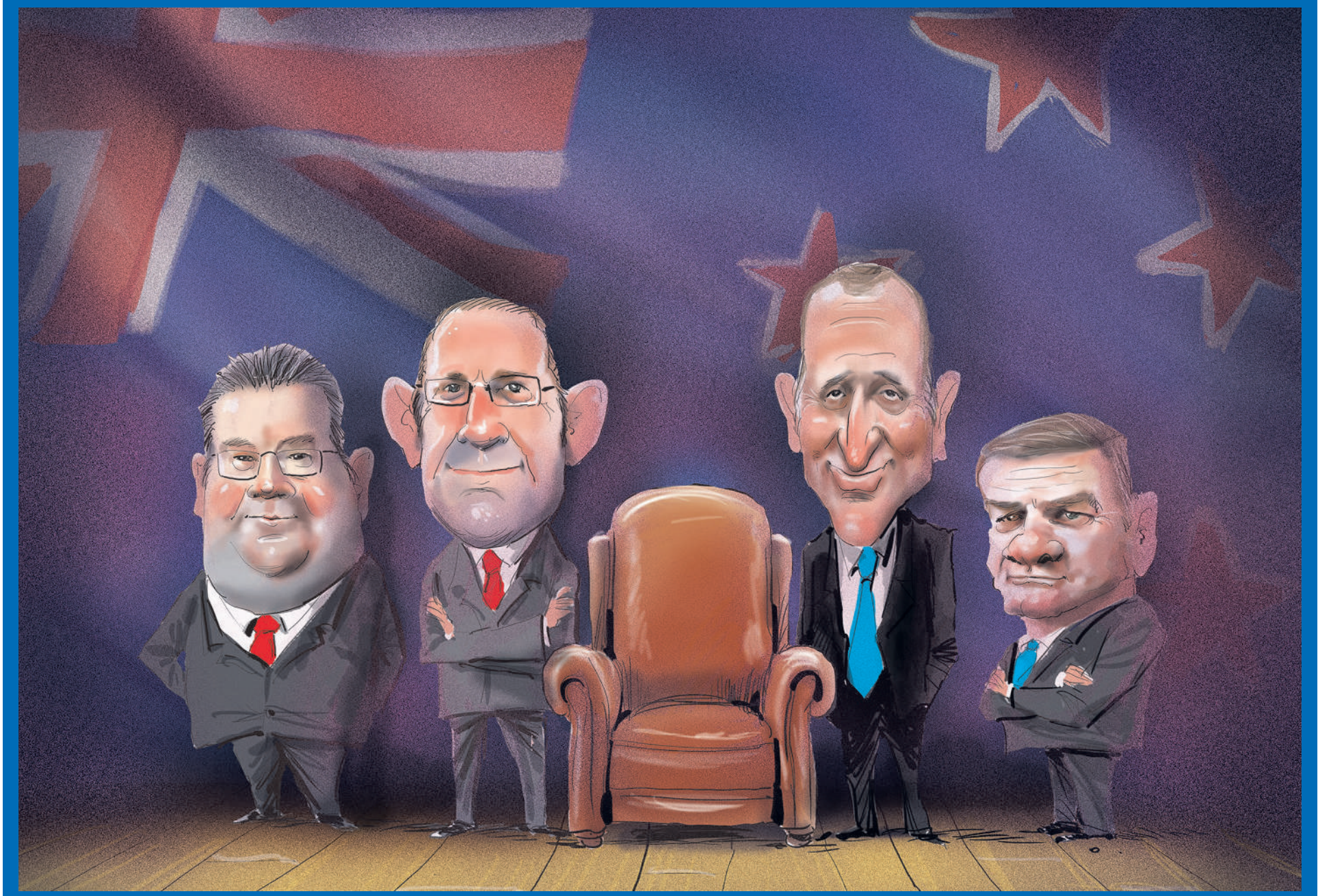
MOOD OF THE BOARDROOM

2015 Chief Executives' Survey

A sustainable future?



Fran O'Sullivan
Big picture

Bill Bennett
Politics

Pattrick Smellie
Economy

Thomas Pippos
Regions; tax

Our experts analyse the responses of 110 CEOs

Mood of the Boardroom Resiliance

Preparing for life after Key

CEOs are happy with the PM's performance, but most think it's time to groom a successor, reports **Bill Bennett**

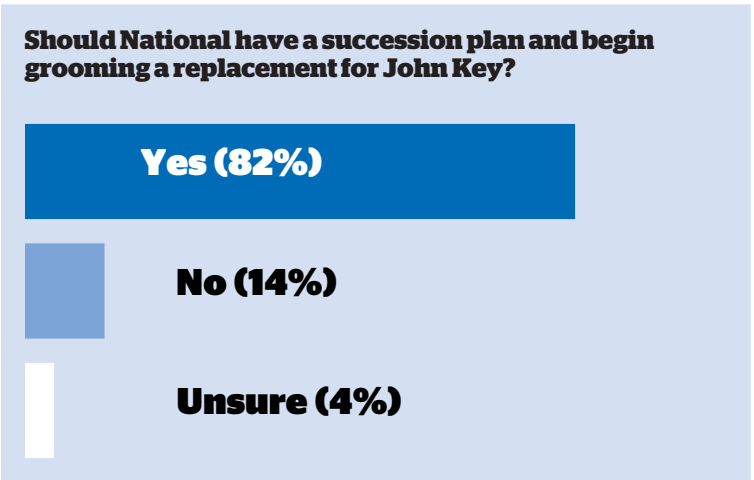
Third term Prime Minister John Key remains as popular as ever in the nation's boardrooms, but CEOs have sent a clear message he needs to think to the future. They want National to put a succession plan in place and groom a replacement.

There's a broad consensus on Key's strengths. He is seen as pragmatic — the word turns up dozens of times in responses. He gets things done, knows how to win elections and doesn't ruffle too many feathers. CEOs also like Key's connection with business, a number use the term "'engaged". Many mention his sound economic background and how that is reflected in policy.

Nearly 80 per cent of those surveyed say Key is still in touch with ordinary New Zealanders. That's an achievement given the events of the past year including the *Dirty Politics* saga, the ponytail incident and the misjudged Northland by-election. Many describe Key as a masterful communicator with the ability to speak plainly and relate to the public.

Mark Powell of The Warehouse captures the overall comments well describing him as "pragmatic, not ideological, economically sound with a sense of social justice. He comes across as down-to-earth and natural." Hellaby's John Williamson says Key has remained electable by consistently reading the pulse of middle New Zealand.

ICBC NZ chair Don Brash echoes the sentiment: "He is a very good communicator and can read the public's mood very effectively" while BusinessNZ's Phil O'Reilly says Key has "the capacity to bring the people with him". Scott St John from First NZ Capital says Key has the empathy to be "of the people".



"The PM is consistent, relatively predictable in terms of the policy initiatives and programmes he undertakes and he plays a long game. This consistent vision, combined with a wide and authentic appeal . . . gives him a lot of strength", says Spark's Simon Moutter.

Key's background in the finance sector and his commercial savvy resonate with many business leaders. Vector's Alison Paterson lists his CV as a strength along with his ability to deal. "In my memory we have never before had a PM with this skill set. His relationship with Bill English and Steven Joyce, both of whom have different and complementary skill sets forms a powerful business-oriented base."

Franceska Banga of the New Zealand Venture Investment Fund says Key is super-smart, grounded and focused on the big picture.

One CEO comments: "He has been successful in his own right in the commercial sector, so he gets what it takes and understands business. He is a likeable fellow and has vulnerabilities like we all do". Another describes Key as acting as a great CEO with his cabinet.

There is widespread praise for Key's ability to work with industry. Greg Lowe of Beca says: "He has engaged the business community in a very effective action programme about growth aimed at growing government revenue to aid spending on social programmes". Lowe also talks of a "clarity of direction in focusing actions of returning the country to a sound economic footing".

A few CEOs commented on Key's politics. One describes him as "a very bright centralist". Another says Key surrounds himself with a few great people in the right roles along with a cadre of good operators: "He gets good

information and completely outplays competitors in terms of tactics. He makes mistakes — Northland is an example — but these don't linger." EMA's Kim Campbell says Key has assembled an effective front bench.

Key also gets support for his approach to international affairs. One CEO says he has a decisive international profile while another says he handles himself well in overseas forums.

Time for National to groom a replacement?

Much as business leaders are comfortable with the PM, most think it is time for National to plan for his replacement. Not everyone agrees, 14 per cent of respondents think there's no need to plan yet. John Roberts from Global Strategic Services says Key still has another full term in front of him.

Eleven potential successors were named, reflecting a wide open field. Paula Bennett scored most mentions, but fewer than a third of total mentions. Front runners include English, Joyce and Simon Bridges. Each of their names appeared multiple times. Also mentioned are Amy Adams, Judith Collins, Simon Power, Nathan Guy, Jonathan Coleman and Hekia Parata.

A number of CEOs commented on the lack of suitable, qualified candidates. One says: "Candidates are few and far between — and that's a major concern". Others say there are no obvious successors yet, but express confidence one will emerge.

Mark Powell from The Warehouse says succession planning should always be in place, even if it is only to cover an unexpected event.

Some CEOs think succession planning is a good idea in business but doesn't necessarily work in politics. One comments: "I've never seen this work in NZ. Key will run until he loses an election and National will then need to refresh while in opposition." Another asks if anyone has successfully pulled off a political succession.

First NZ Capital's Scott St John says it's highly likely a succession plan is already in place. Other comments reflect a similar view. Dr Oliver Hartwich from the NZ Initiative says though every organisation needs a succession plan, that doesn't mean the leader needs to communicate it externally.

Deloitte's Thomas Pippos says: "There should be and probably is (a succession plan). These things don't lend themselves to being in the public eye too conspicuously. Sometimes the most a leader can do is give all the potential aspirants the opportunity to shine and the rest will be history".

What's Inside

Fonterra
What is the future for our economy given the volatile dairy market? CEOs suggest it might be time for Plan B.

China
Are we placing all our eggs in one country's basket? Should we rely so heavily on China?

TPP
What's in it for us? Boardroom backing for the Trans-Pacific Partnership and what the CEOs think it's worth.

The regions
Should migrants be incentivised to move to the regions? What can be done to revitalise our "zombie towns"?

Housing
Auckland's hot topic. What do the CEOs believe we need to do to calm the city's housing crisis?

Bring on the rolling maul

CEOs want policies to avert a perfect storm of economic factors, writes **Fran O'Sullivan**

Chief Executives are calling it straight, saying it's time for the Government to produce a new "rolling maul" of policies to avert a perfect storm.

Views have shifted since the heady days of the 2014 election campaign when we last tested CEO sentiment, just two weeks before the September 20 polling date. Back then, the *Dirty Politics* saga and Kim Dotcom's Internet Party took the shine off a compelling third election victory for National's John Key.

But business confidence was high.

New Zealand was still lauded as the Rock Star economy. Australian political and business leaders looked across the Tasman with frank envy as their own economy stayed becalmed off the rocks of an iron ore slump.

The *Herald*'s 2015 *Mood of the Boardroom* CEOs Survey, taken in association with BusinessNZ confirms the resilience level is still high in the nation's boardrooms despite the fact that 63 per cent of respondents were expecting an economic slowdown. CEOs are working hard to book increased profits — the biggest factor keeping many of them awake at night. But big changes in markets like China and Australia and the impact of digital disruption and other technological change is making their jobs more complex.

The 110 respondents to the *Herald*'s 2015 CEOs Survey have dug deep into some critical issues that are crying out for political leadership and frank debate in business circles. Among them:

- The Chinese economic slowdown, which has caused many to question whether New Zealand is too reliant on China;
- The need for a Plan B to offset a dairy slump taking billions of dollars out of the economy;
- Shortcomings with NZ's negotiating position on the Trans-Pacific Partnership (TPP);
- An Auckland housing "bubble" which has been fuelled by speculative fever from both on and offshore; and
- Under-investment in the regions.

By international comparisons the NZ economy is still rock solid (the description Finance Minister Bill English has always preferred).

