MOOD OF THE BOARDROOM

BEYOND BASE CAMP

‘It’s been a tough slog. But we’re fitter for it. Time to climb some peaks.’

INSIDE

MOOD OF THE BOARDROOM

LOOKING FORWARD TO A BRIGHTER FUTURE

- **60%** ... of SMEs have found it easier to find skilled employees in the past year.
- **79%** ... big majority support a Regulatory Responsibility Act
- **70%** ... support mining on the Conservation estate – if conservation values are retained or restored
- **74%** ... most plan no direct changes as a result of the introduction (July 1) of NZ's emissions trading scheme. But ...
- **62%** ... are focused on reducing energy costs
- **76%** ... want ACC opened to competition
- **58%** ... want the New Zealand company tax rate to stay lower than Australia
- **57%** ... support partial listings of some SOEs on the NZX

Source: BusinessNZ respondents to the New Zealand Herald 'Mood of the Boardroom' Survey June 2010
HERALD GRAPHIC

Survey findings

Business backs Govt plans

Moves to open ACC to competition get the thumbs up, but skill shortages are a concern for many employers, reports **Graeme Hunt**

THE Government's plans to end ACC's workplace monopoly — expected to be announced this month — have received the ringing endorsement of small and medium-sized businesses (SMEs).

Three out of four respondents to the *New Zealand Herald* Mood of the Boardroom survey, in association with BusinessNZ, favour ACC's work account being reopened to competition.

The move, with the backing of a Government-appointed working party led by former Labour cabinet minister David Caygill, would restore competition to workplace accident insurance that existed briefly in 1999 before being abolished by the incoming Labour Government.

BusinessNZ chief executive Phil O'Reilly said business had been calling for competition in workplace accident insurance for many years. "One of the reasons is that businesses have become stronger at health and safety but their ACC levies haven't changed. As more businesses become familiar with health and safety and accident reduction, they seek a reward for their efforts."

The previous Government had treated ACC as "welfare in drag" rather than an insurance scheme following insurance principles.

Business Roundtable executive director Roger Kerr welcomed business support for workplace accident insurance competition but called for competition across the board. "All ACC's accounts should be open to competition. You want an environment where employers can bundle all sorts of insurance policies."

Respondents to the Mood of the Boardroom survey also supported simplified handling of personal grievances as a means of increasing workplace productivity. Nearly one out of two said reducing the complexity of processes for personal grievances had the potential to increase productivity. There was less support for extending grievance-free employment periods to all businesses, regardless of size. Just over one in three said extending the right to grievance-free employment periods to firms with more than 20 employees had the potential to increase productivity.

O'Reilly said he was not surprised SMEs did not favour grievance-free employment periods being extended across the board. "They want removal of complexity, which is a way of saying removal of risk. The thing that frightens them is the grievance procedure. It is a bit like a puzzle palace."

He said grievance-procedure law was the top industrial relations issue for most New Zealand businesses.

Employers & Manufacturers (Northern) chief executive Alasdair Thompson said many members wanted the grievance-free employment period extended to all businesses, though it was less applicable to those employing highly educated, skilled workers. "This is not new. In the private sector the personal-grievance gravy train is something that needs continual reforming."

Kerr said grievance procedures should be a matter of voluntary negotiation between workers and employers. "There is no reason for a distinction between small and large businesses." Employment law impacted heavily on productivity.

"In reality, it is a tax on employers but it gets passed on to workers."

PHIL O'REILLY: Personal grievance law an industrial relations priority.

Survey respondents were divided over research and development policies, with a narrow majority happy the Government is doing enough to support R&D by businesses.

The emissions trading scheme, which started today, is not a priority for most companies' medium-term business strategies. Just 3 per cent of respondents rated participation in the scheme itself as a priority. But 62 per cent are focused on getting their energy use down and nearly one in five of respondents say responding to consumer desires for low-carbon goods and services is a priority.

The survey suggests the weaker New Zealand economy has made it easier for businesses to acquire skilled staff — in contrast with previous Mood of the Boardroom surveys highlighting skills shortages as a major problem.

Six out of 10 survey respondents said it had become easier to find "appropriately skilled employees" than a year ago compared with 40 per cent who said it had become harder.

Industry observers say skilled workers are still in demand and there is a fear New Zealand will be lumped with an inferior workforce.

One survey respondent warned: "If we don't look out we will be flooded by poorly skilled who don't even speak English and who won't assimilate into the workforce." Another noted that it remained difficult for New Zealand to attract workers with highly specialised skills and experience when opportunities appeared more exciting overseas.

And another said poor education and "lack of worth ethic" contributed to New Zealand's skill shortages — issues long raised by employers' lobby groups.

The survey suggests that one of the reasons skills shortages remain has been the reluctance of people to apply for new jobs.

"Good people are being cautious and staying in their jobs," one respondent said.

BusinessNZ's O'Reilly said skilled people were still in demand and their unemployment rate was low compared with the unskilled.

"We have companies that have had skill shortages right throughout the recession, in ICT and some of the technical areas." He predicted the labour market would free up over the next six months or so with the re-emergence of wage competition.

EMA's Alasdair Thompson said skill shortages were becoming an issue again.

"We lose so many of those good, basic skilled people, particularly the vocationally skilled people."

SNAPSHOT OF CEOS' VIEWS

The 2010 Mood of the Boardroom survey, conducted in association with BusinessNZ, shows a big resurgence in confidence among the leaders of Kiwi firms.

We set out to capture responses from chief executives of leading NZ companies and the bosses of small-to-medium sized enterprises (SMEs) to a raft of issues: the major tax changes in the May 20 Budget, key domestic and international factors that affect confidence, hot issues like the proposal to mine on the conservation estate, changes to the foreshore and seabed legislation and the ETS as well as changes to the capital markets regime, and, who is the best candidate to lead the new Auckland Super City.

Ninety-five chief executives took part in the survey which was run over three weeks (June 7-25). They were drawn from the Deloitte Top 200 list, Government trading enterprises, professional firms and business organisations. Some 259 heads of BusinessNZ's member firms also took part. Several influential chairmen were also canvassed on strategic issues facing NZ.

— *Fran O'Sullivan, Executive Editor - Business Reports, New Zealand Herald*

ETS claims early victim

by Graeme Hunt

Aerosol manufacturer Arandee Industries has survived the challenges of the global recession well, but will soon move offshore because of the emissions trading scheme.

Founder and executive director Ron Greer said the company had survived the domestic industrial downturn and held its own in the specialist aerospace aerosol market but would not survive the ETS if it stayed in New Zealand.

Auckland-based Arandee, which takes its name from "R & D", was launched in 1972 and has 13 staff.

But its size belies its strength — it has contract manufacturing in New Zealand and offshore and is one of only three players in the lucrative global aerospace aerosol business.

That business is booming — the company has won contracts to fill insecticide aerosols for use in aircraft and electronic blower sprays — but more regulation and the impact of the New Zealand ETS on aerosols from 2012 has all-but ended its future here. "We will be headquartered in Singapore because we already have manufacturing in Malaysia, the United States and Thailand as well as in New Zealand," Greer said.

Prospects for running a chemical business offshore were good because of the ability of the company to develop new products,

Furniture firm learns lessons from the recession

by Graeme Hunt

THE furniture business has been hard-hit by the recession but for some New Zealand companies it has been a valuable learning experience.

North Shore designer and manufacturer de Bruin-Judge Furniture, formed in 1993, has had to restructure to meet the challenges of the weak market but is probably stronger for the experience.

"The recession has opened up some opportunities — stuff that was not present during the skills shortage," director Robyn de Bruin-Judge says.

"It is easier to recruit staff who can do a wider range of things. The market was so constrained before that it was difficult to implement the plans you wanted to."

De Bruin-Judge, who owns the company with her husband Wim de Bruin, concedes the furniture business is tough going. "The industry as a whole has found it very hard in the past two years. There is a degree of optimism but the pipeline for construction is quite long. It is taking some time for the industry to recover."

De Bruin-Judge Furniture, which has 24 staff and aims at the top end of the market, is dependent, like others in the trade, on a confident and growing building sector. "Houses take a while to plan and all the finishing trades are at the end of that," de Bruin-Judge says. "The company has some flexibility and is definitely better placed to cope with a changing economy.

"We had to let a couple of people go over that time but we have restructured positions to deal with the changes in the economy and that has required a different mix of people."

Robyn de Bruin-Judge

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The Budget

High marks for English assignment

The Government is still basking in business blessing for its Budget tax package, writes **Graeme Hunt**

TAX CUTS announced in the May Budget as part of the Government's commitment to "make the tax system fairer" have drawn overwhelming support from the country's chief executives.

The *New Zealand Herald* Mood of the Boardroom survey, which canvassed 95 CEOs, reveals solid backing for cuts in personal and company tax and wide support for the broader principle of tax reform announced in the Budget by Finance Minister Bill English.

CEOs generally support the measures to fund the cuts, such as the hike in GST, removal of building depreciation deductibility, tighter tax treatment for qualifying companies and changes to the thin capitalisation rules that allowed foreign companies to avoid paying the true rate of tax on their New Zealand subsidiaries.

Tony Carter

Mark Gilbert

Seven out of 10 CEOs say their companies will still be better off with the lower company tax rate after allowing for the depreciation and thin-capitalisation changes.

Deloitte New Zealand CEO Murray Jack said New Zealand had come out of the global financial crisis better than others and the Government had played a role in that.

"Its first Budget response last year struck the right balance — enough stimulus without excessive borrowing. This year's Budget lays some important foundations that should encourage work, savings and productivity growth," he said.

"It's probably the best that could be achieved given continued constraints of current spending levels and the weak economic recovery."

Foodstuffs New Zealand managing director Tony Carter, reflecting the survey's cast-iron backing for the tax changes, said the Budget underscored the Government's intention to tax spending rather than income.

"The Budget signalled a clear change in approach. Up until then, while there had been a fair bit of talk, there was relatively little that the Government had implemented. The Budget changed that."

CEOs' responses to the survey reveal just how popular the tax changes are. More than four out of five support the cuts in company and personal tax rates but just one in three thinks the country can afford to reduce personal and trust tax rates to the company rate. Most, however, want the trust rate aligned to the top personal tax rate.

Overall, the cut in the company rate to 28 per cent — now two percentage points below Australia's — is the winner among CEOs and business generally. Nearly 60 per cent of small and medium-sized businesses polled in the Mood of the Boardroom survey say New Zealand's company tax rate should always be lower than Australia's.

BusinessNZ chief executive Phil O'Reilly said there was no question lower company tax was a winner with business.

"It is heroic talk that businesses are not interested in the tax rate. Of course they are," he said.

"My message from companies is that we do not need a 10c tax rate but what we do want is to be comfortably ahead of Australia. We have evidence that when the Lange Government reformed tax, more tax was paid."

Most CEOs are happy the Government did not take up the suggestions of the Victoria University Tax Working Group to impose radical taxes such as those on capital gains, land or a risk-free rate of return on residential property.

These were floated in late 2009 but ruled out by Prime Minister John Key in February, three months before the Budget.

CEOs have few problems with the Government's approach to fund the tax cuts. Four out of five survey respondents support the increase in GST and nearly all say the Government is right to close down loopholes that allow higher earners to exploit the Working for Families tax credit.

Four out of five respondents support the axing of depreciation on residential buildings and tougher tax treatment for qualifying companies and three in five back the controversial removal of depreciation on commercial buildings — a measure that is costing many companies, not least The Warehouse, dearly.

SATISFACTION: Bill English's tax package struck the right note with business leaders. PICTURE / MARK MITCHELL

RATING THE BUDGET

Solid foundation for future growth	3.63/5
Business friendly	3.80/5
Made the tax system fairer	3.92/5

Respondents are slightly less enthusiastic about the long-term impact of the Budget on economic growth but nearly four out of five rate it as "business friendly" and "making the tax system fairer". Both were guiding principles of the Budget.

A communications sector CEO, who asked not to be named, said: "The Budget gave some indication of a coherent path forward; maybe not as radical as some would like but not too bad."

The Mood of the Boardroom survey showed little support for retaining the top marginal tax rate at 38 per cent — nine out of 10 chief executives say it would not have been a good option to retain it — although BMW Group New Zealand managing director Mark Gilbert said the higher paid would probably not have objected.

"The tax package is unprecedented in such times," he said.

"I even think higher salary earners would have been happy to stay at a higher level, and probably they could have hit the "Paul Reynolds sector" with a higher income tax rate — but not complaining!"

Chief executives are neutral on whether there should be significant tax measures in next year's Budget to help achieve long-term growth and prosperity.

> 'It was a stark contrast to Budgets of the recent past. It caught many watchers by surprise . . . following a decade of prosperity and, some would say, lost opportunities.'
>
> Thomas Pippos, C9

POLITICAL REPORT CARD

Government

72% Most chief executives believe **JOHN KEY'S GOVERNMENT** is providing sufficient economic leadership for NZ. **But ...**

43% ... of CEOs believe the level and effectiveness of **GOVERNMENT EXPENDITURE** is a major issue.

53% ... a majority believe the Government needs to take a more aggressive approach to get **EXPENDITURE** and the **BUDGET DEFICIT** down quicker.

Target cuts The **BUREAUCRACY** was once again singled out by 85% of CEOs as a top target for cuts. Other areas include welfare - 54%, Working for Families - 41%, and NZ Superannuation - 23%.

98% An overwhelming majority say **LABOUR'S LEADERSHIP** has yet to begin carving out a credible alternative to the Government.

Cabinet ratings CEOs rank the top eight Cabinet high-fliers. Rated on their performance over the last year.

