

# MOOD OF THE BOARDROOM

## Election 2011 CEOs' survey

# Who will hold the cards?



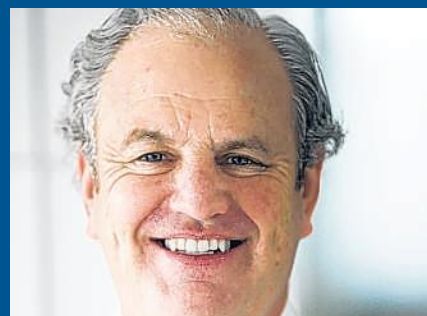
**RUTH RICHARDSON**  
**JADE SOFTWARE**  
 The former National Finance Minister warns Kiwi companies and the Government to tighten their belts for more "austere" times as the European turmoil deepens.

— Page 4



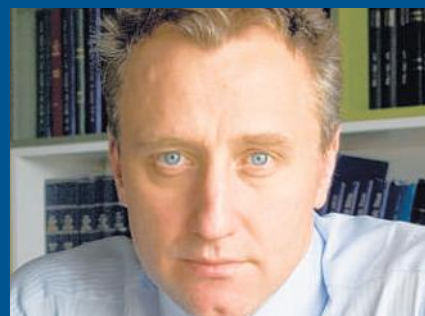
**JONATHAN LING**  
**FLETCHER BUILDING**  
 The boss of NZ's largest construction firm wants the election campaign to focus on the Christchurch rebuild — It won't happen without state-backed insurance.

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**DAVID MCLEAN**  
**WESTPAC INSTITUTIONAL BANK**  
 Companies are in much better shape to weather the storms. But don't expect a boom anytime soon.

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**MARK WELDON**  
**NZX**  
 John Key must focus on three things in a second term as Prime Minister. Savings, SOEs and "an all out focus on growth".

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**THOMAS PIPPOS**  
**DELOITTE**  
 CEOs are in favour a capital gains tax if the next Government needs to raise some additional revenue.

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**SIMON MACKENZIE**  
**VECTOR**  
 The Christchurch earthquakes and Maui gas outage are a lesson to businesses to make contingency plans — these events happen.

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In association with BusinessNZ

# MOOD OF THE BOARDROOM

Election special

# Top marks for the circuses, now what about the bread?



FRAN O'SULLIVAN

National sailed into this election buoyed by the success of the RWC, but what do CEOs say about how they handled the issues?

New Zealand's successful hosting of the world's third-largest sporting tournament was the highlight of the Key Government's crisis-ridden three year term.

It meant John Key went into the election campaign with the benefit of a strong tailwind of national optimism as a result of the All Blacks' Rugby World Cup win.

This comes through strongly in the Mood of the Boardroom 2011 election survey.

The National-led Government's economic programme was impacted by the Global Financial Crisis, domestic recession, the Canterbury earthquakes, the \$1.75 billion bailout of South Canterbury Finance and the downgrading of New Zealand's credit rating. But it still managed to orchestrate a "tax switch" and retain broad business confidence for most of that period.

The election survey reveals business leaders have considerable impatience with Key's style and want him to step up to the plate and confront challenging issues, if he wins a second term (see page 6). But Cooper and Company chief executive Matthew Cockram said it was "all up an outstanding performance in extremely testing circumstances".

BMW New Zealand's Mark Gilbert agreed saying the Government deserved an "excellent report card".

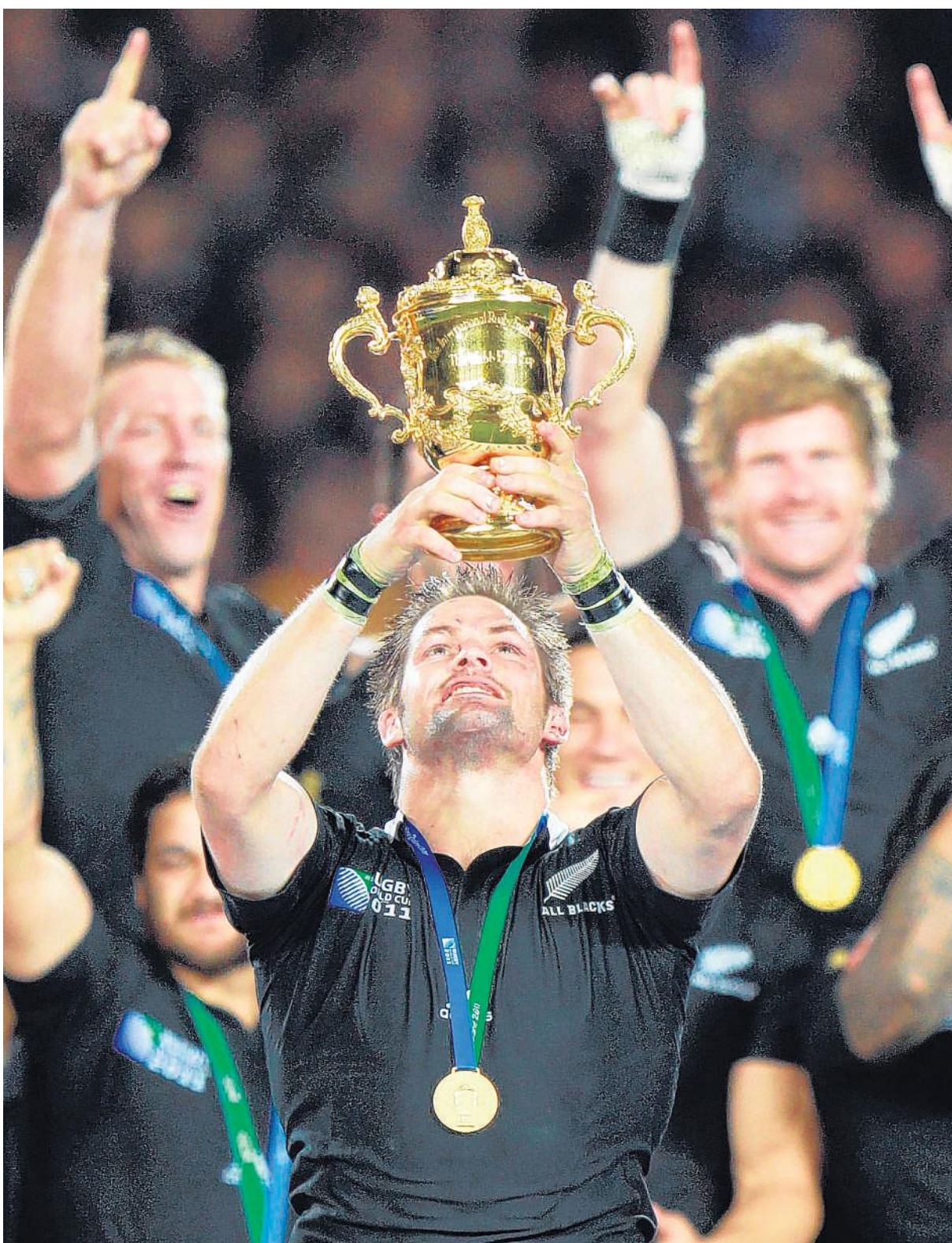
Acknowledging that New Zealand was dealt a tough hand from the Global Financial Crisis, the chief executives were asked to rank the Government's performance in several key areas.

Hosting the successful Rugby World Cup topped the list. But several CEOs took a jibe at Rugby World Cup Minister Murray McCully, one saying the success of the event was "more due to Martin Snedden than McCully" another pointing out that "Auckland did a fantastic job on RWC!"

"McCully's RWC intervention was heavy handed and misguided," observed Porter Novelli managing director Jane Sweeney. "I think he misread the situation and if you took an opinion poll of his weighing into the situation I think it would be regarded as a cheap shot at Len Brown that backfired."

"I'm not sure the Government can take credit for the Rugby World Cup — although they would have had to answer for a disaster," added South Pacific Pictures CEO John Barnett. "But the previous administration secured it and set it up. The disaster response has been mixed, better in Christchurch than the Rena."

Some believed that — irrespective



The National Government has won plaudits for a successful Rugby World Cup, but some CEOs have pointed out that praise should also go to Auckland, the RWC 2011's chief, Martin Snedden, and the previous Labour administration.

Picture / APN

## Chair snapshot

There are circuses and bread. The circuses have done well, the hand of comfort has been superbly extended by John Key, but the bread and butter of business is largely the responsibility of business not the Government. The Government dropped the ball on the one thing that it should have got right, the maintenance of our credit rating. — Company chairman

Two areas where the Government has struggled were its failure to maintain NZ's AA plus credit rating and its handling of the failure of South Canterbury Finance.

"There are circuses and bread. The circuses have done well, the hand of comfort has been superbly extended by John Key, but the bread and butter of business is largely the responsibility of business not the Government," said a company chairman. "The Government dropped the ball on the one thing that it should have got right, the maintenance of our credit rating."

An agriculture sector chief executive said that, in general, the National Government's management of the hand it had been dealt has been good. "I think South Canterbury cost a bit much... Was this politics ahead of minimising the cost?"

A fast-moving consumer goods company chief took issue with the Government's approach to the Christchurch earthquakes. "It's time we told the truth to Canterbury and everyone else in NZ — the government can't afford to keep dishing out money."

"While I am deeply sympathetic to anyone involved in a disaster or otherwise, this is the only country I know of that is writing a cheque to every individual involved. It's unbelievable what people's expectations are and they are being poorly managed by politicians and a left-leaning media alike."

Despite some rumblings, it is clear that English's tax switch has left many businesses better off.

Eighty-one per cent of respondents to the election survey believe their business is better off as a result of the 2009 Budget changes.

The reforms included increasing GST to 15 per cent, reducing the company tax rate to 28 per cent removing depreciation on buildings and changing the thin capitalisation rules (related to interest rate deductibility) for inbound investors.

But 12 per cent said they were affected: among the losers were property companies, telcos and energy companies.

Mainfreight managing director Don Braid said the reduction in company tax to 28 per cent was offset by the depreciation on buildings as his company owns a large amount of property. "The current corporate tax structure is flat; reduced levels of corporate tax are required to encourage more investment."

## KEY GOVERNMENT REPORT CARD



Cabinet ratings: CEOs rank the top eight Cabinet high-fliers who are standing at the November 26 election.

4.49 Prime Minister	4.26 Finance	4.10 Transport	3.79 Health
3.79 Trade	3.76 Police	3.71 Social Development	3.61 Attorney-General

NB. Retiring Commerce Minister Simon Power would have featured if he had continued in politics.

## Critical issues: the Government's top eight

4.4 Richie McCaw's All Blacks' team win lifted Kiwis' spirits and confirmed NZ could run a well-organised RWC.	3.97 The Government responded well to the Christchurch earthquakes (Reinsurance is a challenge) but less well for the Rena oil spill.	3.9 The 'rolling maul' of initiatives that John Key and Bill English announced kept the NZ economy moving after the GFC.	3.8 John Key was dubbed the Govt's chief 'cheerleader'. Key has been derided as "Smile and Wave" but confidence held.
3.7 Bill English did the impossible: Hiked GST, cut personal income and company taxes, and took away some property sector privileges.	3.5 The Jobs Summit brought firms and unions together to negotiate 9-day fortnights and other business survival measures.	3.2 Bill English's job was to keep New Zealand at a AA+ credit rating. The ratings agencies moved NZ down a peg.	2.7 The \$1.75 billion bailout of depositors in the failed finance company illustrated the downside of the Crown Guarantee Scheme.

Source: New Zealand Herald 'Mood of the Boardroom' Survey NOVEMBER 2011 / HERALD GRAPHIC



## CEO snapshot

McCully's RWC intervention was heavy handed and misguided. I think he misread the situation and it you took an opinion poll of his weighing into the situation I think it would be regarded as a cheap shot at Len Brown, which backfired.

— JANE SWEENEY

## Mood of the Boardroom 2011

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## Absent friends

For seven years, the late Roger Kerr (left), executive director of the Business Roundtable, and journalist, the late Graeme Hunt, were enthusiastic contributors to the Mood of the Boardroom CEOs survey. Kerr contributed sharp insights and encouraged many CEOs to "go on record" for the survey. Graeme's forthright style and encyclopaedic knowledge of NZ business made him an exceptional interviewer for the project. They are missed.

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# Give Key another three, say CEOs

Goff's policies praised but he's seen as 'carrying too much baggage'

## JOHN KEY HAS ALL THE CARDS

### CEO snapshots

John Key is a poster child for MMP. His personal level of engagement is first class and he is hard working and accessible. He is the epitome of politics as a 24/7 reality TV show. But his willingness to use his political capital to set an agenda and argue the case for it is zip.

— COMPANY CHAIR

Phil is a great guy but appears bland in the media which is a significant personal disadvantage relative to John. Unfortunately for Phil, the Labour Party is still in the inevitable renewal process after three terms in — we all know it. I think the focus on policy is wise — they need to forget the unions and drive for the centre because that is where the votes are.

— AGRIBUSINESS CEO

John Key has won almost universal support from leading chief executives for a second term as prime minister.

Ninety-eight per cent of the CEOs surveyed in the Herald's 2011 Mood of the Boardroom election survey say Key deserves another three years in the country's top job.

The 100 chief executives — and a handful of company chairmen — who contributed to the survey, also ranked Key above his Labour opponent Phil Goff on all measured attributes. They singled out Key's leadership skills, his ability to form a coalition government and trustworthiness as his top attributes. They also rated his management and economic management skills highly — important factors during his crisis-ridden first three year term.

"I think John has made a great start but I also think he should front up to some of the more difficult issues in a more robust way," said an agribusiness CEO. "If he does not do it now he will lose the window to make the substantial change which we need."

"I think he is trustworthy and capable of creating a vision and strategy but the party's reliance on polling to give it direction will not take us forward," said South Pacific Pictures' John Barnett. "Vision requires seeing things that haven't been done, articulating them and instigating them, not asking the public for their assessment of what has happened."