The Warehouse chief executive Mark Powell told the *Herald* he was optimistic. "There are tailwinds, we have low interest rates and a lower exchange rate which is good for exports. Net migration is positive and Government fiscal policy is sound."

Thomas Pippos from Deloitte said it was difficult to generalise about a national slowdown as the NZ economy operates on multiple speeds. "Clearly some sectors are faced with considerable challenges over this next period, given current commodity prices."

"What was an incredible terms of trade story has proved to be correct — it was not credible," said Local Government Funding Authority chairman Craig Stobo.

When National swept to power in 2008 it was confronted with the impact of the Global Financial Crisis. Its answer was a "rolling maul" — Government spending on big roading projects dominated but there was also help for stressed companies, an approach it rolled out again after the devastating Canterbury earthquakes.

The 110 respondents to the survey have suggested it is time for a new rolling maul to deal with the big issues of 2015.

Herald cartoonist Rod Emmerson's front-cover illustration aptly depicts the vacuum that exists at the top political tables for frank talking on the issues that matter to New Zealand's future.

John Key and Bill English are still displaying the confidence that comes from nearly seven years of sustained political leadership.

But there is a vacant chair when it comes to leading debate on the next wave of change towards building a sustainable future for New Zealand.

Labour is on to its fourth leader since that 2008 election.

Andrew Little and Grant Robertson are beginning to forge a new conversation on issues that matter, like the future of work. But it is yet to cut through for them.

What matters though is the open conversations that business itself is leading.

In this report, CEOs like NZ Super Fund's Adrian Orr and Air New Zealand's Christopher Luxon talk about new concepts like Inclusive Capitalism and Supercharging New Zealand's success.

If politicians vacate the chair then business should step up.

Mood of the Boardroom 2015

Executive Editor: Fran O'Sullivan. Writers: Bill Bennett, Greg Hall, Brendan Manning, Fiona Rotherham, Holly Ryan, Graham Skellern, Pattrick Smellie and Alexander Speirs. Subeditors: Isobel Marriner, Greg Hall; Layouts: Isobel Marriner Graphics: Rod Emmerson. Research: Greg Hall. Advertising: Nathan Laing, Nancy Dudley.

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The Herald's Mood of the Boardroom 2015 CEOs survey has attracted participation from 110 respondents. These include chief executives, company chairs and the heads of some influential business organisations. The Herald survey is conducted in association with BusinessNZ. Chief executives are drawn from the Deloitte Top 200 list, which spans private and public sector companies and major professional advisory firms.

● Watch the Live Debate

Finance Minister Bill English and Labour's shadow finance spokesman Grant Robertson will debate the results of the Herald's Mood of the Boardroom 2015 CEOs Survey at the Langham hotel this morning. The debate will be chaired by Herald Managing Editor Shayne Currie. The live webcast will begin at 7.50am when Mood of the Boardroom executive editor Fran O'Sullivan will present the survey's findings. www.nzherald.co.nz/business

TOP PRIORITY

Getting the right investment approach for welfare reform.
— Phil O'Reilly, Business NZ

TOP PRIORITY

Maintaining sound finances and a balanced budget, while ensuring people have an opportunity to flourish whatever their background, and maintaining social cohesion.
— Mark Powell, The Warehouse

TOP PRIORITY

Work out a meaningful system of getting infrastructure spending increased and out of the political arena.
— Kim Campbell, EMA

TOP PRIORITY

Changing the Reserve Bank Act so government can intervene in major monetary issues that are impacting this country such as getting the NZ dollar lower.
— John Roberts, Global Strategic Services

TOP PRIORITY

Improving quality of public spending especially around addressing inequality.
— Mike Bennetts, Z Energy

TOP PRIORITY

Long term productivity increases, increasing housing supply and local government finance reform.
— Dr Oliver Hartwich, NZ Initiative

TOP PRIORITY

Review the RMA and help ease some of the costs of this act on housing.
— Real estate boss

TOP PRIORITY

Reduce the influence of Treasury and look for diversification for New Zealand trade — Don Braid, Mainfreight

TOP PRIORITY

Improve the quality of public service advice on long term policy matters; public service is increasingly becoming the puppets of short term ministerial tactics
— Mark Ratcliffe, Chorus

TOP PRIORITY

Driving growth of New Zealand businesses internationally, preserving unique New Zealand culture and addressing major social issues amongst Maori, particularly youth employment.
— Franceska Banga, NZVIF

TOP PRIORITY

A tax policy that encourages growth of second and third cities, so the over-reliance on Auckland as the place for commercial enterprises to be based is eroded in favour of other locations. Why not encourage an IT hub in Christchurch — the sector is strong there and is competing with Auckland as an innovation hub. Preferential taxes for strategic regional investment could also be worth considering.
-Human resources executive

TOP PRIORITY

Maintaining momentum towards surplus while ensuring government spending is sufficient to keep the economy moving where this is needed (and government agencies have that responsibility).
— A participating CEO

TOP PRIORITY

Promoting policies designed to lift New Zealand's lamentably low rate of productivity growth — such as reducing the corporate tax rate, reforming the Resources Management Act (RMA) and getting the real exchange rate down to encourage more investment in tradeable sectors (by reducing rate of immigration and tightening fiscal policy)
— Don Brash, ICBC New Zealand

Mr Consistent still top performer

Showing discipline and a desire to serve, Bill English has once again topped the CEO charts, reports **Bill Bennett**

Finance Minister Bill English ranks as the most impressive cabinet minister outperforming Prime Minister John Key.

It wasn't always that way, but CEO comments underline English earned their respect over the years by understanding how the economy works then pushing the levers to keep it firing.

He gets praise for strategy, focus and execution.

Many mention his understanding, his diligence and the way he steered New Zealand through the Global Financial Crisis and the aftermath of the Canterbury earthquakes. Port of Tauranga chief executive Mark Cairns calls English "a fantastic Minister of Finance".

Chorus CEO Mark Ratcliffe neatly sums up what many other feel saying English has "understanding of economics, NZ government practices and the public service, a capacity for hard work and the desire to serve".

Christopher Luxton of Air New Zealand says: "(English has) tremendous consistency and is a disciplined thinker. He really pushes officials across the Government portfolios to think differently and rigorously about the challenges. He understands the need to invest in solving social issues that ultimately have economic consequences".

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Consistency is a recurring theme. John Roberts of Global Strategic Services uses the word while calling English a great asset to the country and to the National Party. He also says English is "a very solid and professional finance minister". Meanwhile John Williamson from Hellaby calls English "Mr Consistent". He says English is prepared to make the tough decisions and "calls a spade a spade".

IAG's Jack Johnson says English understands global capital markets and displays "decisiveness, pragmatism and approachability".

Alison Paterson from Vector describes him as "logical, measured and firm".

It took a decade, but CEOs have now forgiven English for the disastrous 2002 election result — National's worst electoral defeat ever. Even his replacement as party leader, Don Brash, now the chair of ICBC NZ has positive words.

He says: "He has a strong understanding of how the economy works, and of both fiscal and monetary policy".

Not being prime minister has its advantage, says John Barnett of South Pacific Pictures. It means he can "present and deliver the hard news". Barnett also says English listens to people.

In a similar vein Murray Selby from Honda says English "is his own man".

Other CEOs mentioned that English's lack of prime ministerial ambitions and willingness to not steal the PM's limelight allow him to focus on the Finance portfolio.

Cathy Quin from Minter Ellison Rudd Watts says: "He is smart, straightforward and has massive support across business and in government.

"People trust Bill English to do what he thinks is in New Zealand's best interest based on considered thought and experience.

"He is respected for among other things, not being a person to engage in petty politics or cheap tactics".

The praise isn't entirely uncritical. Kiwi Income Property Trust chief executive Chris Gudgeon says: "He is diligent. However, he has shown that he is willing to tolerate inequity in our tax system to meet his fiscal objectives.

"Case in point is that our tax system ignores the cost of earthquake strengthening when determining taxable income, as if the private sector is facing no such cost".

Report card: Out of 5

CEO rankings: Government


Bill English **4.60**
Finance


John Key **4.28**
Prime Minister


Paula Bennett **3.85**
Social Development


Tim Groser **3.77**
Trade


Steven Joyce **3.65**
Business


Chris Finlayson **3.41**
Attorney-General


Jonathan Coleman **3.28**
Health


Michael Woodhouse **3.22**
Immigration


Maggie Barry **2.22**
Conservation
Lowest ranked

Scale: 1 = Not impressive to **5** = Very impressive

Source: New Zealand Herald Mood of the Boardroom Survey 2015/Herald Graphic

Is co-ordinated plan working?

Brendan Manning

The majority of the CEOs responding to the *Herald* survey believe National has a co-ordinated plan of action focused on raising the country's economic performance.

However, their comments suggest some scepticism as to whether it is working.

Gross domestic product grew 0.2 per cent in the first three months of the year — the weakest quarterly pace in two years — due a dairy-led contraction in agriculture and the impact on the mining sector of a drop in oil and gas activity. The New Zealand dollar has also been falling.

"The reliance on dairy is of concern," Mainfreight's Don Braid said.

The survey result showed that 70 per cent of the CEOs believed National had a co-ordinated plan of action to raise the country's economic performance, while almost 20 per cent did not. The rest were unsure.

Deloitte's Thomas Pippos said National had a plan around raising the country's performance, but there was not enough sub-planning for the regions.

The link between Wellington and the regions was missing at a sector level, Auckland Chamber of Commerce chief executive Michael Barnett agreed.

National had no apparent plan, other than to create a level playing field, a banker said. "Aka a 'build it and they will come' strategy — 1980's Treasury ideology which is too pure and not good enough for Government policy in 2015."

Their comments were backed up by an infrastructure boss who said the plan needed to be more aggressive and others commenting "National had 'plans' but they don't seem to be creating the outcome we need."

There were concerns at the competitive level. ICBC NZ chairman Don Brash said that despite coming to office in 2008 pledging to accelerate New Zealand's economic growth rate — to the point of catching Australian GDP per capita by 2025 — there is absolutely no evidence of any coherent set of policies which might even begin to accomplish that goal."

According to EMA boss Kim Campbell, the Government's Business Growth Agenda was an attempt to forge a co-ordinated plan but failed to address transport and related planning systems, and had no chance of fixing the housing crisis.

Among other comments:

"There is too much reliance on a philosophical approach to issues rather than specifically thought out solutions" — energy sector boss.

"They seem to be very day-to-day in their management" — banking boss.

> They seem to be very day-to-day in their management.

"They have, however, done that well. But I don't get the sense that there's any overall vision and strategy to get the country there."

Good for business

When it came to the Government's economic management, more than 80 per cent of the CEOs said they agreed with it overall, believing it was good for business.

In contrast, almost 15 per cent disagreed, saying more targeted programmes and initiatives were needed.

NZ Local Government Funding Agency boss Craig Stobo said the Government was doing well, but now was not the time to pause for a cup of tea. "The Government's proxy for our relative economic performance is relative real government bond yields . . . and we are not improving."

Beca's Greg Lowe was more optimistic, saying the Government's economic management was good for business, good for Government revenue growth, good for jobs and therefore good for the country overall.

A financial boss said National's plan seemed more reactive than proactive. "I certainly don't regard the Government's economic management as being good for business but I'm not sure targeted initiatives are the answer either.

"I don't believe the Government has clearly articulated what its overall plan for the economy is, let alone its key measurable strategies to get us there."

A health sector boss said as New Zealand was small and growth was likely to come from exports, the Government needed to allow more seed funding of innovation. "NZTE and Callaghan do a great job of this, but they fall short by not having the budget to invest and are quite structured in terms of how they are allowed to spend their money so shoe horn businesses into what they offer rather than what is needed.

"We think we are punching above our weight and often talk about that but layers of bureaucracy and lack of leadership within the decision makers within Government departments, means we are hugely lagging behind realising the innovation that sits within the NZ health sector."

It's a big job for Little

Labour Party leader Andrew Little faces a lengthy battle to win the confidence of business leaders, writes **Bill Bennett**

An overwhelming 72 per cent of CEO respondents say Labour leader Andrew Little has not achieved cut-through for himself and his party with the business community.