1 EXTREMELY POOR — 5 EXCELLENT

4.58 John Key Prime Minister

4.5 Steven Joyce Transport and Communications

4.47 Chris Finlayson Attorney-General

4.09 Tony Ryall Health

4.08 Simon Power Commerce

4.08 Judith Collins Police

4.06 Bill English Finance

4.03 Jonathan Coleman Broadcasting

Source: New Zealand Herald 'Mood of the Boardroom' Survey June 2010 / HERALD GRAPHIC

No cause to spend winter drowning in discontent

> We would be fools not to see the strength of our present economic position as an opportunity to be built on

LIAM DANN
Business editor

AS THE All Whites arrived home, several players expressed great disappointment at having failed to qualify for the second round. But they, along with the rest of us, were quick to note that if we step back in time and look at what our expectations were a year or so ago, then these results look fantastic.

That's not a bad way of looking at the current economic malaise either. Here we are in another tough winter with spending still tight and costs rising.

But step back to where we were two years ago as the world headed in to the biggest financial meltdown since 1929. Just like the All Whites, New Zealand has fared better than anyone dared to expect at that time.

Even by comparison with last year, when we were still in the grip of recession and the spectre of a global pandemic added an edge to the gloom, things aren't looking too bad.

There is clearly room for cautious optimism and that flows through the views expressed by CEO's in this year's Mood of the Boardroom survey.

Expectations around revenue growth, capital spending and employment all indicate that business leaders are feeling upbeat about the road ahead. In each of these categories about half of respondents were feeling positive.

The rest were largely uncertain with a smaller group still feeling negative about the outlook. That not everyone is feeling optimistic yet is hardly surprising, given the lumpy nature of this recovery.

But the results suggest that we are steadily moving from "wait and see mode" to a genuine recovery mode.

On the other side of the ledger the concerns of business leaders are now of a less pressing nature.

Access to capital — through both equity and debt markets — appears lower down the list than it was immediately after the global financial crisis.

Other worries such as labour productivity, the rising costs of energy, fuel and the impact of the ETS have leapt towards the top of the pile.

These results also suggest we may be entering a new phase in the economic cycle.

Like the All Whites, having put in a better than expected performance doesn't mean we can sit back and relax. Thoughts must quickly turn to the future and how best to leverage the position we now find ourselves in.

As John Key quipped recently, we're a dead cert to rise up the OECD league table this year — that's because last time it was published we were sitting right behind Greece.

Key knows better than most that we shouldn't be laughing too long or hard about that. While our public debt levels remain benign, our private debt to GDP ratio is much more worrying.

A splutter from the China any time in the next couple of years could easily set the wider Asian economy back on its heels. That would provide a much stiffer test of New Zealand's economic health than we are getting from the current European meltdown.

But the point here is that we are currently doing better than many of our global peers. Even if the strength of our economic position is just a quirk of geography, we'd be fools not to see it as an opportunity and put policies in place to press home the advantage.

In the US, the Government continues to prop up the economy with stimulatory policies. In Britain and many European nations, governments are starting to bite the bullet and slash spending.

The gulf in policy — highlighted at last week's G20 summit — has been described as a great economic experiment.

In New Zealand we have a small window for trying something different. Though there is still great pressure on spending, this year's Budget has also provided scope for the Government to change the tax regime in a direction it believes should increase productivity. Bill English and John Key have told us there isn't room for radical steps. But they have showed us that they have a plan.

This year's Mood of the Boardroom survey shows a high level of support for the changes that have been made to the tax system. Certainly there is a view that there is more work to be done if we are to improve our economic performance.

But there seems to be growing confidence that this Government has a platform in place which can be built on. It is certainly not a platform on which we can afford to rest.

MOOD OF THE BOARDROOM

The economy

Foreign concerns dominate at home

New factors in the survey indicate firms fear being hobbled by fiscal policy

BRIAN FALLOW

BUSINESS leaders are much more confident about the New Zealand economy, the global economy and the general business situation in their own industries than they were a year ago.

Then the economy had only just clambered on the bank from a deep, cold and fast-flowing Recession River. The concerns that are top of mind for business leaders reflected that.

A year later, recovery has taken hold, though it is slower than after previous recessions. Nervousness about the international outlook persists but a different set of domestic worries have come to the fore, notably about productivity and the state of the Government's books.

Overall, the survey found higher levels of disquiet about the international environment than about domestic factors. In particular respondents are watching global capital markets to see if the gusts of alarm about sovereign debt could trigger a sequel to the crisis of 2008.

Though the focus has been on the weaker peripheral members of the euro zone, the picture across the major developed economies is of large structural deficits, gross debt approaching 100 per cent of GDP (where it has not already exceeded it), and the looming fiscal challenge of ageing populations.

The Reserve Bank expects the main impact of this renewed turmoil in financial markets to come through upward pressure on the cost of funds to New Zealand banks rather than through demand for exports, even though the European Union as a whole is our second largest trading partner.

For what it is worth, respondents' fears of protracted global recession, and by extension about the sustainability of current high export commodity prices, are at odds with the consensus view of economic forecasters abroad.

Forecasts for growth among New Zealand's trading partners have continued to improve even since European debt issues came to a head in April, despite lacklustre expectations for the major western economies.

"We're now looking at 4.3 per cent for 2010, up from 4 per cent in April's consensus survey," BNZ economist Craig Ebert said, "And the view on 2011 is holding up at a respectable 4 per cent."

The implications of all this for global exchange rates also loom large in respondents' minds. Money has flowed out of the euro into the US dollar and, less helpfully, into commodity currencies including the kiwi dollar.

But the recent decision by the Chinese authorities to allow at least some degree of appreciation of the yuan should help.

A sustained global recovery requires substantial unwinding of the very large current account imbalances which built up over the past 10 years or so. Countries with large current account deficits, mainly the Anglo economies including New Zealand, need export-led recoveries while those with large surpluses such as China, Japan and Germany need to expand their internal demand.

If China is resuming the gradual appreciation of its currency in train between 2005 and 2008 — and it is still too soon to be confident about that — it is at least a step in direction of the necessary global rebalancing.

It should also vent some of the pressure building up in Washington for retaliatory action against what is seen there as a beggar-thy-neighbour policy.

The risk of protectionism was another concern survey respondents voiced.

On the home front labour productivity, No 4 last year, now tops the list of concerns. Over the past 30 years labour productivity has grown by an average of 2.1 per cent a year but in the most recent complete growth cycle (2000 to 2006) it was just 1.3 per cent a year, half its rate in the 1990 to 1997 cycle. In half of the industries the statisticians recognise, productivity actually declined.

Respondents' concerns about the adequacy of infrastructure — somewhat ironically right up there with the level of Government spending — has a bearing on productivity, as do skill levels.

Skills and labour shortages rank as the third biggest concern (after the perennial runner-up, regulation).

The tight labour market which preceded the financial crisis was marked by widespread shortages of skilled labour. With memories of that fresh, the recession was notable for the degree of labour hoarding, where firms preferred to cut hours than headcount and run the risk of struggling to replace people when business picked up again.

The employment cycle turned in the March quarter and as the labour market improves — albeit, economists expect, in a gradual way like the recovery itself — wage growth will pick up from its current cyclical lows.

Wage increases this year rank No 7 among businesses' domestic concerns, up from No 10 last year.

This year's survey has two concerns that did not feature at all last year, how much the Government spends and how much it borrows — the former more than the latter.

It is as if fiscal policy was seen last year as a bungy cord but is seen now as a hobble on future growth.

In point of fact, New Zealand's fiscal outlook has improved markedly over the past year.

But it is a sign of the times internationally, and evidently here as well, that people are more focused on the state of their government's books.

In Budget 2009 we were looking at 10 years of deficits and a net debt track that climbed from below 10 per cent of GDP in 2008 to 60 per cent by 2023 with no end it sight. In Budget 2010 it is six years of deficits and net debt peaking at 27 per cent of GDP in 2014. The level of the NZ dollar, the foremost concern a year ago, has dropped to No 6.

It is not surprising the exchange rate is of concern when it has appreciated 10.4 per cent over the past year on a trade-weighted basis, though it is surprising that it was a bigger concern at the time of last year's survey when it had fallen 11.5 per cent over previous year.

The emissions trading scheme and its impact on energy costs rank just after wages as a concern.

This may be largely a matter of timing. The ETS starts to apply to the transport, stationary energy and industrial process sectors today.

And businesses may still be getting their heads around how much, or how little, the ETS will affect them.

The Government's amendments late last year to Labour's scheme capped and then halved the impact on electricity and fuel prices.

And the threshold at which trade-exposed firms qualify for an offsetting subsidy, payable in emission units, is very low: if carbon costs are more than 1 per cent of a firm's revenue it qualifies for 60 per cent compensation, and if more than 2 per cent, for 90 per cent.

BUSINESS STILL TO ACT ON OPTIMISM

The Mood of the Boardroom survey adds to the soft data pointing to a lift in investment and hiring over the year ahead.

Other surveys of business sentiment have been telling a similar story for some time. But the hard data, from Statistics New Zealand, has yet to bear them out. Business, in short, has not yet put its money where its mouth is, especially on the investment front.

The great majority of respondents, 72 per cent, expect their revenues to grow this year — though more in the second half than the first. And 50 per cent expect to undertake more capital expenditure, while only 13 per cent expect to cut it back. The net balance expecting to increase information technology spending is similar, 38 per cent.

Respondents are also upbeat on employment, with 49 per cent expecting to increase staff numbers over the coming year and 16 per cent expecting to reduce them.

This is in line with the National Bank's monthly business outlook survey which has shown investment and employment intentions rising steadily for more than a year now, to the point where hiring intentions are at an eight-year high and investment intentions are above their historical average.

But the national accounts released last week showed investment in plant and machinery fell in the March quarter, while imports of capital goods also declined. And bank lending to the business sector is shrinking, by 8 per cent over the past year.

On the employment front the evidence is more mixed.

Official jobs data recorded an unexpectedly strong 1 per cent rise in employment in the March quarter. But NZIER's quarterly survey of business opinion, which allows analysts to compare respondents' declared intentions for the coming three months with their reported experience three months later, continued to report labour shedding, despite intentions to hire.

— *Brian Fallow*

CONFIDENCE ON THE UP

CEOs confidence levels compared to 12 months ago

1 — 5

Much **LESS** optimistic — Much **MORE** optimistic

Business situation (your industry)	3.7
NZ economy	3.8
Global economy	3.3

TOP 10 CONFIDENCE FACTORS

1 — 10

NO concern — **EXTREMELY** concerned

DOMESTIC

1	Labour productivity	7.2
2	Regulation	6.9
3	Skills and labour shortages	6.9
4	Level of NZ Government spending	6.8
5	Adequacy of infrastructure	6.8
6	NZ dollar level	6.7
7	Wage increases	6.4
8	ETS – impact on energy and fuel costs	6.2
9	Level of NZ Government borrowing	6.1
10	Access to capital through debt markets	5.9

INTERNATIONAL

1	Instability in global capital markets	8.5
2	Protracted global recession	8.4
3	Level of borrowing by governments	8.0
4	Strength US recovery	7.7
5	Exchange rate volatility	7.7
6	US dollar value	7.2
7	Competition for global talent	6.5
8	Protectionism	6.3
9	Commodity prices	6.2
10	Global inflation	6.2

Source: New Zealand Herald 'Mood of the Boardroom' Survey June 2010 / HERALD GRAPHIC

Views on the global picture

DON BRASH
Former Reserve Bank Governor and National Party leader:

Don Brash sees two big risks to the international economy.

"One is the serious fiscal positions of a number of developed countries — not just Greece, Portugal or Spain but also Britain, the United States and Japan — all of whom have massive accumulated debt and massive ongoing fiscal deficits."

This could lead to "enormous" bond issuance in these markets, driving up interest rates.

As well as slowing their economies, it also poses a risk to New Zealand whose extremely high level of external debt leaves it very reliant on offshore credit markets, Brash says.

"We got through he last crisis because the Australian banks kept their strong credit rating and were helped for a brief period by the Government guarantee. But New Zealand is very heavily dependent on those credit markets."

Alternatively, debt-laden developed countries will make serious attempts to cut back their deficits.

"That would have a similarly negative effect on economic growth and recovery."

The other big risk is China's property bubble, Brash says.

"China has obviously been of enormous value to New Zealand and Australia, and indeed the world, in the past year or two.

"But it is very hard indeed to avoid the worry that a sudden implosion of their property bubble would have very severe consequences. And that they have a property bubble is now beyond any question," he says.

"An additional macro risk is that the appreciation of the yuan may be seen as so timid that they risk a political backlash in the United States with protectionist measures adopted which would be incredibly damaging."

RUTH RICHARDSON
Former National Government Finance Minister

For Ruth Richardson the fierce headwinds buffeting European and America business players could be ill winds that blow this part of the world some good.

"Ironically, economies mired in state debt, a failure of political will to reform and a high global fear factor play into the hand of safe countries like New Zealand and Australia, which increasingly can become magnets for high-end global talent," she says.

"New Zealand and Australia, so long as we can continue to work on our policy settings, can offer the multiple attractions of competitive tax rates, a climate conducive to innovation and a lifestyle full of affordable opportunities for families, fitness and fun.

"For those who put a premium on freedom from terror and sound institutions, we are a haven."

— *Brian Fallow*

Aggressive spending cuts favoured over higher taxes

Business leaders would like a more aggressive approach to reducing the Budget deficit, and are emphatic it should come through spending cuts, not tax increases.

About 53 per cent of respondents to the Mood of the Boardroom survey agreed the Government needed to reduce the deficit more quickly, while 42 per cent disagreed. Seventy-three per cent of all respondents favour spending cuts and 84 per cent oppose tax increases. The level of government spending ranked fourth equal among concerns about the economy; the level of government borrowing was ninth.

Over the past two fiscal years core Crown expenditure has increased by $7.8 billion or 13.7 per cent. In the year ahead it is forecast to increase by a further 9 per cent or $5.8 billion (though that includes one-off transfers associated with the rise in GST, and the start of the emissions trading scheme).