The CEOs marked Key down on his failure to put forward a compelling vision and strategy for New Zealand and his political courage.

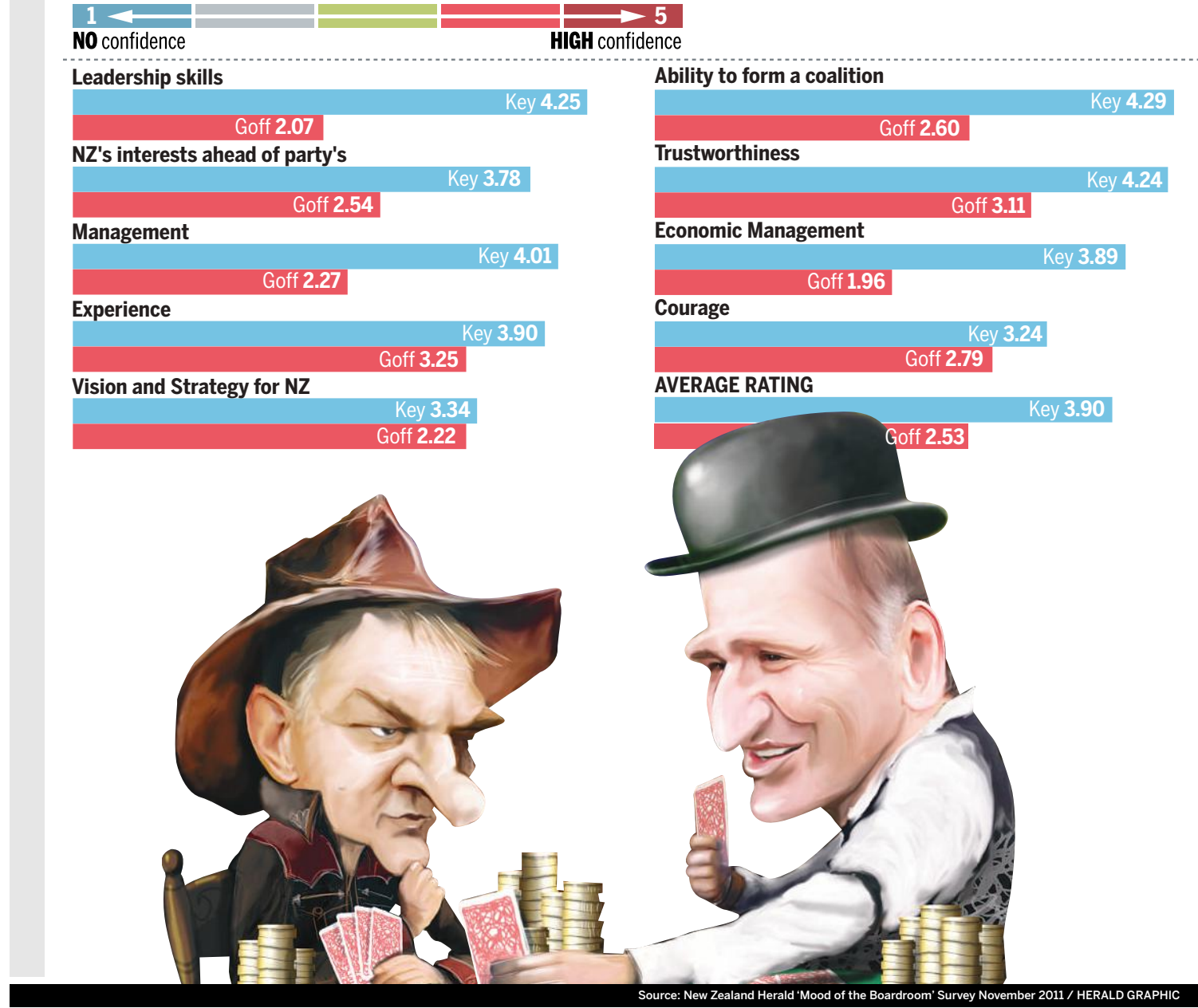
"John Key is one of the most liked PMs we have ever had," says a professional firm chief executive. "I think he could sell hard messages to New Zealanders and take them with him if he had the courage to explain why."

"He is a good communicator. He is commercially savvy and New Zealand needs him to lead the way."

Most chief executives who commented on Key singled out the need to use his political capital as a popular prime minister and take action in the best long-term interests of the country. "We would prefer John to take a stronger leadership role rather than conforming to consensus opinion," adds Don Braid, Mainfreight's managing director. Unfortunately for Phil Goff, though

many chief executives applaud his party's election promises to tackle sacred cows like a capital gains tax, compulsory super and hiking the age of eligibility for National Super, it is clear Labour's line to business is still off-the-hook. "Phil's a pleasant person — he's pretty smart when you meet him one-on-one," says Westpac's David McLean. "I just don't think he's got the cut-through. I was impressed when they said they were going to have a policy-based campaign and the savings and super policy was good."

Chief executives rated Goff's experience and trustworthiness, and his courage. But crucially, he is now seen as too much in the clutches of Labour's union constituency rather than as the professional politician who successfully drove the China-New Zealand free trade deal and paved the way for the Trans-Pacific Strategic Partnership negotia-



Source: New Zealand Herald 'Mood of the Boardroom' Survey November 2011 / HERALD GRAPHIC

tions. They described him as "Mr Vanilla", an old-fashioned Labour politician "promoting a 1980s-style union agenda that is detached from the real world" and "carrying too much baggage from the Helen Clark government era."

"He should have articulated a vision

and stuck to it," says a labour sector CEO. "A few elections ago Labour had a five-point policy which was their simple message. I don't get any sense of that focus today."

Ninety per cent of chief executives say Bill English will make the make the

best finance minister in the next government. "Bill has done a stunning job — great fiscal prudence and a thoughtful, sound approach during tough times", said Porter Novelli's Jane Sweeney.

Another said Don Brash was the best qualified to lead policy, "but politically

the most maladroited". Labour's David Cunliffe would have his time in due course "unless he is party leader".

» SEE ALSO  
What CEOs want Key to do if he is re-elected Prime Minister, page 7

### CEO snapshots



Outside of New Zealand, in Australia and the US, where they have had a reasonable exposure to John, the main comment I get is "I wish we had that guy." The fact that the NZX is the top performing market in the world this year is forgotten, but it shows local and global investors have confidence in the long-term in New Zealand and its policy direction. The same cannot be said about Australia, the US, or Europe right now.

— MARK WELDON



Good on Labour for progressing capital gains tax and raising the age for National Super, but their scaremongering tactics on asset sales and the shift to collective unionism is not the way forward. The more divisive they become, the more they will slip in the polls.

— STEPHEN SELWOOD

# Economy's bright spots give us reasons to be cheerful

Optimism — albeit cautious. Some years you just have to look a bit harder for it than others.

Six weeks of rugby festivities aside, 2011 has been pretty grim. Early signs that New Zealand was finally ready to rebound from the lows of the 2008 financial crisis were quickly crushed — first by the Christchurch quake and more latterly by a European financial crisis which threatens to pull the world back into recession for the second time in three years.

But business is not a place for the faint-hearted and those who find themselves unable to look through the gloom are seldom well suited to corporate leadership. So perhaps it shouldn't be so surprising that this year's Mood of the Boardroom is relatively upbeat — at least in terms of how business leaders rated the prospects for their own companies.

Most respondents are planning to authorise more capital expenditure next year. Most expect to increase their R&D expenditure, most expect their revenue to grow. Employment expectations are not quite so strong, but still some 37 per

This year's survey shows business leaders are upbeat, writes **Liam Dann**

cent expect to increase staff compared to just 21 per cent who expect to shed staff. A further 40 per cent expect staffing to stay the same.

Overall more than half of respondents were optimistic about their own business than they were a year ago. That's encouraging in a climate where broad economic growth remains weak.

And it is not like this is naive optimism. Just 14 per cent of respondents were able to say their business was completely unaffected by the European Financial Crisis. Just 16 per cent could say the same about the slower than expected US recovery.

Business leaders in New Zealand are well aware of the troubles faced by the world. But clearly there is some belief that, despite the risks, New Zealand will see more significant economic growth next year. Why? Where are those causes for optimism?

Well the best news for this economy is that there are still historically high levels

of export dollars flowing into the country. The global slowdown has hit commodity prices but the country's major exporters — the food producers — have seen their products hold up relatively well. Dairy has fallen from the record heights it hit last year but is still tracking well above the 10-year average price.

The payout price to farmers may be down but a bumper production season — which even the badly timed Maui gas outage could not derail — should also help keep dairy farmer cashflow up in the coming year. There is plenty of debt for farmers to be paying down and cash may not flow quickly into the wider community but the fact it is flowing at all is a crucial buffer while we struggle to rebalance the rest of the economy.

On the domestic front there is the long-awaited stimulus of the Christchurch earthquake rebuilding to look forward to. The ongoing nature of the quakes has delayed rebuilding longer



than was hoped. But insurers are beginning to pay out and work is beginning to get under way — at least on a small scale. We should see an acceleration of that activity through the next 12 months.

It's not the kind of economic stimulus this country needed or wanted but it will

nevertheless provide a short-term boost which will trickle through the economy at a time when it will make a difference.

Then there is there financial sector — the stock market and investment industry — which has not looked this promising for almost a generation.

KiwiSaver is starting to reach a critical mass and the NZX-50 is starting to see some listings again.

National hasn't really gone on the offensive over asset sales. Given polls show the policy is considerably less popular than National or John Key, that is not surprising. When Key and Bill English do talk about it they don't put the best of their arguments.

But it will provide a boost. This is a sector which needs to be strong if New Zealand is to raise the capital it needs to fund future business growth without continually looking offshore.

So there are bright spots. Agriculture, construction and finance is not a bad front row of industries with scope for growth in 2012.

Others will still be doing it tough. Nobody is expecting a sudden turnaround in retail or the property

market. These sectors have been flat for three years now and those involved have had to adapt to the much talked about "new normal".

Most worrying is the risk to the fragile manufacturing export sector which has been buffered by the strong Australian economy and a decent transtasman exchange rate for the past year. Australian growth has already slowed and the threat of European woes knocking the top off the Chinese boom adds to the concern for our nearest neighbours. If that scenario plays out then hopefully some of the downside will be offset by a lower kiwi dollar. That's how our free-floating exchange rate is supposed to work for us.

That's something we have going for us that Italy and Greece don't, the ability to set the fiscal and monetary policy quickly and precisely to meet our needs.

And we should be thankful for that. As much as Europe provides cause for pessimism about 2012 it also offers us a healthy reminder of the problems we don't have. And that in itself is cause for some cautious optimism.

Liam Dann is the editor of the Business Herald.

### Snapshot of CEOs' views

The Herald's 2011 Mood of the Boardroom election survey shows CEOs are keenly engaged in the debate leading up to the November 26 election. 100 chief executives and a handful of company chairman took time out during the past month to fill out what one describes as a "beast of a survey".

We make no apologies for the survey's length. It is important that our politicians get a reading on what business leaders really think about them and their policies. And the chief executives do not disappoint. The Herald survey is conducted in association with BusinessNZ. Chief executives are drawn from the Deloitte Top 200 list, government trading enterprises, professional firms and business organisations. It has a 50 per cent response rate.

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## CEO snapshots

# Risk aversion creeps in to corporates

Global instability is slowing down projects and businesses that depend on capital investment

Simpson Grierson's Kevin Jaffe points to a "new wave of caution" dampening new business activity as corporates once again become more risk-averse in the wake of the European turmoil.

Jaffe, the law firm's chairman and a corporate partner providing strategic advice on high-profile and complex deals, suggests major mergers and acquisitions work may slow down again with the prospect of renewed international recession.

His corporate team advised on a number of recapitalisation deals after the Global Financial Crisis. He says corporates are now risk-averse. "New Zealand is part of the global economy; if it slows so will we."

Global instability is affecting major projects. Governments are loath to commit major capital expenditure until they gauge the extent that future revenue flows and business investment flows have slowed. "This is having an effect on all businesses that depend on capital investment," according to a major engineering firm.

"Major infrastructure developments by SOEs that are potentially up for the mixed ownership model after the election have gone quiet," says the boss of an infrastructure firm. "Opportunities continue to be consented but indications are that there is little appetite for investment at this time."

This is underlined by NZ Council for Infrastructure Development chief executive Stephen Selwood who says substantial funding constraints and the gap between long-term planning and implementation will severely impact the infrastructure pipeline, causing significant productivity loss across industry.

But there will still be plenty of work for the professionals — lawyers, accountants, bankers and sharebrokers — if National is re-elected and embarks on plans to partially privatise three power companies and Solid Energy, and further sell-down its share in Air New Zealand.

Two-thirds of respondents agree with the mixed-ownership model which would see the Government retain 51 per cent of shares and sell the others off. But 25 per cent said they "could go further with private ownership".

Almost two-thirds support the notion



## Red alert for recession, says Richardson

New Zealanders are dangerously complacent in the face of an inevitable oncoming recession, says former Finance Minister Ruth Richardson (above).

"New Zealand should be on red alert," she says. "All the export companies I am involved with would have the same view about the risk, which is that we have economic chaos compounded by political chaos and the contagion is spreading across countries and across sectors."

Wise companies would make sure SOEs should be "engines of growth" by investing in strategic alliances overseas. Twenty-six per cent were against.

EMA chief executive Kim Campbell says uncertainty, political and economic rigor mortis will continue to affect all sectors of the world's commercial land-

scape. "But the poor performance in the United States and the eurozone will be compensated for by good performances from Australia and Asia."

US President Barack Obama's pledge to get the Trans-Pacific Partnership trade deal through Congress ahead of next

year's presidential elections will buy NZ business. Eighty-nine per cent of CEOs say the Government should go ahead with the TPP (a multilateral free trade deal that will integrate major Asian-Pacific economies) if there is a net economic benefit to New Zealand.