Some CEOs are prepared to give him some leeway. Phil O'Reilly from BusinessNZ says: "Andrew is doing what he does best, bluntly and engagingly talk of people — the business community likes that". KiwiRail's Peter Reidy says: "He has consolidated a party after a disastrous election result. Labour appears to have more energy and direction under Andrew's leadership."

It's still early days for Little who replaced David Cunliffe late last year after Labour suffered its worst election result since 1922. He is the fourth Labour Party leader since National won the 2008 election.

The Labour Party recently embarked on a charm offensive to woo business leaders with high profile functions at their Parliamentary caucus room in Wellington and an Auckland cocktail party where the party's disclosures on Auckland housing was the prime talking point. The party wants to convince the sector it has nothing to fear from a leader with a background working in unions. That history could work in Little's favour, his experience in negotiations means he has a clear understanding of business needs.

Under Little's stewardship the party has also launched a Commission on the Future of Work which is being led by shadow finance minister Grant Robertson. It has set some bottom lines for joining the TransPacific Partnership (TPP) and created headlines when it used leaked sales data from a real estate firm to claim that a disproportionate number of offshore Chinese investors were investing in the booming Auckland residential property market.

> Andrew is doing what he does best, bluntly and engagingly talk of people — the business community likes that.
>
> Phil O'Reilly

Last month Little proposed a new flexible tax system for small businesses where they be able to pay as they go, not estimate taxes a year in advance. He also advocates scrapping penalties for late payment of provisional tax and to raise the threshold for the tax from $2500 to $5000.

Looking forward Dr Oliver Hartwich from the NZ Initiative thinks Little's focus on recalibrating Labour is impressive. He says: "It will take time but the party seems willing to give it to him. We can expect a much stronger opposition in the 2017 election than the last time around."

Deloitte's Thomas Pippos says it is too early to tell, "part of the challenge for the principle opposition party is defining their space so far out before an election when National is adept at holding and protecting the centre ground". John Roberts from Global Strategy Services says there doesn't seem to be any traction in the polls to date.

Geoff Hunt from Hawkins gives Little the benefit of the doubt. He says there's no traction yet "... but there are possibilities".

The EMA's Kim Campbell says: "He is working hard to connect but is still light on policy," while Mark Cairns from Port of Tauranga says Labour is "certainly more approachable and engaging, but not yet cut-through". Mark Powell from The Warehouse says Little is trying hard, but is not convincing.

There's a more nuanced view from Stephen Selwood at the New Zealand Council for Infrastructure Development: "Engagement with business is very positive but ideological policies which are anti-private capital need to be put out to pasture. Private capital should be the friend of Labour, not the enemy."

On a more negative note, Greg Lowe from Beca thinks Little doesn't understand how business works or the economic drivers fuelling government revenue.

He says: "So far he is not showing enthusiasm for getting business behind what he wants to achieve for New Zealand. Business wants to be part of building a better New Zealand".

Ardern tops for Labour: CEOs

List MP Jacinda Ardern is Labour's prime show pony when it comes to business rankings of the performance of the party's MPs since the 2014 election.

The CEOs ranked her performance at 3.28 on a 1-5 scale; ahead of Te Tai Tokerau MP Kelvin Davis on 3/5 who returned to at the 2014 election after three years out of Parliament.

Little was astute in capitalising on Ardern's relative popularity with chief executives by awarding her the shadow small business portfolio.

Little himself, his deputy Annette King and finance spokesperson Grant

Robertson were all in the 2.9-3 bracket.

Some chief executives commented that the lower Labour rankings — compared to National's heavy-hitters — reflected that they were less visible.

"Labour has a serious talent problem and while they may be diverse in terms of gender and ethnicity they're not diverse in terms of life experiences," observed a leading banker.

Another said there were too many factional splits to appear effective."NZ has moved on from factions. People in this country want sensible transparent policy, not hidden agendas for vested interests".

Former leaders David Shearer and Phil Goff still rank relatively highly, ahead of up-and-comers like Chris Hipkins and Phil Twyford.

Tech future . . . Gamechanger

Despite austerity measures elsewhere, CEOs are backing a larger tech budget, reports **Alexander Speirs**

A strong focus on technology has emerged as an overarching theme in this year's Mood of the Boardroom survey. Our chief executives are overwhelmingly reporting that advances in technology stand to make the biggest changes to business in the medium term.

When an export dependent nation like New Zealand has nearly five times as many chief executives singling out technology as a bigger factor for business than shifts in the global economy — it's time to pay attention.

It seems the boardrooms of our largest companies already have, with 55 per cent of chief executives revealing that they expected to authorise a larger budget for IT in the coming year, and only 12 per cent anticipating a cut to their technology spend.

That's significant, because it comes at a time when businesses are less willing to spend on themselves.

Despite access to cheaper capital, as the Reserve Bank continues to slash the official cash rate, only 40 per cent of chief executives expected to authorise an increase to overall capital expenditure.

It's a material slide from the 53 per cent who expected to raise spending last year — but there's been only a minor increase in those expecting to decrease expenditure. Instead, businesses appear to be content to employ a wait and see approach over the next 12 months.

With a noticeable slowdown apparent in the Australian economy, a number of chief executives reported austerity measures under way and conservative strategies being adopted in boardrooms across the Tasman.

"Many New Zealand corporate decisions are made in Australian boardrooms," explained John Barnett, chairman at South Pacific Pictures.

"As they retrench and adopt defensive strategies, the fallouts will be felt here."

Chief executives did however remain bullish about the prospects for their own businesses. Despite increasing evidence of caution being employed, 69 per cent reported they expected to grow profits over the next 12 months. That is only a minor decrease from the 74 per cent who said the same last year.

Supreme confidence in business conditions was, however, an overriding theme in last year's *Mood of the Boardroom* survey and a number like that was expected.

CEO's were upbeat about the prospects for New Zealand, as commentators and politicians alike lauded the success of our rockstar economy. Fast forward 12 months and it's evident that the gloss is coming off.

Turbulent times in Europe and the softening of global commodities markets — highlighted by the complete collapse of dairy prices — have put a serious dent in confidence.

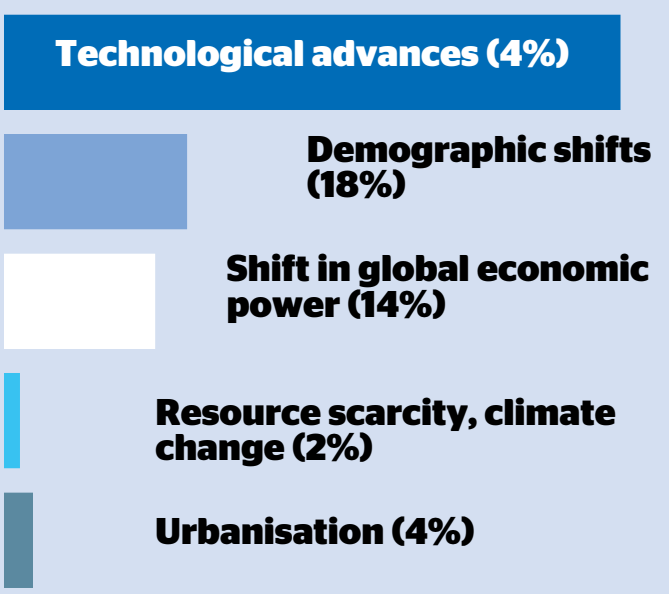
"We are seeing some of the effects of being an open economy, with a reliance on commodities and the discretionary tourism industry in an increasingly protectionist world," said one financial services head.

That sentiment has extended into the boardrooms of New Zealand's largest companies, with 67 per cent of chief executives indicating they see an economic slowdown looming.

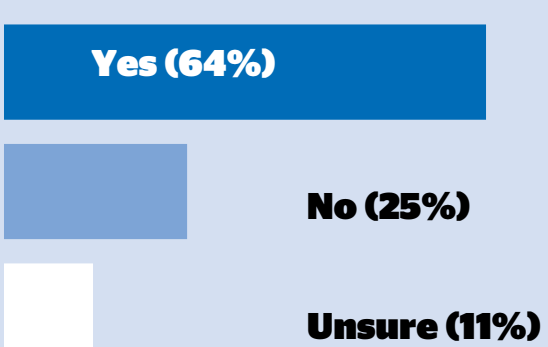
"With the collapse of international dairy prices, the weakness in international oil (and other commodity) prices, problems in the Eurozone and tensions in both the South China Sea and eastern Europe, it's hard to be optimistic," said former Reserve Bank Governor and politician Don Brash, providing plenty of reason for caution when looking ahead.

> When an export dependent nation like New Zealand has nearly five times as many chief executives singling out technology as a bigger factor for business than shifts in the global economy — it's time to pay attention.

What single factor do you think will have the greatest impact on business over the next five years?



A lot of leading indicators are pointing to an economic slowdown. Does it look like that from your boardroom?



"The rebuild in Christchurch, at least where residential is concerned, is likely to slow down over the next year," added Kevin Jaffe, chief executive at Simpson Grierson.

One CEO from the advertising sector said the behaviour of certain clients was a strong indicator of what was ahead.

"One of our clients is a large bank. They are already adjusting their behaviour as if a recession was already here.

"This almost certainly means the economy will soften."

Michael Barnett, chief executive of the Auckland Chamber of Commerce said, "while New Zealand firms should be optimistic they would be foolish not to expect a tougher environment in which to operate".

"Overall, the basis of the economy looks solid," said Greg Lowe, chief executive at Beca..

"Government spending has been reined in and there is a clear focus on achieving debt reduction. The impact of low dairy prices is unclear, but the longer this continues, the more we must factor in some negative impact."

Plummeting dairy prices in particular were on the minds of a number of our chief executives, but many were quick to call for a level-headed approach to the drop and what it meant for the economy as a whole.

"We can't escape that Fonterra and the dairy sector impact on us all. When the dairy sector is doing well, it has flow-on effects and the reverse must be true," explained Cathy Quinn, chairwoman at Minter Ellison Rudd Watts.

"The lower returns will not be likely to have an immediate impact on Auckland. It will if we talk ourselves into it. The fundamentals driving Auckland growth have not changed — they remain the same," she said.

Bruce Hassall, chief executive at PwC said, "it is clear the New Zealand economy is facing some headwinds in the period ahead.

"Many parts of the economy are strong, resilience levels are robust, but our collective ability to talk ourselves into a slowdown is a real worry."

Like Hassall, a major transport chair pointed out that a hit to the public's confidence could be exponentially more damaging than the underlying cause for alarm.

"While we need to be cognisant of what's happening, negative sentiment is usually more damaging than actual outcomes," she said.

Mark Powell, chief executive at The Warehouse said though he was unsure whether there was a slowdown ahead, there was reason for optimism.

"There are tailwinds, we have low interest rates, a lower foreign exchange rate which is good for export.

"Net migration is positive and Government fiscal policy is sound."

The head of a major healthcare company said this was a ripe time for Government and business to work together. "Collaboration and private-public partnership has to be more commonplace rather than the exception and should be valued and encouraged," he said.

Thomas Pippos, chief executive at Deloitte said it was difficult to generalise about a national slowdown as "the New Zealand economy operates on multiple speeds.

"Clearly some sectors are faced with consider challenges over this next period, given current commodity prices," he said.

A major energy firm head said current issues were sector-specific. He reported that his own industry was dealing with a host of issues at present, saying "the energy generation and transmission spaces are lacking any opportunities".

Kim Campbell, chief executive at the Employers & Manufacturers Association, said though some sectors were fragile, others were performing well. He pointed to tourism, horticulture, construction and education as sectors exceeding expectations.

The head of a major trading firm said they were seeing companies that were investing in innovation succeeding irrespective of how the economy at large was trending.

"We are exposed to premium, high value, knowledge intensive businesses, and these are focusing on their niches all over the world.

"For these companies, I am optimistic," he said.

What is keeping CEOs awake at night?

Being a chief executive isn't easy. Not only are there internal pressures, shareholder expectations and competitors to worry about, but a host of international factors have the potential to pose issues in the future. So what are the issues keeping our CEOs awake at night?