Given the chunk the recession has gouged out of economic output, that means that over the three years to June 2011, government spending will average 34.5 per cent of GDP, up from an average 30.4 per cent on the previous 10 years. The ratio is forecast to drop to 32.4 per over the following three years.

The Government has adopted a Budget cap of $1.1 billion a year for new spending (not including inflation-indexed payments to superannuitants and beneficiaries) and expects to find a further $1.8 billion over four years which can be "reprioritised" from existing programmes. But respondents evidently believe it could do better. Top of their list of targets for a budgetary razor gang is bureaucracy, where 87 per cent believe savings can be made. Then comes welfare (54 per cent) and Working for Families (40 per cent).

The need for better targeting of spending was a theme running through the comments, with some referring to "middle class capture" of programmes or objecting to universal subsidies for visits to a doctor. "I still think there is loose spending on worthless programmes, while some of the areas being cut should not be," was one comment.

More see scope for savings in New Zealand Superannuation than in health and education combined. One respondent would like to see the Government give notice that eligibility for super is to increase over time to 67 or even 69.

Another said compulsory super in the Australian mode was probably the best way to go.

— *Brian Fallow*

Time for more boldness on the Govt front

Most CEOs think it is time for the Government to put its foot on the accelerator and transform the economy

FRAN O'SULLIVAN

MOST chief executives — 72 per cent — believe John Key's Government is providing sufficient economic leadership for New Zealand.

"The Government is showing good vision in targeting a significant improvement in New Zealand's economic wellbeing over a long term," said Fonterra chief executive Andrew Ferrier.

But many of the 95 CEOs who responded to the Mood of the Boardroom annual survey have already banked transformational policies like the major tax changes in Finance Minister Bill English's second Budget, and, the move to form eight Auckland councils into a Super City.

The want the Government to step up the pace instead of being "poll-driven". In particular, they want John Key to take a few bold risks to affect a real transformation of the NZ economy. "Make the hard decisions — you may be surprised at the support they would get."

Among the recommendations: Provide an environment that creates a behavioural change by business toward investment in R&D, training, exporting and innovation and deal with some of the longer term issues such as demographics and the need to raise our pension age.

Fletcher Building chief executive Jonathan Ling nominated compulsory superannuation and privatisation.

Another noted the unfinished business lay in three areas: encouraging greater investment in research and innovation, asset sales to boost capital markets and savings, and controlling government spending. "The last of these is potentially the most difficult as it will need to deal with entitlements like superannuation and the welfare to work wedge."

One finance chief executive produced his own template:

■ Reform the SOE sector with partial listings, and give some of those at-scale businesses the ability to access equity capital to grow offshore if they have the capability (which it looks like quite a few do). NZ needs more global champions, and Kiwisavers need more quality investments to put their money into.

■ Provide some certainty around Broadband — the lack of clarity is hurting the market, and hurting Telecom unnecessarily at this point;

■ Deal with the whole savings/superannuation/loans issue. Across the NZ Super Fund, Kiwisaver, pensions and student loans we have a polyglot of approaches, which, together, do not make sense.

■ Fix Kiwisaver — make it compulsory at low levels.

Mainfreight managing director Don Braid said the Government could have displayed better and stronger leadership" had they focused their attention on achieving more in this first term."

77% **Mining**
favour mining the Conservation estate

"The Government could have been enablers of change and success and traded some popularity percentage points for some urgency in reform but chose not to," added Auckland Regional Chamber of Commerce chief executive Michael Barnett.

But others pointed out the Government had inherited a shocking fiscal situation in the wake of the Global Financial Crisis.

They want to see more clarity of vision or strategy rather than just a conventional political mix of "populism and patronage. We'll not grow by perpetuating incrementalism and mediocrity, yet that seems to predominate the policy agenda.

"Flying kites' is all very well but that becomes predictable and tedious. It is important to understand realpolitic — focus on achieving the important things. Avoid the noise and nonsense."

Among policy bugbears are the state of NZ's capital markets, the emissions trading scheme and the failure to politically sell-in proposals to mine on the Conservation estate.

"The state of the New Zealand capital market is a major issue crying for Government leadership," warned Westpac Institutional Bank CEO David Mclean.

"If we extrapolate the current trends till recently, you will have no capital markets here in few years — they will be in Sydney. That's fine if you are big enough to afford to go over there — but it's going to be a challenge for small to medium enterprises if there's just a flow of funds away from New Zealand.

EMA Northern's Alasdair Thompson said the approach to privatisation was a "wasted opportunity."

"The Government doesn't have plans and when it does it fails to sell them . . . On a positive note its latest Budget was a good re-alignment of taxes to reward earning and saving."

Thompson also slammed the ETS scheme as a disaster for NZ business. "We are completely stupid to introduce it when our major competitors are not."

Jonathan Ling

Don Braid

Most CEOs thought Key should not reshuffle his Cabinet. But they were critical of the political salesmanship skills of some ministers.

"Gerry Brownlee seems to have really missed the boat on his opportunities to advance NZ Inc with his approach to mining and energy reform which should have mandated a market in New Zealand like Australia," said NZX chairman Andrew Harmos.

But Chris Finlayson came in for praise for his handling of the foreshore and seabed issue.

The chief executives' robust criticism is not limited to the Government. An overwhelming majority, 98 per cent, say Labour's leadership has yet to begin carving out a credible alternative.

"It is difficult as National has taken the centre," said Ferrier. Among the many criticisms, Labour was stuck in a left/right mindset, was a "woeful recidivist", was "boring, irrelevant to business and lacked vision". But the more worrying takeout was that Labour's economic policies had "regressed" with its opposition to the GST increase and change of emphasis on the Reserve Bank's approach to monetary policy.

"They said they would increase the top income tax rate (obviously still believing in over taxing "rich pricks)," said one boss. Another cautioned Labour was still in a policy-making phase at this stage in the electoral cycle.

"However, the challenge for them in 2011 is to convincingly communicate an alternative economic plan that would generate more wealth for NZ Inc.

"At this stage all we know is that it won't include more mining."

Labour leader Phil Goff was praised as an "above average" minister throughout his nine years in Helen Clark's former Cabinet, who had struggled to make the transition to leader.

But said Braid, Labour needed a new leader. "They need a wholesale change and leadership focused on the things that matter rather than class distinction."

There is "no inspirational leader there" added infrastructure specialist Stephen Selwood.

Others suggested Goff should rise about petty political point-scoring and negative clobbering.

But said South Pacific Pictures' John Barnett, Goff had been in an impossible situation that he has managed fairly well.

Some felt he needed to rebuild his front bench, acknowledge mistakes by the past Government and put forward positive ideas "not all the negative stuff".

Deloitte's Murray Jack suggested it was crucial to Labour's long-term survival that it take heed of the business community's views and position itself as a centrist party if it did not want National to re-cement itself as the "natural party of government" in this country.

Some, like NZX chairman Andrew Harmos (see story below) believed Labour could make quick headway with the business community if it embraced the capital markets taskforce report and stopped being ideological.

WHAT THE LEADERS SAY

Shall we at least talk about the national interest?

JOHN PALMER
SOLID ENERGY

JOHN Palmer makes clear he regards it as his duty as Solid Energy's chairman to raise strategic issues affecting the company such as where it feeds its appetite for long-term capital.

"We've got to think over a reasonable timeframe, and we've got to think about what's very much in the national interest as well as in the company's interest," says Palmer.

His confidence that the Government would be able to obtain external equity to fund some big projects that Solid Energy has in its pipeline caused political consternation in some quarters when a speech he gave was read as advocating outright privatisation.

Energy Minister Gerry Brownlee responded to the SOE chairman's NZX address by slapping Palmer down. "He's an appointed chairman and if he wants to go making those sort of announcements on behalf of the Government he should stand and get himself elected to Parliament."

Palmer will not comment on Brownlee's response. "I have an expectation that other business leaders will stand up and do that as well because it is part of your role.

"It's not a question of saying, 'Well this is going to be easy', or that you aren't going to upset some people. It's a question of saying what's important and that it just goes with the territory and we need more of that sort of discussion."

Palmer's rationale is compelling. He points to the success of the Air New Zealand model where the Government, which owns the majority stake, acts as a solid cornerstone shareholder which can provide stability for strategy in "what is a really tough business.

"The board and management are not distracted by thinking about the state of the share register. They can just concentrate on the strategy of making the business more successful. I know that has some downsides but I think in this country for that sort of business — that's been a real plus.

"It hasn't been interfered with politically — I'd like to think that we've taken a pretty responsible attitude about thinking in the wider 'NZ Inc' sense and understanding what is the whole rationale and raison-d'etre for the Crown having a shareholding longer-term. We've shown the model works and can work pretty well."

In Solid Energy's case the board has wider responsibilities. Not just because it's an SOE, but because of its custodianship of a sizeable chunk of Crown estate. "In order to develop that we know that there are several billion dollars of capital expenditure needed," says Palmer. "So the logical thing is when you look at all the issues around a company like that, if you take the state of the Crown accounts both at a fiscal and a balance sheet sense, they are two quite separate issues.

"For the Crown to fund all of that development you wouldn't have thought that it makes sense to do so off its own balance sheet if there are other alternatives."

The good news in Solid Energy's case is that the Crown could get external equity to fund those projects without selling anything. "So it doesn't have to go through, in this case, any bogey of assets sales."

"Our recommendation — if we ever got to that stage — would be to say we don't think the Crown should sell anything. And we do think — and this is a personal view and it's certainly the view of the board — that the Crown should continue to be the majority owner for all of the foreseeable future."

By the beginning of 2011, Solid Energy plans to build and commission a $22 million Underground Coal Gasification pilot plant in the Waikato. If the project is approved, it will need a massive injection of capital or a project partner to develop a full-scale industry.

"We are a couple of years away from needing that capital, "says Palmer. "But what I was setting out to do was — in a period when there isn't the absolute political pressure of an election or any of those sorts of things — show that the business community should be leading a discussion about why these issues make sense and why they would be good for New Zealand and they can do that hopefully in an apolitical way."

Palmer says the introduction of external equity for project financing might provide opportunities for New Zealand savers and investors in an opportunity-starved market, "whether it's KiwiSaver funds, NZ Super Funds or private individual investors.

"You can do this in almost an apolitical way. You take a lot of the heat out of the discussion if the Crown doesn't sell anything but just says we want to grow faster and this is a good way of us growing faster."

Palmer says there needs to be an understanding of what the costs and trade-offs the community has or is giving up by either refusing to have a discussion or by closing its mind to discussion on issues like mining on the conservation estate. "I guess the sad thing is that some people have been so brain-washed about the conservation ethic they see anything that involves a digger as bad."

NZ should get back on the international radar

LLOYD MORRISON
H.R.L. MORRISON

LLOYD Morrison says it's time for the country's political leaders to commit themselves to getting New Zealand back on the international radar screen.

A recent trip to Europe opened Morrison's eyes to the urgent need to market a new "New Zealand story" — one that focuses on the long-term growth potential for NZ as a major food producer and window into Asia, and not the decades old "New Zealand Experiment" in the 1980s which fascinated commentators from the *Economist* and *Financial Times* who were taken by the breathtaking pace of Kiwi deregulation.

"New Zealand, in a relative sense, is probably better placed than it has been for a number of years. But what was noticeable in Europe is that nobody cares or is interested."

He says Finance Minister Bill English's recent Budget was "incredibly good" compared to those undertaken by overseas governments.

"You do need to have some recognition of it outside of NZ because our capital markets are woefully thin. And we will need support from offshore investors if we are actually to get some momentum going.

"But as far as I could make out, it was totally lost on the world."

Morrison argues it's up to the Government's prime political leaders to make sure it tells the NZ story internationally. "So, that's guys like Key and English in particular talking about our position, being positive about our outlook and getting us back on the radar.

"It won't happen if these guys just do political junkets."

He says top ministers have to prioritise getting a media following. They must think in terms of leverage with a conversation or story — 'How much coverage can I get?'

"It needs to go quite a lot wider than just one on one economic conversations with governments and ministers offshore."

Morrison justifies his stance by pointing out that the high profile NZ enjoyed was reflected for a number of years in the capital markets because people "picked us" as having structurally a good economy and some resolve to improve its growth and performance. "And of course what's happened subsequently is our lack of commitment to that has burnt-off interest.

"The fact is we are a very small economy and we have to be extraordinary before anybody notices us.

"Our position at the moment — somewhat through luck and a little bit through good management means that we are in a relatively very strong position given the continued improvement in terms of Asian wealth."

Morrison, an ardent NZ advocate, has previously launched campaigns to establish measurable goals to score this country's economic performance, and also a new flag. A marketer to his core, he also argues that it's important everyone in New Zealand understands a profile is very important for a small nation of 4.3 million people.

"We need the *Economist*, the *Financial Times* and Bloomberg — good high quality media — saying actually NZ is quite interesting. It is a window into Asia. It is only a small economy but it has the ingredients for long term success as a result of Asia.

"It's stable, has improving infrastructure, has a good educational base. It needs to earn more wealth but the chances of it doing so seem to be quite good in the next 20-30 years."

Morrison also expects there will be a new wave of privatisations in OECD countries as Governments try to close their big deficits which will help recreate the acceptability for New Zealand to introduce private participation in state-owned assets.

"I don't think we've ever had the spine to go out there and do it individually," he notes.

"And I doubt that the politicians have changed that much."

He maintains a strongly capitalised Kiwibank would continue to elicit a very competitive response from the Australian trading banks in this country.

"It seems to me to be enormously worthwhile and it doesn't make sense that the Government should have to fund it from its existing coffers."

"I find it really unacceptable that the Left categorise it as a return to what we did in the 1980s, because it's nothing like that, and while it actually affects the whole electorate the paucity of capital that the Government is able to spend supporting organisations like Kiwibank hinders growth.

"I really find that overly tribal and not objective which is a pity. It is the equivalent to the approach Fox News and GOP (Republican Party) have taken to Obama. Not what's best for America — what's best for taking to Obama.

