MOOD OF THE BOARDROOM

We are happy with John Key's economic leadership. We can see a way out of the recession – cruise control isn't an option.

OUT OF THE TRENCHES

MOOD OF THE BOARDROOM

GETTING ON WITH THE JOB DESPITE RECESSION

In the past year – 69% of SMEs have made productivity improvements

SINCE THE START OF 2009, SMES HAVE:	
Increased jobs	18%
Decreased jobs	47%
Left the same	35%

LOOKING FORWARD, SMES EXPECT TO:	
Increase staff	20%
Decrease staff	23%
Keep staff levels the same	57%

Optimism and confidence levels

SMES ARE NOW MORE OPTIMISTIC THAN ONE YEAR AGO:

Rated on a 1-5 scale	*AVERAGE*
The NZ Economy	2.77
The Global Economy	2.58

1 = not concerned • 10 = extremely concerned

TOP FIVE DOMESTIC FACTORS OF CONCERN FOR THEIR INDUSTRY		TOP FIVE INTERNATIONAL FACTORS OF CONCERN FOR THEIR INDUSTRY	
Labour productivity	6.47	Credit Crunch	7.81
NZ dollar level	6.26	Strength US recovery	6.80
Wage increases	5.85	Commodity Prices	6.66
Petrol price increases	5.85	US dollar value	6.66
Energy costs	5.60	Oil prices	6.59

Source: Business New Zealand respondents to the *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

Productivity

Fit for the lean times

Companies are finding that it pays to increase their workpower, writes **Graeme Hunt**

PRODUCT innovation, increased training, bonuses and multi-tasking are just some of the measures New Zealand businesses are embracing to boost productivity.

The latest *New Zealand Herald* Mood of the Boardroom survey, conducted last month in association with Business NZ, reveals an unprecedented commitment by many companies to lift productivity in the face of the global recession.

Of the 186 survey respondents, from Business NZ's membership, nearly seven out of 10 said their business had made changes in the past year to increase productivity. Rather than shedding jobs, companies expected staff to do more — and more efficiently — and in some cases were providing incentives to make it happen. New technology and improved work and sales processes were also taking over as businesses sought to eliminate waste and downtime.

Some respondents reported job cuts, but most spoke positively about improving systems to do more for less and making better use of plant and equipment. Many said they had introduced better systems and processes, some involving increased spending on training and technology.

''Business has got the message about productivity that we have been raving on about for four years,'' Business NZ chief executive Phil O'Reilly says. ''Yes, we are lean, but we tend to be lean with low skills which means we still have lower productivity compared with other countries.''

O'Reilly says ther is no question that New Zealand business had become more efficient but productivity was still lower than countries such as France where featherbedding — overmanning — was rife. This, he says, was because New Zealand tended to produce unsophisticated products efficiently but was less successful in developing higher-margin, higher-value products.

''You might have featherbedding [in an overseas economy] but if you were making a Mercedes, until recently you were making a healthy margin.''

O'Reilly says there is a good future in the food industry that would benefit from the expansion of free trade. ''The story of New Zealand is that we need to be doing very well in food [and producing] different types of food products.

''There is a good story to tell in New Zealand. When you think about productivity it is about getting more value out of every hour we work in the economy . . . It is all around building value in the product.''

He says sensible companies retained their skilled workers in times of recession. ''Two years ago there was a lot of talk about skill shortages. It was the number one issue. The big story today is that many companies are keeping their staff even if they are not well utilised. They recognise that the [long-term] productivity of the labour force is critical.''

He urges companies to think carefully about not replacing skilled staff who left. ''You need to be careful in small businesses about running sinking lids.''

He is encouraged by the willingness of New Zealand companies to take ownership of their challenges rather than demanding action from the Government. ''New Zealand business is a lot more mature about these things than other businesses elsewhere in the world.''

Despite some reports of companies shedding staff, the level of pessimism in responses to the latest Mood of the Boardroom survey is low, considering the impact of the global recession on New Zealand. But Business NZ's Stephen Summers, who co-ordinated the survey, warns: ''Dead companies don't speak.''

That said, the ''head-in-hands'' approach that has been the response of many companies in Europe and the US to the recession is not coming through in New Zealand. O'Reilly says this might be because New Zealand had an earlier and softer start to the recession than other countries.

''We had a 'practice recession'. We went into recession earlier when all the rest of national markets were going quite well. We got into it quite softly.

''We did not hit the wall like other countries. When the [global] downturn occurred last year we had made the moves to make ourselves fit.''

PHIL O'REILLY: New Zealand businesses have reacted to the Recession in a mature way. PICTURE / BRETT PHIBBS

SNAPSHOT OF BOARD VIEWS

The 2009 Mood of the Boardroom survey, conducted in association with Business New Zealand, focuses on how NZ firms are weathering 18 months of recession.

We set out to capture responses from chief executives of leading NZ companies and the bosses of small-to-medium enterprises (SMEs) to a raft of issues: How they are rising to the challenge of increasing their firm's productivity record, the impact of the international credit crunch and exchange rate volatility on business confidence, what they think of the Government's drive to shape Auckland as a ''super city''. We also asked chief executives to run their ruler over the National Government. Not surprisingly, given Prime Minister John Key's business background, they find the Government more business-friendly than its predecessor.

But while they feel the Government is on the right track, they want the tempo lifted. Among the crunch issues: Getting Government expenditure under control to ease the pressure on the private sector, international competitiveness, the tax platform, infrastructure, and privatisation.

Ninety-two chief executives (including several executive chairmen) were engaged in the exercise which was conducted from mid-June to July 3. The response rate was 50 per cent.

Nearly 200 from Business NZ's membership took part.

The survey database was drawn from the Deloitte/Management Magazine Top 200 list, It was augmented by the inclusion of CEOs from some government trading enterprises, professional firms and business organisations.

SUCCESS STORIES

Amid all the talk about the need to lift productivity and the way to bring this about are some spectacular success stories involving New Zealand companies.

Wellington-based **Sidhe Interactive**, the country's largest and most successful games production studio, put on 15 staff in the past year to lift its complement to more than 100 as it continued to gain market share and become a publisher and IP producer in its own right in the global games market.

The 12-year-old business, a developer of console, hand-held and PC games that sells entirely to overseas markets, received additional funding from TechNZ this year to extend its cross-platform development technology.

TechNZ, the business investment arm of the Foundation for Research, Science and Technology, says Sidhe's technology is an ''exemplar of what New Zealand companies are doing to address global innovation needs''.

Sidhe Interactive business development executive Jos Ruffell says the essence to building productivity has been its focus on the international market.

He says the company's success — a 50 per cent increase in revenue in the past year — depended on it recognising the speed of change in the international games market and responding with the appropriate products.

''We are really bullish. We see great opportunities in the next few months. We are moving from a games developer to a publisher and original IP producer.''

Masterton-based **Breadcraft Wairarapa**, a $20 million business that employs 125 people, takes a similar approach to Sidhe Interactive when it comes to lifting productivity: it regularly introduces new products to meet customers' needs.

Part-owner John Cockburn says the company invested heavily in new plant and spent considerable time working closely with customers to give them what they wanted.

''For every 30 ideas that come along we might run with one of them. At the moment we are running on an 80 per cent success rate on these projects.

''Over the past 10 years we have launched 20 new lines. Four of them have been unsuccessful.''

His advice to a company wanting to lift productivity: ''Be innovative and do what the customer asks you to do.''

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Politics

Key warned: don't slip into cruise control


FRAN O'SULLIVAN

THE *New Zealand Herald*'s Mood of the Boardroom survey shows the Key Government has won wide support from leading NZ business leaders with 76 per cent saying it is "providing sufficient economic leadership for New Zealand." That view is reinforced by the adjoining survey of Business New Zealand's membership which found 73 per cent of SME respondents agreed.

"Year on year we have a change of Government which is giving new energy and life to business despite extreme external conditions,'' said a sharebroking firm boss. "This Government listens to business and is genuinely interested.''

"John Key made a very good start and seems pretty sure-footed,'' said Telecom CEO Paul Reynolds. "The proof of the pudding will be in the delivery.''

But chief executives warn Key against slipping into "cruise control mode''.

The 92 chief executives who responded to the *Herald* survey have plenty to say about the Prime Minister's leadership — some of it not so flattering.

"Key has the political standing to take the country into his confidence and chart a sure-footed strategy to break out of our lacklustre and declining performance,'' said a company chair. "But the Government is too timid and needs to take a strong lead.''

EMA (Northern) chief executive Alasdair Thompson believes the Government is not yet showing enough economic leadership. "They need to build a constituency for change and sell it''. NZ Business Roundtable's Roger Kerr is also critical: "Actions are falling short of aspirations. They are not doing enough to explain challenges NZ is facing.''

Others were more forgiving.

"They could do more to remind the public that under the Labour-led Government we were in recession well before the global financial meltdown so that the public will be more attuned to the need for some more conventional but painful financial correction measures,'' said a financial sector chief.

Key took power against the backdrop of a major international financial collapse, still having huge ramifications on our major trading partners. "We believed dairy would see us through,'' says South Pacific Pictures' John Barnett.

The Government is seen as a good listener, but needing to get a grasp on leadership

"Now the reality is evident to all.''

After 18 months of domestic recession, New Zealanders are looking forward to the upturn. But, warns Ports of Tauranga CEO Mark Cairns, "I think we are yet to see the full effects of increasing unemployment on the economy.''

He takes issue with those who criticise Key for the lack of outcomes from the February Jobs Summit. "Give Key a break'': pointing critics to Treasury Secretary John Whitehead's Summit presentation which revealed how Government revenues had evaporated.

Others like Solid Energy's Don Elder are more optimistic. Elder accompanied Key to China on his first State Visit as Prime Minister. "The US and Europe are still in the doldrums,'' says Elder. "But we're now seeing demand [from China] pick up — which will spark confidence in investing.''

The Government — particularly Finance Minister Bill English — wins brownie points for staving off a credit rating downgrade from Standard and Poor's. "They understand acutely the importance of managing for the balance sheet,'' said First NZ Capital's Scott St John.

But many believe English's first Budget should have set out a more robust deficit reduction path. This concern that the Government is "slipping into cruise


Mark Cairns


Don Elder

control'' mode is borne out by the fact that 63 per cent want the Government to take a "more aggressive approach to getting expenditure (and the Budget deficit) down quicker.''

Thirty per cent of CEOs responding to the *Herald* survey rank the level and effectiveness of Government expenditure as the most important single Government-related issue. Other issues include: Infrastructure — ranked highest by 18 per cent; Auckland (16 per cent), regulation (14 per cent, tax rates (7 per cent), savings (5 per cent) and the ownership of major central Government assets (6 per cent).

And 95 per cent of chief executives target the bureaucracy as a sitting duck for a Government razor gang. Welfare is also in the firing line (40 per cent), Working for Families (32 per cent), Health (17 per cent) and NZ Super (18 per cent).

The Key Cabinet's hesitance to take tough decisions on spending issues plays into how some CEOs rate individual Ministers in the economic team. "English is held back by his conservatism, which apparently also applies to cutting Government expenditure,'' says the EMA's Thompson. "(Gerry) Brownlee likewise. (Simon) Power is good but is restricted by National's 'do nothing 'policy on state-owned enterprises. (Steven) Joyce is excellent. A great solution for Waterview.'' Joyce is clearly a rising star within the Key Government, ranking just below English in CEOs' eyes.

