



MOOD OF THE BOARDROOM



HUGH BURRETT
MANAGING DIRECTOR
ASB BANK

“ NZ undoubtedly faces one of its biggest challenges for decades. We need to keep things in perspective and draw on some of our strengths: our adaptability and creativity. ”



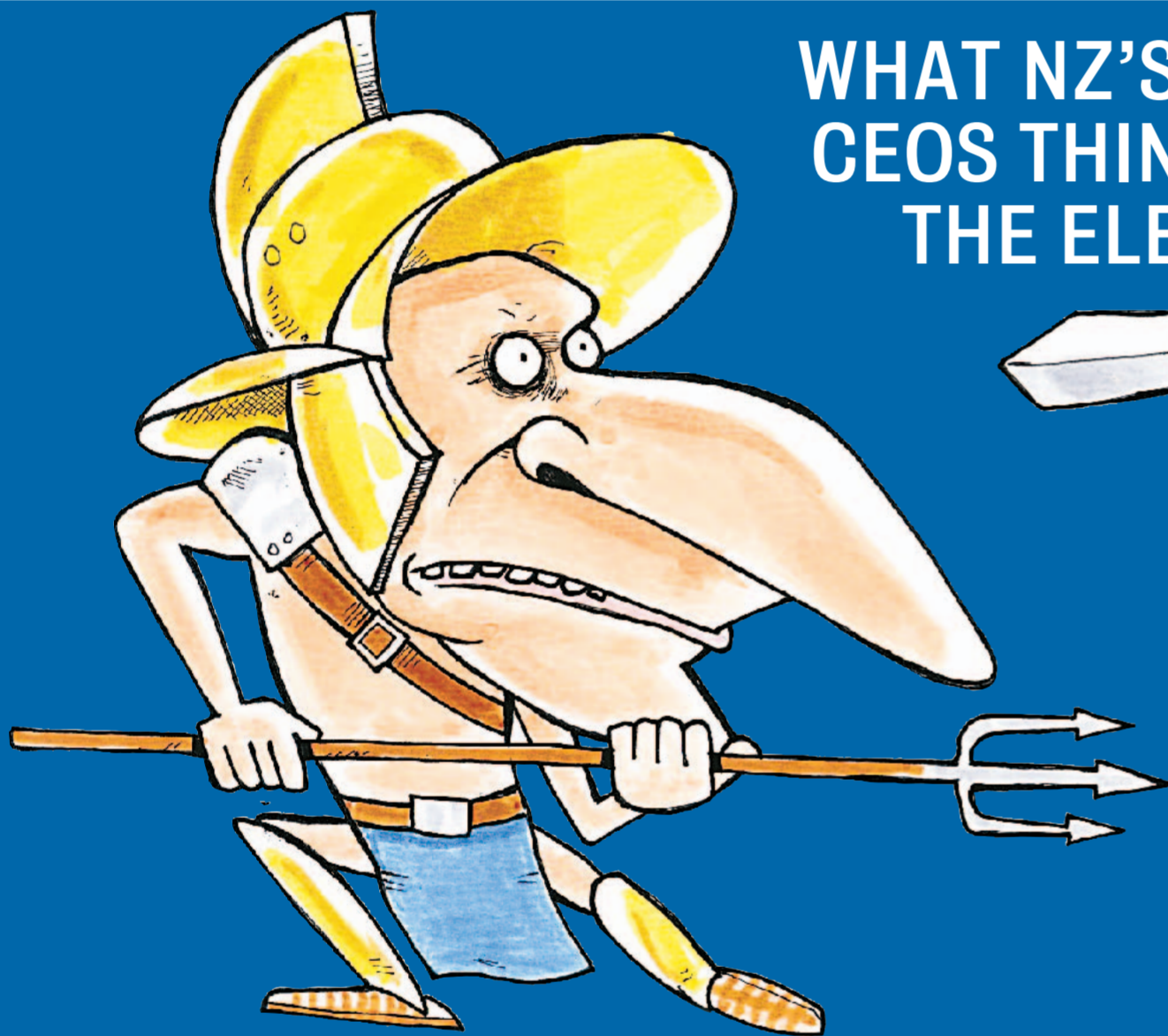
MARK WELDON
CHIEF EXECUTIVE
NZX

“ We need a new mindset of aggressively competing with all the tools we have instead of our Shetland pony approach - nice, harmless. ”



DON BRASH
DIRECTOR
ANZ NATIONAL

“ Barring an apocalyptic contraction of credit New Zealand will cope. We're not in bad shape compared to 20 years ago. ”



WHAT NZ'S LEADING CEOS THINK ABOUT THE ELECTION



NEW ZEALAND HERALD SURVEY IN ASSOCIATION WITH BUSINESS NZ

Who will make the best PRIME MINISTER:
Helen Clark or John Key?

Surviving the INTERNATIONAL FINANCIAL CRISIS:
Time for New Zealand to get competitive

CULLEN'S LEGACY: CEOS say the Finance Minister has left an indelible mark.



ROB FISHER
EXECUTIVE CHAIRMAN
SIMPSON GRIERSON

“ We should do exit interviews to find out what are the real issues that are making New Zealanders leave the country and live offshore long-term - it's important. ”



PHIL O'REILLY
CHIEF EXECUTIVE
BUSINESS NEW ZEALAND

“ Poor literacy levels make it difficult for individuals to provide for their families and keep satisfying work. The case for action is loud and unequivocal. ”



MURRAY JACK
CHIEF EXECUTIVE
DELOITTE

“ If we think the global financial crisis is not going to have a material impact on this country - then we are living on another planet. ”



The voice of business



MOOD OF THE BOARDROOM

Election special

WHAT THE CHIEF EXECUTIVES SAY



80% believe tax is a major issue at this election

90% want the top personal tax rate of 39% cut

96% believe low tax rates can stimulate economic activity and help lift real wages

64% oppose capital gains taxes but **45%** would agree if other taxes were lowered

84% opposed a GST increase but **55%** would agree if other taxes were lowered

82% want the corporate tax rate cut further



'There is a message here for the next Government,' says Deloitte's Thomas Pippas - Page 6

The Mood of the Boardroom survey conducted in association with Business New Zealand took place during some of the most challenging times in NZ's financial history. But some 80 chief executives and company chairmen took time away from their businesses to take part in the survey enabling a satisfactory 35 per cent response rate.

WORKPLACE LITERACY

Smarter workers top priority

Employers say helping workers improve literacy has a knock-on effect for productivity, Graeme Hunt reports



FOR years, employers' lobbies have been harping on about the link between workplace skills, productivity and sustained economic growth.

In July, a joint campaign to improve workforce literacy was launched by Business New Zealand, the Council of Trade Unions, the Industry Training Federation and Workbase. It received scant attention and was even dismissed privately by some employers as another do-good attempt to correct long-term failings in the education system.

But the Business New Zealand Election Survey shows the campaign is firmly in step with the feelings of small and medium-sized enterprises (SMEs).

The survey of 2172 SMEs placed skills and productivity as the most important driver to achieving sustained economic growth.

Of the seven pillars in the survey, skills and productivity was rated first by 24 per cent of respondents, followed by investment, innovation and entrepreneurship (20.3 per cent) and business environment (20.1 per cent). The government environment was considered the most important by 12.5 per cent of respondents only and infrastructure and trade attracted 8 per cent support each with sustainability at the bottom with just 7.1 per cent support.

The view of the workplace literacy campaign is that low workforce literacy limits the ability of New Zealanders to increase productivity, innovate and meet changing customer and market demands.

Business New Zealand chief executive Phil O'Reilly is adamant that without good levels of literacy and numeracy in the workforce, New Zealand would struggle to achieve a high standard of living.

"Poor literacy levels also make it difficult for individuals to provide for their families, or to find and keep satisfying work. The case for action is clear and unequivocal," he says.

This view is echoed by the CTU and others involved in on-the-job training. Many companies also actively encourage staff to attend courses to improve literacy and numeracy.

Ashburton-based Canterbury Meat Packers is a good example. Its literacy programme grew out of a desire of one employee to improve his skills and today the plant makes a rudimentary literacy test part of its screening programme for new employees. If an applicant struggles with literacy, help is offered.

As part of its employee assistance programme, Canterbury Meat Packers pays for staff to improve their reading skills and has about 30 employees working with tutors at the Ashburton Learning Centre.

Attendance is not compulsory but the knock-on effects of better literacy include improved job prospects for the employee

and better workplace safety (as employees need to be able to read safety notices).

The Employers and Manufacturers Association (EMA) Northern chief executive, Alasdair Thompson, says feedback from members over several years has shown that the most critical problem facing business was a shortage of workers.

"They want anybody who is employable, provided they can read and write and do sums," he says. "There is a skills shortage across the board in all the skilled areas. There has been a clear signal from employers that this is the number one issue."

Business New Zealand chief executive Phil O'Reilly said SMEs considered a stable workforce more important than other factors affecting business because it was something they could control.



FOCUS: Phil O'Reilly, left, says improving the literacy and numeracy of workers helps the wider economy. Alasdair Thompson, above, says a shortage of employable workers is the major issue facing business owners, while Roger Kerr, below, says it is up to the government to provide an environment in which the economy can grow. PICTURES / MARK MITCHELL, GLENN JEFFREY



SILVER LINING IN FINANCIAL TURMOIL

The international financial turmoil may hold a short-term silver lining if skilled expat Kiwis decide to come home.

EMA Northern boss Alasdair Thompson believes the return of expats to New Zealand will fill some skills gaps. But he warns skill shortages would remain in the long term. "We will not have a skill shortage soon, but that position will only last for a while. We should be planning ahead as most times we operate in near or full capacity."