"I think that on issues like recapitalising Kiwibank, the Left here are more interested in garnering votes; fear-mongering rather than delivering what's good for the country."

We must keep hold of our competitive advantage

HENRY VAN DER HEYDEN
FONTERRA

HENRY van der Heyden wants to start a public debate over just who should own New Zealand's prime pastoral land.

The Fonterra chairman stresses low-cost pastoral agriculture is New Zealand's point of difference — "we have to be careful we don't give away our competitive advantage or we will pay the price".

Clearly New Zealand's competitive advantage, as far as the dairy co-operative is concerned, is integrally tied to the ownership of the pastoral land-base.

But unlike many other countries that use strong "national interest criteria" to "protect" their major industries from potential offshore marauders, New Zealand's foreign ownership rules are designed to further a free-market environment where the welcome mat is rolled out to foreign investors

Van der Heyden acknowledges that any no-go decision to slap strong "national interest" criteria on pastoral land, would be a "decision made around a Cabinet table".

But he questions why land is not seen as a strategic asset given NZ's temperate climate and its soil and water resources.

"Why shouldn't it be under NZ control and ownership?"

He points to what happened to the banking industry after all the major trading banks passed into Australian ownership. "They are now controlled from Melbourne and Sydney."

The issue sprung into public prominence with the bid by Hong Kong backed interests to buy 16 dairy farms from the Crafar receivers.

State-owned Landcorp is now in the process of mounting a counter-bid to try to keep the farms in New Zealand ownership.

Van der Heyden isolates two competitive threats to Kiwi dairy farmers. The first threat is if other nations' farmers become able to grow grass and produce milk more cheaply that NZ farmer.

The other is adopting farming practices that make NZ uncompetitive.

Farmers were yesterday voting on Fonterra's capital structure plans: Sir Henry said he would be surprised if the share trading among farmers option did not get major support

Too many initiatives are squandered

ANDREW HARMOS
NZX

NZX chairman Andrew Harmos wants the Government to involve itself more in the debate on how state-owned enterprises should be opened to equity participation by private investors.

Like many respondents to the Mood of the Boardroom survey, Harmos is clearly irked that too many policy development initiatives and policy leadership opportunities have been squandered.

Citing the proposal to mine on the Conservation estate, and, the botched attempt to create a debate on Kiwibank ownership, he says some policies have been poorly thought-out, and, importantly, their positioning and explanation to the public has been poorly thought-out. "So they are announced into a vacuum which allows the naysayers to dominate and this poll-driven Government then either withdraws or modifies them."

Harmos' comments reflect a widely held view in the finance world that the Government is ducking some parts of it leadership role in reviving NZ's capital markets.

"Solving the ownership issues could add so much value to the economy through allowing the entities to access capital to grow, unconstrained by Government fiscal limits, thereby giving them a shot at growth in business and profitability.

Harmos points to many more advantages: SOEs would pay more tax and be exposed to public scrutiny and accountability. They would also be under capital markets disciplines, and able to properly remunerate staff free of political constraints.

The capital markets would be stimulated. There would be more savings and investment options for New Zealand savers and more scale into the financial services industry.

"Solid Energy could be our Nokia — but we will never know if it remains constrained in its growth options."

Revenue should also be increased if the Government moved ahead by approving initiatives like financial hubbing and building out the capital markets, he says. He cites the Australian financial services sector which employs 400,000 Australians and contributes about 11 per cent to the Australian growth rate.

Harmos suggests that instead of sand-bagging the private sector, Labour should capture the capital markets and economic growth space.

"If Labour campaigned on an Australian-style compulsory savings mandate and forgot its ideological objection to capital markets participation in SOE ownership and public-private partnership opportunities, it would do very well.

He says no-one wants to sell SOEs and lose head offices and jobs. But the Vector and Air NZ ownership models with share caps and foreign ownership limits would be highly appropriate.

"They should also realise that we need to build an asset-ownership society, Harmos adds. "It is asset ownership that builds wealth and generates income and savings: labour for salary or wages provides a living, not wealth."

WORD FROM THE CHIEFS

Leading CEOs give their views on the state of business

PAUL REYNOLDS — TELECOM

PAUL Reynolds is surprisingly upbeat after what must have been a bruising year in the Telecom boardroom. He brusquely brushes off inquiries about the personal cost of managing constant crisis. "CEOs are paid to deal with tough things."

He's keen to talk tough too. "Overseas shareholders say New Zealand is nuts," he says, citing the lack of regulatory predictability in a capital intensive business. As a result, "New Zealand is seen as having a very high sovereign risk."

Regulations need to be simplified and the old layers of bureaucracy stripped away, he advises.

Even worse, to Reynolds' mind, is the duplication of infrastructure and services when every precious dollar counts. "You can't expect Telecom to build services in retail for resell, build fibre to the nodes and offer equal access and build fibre to the home — New Zealand can't stand that; no country in the world can."

He was hired to deliver operational separation and he has delivered, making New Zealand one of only two countries in the world behind Britain to do so. The elephant in the room is structural separation, where Telecom chooses or is compelled to divest its lines business. "If there is structural separation where we can get the right alignment, the right way forward for New Zealand and our company, and it's in the interests of our customers and our shareholders, I'll consider it."

No economy in the world has tried structural separation, mainly because of the complexities and costs involved. Reynolds: "I think we're being openly courageous in considering it."

Our telecommunications network and services represent the nation's blood supply and it is a very expensive

business getting the system right. The Government is failing Telecom and the taxpayer, he argues. "We've gone from laggard to somewhere near the lead in a very short period time," he says of NZ's broadband performance.

If you want a sporting comparison, he suggests, the radical makeover of the country's internet architecture is similar to the transformation of the All Whites into credible World Cup competitors. "Three years ago we were behind as a nation on broadband; now we're getting fibre fast broadband services to 85 per cent of New Zealanders," he notes. "We're one of the more advanced in the world with this fibre we're running out."

Companies are demanding and getting "more for the same dollar". Capital requirements are escalating at a time when revenue is falling.

Prices have "permanently" re-set lower, Reynolds concedes. Yet the demand for investment in better, bigger, faster networks is increasing.

Telecom invested more than $1 billion building its 3G network (XT). Now they're talking 4G and the retirement of analogue.

The technology cycle is two to three years, before "we have to build it again and again and again."

DOUG HEFFERNAN — MIGHTY RIVER POWER

MIGHTY River Power chief executive Doug Heffernan is looking for more opportunities to market the company's geothermal expertise and invest in geothermal development overseas. He is bullish about the state-owned enterprise's international opportunities given concerns over climate change and the company's long experience in developing renewable energy.

Last month Mighty River Power announced it had extended its offshore geothermal development programme through an interest acquired by its international partner, GeoGlobal Energy, in US company EnergySource.

EnergySource is building a 50MW geothermal power station, Hudson Ranch 1, in the Imperial Valley, Southern California, funded by up to $US107 million by GeoGlobal Energy which in turn is funded by Mighty River Power. The SOE is the sole and cornerstone capital investor in the private equity GGE Fund, which has a 25 per cent stake in by GeoGlobal Energy, the fund's management company.

Heffernan said the investment in GeoGlobal Energy reflected Mighty River Power's core capabilities and its market strength as one of the world's top 10 geothermal development companies. Mighty River Power, with more than $1 billion invested in geothermal energy, was probably the world's No. 1 developer of geothermal energy in the past five years.

"We have extensive geothermal experience ... We saw changes in global energy policy being much more in favour of renewables. New Zealand has been active in [geothermal] consulting in the past — only "body hire" — but we saw an opportunity to leverage capital. We recognised as a

company we did not have international business development capacity inside the company. We saw ourselves as "here and now" and that encouraged us to partner with GeoGlobal Energy."

The partnership started 2½ years ago and Mighty River expects to benefit from GeoGlobal Energy's concessions in Chile.

Although it is forecasting a lower profit for the June 2010 financial year — at the lower end of the $315 milion-$350 million range — Heffernan was upbeat about Mighty River Power's prospects and concedes it could make windfall profits under the emissions trading scheme.

"We have not been affected by the global financial crisis, here or overseas. The geothermal opportunities have been very attractive. Profitability should go up because of the emissions trading scheme but we need it to go up because of our large investment in geothermal."

Heffernan said the domestic business was sound. Its energy retail arm, Mercury, was aggressively chasing market share and the water level in Taupo — low in hydro terms during the dry summer and autumn — was about average for winter.

ANDREW FERRIER — FONTERRA

ANDREW Ferrier says it would be a "disservice to the globe" if the international drive to curb carbon emissions impacts on the world's ability to satisfy the large increase in food demand by 2050.

'A global view needs to emerge that efficient farmers are not punished," says Ferrier. "We've got to stand back and take a look at food production needs."

The dairy co-operative's agriculture base is a major contributor to New Zealand's greenhouse gas profile. But it currently sits outside the emissions trading scheme. This stepped up a notch today with the introduction of the electricity and transport sectors into the ETS. The ETS will have a $25 million impact on Fonterra's finances due to higher energy costs. But the big unknown is what will happen when agriculture is finally brought into the scheme. Until that happens Fonterra has some breathing space.

Ferrier intends to plug that gap by pushing the global implications and (quietly) lobbying the politicians to get some political tradeoffs so that his efficient farmers do not feel the brunt of a lopsided policy response.

He has considerable faith that scientific developments will assist, pointing to solar power initiatives which are now able to deliver more energy at lower costs.

He believes New Zealand would be shooting itself in the foot if it gave away its competitive advantage — and potentially long-term wealth — by over-reacting on the carbon front. "We have to keep our eye on the ball for the long term prize."

Ferrier used the global financial crisis as leverage to exert greater control over the dairy's co-operative's balance sheet and support his board's

capital restructuring initiative.

The company's balance sheet used to blow out whenever milk powder prices plunged and cash-strapped farmer members exercised their share redemption rights — $700 million in one year. But, says Ferrier, it is in "good shape" now.

In fact, Fonterra continued to grow profits throughout the crisis. "The food industry is more immune to financial shocks than others, the big global food corporations went through unscathed," says Ferrier.

Even in the middle of the GFC, the dairy co-operative was still able to access debt.

But at double digit interest rates (several percentage points above usual rates) it was expensive. Instead of paying over the line, Fonterra raised $800 million at 7.75 per cent in less than a week from local retail investors. When commodity prices dropped, other players in global dairy — the EU, US and Canada — tried to shore up their farmers.

He believes New Zealand, which "lives on the free market", is better off. "If you enjoy protectionism it's easy to get lazy.

"There's nothing like being honed for free trade. It gives you a huge competitive advantage.

DAVID McLEAN — WESTPAC INSTITUTIONAL BANK

DAVID McLean believes New Zealand businesses are "well-placed" to do their bit to aid the economic recovery.

"People don't realise how grim the rest of the world is so we're quite lucky."

McLean, who heads Westpac Institutional Bank, says the management practices and resilience of "good solid New Zealand businesses" are pretty commendable: "There are businesses who have survived the domestic recession which was very protracted . . . the worst global recession for 60 years as well as a fairly strong dollar for large chunks of it."

"They have a very low level of stress compared to what you would have expected, given those other factors . . . but they are very, very cautious — we're not going to see them rushing out and starting spending, which is probably right.

McLean says there was much more carnage in the business community in previous recessions. "But what we tended to see is that the economy generally came out of it quite quickly.

"Here I think we're going to see less carnage from the downturn but the growth coming out of it is going to be shallower."

Restoring investor confidence is a real priority. McLean applauds the changes in the Government's recent Budget which tackle the thorny issue of directing savings to productive investment rather than property. But he says it's now time to go a step further and have another look at compulsory superannuation. "It's probably against the instincts of this Government as a lot of its constituency is compulsion-free."

McLean reckons sometimes

people simply have to be forced to do the right things — he cites requirements to wear seat-belts and banning smoking from workplaces — instead of giving in to instant gratification — things compulsory superannuation was designed to address. "As a country we've just got to forget that Winston Peters suggested it. We had that referendum then. Let's have another fresh look at it — a debate." Infrastructure should also be a hot debating topic. He questions why the Government needs to own buildings like hospitals, prisons and schools. "We've got people who are far better at building hospitals and renting out than DHBs . . . Now the government may always be the cheapest bank in town — that was always the argument — it's less relevant now that they're running deficits." McLean considers New Zealand is still on a learning curve with not too many people in the private sector — let alone the public sector — who know how to do these things.

The transtasman tax strategy also needs a hard look. McLean wants a "more strategic plan about how we are going to get the Australian and New Zealand economies, from our point of view, working well — not necessarily just from Australia's view."

SIMON MACKENZIE — VECTOR

WHEN Vector chief executive Simon Mackenzie led his team to London on a capital-raising expedition 18 months ago they found themselves up against 50 entities desperately seeking cash. It is fair to say the energy infrastructure company struggled to attract bank attention amid the clamour for credit from other competing firms during the global financial crisis.

Not only was New Zealand distant from the main game, but a cursory glance at NZ's regulatory framework was enough to add a few tens of basis points to the interest bill.

The Government keeps on changing the rules, Mackenzie says, and the regulatory uncertainty is significantly adding to the cost of capital for energy companies.

That is, when they can access debt at all.

"There was a period of time when no capital was available."

Speak to other business leaders about regulatory over-reaction and most cite Telecom and Vector. But if an "ugly contest" was held between the pair over whom suffered most, Mackenzie maintains Vector would win hands down.

"We've been under price control since 2002," he says.

"We've been over-regulated for a considerable period of time, longer than Telecom."

Look at the issue of valuation methodologies applied by the regulator. "There's been a 180 degree swing" in the space of five months.

It's not just Vector's bottom line being eroded by adding to the cost of capital. The ability of the entire sector to access funds and make necessary and timely investments to future-proof New Zealand's energy needs is at stake, he argues.