- Despite over-riding confidence from the majority of chief executives surveyed that revenue and profit would rise in the coming year, achieving top-line revenue growth remained the factor most likely to keep them awake at night. Just over half of those surveyed listed it as a factor, nearly identical to last year. With increasing numbers of chief executives expressing apprehensions about the prospects for the economy as a whole, it's surprising not to see this number rise.
- The impact of technology has come through strongly in this year's survey; it appears the unique pressures and challenges it brings with it are worrying our boardrooms. Digital disruption rose six places to tie for second place as the issue most commonly keeping our chief executives awake at night.
- Cyber security was also brought up as a troubling factor, with a number of respondents suggesting that it should be added as a category for next year's survey.
- Sourcing and retaining talent was seen as just as big a headache for our chief executives to solve. A third of respondents reported it was an issue they were facing, with an even higher number saying they were proactively addressing it. 70 per cent of respondents said they expected to make strategic changes to how their business manages talent over the next 12 months, with an acknowledgment across the board that changes are needed to the methods used to attract and retain talent. It seems to be part of a larger trend which is seeing significant changes to how businesses organise themselves and their employees.
- For the second straight year, strategic changes to organisational structure ranked as a top issue, with an identical 56 per cent expecting it to be on the boardroom agenda in the next 12 months.
- Regulatory challenges were seen as the third most common issue for chief executives last year, but the Government's push to raise regulatory standards is hitting the right notes in our boardrooms, as the percentage of respondents noting it as an issue nearly halved.
- One factor clearly not seen as a threat was mergers and acquisitions. Only a single chief executive reported it as a factor affecting their sleep, the same as last year. The past 12 months have seen some major M&A deals completed in New Zealand and activity in Australia is on the rise. If the NZD remains low, this could become a more prevalent factor in next year's survey.

— Alexander Speirs

Which issues facing your company are most likely to keep you awake at night?

35% Sourcing and retaining skilled staff

8% Motivating key reports

52% Achieving top-line revenue growth

9% Achieving cost reduction

30% Competitive pressures

28% Meeting customer expectations

28% Improving operational efficiencies

28% Managing profit expectations

32% Digital disruption

23% Regulatory challenges

19% Changing organisational culture

3% Cash flow management

1% M&A (threat)

9% CEO-board relationship

Disruption a threat — and an opportunity

When asked to assess the future of business across the mid-term, irrespective of industry, technology is seen as the great leveller among our CEOs. Seventy four per cent said they expected technological advances to have the biggest impact on business over the next five years — far and away the top choice.

Gary Langford, chief executive at Eagle Technology captured the mood, saying "technology is moving very fast and is disrupting many business models. Change is coming quickly and businesses are having to adapt to new ways of doing business."

"Major digital disruption and disintermediation to traditional business models, especially service based industries is both a threat and opportunity for New Zealand," explained Franceska Banga, chief executive at the New Zealand Venture Investment Fund.

As the likes of Uber and AirBnB continue to dominate their respective markets, toppling taxi and hotel operators around the world with close to zero tangible assets on their balance sheets, businesses have been forced to take notice.

"A key challenge that is already affecting our industry, and will increasingly affect others, is the impact that rapidly changing technologies can have on regulatory frameworks, especially where 'weightless' digital businesses are involved. We are seeing this in areas such as taxation," said Simon Moutter, chief executive at Spark.

The speed of change caused by the digital economy has been impressive. Legislators, regulators and competitors are in constant catch-up mode, with mixed results for everyone except the consumer so far.

South Pacific Pictures chairman John Barnett says it's that pace which can make technology so tough to contend with. "Technological change seems to occur with a speed we've never seen before. Other factors can be observed as they occur, but unheralded technology can arrive tomorrow and change an industry."

That rapid change isn't limited to the online economy either. Tesla seems on the brink of bringing electric cars to the mainstream, with significant progress on using the same battery technology to power a house through solar. As price points become increasingly palatable, the technology has the potential to force a total rethink on electricity and oil.

KiwiRail chief executive Peter Reidy looked to technology as the one true game-changer for boardrooms to contend with, saying "disruptive technologies will force business business to rework their business models".

Craig Stobo, chief executive at the Local Government Funding Authority said "technology is enabling more direct and cheaper transactions between consumers and producers. It is making swathes of middle management redundant".

But while many CEOs viewed disruptive technology as a major factor, a number also saw the opportunity to make it a catalyst for more minor step changes and improvements.

Minter Ellison Chair Cathy Quinn said "technology opens up the opportunity for efficiency, innovation and supporting our people to work more flexibly".

That fit with what the majority said, with 61 per cent of those surveyed saying that they expected to make strategic changes in their digital infrastructure in the coming year.

The global economy still did rank as the top concern for a number of boardrooms. 17 per cent of CEOs thought it would have the greatest impact on business over the next five years. One Agribusiness chief explained that Europe in particular has been troubling: "The Greek crisis and the expectation that they will eventually default has been unsettling globally. I've heard people say it's not a question of whether they will default, but when it will happen."

Despite those most concerned about the global economy coming from a variety of sectors, those chief executives shared a dim outlook for the economy in the coming year compared to their peers. Only 38 per cent were expecting to improve profits in the coming year (average was 69 per cent) and 77 per cent thought an economic slowdown was coming (average was 68 per cent).

Of equal concern to a large number of boardrooms are global demographic shifts. One prominent strategy advisor explained, "the growth of countries such as China, India and Indonesia have massive demographic changes occurring. The skilful companies will be the ones who can identify the changes and trends early, in order to capitalise."

Chief executives are having to contend with rapid population growth in fast-rising economies. At the same time, labour pools are continuing to represent an increasingly smaller proportion of populations in more developed countries.

Demographic shifts are a trend usually talked about in terms of decades into the future, but a significant number of chief executives see it having a large impact on business in the medium term.

What will certainly be to the dismay of environmental proponents: resource scarcity and climate change ranked last among factors set to impact business. Only two chief executives thought it would be the biggest factor to contend with over the next five years.

— Alexander Speirs

Future of Work initiative strikes a chord

The Labour Party has mined a rich vein with its Future of Work initiative, with a majority of chief executives agreeing not enough is being done to prepare New Zealanders for a future where technological disruption and robotics will remove many jobs.

An overwhelming 63 per cent of CEOs said more needed to be done.

"People are not going to get better economic outcomes in the future by doing the same jobs as they do today," said Greg Lowe, chief executive at Beca.

"As the world becomes more globalised, we need to ensure skills are rising across the board. Uplifting the skills of all New Zealanders is a vital component of a future economy with better incomes."

An energy boss noted, "the pace of making workers redundant is accelerating. The ability to re-skill is unlikely to keep up with this. New Zealanders can keep serving each other coffee, but it's the ability to compete for export-capable talent that is most important."

Labour has been vocal in its call for forward thinking and early preparation for a future with different requirements to succeed in the workplace.

Grant Robertson

"There is no doubt that the future of work is full of opportunity," said Grant Robertson, Labour's shadow finance minister. "New technology is set to drive a wave of productivity and innovation that will generate significant wealth for those who seize the opportunities.

"On the other hand it is also set to grow inequality and leave many behind, with work and income less secure and success more reliant than ever on having skills and expertise that you can apply widely."

Robertson explained Labour had set up the Future of Work Commission to explore ideas and propose solutions to the changing workplace. "The outcome we have set for the commission is for New Zealanders to confidently face the changing nature of work and to have sustainable, fulfilling and well paid employment in the coming decades."

Spark NZ chief executive Simon Moutter said though it wasn't perfect, Labour was at least looking in the right area.

"I agree that the challenge of ensuring New Zealand is fit for a digital future, and encourage and developing the digital talent we'll need in the future is a significant one. I do question, however, whether the issue is defined as 'the future of work', rather than the 'future of income'."

South Pacific Pictures chairman John Barnett said it should not be a political issue. "It is a fact which all parties should recognise and prepare for. Business already knows it."

Demographics in both rising and established countries stand to have a major impact on the shape and population of our work forces over the coming decades.

> The pace of making workers redundant is accelerating. New Zealanders can keep serving each other coffee, but it's the ability to compete for export-capable talent that is most important.
>
> Energy sector boss

What may have an ever-larger impact however, is the change that improvements to automation, robotics and artificial intelligence could bring.

Only 19 per cent of chief executives are confident the available education and training system in New Zealand is sufficient for this future state.

Several chief executives praised Cabinet Minister Steven Joyce for his focus on tertiary education.

One ICT chief said it wasn't just a matter of upskilling for the sake of doing it, but rather, New Zealand needs to make sure skills are being taught that businesses need.

"There is a disconnect between many tertiary courses offered and what businesses need," he said. "Students are taking on loans, but the courses aren't lining up with the meaningful jobs students are seeking, which will justify their time."

Mood of the Boardroom China

All our eggs in one basket

Are we placing too much reliance on China? **Fran O'Sullivan** finds the boardrooms are split on the issue

The gloss has come off the China market following recent volatility on Chinese stock exchanges and major commodity slumps which have seen New Zealand's dairy export returns dramatically slashed.

The Asian Growth Story is still compelling — with China playing a major role as the regional growth driver. Tourism receipts from China are still buoyant and the services trade is promising. Beijing is still reporting annual growth rates at 7 per cent of GDP.

Chief executives in the *Mood of the Boardroom* survey were evenly divided on the question of whether New Zealand is placing too much reliance on the China market with 42 per cent saying Yes, and, 41 per cent saying No.

Minter Ellison chairman Cathy Quinn responded. "Are we placing too much reliance on China or has New Zealand just responded to an opportunity that emerged with a global superpower that provided great opportunity?

"I think NZ responded to an opportunity. Businesses are rational and will also look to diversify risk to the extent they can practically do so."

Craig Stobo was bullish. Ticking off the metrics he noted: 1.35 billion population out of 7 billion global population, the second largest economy in the world, the fastest growing economy in the world, their first FTA was with NZ . . . "we are not doing enough!!"

Spark NZ chief executive Simon

Cathy Quinn

Don Brash

Moutter underlined that China and other Asian growth economies are vital for New Zealand interests as a small Asia Pacific based trading nation. "While there is currently some challenges in some markets, it is important that we take a long game view and look for enduring relationships that are consistent, long-term and two-way."

Chiefs of leading business organisations which have more diverse memberships than corporates took a wide view. "This is as always, a game of "and"," said BusinessNZ CEO Phil O'Reilly. "We need to do more in China but we need to make sure that as our economy diversifies we get more sold elsewhere. A European Union-New Zealand free trade agreement FTA will help. High tech to the UK anyone?"

Auckland Chamber of Commerce CEO Michael Barnett noted, "we have a number of free trade agreements that have not been well exploited and business should be encouraged to have more diverse export strategies with those other markets."

Others expressed caution about being "too optimistic about China, and as a result not preparing any "Plan Bs". " This is a risk that we must manage — over-reliance can translate to leverage being applied against us on other matters in effect using commercial leverage to drive positions on foreign policy, immigration, capital flows, ownership of key assets and so it goes on", cautioned a professional firm boss.

There have been recent grumblings by foreign investors in China that the regulatory settings were making it more difficult for foreign companies to compete. Just 21 per cent of CEOs agreed with the proposition. The vast majority — 67 per cent, were unsure.

Deloitte chief executive Thomas Pippos observed, "China understands the value its market has on the global economic scene and choreographs its actions accordingly looking to maximise its own national welfare — its acting totally rationally and businesses need to enter that market with their eyes wide open."

Others pointed out that China was not a market for the faint-hearted." There are many hidden barriers to operating freely in that economy and we need to work to encourage China to progressively remove these barriers.

This will improve the efficiency of their economy and benefit Chinese consumers. Of course China is not alone in this regard," said an infrastructure boss.

Nearly 50 per cent of chief executives were also unsure about whether New Zealand was ready for the impact of China opening up its capital account.

Former Reserve Bank Governor Don Brash — now chair of the NZ operations of the world's largest bank ICBC — said New Zealanders have an inherent and unhealthy fear of foreign investment in general and foreign investment from China in particular. "Successive governments have done a poor job of explaining the benefits of foreign investment to New Zealanders.