Nick Smith was criticised over the Resource Management Act reforms ("there was very limited thought on how they might work in practice, they went through a very poor select committee process and then have stalled as Smith tries to work out how fix all the stuff-ups he has made . . . a classic case of more haste, less speed'').

Chief executives were relieved there is now better ''public alignment'' between Key and English after their embarrassing differences over the $50 million national cycleway. But they want to see other Cabinet ministers take a higher profile.

"Apart from Bill English very little is resonated from the rest. John Key is highly influential, he needs to be careful he is not seen as being the entire party.''

Chief executives feel there is now "better public alignment between English and Key'' after the silly slips on the national cycleway. But there is still a perception that nothing happens without Key.

''The Prime Minister currently appears to be carrying too much of the load himself,'' cautions a tourism boss.

"There is a perception that if something is going to get done, and if the bureaucratic barriers are to be overcome it needs the PM's personal engagement.''

IS THE GLOSS COMING OFF?

"John Key's first budget squandered his political capital and represented a lost opportunity in economic terms. I get no sense of urgency or purpose from the Government. There is no policy programme to unambiguously address New Zealand's two big obstacles to lifting our game: to reduce the level of government claims on the economy, and to lift the level of productivity. I can understand their lack of confidence in the current bureaucracy but endless task forces make for an ad hoc approach," — **Company chair.**

"John Key has displayed good leadership. But he needs a centrepiece for the strategy. He is too inclined to move quickly from one thing to the next, and not to cement gains. A rolling maul is an approach, not a strategy. The Jobs Summit had the potential to be a centrepiece, but he needs to articulate it as so, and make clear that a lot of stuff that is happening, such as the co-fund with tourism, is an outgrowth of that.'' — **Finance sector boss**

POLITICAL REPORT CARD

GOVERNMENT

Most chief executives – **76%** – believe **JOHN KEY'S GOVERNMENT** is providing sufficient economic leadership for New Zealand.

BUT

The level and effectiveness of **GOVERNMENT EXPENDITURE** is a major issue for **30%** of CEOs.

A majority – **63%** – believe the Govt needs to take a more aggressive approach to get **EXPENDITURE** and the **BUDGET DEFICIT** down quicker.

The **BUREAUCRACY** was singled out by **95%** of CEOs as a top target for cuts.

Just **26%** believe **LABOUR** is doing enough to challenge the Govt's economic performance

75% say leader **PHIL GOFF** and finance spokesman **DAVID CUNLIFFE** should 'try harder'.

CABINET RATINGS

CABINET ECONOMIC TEAM PERFORMANCE RATINGS

Ministers	1 (Not impressive)	2	3 (Neutral)	4	5 (Very impressive)	Average
BILL ENGLISH Finance	1.2%	2.4%	22.9%	54.2%	19.3%	3.88
GERRY BROWNLEE Economic Development/ Energy	6.0%	18.1%	60.2%	13.3%	2.4%	2.88
SIMON POWER Commerce/ SOEs	3.6%	9.6%	36.2%	39.8%	10.8%	3.45
STEVEN JOYCE Communications/ Transport	0.0%	4.9%	28.0%	43.9%	23.2%	3.85
TIM GROSER Trade	0.0%	12.0%	37.4%	37.3%	13.3%	3.52
NICK SMITH Environment	12%	19.3%	47.0%	19.3%	2.4%	2.81

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

Note to Labour: give us solutions

Stop making "petty hits'' on the Government and come up with innovative solutions to aid New Zealand during these difficult economic times.

That sums up the blunt message from chief executives to Labour leader Phil Goff and finance spokesman David Cunliffe.

Just 26 per cent of chief executives responding to the Mood of the Boardroom survey believe Goff and Cunliffe have done enough to challenge the Government's economic performance to-date.

Auckland Regional Chamber of Commerce chief executive Michael Barnett believes Labour has missed an opportunity to ''throw out the big dreams and challenges'' when they are needed by a market facing uncertainty. ''As an opposition they would have had to deliver but could have pushed the Government for more innovation and vision.''

"Skills and education would be a good subject for Labour,'' adds EMA (Northern) chief executive Alasdair Thompson. "But they have to tackle poor performance, not just protect teachers' unions.''

After nine years in power, Labour is "still struggling with being in opposition,'' notes Grant Samuel chief executive Michael Lorimer. Other CEO respondents say it is difficult for a long-term Government to make traction in opposition. "The immediate response is 'Why didn't you do it when you were in office?'' One notes it is difficult for Labour to "credibly challenge when a good proportion of the situation the Government is managing is of Labour's making''.

There is also a sense that Labour needs to rebuild itself before taking "bold risks'' and should "just get out of the way for a while''.

Goff's pursuit of disgraced former Cabinet Minister Richard Worth put him back in the political spotlight. But CEOs aren't that impressed. "Labour was distracted with the Worth affair — forget playing the man and make a meaningful and real contribution.''

"I have no idea what they are doing. No policy. They are just mud rakers.''

''Ritual bleating about possible privatisations means they exploit the ignorance of some voters whilst not offering any meaningful solutions to our overseas borrowing problems,'' says a finance chief. "They dumb-down the debate''

— Fran O'Sullivan

CEOs want more than bling and window-dressing

Prime Minister John Key promised the high-profile Jobs Summit would be a "do-fest'' not a "talk-fest''.

But four months on, chief executives are questioning whether it provided value to New Zealand business and workers.

Many chief executives say they would rather the Government concentrated on getting a consistent policy platform together to spur economic growth rather that put on over-hyped events.

Just one in three respondents to the *Herald*'s annual Mood of the Boardroom survey believe the February summit created real outcomes — among them Barfoot & Thompson's Peter Thompson who said it helped companies "think outside the square''.

A tourism boss also said the value of aligning business and political leaders around a common sense of challenge and solutions was "invaluable in a country our size'', though he added that follow-up actions from the summit had "not been pursued as boldly as I would like to see''.

Just three big-ticket ideas were adopted during the Summit — the nine-day fortnight, a national cycleway and a joint Government-private equity bank scheme which has since been dropped.

Others are still being scoped.

Deloitte's Murray Jack said the summit was about setting the tone.

"While there are not (and would never be) any silver bullets it is clear that New Zealand businesses have behaved responsibly in trying to protect their labour force . . . layoffs have been a last resort.''

But two-thirds of chief executive respondents reckon the summit did not live up to its billing. Among the criticisms: "It was a talk-fest too dominated by the bling boys'', "a great idea with no follow-through'', and positive only in the sense that it "revealed no disagreement with the Government's general policy directions.''

NZX boss Mark Weldon, who was appointed by Key as Summit chair, also drew flak for not doing enough to keep attendees actively in the loop after the February event.

South Pacific Pictures' John Barnett (an attendee) said ideas that completely challenged the predetermined wisdoms weren't given any room. "Overall there was a lack of great paradigm shifting proposals. We all felt better on the day, but most of the actions adopted were more of the same rather than brand new.''

"Eighty per cent of the country's GDP was represented and the best you can come up with is a cycleway,'' said another attendee. "It was all an exercise in window-dressing as the so-called ideas were all pre-done.''


MAINFREIGHT'S DON BRAID: "NZ should be acting like a small business.''

CEOs were not short of ideas when it came to telling the Government — through the *Herald* survey — what more it needs to do to provide a good platform for New Zealand businesses to prosper and grow.

Mainfreight's Don Braid produced his own mini-list. "Reduce company tax to 10 per cent, promote what New Zealand has available: agriculture, tourism, health and education. Combine tourism and health for a product that can compete with the rest of the world. Stop acting like we are an America or an Australia, act like a small business, as we are when compared to the rest of the world. Introduce capital gains taxes on second dwellings sold within say 10 years.

"Provide free education for skills we need if the individual fulfils employment in New Zealand criteria. Appoint people to boards of SOEs — not the political appointees of late. Stop local bodies owning large stakes in our strategic infrastructure assets like ports and airports.''

Ports of Tauranga CEO Mark Cairns pointed out that New Zealand has $3.5 billion of assets ($2.2 billion in Local Government ownership) that seem to fly beneath the radar screen. "The total NZ port sector has been generating negative cash flows since 2006. Given that 99 per cent of NZ's trade flows through a port node, we cannot afford any inefficiency in this sector if we are to trade our way to an export-led recovery.''

A major agriculture exporter also produced a list: "Implement a regulatory reform agenda. Exert strong fiscal discipline to maintain/improve NZ's credit rating to minimise the cost of capital. Legislate for a Government expenditure cap over the long term to enable lower personal and corporate tax rates. Restructure the tax system to raise more revenue from GST and other inelastic sources and less from labour and company income tax. Maintain a strong focus on trade liberalisation and defer/delay carbon trading.''

Whybin TBWA's David Walden suggested the Government should tackle the personal and company tax issues that have "understandably'' been put on the back burner.

"We need to see a plan to get us back on a track to maintain our competitiveness with Australia.''

"Just hold the course and focus on avoiding being distracted by political fluff,'' said Matthew Cockram of Cooper and Company.

— Fran O'Sullivan

MOOD OF THE BOARDROOM

The Economy

Rebounding dollar a threat we can't afford

While some business leaders have faith in economy's relative resilience, others believe the worst of the recession's impact lies ahead

BRIAN FALLOW
economics editor

THE resurgent dollar is one of the biggest threats to a durable economic recovery Treasury Governor Alan Bollard sees and business leaders canvassed in the Mood of the Boardroom survey agree. Little wonder, when it climbed 30 per cent against the US dollar during the June quarter.

That still left it 20 per cent below its peak of US82c early last year, offsetting more than two-thirds of the fall in world prices for New Zealand's export commodities in the interval.

But for a country with a gaping current account deficit, in recession for 18 months already and in urgent need of an export-led recovery, the currency's correction has been nothing like as big as it needs to be. And a rebound is the last thing the economy needs.

Economists' estimates of fair value — a long-run average the exchange rate should cycle around — are in the US60c to 65c range. Having spent three or four years north of that, a similar spell below it ought to be in the offing.

The problem is that the kind of rebalancing the New Zealand economy needs to undergo — a shift from growth driven by domestic consumption to growth driven by investment and exports, aided by a weak dollar — is also needed in the United States. The risk, as Bollard put it last month, is that the rest of us have to wait in line.

The sell-off of the US dollar has had a see-saw effect on other currencies, especially "commodity" currencies like the kiwi.

But weakness in the US dollar can only go so far, say ANZ National Bank economists.

The euro remains vulnerable, not least because of concerns about exposure to a rickety Eastern Europe, while the collapse in Japan's export performance means the yen cannot move too much higher either.

"Everyone wants a lower currency but this is not mathematically possible."

Another widespread concern, both for chief executives and the small and medium enterprises Business New Zealand surveyed, is labour productivity. Statistics New Zealand tells us labour productivity grew an average of 1.3 per cent a year over the eight years to March 2008, compared with an average of 2 per cent over the previous 10 years.

For multi-factor productivity — the efficiency with which both labour and capital are used — the difference is even starker: 0.6 per cent a year since 2000 compared with 1.8 per cent over the 1990s.

Productivity is everything, both in the sense of being all-important to improving completeness and incomes, and in the sense of being no single thing but the aggregate effect of a myriad decisions, large and small, by policymakers and businesspeople.