He believes the Commerce Commission is trying to apply an "economically pure theoretical" model to the messy reality of the everyday commercial world.

How do you predict the cost of future inputs, he asks, when the commission comes along and changes the methodology?

Some had hoped the appointment of new commission chairman Mark Berry might signal a sea-change in attitude — Mackenzie has yet to discern such a change of heart.

For him, the fundamental issue is the massive cost of infrastructure investment and getting an adequate return on the expenditure. If New Zealand wants a world-class energy network — the heart and lungs of any economy — a lighter regulatory touch is required.

KEVIN JAFFE — SIMPSON GRIERSON

KEVIN Jaffe believes the law firm's strong international networks and global reputation made a big difference during what was a tough year for many during the global financial crisis.

Simpson Grierson's corporate team performed well and was recognised through a string of awards at the Macquarie Bank ALB Australasian Law Awards 2010. It was named a joint winner in three deal categories: New Zealand Deal of the Year for the Fisher & Paykel Appliances recapitalisation; M&A Deal of the Year for the Kirin-Lion Nathan acquisition; and Insolvency & Restructuring Deal of the Year for the ABC Learning Centres receivership.

Jaffe says the firm was particularly pleased at the recognition it received for its work on the recapitalisation of the struggling F&P Appliances through the introduction of Haier (China's major whiteware manufacturer) as a cornerstone shareholder.

Jaffe moved into the chair at Simpson Grierson in mid-2009 after long-time chairman Rob Fisher stepped down and moved to the Auckland Transitional Authority. Despite inheriting the top job during difficult economic times, he says his first year has been "interesting and enjoyable. It is a terrific firm to lead . . . full of talented people focusing on delivery to our clients."

He says as confidence has returned to the economy, business is picking up again. Simpson Grierson's merger and acquisition practice has "definitely picked up — obviously from a low base. We have had a number of deals this year of a type we weren't seeing last year.

"Overall we are positive about the direction of business confidence. Clients are wanting to identify

opportunities. They have put a lot of work into strategies to take them forward."

He says funding remains a challenge for many companies trying to make deals in the M&A space. Buyers are focusing a lot more on due diligence and are "sensibly cautious".

"This lengthens sale processes and brings challenges to the completion of deals. Buyers are keen but not desperate to finalise deals."

Like many professional firms, Simpson Grierson has found the lengthy recession brought additional work for its insolvency practice. He warns it is unclear if New Zealand is through the worst of the insolvency issues. "The current issues will have a long tail, so are with us for some time yet."

Like many other chief executives responding to the *Herald* survey he has plenty of praise for Bill English's May 20 Budget. "It was largely signalled and gives clarity and certainty going forward.

"In the UK the upcoming budget is eagerly anticipated. The climate has shown signs of improvement but this has slowed pending the budget. Tax changes including around capital gains tax are being watched carefully."

MURRAY JACK — DELOITTE

Murray Jack rates Finance Minister Bill English's second Budget well. "It largely gets the tax system back in better shape in terms of the lower rates."

Jack believes it will help incentivise Kiwis to get ahead as "they get to keep more of the marginal dollar". He points to just two sticking points: The unexpected axing of depreciation for commercial buildings and the changing of thin capitalisation rules. But he says the real elephant in the room is what happens to Government expenditure in fiscally constrained times.

"In Australia, the Henry tax review also looked at welfare and the welfare-to-work dilemma, whereas that was off the table in New Zealand . . . so that's a 'to do' for Government."

He notes that in Britain and elsewhere, governments are moving aggressively to raise the retirement eligibility age. "That's still a taboo topic here in the face of trends almost everywhere else. So, you have to question whether that's sustainable."

Jack also believes it is important to step up the pace on the implementation of the Capital Markets Development taskforce. "It's important the Government bring to market assets in some form that help develop those markets and create options for 'mums and dads' to potentially invest in.'' He says it will reduce the volatility of the sharemarket as most of these businesses are much more stable and help spread risk. "The rationale for privatisation is strong, but they will be partial privatisations and that's perfectly acceptable, the model is Air NZ. I think they should just conclude how they are going to do it and just get on with it."

Jack is concerned that a considerable amount of KiwiSaver funds are

now being invested offshore due to lack of investment opportunities here — another factor that ought to spur the Government into hastening the deepening of the NZ capital markets.

But a deeper capital market will not be sufficent to create wealth.

Jack believes New Zealand needs to take a leaf out of Singapore's book with its direct investment in science.

"New Zealand should make sure it becomes the preferred destination for a specific kind of pastoral research . . . but it has to get over this notion of GM being a bad thing — the two can't coexist. In the long run if we are agnostic on GM then our competitive advantage in agriculture will erode through lack of science.

Jack is upbeat about the forthcoming merger of eight Auckland councils into one new Super City. "It's vital for the country that Auckland is a visibly successful city and economy."

But he stresses that the success of the Super City is also dependent on the capability of the Auckland council itself.

"If there is a high quality management team in place, that can develop a vision with the elected council that is inspiring and that Aucklanders can identify with, it has a good chance."

PETER THOMPSON — BARFOOT & THOMPSON

PETER Thompson chooses his words carefully as he explains how there was a "slight fall-off" in the real estate market in 2010 due to "waiting on Budget announcements in the early part of this year".

There is no disputing that fact that the Government's decision to keep New Zealanders guessing over what policy it would introduce in the Budget to curb their love affair with residential property investing had a major effect on the market.

Thompson recounts that 2008 was a horrific year for real estate. It recovered in 2009 when there was good activity towards the end of the year. But after the Government indicated it would announce measures in the Budget, buyers were spooked as they did not want to take a chance on buying properties if prices were likely to drop four months later.

He suggests the Government needs to think through the unintended consequences of allowing policy certainty to emerge in market situations. "It was too long a period for uncertainty ...it would have been better to have had a shorter period or just been announced in the Budget."

Despite constant claims by some commentators that the housing market is over-valued, Thompson believes it will continue to grow over the long-term, particularly in Auckland where population growth projections are high.

The Barfoot & Thompson director has been long been an advocate for Auckland to become a Super City. He wants the new Auckland Council to set challenging KPIs for its council controlled organisations. He also wants it to provide uniformity in the varying rules and regulations that mean businesses currently face a considerable nightmare getting

approvals for projects that transcend current Auckland local authorities' boundaries.

While the new Auckland Council mayor might be more of a figure-head, it is important that the council's CEO (Doug McKay) and his direct reports have "enough power to get on and do the job".

Thompson is among a number of CEOs who want National to fulfil some more of the promises they said they would do on attaining Government such as reforming the Resource Management Act.

Thompson points to some regulatory issues slowing down the process of improving the firm's business. He cites the introduction of the new Real Estate Agents Act which has made it more difficult to get skilled staff, as they now have to pass an increased number of exams to qualify as a salesperson.

"This in turn means it is taking a lot longer to pass and means delays in actually starting ... This is not necessarily a bad thing as they are becoming more qualified, but time delays are causing issues over replacing those leaving the industry."

Auckland

Desperately seeking a candidate

A two-horse race to lead the Super City fails to impress, writes **Fran O'Sullivan**

WANTED: A new mayoral candidate with plenty of verve, business smarts and charisma to sharpen the leadership contest for the new Auckland Council.

That is the clear message sent by a big swag of Auckland's business power-brokers in the *Herald*'s 2010 CEO survey.

Fifty per cent of chief executive respondents believe a new mayoral candidate should be sought to contest the leadership of the Super City in the October election. Just 17 per cent of them appear satisfied with what is (still at this stage) a two-horse race between John Banks and Len Brown.

"Most Aucklanders were expecting a tough challenge for this role," said Auckland Regional Chamber of Commerce chief executive Michael Barnett. "So far they have been disappointed."

Neither main candidate achieved a particularly high rating from the respondents on whether they had the "vision, drive and execution skills to ensure the Auckland Council succeeds".

Banks scored a rating average of 3 out of 5, Brown 2.5 out of 5. Auckland City's Banks also out-pointed Brown on all leadership attributes bar one (see adjoining graphic).

Just who gets to lead Auckland is vitally important to the future success of the New Zealand economy.

"We only have one shot at an internationally competitive city that can attract top talent and investment," one media boss said.

"If Auckland isn't efficient then growth aspirations won't be met," commented a the head of a professional firm.

When the *Herald* began surveying early last month for the 2010 Mood of the Boardroom report, Brown initially received higher scores than was reflected in the final outcome. Unfortunately for the Manukau City mayor, chief executives marked him down after his reputation took a dive when a controversy blew-up mid-month over his credit card bills.

"Len Brown's recent conduct causes me to question his judgment," the boss of a major exporting firm observed.

A law firm head described Banks as a "proven performer" in managing complex change and demonstrating vision and leadership. But others noted that he polarises opinion. "The first mayor needs to be a consensus builder so that the various factions can move towards common ground," said Foodstuff's Tony Carter. "Balancing that, the mayor needs to be a consensus builder as a weak person won't achieve anything."

Barfoot and Thompson's Peter Thompson suggested Brown was still too new to council politics to have built credibility. "His turn will come."

Another said both Banks and Brown were much more politically interested than policy-oriented, and, questioned whether either would have the pragmatism to deal with critical commercial issues like the Ports of Auckland shareholding.

NZX chair Andrew Harmos suggested someone with proven leadership skills, like The Warehouse founder Sir Stephen Tindall, should enter the race.

The new candidate should be "someone with guts, who can take some hits (and has taken some hits), someone who understands business, someone with good relations to Wellington, but not someone who is a career politician," said a finance CEO.

Given the lack of overwhelming confidence in either Banks or Brown, it's perhaps not surprising that more chief executives say the Auckland Council's CEO, rather than the mayor, will be more important to the Super City's success. Doug MacKay has been appointed as interim chief executive for the Auckland Council for a two-year period from November 1.

Respondents believe the new council should focus on setting a clear vision and direction, putting Auckland on an internationally competitive path, making the mega-council merger work and establishing challenging KPIs for council-controlled organisations. Keeping rates down was seen as a much lower priority.

Setting a clear vision for Auckland was important if the new council — which wraps together the present eight local authorities of Auckland into one structure — is not to become bogged down in factional fighting and local concerns.

There was no clear confidence that declared candidates for councillor roles on either main ticket — Citizens and Ratepayers and City Vision — had the vision, drive and execution skills to ensure the success of the Auckland Council. Among comments were: "too many of the existing crop have declared their interest in standing"; "the democratic structure does not allow for selection on skill matched to job requirements"; and "even C&R has too many has-beens who never were". A clear majority — 56 per cent — believed there were "too many retreads" at the expense of new blood; 40 per cent were unsure.

Just one-third of chief executives think the new council-controlled organisations will have sufficient independence to do what's best for Auckland. About 44 per cent are still unsure; 22 per cent believe the CCOs will not have sufficient independence.

"It's a good question . . . clearly there needs to be political oversight. But they are big businesses in their own right that need good people to lead and run them," was a common refrain.

Others said much will come down to the capacity of those appointed as directors of the CCOs.

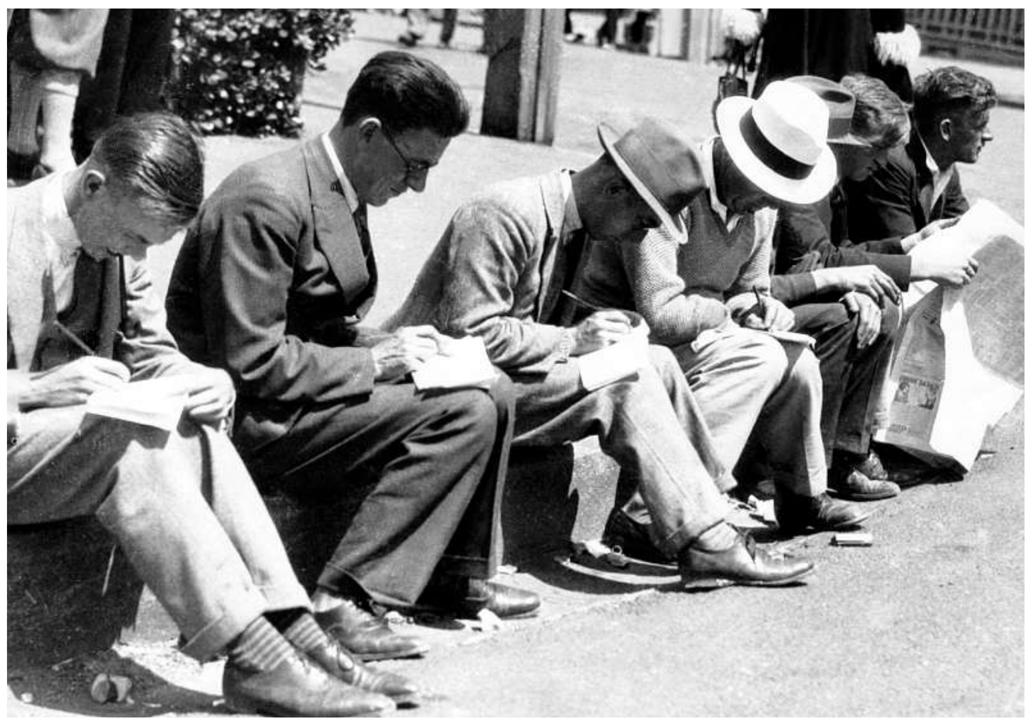
' I wish we had someone better, but neither is a disaster.'

Alasdair Thomson, Employers and Manufacturers Association

The Auckland Council's new logo doesn't hit the sweet spot with many chief executives. The stylised pohutukawa design submitted by retired commercial artist Jim Dean of Manukau is liked by just one in five CEOs responding to the Herald's survey. More than one third (36 per cent) don't like it; 47 per cent are unsure.

AUCKLAND SUPER CITY MAYORAL RACE HOTS UP

CEOs rate the major mayoral candidates ...