Richardson says it all comes down to the quality of public policy settings. "If, like much of Europe, you have maxed out on debt, and you don't have competitiveness and growth in your economy, you have to face your moment

of truth."

No corner of the world is immune. "The United States also suffers from systemic economic problems and there is no apparent political will to deal with them. So the markets just do it instead. The market for jobs and the market for money are punishing the US in a very severe fashion," she says.

"China is suffering from the same systemic debt issues too, it is just they exhibit themselves in a different fashion. So while demand in some sectors — and one would hope food is among them —

will continue, you would have to factor in a big correction in that economy as well."

In such times political courage and leadership are everything — to confront systemic problems at their root, and to level with the public and argue for the solutions required, Richardson observes. "Very few politicians are willing to meet that test."

New Zealand has strengths in some sectors, like agriculture, and the ability to turn on a dime. "But we need many more strings to our bow."

— Brian Fallow

executives who have responded to the Herald survey say their firms expect to sport revenue growth in 2010.

Domestically exposed industries — like the real estate sector and motoring sales, are picking that after several tough years, the recent uplift will continue. "What's happening around the world concerns me, though in New Zealand and in our industry, we are getting on with the job," says Barfoot and Thompson director Peter Thompson.

He said property prices in Auckland had been relatively static in the past two years, but there was now a floor under the real estate sector.

Martin Simons, who is chief executive — New Zealand Media for Herald publisher APN, observes that although the fundamentals have remained sound the Global Financial Crisis and subsequent economic fallout has triggered a massive change in consumer and corporate behaviour. "Savings are at 20-year highs (in Australia) and advertising markets have fallen sharply. We do not expect to see a material change to these conditions in 2012."

Movie industry chief John Barnett, who heads up South Pacific Pictures, is optimistic. "The global economy will be rocky and New Zealand will be caught in the wash but we're in an industry which has certain advantages in these times."

But despite the global outlook, chief executives were broadly optimistic. A company chairman observed macro factors in New Zealand were very positive. He cited the growing savings levels, capital markets growth, taxation at reasonably competitive levels, stable employment, dairy and primary sectors which were insulated to a degree from downturn, and political stability — "subject to unworkable coalition risks."

"This provides a rare window in which, when added to our low corruption levels and ease of doing business, NZ can look to capitalise, to attract value, adding new business growth, attracting business and entrepreneurial migrants and returning Kiwis."

— KEVIN JAFFE



Read Brian Fallow's economic analysis on page C8



The global economy will be rocky and New Zealand will be caught in the wash but we're in an industry which has certain advantages in these times. — JOHN BARNETT



What's happening around the world concerns me though in New Zealand and in our industry, we are getting on with the job. — PETER THOMPSON



There is a new wave of caution and corporates are risk adverse. New Zealand is part of the global economy — if it slows so will we. — KEVIN JAFFE



Poor performance in the United States and the eurozone will be compensated for by good performance from Australia and Asia. — KIM CAMPBELL



Savings are at 20-year highs (in Australia) and advertising markets have fallen sharply. We do not expect to see a material change to these conditions in 2012. — MARTIN SIMONS

# Kiwi's volatility could see companies fall

by Christopher Adams



Bryan Mogridge

New Zealand's next Government needs to acknowledge the negative impact the strong kiwi dollar is having on the export sector, says Rakon chairman Bryan Mogridge.

Other developed-world economies, including Japan and Switzerland, have taken steps this year to give their exporters a helping hand through devaluing their currencies.

Mogridge claims it is irresponsible for the Government to sit back and say there is little it can do to control the volatile New Zealand dollar, which is one of the most heavily traded currencies in the world.

"There are things we can do," he says. "There might not be many things we can do within the current policy framework, but let's have a look outside that."

Mogridge says he would be concerned, should National win the election, that it will take the same kind of hands-off approach to the currency that it took during its first term in government.

"One day they'll wake up and find a whole lot of manufacturers don't exist here any more."

Rakon has grown from a family business with annual revenue of NZ\$1 million, to a public company with revenue of NZ\$189 million, 2300 staff and 72 million units shipped in 2011. It is now a multinational organisation with facilities in New Zealand, Britain, France, India and China.

Auckland-headquartered Rakon — which manufactures crystal oscillators used in telecommunications infrastructure, smartphones and GPS devices — revealed in September that it would lose about

\$20 million in earnings during its current financial year because of the dollar's ongoing strength against the British and United States currencies.

The kiwi hit a post-float record of US\$88.43 against the greenback in early August.

It has since weakened but the BNZ expects the currency to return to around US\$7c by September next year.

Mogridge says that though the suffering of listed exporters like Rakon is very public, less obvious is the pain being felt by privately-owned manufacturers.

"There's no question that with the kiwi dollar over 80c against the US dollar that they struggle and a lot of them can't survive — you're seeing more and more close-downs," he says.

"The only companies that have been able to make hay while the sun

shines are those that import component parts in US dollars and export them to Australia."

This is because the stronger Aussie dollar has resulted in a beneficial exchange rate for New Zealand firms.

Mogridge says he is not sure that the Reserve Bank buying and selling New Zealand dollars, to try to control the exchange rate, would be the right answer to the woes facing exporters.

There needs to be a severe reduction in government spending and recognition from politicians on the importance of the manufacturing sector, he says.

"We've got one of the most traded currencies in the world for a doddly-squat economy like New Zealand... that suggests that we're not in control of our own destiny and if we want to be successful we need to be."

## CEO snapshot

The Government's 'wimp-out' on addressing the most fundamental driver of NZ economic value — the exchange rate — was extremely disappointing. John Key has run a propaganda campaign on this, pulling the wool over the eyes of the NZ public by saying "it's out of our control". They get a ZERO rating for this and it is a big driver of the NZ economy! — Major NZ exporter

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## WHAT BUSINESS LEADERS WANT

## Let's focus on what matters

The boss of NZ's second-largest listed company wants the campaign to focus on some big problems, reports Anne Gibson

Jonathan Ling, Fletcher Building chief executive, describes himself as "usually a fairly optimistic person".

But not when it comes to the country's immediate economic outlook; he believes it could be heavily influenced for the better by a new Government willing to tackle three big problems.

He is calling for state-backed insurance for Christchurch, no immediate expansion of the emissions trading scheme and more land for development, particularly around Auckland's fringes, to begin to resolve the housing affordability crisis.

"The economic outlook for the next few years is pretty grim. In the building and construction market, housing consents are considerably below the GFC levels pre-2009, so housing is at a record low since records started.

"Construction is still very depressed and though there is quite a lot of work in the Government backlog, there is some clear evidence of it starting to slow down with projects being delayed, like a number of roading projects," he says, citing the Wellington region's MacKays to Peka Peka Expressway.

Further aftershocks in Christchurch, particularly the October 9 event, have compounded that area's problems and the hope of any big-scale construction starting in the city. "It just further delays the rebuilding and repair work. Repair of roads, pipes, infrastructure and building new houses is going to take a little longer."

Ling wants the new regime to get involved by providing insurance.

"It's about the ability to get insurance and unless that becomes available, no one is going to move," he says of property owners unable to fix or rebuild houses, offices, shops or factories, creating a hiatus in the city's reconstruction programme.

The Government must step in as the "insurer of last resort".

"There are ways, for a short period of time, to get things going and I think they should seriously consider it. Whether the taxpayer likes it or not, they're exposed to Christchurch through the economy, restoration of the Earthquake Commission fund and the impact it has on the national economy and it won't be totally fair.

"The Christchurch earthquake is

## Ling's three beefs

- Insurance backing for Christchurch
- Emissions trading scheme extension worries
- Housing affordability, more Auckland land

going to require all New Zealanders and all taxpayers to restore the community in the next 10 to 15-year period."

Emissions trading is his second beef. Companies like Fletcher have made huge changes, he says, but Ling now wants the Government not to extend the scheme further in the short term. "We're very supportive. It's achieved what it set out to in terms of the industry focus and energy reduction," he says, citing Golden Bay Cement's 30 per cent drop in black coal usage after the industrial manufacturer substituted wood waste from forestry for coal.

"My view is that the transition arrangements should stay and give everyone more time until they go to the next level," says Ling, citing price rises and profit drops under any expansion.

"The economic outlook is substantially worse than what the Government thought when they introduced the scheme in 2009, becoming effective from July 1, 2010. We're well advanced on other countries."

Ling's third beef is housing affordability. "The Government is doing work around that with the taskforce inquiry. Housing NZ is looking at their portfolio. But we need to hurry up. There's a lot to do with the availability of land, particularly in Auckland."

Ling points to his own home city of Melbourne. "We need to look at how to release land on the outskirts of the city and strategies to decentralise towards the outskirts."

He acknowledges grimly that none of his big three concerns are prominent in the election campaign or are being widely discussed during the campaign.

"These" he concludes.



The Christchurch earthquake is going to require all New Zealanders and all taxpayers to restore the community in the next 10 to 15-year period.

The Government must step in as the "insurer of last resort".

JONATHAN LING

Jonathan Ling believes the Government should provide state-backed insurance to rebuild Christchurch.

Pictures / APN, Natalie Slade



## We need to build our own fortune

Paul Reynolds wants policies to keep the country's best and brightest workers here, writes Hamish Fletcher

One of the nation's key advantages is its "large proportion of well-educated people" but more needs to be done to ensure they stay here according to Telecom's outgoing chief executive Paul Reynolds.

"How many of them are actually overseas? How do we get knowledge-based businesses here?" Reynolds asks. "I'm not aware that we really target attracting entrepreneurs to base their businesses from here, businesses that don't really depend on location but on brainpower and few key skills... some positive policies to encourage that would be beneficial."

He suggests the Government could encourage such businesses by offering tax breaks and drawing them into specific industry centres. Rather than blanket research and development tax relief, pol-

## Stronger leadership needed in uncertain times



Leading businesswoman Joan Withers says the election winner will need to show strong leadership in the volatile business environment ahead.

New Zealand has faced dramatic challenges over the past 12 months said Withers, who is chairman of Auckland International Airport and Mighty River Power.

The Rugby World Cup stood out as the only event that was universally positive. But New Zealand could not escape the crises such as that developing in the eurozone and business should be braced for that.

"The older I get the more concerned I am that New Zealand will be blown around."

"If there is an underlying theme in the Mood of the Boardroom — and the way ahead — it is that business should lead by example.

"Business needs to set the tone and

Company chairman Joan Withers believes business should lead by example in tough times, writes John Drinnan

Business needs to set the tone and encourage and motivate people to achieve.

JOAN WITHERS

encourage and motivate people to achieve."

Withers says she is part of a generation that had grown up in the post-

traditionally a bellweather for a slowing of the economy.

"If media is a lead indicator, we are seeing a softening of retailing that is concerning," she warns.

Auckland International Airport's strategy is to develop sustainable travel routes to encourage travel, such as the recent daily flights by South China Airlines. Outward travel for New Zealand slowed during the Rugby World Cup but she expects it to pick up.

For state-owned energy company Mighty River Power, the future will be built around the election outcome which will decide whether it would be partially privatised under National, or remain wholly state-owned.

Withers says Mighty River's growth strategy — no matter its ownership — will include overseas expansion built on its unique experience with geothermal energy.

Tax breaks for 'blue-sky thinking' doesn't feel right to me. It's got to be more practical.

PAUL REYNOLDS

icy should target specific types of business that can help grow the economy.

"I would be more inclined to think about software and telecommunications, for example, and look for tax breaks that can encourage the growth of centres of excellence where these businesses are feeding off each other and then going out to the world from New Zealand."

"Tax breaks for 'blue-sky thinking' doesn't feel right to me. It's got to be more practical. We're looking for business people — people who can connect technology and business ideas in a commercial outcome."

The Telecom boss supports the Government getting its books back into the black, but warns a rush back to surplus could negatively impact growth.

Although there is justified concern about the level of government borrowing, there is no need to adopt "draconian measures". "We should continue to adopt conservative fiscal policies and seek to reduce borrowing, but a mad dash to be in surplus poses a danger of deflating activity in the economy that's not worth it."

He believes New Zealand's economic climate is brighter than in both Europe and the US, and this is partly down to policy. "We worry as we should do about borrowing and the deficit, but we are in nowhere near the same position as many countries overseas are."

This means New Zealand is an attractive option for skilled labour. "There's a general mood of optimism and it's good for business."

Reynolds says lowering the top personal income tax rate from 39 to 33 per cent was a "bold move", which had been good for the country. "The efforts on tax rebalancing have been effective and positive. They've been balanced across the piece, closing tax loopholes and all the rest. It seems quite a simple, straightforward and level tax system. We've enjoyed a huge level of pragmatism in this area."

He is against a capital gains tax on "the family home" — the lack of any form of capital gains taxation leads to a "hugely inflated housing market". "It seems to defy to logic, especially in Auckland — prices are a bit crazy. I think an appropriate look at capital gains tax — but avoiding punitive measures on first home and family wealth — would be an option the Government could look to."

## Government: where's the plan?

BusinessNZ chief executive Phil O'Reilly warns our lack of skilled workers will become a major impediment to renewed economic growth.

"We'll hit the roof on skills quite quickly which is a point we've been consistently making."

Chief executives responding to the Mood of the Boardroom election survey ranked skills and labour shortages fourth on a list of domestic issues that affect business confidence (see page 8).

This reinforced the findings in a Deloitte-BusinessNZ survey which confirmed companies and small firms remain anxious about having sufficient skilled workers. On the earlier survey, 29 per cent of 1350 respondents picked "skills and productivity" ahead of "investment, innovation and entrepreneurship" at 26 per cent, as issues that concern them.