"China still takes less than half as much of our exports as was the case when we were heavily dependent on the UK market, though that probably understates the importance of China to our prosperity given our additional indirect dependence on China via our dependence on the Australian market."

An agribusiness chief with significant Chinese ties said the only downside to foreign direct investment is that it comes in too fast to be used usefully. NZ needs to think through what percentage of GDP it wants as foreign direct investment each year and then set policy accordingly."

There were cautionary notes.

Local Government Funding Agency chairman Craig Stobo said, "I don't think global markets are ready for the size and impact of the genie coming out of that bottle."

"NZ could be swamped by the tsunami, said professional director and company chair Dame Alison Paterson. "The Chinese people like hard assets like property, jade [our greenstone."

"This is hugely worrying for us — already Kiwis are competing and there are vast numbers of new wealthy investors ready to take advantage of beautiful NZ," said a health sector CEO. "We have to be sure that investing here does not come at the price of improving life for New Zealanders who live here and hold residency."

Government needs a Plan B

CEOs think we need to look to diversify in the wake of the dairy slump. **Fran O'Sullivan** reports

Chief executives want the Government to form Plan B in case the dairy slump worsens. Their call comes as Fonterra slashes its farmgate milk price for the 2015/16 season by $1.40 to $3.85 per kilogram of milk solids.

Dairy farmers have seen prices tumble from a record $8.40 per kg/MS in 2014 – the height of a lengthy bull run for dairy commodities which had sparked what became known as a White Gold rush.

But last week's brutal forecast payment downgrade has put farmers' finances on a knife edge. It has also taken billions of dollars out of the NZ economy.

Seventy-five per cent of CEO respondents to the *Mood of the Boardroom* survey said the Government should form a Plan B in case the slump lasted for longer than expected; 19 per cent were against fallback measures.

Some 80 per cent also believed the Government should actively look to accelerate the diversification of the NZ economy to avoid an over-reliance on dairy.

A market exponent noted: "We need to recognise that we are an agricultural commodity producing nation. Commodities, by definition, have price cycles and increasingly, higher levels of price volatility. We need better tools to manage this if we are to remain competitive."

Kiwi Property CEO Chris Gudgeon said the private farming sector will need a Plan B. "The Reserve Bank monitors rural sector debt and will need to be vigilant."

Others agreed that monetary policy settings provided a safeguard.

ICBC NZ chairman Don Brash said, "Plan B is, in one sense, already in operation as a result of lower interest rates and, even more important, the much lower exchange rate. Other components of Plan B might comprise pressing ahead with reforming the RMA, dealing with the Auckland housing bubble, and possibly increased investment in transport infrastructure, especially in Auckland," he added.

BusinessNZ's outgoing chief executive Phil O'Reilly noted. "Plan A works. Get the micro reform agenda correct and execute. Reduce Government spending as a proportion of GDP. Work on skills and all the rest. Execution is key."

Still more offered a nuanced view.

"I think a better way of looking at it is that the Government needs to be acutely aware of the different scenarios (and implications that can flow from them) and consider what if any responses to adopt," said Deloitte chief executive Thomas Pippos. "The ambulance at the top of the cliff will always be having a diversified economy (that avoids concentration risk) and has natural hedges. Risks as presently being experienced can't be eliminated, they can just be managed as part of a portfolio of activity."

When it comes to forming Plan B – the views differed.

Said an agribusiness chief. "Not sure what a plan B might be? I don't think socialisation of debt to support farmers staying on their land is a particularly good idea."

"The Government should always be looking at supporting a broad cross-section of industries," said one dairy boss who refused to get into special pleading.

Others thought this was not an area for Government involvement.

The Warehouse's Mark Powell said, "we usually look too often to the Government to solve things, I'm not sure that the Government can do much here where there is a global market at play."

Cooper and Company's Matthew Cockram agreed: "Why the Government? What about all the other players – Fonterra included. Solutions if they are to be effective have to come from industry and those directly affected."

Is diversification the answer?

Though there was massive support for a more diversified economy, those chief executives and company chairmen who offered an on-record opinion seriously differed. For some the question scratched a nerve.

A meat sector chief said the Government could ensure diversification by putting market access for other primary industry products higher on the country's trade agenda. "We still have no chilled or meat based manufactured foods access into China! Dairy has dominated New Zealand's trade access issues agenda with that market and others."

"Diversification of our economy is always desirable, particularly towards a higher-tech, higher-value economy, and to lessen the reliance on dairy and tourism as our two biggest industries," said Spark NZ CEO Simon Moutter. "But it's important that other industries learn from the success of dairy and tourism and seek to step up and emulate their growth and success – New Zealand will become more economically successful when we have more industries at their level.

"Others need to step up, not dairy or tourism step down."

Callaghan Innovation chief executive Mary Quin said New Zealand should never be "over-reliant" on any one product or sector. "Just as no business should rely on one customer for more than 10 per cent of its sales revenues nor should a country's economy rely on one industry (let alone a single commodity product) for more than 10 per cent of export revenue."

For others the question smacked of Government intervention.

Don Brash pointed out the record of government "diversification policies" has been very poor, at least in New Zealand. "Taking pressure of the exchange rate is probably the most important single "diversification policy", and Government has been slow to deal with this issue (which required tighter fiscal policy)."

Investment banker Rob Cameron said the Crown should focus on interventions that enable capital and talent to move to attractive opportunities and sort its own portfolio of assets rather than picking winners.

An agribusiness investor was adamant. "I do not want Government picking winners! Question is how diversified can a 4.5 million person economy be?

"It will never be self-sufficient. So the question might be what things should we be doing and why is that not the case?

"What is the missing ingredient. The answer however is not clear to me."

Clockwise from left: Fonterra CEO Theo Spierings, Matthew Cockram and Rob Cameron.

On Fonterra

75%
want the Government to form Plan B

80%
want diversification of NZ economy accelerated

45%
say Fonterra has been a success

Business leaders question Fonterra structure

Just 45 per cent of CEO respondents believe Fonterra has been a success.

The world's largest dairy exporter was created when the previous Labour Government introduced legislation to meld together two competing dairy companies and the industry's former marketing arm, the NZ Dairy Board.

But hopes for Fonterra to become a $30 billion company have yet to materialise, and within the business community there are questions over its structure. Twenty-nine per cent of CEO survey respondents believed that the company had not delivered; 27 per cent were unsure.

The view from the banking top table was adamant. "Fonterra has not delivered on its promise of increasing value-add returns," said one CEO. Another noted Fonterra has successfully sold milk powder into China, like the rest of the world has. "It hasn't diversified its products nor its markets as much as it should have."

> It hasn't diversified its products nor its markets as much as it should have."

A key international agribusiness player said the problems were structural. "I always favoured the dairy industry having a competitive model comprising two major companies rather than a virtual monopoly. No major multi-product export in New Zealand should be in the hands of a single governance board and management team."

Others were more generous. "I believe Fonterra has been a great New Zealand success story," said Spark NZ's Simon Moutter. "But being a global player doesn't mean that they are immune to the forces of a world commodity market. That means upside when those forces are in our favour, downside when they are not."

But there was also plenty of comment that Fonterra was hamstrung by a poor structure. "Remove DIRA (the Dairy Industry Restructuring Act which constricts Fonterra's business) and things will change quickly," said one agri-sector CEO. Said another: "The tide of milk from suppliers has overwhelmed its value-add strategy.

"The capex required to process the tide of milk has weakened its balance sheet."

Several concurred this left Fonterra in a weakened position. "It begs the question why have Fonterra been selling milk powder to global companies such as Danone and Nestle who in turn produce this into value-added branded products – they are taking the increased margin that Fonterra should be creating?" asked one observer.

The inefficient capital structure had also resulted in economies of scale in drying plants and milk powder logistics, but hadn't enabled Fonterra to invest in value-added, higher margin products.

But others pointed closer to home.

An experienced company chair pointed out that Fonterra – like other large organisations – was subject to board decisions which will not always be right. "A perfect storm of some poor decision-making and the commodity cycle will bring poor results. Risk assessment ability?"

A surprising 30 per cent thought the Government should introduce legislation to break up Fonterra into a co-operative processor and commodity producer owned by farmers and a separate well-capitalised company to produce and promote value-added products.

Z Energy's Mike Bennett liked the idea but did not believe the Government should legislate for it. "It should be determined by the owners of Fonterra."

The Warehouse's Mark Powell noted scale could be an advantage, especially on the global stage. "However, scale can lead sometimes to bureaucracy and lack of innovation."

A top dairy player underscored that Fonterra's integrated business creates more value because every factory produces byproducts from the main product which Fonterra also sells." If the business is split, we lose that synergy and value."

Cathy Quinn from Minter Ellison pointed out. "Fonterra belongs to it farmer suppliers. Frankly if they don't want external shareholders, why should that be imposed on them? If they don't think that is in their interests, that is their prerogative."

– Fran O'Sullivan

Rock solid beats rock star

CEOS want new approaches from political leaders to help turn the economic tide, writes **Pattrick Smellie**

The exact moment when the tide turns is barely visible to an observer at the water's edge, but an hour or two later, when the tide's running strong, it's obvious which way things are flowing.

It's now clear that the high tide in New Zealand's current economic cycle, buffeted and distorted in the last seven years by global events and the Canterbury earthquakes, was around the middle of last year.

In July 2014, the New Zealand Institute of Economic Research's Quarterly Survey of Business Opinion was headlined "'past the peak", although there was still some life in the old dog. In September last year, the kiwi dollar was nudging up unsustainably high at near US85 cents.

Heading into 2015, conventional wisdom among bank economists held that, despite a slowing economy, the Reserve Bank would have no choice but to raise interest rates, partly to follow the US Federal Reserve, partly because rising Auckland house prices had to be slowed, and partly because inflation would reappear sooner or later in the rest of the economy.

By mid-year, none of this was happening. The long-awaited removal of quantitative easing in the US had not yet begun and seemed to be receding ever further into the future. The strong exchange rate was importing deflation from the rest of the world and keeping New Zealand inflation pressures low.

Last but not least, no amount of monetary policy action appeared capable of restraining Auckland house price inflation, particularly thanks to record net migration caused more by New Zealanders coming home or staying home than by new arrivals from other countries.

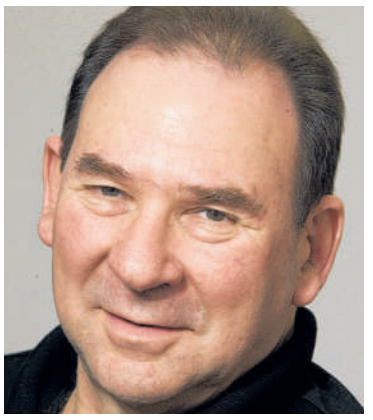
In June, the Reserve Bank not only cut the Official Cash Rate from 3.5 per cent to 3.25 per cent, but also signalled there was plenty more where that came from. An OCR at 2.5 per cent by October looks to be in prospect.

Meanwhile, global dairy prices continued to fall. By the time of the first of two disastrously weak GlobalDairyTrade auctions, in late July and early August, the previously positive public mood about New Zealand's economic prospects flipped over to negative.

In the TVNZ Colmar-Brunton poll of July 11 to 15, some 41 per cent of those polled said they were pessimistic about the economy in the next 12 months, compared with 36 per cent who were positive. A year ago, more than half (54 per cent) were optimists about the year just gone, compared with one in five (22 per cent) having a negative outlook.

The *Mood of the Boardroom* survey shows a similar reversal in outlook. Our business leaders are uniformly less optimistic about the economic than they were a year ago, although at this stage, their pessimism is reserved more for the economy as experienced by others. "Own sector" optimism has held up a little better.

Bruce Hassall



John Barnett

Craig Stobo

As the head of the Employers and Manufacturers Association Kim Campbell puts it: "The world is a mess but New Zealand is relatively well placed."

Beca's Greg Lowe agrees: "While there is concern about the impact sustained low dairy commodity prices may have in the near term, overall the New Zealand economy seems well diversified and generally robust.

"Offshore, the languishing Australian economy remains cause for concern to New Zealand. However, some parts of Asia are showing increasing potential. Low oil prices are helping in some sectors."