An impressive 87 per cent of respondents to the survey said their business had made changes aimed at increasing productivity over the past year. Among SMEs the figure was 69 per cent.

On the policy front, regulation rates high as a concern — although more so for chief executives than SMEs — as does personal and corporate tax rates.

As one respondent from the agriculture sector put it: "Fundamental changes are required in the way the economy is configured: A corporate and personal tax structure that incentivises earning and saving, increases competitiveness, increases the dollars available for investment in productive resources, taxes consumption and investment in non-productive asset classes, and as a consequence of all of these changes begins to address the balance of payments issue."

The balance of payments has long been seen as a source of vulnerability to the economy but the scary events on global financial markets late last year brought it to the fore, as the survey's respondents recognise. At $15.2 billion for the year ended March it is off its peak but still equivalent to 8.5 per cent of GDP, when the average across the OECD is 1.4 per cent.

Decades of deficits have left the country up to its nostrils in debt to the rest of the world: net international liabilities are $177 billion or 98 per cent of GDP.

The classical remedy for current account deficits is a drop in imports, a surge in exports and a low exchange rate. So far only the first of those is in place.

Prominent among respondents' concerns about the international environment is the risk of a resurgence of protectionism.

The dairy sector has already felt the effects of that with first the Europeans and then the Americans reinstating exports subsidies — in flagrant disregard of their leaders' recognition in G20 summits of the risk protectionism poses to global recovery.

Respondents to the survey harbour concerns about the strength of the recovery in both the United States and China.

Though sharemarkets and commodity markets have rallied in the belief that the worst of the global recession is behind us, some commentators worry than when the effects of an extraordinary and unsustainable level of fiscal and monetary stimulus wane underlying consumer demand may still be pretty feeble.

Overall, though, optimism outweighs pessimism among the survey's respondents about the the outlook for their own industries, the New Zealand economy and the global economy.

But while some respondents refer to the economy's relative resilience, others believe the worst of the recession's impact on employment and consumer spending still lie ahead.

Echoing other business sentiment surveys the business leaders expect to reduce staff numbers over the year ahead and to cut back on capex and IT spending.

Caution must be a large part of that, but the survey also found access to capital, both equity and debt, ranked well up the list of concerns.

Energy and transport costs seem to weigh more heavily on the SMEs than the big end of town.

Oil prices in New Zealand dollar terms fell almost two-thirds between the middle of last year and January this year. But they have since retraced about 40 per cent of that drop.

Petrol prices which fell 40 per cent over the secord half of last year have risen 27 per cent since January.

By contrast the feeble state of the labour market has seen worries about wage inflation and skill shortages fade.

The statistics bear that out. The Reserve Bank's preferred measure of wage inflation recorded its weakest increase in five years in the March quarter while the difficulty firms reported in finding the labour they needed was at a 30-year low.

One of the green shoots to sprout of late has been a pick-up in net immigration which boosts the labour supply as well as underpinning consumer spending and demand for housing.

It has accelerated over the past four months and largely reflects fewer New Zealanders leaving for Australia and Britain.

GRASS ROOTS: The dairy sector has already felt the effects of a resurgence of protectionism. PICTURE / BRETT PHIBBS

'Everyone wants a lower currency but this is not mathematically possible.'

CONFIDENCE ON THE UP

CEOs confidence levels compared to 12 months ago

1 = much less optimistic • 5 = much more optimistic

Business situation (your industry)	2.69
NZ economy	2.63
Global economy	2.59

1 = no concern • 10 = extremely concerned

TOP 10 DOMESTIC CONFIDENCE FACTORS		TOP 10 INTERNATIONAL CONFIDENCE FACTORS	
NZ dollar level	6.62	Credit Crunch	8.16
Regulation	6.13	Strength US recovery	7.09
Current Account deficit	5.94	Protectionism	6.93
Labour Productivity	5.75	Strength Chinese recovery	6.81
Access to Capital	5.30	Commodity prices	6.80
Access to debt	5.21	US dollar value	6.59
Competitiveness personal tax rate	5.06	Oil prices	5.41
Competitiveness corporate tax rate	4.84	Global inflation	5.26
Energy costs	4.56	International transport costs	4.99
Wage increases	4.53	International carbon price	4.35

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

THE OPTIMISTS

THERESA GATTUNG

CHAIRMAN, WOOL PARTNERS INTERNATIONAL:

Theresa Gattung is in fine form in her new role spearheading the marketing of New Zealand wool offshore.

"It's fantastic after the last few years that we are doing so well," she enthuses as she talks about the resurgence in sheep prices. Farmers are now getting $150 for "big, meaty lambs" compared to last year's $50.

Gattung says the resurgence in sheep prices, when commodity prices for dairy remain low, illustrates why New Zealand needs to protect its agricultural diversity .

The former Telecom boss is now leading the drive to reinvigorate the international market for New Zealand's strong wools — in her words "applying her leadership skills, international business experience and marketing and branding expertise."

Gattung believes for that ambition to be realised, New Zealand needs to become a "global champion" for wool products. Unfortunately the new wool selling season has not got off to a great start. Prices across most wool types have eased off and the company has acknowledged 38 per cent of the 14,000 bales offered for sale failed to find buyers. The impact of the recession means markets are taking up to 30 per cent less wool than before the economic crisis.

Gattung acknowledges wool has been in a long decline with prices at about half ($3/kg) the $6/kg they reached 20 years ago due to the impact of synthetics on prime manufacturing products like carpets.

Mistakes have been made such as selling the Woolmark brand to Australians and the industry needs to rebuild brand equity offshore. But with 30 per cent of the world's strong wool production here, there is an opportunity to lift prices and generate more profitable returns by co-ordinating the movement of a substantial proportion of NZ's strong wool clip through an integrated value chain to market.

The new company is owned 50 per cent by Wool Grower Holdings Limited and 50 per cent by PGG Wrightson.

KEVIN JAFFE

CHAIRMAN, SIMPSON GRIERSON:

Law firm boss Kevin Jaffe predicts increased Chinese and Japanese interest in acquiring stakes in New Zealand companies.

"We acted on the Fisher & Paykel deal for the Chinese this year (when Chinese whiteware manufacturer Haier took a 20 per cent stake in the NZ company).

The deal was structured to cause as little political fuss as possible. If the Chinese had gone past the 20 per cent, they would have had to bid for 50 per cent of Fisher & Paykel Appliances.

Simpson Grierson had been talking to Haier since the NZ company announced it was in the market for a cornerstone shareholder. "But we didn't get any buttons pushed till a couple of weeks before it happened."

Jaffe reckons it is only a matter of time before Chinese interest grows in further deals. "We're pretty small fry down here but when you look at what is happening in Fiji, New Zealand will also be pretty attractive." Japanese interest is also growing. Another client, Kirin Breweries, has launched a mop-up for Lion Nathan.

While tight bank funding has impacted on the level of mergers and acquisitions, there are some major transactions in play. Jaffe singles out Shell's possible decision to sell its downstream NZ assets. Potential bidders are circling but he believes "it's a bit of an indictment on New Zealand if Shell gets out".

Jaffe says big law firms offshore — particularly in Britain — are now making young NZ and Australian lawyers redundant as work dries up . . . The upshot is that young lawyers are now staying at the firm instead of pursuing their OE. But Simpson Grierson is not planning to downscale. It kept this year's graduate intake at the same levels as previous years. Some partners are using the slack time to take some time out on unpaid leave.

While the firm has three or four very big commercial cases on the go, Jaffe has noticed an increase in disputes litigation, insolvency and restructuring work.

PETER THOMPSON

CHIEF EXECUTIVE, BARFOOT & THOMPSON

Peter Thompson says Rugby World Cup 2011 is already creating new demand for good commercial space from offshore companies planning to set up operations, particularly in Auckland.

"We're actually getting people coming across already," says Thompson, one of two directors of Barfoot & Thompson — New Zealand's largest privately owned real estate firm. Inquiries are coming from telecommunications, media and marketing companies who plan to shift here and stay here until 6-8 months after the Cup final.

The offshore interest could not come at a better time for the commercial tenancy market which went off the boil after New Zealand moved into recession.

"It was most probably our worst year of trading last year," says Thompson whose firm spans the full commercial and residential real estate portfolio. "But it was most probably the making of us because it made us appreciate where was our money was coming in from and where was it going and why."

The firm examined advertising spend and ran the ruler over unproductive sponsorships. Salaries for permanent staff were held rather than resorting to redundancies. Declining sales led to some contract salespeople moving out of the industry.

But Thompson says March was the best March in six years and the trend has continued with average sales prices running close to last year. The biggest issue facing the residential property industry now is the availability of stock. "Traditionally winter is a slow period but what will make or break real estate for the next 6-12 months is what happens in spring." Banks are lending but also wanting 20 per cent deposits and are more cautious about buyers' ability to pay.

On the commercial front, he says there are e good buys realising 7-8 per cent yields. But commercial banks are only lending 50-60 per cent and the finance companies collapse dried up second tier lending.

ALASDAIR THOMPSON

CHIEF EXECUTIVE EMA (NORTHERN):

Alasdair Thompson has launched a new business-to-business trading portal — E-MArket — to assist NZ businesses heighten productivity and competitiveness.

He says the new service offers a platform to breed innovative sales practices for sellers, while giving buyers a comprehensive track and trace record of their procurement. "E-MArket is being established to boost businesses' productivity throughout their supply chain," Thompson says.

Even before the new B2B portal launched on July 1, the EMA had 40 significant businesses online and ready to trade.

He singles out the portal as the EMA's prime initiative on the productivity front, enabling automated e-trading with the organisation's 30,000 clients. While sellers have to be EMA members, ready access is available on www.e-market.net.nz . Thompson remains neutral on the general business conditions facing employer organisations, but is slightly less optimistic than a year ago about the NZ and global economies.

'The contraction is 90 per cent through and we will see growth return in 2010 but it will take until 2015 to see good global growth again. The exceptions will be Asia, Australia and to a lesser extent NZ, where growth will pick up a littler more quickly."

Thompson — an attendee at the Prime Minister's Summit on Employment — does not believe the summit provided value to New Zealand businesses and workers.

"The EMA was organising four-day weeks and nine-day fortnights for members months before the Job Summit to reduce payroll costs and stave off redundancies," he says. "This is one reason unemployment is a lot lower than it would have been."

On the local front Thompson rates the competitiveness of the corporate tax rate, labour productivity and the (ultimate) carbon price as key challenges for business. On the international front his concerns are the credit crunch and the international carbon price.

Half-full or half-empty, we will need plenty of bottle

This year's Mood of the Boardroom survey is heavy with the weight of expectation

LIAM DANN
Business editor

THE business of doing business is seldom easy. But it has seldom been more difficult than in this grim winter of recession and swine flu.

Even the All Blacks are struggling to maintain productivity and are having to work with diminished resources. There certainly doesn't seem to be much to cheer about. These are dark days.

But maybe — hopefully — these are the darkest of this economic downturn. Whether there is cause for optimism yet is the topic that consumes business pages. Green shoots seem to spring up, then wither daily. In truth the pattern is not yet clear.

Business people, by their very nature, are seldom pessimists but the conditions of the last year have required even the most positive to take a cold hard look at the challenges in front of them. The Mood of Boardroom survey has thrown up a wide mix of views on whether things are getting better or worse.