Partly because businesses hoarded or hung on to their skilled workers early on during the recession, "the skills issue didn't really hit them in the face on day one when they came into power", O'Reilly says of the National Government. It had only been in the past 12 months that businesses had stepped up their calls to tackle the issue as a priority, and only now were they starting to see "a good strong direction about what they're going to do."

Nearly three-quarters — 72 per cent — thought the National-led Government had not been doing enough to support apprenticeships and formal training.

Business lobbyist Phil O'Reilly warns skills shortages could impede growth. Adam Bennett reports

But what is higher than this time is that jobs are in demand. It is higher than three years ago, particularly for youth, where the unemployment rate was 27.6 per cent in the three months to June and is even higher among young Maori and Pacific Islanders.

O'Reilly believes the National-led Government is now focusing on the right things, including the role of industry in skills development which in turn had fed into the Tertiary Education Commission's review of industry training organisations. But perhaps the most important thing the Government is focusing on is the "pathway" from compulsory education at secondary school to "post-compulsory" education at the likes of universities, polytechs and industry training organisations.

"You might find that a young learner in particular circumstances will go to say a polytech or a private training establishment — that's technically not a school — before they're aged 16 because that's the best way for them to get literacy and numeracy skills that are useful in later life."

However O'Reilly acknowledges such ideas will create "required education and literacy" because they encourage

to "go past the traditional holders of that debate and talk to students and parents". That will be helped by Key's "gift". "He has the ability to talk directly to the public."

But in spite of that ability, he says, Key and his Government have failed to communicate with business as well as they need to about a range of issues including National's economic vision. A key challenge for National if it wins the election is to make sure business knows it has a strategy. "That's important because if they communicate what they're trying to achieve in a more coordinated fashion they'll actually unlock private sector commitment and investment much more quickly."

O'Reilly says the reluctance to promote the strategy may be a reaction to the way the previous Labour Government has produced an excess of strategies. "I think these guys have come in and seen there was too much and have almost over-corrected." That was and is also why they had called their plan an "agenda" rather than a "strategy".

He said a good government should be prepared to let the public into its confidence rather than dodging discussion of potentially unpopular policies.

Sixty per cent of businesses responding to the Deloitte-BusinessNZ survey also said increasing the literacy, numeracy and basic skill levels of the workforce was the number one productivity issue for the Government to address.

It is also why they had called their plan an "agenda" rather than a "strategy". He said a good government should be prepared to let the public into its confidence rather than dodging discussion of potentially unpopular policies.

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Phil O'Reilly believes a good government should not dodge discussion of potentially unpopular policies.

Picture / Mark Mitchell

# MOOD OF THE BOARDROOM

Election special

# Business loses confidence in Act

Brash's party still preferred partner for CEOs, but Maori and Greens also get a look-in, writes Fran O'Sullivan

John Key and John Banks have had their symbolic "cup of tea" — but while business still supports Act as a coalition partner in a future National-led Government — it is fast losing confidence in the right-of-centre party.

"Business might have to suck it up and vote for Banks to give National a coalition partner that at least thinks about business," said a professional firm boss. "The Act Party has lost its way and needs refreshing. I doubt John Banks is that but he's the only chance Act has of being re-elected. Don Brash should go — he is yesterday's man."

Business' rapid loss of confidence in Brash — a former National Party leader and Reserve Bank Governor — is telling. If he stays on as leader after the election and there has been considerable speculation the mystery tape records Banks saying Act will be "restructured" — he will need to stay on-message.

Banks needs Key's imprimatur if he is to have any chance of winning Epsom and getting Act back into Parliament. Several chief executives believe Act has the best policies for business and a clear majority want the party to be part of a business-friendly National-led Government. But infrastructure lobbyist Stephen Selwood says it is "currently unclear how Act would make a positive policy contribution other than numbers in the House".

"I am not sure if any of those combinations are satisfactory, particularly in light of Act's performance over the past 12 months," says Mainfreight's Don Braid.

Act's falling star makes Key's job more difficult when it comes to rounding up coalition numbers. But chief executives recognise he will need a broad coalition if his party is to have any chance of winning a third term.

"The third term is important for National because the underlying demographic shift in New Zealand could see Labour becoming the natural ruling party," said an agri-business boss. "John Key has been smart moving the National Party to the centre. The inherent risk is that he does not do what he needs to do to drive growth and national competitiveness."

Several chief executives noted the



John Key and John Banks sit down together for their now-controversial "cup of tea meeting" in Epsom.

Picture / Dean Purcell

positive role played by the Maori Party in the past three years. "The Maori Party in coalition with National is good for business because it creates the opportunity for the Government to be more sustainable and lasting into the future," said a resources sector chief executive.

"I think including the Maori Party is very helpful in inclusiveness and in the MMP environment most probably assists in ensuring less hold-ups in legislation," says South Pacific Pictures John Barnett. "National will most probably have a near majority so its coalition partners won't be the tail wagging the dog."

"Labour is unlikely to have a strong enough base and it would have to rely on others which will lead to potential stasis on almost every significant issue."

NZ First's poll ratings have risen since the election campaign began, but a chairman is not keen on seeing the party back in either a coalition or support arrangement after the election. "Any spectre of Winston Peters coming back

into a position of power would provoke a further exodus of talented people."

Though most CEOs do not currently see the Greens as a positive player in a future government coalition, the party's stakes are improving with business. "They are becoming more business savvy and there's less polemic," said a communications company head.

Another said they were inclining towards National/Greens if their ambitions around environmental issues can be tempered. "There is some pragmatism in their policies that are future-relevant."

"The worst would be Labour and New Zealand First — the Greens are not a risk," said a motoring sector chief.

A clear majority of chief executives do not believe Labour-led coalitions will be the best mix for business. "Labour could continue to create a coalition by 'giving stuff away' — more promises we can't afford," said a fast-moving consumer goods boss.

## Labour 'steals march' on savings and super

David McLean warns that unless New Zealanders increase their savings, the country will not have sufficient capital to grow businesses and create economic growth.

McLean — who is chief executive of Westpac Institutional Bank — says that compared to Australia, a lot more savings investment in New Zealand goes directly into business.

"Much of the New Zealand business market are SMEs that are owned by families who put the money in," observes McLean. "That's good. It's just as good as saving in a super fund. And both of these are better than saving in your house."

"That just stimulates the housing boom but does nothing for growth."

He is disappointed that National leader John Key will not talk about raising the age of entitlement to NZ Superannuation (National Super) above 65 years. "Not moving it up is just unsustainable. The rest of the world's doing it. It's a fact of demographics. It's just unarguable."

"I do think Labour has stolen the march on the Government with savings and super. I was pretty disappointed with National's response to that."

"That's one area where I think Labour has got a much better policy."

McLean says if the country's cost of funds goes up as a result of the international turmoil in Europe, that will flow through to business. The situation will be compounded if the Northern Hemisphere economies fall flat and stop buying Chinese goods — "then the whole virtuous circle comes to an end".

"I think we have to be really careful not to kill off what is really quite a fragile recovery by being too aggressive on things like spending cuts, tax rises and interest rate rises."

"Trying to do that too aggressively will kill off growth so it actually takes longer — it's a very fine balance. We have to be careful."

The big positive is that companies have got their balance sheets into much better condition since the Global Financial Crisis which exposed highly geared Kiwi firms. "There's been great risk management by New Zealand businesses. But there's a lot of cautious conservatism about risk-taking because of that."

There is no difficulty accessing bank debt for good companies.

McLean is concerned about New Zealand's

### CEO snapshot

**I do think Labour has stolen the march on the Government with savings and super. I was pretty disappointed with National's response to that. That's one area where I think Labour has a much better policy. — DAVID MCLEAN**

foreign debt ratios — particularly the private debt level. "That is risky for the country. What it means, unfortunately, is that we have to save more to cure that problem but in the meantime we have to be prepared to accept foreign investment because we live in a globalised world."

He says New Zealand also has to get used to a higher currency. With interest returns low in other Western economies, global investors are instead turning to Australasia. "If we have a permanently higher currency — but not so high it kills exports off — it forces you to say we've got to add more value here. Singapore for 20-30 years had a policy of trying to get the currency stronger to force people to develop more sustainable businesses."

**BEST ELECTION POLICIES FOR BUSINESS:**

- 88% National
- 4% Act
- 1% Labour
- 7% Unsure.

**BEST COALITION:**

- 44% National/Act/Maori Party/United
- 28% National/Act
- 11% National/Act/United
- 5% National/Act/Maori Party/United/Greens
- 1% National/Greens Labour/
- 1% Maori Party/Greens
- 1% Labour/Greens/NZ First

**WORST COALITION:**

- 47% Labour/Greens/NZ First
- 27% Labour/Greens
- 11% Labour/Maori Party/Greens
- 4% National/Act/Maori Party/Greens/United
- 4% National/Greens
- 1% National/Act/Maori Party/United

## Majority against anti-spike measures

Most chief executives — 67 per cent — are against proposals for the Reserve Bank to adopt a more aggressive interventionist approach to stop New Zealand dollar "spikes".

But 21 per cent say it should be tried. And though 46 per cent also oppose trying new approaches to iron out volatility in the New Zealand dollar's level, 37 per cent say it should be given a go.

National Prime Minister John Key and his Finance Minister Bill English are strongly against interference. But Labour's finance spokesman David Cunliffe says the Reserve Bank should aggressively address NZ dollar volatility saying this might disincentivise speculators who drive the currency up. Cunliffe promises a wide-ranging approach to controlling the exchange rate, which hit a post-float high of US88.43 against the greenback in August, should Labour lead the next Government.

**Banks should be required to tighten mortgage lending ratios to avoid another splurge on household debt say 52 per cent of CEOs surveyed. Forty per cent are against the measure. Forty-four per cent also favour incentivizing mortgage holders to pay down debt faster, but 49 per cent are against.**

A major agriculture exporter noted his company hedges to cope with volatility: "The real issue from my perspective is a poor balance of payments which leads to high interest rates and a high NZ dollar, which takes us back to competitiveness and incentives to save."

Some suggested it was worth looking at investigating whether there were mechanisms to manage volatility.

"The problem is vexing, we need a stable dollar to assist the New Zealand exporter," said Mainfreight's Don Braid.

"However we do not have the financial resources to fix our exchange rate as Singapore and China do."

Others said it would be "playing with fire", "a waste of time unless we think the Reserve Bank can control the Australian dollar as well", and that "George Soros would have a field day!"

"If you try to manage it with the Reserve Bank intervening it will be like standing at the beach at low tide throwing money at the tide, trying to stop it coming in," said Westpac Institutional Bank's David McLean.

"Global capital flows are far more powerful than any firecracker or popgun the Reserve Bank's got. All the Reserve Bank can do is send a little signal when they think it's overvalued."

"The Reserve Bank's balance sheet is too small to be a long-term credible threat on currency pricing via intervention," said the NZX's Mark Weldon. "A move to a more balanced 'inflation plus output' basis in the Reserve Bank Act would create a bit more uncertainty for currency traders and thus see fewer 'one way' bets based on inflation indicators."

A company chair noted that the global discussion around financial transaction taxes is gaining momentum to differentiate between short and long positions around currency flows, which may lead to a change in approach.

Others said Kiwi companies should concentrate on risk-mitigation policies.

## Make Kiwisaver compulsory: CEOs

A big majority of chief executives want KiwiSaver made compulsory.

Seventy-seven per cent of respondents to the Herald's CEO survey are in favour of compulsion, which is a key Labour Party election plank.

But 40 per cent do not agree with Labour's plan to return to pre-funding National Superannuation liabilities through re-starting contributions to the NZ Super Fund (aka Cullen Fund) — although 28 per cent are in favour.

In interviews for the Mood of the Boardroom report, chief executives said they also want the politicians to start a conversation about raising the age of entitlement for National Super above 65 years, which is another Labour policy.

"This is the only opportunity we have to build for the future, to reduce our reliance on overseas borrowings, to hold assets in New Zealand hands and enterprise that pays dividends in the future," said South Pacific Picture's John Barnett.

"New Zealand has a savings deficit and with the Big Four trading banks and KiwiBank having lending at the heart of their DNA to really develop a long-term savings pool needs long-

term policy direction," says NZX chief executive Mark Weldon. "Given the shortfall in retirement savings and lack of intermediation into technology and other growth companies, a compulsory savings plan is essential to our long-term growth, local ownership and tax base."

"This is essential to get in place." A capital markets CEO said he reluctantly agreed.

"I would much prefer we did it of our own volition."

"However the consequences of failure are great and in this case if you do fail, it is far too late to make any sort of decent remedy."

Others noted that if KiwiSaver is made compulsory it must retain hardship provisions and the first home scheme.

"I would support for it to be made compulsory with an active asset allocation towards New Zealand assets and default options that do not see younger savers (under 35 say) being automatically put towards low-risk low-yield bond products," said a company chairman.

He recommended extra incentives for pro-New Zealand asset allocations and perhaps a "self-managed" option.

- 77% want KiwiSaver made compulsory
- 22% are against it being compulsory
- 1% are unsure
- 56% want KiwiSaver incentives dropped if they are a fiscal risk
- 36% say no
- 8% are unsure
- 43% are against the Government borrowing to put money in the NZ Super Fund (Cullen Fund)
- 28% are in favour
- 29% are unsure

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**Auckland's Leader**

# Party time is over Prime Minister

Time to boldly and courageously spend your political capital and do the 'right stuff' for New Zealand. That sums up the views of the 80 business chiefs who spelt out what they want John Key to do differently if he is returned as PM at next week's election, writes Fran O'Sullivan

Put bluntly, the CEOs want Key to "harden up". Take tough decisions and back himself to win support for the consequences.

"We are not uniting New Zealanders to take the country forward," says Tower chief executive Rob Flannagan. "We currently lack vision and strategic direction that all can buy into. We require leadership and courage to do this, are you going to do it?"