BUT ... despite the positive ratings 50% of CEOs believe a new Mayoral candidate should be sought to lead Auckland

1 **NO** confidence — 5 **HIGH** confidence

	JOHN BANKS	LEN BROWN
Leadership skills	3.47	3.06
Puts Auckland's interests over political alignments	3.33	2.74
Vision and strategy for Auckland	3.33	2.99
Management	3.27	2.63
Experience	4.11	2.84
Judgment	3.26	2.51
Trustworthiness	3.37	2.86
Ability to form support within council of competing interests	2.98	3.15
Economic management	3.65	2.56
Courage	4.3	3.46

Source: New Zealand Herald 'Mood of the Boardroom' Survey June 2010 / HERALD GRAPHIC

SUPPORT FOR SHIPLEY, TINDALL

Former National Prime Minister Dame Jenny Shipley and well-known Auckland businessman Sir Stephen Tindall (pictured) are mentioned most by those CEOs who have suggested names for a new mayoral candidate.

Dame Jenny was tipped as a possible candidate by *Metro* magazine earlier this year. But she has since taken on high-powered jobs such as the chair of state-owned power generator Genesis Energy.

Tindall has long been a key mover in the drive to reform Auckland's governance.

Along with former Committee for Auckland champion Nick Main he was linked to an abortive attempt by four Auckland mayors in 2006 to replace the Auckland Regional Council with an all-powerful Greater Auckland Council. It was to have government representatives, other outside appointees, guaranteed seats for the mayoral plotters, but no directly elected councillors. ipredict this week rated the chance of Tindall even standing for the mayoralty at 7.36 per cent; Dame Jenny was at 2.66 per cent.

Other mayoral suggestions include former Auckland businessman Ralph Norris, who now heads the Commonwealth Bank in Sydney; Air NZ chief executive Rob Fyfe, former Fairfax head and All Black captain David Kirk, and even the man who is charged with overseeing the reforms, Local Government Minister Rodney Hide.

Case for more transparency on the cards

Opinions differ on whether credit card spending was appropriate or over the top

BUSINESS high-fliers are divided on whether Cabinet Ministers and MPs displayed a "sense of entitlement" in their use of housing allowances and credit cards.

The latest revelations over alleged "troughing" by Kiwi politicians has resulted in the demotion of Labour MPs Shane Jones, who put porn movies on his credit card while a Cabinet Minister, and, Chris Carter who spent large on travel.

But while nearly 60 per cent of those responding to a question in the *Herald* survey believe the widespread media coverage was a beat-up, roughly the same number believe it was necessary for transparency and accountability. EMA Northern chief executive Alasdair Thompson said he was shocked by the revelations over the use of ministerial housing allowances earlier this year. "Yes I could understand the argument Bill English, for example, put forward but it was never going to pass the test of public opinion," he said. "It made him look greedy and it was demeaning of a sound and sensible person."

"Those who used credit cards broke clear policy that they were not to be used for personal purchases even if they did intend to refund the money.

"It's simply not on. All personal credit cards should be recalled. They obviously cannot be trusted. This has further damaged the credibility of our MP's and ministers."

The use of housing allowances raised more eyebrows than credit cards. But some believed not repaying personal expenditure from credit cards was tantamount to fraud and likely to result in firings in the private sector.

NZX chairman Andrew Harmos said the issue "goes to character and integrity, and indeed judgement . . . I think it has been well and appropriately exposed."

Others disagreed. "This was a mountain out of a molehill and typifies the puerile political debate in New Zealand," said infrastructure specialist Stephen Selwood.

Perhaps a bit of overkill," said Mark Cairns from Port of Tauranga. "The credit card story has certainly kept on giving."

Several chief executives pointed out the revelations were relatively "small beer" compared to the obvious rorts practised by British politicians.

"It's not as if they have been cleaning their moats or renovating houses on the taxpayer," said Deloitte's Murray Jack.

Another claimed the media "frenzy" had been petty and made the job of public leadership and service even more unattractive. But just 43 per cent believed the media exposure would put credible candidates off seeking a political career.

One criticised media coverage saying journalists did not always discriminate between expenditure that was acceptable — "such as by Trade Minister Tim Groser while overseas" and "golf clubs by former minister Mita Ririnui".

"Some of these items have been sensationalised," said one exporter. "They are busy travelling and their juniors should see that this sort of spending does not happen.

"But the porn was funny."

Another chief executive confesses to being "a bit torn by this one".

"I wonder what would happen if my own company credit card was open to similar scrutiny? Having said that there are better processes in my organisation for approval of expenses than obviously applied in government."

The Financial Markets Authority

A confidence booster for investors

Most CEOs want the new super regulator to be based in Auckland with a fulltime chair and a part-time board

TAMSYN PARKER

THE *Herald*'s annual Mood of the Boardroom survey has revealed strong support for the new Financial Markets Authority, with the majority of respondents believing the new body will inspire investor confidence.

Of those surveyed, 69 per cent say they want a fulltime chairperson while 58 per cent are keen on part-time board members.

Only 35 per cent believe the board members should be fulltime.

Auckland was the favoured board location for 52 per cent of respondents. Wellington, home of the Securities Commission, only had 21 per cent support. Fisher Funds Management managing director Carmel Fisher said she favoured Auckland because it was where a large part of the investment community was based.

"Many of the misdemeanours or dodgy actions identified in the past could have been picked up just by being among them.

"If you are in a different city you will lose that street talk and ability to pick up things. Practically, it makes more sense."

Fisher said a fulltime chairperson was needed to allow them to devote all their time and energy to investigations. She was also in favour of fulltime board members.

"Having people who meet periodically, you'll never do as well as being fulltime."

Neil Paviour-Smith, managing director of Forsyth Barr, said the location of the FMA should be driven by where the most capable people were based.

"The Companies Office is in Auckland while the Securities Commission is in Wellington. An amalgamation of the existing operations should be where the best and most capable people are."

He believed part-time board members would work best because they could bring a wide range of experiences to the table. But key decision-makers should be fulltime to allow them to focus on the job.

"Their performance should be reviewed by some form of governance because otherwise who do they report to?"

Paviour-Smith said the market was looking for clarity and consistency to allow participants to get on with the job.

Names suggested for the chairman's top job include current FMA establishment board chairman Simon Botherway, Wellington lawyer and former ACT party member Stephen Franks and former ANZ National Bank chief Sir John Anderson. Another person being talked about is barrister Michael Webb who recently returned from spending several years with the regulator in Qatar.

Paviour-Smith said he did not believe the talent pool should be limited to New Zealand.

Fisher said David Mayhew, the current Commissioner of Financial Advisers at the Securities Commission would be a good candidate.

"He has had a regulatory background and a background outside New Zealand.

"Stephen Franks would also be good, as would Simon Botherway."

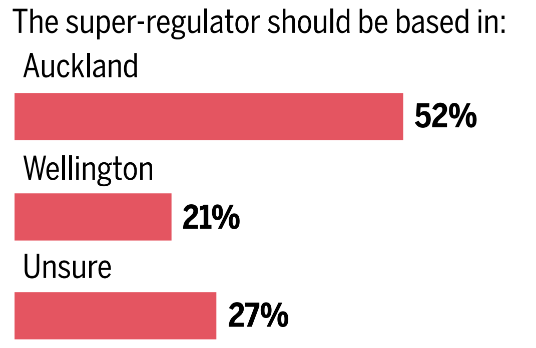
Craigs Investment Partners managing director Frank Aldridge said the important thing was that the person was a strong leader.

"If they can bring background experience which is beneficial, I think that would be key."

' Many of the misdemeanours or dodgy actions identified in the past could have been picked up just by being among them. If you are in a different city you will lose that street talk and ability to pick up things. Practically it makes more sense. '

Carmel Fisher, Fisher Funds

SUPER-REGULATOR GETS CEOS SEAL OF APPROVAL



Those who want a full-time chairman	69%
Those who want part-time board members	58%

STEPHEN FRANKS
The former Securities Commission member's no-nonsense style could be useful to the Super-regulator.

SIMON BOTHERWAY
The Financial Markets Authority Establishment Board head impresses many CEOs.

Source: New Zealand Herald 'Mood of the Boardroom' Survey June 2010 / HERALD GRAPHIC

Government urged to float SOEs

Chief executives want partial privatisation of state businesses with a helping hand from the NZ Super Fund, writes **Graeme Hunt**

THE Government's tentative plans to privatise state-owned enterprises in its second parliamentary term have received a huge boost from the *New Zealand Herald* Mood of the Boardroom survey.

More than 90 per cent of chief executives surveyed favour partial listing of some SOEs on the NZX to improve economic efficiency; only one in three support full floats and 41 per cent who prefer privatising SOEs by trade sales.

Nearly 63 per cent of respondents want the Super Fund to take cornerstone stakes in floated SOEs and nearly 40 per cent are not averse to iwi holding cornerstone stakes in the enterprises.

But there is no great support for full privatisation.

Nearly 62 per cent of CEOs surveyed say the Government should retain a controlling stake in privatised SOEs.

The response is a far cry from the heady days of the late 1980s and early 1990s when many business leaders, especially those in big business, were keen for the Government to move out of state trading enterprises altogether. Business' softer view today reflects the redefined role for governments following the global financial crisis and, specifically, the success of national carrier Air New Zealand under public-private ownership.

The attraction of listing SOEs rather than selling them to foreign buyers also reflects CEOs' concerns over the strength and confidence of our capital markets.

Fifty-seven per cent say even with the tax changes on property there are insufficient opportunities to encourage investment outside the property sector.

Deloitte New Zealand chief executive Murray Jack said a Government cornerstone shareholding in floated SOEs should not be a policy.

"The Government should only retain a shareholding if that is in the interests of the taxpayer, acknowledging that majority stakes may be a political reality for some time yet," he said.

BMW Group New Zealand managing director Mark Gilbert said Government shareholding in floated SOEs would help retain investment here rather than all profits being repatriated overseas.

First NZ Capital managing director Scott St John and Auckland Chamber of Commerce chief executive Michael Barnett said they favoured partial listing of some SOEs on the NZX.

Employers & Manufacturers (Northern) chief executive Alasdair Thompson said he favoured Government shareholdings in privatised SOEs but only because of the politics involved; "putting the proceeds to good use is politically do-able".

Several CEOs said the Government should retain controlling stakes in certain unnamed strategic or critical assets.

One said: "Partial privatisation is probably better than no privatisation."

Partial privatisation of SOEs won the backing of the Government-appointed Capital Markets Taskforce, which reported in December.

The taskforce spoke of the need to broaden the range of high-quality equity offerings to retail investors by encouraging partial listings of central and local government-owned companies.

Chairman Rob Cameron said partially privatising SOEs was one of the measures that would increase business efficiency.

The privatisation debate hotted up last month when Solid Energy chairman John Palmer suggested the state-owned coalminer should in 2012 be partially privatised to help meet $5 billion to $10 billion of capital needs over the next decade.

He suggested Solid Energy should be valued at around $2.5 billion before the injection of any private capital.

But Energy Minister Gerry Brownlee said any sale of state-owned assets would occur only if the Government were elected on that mandate.

90% **Partial listings SOEs** ... of CEOs in favour

Tax with your water — no thanks!
Business leaders don't want a bar of any tax on the water supply. Two-thirds of those polled are dead against a tax being levied on the water supply. Just 17 per cent are in favour. The debates comes as the Government is extending the life of public-private partnerships over the water industry — a move some critics claim is the first step toward eventual privatisation of the water supply. This has been denied by the Government.

Call for compulsory superannuation

BUSINESS leaders say the Government should follow Australia's example and make superannuation compulsory, using tax incentives to promote savings.

More than 85 per cent of CEOs responding to the Mood of the Boardroom survey want compulsory super, and 87 per cent think New Zealand should follow Australia's example with lower tax rates on super funds and tax deductibility for individual savings.

First NZ Capital managing director Scott St John said NZ should introduce compulsory superannuation — but not to the extent of Australia where the contribution rate will rise from its current 9 per cent rate to 12 per cent by 2019.

"I do accept some of the arguments put forward by those who say there is nothing wrong with saving via one's houses," he said. "However, if they are wrong, you do not find out until it's too late to remedy it — then the burden is all on workers (and the few who have diversity and scale in their savings)."

Tower Group managing director Rob Flannagan said compulsory super should have been introduced long ago. "The amount is not hard to work out and a gradual phasing-in is critical for the long-term benefit of New Zealand," he said.

Grant Samuel founding director Michael Lorimer said compulsory savings in well-managed funds would insulate poorly advised savers from losses such as those incurred in the finance sector.

Others took a holistic view. Zespri Group chief executive Lain Jager said poor savings levels would undermine the country's competitiveness in the longer term. EziBuy chief executive Simon West said some of his customers had increasing exposure through superannuation funds, particularly in Australia. "I believe this drives confidence. New Zealanders need to start saving so we can own our own strategic resources and invest in the productive sector."

But compulsory superannuation is unlikely to become public policy without a major new debate. The two main political parties oppose it, as does the union movement and a large percentage of the public.

A New Zealand First-sponsored retirement savings scheme was rejected by 91.8 per cent in a citizens-initiated referendum in 1997 — the largest rejection of any issue at any referendum in New Zealand history.

This level of public opposition to compulsion will not be lost on the National-led administration, given the widespread opposition to the emissions trading scheme, which starts today, and an admission by Prime Minister John Key that households will share a disproportionate burden of the ETS.

The other issue for the Government to to wrestle with is tax neutrality. The Budget in May emphasised fairness in the tax system and removed what some saw as undeserved tax benefits for investing in property. Were the Government to introduce sweetheart tax rates for super funds and individual deductibility on retirement savings, it could be accused of damaging the integrity of the tax system.

85% **Compulsory Superannuation** ... of CEOs in favour

Thumbs down for inquiry

MOST chief executives canvassed in the *Herald* survey do not believe a royal commission of inquiry into the $5 billion collapse of the finance company sector is warranted.