Given the conditions out there it would be surprising if the boardroom mood was not a little subdued.

How positive we should be about the timing of the recovery is not only a topic of great debate in newsrooms but in boardrooms, shop floors, pubs and even homes. Predicting the future has never been more popular or more difficult.

At its most simplistic it has been reduced to a *Sesame Street* game of picking your favourite letter of the alphabet.

In the real world the odds of the recovery charting to the shape of a V or a W seem pretty unlikely. What we have seen in the past year is a massive contraction in consumer demand across the world as credit has dried up.

Markets are still trying to find an equilibrium with the new level of demand. So we see them overshoot and undershoot and generally bounce around all over the show as people try to estimate where the real bottom is. Eventually, demand will stabilise and things will become easier to read.

At that point we'll know where we are and a sustained recovery can begin.

Until then we have to deal with wild fluctuations in share prices, commodity prices, currency and almost anything else that can be traded. That's no fun for anyone making a business plan, particularly anyone who has the steely eye of the bankers watching over their shoulder.

In these kind of conditions a bias towards pessimism is often safest. But there are risks in becoming overly negative. Opportunity abounds in a recession. It is cheaper to do things for a start. The big question remains when to start doing things again. Timing as always is everything.

One solution is to look to our political leaders for some clues. They have the public purse strings and with them comes a considerable influence over the confidence of the nation.

But to the casual observer there sometimes seems to be a mixed message coming from the top.

The optimism versus pessimism battle is being reflected at the highest level by the "good cop, bad cop" double act being run by Prime Minster John Key and Finance Minister Bill English.

Key continues to take an upbeat populist tone — presumably aware of his role as a leader and a cheerleader for the nation as whole.

Meanwhile English has been happy to play the tough guy — upfront and realistic about the grim situation facing the New Zealand economy.

This was illustrated last month when he presented to the Finance and Expenditure Select Committee. He highlighted the breakdown between tradeable and non-tradeable GDP.

That showed that when it comes to the portion of the economy which actually brings in the money we've actually been in recession since 2004.

It was a stark reminder of the problems New Zealand has when it comes to real wealth creation. In terms of making a statement which was in line with the views of the wider business community, English couldn't have been more on song.

But his success in illustrating the Government's understanding of the problems only heightens the sense of expectation about what this National plans to do to boost productivity and return us to a growth path.

> In the real world the odds of the recovery charting to the shape of a V or a W seem pretty unlikely.

One gets the sense that this year's Mood of Boardroom survey is heavy with the weight of expectation.

After nine years business has a Government which it it perceives as being on its side.

Responses to survey questions about the need to cut expenditure, address the current account, release capital from state owned enterprise and to build infrastructure all show a desire from business for this government to be bolder and move faster on the reforms it is making.

No doubt English can and will mount a strong argument on the basis that the Government has in done a lot in a short space of time.

And, though he might not say it, this Government also has to tread carefully through a mainstream political culture which is still greatly influenced by nine years of Labour.

The public remains hyper-sensitive to policy that bears a resemblance to the reforms of Roger Douglas and Ruth Richardson.

But as Key and English set their course for reforming the economy this tension with business — over the pace of change — is sure to linger. It may yet become one of the defining themes of their tenure.

WHAT THE LEADERS SAY

Country needs to get its economic act together

CRAIG NORGATE
PGG WRIGHTSON

Craig Norgate warns New Zealand faces a difficult time if the Government continues to "borrow and spend too much."

Norgate contends as that a 'small trading nation", New Zealand cannot continue to pile up debt and needs to put its house in order. "Basically we squandered the good times," he says in reference to the golden economic weather.

PGG Wrightson is itself strongly focused on paying down debt so it can get itself back to a position where it can take advantage of new investment opportunities.

"It's a pretty tough credit environment right now," he says.

PGG Wrightson went through the wringer earlier this year with Norgate facing a nail-biting time until the company won a 21-month period breathing space from its banking syndicate to get debt down.

Norgate was also the force behind the planned $220 million merger with Silver Fern Farms which had to be aborted when bank funding failed to materialise.

The country's biggest rural services company recently had to cut its full-year profit forecast for a second time reflecting the continuing downturn in dairy activity and a reluctance of sheep and beef farmers to open their wallets as trading improves.

Norgate has, in the past, been critical over Fonterra's auction system claiming it is helping depress dairy prices. But he would not be drawn for this survey.

He says sheep and meat returns are "pretty good". But the upturn in the rural services sector will not occur until farmers determine it's time to start spending again.

The problem is that the level of the New Zealand dollar — particularly against the greenback — is eroding farmer returns and confidence.

"The kiwi will ultimately fall like a stone sometime," Norgate maintains. "The New Zealand economy may not be so bad in the long-term."

He indicates that banks have a big focus on liquidity right now: "The credit is there but the terms have changed."

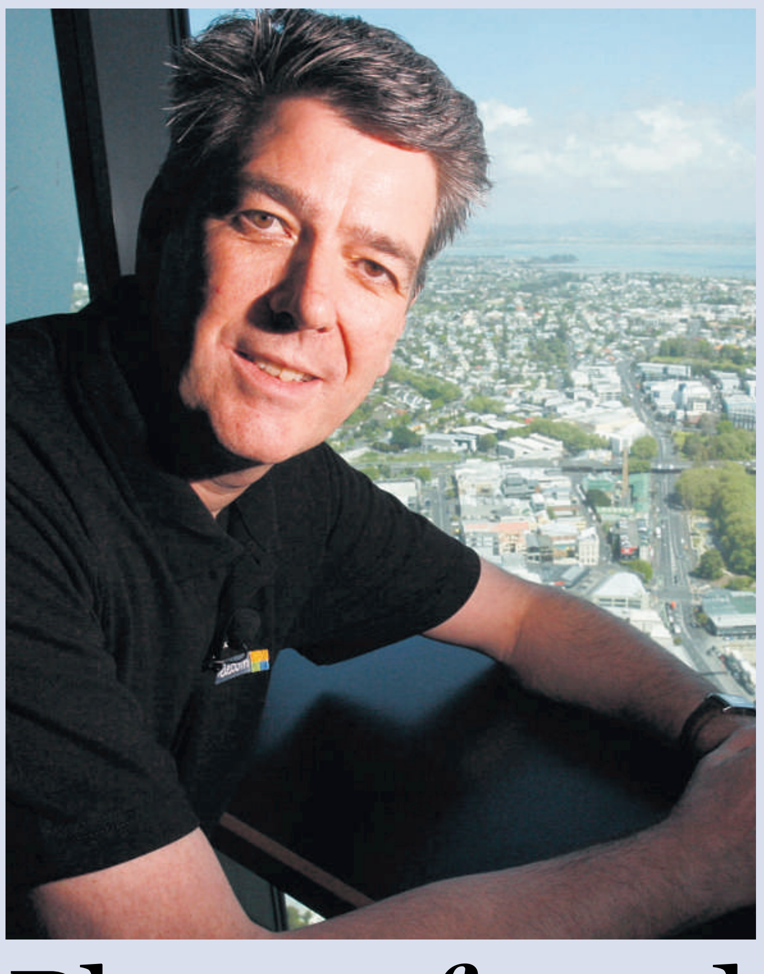
Norgate is also much less optimistic about both the domestic and the global economies than he was a year ago.

Of particular concern is the potential for further interest rates increases which Norgate indicates would have a punishing effect at a time when his company is focused on reducing debt levels.

Access to equity and debt funding continue to be priorities.

On the international front he is most concerned about the continuing credit crunch, the strength of the United States and Chinese recoveries and protectionism.

PGG Wrightson is a major rural services company employing 2500 full-time equivalent workers. Its interests span agriculture, fishing and forestry.



Plenty of good reasons to lure investors

PAUL REYNOLDS
TELECOM

Scottish-born Paul Reynolds admits to being "stunned" that New Zealand doesn't put more effort into securing inward investment through tax breaks.

Reynolds quickly rattles off a persuasive list to entice investors to come down to New Zealand: "It's a great environment. Has fantastically-skilled people. It's a beautiful country. It's stable ... bring your money down here and here's your tax break for five years to do it."

The Telecom boss points to the Scottish development agency (Scottish Enterprise) which brought "humungous" investment into central Scotland turning it from a "dead coal and steel economy" into a "services and electronics economy".

"There is no reason why New Zealand couldn't be a strong software development hub for an Indian company or an American company. They circle me all the time and say we'd love to build bases in New Zealand."

He recently made a "temperature check" in the US talking to some big investor funds which have shares in Telecom. Reynolds reports that though New Zealand's high interest rates are still a good attraction, the funds want to be assured the Key Government does plan to make the investment environment more reliable because "they have been burnt not just by investments in Telecom but other businesses".

On the domestic regulatory front the biggest challenge for investors is being clear they will have access to scale over a reasonable period of time. "We sometimes pretend we have scale when we don't ... we're a market of four million people."

The recession has undoubtedly affected Telecom's revenues, impacting profit by about $10m a quarter (Ebitda).

But people still make phone calls.

Mobile handset replacements have slowed. Some call centre business has dropped. But Gen-i has sported 15 per cent growth as companies and Government departments sharpen their pencils on cost reduction and use IT solutions to achieve their goals. The XT launch will draw customers away from Vodafone.

"Whether the recession had happened or not we would have been going full-on because we're in the middle of this transformation and we have to get much more competitive," says Reynolds. "We've stopped whinging, been very clear about what we're trying to deliver in mobile and so on, faced up to the past and accepted the obligation we made to Government. There are a lot of people busting a gut ... it's been a dramatic shift upwards. People are quite excited about what we are trying to do."

> We sometimes pretend we have scale when we don't . . . we're a market of four million people.

The Government is now considering how it will spend the $1.5 billion it has pledged to bring ultra-fast broadband to 75 per cent of New Zealanders over the next decade.

"As far as we are concerned we have been working furiously on it and have some very creative proposals," says Reynolds. "We wait with bated breath for the next stage when the Government goes to tender.

"A national solution through Telecom goes faster and further than anybody else and you get half a billion to a billion of synergy benefits you wouldn't get through a more fragmented proposal."

Unique fightback after a black September

JOHN BONGARD
FISHER & PAYKEL

September 2008 is a time Fisher and Paykel Appliances chief executive John Bongard will never forget. The iconic Kiwi whiteware manufacturer had stared down nearly three quarters of recession in New Zealand.

"One minute things were going along pretty well and the next thing came the Lehman Brothers collapse," recounts Bongard. "It was like the lights went out and someone turned the switch off."

The upshot of the financial crisis was an immediate drop off in US orders. Internal graphs show a dramatic fall-off on an already depressed sales line. In September, sales were already down 10 per cent. "We were going 'Man this is awful but we're handling it' ... then comes along Lehman Brothers and bang it was a 20 per cent drop and it's stayed there."

Bongard maintains the biggest difficulty was that F&P felt the impact of the crisis earlier than most NZ companies because of its large exposure to North America. Its capacity to deal with the shock was impaired because the company was the middle of relocating factories. "It's one thing to have high debt and be able to support it: it's another to have high debt and not have the earnings to support it."

> I've been in this business for 36 years but I've never seen a step-down change in every market that we dealt with at the same time.

Caught in a classic banking squeeze F&P introduced a Chinese whiteware manufacturer as a cornerstone shareholder to provide an equity through a 20 per cent stake. Haier — a shining star in among China's growing firmament of "brands" — was already well-known to F&P. But Bongard says there has been a lot of negativity to China. "They say every Kiwi company who has gone up there has been ripped off.