Thompson suggests immigration policy should be driven by employer demand. "What employers need employers should get. That should be the key driver of our immigration policy."

NZ Institute chief executive David Skilling and NZX chief

executive Mark Weldon suggest the government should offer skilled Kiwis, who have been overseas for at least three years, a 20 per cent top personal tax rate for two years to attract them home.

Neither Labour nor National have grasped the proposal but it has created a talking point.

Auckland Regional Chamber of Commerce chief executive Michael Barnett says the inquiry rate for jobs on the www.nzrecruitme.co.nz website has increased to 40-50 a day since the financial crisis began.

He says there have increasing numbers of professional and trade qualified people in the European Union have been looking to New Zealand as a "safe haven to emigrate to".

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"They want anybody who is employable, provided they can read and write and do sums," he says. "There is a skills shortage across the board in all the skilled areas. There has been a clear signal from employers that this is the number one issue."

Business New Zealand chief executive Phil O'Reilly said SMEs considered a stable workforce more important than other factors affecting business because it was something they could control.

"If they could have influence overall [in the economy] they would see that as important as well."

He says while some companies appreciate the importance of having a literate and numerate workforce, others do not accept it as their problem.

"Many businesspeople have a traditional view, right or not, of not having much trust in teachers and the education system. That happens in every meeting that I go to."

O'Reilly says workplace literacy and numeracy bring important economic benefits to business and companies need to realise it is in their interests to encourage it and that it is the role of an organisation like Business New Zealand to promote this education.

However, Business Roundtable execu-

tive director Roger Kerr says that workplace productivity alone, based on a better-educated workforce, is not a panacea for sustained economic growth.

He says the government environment is a key factor in long-term economic growth and government behaviour impacts heavily on companies' ability to prosper and the ability of workers to lift productivity.

"Take the position of a Mexican immigrant going to the United States. The person becomes several times more productive [than in his or her home country] because of big-ticket issues like government spending, tax, regulation and infrastructure," Kerr says.

■ Graeme Hunt is an Auckland business writer.

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MOOD OF THE BOARDROOM 2008

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LEADERSHIP BATTLE

Gladiator v Boadicea: No contest?

It will be the voters who wield the power in the end, writes Fran O'Sullivan



HELEN Clark and John Key are now locked in a fight to the political death in which there can only be one winner.

The Herald's Mood of the Boardroom survey shows just over 90 per cent of the chief executives surveyed clearly believe Key will make the best Prime Minister.

Key has also emerged as the clear winner on the campaign trail, with CEOs according him an average performance rating (on a 1-5 scale) against Clark's 3.0 rating.

This is a major turnaround from 2005 when Clark's performance comprehensively trumped that of former National leader Don Brash.

The stakes are riding high for Clark. She has contested four elections as Labour's leader and notched up three wins. If Clark manages to pull off a fourth victory, she will enter the history books as one of New Zealand's most successful prime ministers.

The election also comes at a critical time for New Zealand. The economy has been in recession for three quarters and conditions will get tougher next year presenting huge challenges to the next government.

Key has now donned his gladiator robes to try and arrest this political Boadicea in her tracks.

But for Clark it's open war as she refuses to concede any points, even using the launch of her political campaign to announce a Government guarantee to protect depositors.

The ratings the chief executives have assigned to the pair, suggest the election could still go either way despite National's persistent poll lead over Labour.

Clark dominates on leadership skills, rating an average 3.9 to Key's 3.6 on the 1-5 scale. She also outranks her opponent on other political attributes such as experience and the ability to form a coalition.

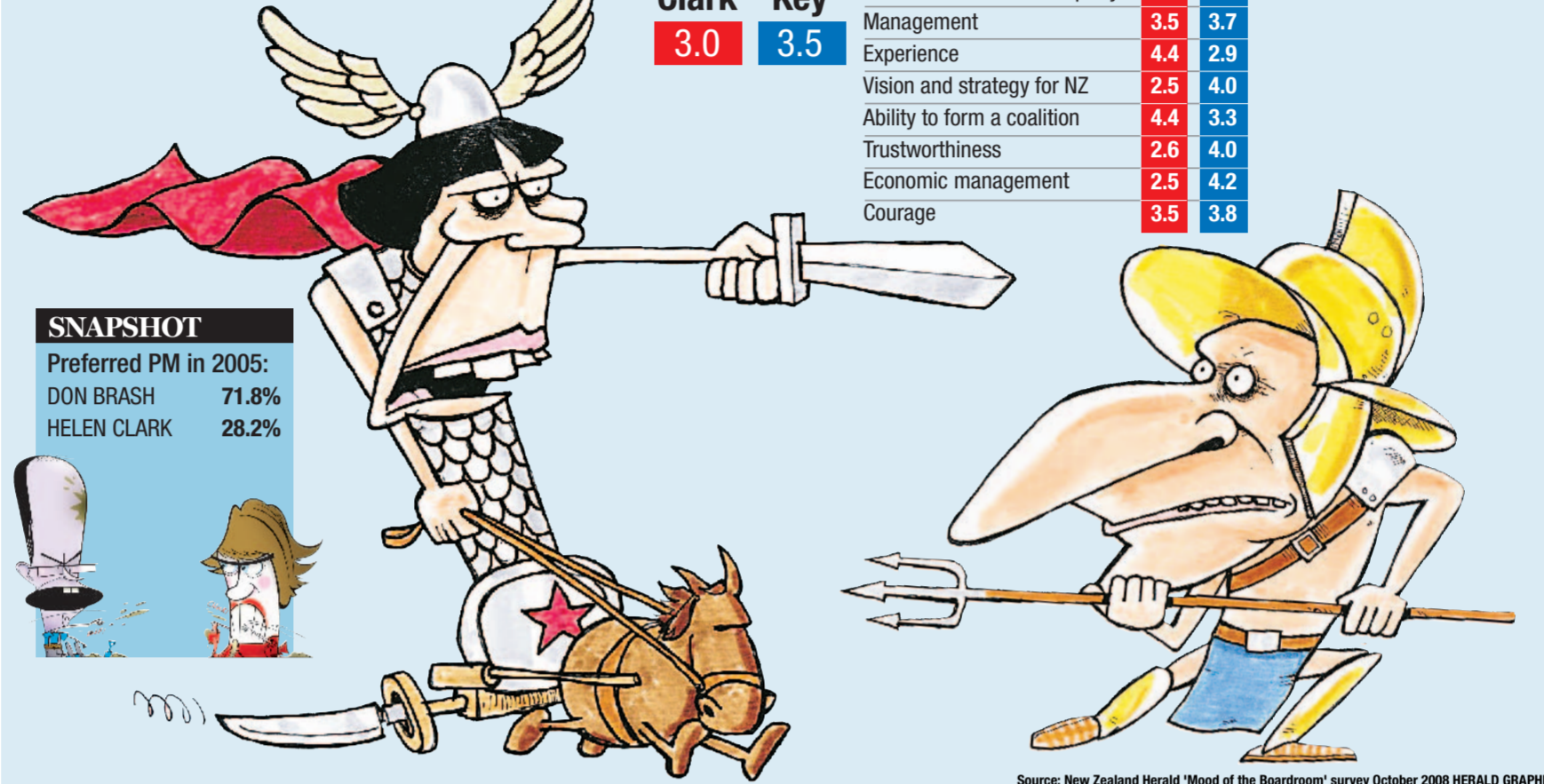
These judgments are under-scored by the fact that Clark has already lined up the Greens as a potential coalition partner ahead of the election. Key — who burnt off NZ First by stating he would not have its leader Winston Peters in a National Government — has narrowed his options.

But chief executives were critical of Clark's determination to keep Peters in her court during the long-running Owen Glenn affair, slating it as power for power's sake even if it compromises values.

They are looking to Key to inject new

PERFORMANCE ASSESSMENT

90% of CEOs want John Key as the next Prime Minister



FOR CLARK

"Key does not seem to have a principled position on anything — so could go any way on some key issues."

Food manufacturer

FOR KEY

"Helen Clark wants a fourth term so much it is affecting her judgment."

Infrastructure chief

energy to lift New Zealand's spirits during troubling times and rate him an average 4.0 on his vision and strategy for NZ above Clark's 2.5 rating. They think he will put New Zealand's interest over his party's and believe he has the courage and management skills — including at economic level — to be successful.

What will gull Clark is that Key also

outstrips her on trustworthiness, rating 4 on the 1-5 scale against her 2.6 score. An ironic result given she has declared "this election is about trust".

ASB Bank managing director Hugh Burrett says Clark's political experience and tight control of her party is impressive. "John Key has yet to develop those attributes although his vision and com-

mitment will balance these developing

traits."

Chief executives like his "freshness" and "pragmatism."

"Key, being younger, hasn't the benefit of years of experience but he is used to challenges and getting results. We need a change and he is the person that should be given a go. Helen Clark wants a fourth term so much it is affecting her judgment," says an infrastructure chief.

Those who believe Clark is best suited to continue as Prime Minister, cite her "strength," "principles" and "maturity as a leader".

"Key does not seem to have a principled position on anything — so could go any way on some key issues according to how he reads the electorate, rather than adopt what is right," notes a food manufacturer.

At a time when prudent fiscal management is imperative, neither political leader has put all their cards on the table. But Clark and Key are fast making plans

to address the financial crisis.

"The deficits forecast are huge and the New Zealand economy is on its last legs," said a major investor.

"There needs to be a complete turnaround in attitude to partnership with the private sector — it has been battered almost into non-existence and needs strong signals that its role and future is respected and that there will be rewards for delivery — tax cuts provide some support for the rhetoric."