> What was an incredible terms of trade story has proved to be correct it was not credible!! So it is back to sourcing productivity gains as a driver of GDP growth.
>
> Craig Stobo, LGFA

Also helping is a material correction in the strength of the NZ dollar, which today sits at around US65 cents, nominated earlier this year by Prime Minister John Key as a "Goldilocks" level — neither too strong nor too weak.

While its fall is not enough to offset the impact of much lower dairy prices, it's a fillip to other exporters, many of which are performing somewhat better than in recent years. Beef, sheepmeat and wool, for example, are all bucking the trend with strong prices and increased demand. Talk is already turning to some dairy farmers reducing or abandoning milk production for alternative land uses.

Heavily exposed to dairy debt, banks are expected to hold hands with farmers in the expectation of a global price upturn, assisted by Fonterra taking the sting out of a historically low payout forecast for the current season by offering an advance of 50 cents per kilogram of milksolids.

Elsewhere, a range of high tech, software and service exporters are quietly enjoying the boon of a more competitive exchange rate.

This is the much-vaunted resilience that New Zealand political and business leaders have been talking up as the economic outlook has soured.

As Treasury Secretary Gabs Makhlouf has been telling anyone who will listen, a "rock star" economy is much less use than a "rock solid" economy, in which businesses are resilient, nimble and spread across enough different sectors to weather the storms inherent in a country exposed to agricultural commodity price cycles.

We're not there yet, but those themes come through strongly in the *Mood of the Boardroom* survey, along with fears about the potential to talk ourselves into recession. "It is clear the economy is facing some head winds in the period ahead," says Bruce Hassall, from accounting firm PwC. "But many parts of the economy are strong and resilience levels are robust. Our collective ability to talk ourselves into a slowdown is a real worry."

Asked what worries them most about New Zealand's economic prospects, business leaders nominate a lot of the usual suspects. Top of the list among external factors are weakness in the Australian and Chinese economies, instability in Chinese capital markets and low dairy prices.

But two sources of high concern unrelated to commodity price cycles also stand out. They are access to global capital and concern about cybersecurity. In fact, cyber attacks rank as the fourth highest concern after weak Asian, Australian and dairy markets.

"I believe we are unprepared for cyber attacks" says veteran movie man John Barnett, from South Pacific Pictures, who also fears a wider complacency. "I think we believe our physical isolation will protect us from terrorism," he says.

For Craig Stobo, a long-time observer of the New Zealand economy now heading the Local Government Funding Agency, the collapse of the dairy-induced economic confidence of recent years is a useful wake-up call.

"What was an incredible terms of trade story has proved to be correct — it was not credible!! So it is back to sourcing productivity gains as a driver of GDP growth."

Indeed, labour productivity, workforce skills, regulation and inadequate national infrastructure stand out as the areas of greatest concern for business leaders. Weakening consumer demand and over-priced housing worry them too, but not as much as the underlying settings that influence how the economy performs.

The implication is that policymakers need to turn their attention anew to policy levers that can make a real difference to long term economic performance. Here, business leaders remain disenchanted with perceived levels of red tape, with the old bogey of the Resource Management Act still high on the list, especially since government promises of substantial reform have run into the sand.

"Lack of support for RMA reform will remain a huge bugbear for business," says Business New Zealand's outgoing executive director, Phil O'Reilly. "It's still one of the main problems I hear about.

"We simply can't get that message through to many of the politicians who are being far too binary about the options. It's as if any balance in the environment/ development debate is a death sentence for the New Zealand we all know and actually, that we all love.

"Business people are environmentally conscious too," he insists. "But it's simply not responsible to say that no development is a good thing."

Ministers are suggesting they can achieve as much through existing RMA tools, such as much greater use of National Policy Statements, but even there the progress is painfully slow.

As the good times of a commodity cycle boom start to fade, the acid will be on political leaders to demonstrate how new approaches to policy can help turn the tide.

Economy

Confidence pegs back

Scale 1 = Low to **5** = High

Business situation (in your industry)	2.99
NZ economy	2.30
Global Economy	2.54

Domestic concerns

Scale 1 = Low to **10** = High

Infrastructure	6.03
Regulation	5.96
Skills & labour shortages	5.79
Labour productivity	5.43
Housing affordability	5.18
Level NZ dollar	4.70
Christchurch Rebuild progress wage increases	3.99
Weakening consumer Demand	5.10
Level Government spending	3.62

International concerns

Scale 1 = Low to **10** = High

Low Dairy prices	6.83
Slowdown Australian economy	6.41
Slowdown Chinese economy	6.27
Cyber attacks	5.90
Instability Chinese capital markets	5.38
Competition global talent	5.30
Volatility currencies	4.70
Protectionism	4.67
US dollar strength	4.65
Low cost competition	4.48

Source: New Zealand Herald Mood of the Boardroom Survey 2015/Herald Graphic

El Nino brings unwelcome headache

There are many things New Zealand can influence about its own economic destiny, but one thing no one controls is the weather.

A strong El Nino weather pattern, likely to last through to next autumn, represents an unwelcome additional headache for agricultural producers and economic growth in the year ahead.

El Ninos traditionally bring drought to the eastern areas of both the North and South Islands, reducing agricultural output and export receipts, while raising on-farm costs and hitting farmers' returns.

The Bank of New Zealand's head of economic research, Stephen Toplis, also notes an unfortunate coincidence between previous El Ninos in New Zealand and economic weakness induced by other factors. Examples include the El Ninos that coincided with fiscal austerity in the early 1990s and the Asian financial crisis of the late 1990s.

The impact of drought on dairy production may not be of great moment. Fonterra is already expecting a 2 per cent reduction in milk production this season in response to low global prices. But drought hits every other agricultural producer as well. The ability to take greatest advantage of high prices for other commodities is constrained if production is down owing to low rainfall.

Having said that, the correlation between a fall in agricultural production and overall economic output is not as strong as the relationship between El Ninos and agricultural production.

An El Nino drought in 2003/04 had no discernible impact on GDP growth, which showed a cyclical peak that year, while in 2008/09, agricultural output boomed but the economy slumped in response to the global financial crisis.

— Pattrick Smellie

Boardroom backing for the TPP

Public sentiment is staunchly divided on whether the Trans-Pacific Partnership (TPP) will be positive for New Zealand, but our boardrooms remain assertive in their support for an Asia-Pacific agreement, writes **Alexander Speirs**

NZ's TPP negotiators are working through some tough issues on dairy and biologics protections which — along with the stalement on auto issues — led to the recent ministerial talks in Maui stalling.

Some 53 per cent of CEOs responding to the Herald survey were confident that TPP (if successfully negotiated) would hold significant net benefits for the New Zealand economy and business.

One-third remained on the fence and 13 per cent were not confident.

Said Don Brash "I have no doubt that if the negotiations can be brought to a successful conclusion — by which I mean a situation where New Zealand actually signs the TPP — as a country, we would gain greatly."

Brash, who is chairman of ICBC NZ added a caveat, "but of course, the negotiations may lead nowhere unfortunately."

The Warehouse chief executive Mark Powell explained, "such a negotiation always involves trade-offs, so it is hard to answer such questions. Bottom lines are not easy to be clear on without deeper insight as to what exactly is on the table."

Labour has put strict bottom lines on how much NZ should trade off to get a deal. Leader Andrew Little says while Labour supports free trade, it's concerned about about any situation which could undermine national sovereignty.

Two of Labour's conditions are inherently complex. Little wants the NZ Government to retain the ability to restrict the sales of farm land and housing to non-resident foreign buyers and ensure that corporations should not be able to successfully sue Governments for regulating in the public interest.

Labour's 5 bottom lines on TPP

Meaningful gains NZ farmers (tariffs and access)	77% ✔
Treaty of Waitangi upheld	73% ✔
Should not be able to sue Govts for regulating in public interest	58% ✔
Governments able to restrict farm and housing sales	51% ✔
Protect Pharmac	37% ✔

The TPP — as currently framed — is understood to place difficulties in the way of Governments attempting either measure. But the *Mood of the Boardroom* survey indicated broad CEO support for both measures.

Protecting Pharmac as a going concern, particularly the ability to purchase generic drugs, did not resonate so strongly. Just 37 per cent saw it as a potential deal-breaker and one-third did not agree the condition.

Said a banker: "Pharmac is not a binary issue — there are a range of possible outcomes such as allowing appeals from Pharmac decisions, moderate extensions to patent terms, etc which are not materially adverse to NZ's interests. Dog whistle politics is not helpful in trade negotiation."

A health firm chief executive comenting on a not-for-attribution basis gave a detailed insight into why the Pharmac issue was so complex. "I hope that they will encourage global industry healthy partners, pharmaceutical companies for example, to put innovation funds back into New Zealand to fund innovation and R&D initiatives which can be taken global."

"Right now our customers funding is offshore because Pharmac are buying the lower possible medicine, rather than buying the most cost effective health outcomes. Medicines are only worthwhile if people actually take them and are supported to use them safely."

Negotiating lines

When it comes to NZ's negotiating lines, nearly half of CEOs agree dairy access should have been the top priority for the Ministry of Foreign Affairs and Trade's negotiators.

Trade Tim Groser has been working overtime to cinch a worthwhole deal on dairy but getting the US, Canada and Japan to agree to meaningful concessions has been a hard sell.

Sir Graeme Harrison, chairman of ANZCO Foods said, "The outcomes will not be as great as earlier hoped for but the long drought since the end of the Uruguay Round for a plurilateral settlement involving more than one leading global economy will finally be realised."

"It's not just a dairy deal," stressed Phil O'Reilly, chief executive at Business NZ. "TPP will benefit the new economy as well. Investment is the new glue of trade. That will increase as a result of TPP."

When asked if there were other areas, including rules to benefit the development of New Zealand's high-technology sector, which could have taken precedence — 51 per cent of our chief executives were unsure.

Said John Barnett, chairman of South Pacific Pictures, "dairy is currently our most significant export, but the TPP will frame our trade for years to come, and if we are to build a resilient economy where our ideas and IP headline our future, we need to ensure that we aren't restrained from creating, developing and exploiting the ideas of that future."

Mood of the Boardroom What's important...

Let's debate Inclusive Capitalism

We need to look towards a more relevant and resilient system, says **Adrian Orr**

To borrow from Churchill, capitalism is awful, except for every alternative.

It's the least worst system for organising ourselves into allocating scarce resources and putting them to productive use.

At its heart, the system argues for nothing more than a well-functioning marketplace where the reward for capital and labour can be freely determined. Of course, markets frequently fail because of compromised access or information, or undesirable consequence. The more catastrophic of these failures have given rise to successive new forms of capitalism—each a product for a new age—and the system's adaptability has proved its greatest strength.

The past decade has brought many of capitalism's current failings to light. Short-termism, misaligned incentives, and hubris combined to create a global financial crisis that destroyed jobs and accumulated savings, the aftershocks of which still echo

These same factors now also frustrate efforts to meet the defining challenges of the time ahead – climate change, environmental degradation, population ageing, and others. Lastly, today's capitalist system falls short in providing access to all who demand it and the reassurance that their contributions will be fairly rewarded.

It is time again for change and several new efforts are now directed to the design of more relevant and resilient capitalism.

As some of the cornerstone participants and beneficiaries of the capitalist system, asset owners and institutional investors have a critical role to play in its reinvention.

What does our role look like? As stewards of other peoples' money, we are sensibly bound by a mandate to maximise risk-adjusted returns. When interpreted narrowly, such mandates preclude the involvement of institutional investors in activity that does not directly influence the portfolio's bottom line on grounds that this constitutes a breach of fiduciary duty.

However, a longer-term perspective on the task before us provides both the rationale and the imperative to act on making capitalism more inclusive.

A more inclusive system, with greater participation and democratic buy-in, is also one that is more stable and less risky. The sponsorship of such a system by the investor is inescapable if it generates larger, more stable, returns, and an increasingly persuasive body of evidence suggests that it is exactly so. "The investment markets are characterised by relationships that are distanced and not enduring.

For example, shareholders in listed equity and debt instruments can sell, generally, at will.