"I keep saying this model is unique to us. We're not trying to go into the market on our own."

He credits the Jobs Summit with coming up with the nine-day fortnight. "There's 60 people employed in our factory out front here who wouldn't have had a job if it hadn't been for that."

But he worries New Zealand is not doing enough to retain manufacturing firms. "In Thailand we got eight years tax free," says Bongard. "Now what harm would it do here if we said to investors 'the food source is here, we've got good reliable labour here, come and set your plant up here and we'll give your 8-10 years tax free?'

"We could employ a couple of hundred New Zealanders in these plants. Instead of sending whole fishes offshore, we could add value. But there doesn't seem to be much interest."

Theory for improvement should focus on relativity

MURRAY JACK
DELOITTE

Deloitte CEO Murray Jack believes it's time for New Zealand to get some renewed focus on its relative economic performance vis-a-vis Australia.

"There's a sense of anticipation from business of 'what's to come' next from the National Government," Jack says. "The right sorts of noises are being made but there will be a point where business says 'show me the money'."

"As a nation we like to build a consensus around social things ... we need to build much more consensus around the platforms for growth." He suggests there should be much more debate over where New Zealand "places its bets" in relation to potential growth sectors and discussion over politically thorny issues like the qualifying age for national super.

Jack acknowledges the Key Government's first priority has been avoiding a credit rating downgrade. But he believes it's time the Government lays out its priorities and faces up to the need to so something about the trajectory around its spending as a percentage of GDP. It's not just about regulatory reform and slashing red tape, although that obviously is a piece of it.

"It's about where are we going in terms of research and development and innovation and tilting our education system to be more skills-driven."

Jack says it "would have been inappropriate" to have major cuts in Government spending this year (and maybe next year) and overall the balance of the response to the economic crisis has been "pretty good".

But in the longer-term, cutting Government expenditure levels would enable a gradual reduction of personal tax rates and high effective tax rates on the transition from welfare to work.

The Deloitte boss is strongly focused on the need for New Zealand to increase productivity. "There is a positive tone being set and an acknowledgement that productivity growth is crucial to economic growth and prosperity," says Jack. "However, apart from moves to reduce regulation, there are few specific policy actions designed to markedly improve productivity."

Also on his target list of growth-enhancing policies are improving New Zealand's infrastructure — particularly roading, telecommunications, electricity, and, rationalising the ports.

Jack says the surprisingly low unemployment rate indicates how constrained the economy was going into recession. "If you had asked me 18 months ago, 'What would your guess be as to the level of unemployment now,' it would be a lot more than 5 per cent."

He says the fact the corporate balance sheets were stronger going into recession has enabled firms to cushion the impact and not resort to the significant layoffs of the past. "Overall, New Zealand business is performing pretty well compared to the early 1990s where there was a lot of carnage."

MOOD OF THE BOARDROOM

Auckland

Thumbs up for a greater Auckland

Business is excited about the super city scheme, reports **Graeme Hunt**

BUSINESS leaders have given a firm "get on with it" message to the Government to deliver the super city for Auckland.

Eight out of 10 respondents to the latest *Herald* Mood of the Boardroom survey believe the Government's proposed single council, made up of at-large and ward representatives and supported by 20 to 30 local boards is "on the right track" It is the clearest message yet that John Key's National-led administration has accurately judged the mood for change in Auckland governance among the wider business community.

Nearly 80 per cent oppose a referendum on the proposed structure ("they will get a referendum — the next general election!'' said one energy sector CEO); and most — 93 per cent — want the new Auckland Council to focus on core services in line with the recommendations of Local Government Minister Rodney Hide.

EMA (Northern) chief executive Alasdair Thompson, who has campaigned for years for a super city under a single authority, is heartened by business support for the proposed governance system in Auckland.

"It is exciting for Auckland if the Government gets it right."

"EMA was the leader in this. We ran two campaigns that led to the Royal Commission on Auckland Governance being formed. We had a huge amount of evidence.

''We consulted 70 business and community organisations. We ran a couple of special websites and we gave them an opportunity to put their views on them and overwhelmingly people were for what has happened.''

Thompson, a former mayor of Thames-Coromandel, said a single council provided the opportunity to lift local government productivity by quicker decision-making, greater efficiencies and a single rating system.

A small percentage disagreed with Local Government Minister Rodney Hide's approach.

"I think the Government made a huge mistake both politically and commercially by not going with the Royal Commission model in its entirety.'' said a fast-moving consumer goods boss. "It is bloody arrogant to have a panel study the issue full-time for 18 months and then to say you know better over the next two weeks.''

There is also concern over the proposed number of local boards. The EMA's Thompson said the proposal was wrong. "There should be 16-22 local councils with real power but served by the one bureaucracy that will also serve the Auckland Council.''

Grant Samuel's Michael Lorimer slammed the proposed boards as "little better than tea parties'' — a view echoed by New Zealand Business Roundtable executive director Roger Kerr: "There is not enough of the local element in the boards. We would like to see them with rating powers.''

A sharebroking boss disagreed.

He believed the council and mayor need more executive powers. "Local boards will be a nightmare.''

Despite some misgivings about the Royal Commission report, Kerr said Business Roundtable was pleased with its direction and approach.

"One can be quite critical of the quality of the report but what it came up with was that there should be one unitary council for Auckland.''

Kerr believed the Mood of the Boardroom survey reflected the broad views of the business community on Auckland local governance. ''An important thing there is the support for the core functions.''

He wants the power of general competence granted to councils under the 2002 Local Government Act to go, and councils removed from running commercial enterprises. ''They should exit all commercial 'private good' activities.''

But an agriculture sector chief warned the social issues are "of a scope that cannot be properly understood from Wellington'' and needed to be addressed as part of an integrated strategy.

Deloitte New Zealand chief executive Murray Jack said the creation of a single Auckland Council would result in the successful integration of council activities and help create international events to drive local and international tourism.

"There is a real opportunity if you look at what is happening globally,'' he said. ''As cities compete more and more with each other as destinations, Auckland has got to be no different. The prospects of being successful in that endeavour if you pool your resources are much greater.''

He said ratepayers looked to the new structure to bring about efficiencies and hold or reduce rates.

"It is a tough job integrating a number of quite large businesses so doing that and maintaining services is quite a challenge. It will take a number of years to get the thing really going.''

Auckland Chamber of Commerce chief executive Michael Barnett said he would like to see a culture change in the new council that did not just focus on regulation.

"I don't think there is a council in Auckland that does not operate on the basis of being a regulator. Auckland has got to move away from this trap of being a regulator.

"The culture of local government is to engage itself in process but business sees an endpoint.''

Barnett said the arrival of the super city was an opportunity to employ a world-class chief executive and develop a ''compelling, coherent strategy'' for the region.

"A vision, yes. A strategy, yes. But I want a leader who is an enabler who will make that sort of stuff happen.''

He said the super city provided an opportunity for positive change because of the leadership put in place.

"People like me who have a long investment [in advocating the super city] know this is our best opportunity for something new to emerge.''

He said the Chamber of Commerce would be looking for cost savings and efficiencies from the new council and progress on transport and roads.

Chief executives views on the new city's priorities diverge.

McConnell Group chief executive David McConnell (see sidebar) said the top priority should be infrastructure, in particular new and upgraded public roads.

Mark Unsworth, of Wellington-based public policy consultancy Saunders Unsworth, said unity should come first. Barfoot & Thompson's Peter Thompson agreed: "Instead of building egos, we need to get all the ratepayers settled and show the worth of one super city.''

Thompson stressed it was important there were common rules for local government services such as building consents.

Others called for removing red tape, trimming bureaucracy and spending and cutting rates.

AUCKLAND SUPER CITY GETS CEOs 'SEAL OF APPROVAL'

80%	… believe the single council – including mixture of at-large and elected representatives supported by 20-30 local boards is 'on the right track' • No 9% • Unsure 11%
79%	… say 'No' to a referendum for Auckland voters to approve the new goverance structure • Yes 10% • Unsure 11%
93%	… believe the new Auckland Council should concentrate on 'core services' • No 7%
60%	… want the proposal to develop Queens Wharf as "party central" for Rugby World Cup 2011 to go ahead • No 20% • Unsure 20%
65%	… want internationally-rated ideas for an 'iconic' building to go on Queens Wharf • No 21% • Unsure 14%
43%	… do not want a Waterfront Agency appointed to development Auckland's waterfront • Yes 35% • Unsure 22%
48%	… prefer it to left to a council controlled organisation • No 32% • Unsure 20%

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

Single council 'makes sense'

McConnell Group chief executive David McConnell says the plans for a single Auckland Council are "wonderfully logical'' and people like them.

"I don't think there is any issue out there ... The devil is in the detail.''

McConnell, long committed to a united Auckland, says a greater alignment of local body decision-making will mean greater efficiencies.

"You get down to solving things like the width of a road in one council area which is different to the width in another.''

McConnell hopes the super city would attract more talent and greater intellect because of its sheer scale.

"What we are dealing with here is an opportunity to position Auckland to be a competitive regional city and to be a leader as an international city in terms of attractiveness to talent.

"Here is an opportunity for the council to be a leader in the world stage so that we can retain talent in this country.

COMMITTED : Logical plans impress David McConnell.

"It would be great if we can attract and retain top businesses here because people want to live here. For me the Auckland Council will free up Auckland to do this.''

McConnell says local government reorganisation provides the opportunity for Auckland to "raise its head on the international stage''.

"I think it is all positive stuff. All I would say is that no one is going to get it right [all the time] when going forward.''

He says his work on the Metro Project, where he led the "visit Auckland'' workstream, reinforced his view that the region's resources could be channelled and focused to achieve "some big wins out there''.

"I am very excited at the opportunity we have to give Auckland the potential to compete on the international stage.''

McConnell says good governance, one of five key themes of the Metro Project, is essential.

He is also calling for greater local government productivity, a cut in the number of council staff and for the council to focus on providing core services, and wants the Port of Auckland to be moved and for Auckland to have a world-class convention centre.

— *Graeme Hunt*

WHAT SHOULD TOP THE NEW COUNCIL'S PRIORITY LIST?

'Infrastructure: Get on with infrastructure projects rather than talking about them even if it means borrowing more to achieve a swifter conclusion.'

Legal firm head

'People: Hire a world-class CEO and develop a compelling coherent strategy for the region.'

PGG Wrightson chair Craig Norgate

'Place: Create a vibrant city that attracts investment, seeks to create growth, works well and is a good place to live.'

FMCG boss.

Waterfront feature or sideshow?

Nearly two out of three business leaders support plans to develop Queens Wharf in time for the 2011 Rugby World Cup as a cruise terminal and for "party central'' but they are sharply divided (35 per cent in favour, 43 per cent against) over whether a waterfront agency should be appointed as recommended by the Royal Commission on Auckland Governance.

They are more amenable to an Auckland Council-controlled organisation driving waterfront developments (48 per cent for, 32 per cent against).

Two-thirds would also like a more considered approach taken to waterfront deZvelopment, including internationally rated design ideas to provide an enduring iconic infrastructure.