Clark plans a December mini-budget to pump some ballast into the economy. Meantime she will leverage the banking crunch for all its worth.

Key is sticking to National's personal tax-cutting scenario and is pledging his party would try and tide over the tough times by redeploying cash raised from bank guarantee fees to help New Zealanders who lose jobs.

Overshadowing the promises is a concern that their election pledges will become fiscally unsustainable.

CRISIS

All eyes on world arena as election day nears

The international financial crisis has cast a pall over the election, raising doubts — in elite circles — as to whether any of the major parties' "big ticket" promises are worth the paper on which they are written.

Don Brash, who has relaunched himself on a business career since his sojourn as National Party leader, was in New York as the dramatic government bailout of United States banks took place.

"I think this is very serious stuff. It will undoubtedly impact New Zealand quite seriously," he says.

The international credit crunch is the prime international risk factor concerning chief executives responding to the Mood of the Boardroom survey, warranting an average 8.8 on a 1-10 scale where 10 equals "most concerning".

Brash agrees that they are right to be worried.

He isolates two immediate impacts:

■ The slowdown in the world economy will have an effect on New Zealand exporters as demand is reduced;

■ New Zealand's dependence on the savings of foreigners presents a risk when financial markets are not functioning well. The cost and availability of credit will be "more restrictive" than in the past.

Brash, a former Reserve Bank governor who is now a director of ANZ National bank, stresses he is not being alarmist. There are some positives:

■ The falling kiwi dollar will cushion exporters because many imported inputs are priced in US dollars. However, manufacturers may feel some pain because the kiwi has strengthened against the Australian currency.

■ The New Zealand banking system is also in "good shape" and government guarantees for depositors and interbank lending should ensure it is not adversely affected;

■ The Government accounts are also in good shape with net and gross debt down to very low levels on international comparators.

"Barring an apocalyptic contraction of New Zealand credit, [the country] will cope," says Brash. "We're not in bad shape compared to 20 years ago."

Finance Minister Michael Cullen is "not commenting" on discussions currently taking place at official level on a government guarantee for interbank lending, which he hopes to announce this coming weekend.

The issue is complex and thorny.

National has been concerned that

■ Continued on C5

No tolerance for post-election power plays

The financial strife drives home the need to move forward with more purpose, writes Liam Dann



SO the whole world is swinging to the Left. But we're swinging Right.

Or are we? Even if the final election result mirrors the polls — and National wins the most votes on the day — there is a growing sense that the new right is starting to look old.

The free-market policies forged by economist Milton Friedman in the 1960s and championed by the likes of Reagan, Thatcher, Douglas and Richardson in the 80s and 90s are under attack.

Who would have believed three years ago that we would ever see a US Republican administration nationalising banks?

Even in National's plan to invest up to 40 per cent of the NZ Super Fund in "New Zealand Inc" we see a nod to the kind of central government co-ordination more common in countries like Singapore.

And that's probably being generous. Some might argue that Ruth Richardson-era Nats would have attacked this policy for being nationalisation by stealth.

Nevertheless, it is not out of line with the kind of economic thinking currently being served up by governments around the world. Big government is suddenly back in fashion.

The events of the past two months have been absolutely mind-blowing. Few in the business world have yet had time to catch their breath and assess the scale of what has happened.

We know the landscape has changed but to what extent will only become apparent in the coming months.

We also know that something must be done to kickstart growth in New Zealand, to increase productivity and move the economy away from the boom and bust of the commodity cycle.

But then we knew that already... didn't we? The financial crisis doesn't change the goals for this country.

It does, however, hone the need to move towards those goals with more purpose.

The most basic economic rules still stand. You need to create wealth before you can deploy it. That means real wealth — not derivatives dreamed up in the imagination of young turk bankers.

If anything, this should be more apparent after the meltdown on Wall St.

Without a world of easy credit to boost returns, creating wealth will be a harder slog. But it is still about making more from what you have.

We must leverage our technology, infrastructure, land and our raw creativity.

Even big picture concerns like saving the world and heading off global warming

— however seriously you take that issue — don't exist in a vacuum.

Wealthier countries are better placed to create a cleaner, greener future than poor countries.

There is no room for panic and it would be a mistake for politicians to try and forge some new ideological framework in the shadow of a crisis.

In the short term we need to take clear pragmatic steps. Now, more than ever, business needs to know where it stands with regards to policy.

This probably isn't lost on the leaders of the two major parties. But there are real concerns within business about post-election uncertainty.

Hopefully the most dramatic phase of the crisis in credit markets has passed. But issues like details of the bank deposit guarantee — and the prospect of a wholesale guarantee — highlight the need

for petty politics to take a back seat.

In a worst-case scenario there may be no clear government for some weeks after the election. This has happened before thanks to the vagaries of MMP — most memorably in 1996 — although never at a time of serious financial crisis.

But even under First Past the Post, when the handover of power was a formality taking just a few short days, the nation has faced dangerous periods of uncertainty.

In 1984, after David Lange's Labour Party won power, a run on the currency saw the country facing bankruptcy unless the dollar was devalued. Thankfully, calm heads within the National hierarchy convinced outgoing Prime Minister Robert Muldoon to do the right thing and the crisis was averted. But the stakes were high.

In 1990 the newly elected National government was faced with the prospect of the then state-owned BNZ going bankrupt and had to rustle up a \$600

million rescue package in quick time.

Given what the world is facing this year, developments on this scale are not implausible. Our political leaders need to stand up and ensure that interests of the nation as a whole are put before party interests as they enter into the inevitable post-election scramble.

There will be little tolerance for power plays and grandstanding by minor parties.

This election has much in common with 1984 and 1990. It comes at a time when the fair economic winds have left us.

The nation must chart its course through a treacherous year in 2009 and it must do so largely under its own steam. But given a solid platform and sound economic policies, New Zealand business has the resilience, determination and creativity to do just that.

■ Liam Dann is business editor of the New Zealand Herald

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SUSTAINABILITY



WRONG TRACK: To include agriculture in the emissions trading scheme, in the words of one respondent, is "dumb". HAWKE'S BAY TODAY

Business decries govt policies on emissions levels

By Brian Fallow

The verdict of the boardroom on the Government's emissions trading scheme is a big thumbs-down.

An emphatic 853 per cent of respondents say the Government has not got its policy settings on climate change right. Only seven per cent think it has.

Nearly three-quarters believe the Government will miscalculate the liabilities involved.

Half say they are not supportive of the emissions trading scheme (ETS), while 29 per cent are supportive.

Just over half — 54 per cent — think a "safety valve" for carbon prices should be built into the scheme.

The draft Australian scheme has a price cap, though Canberra has yet to name a price. Critics of that approach argue that you can cap volumes or cap prices but not both, and that a price cap would turn the scheme into an administratively costly carbon tax.

Some respondents explicitly favour a carbon tax — set low — instead of a trading scheme.

Several express the view that New Zealand should not be "leading the world".

That perception overlooks a little place called Europe, which has had an ETS for nearly four years and which is on track to meet its Kyoto target, where New Zealand will overshoot its target by around 25 per cent.

The world-leading idea may refer to plans to include agricultural emissions in the scheme — though not until 2013 and very largely offset by free allocations of credits then. To include agriculture, in the words of one respondent, is "dumb".

Another highlights the social and economic costs if heavy industries like steel, pulp and paper, cement and aluminium are forced to close.

But a third points to the risks to the national "clean, green" brand of being a laggard in this area, and suggests that the best response to threats to pull out of the country by a large industrial emitter would be to call their bluff and "give others cheap energy if they walk".

A majority — 56 per cent — of respondents oppose the target of deriving 90 per cent of electricity from renewable sources.



"Non-renewable energy, for example coal, will be exported in any event, making the target irrelevant, other than to cut our own throats."

Andrew Ferriter

Several cited the paramount importance of reliability or security of supply, others the potential cost.

"Energy is a key cost to our internationally exposed businesses and such a target may result in New Zealand businesses facing high energy costs compared to our competitors," said Fonterra chief executive Andrew Ferriter.

"Non-renewable energy, for example coal, will be exported in any event, making the target irrelevant, other than to cut our own throats."

His company had adopted energy efficient technologies resulting in electricity savings equivalent to a third of what a city the size of Hamilton consumes.

A majority, 51 per cent, believed climate change policies would deliver economic opportunities to their own businesses.

These include trading carbon credits and assisting customers to adjust to a carbon-constrained world.

ECONOMIC EFFECTS

Recession crunching into confidence

Meeting regulations and coping with a shortage of workers remain at the top of the list of concerns for employers, reports **Brian Fallow**



THE prospect that the domestic recession will be reinforced by a global one has, not surprisingly, left firms a lot less optimistic than they were a year ago.

The Mood of the Boardroom survey found substantial majorities planning to cut back on investment and employment.

Only a minority opted for the gloomiest option on the Optimism Index — 15 per cent in the case of the local economy and 30 per cent for the world.

The credit crunch and the state of the United States economy are the two international issues doing most damage to business confidence.

"It's extremely severe and it's a concern that it is not being addressed as clearly as it should be in the election debate," said Business Roundtable director Roger Kerr.

"With the extreme nature of the government and market reaction around the world we have a reasonable chance the international economy will pull out of it in one or two years."

But New Zealand might be in for a harder time than most, as the imbalances which need to unwind are pretty large, he said. "The underlying issue is the long string of current account deficits and the associated build-up of external debt, which has put us in a vulnerable position."

The solution has to be to put more resources into the traded goods sector and away from the non-traded sector. Increasing government spending impedes that adjustment, Kerr argues.