There is a real sense of urgency among business leaders that a returning Key Government may not be prepared for difficult times. They have listed 10 top trends that will drive company growth during the next 1-5 years. But it is notable that the NZ domestic recovery tops the list.

A professional firm boss said a "high level of trust has been established. It is time to grasp the nettle and be bold over a sensible level of modern mining of natural resources. We can then maintain our standard of living living rather than go on pretending we are a rich country through borrowing."

"The other areas of focus have been superb in terms of ongoing government spending cuts, proposed partial sell-downs and the like. But I suspect it will not be enough."

Some say the Prime Minister may have to reconsider the top personal



John Key must trade off some of his popularity to take some of the hard decisions, say CEOs.

income tax rate which is arguably "not sustainable". "Key must trade off some of his popularity to take some of the hard decisions that New Zealand needs to make if we are to achieve economic growth and use the sparse financial resources we have available to us," says Michael Barnett of the Auckland Regional Chamber of Commerce.

Hellaby Holdings' John Williamson wants Key to make some "tough" decisions and stop kicking the difficult issues into touch. "I believe that Key was given a clear electoral mandate in 2008 to reform things, yet several major structural issues remain untouched or sidelined. The economic impact of the GFC and earthquakes should have strengthened the Government's electoral man-

date to tackle the tougher issues."

A company chairman hoped a more courageous and visionary John Key would emerge to set an agenda that addresses NZ's fundamental issues and "cease this pandering incrementalism".

APN's Martin Simons said Key must be bold and "do what is right for the future of New Zealand children rather than planning a long tenure in Government for the National Party".

Chief executives say this means Key must tackle long-term welfare and the age of entitlement to National Super irrespective of any embarrassment he feels at ruling the latter step out while he is Prime Minister. These issues top a list of second-term priorities. CEOs rated them at 4.43 and 4.23 out of five respec-



## Proving you can't please everyone

Since becoming Prime Minister John Key has danced at the Big Gay Out (above), minced down the catwalk in a Rugby World Cup volunteer's uniform and gone on David Letterman's *Late Show*.

It's part of the common touch image that Key has promoted.

But the PM's obvious taste for celebrity isn't proving to be a hit with all CEOs.

Some want him to be more serious — "less glib and flippant and populist" and avoid "throwaway comments that

create unnecessary distractions". "Stop trying to act like a celebrity, and instead get on with making serious changes for the long-term benefit of the country," said a finance sector chief executive. Another said Key came into office saying he would make long-term changes but "he has become a baby-kisser showing up at all photo opportunities to win wider public support", and the Canterbury earthquake and two other national disasters have captured the bulk of his time.

tively, ahead of curbing Government expenditure and borrowing.

"Make some of the harder calls around issues such as the retirement age instead of staying with poll-driven mentality," urged an energy sector CEO.

Cooper and Company's Matthew Cockram said Key must use his well-earned political capital to deal with the challenges of government spending, debt management and a return to Budget surplus.

NZX CEO Mark Weldon points out National has developed a good springboard. Weldon wants a second-term National Government to focus on three things: increasing savings, partially privatising the SOEs and "an all-out focus on growth."

Two Degrees' Eric Hertz wants Key to attract the best and brightest Kiwis to come home and work here. Tackling youth joblessness and "atrocious child poverty" were also mentioned.

BNZ chief executive Andrew Thornburn stressed the next government should maintain momentum and continue to make positive changes to the tax system that would clearly incentivise investment towards the productive sector, build financial assets and enable better access to capital and equity that would help business grow.

"What's important is that we continue to have stable government focused on improving the fundamentals for economic growth by tackling structural issues."

## MMP leads to divisive government

A majority of CEOs — 65 per cent — want New Zealand to scrap the mixed member proportional (MMP) voting system.

MMP does not aid the election of a decisive government capable of making tough decisions because "the senior party has to agree to too many compromises to attain power," says Martin Simons, chief executive New Zealand Media for Herald publisher APN.

Twenty-five per cent of survey respondents want MMP to remain. Ten per cent say they are unsure whether it should be kept. South Pacific Pictures CEO John Barnett cautions that New Zealand needs a system which acknowledges the mix of views that exists, "but which doesn't hold the country to ransom and create a short term attitude to legislation".

Others noted New Zealand was unlikely to see the major reform of any policy that might be unpopular at the time — but best for New Zealand in the long run — because MMP tends to result in coalition governments.

MMP will be put to the test during a referendum at the November 26 election. If New Zealand does vote to scrap MMP, one-third of the CEO respondents want First Past the Post to be reinstated. This is the "winner takes all" system in place before New Zealand switched to proportional representation at the 1996 election.

The single transferable vote (STV) option was supported by 23 per cent. But those who were unsure (21 per cent) out-ranked those who opted for preferential voting (13 per cent) and the supplementary member system (10 per cent).

There is support for changing MMP, if it is retained. A company chairman suggests two basic changes: Lifting the threshold for representation from 5 per cent of the list votes to 10 per cent, and removing the parties' entitlement to get list MPs into Parliament with just one electorate seat when the threshold for list representation has not been met. "One electorate seat should mean one electorate seat — it should not translate into an automatic percentage entitlement to party votes qualifying for seats."

**10 big growth trends**

1. NZ domestic recovery
2. Australian growth
3. Asian spending power
4. Trans-Pacific Partnership
5. NZ Govt initiatives
6. Chinese commodity demand
7. Christchurch rebuild
8. Indian FTA
9. Green tech
10. Asian manufacturing boom

# Get with the programme, Phil (if you win)

## CEOs call on Goff to shake off 'old Labour' mentality and move away from the unions

Chief executives want Phil Goff to act in the best interests of New Zealand rather than factional union interests if he ends up as prime minister of a coalition government.

The Herald asked business chiefs to say how they would like Goff to run New Zealand. Sixty-two bosses responded, several facetiously by saying "from far away".

But the overwhelming message was that Goff should be less influenced by unionists, academics and teachers and align with business and balance the books; strike the "right balance" between welfare and taxation; be "less doctrinaire and embrace economic pragmatism"; keep his eye on growth, pay less attention to beneficiaries and support rewarding excellence; maintain a degree of job stability; develop people around him who could be trusted and rely on his instincts which

are "better than Labour's backers".

Reverting to being in the thrall of the unions is a losing strategy — New Zealand has moved on and it's time the Labour Party did as well, was a frequent refrain.

Here are three particularly apposite views:

"Don't for God's sake allow Government spending to increase, either funded (by tax increases) or unfunded. Break any election promises that would lead to this."

"Instead do the same as John Key should: Strong national strategy to address risk to New Zealand from a global meltdown." (Resource sector CEO)

"Shake off the 'class war' mentality and Labour's view that business is the enemy, realise we have to actually earn our living and the Government must promote the ease of doing business."

"Recognising that things like



Phil Goff, left, should align himself more with business and David Cunliffe should be his heir-apparent, according to the CEOs.



Don't for God's sake allow Government spending to increase, either funded (by tax increases) or unfunded. Break any election promises that would lead to this. — RESOURCE SECTOR CEO

expanding the benefit base, creating public sector jobs and subsidies are bullshit economics." (Finance sector CEO)

"Not run it so we lose more talented New Zealanders. He goes on about the rich. Rubbish, we have few rich. Most New Zealanders have a sense of social justice — we don't want kids unfed, uneducated and unhouseed."

"We care about those who are really in need. But don't just waste the taxpayers' dollars, increase taxes and drive out of New Zealand those who can elect to leave. We'll lose the next generation of talent as well if we become a nation where success equates

with envy." (Professional services firm CEO)

But CEOs also ranked finance spokesman David Cunliffe and economic development spokesman David Parker equal first as Labour's top performers. Goff was well down the list, below commerce spokesman Lianne Dalziel, deputy leader Annette King and transport spokesman Shane Jones.

The "two Davids" have had considerable exposure to business, likewise Dalziel, King and Jones.

"Shane didn't do too badly considering he was keeping his head down," said one chief in reference to the controversy over pornographic hotel movies.

If Labour loses, Goff is expected to stand down. Cunliffe was singled out as having the best attributes to make a vigorous opposition leader by 32 per cent of survey respondents compared with 17 per cent for Jones, 10 per cent for Parker and 7 per cent for former Labour Party president and trade unionist Andrew Little.

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# MOOD OF THE BOARDROOM

Election special

# Heading for a slowdown

New Zealand is in a vulnerable situation if Europe becomes the centre of global financial chaos

The risk that the economy gets side-swiped by another global recession tops the list of international concerns in the survey of business leaders.

After all, it has not fully recovered from the last one.

In per capita terms, economic output is still nearly 4 per cent below its December 2007 peak.

Consensus forecasts of growth among New Zealand's main trading partners have been falling for months, and with these things it is the trend, rather than the most recent reading, that carries the information.

The Treasury, in its pre-election economic and fiscal update (Prefu) is relatively sanguine about the international outlook. Its forecasts have trading partner growth stronger next year than it has been this year.

That assumes an orderly resolution to the euro area debt crisis — which is survey respondents' second gravest concern.

But even if Europe's leaders manage to avert a second global financial crisis on the scale of the one three years ago, it is already too late to avoid a serious slowdown. The European Commission is forecasting growth of just 0.5 per cent for the European Union next year, as near to recession as makes no difference.

The European Union's single market is the largest in the world and was overtaken only this year by China as New Zealand's second largest trading partner after Australia.

If Europe becomes the epicentre of another global financial crisis, the last one showed that, as well as the real economy channels of trade and commodity prices, New Zealand is vulnerable to offshore credit markets freezing.

The Prefu acknowledges that the risks to its forecast are "skewed to the downside".

"A failure on the part of governments to contain the crisis in the euro area could, in particular, cause a severe disruption to global funding markets."

The same risk dominated last week's financial stability report from the Reserve Bank, and is front-of-mind for the business leaders surveyed, who



**BRIAN FALLOW**  
economics editor

ranked instability in global capital markets No. 4 among their international concerns.

The Prefu sketches a downside scenario in which European leaders fail to manage their sovereign debt issues, leading to carnage in the markets.

Compared with 2008, there would be little scope for monetary and fiscal policy to limit the fallout and a protracted global recession would ensue, severe enough to slow China's growth to 6 per cent, against an average of more than 10 per cent over the past decade.

The implications for New Zealand's growth, employment, external accounts and public finances are grim, but mitigated by a weaker dollar and the need to rebuild Christchurch.

Survey respondents recognise that the fiscal crisis offshore is something of a tag team affair.

Right now Europe is in the ring, but only a few months ago political brinkmanship in Washington took the United States to the edge of defaulting on its debt.

The level of US government debt ranks as the third highest international concern in the survey. The International Monetary Fund puts US gross general government debt (including the states) at 100 per cent of GDP and its deficit this year at 9.5 per cent.

Among developed countries only Japan, Greece, Italy, Ireland and Portugal have more public debt, relative to the size of their economies.

The US Government is borrowing around 40c in every dollar it spends.

Next week the Congressional "super committee" made up of six Republicans and six Democrats is due to report back on how to cut US\$1.2 trillion from the Budget over the next



Greece's financial crisis sparked popular protests and led to the resignation of its Prime Minister.

Picture / AP

**Even if Europe's leaders manage to avert a second global financial crisis on the scale of the one three years ago, it is already too late to avoid a serious slowdown.**

10 years. Otherwise automatic across-the-board cuts are triggered.

"The Republicans are reluctant to raise taxes and the Democrats are protective of domestic social programmes," AMP chief economist Bevan Graham says.

"\$1.2 trillion is a mere drop in the bucket in terms of what needs to be achieved over the next few years in budget consolidation, but failure now would not bode well for the bigger job ahead."

Survey respondents ranked the strength of the US recovery as their fifth biggest offshore concern.

The Federal Reserve has revised down its growth forecasts for next year, though at 2.5 to 3 per cent it is a lot better than Europe's near-term outlook.

But four years after the sub-prime crisis blew up, the US housing market remains weak with foreclosures continuing apace and one mortgage in four under water.

That, combined with 9 per cent unemployment, is not good for con-

sumer confidence, and puts a question mark over the durability of a recent pick-up in consumption — crucial for an economy where private consumption represents 70 per cent of aggregate demand.

And overshadowing it all is the entirely unresolved question of what Washington is going to do about its chasm of a deficit — larger, relative to GDP, than ours was in the past year when we had to book the costs of the Christchurch earthquakes.

With a year to go before the next US general election, that concern is unlikely to dissipate anytime soon.

Exchange rate concerns also feature prominently among business leaders' concerns — volatility even more than levels.

Fear and relief, risk off and risk on, alternate in the markets on almost a daily basis.

In the past year the kiwi dollar has averaged a historically elevated 79c against the US dollar and has swung around in a peak-to-trough range of nearly 15c or 20 per cent.

# Fiscal management top local concern

The level of government spending tops the list of domestic economic concerns, closely followed by the level of government debt.

In the latest fiscal year government spending reached \$70 billion or 35.2 per cent of GDP and it is forecast to remain at 35.2 per cent in the current year. The average between 2000 and 2010 was 30.9 per cent.

The deficit surged out to \$18.4 billion, or 9.2 per cent of GDP, in the 2010/11 year, of which only half could be laid at the door of the Christchurch earthquakes.

The pre-election economic and fiscal update forecast spending to decline as a share of GDP over the next five years, back to levels in line with the average of the last decade, based on current Government policy.

Labour's forecast spending track is very similar to the Government's. That is because the big-ticket items among its policy promises affect the revenue line instead — income tax cuts for 98 per cent of taxpayers, extending the Working for Families tax credit to beneficiary families and KiwiSaver tax credits for 750,000 more people when it

Both main parties are forecasting a similar spending track and the same timeframe for returning the economy to surplus

is made compulsory for all employees. Even so, it insists it will be able to return the fiscal balance to surplus in the same year as National, 2014/15.

Net government debt stands at 20 per cent of GDP and is projected to hit 29 per cent in four years' time before the curve bends down again.