This view is shared by Matthew Cockram, chief executive of Britomart developer Cooper & Co, who welcomes the decision to develop Queens Wharf for the World Cup but warns about long-term spending on the project. "It is absolutely fine to be made suitable for the World Cup. It is a central asset in terms of the whole waterfront realm but to go into creating something for generations is a mistake,'' he says. "Clean it up, tidy it up and provide good shelter.''

A tourism operator went further saying Auckland should just "move the port, create a world class convention centre and waterfront area to rival Sydney''.

Cockram opposes the creation of a separate waterfront authority. "I don't think we need one. With one council all of this is dealt with together. The one-council approach is what we are doing it for.'' He says the most important thing is to get the super city up and running. Other issues were merely a "sideshow''.

Barnett warns against blandness

Television and film producer John Barnett supports the concept of a super city but doesn't want the film industry to be its first casualty. He fears that might happen if diversity or suburban identities disappear under a bland, single-brand Auckland Council.

Barnett says he is concerned the ''holistic'' environment in Waitakere city for the film industry, where his company South Pacific Pictures is based, might be affected by local government reorganisation.

"Some of the things that make it easy to do business out here will disappear,'' he says. "One of the realities of pan-Auckland is the Waitakere is an eco-city and there is a certain environment that exists out here. South Auckland is highly Polynesian, North Shore has a different make-up and somehow we have to accommodate those [differences] and leave them where they are.

''You are going to have to realise there are regional and cultural differences in different physical parts of Auckland and accommodate these in some way.

''If you think about it, any great city in the world — London, New York, Sydney, Toronto — they all have their Little Italy, Little Vietnam and Chinatown. They have been critical to the make-up of a city and the perception from outside.''

Barnett says the local boards proposed will not have enough power to accommodate cultural and suburban differences, adding that a single Auckland-wide council with the former boroughs in place might have worked.

Barnett says he would not support a referendum on Auckland's proposed governance because it would hold up reform and not assist people being heard. "My support for change, if it is that, is that [in the past] we have made some appalling infrastructural decisions, parish-pump decisions at the expense of a good city.''

Barnett would like to see the new Auckland Council cut rates, improve transport and operate under a single strategic plan.

"We need to ensure, at least in transition, that regional strengths and differences aren't lost, and then to focus on infrastructure.''

— *Graeme Hunt*

DIVERSITY: John Barnett says Auckland's cultural differences have to be accommodated. PICTURE / RICHARD ROBINSON

Credit Crunch

"Many Australian banks have had a reduction in their limits even to good exposures." — Doug Heffernan

"New Zealand could come under more scrutiny." — Don Brash

"Firms that get caught out have not insured buffer room." — Andrew Bashford

Memo banks: Tear down interest rates

Credit crunch and exchange rate are a twin cocktail writes Fran O'Sullivan

CHIEF executives are not confident that the trading banks are passing through Reserve Bank interest rate cuts to their business customers and the productive sector.

The Mood of the Boardroom survey reveals a whopping 77 per cent of respondents are concerned that the decreases in the official cash rate (OCR) are not being passed through. Just 23 per cent were confident the banks were doing their bit.

The chief executives' response will be music to the ears of the Labour Opposition, which was stymied in its attempt to get a parliamentary inquiry into the issue.

A markets operator was quick to start a bandwagon saying it was time to create a playing field that is neutral to local capital formation. "The biggest win would be a Kiwibank that was strong in corporate, so it was only impacted by the OCR and local term funding, and thus changed the competitive dynamics of the wholesale market as it has done in retail.

"New Zealand Post should spin this off, get an aggressive, commercial chairman and CEO into Kiwibank, and let it really compete."

A real estate company boss said obtaining well-priced commercial funding was the single biggest and more pressing issue facing business in New Zealand. "Not only are the sources of debt as rare as honourable parliamentary ministers, the cost of this debt is increasing in the face of a plummeting OCR.

"The Government must take steps to put more pressure on banks to lower the cost of debt to business and implement more far reaching economic policies to aid businesses in securing the debt facilities.

"If NZ businesses are to survive the recession, invest in future growth, increase the level of employment and investment in technology and establish an industry base upon which the NZ economy can prosper perhaps the powers that be need to establish alternative government-backed funding for businesses."

Other chief executives pointed to the "soundness" of the major banks in the New Zealand market compared to those of other trading partners. "We need strong banks that want to stay in New Zealand," said one. "It's supply and demand. Demand exceeds supply so interest rates have risen," said another.

A majority of CEOs felt the Reserve Bank did not need more tools to deal with the issue. But a sharebroker said it was about time the Government insisted that there is a price to the taxpayer guaranteeing the banks. "Talk of banks being a national asset is silly . . . If they were that important they would not be controlled in Australia."

An insurer noted another there was another side to the coin: "The banks have not come to grips that cash is king and that they have to adjust their deposit rates upwards to secure local liquid funds. They are still operating as if they can call deposit rates. They are clipping the ticket at both ends."

Despite the gripes over the interest rate level just 11 per cent of survey respondents report they had had credit lines pulled since the September 2008 financial crash. But Ports of Tauranga CEO Mark Cairns stressed, "Whilst credit lines have not been withdrawn, fees and the approach to corporate risk has changed significantly over the last 12 months."

Westpac Institutional Bank's Andrew Bashford acknowledges corporates face tighter conditions. Bashford advises companies to talk with their bankers well in advance to secure headroom in their lending facilities. "The firms that get caught out have not made sure they have got liquidity and buffer room."

Mighty River Power chief executive Doug Heffernan says the credit crunch has not impacted on the company's expansion plans. "We put in place longer-term bonds three to five years ago when we were looking at development spend."

Heffernan says a bunch of bonds were also rolled over in May last year ahead of the international financial crisis. He notes many Australian banks have since had a reduction in their limits even to good exposures.

The twin impact of the international credit crunch combined with extreme currency volatility has becomes a poisonous cocktail for some highly-exposed exporting companies.

"The exchange rate is all over the scale," says South Pacific Pictures John Barnett. "We receive royalties in forex and can't necessarily hedge, so our income fluctuates. We are a depositer so lower rates means lower income."

But Cooper and Company's Matthew Cockram notes, "It is a great opportunity to lock in funds through interest hedging products . . . although the vacillating dollar is a worry to the wider economic outlook."

This sentiment was borne out by agriculture sector respondents like PGG Wrightson's Craig Norgate and Wool Partners International's Theresa Gattung who said extreme exchange volatility was "a real problem."

But there is an over-arching concern. Huljich Wealth Management chairman Don Brash worries the situation might be exacerbated if offshore investors ultimately become uncomfortable with New Zealand's level of indebtedness. Brash — a former Reserve Bank Governor and leader of the National Party — says if there "is a return to extreme risk aversion" New Zealand could come under more scrutiny.

WEATHERING THE CREDIT CRUNCH

77%	of CEOs have no confidence trading banks are passing through the Reserve Bank's OCR decreases to NZ business and productive sector. 23% disagree.
57%	say the Reserve Bank doesn't need more tools to ensure the lowered rates are passed on.
11%	have had credit lines withdrawn since the September 2008 financial crash. The major of CEOs' businesses 89% still have their funding lines in place.
12%	have had applications for debt financing rejected.
5%	have been unsuccessful in seeking equity injections.

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

CALL FOR NEW DFC TO KICK-START BUSINESS

Investment banker Michael Lorimer wants the Government to launch a development bank to help businesses expand and rationalise during the credit crunch.

He says it should be along the lines of the former Development Finance Corporation (DFC), which a former National Government set up because of a lack of development capital from the major banks.

"I have whispered in the ear of the Minister of Finance [Bill English] who was not averse to it at all. But the momentum has to come from Treasury or the Ministry of Economic Development."

Lorimer, the founding New Zealand director of corporate advisory firm Grant Samuel and a former DFC financial controller, says the major banks are squeezing clients by reducing or withdrawing credit lines.

"I see this happening where people are just trying to grow their businesses and are being screwed by the banks.

"The banks are slowly throttling New Zealand businesses by reducing limits and charging outrageous fees to make outrageous fortunes.

"It is not negotiable.

"I heard of a developer in Tauranga who was not missing a beat. He was told there would be no more funding for housing."

Lorimer says DFC was launched because banks would not lend to business for growth.

"There is a role for someone to get in there to make some mezzanine finance available."

A new state-owned development bank could be capitalised to $200-300 million with the ability to borrow another $700 million. "It would target those companies that need to grow. It could provide growth capital and development capital."

Michael Lorimer

There were businesses wanting to divest and others wanting to grow but they were unable to act because of a lack of funding and he accused the banks of paying off their overseas loans at the expense of clients in New Zealand.

A state-funded development bank, Lorimer says, would fill the gap.

"This [proposed bank] would not be a bailout bank or anything like it. It would be a development bank.

"My worry is that without any new bank coming along we will not be able to grow."

— *Graeme Hunt*

PRIVATE MATTERS

Privatisation is back in favour, with chief executives saying it's time for minority stakes in state-owned enterprises to be sold on the sharemarket.

Nine out of 10 of the CEOs responding to this year's Herald survey supported partial privatisation on efficiency grounds, and, to release funds to pay the Government's deficit down faster.

National has ring-fenced privatisation, saying it will seek an electoral mandate from the NZ public before first selling shares in any SOEs. But the issue flared up when NZX chief executive Mark Weldon advised SOEs to behave as it they would be privatised in the next 2-5 years and focus their sights on creating value.

With annual revenues of $10 billion and assets worth $39 billion SOEs are a huge part of the NZ economy. EMA (Northern) chief executive Alasdair Thompson says the Government should get on and prepare the ground for privatising 49 per cent of SOEs in the next term. "There are a bunch of persuasive arguments in support of this."

A finance sector CEO agrees, "They need to use John Key's media skills to consistently reassure New Zealanders to combat Labour's dumbing-down stance".

One chief executive suggests the NZ Super Fund should take strategic stakes in SOEs rather than "timidly hide behind third party controlled investment mandates.

"Presumably the Cullen Fund (sic) could be used to hold the majority stake so there is then no risk (politically) of the control of these assets leaving New Zealand," added a supermarket chain boss.

But others questioned why privatisation should be limited to selling shares on the stock market. "There is in my view no reason why a minority stake couldn't be sold to a investor if this delivered the right outcomes," says Vector's Simon Mackenzie. "The NZX has a vested interest in this view and it should be tested."

Auckland Regional Chamber of Commerce CEO Michael Barnett opposes privatisation on efficiency grounds. "If it is just about efficiencies there are other tools available other than ownership and these have not been pursued."

But First NZ Capital's Scott St John says returns from the SOE asset base should be optimised — "they are a very large component of the economy for New Zealand".

— *Fran O'Sullivan*

MOOD OF THE BOARDROOM

Infrastructure

PPPs 'only way' to get things done

Overseas infrastructure specialists are looking with renewed interest at New Zealand's more receptive environment

MARIA SLADE

NEW ZEALAND'S change of government has been a signal in certain circles that we are open for business, says Deloitte corporate finance partner Paul Callow.

Overseas interests who specialise in financially intertwining with governments to build infrastructure are looking with renewed interest at this country since National took office, he says.

"We work with clients who basically deliver these projects, and we've had them talking to us about what's going on in New Zealand."

It is now a far more receptive and certain environment, he says. "Labour provided a lot of mixed messages."

This will be music to the ears of the chief executives who came out overwhelmingly in favour of public private partnerships (PPPs) in the *Herald*'s Mood of the Boardroom survey.