The international crisis will flow through to the New Zealand economy by restricting the availability of credit, retarding growth among the country's trading partners, and by its adverse effects on consumer and business sentiment.

Deloitte chief executive Murray Jack is encountering heightened uncertainty about the economy — but not apocalyptic levels of gloom — among the firm's clients.

"We have had our own home-made recession since the beginning of the year and we were looking for a recovery towards the end of the year, but if the world goes into recession the chances of a quick recovery are pretty limited really," he said.

"Businesses are taking the kinds of measures you would expect in terms of preparing cost reduction plans in the event demand doesn't recover. And the exchange rate helps."

At home respondents' leading concerns echo those of previous years.

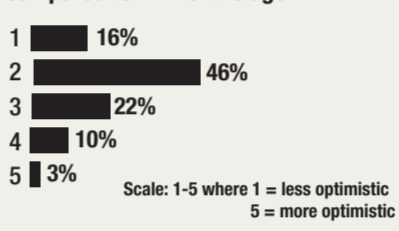
The main bugbear is regulation. To longstanding complaints about the Resource Management Act has been added the prospect of emissions trading.

The second and third largest local concerns both relate to labour: shortages of workers — particularly skilled people — and labour productivity.

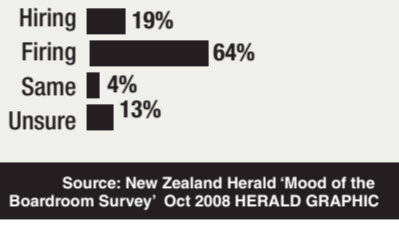
Even though the economy has been in recession all year, the unemployment rate remains below 4 per cent.

For three of the past four years labour productivity growth has been just 0.5 per cent — a quarter of its 30-year average rate. Sixty-four per cent of respondents

OPTIMISM INDEX



JOBS INDEX



Source: New Zealand Herald 'Mood of the Boardroom Survey' Oct 2008 HERALD GRAPHIC

FACTORS OF MOST CONCERN INTERNATIONALLY

Average from 0-10, 10 being very concerned

Credit crunch	8.8
US economy	7.2
Global inflation	5.9
International carbon price	5.7
WTO negotiations	5.2
China — food safety	4.2

FACTORS MOST CONCERNING NZ INDUSTRIES

Regulation	7.4
Skills and labour shortages	7.1
Labour productivity	6.8
Personal tax rate	6.5
Access Capital/debt	6.4
Carbon price	6.1
Wage Increases	6.0
Energy Costs	6.0
NZ dollar level	6.0
Corporate tax rate	5.9
Inflation	5.7
Further interest rate increases	5.7
Current account deficit	5.5
Petrol price increases	5.5



PROTECTION: Deloitte chief executive Murray Jack says his firm's clients were already coping with recession but are now taking further measures to prepare cost reduction plans. PICTURE / MARK MITCHELL

"A country which in normal times imports about a third of the money its banks on-lend cannot expect to escape the impact of global contraction in credit."

expect to decrease staff numbers next year, while 19 per cent expect to increase them.

Personal tax rates rank as the fourth largest local concern, but the corporate tax rate is No 10, perhaps reflecting the drop in the company rate to 30c in the dollar.

Despite talk of a credit crunch, access to capital and credit only ranks as the fifth largest concern.

Reserve Bank data show that lending to businesses is still growing, but at not much more than half the annual rate it was a year ago.

"There is some anecdotal evidence credit criteria are tightening for business," Jack said.

"For example charges on used facilities are going up. But there's no evidence that companies with very good credit records are having difficulty getting funding in this environment. You couldn't say it has dried up."

However, a country which in normal

times imports about a third of the money its banks on-lend cannot expect to escape the impact of global contraction in credit, even though the Reserve Bank has stepped into the breach as lender of last resort.

Respondents were evenly split on whether there needed to be greater regulation of the financial sector.

Those who think more regulation is required mainly cited the finance company sector and financial advisors.

Some 81 per cent said they were not concerned about the stability of the New Zealand banking system, while 16 per cent said they were concerned. Respondents were generally not persuaded the Reserve Bank needs more tools to deal with the financial crisis.

With the bank aggressively easing it is no surprise that by a margin of more than 13 to one respondents thought monetary policy was on the right track.

But several volunteered the comment that it had been too slow to start easing,

while others were critical of the banks for not fully passing official cash rate cuts to their retail lending rates.

Several respondents said the current levels of interest rates were squeezing profitability and curtailing investment. They generally welcomed a lower exchange rate.

A majority of respondents expect to do less capital expenditure over the coming year and to spend less on information technology.

Perhaps surprisingly when inflation is running at close to 5 per cent it does not figure prominently among business concerns. But specific cost areas do — carbon prices and energy costs more generally, together with the level of wage increases.

Wage costs tend to be the last cab off the rank during upswings in the business cycles, but equally one of the last to fall during downturns.

■ Brian Fallow is economics editor of the *New Zealand Herald*.

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Making more possible



The New Zealand Herald



HUGH BURRETT

MANAGING DIRECTOR,
ASB BANK

‘Wages and salaries have become uncompetitive with other countries and fuelled migration.’



SIMON ALLEN

CHAIRMAN,
NZ STOCK EXCHANGE

‘Tax is a competitive tool we should be using more.’



DAVID SKILLING

CHIEF EXECUTIVE,
NZ INSTITUTE

‘New Zealand can't simply rely on a level playing field.’



MARK WELDON

CHIEF EXECUTIVE,
NZX

‘We need a new mindset and to start aggressively competing with all the tools we have.’



DON BRASH

DIRECTOR, ANZ NATIONAL
AND FORMER RESERVE BANK GOVERNOR

‘A good start would be to stop taking measures which actively reduce international competitiveness.’



PETER THOMPSON

DIRECTOR,
BARFOOT & THOMPSON

‘Would they become a state of New Zealand? No. Keep us as two countries but work closer together.’



ROB FISHER

EXECUTIVE CHAIRMAN,
SIMPSON GRIERSON

‘We should do exit interviews to find out what are the real issues making New Zealanders leave.’

INTERNATIONAL COMPETITIVENESS

Time to rev up NZ's position

From small firms to big business, the message is clear, writes **Fran O'Sullivan**, New Zealand needs to become more competitive to increase productivity



NZX chief executive Mark Weldon is so focused on pulling New Zealand out of the mire that he suggests making competition an “organising idea” around which all future Government policy decisions are made.

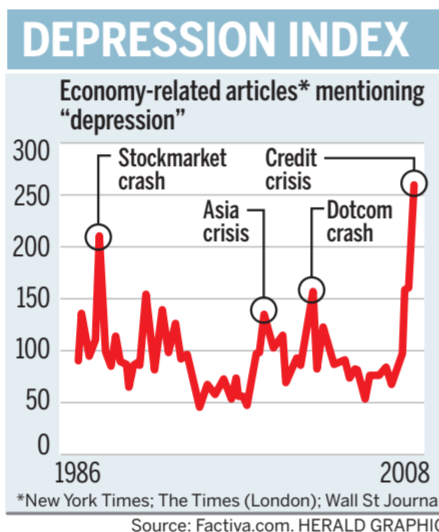
After nine years of Labour-led Government sloganeering on “growth and innovation” frameworks, “economic transformation” and, latterly, “sustainability” (while New Zealand's position on the prime OECD indicators remains stalled), the notion that politicians might actually get serious and filter policies through a competitive lens is refreshing.

Not before time is the stance of chief executives responding to the Mood of the Boardroom survey — fully 90 per cent are concerned about New Zealand's international competitiveness.

It is an issue which is demanding increasing attention from the “big end of town” and also small-to-medium sized enterprises which have suffered through a severe skills shortage.

“Wages and salaries have become uncompetitive with other countries and fuelled migration,” says ASB Bank managing director Hugh Burrett. Burrett wants a comprehensive approach that tackles competitive issues across a wide front with productivity increases foremost.

ABN Amro chief executive Simon Allen, who has observed acute pressure going on New Zealand firms as the international financial crisis deepened, maintains tax is a “competitive tool we should be using more”. Allen has seen how transnational firms shift investment around the globe as they



respond to tax incentives and highly skilled people move to where they will “earn more and pay less”.

There is huge appetite among the chief executives for New Zealand to adopt a visible “New Zealand first policy”, and, aggressively seek to attract and retain capital and labour. Seventy-three per cent of chief executives believed New Zealand should examine the successful models adopted by other small nations like Singapore and Ireland to competitively position themselves against much bigger countries.

This approach is anathema to Labour's leadership.

But while National leader John Key has stipulated his ambition is for corporate and personal taxes to be lowered over time, he no longer promulgates — publicly — a desire to attract major greenfields investment to New Zealand through offering foreign investors preferential company rates.

“This is critical. We have to be more aggressive and not get caught up in being too philosophically nice,” said Vector boss Simon Mackenzie.

“Playing fairly is a blindingly stupid idea.

No successful country plays fairly. Seek out your advantages and leverage it strongly,” stressed a major distributor.

The critical message from the chief executives is to get cracking.

“We need a new mindset and to start aggressively competing with all the tools we have, instead of our nice and harmless ‘Shetland Pony’ approach,” said Weldon.

NZ Institute chief executive David Skilling — who together with Weldon has jointly issued a suite of growth-oriented proposals under the heading “Swan Dive or Belly Flop” — is enthusiastic about the pragmatic ideas it has provoked.

“New Zealand can't simply rely on a level playing field,” says Skilling.