Politicians' resolve on these matters has been stiffened by sovereign credit rating downgrades by Standard & Poor's and Fitch.

They are conscious that although New Zealand's government finances still look good by international standards, they have deteriorated sharply and have to be seen alongside the private sector's foreign debt, which is high by international standards.

Ireland also had low government debt until the bursting of a property bubble rendered some of its largest banks insolvent and turned private debt into public debt overnight.

Hard on the heels of the Govern-

ment's financial management as a concern come the labour market and issues around the Christchurch earthquakes.

The economy has been in recovery phase for more than two years but it has barely moved the needle of the unemployment rate. Despite that, the availability of labour, at least with the skills required, is cited as a serious concern, suggesting that a good deal of the unemployment problem is structural and reflects a mismatch between the skills on offer and those required.

Labour productivity is rated as just as big a concern. Between 2006 and 2010, annual labour productivity growth was 0.9 per cent, less than half the 2 per cent average since 1978 and a third of the rate prevailing between the mid-1980s and the end of the 1990s.

To the extent that low productivity growth is an issue of capital shallowness — much lower levels of capital deployed per worker than in

**Politicians' resolve on these matters has been stiffened by sovereign credit rating downgrades by Standard & Poor's and Fitch.**

Australia, for example — it is something that chief executives can address themselves.

But it also requires public investment in education and infrastructure.

The latter also ranks among the top 10 concerns, with one respondent emphasising the importance of high-speed broadband and another worried by a gap between local bodies' aspirations in the infrastructure space

and their ability to pay for them — in Auckland and Christchurch in particular.

Both the cost of the Canterbury earthquakes and delays to the rebuilding process are of concern.

Rebuilding is not now expected to start in earnest until the second half of next year.

Insurers are cautious about writing new cover on properties in the region because of continuing aftershocks and uncertainties about the availability and price of reinsurance.

The Treasury estimates the cost of the earthquake to eventually be somewhere between \$20 billion and \$30 billion, with \$12.5 billion covered by reinsurance.

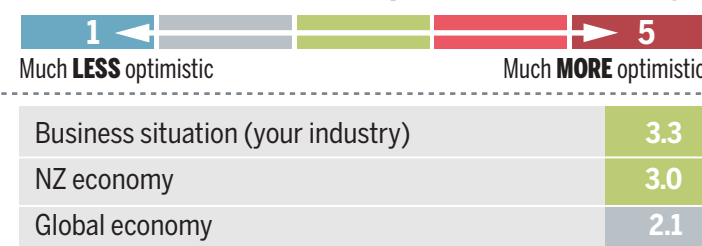
The flipside is a building boom, which, together with a cyclical recovery in residential building nationwide and a multibillion-dollar repair job on leaky homes, is expected to contribute 1.5 percentage points to GDP growth next year and again in 2013.

It will also be inflationary, but overall respondents rank the risk of inflation and higher interest rates among their less pressing concerns.

## NZ CONFIDENCE HOLDS



CEOs confidence levels compared to 12 months ago



### TOP 10 CONFIDENCE FACTORS

Rank	Factor	Score
1	Level of NZ Government spending	3.6
2	Level of NZ Government borrowing	3.4
3	Labour productivity	3.3
4	Skills and labour shortages	3.3
5	Canterbury rebuild delays	3.3
6	Canterbury earthquake costs	3.3
7	NZ dollar level	3.3
8	Current account deficit	3.2
9	Infrastructure	2.9
10	Wage increases	2.8

### INTERNATIONAL

Rank	Factor	Score
1	Renewed global recession	4.2
2	Level of European sovereign debt	4.0
3	Level of US Government debt	3.8
4	Instability in global capital markets	3.8
5	Strength US recovery	3.7
6	Exchange rates volatility	3.6
7	Strength of exchange rate	3.4
8	US dollar value	3.2
9	Competition for global talent	3.1
10	Protectionism	2.9

Source: New Zealand Herald 'Mood of the Boardroom' Survey November 2011 / HERALD GRAPHIC

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Lachlan Snodgrass, aged 11  
with Bob Harvey, Chair of the Telecom Foundation Board

# Testing times spring tax surprises

The 2011 Mood of the Boardroom survey results are a product of the environment — material fiscal deficits, substantial global uncertainty, an upcoming election and a RWC win by the narrowest of margins. The survey results bring out some decisive views across the spectrum of questions asked.

Before considering the responses it is important to also remember the context of the survey, which is akin to being placed between the devil and the deep blue sea — it assumes revenue needs to be raised (rather than government expenditure cut) and considers the options available to achieve this.

The survey canvassed levels of support for four revenue-raising options: capital gains tax, financial transactions tax, a temporary tax levy, and a new higher top personal income tax rate. The results reveal a number of surprises, particularly the extent to which some initiatives are supported.

The first is that a capital gains tax is viewed as a viable revenue-raising option, with 61 per cent of the respondents in favour in this context. The percentage in the survey increases to 70 per cent if the revenue raised is used to reduce personal and corporate tax rates, or stop these rates increasing. By an overwhelming majority the features of a capital gains tax that found favour with respondents are those that the Labour Party has put up as part of its package: that the family home is excluded, the tax only applies on a realisation basis, and that it also applies at a lower rate — say 15 per cent.

These results are somewhat surprising given that traditionally any proposal to introduce a capital gains tax has polarised New Zealand society.

But let's be clear, New Zealand already has a number of capital gains taxes in its existing statutory scheme. Gains on international shares and financial arrangements are subject to an unrealised capital gains tax at full marginal tax rates through, respectively, the fair dividend rate and accrual rules. Similarly, through the land provisions and other targeted charging provisions certain land and other gains are taxed on a realised basis, again at marginal tax rates. Labour's capital gains suggestion, for lack of a better phrase, is really just an extension to the existing distortionary rules to tax further capital gains, subject to some pragmatic exemptions, on a realisation basis at a considerably reduced rate. It basically introduces another rung in the already distortionary capital gains ladder.

Again, in the context of the devil and the deep blue sea, it seems that respondents believe the proposal has some merit. More surprising is that in the same context a financial transactions tax actually registers as a viable option, with a substantive 39 per cent support. Why surprising? Because historically such a tax would have been viewed as a fringe policy, reminiscent of what one would (and did) expect from the Social Credit Party. Its viability in New Zealand, however, will be directly correlated with the traction it gets in the Northern Hemisphere, where the same debate is playing out in a considerably more severe fiscal environment.

Another response at the more surprising end of the spectrum was that temporary tax increases, even with a sunset clause, registered a clear "we don't like" from respondents. Australia has gone down this route with the flooding in Queensland and it has been mooted as an option to fund or partially fund the reconstruction in Christchurch. The reason for the "we don't like" response is not clear from the survey, but it may be influenced by a concern that future governments and officials would look to make such measures permanent. In any event, a lot of work would seem to be required to get support for any such measure as a viable revenue-raising tool, compared to the others already canvassed.

At the less surprising end of the spectrum is that there is no real support for



The Mood of the Boardroom provides clear signals that CEOs are not only influenced by economic theory; they are also pragmatists, writes **Thomas Pippas**



US billionaire investor Warren Buffett wants America's super-rich to pay more taxes — one-third of the NZ CEOs agree our wealthy should pay a bigger share. Picture / AP

the removal of GST on fresh fruit and vegetables. Though this untargated measure has popular support in some circles — notwithstanding the boundary issues that would result — 85 per cent of respondents do not support it. Similarly, increasing the highest marginal tax rate, even so that it would not apply until \$300,000, is not a winner from respondents, with one comment being to "stop punishing those who work their butts off to do well". Again, increasing the top personal tax rate is a polarising topic (recognising also the relatively small amount of revenue that would be raised, particularly if there was a material increase in threshold).

Consistent with prior surveys, 85 per cent of respondents see real merit in ensuring our tax rules don't discourage foreign direct investment from cohabitating with local portfolio investors. The mixed ownership model for state-owned enterprises (SOEs) potentially raises a real edge to this discussion.

More relevant are the partial sell-downs of companies like Trade Me. Respondents also sent a clear signal — some 92 per cent — that it's time to think about unilateral options to integrate tax bases rather than continue to pursue the perceived nirvana of mutual recognition of imputation credits with Australia, which seems less realistic

**Faced with options around the devil and the deep blue sea, the boardroom is accommodating of certain revenue-raising tax reforms that traditionally one would expect to be met with disapproval.**

now more than ever. The sacred cow of picking winners and losers still receives support, with 78 per cent seeing merit in having a flutter to provide targeted tax and regulatory relief to encourage certain activity, noting that everyone else is doing the same, in any event. That support doesn't go as far as actively looking to attract high net wealth individuals to be based here, with only 38 per cent in favour of taxing such individuals in a concessionary manner. However in saying that, an overwhelming 82 per cent agree the current tax rules that actively repel high net worth individuals from coming to New

Zealand need some remedial action.

All in all, the survey provides clear signals that CEOs are not only influenced by economic theory; they are also pragmatists. Faced with options around the devil and the deep blue sea, the boardroom is accommodating of certain revenue-raising tax reforms that traditionally would be expected to be met with disapproval. This may be of interest to the current Government particularly given that, at least to date, it has not recognised the existence of the devil and the deep blue sea choice.

Similarly pragmatic is that business leaders are supportive of the use of tax as a carrot to encourage certain positive economic behaviours — an area where the Government has taken a few baby steps to date. Likewise, the Government needs to address barriers that our current rules have around foreign direct investment from cohabitating with local portfolio investors and rules that actively repel foreign high net worth individuals from being based here. These issues have been outstanding for a considerable time, and clearly respondents would at a minimum like comfort that they will be addressed in the near term.

Thomas Pippas is chief executive of Deloitte.

## Avoidance never far from the headlines

The banks were accused of tax avoidance by Inland Revenue as a result of entering into what became known as the "conduit" deals.

They lost in the High Court and settled rather than take their chances on appeal.

Messrs Penny and Hooper were accused by the IRD of restructuring their businesses so as to pay tax at the company tax rate rather than the higher top personal tax rate.

The Penny and Hooper case went all the way to the Supreme Court where the IRD prevailed over the two Christchurch orthopaedic surgeons.

Currently, the much publicised optional convertible notes cases are proceeding through the High Court — and again the department is sensing victory.

Inland Revenue is also raising the spectre of tax avoidance in a range of other cases that may or may not ultimately reach the courts for consideration. They themselves are still looking to push the envelope until they encounter resistance.

Note also the extensive financial and emotional costs of defending any such attack.

So how did it all come to this? The answer is not necessarily that taxpayers have changed their behaviour over time; it is that the boundary of what is and is not considered tax avoidance by Inland Revenue and the courts has shifted. This by the way is a global phenomenon — it's not just a New Zealand issue.

The obvious question that follows is where is the boundary now and where is it going?

The results of the 2011 Mood of the Boardroom survey are a mixed bag as to the level of concern this uncertainty generates. Only 39 per cent of respondents are concerned that uncertainty currently exists around what constitutes tax avoidance, while 62 per cent think the Government should do more to provide certainty on the tax avoidance boundary.

This compares to a recent BusinessNZ survey of its members, in which more than half of respondents were concerned about the uncertainty and 77 per cent thought that the Government should be doing more. The CEO responses are therefore in one sense surprising.

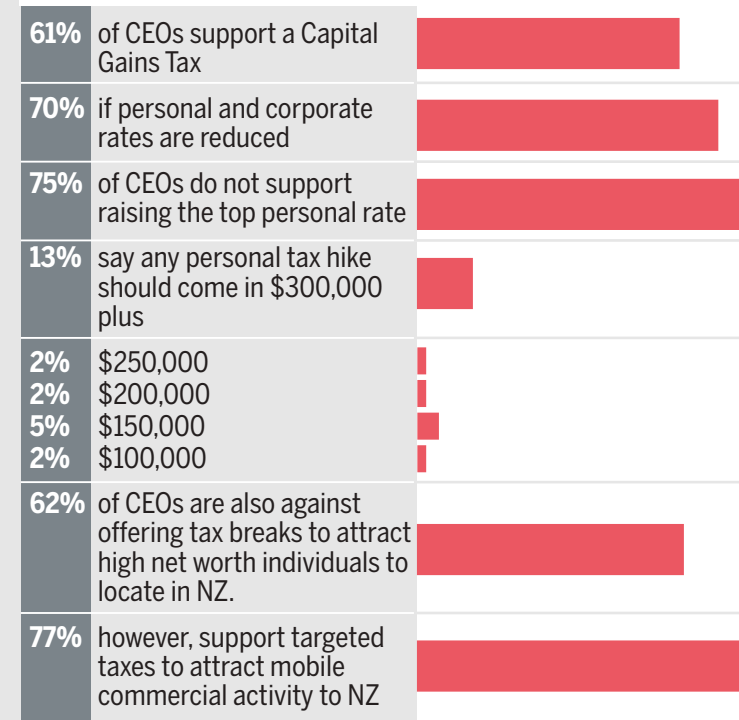
One reason for this may be that the responses provided could in part depend on how far Inland Revenue has been prepared to push tax matters within the respondents' own organisations. In any event, a clear majority is still calling for greater clarity.

To this end, Inland Revenue has promised to release its long awaited guidance on the tax avoidance boundary "shortly", actually now expected before year end.

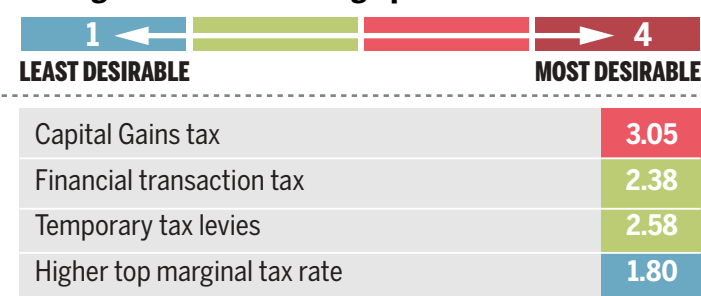
Time will tell when that guidance is actually released let alone whether it provides sufficient certainty.