When asked if they supported a greater emphasis on central and local government and the private sector working together to identify new infrastructure projects, 93 per cent said yes.

The business leaders were also asked what their chief future concerns were for infrastructure in this country — telecommunications was number one, followed closely by roading.

If the Government wants to meet those concerns and complete all the projects on its infrastructure to-do list PPPs are going to be the only way, Callow says, because "they ain't gonna find the money from the taxpayer at the moment".

There are models from all around the world of successful PPPs and they work particularly well on roads. Studies show that the private sector brings projects in anywhere between about 15 to 20 per cent under the cost that the public sector traditionally does, he says.

Government boffins are struggling with how to structure the unfamiliar deals, but Wellington is working on it and "I'm quite encouraged, put it that way," Callow says.

One of those projects is the Government's massive $1.5 billion high speed broadband rollout. It signalled its desire to have local fibre companies doing the work and to that end Vector has formed the New Zealand Regional Fibre Group, made up of lines companies and local fibre firms.

Vector CEO Simon Mackenzie says local investment from players who understand the community, overlaid with national co-ordination, is key to the project's success. PPPs bring much-needed commercial discipline to government expenditure, he says. "I do absolutely believe it's a very good model that can be deployed in New Zealand for the right type of service."

However Britain has recently seen another side to Private Finance Initiatives (PFIs), as they're known in that country. It has invested an estimated £63 billion (NZ$163 billion) in PFIs since 1992, *The Economist* reports this week, covering everything from prisons to energy-from-rubbish schemes.

PFIs are suffering in the downturn. Most include plenty of debt finance, and with banks reluctant to lend private companies are struggling to fulfil their contracts, the magazine says.

In March the British Government rushed to rescue its PFIs, setting up a miniature infrastructure bank within the Treasury designed to provide up to £2 billion to PFI schemes frustrated by frozen credit markets. Perhaps the British situation ought to be thought of in the context of "lessons learned", Vector's Mackenzie says.

What Business Roundtable executive director Roger Kerr wants to see is rigorous economic analysis making a case for any investment.

The fast broadband project, for example, has to be seen against the background of telecommunications deregulation in this country. One of the arguments for the forced unbundling of Telecom was that not enough was being invested in broadband. "And in the way that one government regulation has a habit of begetting another, we're now into a discussion as to whether the Government should be involved in broadband. "The public should see the economic analysis which the Government ultimately gets together to justify any decision there."

But Auckland University broadband expert Jairo Gutierrez says a model of integration between public and private enterprises is the only way forward for the project. South Korea and Japan lead the world in access to high speed broadband, but they are examples of governments which have quasi-mandated the building of the infrastructure. Anglo cultures are far more individualistic, he says. "We have to be realistic, we're never going to get to the South Korea, Japan [kind of] cohesion. But we definitely need to move more in that direction."

With a road a toll can be charged which would pay for the project over a certain amount of time. "With this sort of infrastructure it's not so clear cut — you need a better model."

On the subject of roads the industry leaders were not asked specifically what their concerns were, but the accompanying comments tell the story. "I can't understand why we continue to invest heavily in rail and particularly passenger rail. In our country it will always be an incredibly expensive form of transport which relatively few people in Auckland will be able to access," a supermarket chain boss says.

The roading network is inadequate, South Pacific Pictures chief executive John Barnett says. "It just takes too long to get around and clearly that leads to enormous inefficiencies in all sorts of things."

Vector's Simon Mackenzie offers a slightly more holistic view.

While he says getting to Auckland airport is a "continual nightmare", as is servicing customers if outages happen to occur at peak times, he says traffic congestion in this country isn't that bad compared with other countries.

The problem calls for innovative thinking — for example, faster broadband will help by allowing people to more easily work from home.

He says this goes back to the argument for PPPs.

"As a private business we really only see the revenue that directly comes from a fibre investment, whereas Government can see potential impacts in transport, health, education and all those layers that incentivise them potentially differently.'

But Kerr says there has been under-investment in the nation's roads and the economic case for projects such as Auckland's State Highway 20 extension at Waterview have been well proved. "If the benefits stack up in relation to costs we should be investing."

The Business Roundtable wants to see a range of solutions to the problem of roading investment. It's a big fan of electronic road user charges.

"New Zealand should move towards those as soon as they're economically feasible," Kerr says.

The lobby group would also like to see entities such as Council Owned Organisations run along SOE lines, with their own balance sheet and ability to raise capital.

The Government would appear to be on the same page. Last week it announced investigations into setting up a "bond bank" to help councils finance up to $30 billion of planned infrastructure over the next decade.

The initiative came out of the Jobs Summit and is aimed at reducing councils' cost of borrowing. A study will look at whether combining councils' borrowing needs would result in lower interest rates and transaction costs. The arrangement is common overseas.

BROADBAND, ROADS AND ENERGY

CEOs RATE THEIR TOP INFRASTRUCTURE CONCERNS

1 =no concern • 5 = very concerned

3.99	Telecoms/broadband
3.89	Road network
3.68	Energy
3.12	Water
3.01	Ports
2.90	Gas
2.7	Rail access

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

TOLL ORDER: The Business Roundtable favours electronic road user charges to pay for roading investment. PICTURE / GLENN JEFFREY

BUSINESS WARMS TO INSULATION IDEA

The National Government's home insulation package has been given the thumbs-up by business leaders.

The $323 million "Warm Up New Zealand: Heat Smart" programme began on July 1, offering homeowners a 33 per cent subsidy on floor and ceiling insulation and a $500 grant for a clean heating source, regardless of their income. Almost 70 per cent of chief executives surveyed for Mood of the Boardroom said they approved of the package.

"It looks to me like it's win, win, win," says John Barnett, chief executive of South Pacific Pictures.

"It will improve the housing stock, environmentally it works, and because the jobs are household-size, local tradesmen will get employed."

Vector chief executive Simon Mackenzie adds to the list the quality of life and health benefits.

However Vector would like to see other solutions in the mix — such as smart meters and other energy efficient devices.

"We have to really make sure that these packages are tightly co-ordinated, as opposed to being one solution and then another coming in later."

The Business Roundtable takes a theoretical view.

Executive director Roger Kerr says the economic case justifying the expenditure has not been presented publicly.

He says if market-based instruments like an emissions trading scheme or carbon tax are introduced, it affects prices in the economy, and people make decisions about energy efficiency accordingly.

"You shouldn't try to layer on top of that regulatory interventions like . . . a home insulation scheme."

— *Maria Slade*

Big tick for bond bank proposal

The Government's announcement that it's considering setting up a "bond bank" to help local authorities finance $30 billion worth of infrastructure projects is a big tick for the Prime Minister's Jobs Summit.

So says investment banker Rob Cameron, whose firm Cameron Partners is one of those tasked with studying the proposal.

Two schools of thought converged at the summit — the local body sector, which had been considering what to do about its enormous upcoming need for capital, and the funding group chaired by Cameron which looked at the idea of a so-called bond bank. The Capital Markets Taskforce had also considered it separately, Cameron says.

"The end result was an agreement on a scoping study to get this done."

The concept is well-developed overseas and bond banks exist in a wide variety of forms — from those which are completely commercial, through to those which require a level of government support.

Rob Cameron

Cameron says they can be merely conduits that aggregate local body loans, or they can be a kind of bank that issues a wide range of bond maturities to meet both investors' and local authorities' needs.

Investors get the benefits of local governments' excellent credit ratings, low transaction costs and a "nice blended instrument". Councils also benefit from lower transaction costs, plus they get superior terms and conditions, increased liquidity, and certainty for their funding programmes. "You get considerable benefits from economies of scale," he says.

If it's such a good idea, why hasn't it been done before?

Three factors stood in the way, he says. Firstly, councils had fairly modest infrastructure programmes. With expensive projects to upgrade wastewater systems, roads and the like now on their books "that's going to change dramatically".

Secondly, credit market conditions were vastly different. Banks were falling over each other to lend money. Then came the credit crisis. And local bodies had not co-ordinated themselves sufficiently to tackle the project.

The Jobs Summit pulled everyone together including, importantly, Treasury.

"If the Minister of Finance is going to think that this is something that doesn't need any Government support, well, let's not go and develop a business model that does."

The scoping study is the beginning of a process, Cameron says, which may end up with the local government sector taking it over itself.

— *Maria Slade*

Grand plan to get fibre rolled out to the home

The delay in decisions on the Government's $1.5 billion broadband project is "frustrating", says Vector chief executive Simon Mackenzie, but ultimately he's happy about the way it's taking shape.

Announcements on the plan to roll out ultra-fast broadband to 75 per cent of the population over the next decade were originally due a few weeks ago, but Communications Minister Steven Joyce has put it off for a couple of months because of the "volume and complexity of the issue".

The lines company boss says ongoing delays would start compromising the objective of boosting the nation's productivity. But it's early days. "The key issue for us is we support the vision — absolutely there should be fibre to the home."

Mackenzie says the Government has acknowledged the issues Vector specifically raised in its original feedback — that it should be an open access model allowing any service provider to offer its wares to customers, not just a network for incumbent telcos.

In response to the Government's desire to have local fibre and lines companies investing in the project, Vector set up the New Zealand Regional Fibre Group. Members have worked on a co-ordinated approach to the technology and the framework for investment, and ensuring everything is overseen on a national basis.

"So someone, a service provider . . . like Sky, knows when it sends a solution down to Invercargill that it actually is at the same quality as anywhere else in the country."

In terms of Vector's own business Mackenzie says the "level of regulatory uncertainty has receded".

It welcomed the passing of the Commerce Amendment Act, which makes the Commerce Commission's decision-making process more robust, he says.

He believes there remains a need for regulators to understand commercial realities, particularly the ability to refinance and the cost of debt given the banking situation.

"I think there's still a bit of a disconnect on theory versus reality."

Vector is heartened by progress towards the upgrading of Auckland's transmission infrastructure, and is awaiting "with real interest" the results of the Electricity Commission's electricity review.

"We can't underestimate, there's a huge customer sentiment out there in the market with an expectation that there will be fundamental changes."

— *Maria Slade*

SUPPORTING THE VISION: Vector CEO Simon Mackenzie. PICTURE / PAUL ESTCOURT

Tax

Riding off into the sunset clause

Business leaders are divided on tax reform but all want to see a fairer system, writes **Graeme Hunt**

BUSINESS leaders want to cap the tax wealthy individuals pay, and are in favour of sweetheart tax deals to incentivise foreign firms to set up shop and create new jobs in New Zealand.

They say they want a fairer, broader-based tax system but two-thirds still oppose the introduction of comprehensive capital gains taxes.

Two out of three respondents to the *New Zealand Herald* Mood of the Boardroom survey favour capping an individual's personal tax at, say, $1 million, if it attracts new wealth to New Zealand.

An Auckland-based corporate adviser said a $1 million tax cap would definitely attract wealthy migrants to New Zealand. "Wealthy migrants do not only bring capital but they also bring knowledge and often look to get involved in non-profit activities.

"I can point to a number of examples of wealthy immigrants who have been valuable contributors and who have gone home due to the onerous tax consequences of remaining in New Zealand."

One exporter said the tax cap should be tried because it was important for a country, as for a business, to try out new ideas. He suggested a "sunset clause" could be useful because it allowed a poorly performing policy, such as a tax breaks or tax holiday, to "die a natural death" unless the Government explicitly renewed the policy.