Among proposals the pair want the next Government to consider is using the NZ Super Fund as a source of capital to drive domestic investment. National has said it wants 40 per cent of the fund invested locally. But Labour does not want to put future retirement savings at risk by diversifying too much investment in New Zealand's direction. Irrespective of which party gets to form the next Government, the issue will inevitably be centre-stage if the credit crunch exacerbates to the point where accessing investment capital dramatically worsens.

Neither major political party is prepared to grapple head-on with the opportunities that privatisation would present to the fund and domestic oriented investors.

Deloitte chief executive Murray Jack urged a rethink of government asset ownership policy to match how it fits with other objectives like growing productivity, deepening New Zealand's capital markets and encouraging savings. “There are good alternate models and it's time we, as a country, started debating them instead of being labelled some form of pariah if you mention the ‘P’ word.”

One investment banker said: “Both major parties have taken the stance against further sales, at least in the short term. However, as a minimum, these assets should be pushed further away from Government. They form a very large component of the economy and

there is too much potential for them to act as a drag on the economy.”

Many chief executives supported partial privatisations of state companies like TVNZ, power generators, NZ Post and Kiwibank — a move that would provide relatively safe investments for private investors but still leave the Government in the control. But KiwiRail was seen in the too-hard basket because of its ongoing losses. And an oil firm boss decried the privatisation push: “They perform well. We don't have a balance sheet crisis. The capital gained would mean little.”

But many felt that subjecting state-owned companies to greater performance monitoring would increase the international competitive drive.

At a counter-intuitive level, ANZ National bank director Don Brash suggested New Zealand could make a good start by “stopping taking measures which actively reduce competitiveness”.

It is an approach that finds favour with a major exporter. “This is a serious issue. New Zealand officials are sometimes more interested in promoting world welfare than New Zealand welfare. We should aim to get the most benefit for New Zealand from multilateral agreements and promote New Zealand as a source of high quality food and world-class tourism experiences.”

Underlying their concerns is a fear that if New Zealand does not “step up to the plate”, it will drift further towards becoming a branch economy. “We need decisions about capital, labour and expansion to be determined where the impact is felt. “If New Zealand is a branch economy then business will be deemed to be a less important player in the political decision-making process,” — creative firm.

If company headquarters go, so do intellectual property, decision-making, skills and support services.

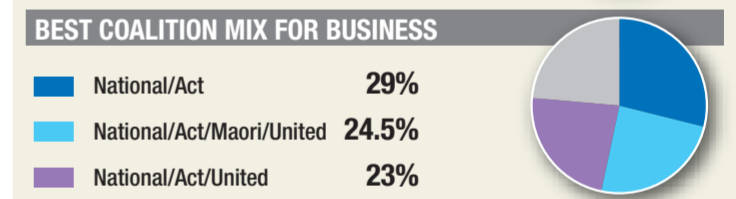
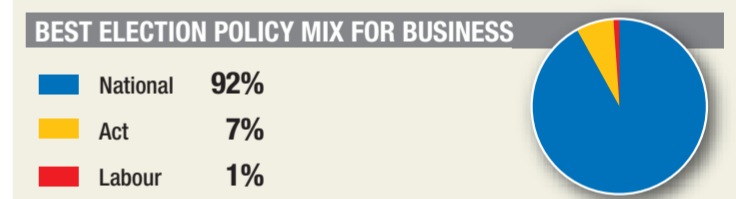
Barfoot & Thompson director Peter Thompson has observed the increased number of corporate transfers as Kiwis sell up and move — particularly to Australia.

■ Continued on C6

WHO'S GOT THE MOST TO OFFER BUSINESS



80 CEOs give their verdict on the major parties



Source: New Zealand Herald 'Mood of the Boardroom' survey October 2008. HERALD GRAPHIC

International crisis a key factor hanging over voter considerations

■ Continued from C3

Prime Minister Helen Clark wants to time the announcement for maximum political effect by unveiling the measures just one week out from the November 8 election.

But Michael Cullen has since taken shadow Finance Minister Bill English into his confidence after National kicked up at the constitutional propriety of an incumbent Government potentially binding its successor with a huge contingent liability on the eve of a general election.

ASB Bank managing director Hugh Burrett says it is important that the “Government gets it right”.

If it is not successfully negotiated, liquidity would reduce with a resultant run-on effect to customers.

All finance sector survey respondents report New Zealand firms face much tighter credit conditions.

Commercial property developers are particularly affected as banks pull funding for risky projects.

ABN Amro chief executive Simon Allen says the crunch is hitting the construction sector hard, with building suppliers and retailers now facing a very difficult time.

“I am deeply concerned at the level of financial capital availability to New Zealand business,” says Allen. “It's affecting large companies as well as SMEs.”

He warns if currency volatility is not arrested,

“we may see an exodus of businesses to more stable environments”.

Barfoot & Thompson director Peter Thompson expects the next 12 months to be slow going for the property sector. Thompson notes second tier lending has dried up since the collapse of the finance companies sector, with banks already reducing lending thresholds. He cautions banks should not “over-correct” to compensate for previous lending practices. If home-owners buy and sell in the same market they will not be too adversely affected.

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NEW ZEALAND V AUSTRALIA



- 73%** say it's time to adopt a 'New Zealand first' style and aggressively compete for capital and labour by whatever means – rather than 'play fair'
- 64%** believe New Zealand can realistically compete from a business and economic perspective
- 81%** support a single economic market covering New Zealand and Australia
- 73%** believe Australia is not materially interested in assisting New Zealand reach its economic objectives
- 60%** believe Australia views New Zealand as a competitor for attracting and retaining capital and labour
- 29%** believe New Zealand should become an Australian state – 65% are opposed

Source: New Zealand Herald 'Mood of the Boardroom Survey' Oct 2008 HERALD GRAPHIC

New Zealand not merely a training ground for Aussie

■ continued from C5

Simpson Grierson executive chairman Rob Fisher is concerned at the loss of skilled New Zealanders offshore. As a major law firm boss, Fisher is used to young lawyers departing to "do their OE". But the talent is not coming back so often when it's time to settle down and have families.

Australia is a clear winner — the first port of call for many departing New Zealanders.

But Fisher suggests that while better tax rates are part of Australia's attraction, it would be naive to believe that is the only factor. "We should do exit interviews to find out what are the real issues making New Zealanders leave — then try to find solutions."

He believes New Zealand can compete against Australia. "We used to. With greater specialisation, more value and less tax we will incentivise greater productivity."

Fisher's stance is supported by 64 per cent of CEOs surveyed. "Australia is even more bogged down in bureaucracy than New Zealand. The only thing going for it is minerals," says one food manufacturer.

"Realistically we have to focus on our niches such as agriculture. We have water as a resource. There is no way we can compete in an industry such as mining," says a power firm boss.

The drive towards a trans-tasman single economic market is generally supported.

But chief executives caution it is not an economic panacea, saying that in the scale of the world's opportunities it is a "red herring" ... "together we are only 25

million" ... "looks good on the surface but a strong anti-Australia sentiment stops it going further."

"Look at the size of our sharemarket and the number of New Zealand-owned companies, I think the answer is [to have] one economy like the European Union. It's called globalisation and may assist us in getting wages, salaries and immigration right," said a luxury car firm boss.

The chief executives do not believe New Zealand should look to Australia for economic assistance. "However, they have happily been mining New Zealand for talent for years and will continue to," said an investment banker.

In reality, if New Zealand doesn't get its act together Australia will continue to mine this country for skilled labour. "They have certainly been actively recruiting here, especially for talented people who can be employed in their infrastructure investment at much higher pay rates. It's not too hard for them though," says EMA Northern's Alasdair Thompson. Others note Australia also faces a major talent drain.

"Would they become a state of New Zealand? No. Keep us as two countries but work closer together," says Peter Thompson.

"With a better integration of regulatory and tax markets New Zealand would effectively become a state for all purposes other than politically," said another business leader.

Despite New Zealand's deteriorated performance (ranking lower than Tasmania on many economic metrics) there is little appetite to join the Australian Federation.

TAXATION

Difficult decisions will tax next finance minister

Sorting out the economy's tax woes largely depends on pinpointing where the problem lies, writes **Thomas Pippos**



EVERYONE wants a tax cut. Unfortunately that is not a good feeling, given Treasury anticipates budget deficits for the next nine years after budget surpluses for more than a decade. The cupboard is anticipated to be bare but the appetite for tax cuts has yet to be filled. A potential positive is that Treasury forecasts are inevitably wrong and generally too pessimistic. Time will tell.

The backdrop, total core Crown revenue (predominately tax revenue) has increased by \$28.9 billion (from \$33.1 billion to \$61.9 billion) in the last 12 years. Tax reductions over this period have generally been limited to that provided to working families under the Working For Families' package of resulting in an incremental benefit of \$3.6 billion.

One of two options will likely result: dishonesty in the sense of ignoring the problem and living beyond one's means or the reality that difficult times mean that difficult decisions will need to be made.

Assuming the latter, the decisions will involve considering how Government spending can be cut or revenue raised — both anticipated to be made in unfavourable economic times. Logic would suggest that both levers will need to be pulled. It will not simply be a question of raising taxes.

Difficult decisions, by definition, are difficult. People will be negatively affected and people vote bringing into play the phrase that "dishonest politicians are a function of dishonest voters".

For example, refer to the Mood of the Boardroom survey results concerning the prospect of GST increases and the introduction of a capital gains tax. In both cases the overwhelming sentiment was against such a change (82 per cent and 63 per cent respectively). But interestingly if the quid pro quo meant decreases in other existing taxes, the negative sentiment materially reduces (36 per cent and 38 per cent respectively).