If, instead, we can forge strong relationships with the companies we invest with where all partners are aligned on the same long-term goals based on mutually-beneficial engagement, then, again, a more sustainable capitalism results. Such engagement is only one salient aspect of being a "responsible investor". Institutional investors must exercise their voting rights in favour of governance structures, boards, and incentives that promote longer-term returns.

It is desirable that investors collaborate with their peers, managers, advisors and industry on setting meaningful, enforceable, standards and practices.

I stress that none of these actions are at the expense of returns and neither are they founded in a moral code—such ethical determinants for investment are personal and do not have place in setting institutional investment strategy.

Rather, these investor actions seek to abstract focus away from short-term noise, unsustainable short-term profit, and towards real increments in corporate value over the long term.

● *Adrian Orr is chief executive of the NZ Superannuation Fund. Orr set out his view on Inclusive Capitalism at a recent conference.*

> Today's capitalist system falls short in providing access to all who demand it and the reassurance that their contributions will be fairly rewarded.

Simon Moutter Spark

One year after rebranding Telecom as Spark New Zealand, managing director Simon Moutter is bullish about the company's future. He says the new brand is part of a necessary transition from telecommunications to a digital services business.

"It was a tough challenge. We're the only player in the market doing this. We've had winners and losers, but we're doing well in key areas like cloud computing. Spark continues to do well in telecommunications. We're an outperformer. It's not easy, but we're confident looking forward".

Outsiders find telecommunications confusing. It looks like the business is growing, but profits are falling across the industry.

"We see extraordinary customer demand, there's incredible growth in the amount of data going through our network and yet we still challenged by financials." says Moutter. That because it's an insanely competitive market and not just from our direct rivals. We also face competition from the over-the-top providers (companies like Facebook and Skype which offer alternative communications services) and OEMS (phone makers like Apple)."

If anything the technology disruption worrying other industries is business as usual at Spark. Moutter says the company sees it every day and confronts it. "We're on the right side of disruption with cloud, home entertainment, security and other digital services."

Even so Moutter is concerned about the effects of technology disruption elsewhere in the New Zealand economy. He says there are global giants disintermediating business in New Zealand. They focus on presenting a slick customer experience but own no assets and suck value from the economy.

"Look at what Google has done to advertising. It takes money but makes no contribution. If we don't get ahead of this problem with changes to regulations and the way we collect taxes, we'll be exposed.

"There's a danger our economy will be hollowed out. Over the next 10 years these processes will affect other industries".

Another challenge facing the economy is investment, or the lack of it. Moutter says there is a need for government and councils to be more encouraging of investment and we need fewer obstacles.

There's also a need to convince New Zealanders to invest in high risk ventures.

Moutter says there's a danger of too much focus on Auckland: "We don't want to be a one city country. It's worth putting effort into spreading the burden and framing opportunities for stronger growth in the region".

> Look at what Google has done to advertising. It takes money but makes no contribution. If we don't get ahead of this problem with changes to regulations and the way we collect taxes, we'll be exposed.

Phil O'Reilly BusinessNZ

BusinessNZ chief executive Phil O'Reilly says New Zealand's business outlook is more mixed than it was 12 months ago, but is still positive. He says there are solid reasons for optimism including a continuing strong infrastructure build in Christchurch; a busy Auckland construction sector and he can even see a crane on the Wellington skyline. Despite what is happening with dairy, he says there are bright spots in agriculture including Kiwifruit and beef farming.

O'Reilly says though the falling dollar has hit private capital investment there is plenty of government investment with Auckland University being the largest property developer at the moment. He says in the past the Government would compete with the private sector, but is now more sensible with the spending keeping momentum going during a private investment dip.

Looking overseas O'Reilly has some concerns about China, although he points out GDP growth is still at 7 per cent. There are problems in Australia, which remains our most significant trading partner, but he is confident the country will bounce back soon. He says there are signs of returning confidence in Europe and the US. If the TPP trade deal gets over the line O'Reilly says the opportunities for New Zealand will be on the upside.

Technology disruption is partly working in New Zealand's favour with companies like Orion Health, Xero, Wynyard and Silver Stripe now taking on the world. "We've dreamed of this happening and the investments we've made in this area, including Callaghan Innovation are paying off. We're also seeing an uptick in R&D spending for the first time".

O'Reilly says the answer to deal with disruptors like Uber is not to regulate against them but to free up regulations so that existing businesses can compete on an even footing. He says: "We don't want to say no to innovation, in many cases the disruptors are a net benefit for society".

Other challenges include the internet headwinds, a skills shortage and a lack of sufficient investment capital for small and medium-sized companies. O'Reilly also says New Zealand faces a continuing problem with not being able to access global value chains.

On the upside he says: "The burgeoning new economies to New Zealand's north are helpful. We're becoming far more adept at overcoming the tyranny of distance. While we'll never be a completely weightless economy but we are attracting bright talent."

O'Reilly names growth as his main business priority. He also wants to improve BusinessNZ's offering and make sure the organisation keeps up with the pace of change.

> We don't want to say no to innovation, in many cases the disruptors are a net benefit for society.

The challenge of sustainability

Air NZ has set a mission to supercharge NZ's success, writes **Christopher Luxon**

When I reflect on the exceptional challenges we face globally — population growth, climate change, rising unemployment just to name a few — it strikes me just how much uncertainty there is in the world.

The biggest challenge of all, at the heart of many of these issues, is the continuing threat to "planetary boundaries". According to the World Wildlife Fund we are already consuming natural resources at a faster rate than the planet's capacity to replenish them. It calculates that if we all consumed at the rate of the West we would need three planets — yet we only have one. While this global volatility and uncertainty will remain the "new normal", it demands that we are neither apathetic nor panicked about it. It's the great challenge to our generation of business, community and political leaders.

I believe business has a unique and important role to play in solving this challenge. Business growth, after all, is absolutely critical to economic development and social progress. Ultimately, business needs a strong society and society needs strong business. The two are inextricably linked.

What are your top three business priorities for the next 12 months?

- Digital technology
- Sustainability — economic, social and environmental control
- Dealing with high growth

What's most likely to keep you awake at night?

- Digital disruption
- Cyber security

What is clear, however, is that we all need to think differently about growth. As a business, we do not have the luxury of choice. We cannot choose between growth and sustainability. We have to have both. We need to grow if we are to have the money, people and technology to invest in better communities, more skilled people, alternative energies to replace carbon, greater biodiversity and product innovation. On the flipside, we also need to find a way to grow within the limited resources of our planet. To achieve this we need to get smarter on sustainability. Where many businesses, communities or governments have focused on one aspect such as the environment they are failing to see how the economic, social and environmental agendas are intertwined.

That is where collaboration comes in. Better collaboration between business, community and government.

Though government has a key role to play in driving harmonisation, education and articulating a vision — among other things — business has a critical role to play too; one that at times I think has been missing.

I am convinced businesses that address the direct concerns of citizens and the needs of the environment will prosper over the long term. Therefore it's important we build new business models that will enable responsible sustainable growth.

This is something we have been focused on at Air New Zealand. This year we are celebrating 75 years as a company and as New Zealand's national airline.We're very proud of what our business has contributed in this time.

We believe we have a role to play that's much bigger than our airline. We see our success as inextricably linked to New Zealand's success. It's because of this role and responsibility we have signed up to a mission bigger than ourselves: to "supercharge New Zealand's success" — economically, socially and environmentally.

What was your best achievement in the past 12 months?

- Record growth and profit

A new sustainability framework, fully ingrained within our business plan, sets out how we as a company are going to supercharge New Zealand's success from an economic, social and environmental perspective. It builds on the work we have already achieved in this space to date and establishes measures to ensure we continue to achieve our goals.

If you had the ability to make one change to improve New Zealand, what would it be?

- More rigorous strategic plans by sector and region

Collaboration is an important part of the framework and we are working closely with a range of international and domestic sustainability experts. We're collaborating internally with our people and with industry partners to drive positive outcomes under each of the three pillars of sustainability and will have exciting initiatives to announce over the coming months.

Sustainability is a truly big global issue needing solutions beyond our individual remits, influence and the normal business challenges which we can resolve by ourselves.

Partnerships will be key to unlocking these solutions. It will require interdependence, collaboration and ways of working beyond current practice.

● *Christopher Luxon is chief executive of Air New Zealand*

Mood of the Boardroom Housing

Housing measures too mild

Almost half of survey respondents would like stronger measures to curb Auckland crisis, reports **Greg Hall**

The Government's moves to curb Auckland's rapid house price inflation don't go far enough, say about half of the CEOs surveyed about the present state of the housing market.

Thomas Pippos of Deloitte said taxing gains on residential property, even more comprehensively, will only ever take an edge off the market and also partially address equity issues across the taxation treatment of different asset classes. It will raise an amount of revenue but is not an answer in itself.

"They (new rules) should not have been introduced because they are not addressing the real housing issue — supply," said Dr Oliver Hartwich of New Zealand Initiative. Similarly, a transport boss says "they will not make one stick of difference to house prices. This has been tried elsewhere and failed."

The government measures which take effect on October 1 are:

- Auckland property investors will require a 30 per cent deposit on their new purchases.
- Any property bought and sold within two years that wasn't owner occupied will be subject to a capital gains tax.
- Foreign buyers will need a New Zealand bank account and IRD number.

In the survey, 48 per cent of respondents said the measures don't go far enough, while just 21 per cent were satisfied and 31 per cent were unsure.

Greg Lowe of Beca said the measures are a start and the subject needs to stay on the agenda. "Regulation to constrain short term speculation is important as this consumes capital for no productive economic gain."

Mark Cairns of Port of Tauranga, said: "Perhaps if there is foreign investment in residential dwellings, they should be required to live in the properties."

A technology-based executive believed that the two-year bright line test should be extended to between three and five years.

How to solve the supply problem

The overwhelming response from some 62 per cent of respondents, is that Auckland's house price inflation is a result of simple supply and demand imbalance.

Mark Ratcliffe of Chorus says: "Demand exceeds supply in the traditionally affluent suburbs and this has a ripple-on effect in most areas.

"Demand is driven by an ever expanding number of people who are settling in Auckland or making investment choices in Auckland."

An chief executive in the healthcare sector said: "Auckland is a great place to live and in business you can't make money where there are no people. We need a thriving economy that attracts and encourages immigration — providing they are bringing wealth and business prosperity to New Zealand and New Zealanders."

Another CEO said: "While there are clearly supply side concerns, I do believe there is an issue to address in terms of the mobility of massive amounts of foreign capital that can easily find a 'home' in Auckland.

"The reality is the vast majority of New Zealanders look at their family home as much more than simply a financial investment, and this needs to be acknowledged in how Government addresses housing issues."

Solutions to supply problem

The CEOs agreed there is simply not enough housing for rapidly-growing Auckland, which has been forecast to reach two million population by 2031.

When asked what was the most useful way to help release enough land for new housing in Auckland, a 62 per cent majority wanted council to free up land supply consistent with projected population growth.

Don Brash of ICBC New Zealand points the finger in that direction: "House price inflation in Auckland is the direct result of two government/local government policies — a high rate of immigration and tight restraints on the supply of residential land. Of course, long delays in consenting are also a headache. We know from the experience of a great many cities in other New World countries that abolishing urban limits would quickly end the (housing) bubble."

Another CEO said: "We need a balanced strategy of freeing up land and intensification. Housing in new land should be more intensified, but freeing up of land must take into account other factors such infrastructure/transport availability. Is the rural land being freed up a loss of valuable fertile resource given our natural growing advantages?"

A property company head suggested: "We need to radically overhaul the system of local government finance so that when a city like Auckland grows, the resulting tax revenue pays for the expansion of local infrastructure. Only by incentivising economic and residential growth can we make it happen."

Auckland's rapid rate of expansion will force some change, as put by another CEO in the property sector. "Given the growth rate projections, Auckland (and Aucklanders) need to accept more intensification of development within existing suburbs."