"A seven-year period is sufficient time for most policies to be well tested and also has the benefit of spanning beyond two parliamentary terms when either a new minister or a new Government would bring a fresh, independent perspective," he said.

TV and film-maker John Barnett said he would support a tax cap if it attracted new wealth but saw little evidence of wealthy entrepreneurs coming here to set up businesses.

CHOICES: The survey has thrown up plenty of options for Finance Minister Bill English to mull over. PICTURE / MARK MITCHELL

"We should encourage people who have enterprise but not necessarily money to come here and flourish. As a country we are hopeless at understanding what creates enterprise.

"Five of Australia's richest 10 people, or their parents, arrived with nothing, spoke no English and just got on with it. They would not have been able to gain entry here."

Seven out of 10 respondents say the tax mix is not right and a similar percentage would like company, trust and personal tax rates aligned.

Nearly two in three respondents say effective marginal tax rates are discouraging effort. But a majority — 61 per cent — support extending favourable treatment for non-resident businesses which set up their headquarters, regional headquarters or material operations in New Zealand and create a material number of new jobs. They say they will not be concerned if such businesses got a reduced company tax rate or tax holiday, particularly if it did not direct compete in terms of products or services with New Zealand businesses.

Deloitte chief executive Murray Jack said other countries had used their tax systems for years to compete for capital and labour. "We would be naive if we did not figure out how to win at this game," he said.

But a corporate adviser said the system had been used in Ireland and it has backfired. "Business needs to make sense without tax incentives."

Foodstuffs (Auckland) chief executive Tony Carter said a tax benefit granted to an overseas-owned competitor would amount to a tax on a New Zealand company.

"I hate corporate welfare. If our overseas-owned competitor were to get tax benefits for doing more stuff over here, that would place us at a disadvantage which is simply not fair. You have to be very careful to preserve competitiveness."

GETTING BOLD ON TAX

61%	favour tax breaks or tax holidays for foreign companies which create new jobs in New Zealand.
68%	favour setting a $1 million tax limit to attract wealthy migrants to New Zealand.
72%	believe the tax system should be used to positively stimulate activity.
99%	do not want the tax system to impede companies sourcing foreign capital.

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

New Zealand Business Roundtable executive director Roger Kerr said he would not support special treatment for foreign investors over New Zealand investors.

"We need to reduce the Government size to reduce the tax total paid," he said.

One of the more surprising results in this year's Mood of the Boardroom survey is the call, albeit still from a minority, for a comprehensive capital gains tax. Some 37 per cent of respondents want a capital gains tax introduced here which could net $3 billion a year. But 63 per cent oppose such a tax.

Foodstuffs' Tony Carter said he was not personally opposed to a capital gains tax provided it encouraged investment in productive assets rather than assets with a capital appreciation.

"If a capital gains tax attracted more investment in the sharemarket for example, most people would see that favourably."

John Barnett said he opposed a comprehensive capital gains tax but supported capital gains taxes on some property transactions — a view shared by Mainfreight group managing director Don Braid.

"Introduce a capital gains tax on second dwellings if sold within a nominated timeframe,' Braid said.

EMA (Northern) chief executive Alasdair Thompson called for the reintroduction of a payroll tax and a property tax and an increase in GST in return for a reduction in all income taxes. Saunders Unsworth's Mark Unsworth suggested charities which trade "should pay tax".

Former Reserve Bank governor Don Brash, once an advocate of a capital gains tax, said a land tax would be much more effective than a capital gains tax for raising revenue and discouraging investment in real estate.

But that view is not generally shared by other respondents: 90 per cent oppose the reintroduction of land taxes and 76 per cent are against other new taxes such as bed taxes for tourists.

Nearly two-thirds of respondents say the tax system lacks vision and about half think it affects the mobility of capital and labour. A whopping 79.7 per cent say the Government places an over-reliance on the personal tax paid by a small number of taxpayers.

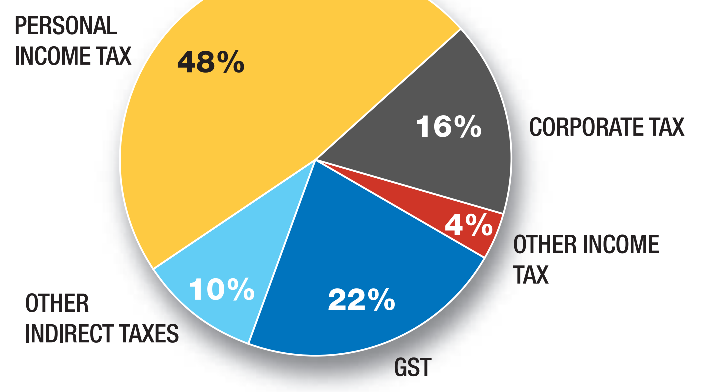
"I would like to see some signalling of a long term move to taxing immobile streams more and mobile streams less," said First NZ Capital's Scott St John. Foodstuffs' Tony Carter agreed, adding that present tax levels were a "drag on the economy".

"I think generally most people would like to see lower taxes. But there is not much room to move in the present climate."

CARVING UP THE TAX PIE

CEOS RATE WHETHER GOVERNMENT SHOULD CHANGE THE $51.6 BILLION TAX PIE (2009/2010 forecast)

HOW IT IS DIVIDED



% OF THOSE WHO THINK RATE SHOULD …	+ …INCREASE	− DECREASE	NO CHANGE
Personal income tax	2%	75%	23%
38% rate	3%	71%	26%
Working for families	3%	41%	56%
Corporate tax	2%	58%	40%
Other income tax	14%	20%	66%
GST	48%	3%	49%
Other indirect taxes	49%	9%	42%

FINDING NEW TAX REVENUES

Comprehensive capital gains tax
• Yes 37% • No 63%

Land taxes
• Yes 10% • No 90%

Others: eg Bed taxes for tourists
Yes 24% • No 76%

KEY ISSUES FACING THE NZ TAX SYSTEM

1 = least important • 5 = most important

Over-reliance on personal income tax paid by top earners	4.22
Tax mix is not right	3.87
Need to align company, trust and personal tax rates	3.85
Lack of vision	3.78
Mobility of capital	3.70
Marginal tax rates	3.66
Mobility of labour	3.58
Narrow tax base	3.03

Source: *New Zealand Herald* 'Mood of the Boardroom' Survey July 2009 / HERALD GRAPHIC

Clear path needed to guide us through taxing times

Tax continues to push people's buttons, writes **Thomas Pippos**

TO A large extent the Mood of the Boardroom survey results were predicable and intuitive, including the emotive comments that tax sometimes raises:

"Wash your mouth out — the question should focus on reining in public expenditure" — (not introducing new taxes).

"We are naive if we do not figure out how to win at this game"

"I hate corporate welfare"

"The issue is not tax, it is the myopic views on development by local government"

"Picking winners is a failed strategy — one business's tax holiday is a tax burden on all the rest of us"

But overall the potential for rethinking our tax system could be a silver lining to the current economic predicament. The participants echoed this with 74 per cent agreement that the current tax mix is not right.

Relevant also is that there just isn't enough economic activity to clip in order to fill the insatiable demand for public sector consumption. The contrary view of course is that we have an efficient and effective tax system which should not be jeopardised by precipitous actions fuelled by shaky Treasury forecasts. But ultimately a debate will be had — one those surveyed seemed happy to have.

The current tax rules are essentially an aggregation of regimes clipped together piecemeal over time. Usually this has been done with the intention of the regimes being principled and equitable, but often with no overt focus on what the ultimate goal should be — whether that focus should be on economic activity to be grown, retained in, and/or attracted to New Zealand, in addition to simply clipping the ticket. The recent introduction of an active income exemption is a clear exception to this, but even that has come 20 years after it was first debated.

Only 5 per cent of those surveyed disagreed that a lack of vision was a problem for the tax system. Treasury has recognised this and is leading the charge among officialdom in stimulating the tax debate, though certain aspects of the debate are unpalatable to many, given the direction of reforms being canvassed. Implementing change will be made more difficult by the fact there may not be a lot of good news on an individual taxpayer level.

An initial question is whether the tax system should be invisible. Should it operate in the background, neither stimulating nor discouraging particular economic activity? Or should it be a lever for the Government to visibly stimulate the economic activity it wants and needs? At least to some extent, the tax system should be visible. Those surveyed generally agreed it should be used to positively stimulate economic activity, 72 per cent seeing it as a good approach.

An example of where this visibility could be focused is around capital and labour that is particularly tax-sensitive. A benign example is how certain non-resident individuals coming into New Zealand can avoid many of our tax rules in relation to their non-resident income and assets for the first four years of their stay. This is great if you are an expatriate rolling out of New Zealand in three or so years, but if you are a wealthy expatriate actually looking to live here indefinitely the rules are of no use after year four — and many impacted taxpayers do exit stage left before that time.

What to do about such taxpayers remains in the "too hard" basket, though respondents were generally happy for the tax system to attract mobile capital and labour here. Of those surveyed, 68 per cent were in favour of a tax cap or other tax measures to attract wealthy migrants to New Zealand and 61 per cent said they would not be concerned if a non-resident company capable of creating a material number of jobs was targeted with a reduced tax rate or tax holiday on the proviso there was no direct competition with New Zealand businesses.

This leads to the next question, who should pay tax and how much? In a nutshell, half of New Zealand's tax take comes from individuals, yet Working for Families (WFF) has meant a minority of individuals pay the lion's share. To make matters worse, those on WFF face incredibly high marginal tax rates as their income grows, an objective block on labour participation. Interestingly, WFF is not seen as an area warranting change: 56 per cent of those surveyed wanted no change — possibly because any change could mean upward wage pressure for those who currently benefit from the regime.

There is minimal support for what is now the 38 per cent personal income tax rate, an anachronism of the prior Government, with 75 per cent of those surveyed feeling the top rate should be reduced. And the view on corporate tax was similar, with 58 per cent of respondents wanting a further decrease in the 30 per cent rate.

But often in tax balances when something goes down, something must go up, and respondents were evenly split in their views about increasing GST to balance the books — 48 per cent were happy for GST to be increased, while 49 per cent do not want any change to the current 12.5 per cent rate.

Respondents were also evenly split over increasing other indirect taxes, such as fuel and alcohol taxes and customs duty. The messy nature of excise and other taxes belies the fact that approximately $5 billion is currently raised from these areas. There was a resounding "no" to any form of land tax from 90 per cent of responders.

Treasury's attraction to it appears likely to fall on deaf ears.

On capital gains tax, Treasury says "Yes", but the Prime Minister, Ministers of Finance and Revenue, and apparently the Inland Revenue, all say "No". Survey participants are also relatively categorical, with a clear majority of 63 per cent voting no.

However, those who take heart from the ministers' negative sentiment should reflect on the fact that despite rejecting a wholesale capital gains tax for as long as I can remember, the tax system has had more capital gains brought into the tax net directly or by stealth, including the latest round of tax reforms that widened the associated party definition so as to tax more real property gains.

The debate for where our tax system should be heading is slowly gathering momentum. Time will tell what we end up with — though a clear strategic vision or goal on what is one of the most intrusive aspects of Government activity wouldn't go amiss. While at times it's about staying ahead of the cost curve, at other times it's also about stimulating the growth in revenue.

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