Difficult decisions must be rational and appropriately considered. Two recent tax examples where this was arguably not the case are Labour's proposed reduction to Inland Revenue's interest rate for underpayments of provisional tax to the level that is paid for overpayments (from 14.24 per cent to 6.66 per cent) and National's proposal to jettison the current R&D tax credit rules.

Yes, there is a problem with the current interest rates — for many taxpayers the underpayment rate is too high and in many instances they are exposed to the rate simply because of volatility in their earnings during their tax year or because it can take five to 10 years for a dispute to be finally resolved.

If those are the problems, there are real targeted solutions available, such as not charging interest where provisional tax has been paid using the "uplift method" and in terms of tax disputes, simply applying a lower rate commensurate with actual time value of money.

"Both major parties still have a blank canvas around any substantive tax initiatives to help navigate the economy out of the current negative sentiment."



MOVING ON: Reductions in personal tax rates have encouraged New Zealanders to head across the Tasman.

There would have been huge kudos to Labour if they had sought to introduce a proper fix to this problem.

As for National's announcement concerning the repeal of the R&D tax credit rules, the proposal seems no more than a LIFO approach to tax policy — "last in, first out".

Relevant, also, to any current tax debate is that tax is one of the levers that governments can use to stimulate activity, including attracting and retaining foreign and domestic capital and labour.

The popular approach of recent times has been to avoid its use on the basis that the market is a more efficient determinant of economic activity. But markets sometimes fail and government intervention is welcomed — for example current deposit guarantees.

Also relevant is the backdrop of global mobility and competition for capital and labour, factors that have never been greater, with the ultimate prize being the increase in national productivity and real wages.

Successive Australian governments in the last few years have introduced a range of measures showing their competitive spirit for capital and labour:

- The "Australia's Future Tax System Review" that looks to make the Australian tax position even more competitive.

- Successive reductions in personal tax rates in Australia over the last nine years.
- An R&D regime that will be enhanced by a two-tiered tax credit worth up to 20c per dollar spent for firms with a turnover under \$50 million and up to 10c in the

dollar for firms above that threshold.

- Legislation abolishing capital gains tax for most foreign investors where 50 per cent or more of the underlying assets are not land.

- A reduction in withholding tax on certain distributions from Australian managed investment trusts to foreign investors from 30 per cent to 7.5 per cent.

- A tax rate of 15 per cent on superannuation funds including an ability to receive a refund of franking credits on dividends they receive to the extent that they exceed the 15 per cent tax rate.

- Reductions in withholding tax on interest and royalties in certain major tax treaties.

But the past is the past. Of more relevance is that other than the proposed personal income tax reductions, both major parties still have a blank canvas around any substantive tax initiatives to help navigate the economy out of the current negative sentiment.

National has highlighted a near-term goal of a three-tier personal tax system with the highest rate of no more than 33 per cent on income above \$50,000 but that still leaves open what tax initiatives, if any, will actually be undertaken to enable that goal to be realised.

Like the recent "me too" initiatives around the deposit guarantee arrangement, the likely outcome could easily be "copying" some yet-to-be-announced tax initiatives by other jurisdictions.

Time will tell what will happen but it's not just the government of the day that influences that course, but also officials


who probably more importantly need to challenge themselves and be challenged as to how tax should be factored into future decision-making. This is particularly relevant with tax when many of the policy designs are complex and not capable of easy dissemination or general debate.

Take, for example, the fact that there are tax incentives for non-resident investors in particular to own 100 per cent of a New Zealand business without any local equity participation. Sure there are other non-tax incentives that also drive this but tax is right up there. This doesn't need to be the case and will in fact be fiscally positive if addressed but progress on this issue is far from timely.

There was an overwhelming consensus in the survey that a destination of tax reform (not just the next step) is a key part of any rational tax debate, also that there is a need for a framework to be applied whereby tax initiatives can be rationally considered and evaluated. In part, this is a further explicit validation of the importance of the existing Generic Tax Policy Process.

The question is whether some further refinement of the process is required to challenge the status quo and bring relevant stakeholders to the table. At a minimum the current environment requires real dialogue, not just written submissions. It also requires actions — including rulings — on a timely basis, not death by 1000 consultative cuts — Inland Revenue interactions.

■ **Thomas Pippos is managing tax partner of Deloitte.**




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INFRASTRUCTURE

Nation's infrastructure a bottomless pit of worries

With a lack of money in the coffers for improving systems, business leaders say private enterprise input is the answer, writes Maria Slade



ASK chief executives what they want from a new government in the way of infrastructure and the shopping list is no surprise — bigger and better roads, a cheaper and more secure power supply, greater broadband capacity — all preferably involving the input of private enterprise.

Roads, energy and telecommunications were the top three issues when bosses were asked to rank their concerns for the future of New Zealand infrastructure on a scale of one to five, with five being very concerned.

They scored roads at an average four out of five, with 29 per cent of them marking it as five.

Telecommunications scored an average 4.0 on the concern scale, with 33 per cent of chief executives saying they were very concerned for the future.

Energy scored an average 3.8. Twenty-five per cent of the bosses were in the very concerned category.

Clearly infrastructure is a bit like health — the sector's needs are pretty much bottomless.

"At the end of the day we all know this country needs a lot of infrastructure support and the government has shown it hasn't got the money to do it itself," says Mark Franklin, chief executive of the New Zealand Stock Exchange's TZI carbon trading market.

The obvious way to fill the funding gap is through public private partnerships, or PPPs. When asked if they thought PPPs would help achieve better value for money, more innovation and more expertise on infrastructure projects, the chief executives answered an overwhelming "yes".

The country needs to get innovative in the types of arrangements it formed with private enterprise, Franklin says. "The nature of PPPs will change. It'll be more like a partnership with private enterprise providing the capital — more like the old build, own, operate, transfer (BOOT) schemes.

"So ownership at the end of the day will transfer to government... rather than the old PPPs which [are] very simplistic."

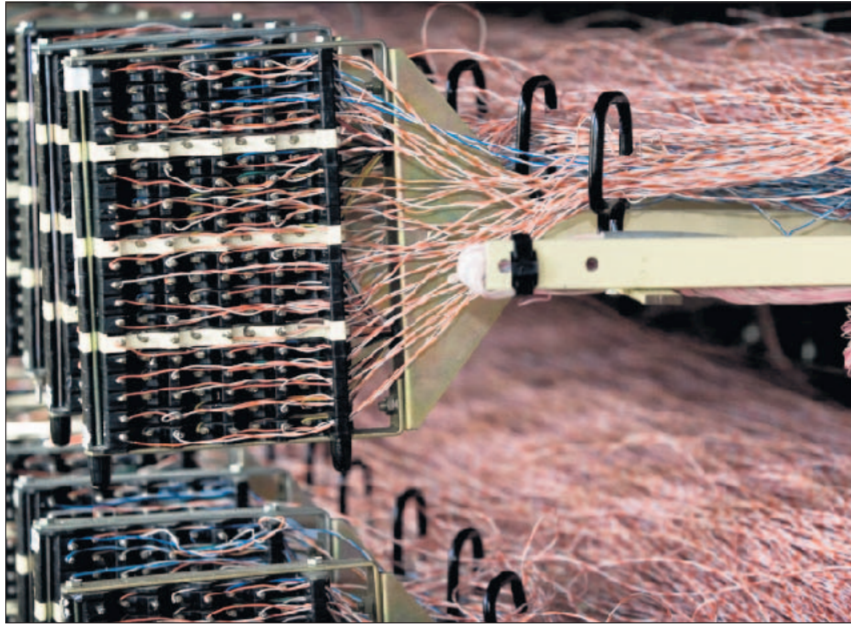
Murray Jack, CEO of Deloitte, goes even further. "[On] some infrastructure projects the private sector can be a perfectly acceptable provider on its own," he says, and gives the example of power stations which are privately owned in other parts of the world.

Asked why there haven't been more PPPs to date if they're such a good idea, Jack says the current government seems to have an "anathema" to involving the private sector substantively in its infrastructure plans.

"They have allowed for the prospect of PPPs in the legislation, but they don't seem to be able to find any until very recently that seem worthy of pursuit."

"That would seem to me to indicate a lack of excitement on their part."

Both Franklin and Jack believe there's no lack of money out there for potential



EFFICIENCY: Expanding and improving everything from telecommunications to roads is a priority, say bosses. PICTURE / GREG BOWKER

"From a timing perspective, putting in place the impost of carbon when we've had significant economic disruption will need to be reviewed for the growth and economic prosperity of New Zealand."

Simon Mackenzie



investment — the problem is the opportunities, and the security of knowing that the goalposts won't suddenly be shifted on a political whim.

"If the opportunity exists, then private capital will be attracted to it," Jack says.

Richard Aitken, group chief executive of engineering company Beca, gives the example of the design, build, operate partnership behind the Hutt Valley's water treatment company, Hutt Valley Water Services, which his company is involved in.

It's a 20-year operations contract which is now in its sixth year, he says. "So there is a model that very well suited that council, and it was successful."

Aitken also believes it's a philosophical objection, rather than any real impediment, that's held PPPs back. He says to argue that a public-private arrangement should only exist for three or four years "is ridiculous".

Aitken says New Zealand will be forced to make some decisions, because it can't do everything.

He believes a more secure electricity supply should be one of those priorities.

He decries "just-in-time" generation, saying there has to be some headroom between the demand for power and the

ability to supply it.

"We cannot have a dry year and then some of our manufacturing industries be immediately affected because they can't run at full capacity."

He is heavily critical of the Labour government's blanket ban on new thermal generation. "You must balance environmental, social and economic [factors]. You just cannot make one statement."