Either way it will reignite the debate on this topic which is long overdue.

## RAISING REVENUE, TAXING STUFF

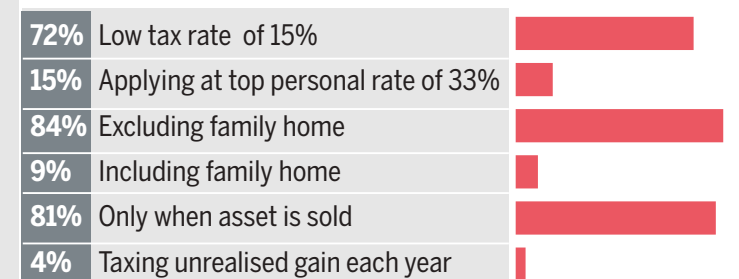


### Rating the revenue raising options



### Now for the detail:

**CAPITAL GAINS TAX**  
CEOs voted YES for a CGT with these features



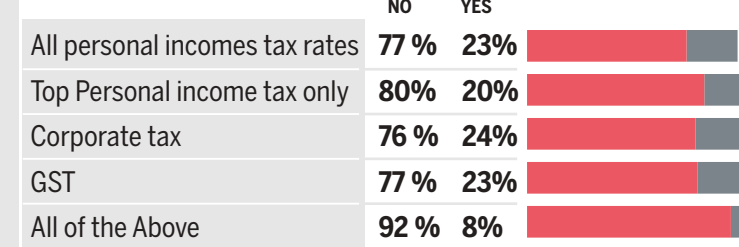
### FINANCIAL TRANSACTIONS TAX

(A low tax on transactions involving equities, bonds, currency deals and derivatives)

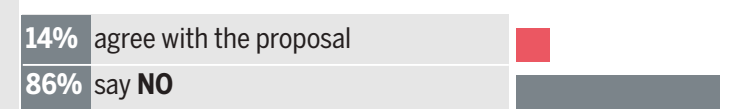


### TEMPORARY TAX HIKES

Temporary tax levies with sunset clauses could raise short-term revenue.



### ABOLISH GST ON FRUIT



Source: New Zealand Herald 'Mood of the Boardroom' Survey November 2011 / HERALD GRAPHIC

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# MOOD OF THE BOARDROOM

Election special

# Pressure on Christchurch businesses

## CEOs stress a need for clarity over insurance and rebuilding the city

Chief executives are becoming increasingly concerned at rising insurance premiums elsewhere in New Zealand since the February 22 Christchurch earthquake, and the length of time it is taking to start the rebuild.

Most CEOs with Christchurch-based businesses plan to stay put. But 10 per cent are considering shifting elsewhere.

Eighteen per cent of those with Christchurch-based businesses have faced difficulties obtaining insurance cover after the February 22 earthquake. But 38 per cent have not had problems.

Mainfreight's Don Braid says his company wants to invest in new facilities in Christchurch but insurance issues are causing angst.

"There seems to be a lot of miscommunication around what we can do and can't do relative to cover for a new building. It also seems to us that the bureaucrats have strangled the ability to begin the reconstruction process." Another CEO said his company wanted to build a more efficient manufacturing plant in Christchurch but could not do so until there was clarity on insurance.

A business lobbyist urged a national approach to under-writing. "This needs to be considered, as the NZ insurance industry seems to be approaching the situation piecemeal. Business will be seriously disadvantaged and the rebuild will take far too long as a result. More creative ways need to be found both to secure insurance and to keep the costs from escalating nationwide."

This factor has already prompted Fletcher Building CEO Jonathan Ling to call for state-backed insurance (see page 5).

Nearly half of the chief executives are against expanding the Earthquake Commission to provide base disaster cover for businesses as well as households; something that Vero chief executive Gary Dransfield has suggested. Thirty-seven per cent are in favour and 21 per cent are unsure.

Dransfield said the Canterbury quakes showed New Zealand's earthquake insurance approach had major weaknesses. He said this was not just a matter for insurance companies and their customers. "It is also a matter of national economic significance."

Dransfield has called for a review of earthquake insurance funding and management.

"We believe the priority is a viable

### Quake insurance

**77%** of CEOs faced insurance hikes elsewhere in NZ since February 22

**10%** are considering shifting their Christchurch businesses

**18%** have had difficulty getting insurance cover in Christchurch

**27%** say international reinsurance difficulties are impacting investment decisions

**47%** say their business will accept greater earthquake risk

**47%** oppose EQC offering business disaster cover

and sustainable earthquake model built around the current EQC. Simply put, the economic conditions we were working to when the EQC model was put in place no longer exist."

A pressing issue for both businesses and the Government is the EQC's ability to cope with another big event. "There is no point criticising what we currently have. The priority is to get industry working closely with Government to quickly improve the current approach."

But an energy sector chief executive said the EQC has had major issues dealing with the earthquake. "The jury is still out on the long-term model for the EQC as a truly functional entity."

A Christchurch-based chief executive stressed that "business needs to be insured".

"If we can't get insurance with reasonable excess then the Government needs to offer EQC-type cover just for



Disasters like the Maui gas pipeline outage and the Christchurch earthquakes have proved to be a wake-up call for the contingency planning efforts of New Zealand businesses

the insurance excess or uninsurable natural disasters."

Spare a thought for the insurers. They have to ensure their own solvency issues. "Being a general insurer we are faced with rate increases and need to ensure capacity and adequate pricing for future increases in the solvency standard through the Reserve Bank as well as an increased knowledge of natural perils such as earthquakes," added another insurance boss.

"In addition, with over 8200 aftershocks ongoing reinsurance to allow new business to be written is difficult."

## Coping with a catastrophe

Ten per cent of chief executives responding to the *Herald* survey have no plans to deal with the impact of a major earthquake on their business. But 57 per cent have a contingency plan and 35.5 per cent have used it. The devastating Christchurch

earthquakes have brought home the necessity for businesses to be well-prepared for major disruptive events. Around 70 per cent of survey respondents are prepared to deal with tsunamis and volcanic eruptions and disruptions to energy supplies;

19 per cent have had to use their plan. Industrial sabotage (including cyber attacks and spying) and corruption among offshore partners are also issues. The Rena grounding was also cited by some exporters, adding freight disruption to the list.



## Prepare for residual risk

Vector chief executive Simon Mackenzie warns New Zealand business they should step up their contingency planning efforts in the wake of the Christchurch earthquakes and the Maui gas pipeline outage.

He emphasises that even though infrastructure assets can be 99.99 per cent reliable (like the gas pipeline had been for about 30 years), many of them — including Transpower's major electricity transmission lines — run through difficult terrain or through areas which are subject to seismic activity.

"Even with the best management in the world there's only a certain amount of economic cost of infrastructure that can be provided and there's always a residual risk," says Mackenzie. The problem is that many people have an expectation of 100 per cent reliability "which is never actually married up with contracts because there is always force majeure".

He says companies do need to prepare for residual risk, citing the need for institutions like hospitals to have back-up power.

Mackenzie says the Christchurch earthquakes pose business continuity issues. "Sure there is a layer of insurance that kicks in but sometimes it doesn't kick in for a period of time. But it doesn't respond in a day or two or three days. So then there is an economic cost trade-off there."

"Because of the characteristics of the country, the terrain and earthquakes and all these other things, you cannot discount that an event can occur and we cannot discount that another event will occur."

Mackenzie questions what would happen if the South Island Alpine Fault blew, affecting the island's hydro-electricity stations. "I don't want to do a Domsday... But if you lost significant hydro, is there enough for it to go south?"

He suggests companies should explore shared solutions and fallback plans.

## CEOs' wishlist

About 80 per cent of the CEOs came up with ideas on what a Key-led Government should "do differently" if it gets a second term. Here's a snapshot of their views:

- Be bold. If they have political capital, use it for good not popularity.
- Make a business plan for the nation.
- Fire the focus groups.
- Throw away the polls.
- Face down officials.
- Fire the entire Treasury team.
- Get TVNZ to focus on quality media and inquiry.
- Implement the Rebstock report and reprioritise welfare spending.
- Target youth unemployment — a ticking social timebomb.
- Close family trust tax loopholes.
- Reopen the mining issue.

## Mixed opinions over land sales

Publicity over Chinese company moves to buy New Zealand dairy farms continues to divide business. One-third of respondents to the Herald CEOs' survey are against the move.

The issue raised its head when the May Wang — who is now facing fraud charges in Hong Kong — fronted the initial Chinese-funded bid to buy the Crafar farms.

"Quite simply, New Zealand land is our strategic asset because of its limited quantity and productivity," said a company chairman. "Land is not China's strategic asset and in any case foreigners can only lease it and then I believe a Chinese partner is required. Also look at the evidence of the number of Chinese companies on New York stock exchange with accounting fraud and our own mixed experiences here. The reality is Chinese business is not transparent and operates under its own value sets that differ from our own."

But 48 per cent believe Chinese firms should be able to buy farms. Some said it would be "racist" to ban Chinese buyers.

Here's a range of views

- "If any overseas investor can, then



May Wang fronted the bid to buy Crafar Farms but is now facing fraud charges in Hong Kong. Picture / Natalie Slade

that should include the Chinese. That is, 'any or none' as long as it meets Overseas Investment Office objectives and the overall business strategy brings benefit to parties involved and New Zealand."

- "Difficult question. Larger wine com-

panies (Constellation, Pernod Ricard) effectively do that now. All the profit leaves New Zealand but jobs are created. Agriculture is so important to New Zealand perhaps we should look at "lease land facilities".

"We are sure there are many occasions where valuable export orders are missed due to our inability to provide sufficient volume to the market."

Some suggest the Government should limit the number of NZ dairy farms that can be sold to foreigners. Other noted the farms were the key point in controlling the value chain and said Chinese involvement should be limited to equity investment in dairy processing.

On the export front, 87 per cent believed there was a larger role for New Zealand businesses to play in driving NZ's footprint in China.

Said one exporter: "New Zealand does need to have a stronger, more unified, approach to doing business in China."

"We are sure there are many occasions where valuable export orders are missed due to our inability to provide sufficient volume to the market."

Chinese/American/European, etc? It's about foreign ownership of the country's key source of wealth. Whether that's good, bad or indifferent is a debate that has yet to be fully completed at a rational rather than racial level."

The OIO is still studying the subsequent Pengxin International bid for Crafar farms. A decision is not expected until after the election.

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"We are sure there are many occasions where valuable export orders are missed due to our inability to provide sufficient volume to the market."

## Cup scores highly as confidence booster

The Rugby World Cup experience has strongly enhanced confidence that New Zealand can organise and run major international events.

Ninety-five per cent of chief executives said they were now more confident on this score. And 77 per cent believe New Zealand should actively bid for more major international events.

"We have proved that we can meet expectations, our own and the international partners. But we have a national love and participation in rugby," said a creative sector chief. "I don't believe we could transfer the experience to the Olympics or Soccer World Cup, as the provincial buy-in and media attention would be less intense."

Barfoot and Thompson director Peter Thompson believes New Zealand "gained world credibility" for its organisational abilities. "New Zealanders got in behind. You don't have to have the population or the finances to create a happy environment." He paid tribute to the way the Government, local council and rugby authorities managed the tournament.

"The opening night transport was a disaster but we learned from that and adjusted and there were no issues thereafter."

Thompson is among the 36 per cent of chief executives who have built new business connections by leveraging the tournament. "We had a box at Eden Park and every week we had a group of 10 coming in from Australia. We partnered with an Australian company which brought the clients across and we'll certainly build business from that."

Thompson's company is sponsoring the ITU Triathlon World Championship. The grand final will be held in Auckland next October.

"I'm sick and tired of seeing major events going outside Auckland."

Some chief executives suggested the economic impact was debatable even if the exposure was leveraged, particularly for bars and restaurants away from the official fan zones.

But most respondents said the RWC was a great event — particularly as the All Blacks won.

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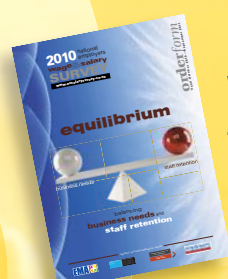
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BOARDROOM ISSUES

Chair snapshot

Boards still to grab women's potential

Most CEOs are against the NZX's mandatory gender disclosure proposal

Global Women chairwoman designate Dame Jenny Shipley lent her reputation to moves for publicly listed companies to declare how many women are on their boards.

Women are still woefully under-represented on New Zealand boards and in senior management ranks compared to Australia. But the push by Dame Jenny — who chairs Genesis Energy and is a former NZ prime minister — together with leading players including the Minister of Women's Affairs, resulted in the NZX promoting changes to the stock exchange rules.

Judging by the Mood of the Boardroom survey it is going to take concerted pressure before New Zealand's commercial community gets on song.

Sixty per cent of respondents are against the NZX making disclosure mandatory. Thirty-two per cent are in favour and 7 per cent unsure.

NZX CEO Mark Weldon says some sophisticated global and local investors value the information. "It is easy to provide, and should be disclosed on a gender basis, and on any other basis the company deems relevant to its business area and risk profile."

The NZX proposal follows in the footsteps of the Australian Stock Exchange (ASX) which saw a 50 per cent leap in the number of women on boards within 18 months of instituting mandatory disclosure.

Fifty per cent of survey respondents said just 10 per cent of their board members were women; 21 per cent reported 20 per cent of their directors were female. Just 7 per cent of respondents said more than 50 per cent

Women's role

60% oppose listed companies having to declare how many of their directors are women

BUT:

28% have active policies to increase the pipeline of women for board positions

41% have active policies to increase the pipeline of women for senior management roles

of their directors were women. "I can't believe the NZX is only now starting to consult on this, says Porter Novelli's Jane Sweeney. "BusinessNZ and the Institute of Directors are also laggards."

