points is not just a matter of motivation or likeability.

What counts most is the policies Dalziel is fronting. CEOs would prefer that her zeal on introducing a 'balanced' regulatory environment here is focused at the lighter end of the spectrum.

ABN Amro chief executive Simon Allen notes, "when you get up to 80,000 ft and look down at what's happening, New Zealand companies are coping against huge global conglomerates who run subsidiaries here.

"You've got to be careful about layering on too much regulation. If you squeeze the lemon too hard it's difficult to be competitive."

The chief executives also have issues with Dalziel's plan to review the competition framework to see whether it needs modifying so companies can bulk up here to gain critical mass to compete offshore.

Others in the lineup such as Energy Minister David Parker, Communications Minister David Cunliffe and Labour Minister Ruth Dyson have yet to fully cut the mustard with business.

But this is relative.

The mere fact that all five economic ministers apart from Goff have received 50 per cent plus ratings in the indifferent category indicates Labour's rising stars have a lot of work to do before they win outright support from top business people. Try harder please.