Saving the planet may have to take a step down the priority order in these troubled economic times, says Simon Mackenzie, chief executive of lines company Vector.

He welcomes current Electricity Commission and Commerce Commission reviews of the state of the electricity market, saying hard questions need to be asked about whether the current market structures are delivering the right outcomes.

Residential power prices have risen about 50 per cent in the past few years, New Zealanders have been asked to conserve power in five out of the last eight winters, and all this without taking into account the cost of the upcoming carbon trading scheme.

"From a timing perspective, putting in

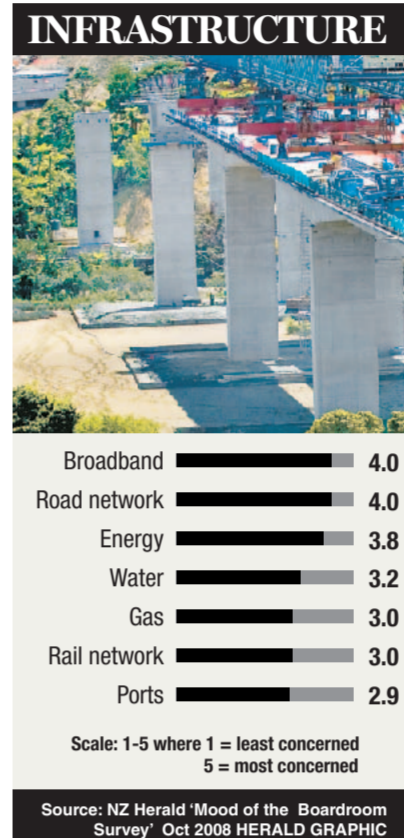
risks its trade being trans-shipped through Australia, and losing its direct connections to North America and Europe, Cairns says.

He says we need to consolidate in order to be able to invest and cater for the next generation of vessels.

The Port of Tauranga boss says heavy-handed regulation or direct government intervention is not required, as the answer already lies in the Port Companies Act.

The act says port companies must be operated as successful businesses. "Negative free cash flow is not a defining term for a successful business."

— Maria Slade



place the impost of carbon when we've had significant economic disruption will need to be reviewed for the growth and economic prosperity of New Zealand."

Mackenzie doesn't believe PPPs to build new generation are possible under the current market structure.

While the survey shows roading is one of the top concerns, the chief executive are more divided on what to do about it. Two-thirds said petrol taxes should be spent only on roads, while others believe it should go on transport generally. Some say rail will consume huge amounts of cash for minimal return, and an immediate injection into roading is what's required.

"We're a long, thin country, and there's a loss to our economy when we've got huge traffic congestion," Beca's Aitken says.

"I definitely think it's necessary to finish what was originally [conceived] as the Auckland motorway system. Until you finish it, it can't really operate to its optimal capacity."

Reflecting the complexity of the challenge, the chief executives are also divided on how to facilitate greater broadband penetration.

A quarter say there should be no further regulatory intervention into the telecommunications industry; another 44 per cent say joint government and business roles for broadband rollout should be established; and 32 per cent say alternative methods to broadband roll-out via new technologies should be examined.

IDC analyst Rosalie Nelson says there's a no one-size-fits-all solution.

She says with small companies so dominant in the New Zealand economy, almost two different strategies are needed for SMEs and bigger businesses.

A huge amount of investment is currently being made in things like Telecom's cabinetisation programme, which will in many cases allow for dedicated line or fibre connections to businesses' front doors, and there is interest in other types of infrastructure like wireless solutions.

That is why the jury's still out on the National Party's policy of a nationwide fibre optic network, Nelson says.

"How would a fibre network that's effectively nationalised work? What is that going to mean for all of the industry investment that's taking place now?"

■ Maria Slade is a senior business writer of the New Zealand Herald.



IMAGERY: The jury is divided on the Finance Minister's effect on New Zealand's status. PICTURE / MARK MITCHELL

TAKE NOTE, WINSTON

MEMO: Winston, your theatrics put New Zealand's pure image at risk.

New Zealand enjoys first-equal ranking on Transparency International's corruption perceptions barometer — up there with Finland and Denmark as those perceived to be the world's least corrupt countries.

But one in five top Kiwi bosses believe New Zealand no longer deserves this ranking.

"At a corporate and government level our ranking is deserved," notes a creative sector chief executive. "But one Cabinet Minister is doing his best to destroy the reputation."

Winston Peters (whose name was not featured in the survey question) was singled out by CEOs as the politician whose antics had clouded New Zealand's reputation.

"The ranking is at risk with the level of perceived or actual political influence in election funding," added a major exporter. "This has affected the image of almost all political parties in New Zealand in ways that are adverse."

"The whole Winston Peters affair and the PM's handling of this is questionable," observed the local boss of a transnational.

It rattles chief executives that it is the country's Foreign Minister who has had

to stand aside during multiple inquiries into secret political donations to his party.

A business lobbyist was concerned by the perception that the racing interests that had swelled NZ First's coffers by breaking donations down to avoid public disclosure were also beneficiaries of special tax breaks.

Another cited revelations that a Chinese businessman — who had sprayed cash into political party coffers and been granted citizenship by a Cabinet Minister against official advice — was wanted in his homeland for embezzlement.

In Peters' case, Parliament's privileges committee found against him saying he knew about a \$100,000 donation from billionaire Owen Glenn that was not declared. But the Serious Fraud Office said donations from Sir Robert Jones and the Vela Brothers reached their rightful destinations.

Some 75 per cent believed New Zealand still deserves its top ranking.

"The word 'corruption' is used too loosely by media, politicians and the general public," said one independent investment banker.

"Having experienced business in Indonesia, India and Philippines I know what real corruption is, and New Zealand is largely free of that."

POLITICAL CRONIES? NOT IN OUR BOARDROOMS, PLEASE

The tsunami of political appointees Labour placed in all manner of jobs in the weeks before the election date was declared was breath-taking.

But it's not just National — and other political opponents — who are calling foul by alleging the Government has stacked entities like the new transport super-agency with "its stooges".

Many businesspeople are so aghast at the practice, that 65 per cent of the company bosses who contributed to the Mood of the Boardroom survey believe there should be an independent political appointments commission.

"The present system is flawed. It doesn't get the best outcome," said a manufacturing chief. Another warned that the number of political appointees to State-owned enterprises and other boards means some top commercial directors "will howl not go near them" — the example of how former TVNZ director Ann Hercus (also a 1980s Labour Cabinet Minister) went behind the board's back and spilled the inside story on television stars' salaries to her old political cronies, was cited. Hercus' resignation was announced within hours, after Ian Fraser told a select committee of the events that led him to quit as TVNZ chief executive.

Many SOE directors are very well-qualified. But the SOEs are not free from the "diversity" mandate: "Appointing by gender, geography, race and political persuasion can't possibly ensure the selection of the 'best'."

An independent commission that screened Government appointments



APPOINTMENTS: Ian Fraser attacked Ann Hercus' publicising of TVNZ's chief. PICTURE / MARK MITCHELL

would "help build confidence in the quality of appointees" and enable a merit-based and peer-reviewed process.

But 21 per cent were dismissive. "Most are appointed on skill and are conscientious," said an oil firm boss.

"Who determines whether the committee is truly independent?" questioned another.

CONSOLIDATION VITAL FOR PORTS, SAYS CEO

New Zealand needs to establish a ports hierarchy and fast, says Port of Tauranga chief executive Mark Cairns (pictured).

Recent analysis by an investment bank shows free cash flow (operating cash flow minus capital expenditures) for the country's ports sector has been negative since 2006.

"That really is a disgrace, that there are literally billions of dollars of assets tied up in regional



government ownership, and the sector as a whole is performing negatively."

Cairns says we have 16 commercial ports in a small island trading nation that is a huge distance from its markets.

Nine of those are investing to be international container ports.

"Really, unless we get a ports hierarchy sorted out, we can't invest optimally in our road and rail connections to the port — we continue to invest sub-optimally, trying to spend our available infrastructure spend across too many nodes in the country."

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SURVEY RESULTS

A legacy of issues to sort out

When the history of the fifth Labour Government is writ large, Michael Cullen's name will be to the fore, writes **Fran O'Sullivan**

IF Labour had lost the 2005 election, Michael Cullen would have gone out with his reputation intact.

But three years on, his record bulging Government surpluses — the upshot of golden economic weather and savage tax-hoarding has turned to deficits and with it the chorus of criticism is growing. Don't read this as uniform negativity...

"The Government's books are in good shape," said Don Brash, a director of ANZ National and former Reserve Bank governor.

"That provides a cushion in these difficult times but the level and effectiveness of Government spending is important."

The survey indicated that chief executives had clear views on Labour's signature policies. Survey participants ranked a number of the Labour government's policies on a scale of 1-5 (5 being most impressive).

Top of the list was KiwiSaver — Cullen's policy response to decades of poor savings by New Zealanders which have contributed to the country's bulging current account deficit as we plunder other nations' savings to underpin lifestyles we cannot really afford.

KiwiSaver was accorded an average ranking of 3.6 — marginally ahead of the ground-breaking China Free Trade Agreement whose parentage owed a considerable amount to the foresight of Helen Clark and former Trade Minister Jim Sutton with the aid of Phil Goff's finely-honed negotiating skills.

"It is a huge structural change [KiwiSaver] that will pay benefits in future years," said a leading exporter.

Though positive, the China FTA received mixed reviews: "It is great and needs to be acknowledged but we also need to note that as water and food issues become more acute, there will be plenty lining up to get preferential supply lines from New Zealand," said an investment banker.