Other female respondents said they believed in the best being at the top. "I'm opposed to discriminatory practice which blocks women but unsure about legislation that promotes gender or race as a prime requisite for a role," says South Pacific Pictures' John Barnett.



Former Prime Minister Jenny Shipley is pushing for a change to stock exchange rules over gender declaration.

Others saw no harm in disclosure. But a capital markets player said this was "dangerous territory" — pushing people into roles that demand experience could end badly for those involved. "I prefer a system of active development to ensure the requisite skills are developed."

"More focus on merit would be helpful to move on the Old Boys Club," said a legal CEO. "That would be more effective than having a mandatory approach that risks having 'token women' on boards."

But an insurance company respondent said their company did focus on diversity — gender, age and ethnicity — as well as knowledge and experience.

The comparable figure for senior management roles was 41 per cent. Fifty per cent of respondents said less than 20 per cent of their senior management ranks were women.

Most respondents said gender did not come into it when deciding senior roles. Typical comments were: "What a stupid idea, if they are the correct person for the role, they get it"; "We don't need to — our women do just fine!" and "All positions are contestable and so women can apply as well as men."

But an insurance company respondent said their company did focus on diversity — gender, age and ethnicity — as well as knowledge and experience.

And a resources company boss had a programme to increase the numbers of women in his blue-collar workforce — especially drivers.

BusinessNZ surveys confirm that attracting and retaining staff with the right skill set is a major issue for New Zealand companies and organisations. Respondents said it was important to "ensure the reputation of the company and its employment brand attracts the best possible candidates for roles", partner with universities and training institutes to develop pipelines of suitable educated and skilled potential employees, or use bonuses to reward staff.

The plans

Here's what companies plan to do:

58% Increase wages/salaries

46% Get overseas talent

47% Develop apprenticeships

96% Offer career paths

27% Retain older workers

38% Offer incentives for non-management staff

37% Send staff on offshore assignments

27% Recruit more women

84% Give them the best technology



Emphasis on research

Anzco Foods chairman Graeme Harrison says agriculture is the engine of economic growth and the country has been fortunate the primary sector has been delivering.

"Without it, if we were a country dependent on manufacturing we'd be in deep trouble — like it or not manufacturing has moved to Asia, with China leading the charge," Harrison says. "Yes we can manage to do smart things but usually of relatively small scale."

"The only parts of the economy that we can actually build to large scale are the primary sector related ones, so I've always been happy that I've been associated with the primary sector even when it's been badly out of fashion."

The country has suffered with a lack of research and development "even in the primary sector because the reality is we've been trawling what was done in the 50s, 60s, and 70s in recent times and we've actually got to put far more resource into this", he says.

"I think there's no question research and development needs to be further examined, it doesn't matter who the government is."

The Government has a water policy but it is timid, Harrison says. "What we're going to finish up with if we don't watch it, is with compromises that actually don't allow us to develop our potential. I see more water storage, more utilisation of that water for hydroelectric power and also tourism."

People are also being timid in regard to mineral extraction, he says. "We have to also be prepared to utilise our resources in a very careful way, but all of this is highly possible, highly manageable. We've just got to get on with it otherwise we get left behind."

Harrison, who also chairs the International Business Forum, says a bipartisan approach to trade policy is fantastic. "I applaud both major parties for doing that. It ensures no matter who is elected we're not going to get off the rails."

However, effort is needed on non-tariff barriers, such as Customs clearance and phytosanitary regulations, he says. "It's particularly difficult when you're working in Asia, in places like China and India, non-tariff barriers still apply."

"The country is wasting time in terms of its credit rating and it is time for a level of prudence in that regard, he says. "And I've got to say that the Government is exhibiting all the signs of good economic management which is very important in these circumstances."

Harrison is positive about the future of the agribusiness sector. "But we are living in a far more volatile world... nothing shortens the horizon of planning more than volatility and uncertainty, and that's what we're actually living with," he says. "So that's one of the problems, we're all being a bit more cautious than what we would be if we were in a more stable setting."

There is an increasing problem of communication between the urban and rural-based sectors, he says.

"I just think there's a massive effort required to actually get urban New Zealanders to appreciate just how important the rural sector is."

Anzco Foods is a meat processing, processing and marketing company.

Spotlight on directors' role

The Nathans Finance case judgment raised the bar for directors and resulted in more vigorous boardroom scrutiny of public offer documents and financial disclosures. That's the view of 63 per cent of respondents to the Herald's CEO survey.

Nathans Finance went into receivership in 2007 owing investors \$174 million. Two of the four directors are serving prison sentences and two are on home detention after the Court found them guilty of issuing misleading offer documents. Justice Paul Heath accepted they had acted on senior management advice but ruled they had a "non-delegable duty to form their own opinions".

CEOs' views were mixed. "The Nathans Finance business case was a sham and we were stunned at the level of money they purported to make," said a consumer goods company chief. "There is no need for a new standard for that it already exists."

Several mentioned parallels with the Centro case in Australia which has resulted in claims that directors have to be "accounting-standard gurus" to spot "ticking time bombs" in board papers.

The Australian Securities and Investments Commission had successfully argued Centro's directors breached their duties because the company's 2007 accounts had misclassified a number of borrowings as non-current liabilities when they were actually current, should have disclosed post-balance date guarantees in the annual report and made sure the CEO and CFO signed compliance certificates. The upshot was the 2007 financial statements did not disclose Centro was due to repay billions of



Former Nathans Finance director Roger Moses leaves the Auckland High Court after being found guilty of Securities Act breaches.

dollars of debt within months.

"There is a danger that bad facts make bad law," said one chief executive. "If you take Centro, what the court is suggesting — every director should be on top of it — is going too far. Directors should not have to know the intricacies of international accounting standards."

The Nuplex case highlighted directors' exposure to breaches of continuous disclosure obligations in the NZX listing rules. The case was settled out of court. There has yet to be a judicial ruling in area. But it is a minefield.

Fifty per cent of survey respondents agreed with the proposition that continu-

ous disclosure rules should be amended to provide a safe period for financial rescues or bank recapitalisations without impacting on directors. Nineteen per cent were against this and 31 per cent unsure.

"It's a great pity that the courts were never given the opportunity of deciding this matter under law," says Hellaby Holdings chairman John Maasland. "There are now very grey areas for directors' decision-making as the views of the boards in regard to acting in the best interests of shareholders could in some cases now be contrary to law."

Kathmandu director John Harvey

says it is difficult to provide an across-the-board safe period "as each case is different and therefore requires judgment by the directors".

"We should see an amendment made, however this should be subject to an independent arbitrator — the Financial Markets Authority — at the time it is needed," adds Mainfreight's Don Braid.

Another listed company chief executive said shareholders suffer at present. "There must be a legitimate opportunity for the company to work with the banks. Forecasting a breach is easy in this economic environment. The key is what you do about it and the banks need time to understand your plan. Two weeks' grace period is plenty."

Sixty-two per cent of respondents believe directors' fees should be raised to reflect the tougher judicial and regulatory expectations — 24 per cent are against this and 14 per cent unsure.

"Fee levels are appropriate to time commitment — there is a risk in any executive role and liability for company officers as well — in that case one could argue that their salaries should increase as well, which most people don't suggest!" says a recruitment firm boss.

"Boards should insist on increasing fees — there is no way fees today reflect the risk," says a professional firm chief executive.

A company chair says the proposition is too general. "Perceptions of tougher judicial/regulatory expectations is a factor but not determinative of when, why and by how much fees should be raised. The biggest components are workload, responsibility, degree of risk and market factors."

Watchdogs need to prove they have bite

Serious Fraud Office chief executive Adam Feeley has work to do to rebuild the SFO's reputation in the business community. The fraud-buster was reprimanded for celebrating the laying of charges against Rod Petricevic with a bottle of Bridgecorp champagne.

The upshot is that CEOs rated the SFO's performance as average on a 1-5 scale where one equals poor performance and five an excellent performance.

The SFO let themselves down with the Bridgecorp champagne debacle," says Porter Novelli managing director Jane Sweeney. "It was not a good look for an enforcement agency." Others noted that "perception" was key.

Like the SFO, the new Financial Markets Authority also has work to do to cement its position as the leading enforcement agency for New Zealand's securities and capital markets.

Commerce Minister Simon Power, who is retiring at the November 26 election prior to joining Westpac as a senior executive in January, set up the authority to rebuild investor confidence after the finance company sector collapsed.

The FMA — headed up by Sean Hughes — opened in April.

CEOs said both agencies appeared "under-resourced" and "needed more budget." Though it was too early to form a judgment on the FMA, they nevertheless rated the authority's performance marginally higher than the SFO.

It is clear from chief executives comments that there are bugbears in the FMA's relationship with companies.



Adam Feeley

Sean Hughes

Among them:

■ "The FMA is virtually invisible for mum and dad investors and has done nothing to address the fundamental issue of how to create confidence and appetite for investment in the capital markets — they do not understand who their customers really are!"

■ "I would like them to spend more time on clarifying the very grey rules rather than bashing companies in the courts, particularly in the area of continuous disclosure which is ripe for what constitutes good practice."

■ "The FMA is wasting time and money with weak investigations that have no merit to send an unwarranted message. Complete waste of time at the moment. Minutes of research recently would have saved hours of work and money on an investigation."

It's early days yet for the enforcement agencies — but clearly they have work to do before they gain the full confidence of company chiefs and market participants.

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Executive Editor: Fran O'Sullivan

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# MOOD OF THE BOARDROOM

Election special



## English vs Cunliffe

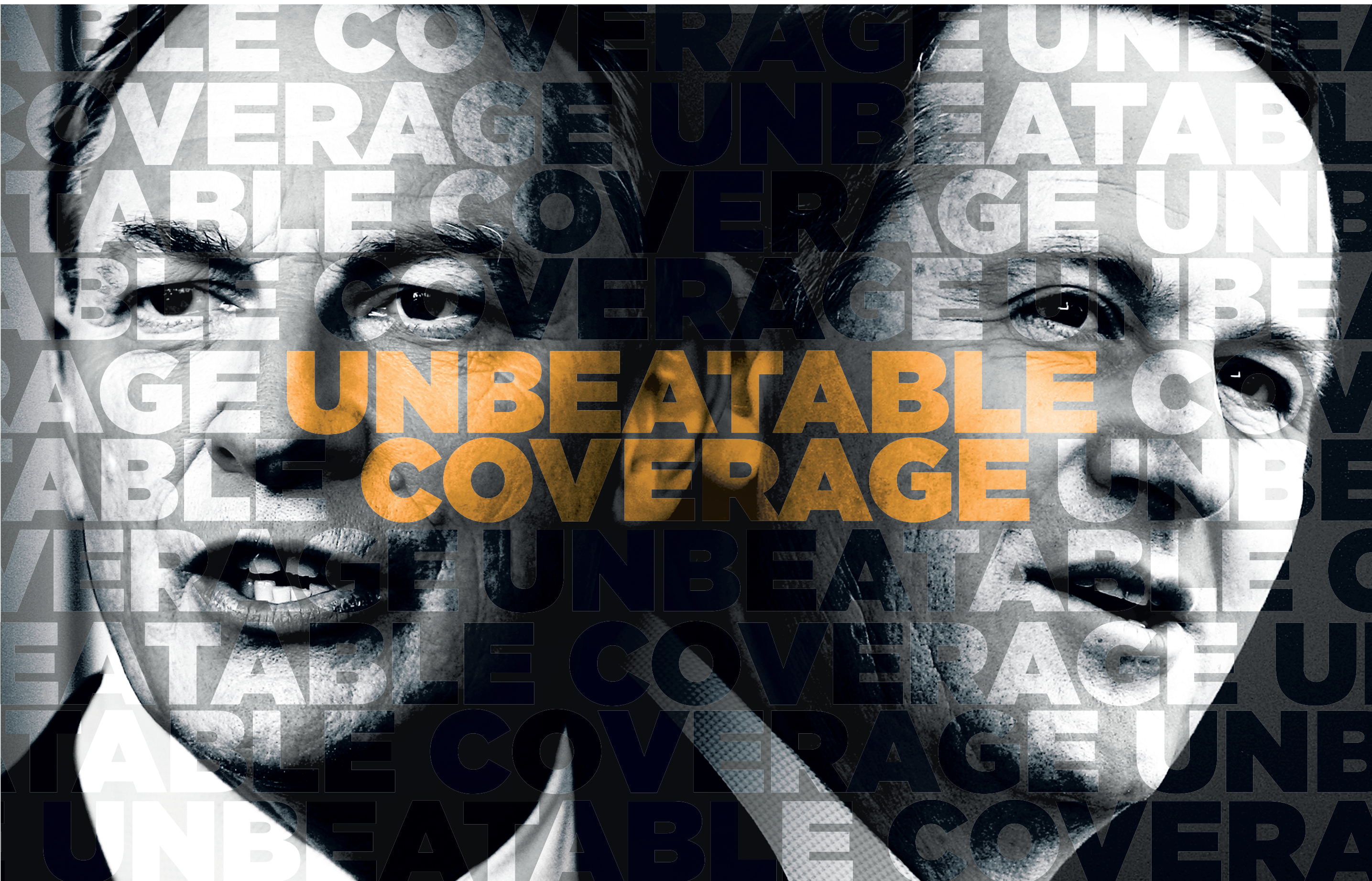


The Finance Minister and Labour's finance spokesman will debate the Mood of the Boardroom election survey findings in front of the country's leading CEOs at a special breakfast this morning.

The debate will be moderated by New Zealand Herald editor Tim Murphy (pictured centre).

Most CEOs — 90% — want Bill English back as Finance Minister. Will they change their minds after he debates the crucial issues with Labour's David Cunliffe?

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