EMA (Northern) chief executive Alasdair Thompson said New Zealand did not need to know how or why it happened. "Get the rules governing their practice as good as possible but otherwise tell the public it's time they used their own judgment wisely and kept the doctrine of caveat emptor high in their mind," he said. "Nanny state cannot, nor should not, try to protect everyone from their own folly."

"The boat was leaking — it sank. What would you gain?," added Auckland Regional Chamber of Commerce chief executive Michael Barnett.

About 56 per cent of CEOs oppose an inquiry compared to almost one-third who believe it would be valuable.

But views have sharpened since the Government placed South Island investor Allan Hubbard and his wife into statutory management along with Hubbard company Aorangi Securities and a raft of associated charitable trust. A communications company chief who responded to the *Herald* survey after the statutory management was announced said, "Something has to happen. They have sat on their hands while the likes of Eric Watson have cruised off, then turned on Allan Hubbard with an apparent vengeance." Another respondent said, "It seems action is now being taken against minor transgressors when the real culprits are getting away with impunity and the savings of many."

A pressure group representing investors in failed finance companies has lobbied Commerce Minister Simon Power for a royal commission into the finance company sector collapse.

The Exposing Unacceptable Financial Activities Incorporated Society has tabled submissions to a parliamentary inquiry from investors in the 48 troubled finance companies and the Blue Chip group of companies.

South Pacific Pictures boss John Barnett said a commission would simply take too long. "We need clear, effective, enforceable rules and mechanisms that enforce them with real penalties.

"The focus should be on prevention of a repeat in the future."

Taxation

It's not only death and taxes that are certain

Changes in the Budget caught many New Zealanders pleasantly off-guard and set a foundation for more change to come, writes **Thomas Pippos**

THIS year's Mood of the Boardroom survey showed a high degree of interest in tax. The Budget was viewed positively and is seen as providing a foundation for future growth, being generally business friendly and making the tax system fairer. It was seen as largely breaking the back of any tax initiatives required in the short term to achieve these outcomes.

It was a stark contrast to Budgets of the recent past. It caught many watchers by surprise, particularly given the context of being in the middle of the greatest financial upheaval since the 1930s depression and following a decade of prosperity and, some would say, lost opportunities.

Making the numbers work was not without its challenges, as evidenced by the lacklustre support for the tax depreciation changes in relation to commercial property.

A casualty of the residential property euphoria and the need to balance the books with a fiscally neutral tax package, officials squared off on the topic of depreciating commercial property. Treasury won the day against the advice of Inland Revenue, resulting in tax depreciation on almost all buildings being lost.

Treasury was possibly somewhat influenced by its resounding loss in seeking to muster political support for a capital gains tax. Equally important to note however is that Treasury fought and won the good fight (in this case) for dropping the corporate tax rate to 28 per cent against the wishes of Inland Revenue.

Catching everyone off-guard was a consequential IFRS accounting effect from the depreciation change.

The full effect of the need to recognise upfront deferred tax liabilities because of this law change is yet to become clear but it will easily result in many hundreds of millions and possibly billions of dollars being wiped off reported after-tax corporate profits in New Zealand, with equally negative impacts on the balance sheet. Having to explain such a material non-cash item is not ideal when corporate balance sheets are already under stress.

If nothing else it sends a strong reminder of the importance of letting the full tax consultative process run its course, as if it had, this issue would have been known in advance and could have resulted in measures to address it.

Back to the future, the survey magnified the importance of Australia with respondents clearly supporting compulsory superannuation (85 per cent), incentivising savings (87 per cent) and better tapping into the investment pool of more than $1 trillion that Australia has created.

Mutual recognition of imputation and franking credits would go some way to enable this, but this initiative is all but terminal with the only glimmer of hope being whether the Australian Government's new leadership team ignores its officials' advice and looks to support the initiative — hardly a likely outcome.

> 'In terms of what more, paraphrasing Billy Connolly, the respondents have highlighted that they want this! And that! Less of this! None of that, more of this, and plenty of that! They want it now! They wanted it yesterday, and given the election next year the demands may all be changed so it's best that the Government stay awake and doesn't take anything for granted.'

Survey respondents overwhelmingly supported New Zealand looking to develop unilateral options if mutual recognition is as terminal as it appears.

Picking winners could also be part of the future as the cost of racing to the bottom (in terms of tax rates) to attract mobile capital and labour is not sustainable.

The fear expressed by officials in trusting Governments to do this is to some extent echoed by respondents, with only 48 per cent of those surveyed supporting incentivising financial hubs, 23 per cent not wanting a bar of it with the rest of the respondents unsure.

The negative/unsure vote definitely carried the day when the question was posed as a generalisation rather than in the context of a specific initiative, albeit most respondents (55 per cent) were unsure rather than naysayers. It's a "watch this space" topic as again the only feasible way to attract truly mobile capital and labour is to target an initiative.

A more resounding "no" vote was around "picking losers" — that is, taxing more heavily those who derive economic rents from New Zealand. Only 10 per cent of respondents thought it was a good idea to identify and tax more heavily areas of the economy that are immobile, 14 per cent were unsure but 76 per cent said no.

The recent Australian political folly of the "resource super profits tax" seems to bring out some transtasman consistency of sentiment in this space.

There was also a resounding "no" vote to any return to the "rich pricks" tax by reinstating a 38 per cent marginal tax rate. Hardly surprising, but it is also the right answer for the coherency and integrity of the tax system; bearing also in mind the ability that certain taxpayers have to structure their affairs around such tax rates — notwithstanding the recent Court of Appeal decision in Penny and Hooper.

It used to also be that "nothing was certain but death and taxes." It now seems there is a third certainty, with 100 per cent of respondents wanting greater certainty around tax, including in relation to tax avoidance.

It's one thing to know you'll need to pay tax, it's another to know how much needs to be paid, and when.

In part, New Zealand is caught up in a global phenomenon of revenue authorities aggressively tackling anything too "clever" or too "cute"; i.e. anything they "don't like". This move is no doubt also incentivised by shrinking government revenues. A cynic would say the tax avoidance boundary is being kept deliberately unclear to encourage tax positions which clearly favour the taxman.

Uncertainly of tax outcomes adds economic costs and stifles normal business activity, something the survey respondents have more than likely directly experienced.

It is somewhat related, but perfect unanimity of sentiment wasn't apparent around the questions dealing with morality in tax planning and supporting "cash jobs". The clearly immoral few could statistically be seen as being in the margin of error, but there were around 8 per cent ambivalent souls. Morality had left the debate when it came to considering whether it was acceptable for small businesses and professionals to lower their effective rate of personal taxation through the formation of trusts or companies: 55 per cent of those surveyed said it wasn't on, 34 per cent said it was and 11 per cent were unsure. But in a clear majority of cases, boards were either interested or extremely interested in ensuring tax obligations are being complied with; this is a sentiment that has been deliberately targeted by the Inland Revenue because it believes by increasing board connectivity to tax, the appetite for tax risk decreases.

So, where does this leave us?

Budget 2010 made positive and long overdue changes that involved action, not just rhetoric. It caught many New Zealanders pleasantly off-guard and set a foundation for more change to come. In terms of what more, paraphrasing Billy Connolly, the respondents have highlighted that they want this! And that! Less of this! None of that, more of this, and plenty of that! They want it now!

They wanted it yesterday, and, given the election next year, the demands may all be changed so it's best that the Government stays awake and doesn't take anything for granted.

Thomas Pippos is Managing Tax Partner at Deloitte

RUNNING THE RULER OVER THE BUDGET TAX PACKAGE

CEOs rate the May 20 tax changes

1 — LOW ... 5 — HIGH

THE BUDGET WAS:

Solid foundation for growth	3.63
Business friendly	3.80
Made the tax system fairer	3.92

	LOW		NEUTRAL		HIGH	AVERAGE RATING
Corporate tax cut	0%	3 %	9 %	51%	37%	4.21
Personal tax cuts	0%	4 %	9 %	47%	40%	4.24
Alignment top personal/ trust rates	0%	2%	19%	46%	33%	4.09
Cuts to savings vehicle tax rates	1%	3%	21%	48%	27%	3.95

How appropriate were these measures to fund the budget tax cuts?

1 — INAPPROPRIATE ... 5 — APPROPRIATE

Closing loopholes to exploit Working for Families	4.73
Increase in GST from 12.5 to 15%	4.44
Changing the tax treatment of LAQC's	4.06
Axing depreciation for residential housing	4.01
Reduction in thin cap 'safe harbour' threshold from 75% to 60%	3.63
Axing depreciation on commercial buildings	3.17
Axing 20% depreciation loading on most NZ assets	3.16

Source: New Zealand Herald 'Mood of the Boardroom' Survey June 2010 / HERALD GRAPHIC

CEOs to IRD: keep it honest

CHIEF executives want a "moral" tax system where the rules are spelled out but they are not averse to legitimate tax planning. Respondents to the Mood of the Boardroom survey are unanimous in demanding certainty in tax matters such as what amounts to avoidance.

Four out of five say they factor in "morality" when considering tax-planning options for their enterprise and a similar proportion see a high degree of morality as an important component of any tax system.

Most say it is morally unacceptable to accept a cash job offer in a personal business transaction because it encourages tax evasion, and more than half consider it unacceptable for small businesses and professionals to lower their personal tax rates through trusts.

In reality, tax avoidance by SMEs and professionals is as widespread as it is among the big corporates but recent clampdowns by Inland Revenue suggest the department is upping the ante against tax avoiders.

It follows a succession of high-profile tax-evasion actions against major banks which netted the Crown $2.2 billion in a landmark settlement last year. The settlement arose after Inland Revenue brought actions against BNZ, Westpac, ANZ National and ASB Bank over alleged tax evasion organised through a series of structured-financing transactions.

Deloitte tax expert Thomas Pippos said at the time he hoped the courts would have been allowed to provide greater clarification of the tax system.

It is the first time morality and tax have featured together in Mood of the Boardroom surveys and the response has been positive, in part because of the unexpected scale of, and support for, the company tax cut in the Budget but also because of the potential liability careless directors face if companies get their tax compliance wrong.

CEOs say directors are highly interested in ensuring companies comply with tax obligations although one in two say directors' interest in tax matters has not increased in the past five years.

Directors have a duty in law to act in good faith and the best interests of the company. They are not expected to be tax experts but are expected to refrain from illegal or dubious compliance, including tax evasion and questionable tax avoidance. Tax avoidance is not legally defined, hence the call from CEOs for clear and simple rules from the IRD.

DEPRECIATION

Meanwhile, several major listed companies will be have large deferred tax bills to pay as a result of the Government's decision to abolish depreciation deductibility on buildings.

While they will benefit from the lower company tax rate of 28 per cent, some are saddled with one-off deferred tax charges amounting to millions of dollars.

They include discount retailer The Warehouse Group which estimates the depreciation change will slice about $23 million off its tax-paid profit for the August 2010 financial year.

Casino operator Sky City says the change will reduce its net tax-paid profit for its 2010 financial year, which ended yesterday, by about $60 million. Auckland International Airport says it will take a hit of about $80 million for the same period.

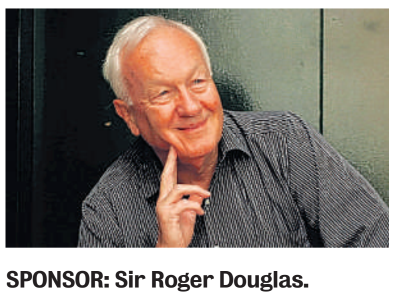
Most companies say the profit downgrades do not reflect their operational performance or underlying profitability.

Act takes up responsibility

There's doubt whether passing another law is the answer to bad legislation, writes **Nick Smith**

THE Act Party's attempt to pass legislation to reduce the number of bad laws passed by Parliament is clearly supported by a majority of business leaders — more than 65 per cent are in favour of the Regulatory Responsibility Bill. But it is also clear many of them don't believe the bill will work as it is intended to do. More than a quarter of respondents were unsure, while 9 per cent opposed the bill.

Sponsored by Act MP and former Labour Finance Minister Sir Roger Douglas, the bill seeks to set a framework of over-riding criteria that all legislation should meet, including laws already on the statute books. It requires the Crown to report on its compliance and allows a non-binding voice for the judiciary to declare other law incompatible with Act's bill.



SPONSOR: Sir Roger Douglas.

Fonterra chief executive Andrew Ferrier agrees with the bill's stated goals, saying streamlining regulation by Government and local government is important.

But many are sceptical. "I doubt whether passing another law is the answer to the problem of too many laws," says University of Auckland vice-chancellor Stuart McCutcheon.

Former Telecom chief executive Theresa Gattung doubts the bill's efficacy. "It sounds good in theory but will it have any teeth in practice?" she says.

As a Wellington-based legal firm head recommends: "More needs to be done to ensure that regulation is transparently justified and properly costed." Another executive, who asked not to be named, says the bill must "become a key part of our economic constitution, alongside the Reserve Bank Act and the Fiscal Responsibility Code".

Some are worried about the unintended consequences from the bill's possible enactment. "Easy title, but like many of Act's policies, it may be too insensitive to other priorities."

MOOD OF THE BOARDROOM

CEOs HAVE THE LAST WORD

STUART McCUTCHEON — AUCKLAND UNIVERSITY

STUART McCutcheon is adamant if New Zealand wants to be a wealthy it has to move away from an emphasis on relatively low value, high volume commodity products.

The University of Auckland vice-chancellor is concerned New Zealand continues to export the same commodities it has for the past 30 years. "God help Godzone if a synthetic meat or milk product is ever developed ... "

More support needs to be given to "breakthrough technologies" to create a Downunder Google or Microsoft — the opposite of New Zealand's agriculture commodity-based approach, McCutcheon argues.

He believes the country is lowering the bar in terms of potential business growth and tertiary achievement.