The tainted milk scandal at Fonterra's San Lu operation threw up a caution: "The rules, regulations and quality checks in the FTA were not carefully thought through. There seems to be little in-depth comprehension of the Chinese way of working and cultural differences," said one manufacturer.

The New Zealand Superannuation Fund (3.3 average) also won a tick. The two policies were seen as integral to New Zealand's shift to a savings culture. There were mixed views whether National should tinker with either scheme if it became Government.

The emissions trading scheme — Labour's response to mitigating climate change effects — earned an average 1.8 rating. "The ETS is a shocker. Not because of the high-level philosophy [but] rather the design policy process and speed [it was] rushed through," said a power company chief.

On the tax front, Cullen earned applause (2.7) for getting the corporate rate down to 30 per cent in line with Australia. But on personal tax cuts the response was more "too little too late", rating a mere 2.0.

"Why take taxes off people, clip the ticket and then give some back with Working for Families," questioned Deloitte's Murray Jack. "Get tax rates down, reduce bureaucracy."

There were, of course, niggles. In follow-up discussions with survey participants, Cullen's decision to interfere and stop the Canadian Pension Plans partial takeover for Auckland International Airport was cited. His intervention scuttled the bid to the financial detriment of the many airport shareholders who had already accepted the offer.

Seventy-one per cent of those surveyed want the next government to formally list "strategic assets" to lessen the chance of other prospective takeovers being politi-



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cally ambushed. Sixty-five per cent also want regulatory responsibility legislation enacted but they were less clear on the need for an independent body to act as a gatekeeper in this area.

On the vital legacy issue, just 19 per cent of survey participants believed the Labour Government would leave behind — or carry forward — a good economic legacy.

■ "There's been an outstanding structural shift in savings. They've begun on tax... They're excellent on trade," — oil company chief.

■ "On balance, over nine years we have had good conditions, KiwiSaver, current account surpluses are good, but our infrastructure has run down," — creative firm boss.

■ "Labour has ridden a consumer and credit-driven economic wave which was unsustainable on fundamentals, notwithstanding the current global crisis," — technology group chief.

But 73 per cent did not agree. "Running big surpluses and massive increases in government expenditure is not a legacy to be proud of when it has led to depopulation and poor levels of business," said the Employers and Manufacturers Association Northern's Alasdair Thompson.

Of real concern was the fact that New Zealand had slipped back on a number of key metrics: Standard of living, productivity growth, the quality of government spending, a lack of vision on New Zealand's potential on the world stage, were cited.

Several participants said "on balance" Labour had wasted opportunities during

the commodity boom to put the New Zealand economy on a more competitive footing.

Labour's much vaunted "economic transformation", which was singled out as a priority for its third term in government, was labelled by some as mere "spin" or "cliches". Asked if they believed the current Government believed in economic transformation and had facilitated it, the response was negative, with 79 per cent according a ranking of either 1 or 2 on a 1-5 scale where 1 indicated strong disagreement. The highest ranking — of 4 — was ticked by just four per cent of respondents.

"At issue is that the economy is still fundamentally unchanged," said NZX's Mark Weldon. "We're still dependent on agricultural export prices and there are no new champions."

"It's just empty rhetoric. Productivity and economic trend growth have declined, not risen," said the Business Roundtable's Roger Kerr.

Some respondents noted the Government had good intentions. "I think they believe in the need but had little concept of implementation," said Michael Barnett, chief executive of Auckland Regional Chamber of Commerce.

At the crux of their concerns was government spending.

This was nominated by 40 per cent of respondents as the most important current issue, outweighing tax rates (28 per cent) and the traditional business bugbear: regulation (17 per cent).

In all, a thumping 88 per cent believed the level of Government spending was too

high. Not only did they have concerns about its effectiveness, but they believed the next government needed to get spending under control to take the burden off the Reserve Bank and taxpayers.

The bureaucracy (45 per cent) and welfare (27 per cent) were nominated as key targets for the next government to tackle. A further 17 per cent believed Working for Families should also be subject to the pruning knife.

Just 43 per cent believed National's plan to use natural attrition to reduce public sector ranks was the right move.

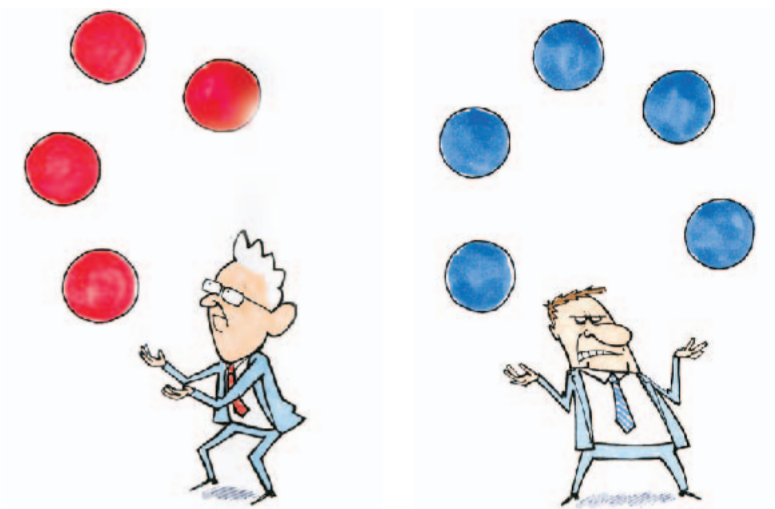
Fifty-two per cent disagreed, saying more aggressive policy would be needed to cut numbers.

"I strongly believe the commercial practice of cutting deep and quickly should prevail. Natural attrition will lead to no change and we can't afford to let this happen. There should be further salary and incentive structures in the government sector to attract commercially experienced people," said one power company boss.

An exporter, however, said this should be done in a "disciplined way. In the current economic climate we don't need more blood on the floor".

Others talked about the need to address the public sector mindset. They suggested the next Government could start by asking what services it really needed to provide and what services the private sector could manage more efficiently.

This may be anathema to Cullen's ethos, but could be a major plank in National's own legacy-building efforts if it gets its own crack at government.



WILL ENGLISH FILL CULLEN'S SHOES?

Michael Cullen has seen off previous challengers for his crown as Minister of Finance.

This time round National's finance spokesman, Bill English — himself a former Finance Minister and Treasurer — is the politician gearing up to take Cullen's job.

But whichever politician occupies the Treasury benches after the November 8 election, he will face a tough challenge to juggle competing priorities — some due to open vote-buying during the campaign, others due to the international financial crisis which has exacerbated the New Zealand recession.

Chief executives canvassed for the Mood of the Boardroom survey overwhelmingly said Cullen's main challenger would make the best Finance Minister — seven times as many plumping for English over Cullen.

Ten per cent opted for neither politician, instead nominating Key (despite him earmarking the prime ministership this time) who the CEOs had preferred on an overwhelming nine to one ratio in 2005 when he was National's finance spokesman.

"While Cullen has been a good finance minister, he had a period of abnormal growth with no adjustment of the taxation base," said ASB Bank's Hugh Burrett. "This has allowed Government expenditure to grow almost out of control while wages and salaries have become uncompetitive with other countries and fuelled migration."

This view was reinforced by a creative firm boss: "Cullen has run out of ideas and the economy is not doing well. We were saved by geography [isolation] and dairy prices and an exodus of skilled people creating a job shortage and allowing full employment."

Others just wanted a style change: "Cullen: experienced, boring, no surprises. English: grown in stature, performs well in the house," said one advertising chief.

Business bosses rated a number of Cullen's major policy planks highly (see adjacent story). But the personal tax cuts they had long been championing came too late in Labour's nine-year reign to offset their own mood for change.

If English did gain control of the finance portfolio — assuming a National win — chief executives expected his balance and experience would play to New Zealand's advantage.

English does not automatically connect with business in Key's intuitive fashion. But those interviewed for this report acknowledged English, like

Cullen, had spent considerable time in boardrooms briefing business on policy initiatives.

What the chief executives certainly do not want is a repetition of the 1996 election when former National leader Jim Bolger made NZ First leader Winston Peters Treasurer as part of a coalition Government deal.

Eighty-nine per cent gave a firm "No" when asked if the finance portfolio should be awarded to a minor party to clinch a coalition.

An overwhelming 93 per cent of respondents believed MMP is hindering governments from implementing the type of policies necessary for New Zealand's success; with just four per cent disagreeing and three per cent unsure.

They were particularly scathing over the compromises that Labour had made this time round to keep Winston Peters happy. "Giving foreign affairs an extra \$600 million against Treasury advice is one hell of a bauble," said an investment banker.

But others credited MMP as giving pro-business leaders of minority parties — like Dunne — influence over the current government's direction and the ability to get the corporate tax rate lowered and international business tax reviewed as the quid pro quo for supporting Labour.

But the predominant sentiment was negative. "MMP is a recipe for paralysis, compromised decision-making and excess Government spending," said New Zealand Business Roundtable chief executive Roger Kerr.

Said others: ■ "We now have a have a system of government where the tail wags the dog too often," — investment banker.

■ "It's rubbish and List MPs are a waste of space. Accountability and the ability to govern are vital in small nations," — manufacturing distributor.

■ "Too much power has been transferred to the minority parties. While I respect the desire for them to have a voice, MMP has pushed this to the other extreme. Makes it much more difficult for the reigning government to make non-political, long-term decisions," — exporter.

But another exporter cautioned: "Probably things weren't that flash under first-past-the-post either. We are still learning MMP."

If a referendum was held tomorrow, 91 per cent of the CEOs would not vote for MMP. This did not mean they all wanted the FPP back, but many would prefer a different proportional representation system such as Single Transferable Vote.

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