And there seems to be little desire from political or business leadership to acknowledge the problem, let alone make the necessary changes.

Other advanced small economies have made significant investment into developing higher tech industries but NZ remains mired in an agricultural dead end, McCutcheon argues, He cites Federated Farmers as a lobby group that exercises far too much influence on the national debate — seeming to favour doing things on the cheap rather than creating high value opportunity. "Far and away the bulk of investment is in near market research and development . . . it's more development than research." Similarly, the Government seems intent on "lowering the cost of education as opposed to improving and investing in the quality of the institutions".

It is about bums on seats, says McCutcheon, instead of creating the institutional environment that will nurture and develop the kind of "high quality scientific entrepreneur who is good at making scientific discoveries and getting them to market".

Instead of lowering fees and getting the largest possible human herd through the education gate, the Government should be raising fees and entry standards and using the savings to fund excellence.

As standards rise, businesses and entrepreneurs will "cluster around" these universities, creating growth, employment and wealth, he argues. On this point, he gives his own sector good marks.

It is a myth, McCutcheon insists, that there are swathes of intellectual property gathering dust on university shelves. "The reality is our scientists are pretty good at commercialising IP."

But more needs to be spent on fundamental game-changing research. "The Government continues to invest in primary research with a short payback time. But this will do little to achieve the goal of creating a high-wage economy and wealth parity with Australia.

He is grateful for the $3m set aside in the Budget for fundamental research, an allowance he describes as "a modest scheme".

TONY CARTER — FOODSTUFFS

FOODSTUFFS New Zealand managing director Tony Carter says the Foodstuffs model — a 100 per cent New Zealand-owned and operated co-operative structure — has strong community support and holds its own in the competitive national food market.

With market share approaching 57 per cent and new opportunities coming on steam with the franchising of the Gilmours cash-and-carry operation, Foodstuffs demonstrates the benefits of New Zealand ownership, Carter says.

He is upbeat about Foodstuffs' future and generally happy with the recent Budget changes, not least the increase in GST and the cut in company tax which, he says, moves the Government toward "taxing spending more than taxing income".

He says the tightening of eligibility for the Working for Families tax credit makes sense as do moves to make people pay their fair share of tax. But he questions the axing of depreciation on commercial buildings.

Carter does not expect inflation to be a problem in the grocery sector, despite the impact of the GST increase and the emissions trading scheme.

"There is a logical argument that wages don't need to increase because of the tax cuts. What we are noticing at the moment in our sector is that prices are suppressed. Food prices are 3.5 per cent less that they were in October last year. It is largely in fresh fruit and produce and meat.

"You do have to think at some point in time this is going to change. There is a risk of inflation but certainly there is no evidence of it at the moment."

Carter says it is hard to know what impact the ETS will have on inflation but it is not likely to be significant in the grocery business.

He says a key issue facing his sector is likely restrictions on the sale of liquor.

"There is no doubt there will be a more restrictive environment on the sale of alcohol. We don't want to be collateral damage in this. That is our only concern.

"If you believe the price of alcohol is too low from society's point of view, put the tax up. If you try to interfere in the market you will create distortions."

GRANT WEBSTER — TOURISM HOLDINGS

THE tourism sector may be suffering its second consecutive winter of discontent but, reports Tourism Holdings chief executive Grant Webster, New Zealand's second most valuable earner of foreign exchange is in good heart.

"Tourism in New Zealand is still in a reasonable state — it has survived," Webster says, although he acknowledges the extremely challenging business environment. "This winter — unless you're in skiing — is tougher than anyone expected. But there's an underlying real optimism about next summer onwards," he enthuses — although everyone still has one eye focused on events in the important European market.

One cause for confidence is Prime Minister John Key's personal stewardship of the Tourism portfolio. This tells tourism operators that "we are important and we are being heard," says Webster of the additional funding Key fought and won on behalf of the sector. "The leaders in this space are pulling together collectively and there's a sense that we can do it.

"I know those aren't hard financial [indicators] but it's a mood and it's relatively positive."

Of more substance are the twin issues of consumer confidence and capacity. On the latter point, airline, coach and campervan capacity has been adjusted down, thus avoiding the discounting that can cripple a company.

Yields have been maintained and volume sacrificed which Webster says is a a positive development. For one, it has led to growth in pre-bookings as people realise the last-minute bargains are no longer available.

Employment confidence has also returned, he notes, and when jobs aren't under threat, people are prepared to book that holiday, whether in New Zealand, Australia or the US. "The hope is that because they're booking earlier, the market is generally up," he says.

If there is one disturbing trend it is the lack of reinvestment in quality assets: hotels, coaches and the like. "I haven't heard of one new five-star coach being built in the past 12 months in New Zealand," he says. Normally, 20 to 30 are manufactured every year.

THL is re-starting its reinvestment programme but the industry-wide lag threatens the quality of service and product we provide.

Other challenges include getting a Chinese airline into New Zealand, providing the opportunity to "really grow that market". With the yuan set to strengthen, boosting Chinese middle-class discretionary spending, there is a real opportunity that New Zealand must seize, he says.

The other prospect is further developing the transtasman relationship. Australia-New Zealand is a dual destination for many travellers, particularly backpackers.

"We have the better brand but Australia is operating better tactically," says Webster.

JENNIFER MOXON — IBM

IF the Auckland Super City mayor wants to boost productivity in the country's biggest city then he or she should look to Brisbane and Singapore, says Jennifer Moxon, managing director of IBM New Zealand. Brisbane boasts a smart traffic management system, reducing accident rates, improving driving time and delivering productivity gains across the city, she says.

In Singapore, smart card technology has helped create the most affordable public transport system in the world. Moxon, who has championed public-private partnerships such as IBM's successful joint project with the National Institute of Water & Atmospheric Research, says the Brisbane and Singapore solutions could easily be applied to Auckland.

"Intelligent transport and energy systems" must be a core focus of all local bodies, she says, as must integration of the road and transport systems.

Moxon would like to see the Auckland model of reform applied to local body districts around the country to eliminate duplication and unlock the growth-enhancing benefits of consolidation. The public sector must perform better, she says, as it is one of three critical elements driving economic growth, the other two being innovation and investment in key national infrastructure.

Costs have spiralled, she says, pointing to the health sector, and a central procurement function would assist local bodies and government in lowering costs and improving productivity. We need to "treat New Zealand as a company", she says.

An IBM innovation index, conducted in conjunction with Auckland University, revealed innovation has been stagnant in New Zealand during the past decade, perhaps a reflection of low levels of investment in research and development. "It's such a critical part of economic growth and prosperity," she says.

But she believes the Government has its policy mix right in this area: "We are really positive about this Government's investment in research and development. We are positive about the opportunities for working more closely with the public sector and to leverage some of the capabilities IBM has at a global level to help grow the country."

New Zealand business conditions for IBM are improving, she reports. In 2009, its clients were focused on cost-reduction but this year it is all about identifying areas of revenue growth.

There is no silver bullet in terms of policy settings, she says, to magically create a dynamic, growth-driven business environment. "I come back to the focus around driving greater levels of innovation, greater levels of productivity across the public sector and improving critical infrastructure at a local and national level."

Once those challenges are tackled, there is "the opportunity is to concentrate on new sources of revenue growth to drive productivity".

CEOs will cut energy use to blunt ETS impact

Business says it will work around the controversial emissions trading scheme which starts today, writes **Graeme Hunt**

BUSINESS leaders are more likely to cut energy use to limit price hikes imposed by the ETS than campaign for its abolition or use the scheme to advantage.

Although more than four out of 10 chief executives responding to the *New Zealand Herald* Mood of the Boardroom survey want the Government to modify the scheme, a sizeable minority — one in three — say it should be left alone.

This is not because the ETS has become more popular — it hasn't, and several CEOs want it deferred or abolished — but business pragmatism rather than philosophical opposition to emissions trading is starting to shine through.

Auckland Chamber of Commerce chief executive Michael Barnett's view is a case in point.

"While I agree with the view that a sensible approach would be to suspend the next steps of the ETS, I also believe that this is a case of too many conflicting views from within Government itself," he said.

"If carbon emissions are an issue, tax at the point of emissions if reductions at a reasonable level are not introduced and maintained."

Another CEO, who asked not to be named, said: "I don't think we can back out now. We shouldn't have passed it but now it is upon us, it wouldn't be wise to change it."

Another said New Zealand needed a strategy to deal with climate change. "While I won't comment on the current debate, there are techniques and solutions that can make a significant contribution, such as smart traffic systems," he said.

33% Emissions Trading Scheme ... want the Govt to modify the ETS

Others were less accommodating. Employers & Manufacturers (Northern) chief executive Alasdair Thompson said a better approach would be to defer the scheme. Another said: "Remove it altogether. There is no way New Zealand should lead the world on this issue when the science is not yet agreed on the matter."

Still another noted: "We're right out in front again with an expensive response to a global problem. Can we afford to lead and make ourselves less competitive internationally?"

Despite such opposition, CEOs seem prepared to work around the ETS to limit its impact on business.

Nearly six out of 10 respondents to the Mood of the Boardroom survey say their medium-term environmental priority is to reduce energy use, compared with one in four who rate responding to consumers with low-carbon goods and services as a medium-term environmental priority and just 7 per cent who see participating in emissions trading as a medium-term environmental priority.

This response echoes that from small and medium-sized businesses to a similar question in the Mood of the Boardoom survey.

There has been no time yet to gauge the true impact of emissions trading in New Zealand and the situation in Australia is anything but clear after the ousting last week of Labor Prime Minister Kevin Rudd.

In April Rudd postponed plans for an ETS until "2013 at the earliest" after legislation was blocked in the Senate by the Green and Liberal-National parties. The shelving of the ETS was welcomed by business but weakened Rudd's public standing, not least his support among Labor voters. He was supported at the time by the woman who deposed him last week, his Deputy Prime Minister Julia Gillard.

Since becoming Prime Minister on June 24, Gillard has been careful with her words on the future of any Australian ETS.

She has said she is prepared to put a price on carbon emissions if successful in the general election she plans to call in coming months. "I will re-prosecute the case for a carbon price at home and abroad," she told Bloomberg, noting that Australia had to "face a situation where there was not a community consensus about a carbon price".

Wave of support for foreshore and seabed reform

CHIEF executives have come in solidly behind the Government over plans to repeal the Foreshore and Seabed Act and place contested areas in a public domain.

Two out of three CEOs responding to the Mood of the Boardroom survey say the Government is on the right track over foreshore and seabed reform.

They prefer this approach to Maori title being established through the courts, although they are divided over the impact it might have on the country's ports and marinas.

60% Foreshore and seabed ... believe the Govt is on the right track

The survey findings, which come at a critical time for the Government, reflect the success of Treaty Negotiations Minister Chris Finlayson, rated third highest Cabinet Minister on his performance over the last year, in winning the hearts and minds of business over an issue that other politicians and some of the public describe as "Maori Party blackmail".

Despite much rhetoric to the contrary — particularly on talkback radio — a majority of CEOs surveyed (56 per cent) do not think the Government is being held hostage by the Maori Party on the foreshore and seabed. Just one in five takes a contrary view.

CEO responses to work-related survey questions are more predictable and are in line with the responses from small and medium-sized businesses (see other story).

More than 72 per cent of respondents want ACC's accident insurance work account reopened to competition.

Nearly one in two want the law over handling personal grievances simplified in preference to extending grievance-free employment periods to businesses employing 20 or more people.

Evidence of a skills shortage is still apparent, with most chief executives saying it is as difficult or harder to find appropriately skilled employees.

Some employers say the global financial crisis made it easier to attract quality staff, especially with the return of expatriates, but the signs are that the skills shortage is returning.

"More jobs are available so it is harder to recruit," one CEO noted.

Another said: "Looking at the past 12 months it has become easier [to recruit]. However, the labour market is again tightening and we are expecting it to become harder over the remainder of the year."

Others said skills shortages had become more obvious in the past three months and they expected the market to harden in response to economic recovery and investment in Australia.

— *Graeme Hunt*

R and D moves 'disappointing'

Respondents fear the Government's approach will not attract investors

PERHAPS one of the Government's most controversial moves, from a business perspective, was to ditch the previous Government's Fast Forward Fund and tax credits for research and development.

Frances Benge

In the May budget the Government introduced its own measures to encourage R&D, to a mixed response that is reflected in the Mood of the Boardroom survey.

Nearly 40 per cent, a slim majority, support the Government's plan. But more than a third say it is not doing enough, while a quarter are unsure about the quality and quantum of state support.

As one business innovator put it, "The Government's efforts in this area have been extremely disappointing and they do not recommend New Zealand as a place that values research and development."

"Almost all OECD countries support research and development through tax credits and/or grants," says Deloitte's Murray Jack.

"Grants are a weaker form of incentive as it requires selection of participants.

"If the Government doesn't want to provide incentives then it must provide more directly through building our science infrastructure."

It is a point picked up by Auckland University vice-chancellor Stuart McCutcheon, who criticises the Government's hands-off approach to "fundamental research" that will provide game-changing opportunities to the country.

Pfizer NZ's Frances Benge warns that the current funding of pharmaceuticals in New Zealand is "not conducive to attract R&D investment into the country". The potential investment is instead being diverted to Australia.

"A favourable R&D environment provides jobs, retention of talent, and provides New Zealanders access to world-class medicines."

The EMA Northern's Alasdair Thompson is also underwhelmed. "Frankly, I liked the tax credit scheme they abolished," says Thompson.

"But they have replaced that with another scheme that should be progressively built upon."

But the Government's approach does have its supporters. One says the best incentive to business is output, or financial growth, not an input such as the cost of research and development.

" A culture change starts with increased national savings and a recognition that this is best invested in creating long-term economic value," says this person. "Therefore, it is best invested in companies that are focused on long-term value creation, not just short-term profit or quick return."

— *Nick Smith*