> They (new rules) should not have been introduced because they are not addressing the real housing issue — supply.
>
> Oliver Hartwich, NZ Initiative

Bubble that's hard to burst

Auckland 'can't be the most liveable city and the cheapest': **Anne Gibson** reports

A majority of business leaders have labelled the current residential property cycle a bubble, as the average valuation of a house in the Auckland region soared past $850,000. The valuation is some $320,000 above the national average.

Of 97 respondents, 50 per cent indicated that 'bubble' was an apt description, 40 per cent disagreed and 10 per cent were unsure.

Kiwirail's Peter Reidy and Hawkins Group's Geoff Hunt said the bubble only applied to Auckland.

The QV figures for the month ending July showed the average current value of houses in the Auckland region reached $855,672 — the fastest rate of growth since 2003 and reflecting the supply and demand imbalance in Auckland.

For the year ending July, values leaped 18.8 per cent, and 5.7 per cent over the past three months in Auckland.

Only the Queenstown Lakes region is keeping pace, with the average house valuation there hitting $717,021 — though it only had a 6 per cent increase over the past 12 months.

Tauranga has the third highest valuation at $489,734, up 7.7 per cent and the national average is $527,760, an increase of 10 per cent over the past 12 months.

Craig Stobo of the Local Government Funding Agency said ratios such as house price to income or historical rental yields might suggest it is a bubble "but what if we used a ratio of New Zealand house prices to recent immigrant incomes?

"Auckland can't strive to be both the world's most liveable city and the cheapest city to live in," he said.

A real estate chief said many people think we are in a bubble "but Auckland is now a major city of the world and our prices are similar to those like Melbourne, Sydney, Toronto, London meeting the demand of migration."

A manufacturing boss said rapid house price appreciation made the situation look like a bubble "but when you dig into the primary reasons, I don't believe we are [in a bubble]."

Oliver Hartwich of The New Zealand Initiative said it was too early to say: "You only know whether it has been a bubble once it's burst. The only thing we know for sure is that we are seeing a housing market that has become severely unaffordable in parts of the country."

Deloitte's Thomas Pippos encouraged calm: "Recognising that the issue is quarantined rather than a national one, bubble is still probably too emotive a description as it connotes that the market would 'burst' rather than just ease or soften."

> Something should be done to ensure that value is kept in New Zealand, for example the purchaser must live here, be raising children here, run a business where they employ New Zealand residents.
>
> Healthcare executive

A healthcare boss predicted a housing market correction "but timing of this will be after the next election."

Beca's Greg Lowe is optimistic that new Auckland building will resolve issues. "House prices in Christchurch are starting to modify as more supply becomes available. Housing in Auckland continues to rise but the same moderation will likely happen as more supply becomes available, either by urban densification of more development on the fringes."

The Government has formed a housing accord with Auckland Council to streamline resource consent and plan change approvals in special housing areas. It is expected that 39,000 new homes and sections will be consented in a three-year period, and as of March this year — two years and three months after the plan went into action — 14,300 had been consented.

Lowe said the Government should allow more private sector involvement in social housing redevelopment to speed up this process. "Social housing providers do not have access to sufficient capital or the necessary experience to do this alone."

Dealing with foreign buyers

On the thorny issue of overseas property buyers, the CEOs agreed they should be able to purchase new homes but existing residential housing was more sacrosanct.

Asked if the Government should apply a ban on foreign residents investing in existing Auckland residential property, 35 per cent of the respondents agreed, 51 per cent disagreed and 14 per cent were unsure. For new dwellings, 81 per cent disagreed with a ban, 7 per cent agreed and 12 per cent were unsure.

Nearly 20 per cent agreed that a ban should be subject to the sunset clause, 46 per cent disagreed and 34 per cent were unsure.

Chris Gudgeon, head of the biggest listed New Zealand property investor, wants the government to slap a 20 per cent stamp duty on foreign investors buying Auckland houses.

"Demand from non-resident investors is fuelling price escalation and the government should stop being so naive. Implement a 20 per cent stamp duty on all non-resident residential property transactions immediately," said Gudgeon, who oversees Kiwi Property's $2.2 billion portfolio including Vero office block in Shortland St, Sylvia Park and ASB North Wharf.

South Pacific Pictures' John Barnett said a ban on investment in existing stock seems to work in Australia. "The four major cities there are undergoing enormous residential housing expansion. A decision like this does need a review process which may not be a fixed term sunset," Barnett said.

Vector's Dame Alison Paterson also expressed concern about the existing situation: "I am by nature 'free market' but I have had anecdotal stories of purchasing by Asians which is purely opportunistic and simply for the purpose of subdivision and redevelopment.

"The prices paid have been so high that local purchasers could not compete. This activity is only supported by the speculation in the Auckland housing sector," she said.

Employers and Manufacturers Association chief executive Kim Campbell called for speedy action: "Immediate intervention is necessary for a period while the necessary reform can be developed."

But Barfoot & Thompson managing director Peter Thompson had reservations: "Other countries like Australia have tried this type of ban as well as capital gains tax, higher interest rates for investors and even sales tax, but prices are still going up. The same can be said in the United States, Canada and United Kingdom where house prices in their major cities are also climbing at unprecedented rates," he said.

But a healthcare executive backed change due to an unfortunate experience:

"Offshore purchases are so dangerous. Having lived for 16 years in the UK, we were really excited about bringing our children home to be New Zealanders and grow up in our wonderful country.

"We missed out on numerous auctions to people living in China and India who were not even in the country when they placed their bid — they clearly had an unlimited amount of money to spend and every time the property sold for far more than it was actually worth."

Peter Thompson, Barfoot and Thompson

The time has arrived to establish a register of foreign buyers in New Zealand's residential housing market, says Barfoot & Thompson's managing director Peter Thompson.

The Government will begin collecting data from October 1 on the extent of foreign buyers in the market, but it is yet to give a clear commitment about maintaining a full public register.

Labour recently used leaked sales figures from Barfoot & Thompson to underpin its claim that too many overseas buyers, dominated by Chinese, were buying residential properties and adding to the Auckland housing price spiral.

Thompson was disappointed Labour — he earlier extended an invitation to the party to come and talk about the Auckland housing market — did not approach him before going public with their conclusions around Chinese buyers in New Zealand.

"Labour's claims were in excess of reality. But I think there does need to be some form of establishing where these buyers are actually coming from."

> I think the market will still be active but will slow down. The new stock still has to be built and that will take a good six to 12 months.

Thompson also suggests a potential tax on non-resident foreign buyers. "We don't want to get to a stage where we have empty suburbs because all the owners live overseas."

Thompson anticipates a quieter-than-normal October period, following the introduction of the new buying rules.

"I think there is certainly a few people that are buying now pre-October 1, but I think we're just seeing a continuation of shortage of supply and good demand," he explains.

"Until new stock does come on to the market — and yes, I hear there's 11,000 consents coming though — I think the market will still be active but will slow down. The new stock still has to be built and that will take a good six to 12 months."

Thompson is disappointed by the course of the debate on the property market. "The whole topic has gone away from what is really the big issue in housing to me — that's the supply of new property being built, and how long it is taking to come onto the market to be competitive with the current stock."

Thompson refers to the resource consent system, which is an irritant for the escalating prices. He says that the slow granting of resource consents is pushing up the cost of land and building, and ultimately this has to be passed on to the person buying the house.

"The political parties need to get together, put all the politics aside and come up with a suitable solution."

CEOs: we need facts not rhetoric

A group of business leaders has called for action on Chinese-based foreigners speculating on the Auckland housing market, but many also have reservations about how the Labour Party highlighted the issue.

The CEOs were asked about Labour releasing information on offshore Chinese house buyers a few weeks ago, and The Warehouse boss Mark Powell said it was time to talk about the issue.

"Overseas non-resident purchases of housing is a legitimate issue of public debate, but the way this was done was very disturbing and played to the race card — appalling," he said.

Ninety CEOs answered the question, following Labour's data which contrasted 9 per cent of Aucklanders being of Chinese ethnicity with 39.5 per cent of residential sales in three months this year by one agency going to buyers with identifiable Chinese surnames, based on probability.

> It was a cheap way of showing how house purchases are driven but its consequence left it appealing to red necks and not resolving the problems.
>
> John Barnett, South Pacific Pictures

South Pacific Pictures' John Barnett was disappointed about how the debate evolved after Labour released the leaked sales information to the *New Zealand Herald*.

"The real issue is: Are new migrants buying new or existing houses? They are allowed to buy either but if their emphasis is on existing houses, we have a problem that government needs to address."

Kim Campbell of Employers and Manufacturers said the shameful lack of meaningful data has sadly lowered this important topic to a slanging match on racial grounds.

Franceska Banga of the NZ Venture Investment Fund said it was the wrong approach, but it highlighted the broader issue around immigration policy.".

A healthcare boss called for more information on foreign house buyers to be made public, saying the matter was important if people were buying just to own a property but not to live here or contribute to New Zealand. They needed to be taxed, or made to give back to the country somehow.

Another CEO said the Labour release was a typical example of using random statistics inappropriately. ``I feel very sorry for the Asians who have lived in this country for generations and have every right to purchase a property without hitting the headlines in this way."

— Anne Gibson

Labour identified disproportionate acquisitions of residential houses in Auckland by people with Chinese surnames as a factor in the house price spiral. In your view, was this:

- A matter of public debate: 35.9% yes, 55.13% no, 8.97% unsure
- Racist: 58.97% yes, 29.49% no, 11.54% unsure
- Justified but could have been handled better: 52.94% yes, 35.29% no, 11.76% unsure

Mood of the Boardroom What's Important...

Most of us are doing well

We talked to Kim Campbell of the Employers & Manufacturers' Association

Has the corporate outlook (or outlook for your organisation) improved and if so what are your growth and investment plans?
Campbell says the corporate outlook has not improved but it also hasn't got any worse.
"If I look across the sectors we cover, with the notable exceptable of dairy farmers, everybody is doing well."
He says the fall in the New Zealand dollar had seen an almost instantaneous trade response and businesses that were marginal were now profitable. While the dairy sector was down, other sectors were flourishing. Whether that was enough to fill the down-turn in dairy was unknown but businesses were a lot more resilient than they used to be, he said.
The EMA itself had experienced a "ripper of a year". Membership was going well and it was building a new $20 million head office which would open in February.
What is the disruptive technology you fear most, how will you beat it and name the three other biggest challenges and opportunities?
"I don't like the term disruptive technology. We have always seen technology as an enabler which benefits those that embrace it and is a challenge for those who don't."
Campbell said new technology meant that a whole lot of entry level jobs no longer existed and that was part of the reason for higher levels of youth unemployment. "What is important is we continue to up-skill. Disruption requires higher levels of skill and education."

> With the notable exception of dairy farmers, everybody is doing well.

One of the biggest opportunities for New Zealand's manufacturing sector was 3D printing. "3D printing is transforming manufacturing. But it is also very challenging to older poorly invested manufacturers."
That was where job losses were coming from as businesses failed to keep up and were superseded by others.
Manufacturers were also now having to compete as part of a global supply chain. While that was a challenge for small businesses those that tapped into it got access to large numbers of customers, he said.
One area where he believed New Zealand needed to do better was in communicating information like what was happening with the Trans-Pacific Partnership.
What are the top three issues facing the nation and how should they be resolved?
Campbell said New Zealand was a pretty competitive country but with one major exception — housing.
"The biggest challenge facing New Zealand is housing costs."
He said accommodation was taking too big a chunk out of people's disposable income and it was holding the economy back by cutting growth by around 1 per cent. He said planning laws needed to be addressed along with the Resource Management Act.
Regional growth was also a concern. "As much as we have pressure on the population in Auckland we have got as many principals [regions] struggling to survive. Out of 38 councils 25 were depopulating. There is latent capacity in the regions."
Campbell said Auckland was already an expensive place and if everything drifted there New Zealand ran the risk of becoming less competitive globally. There needed to be an integrated strategy for the regions not just a political one.
The third issue was national transportation. "We have allowed coastal shipping to disappear, roads are falling apart and rail is a terrible business. We need to have a plan driven by government."

All we need is a stable exchange rate

Most businesses are in an ebullient mood and looking to spend more money in the coming year, according to BusinessNZ members who took part in the Mood the Boardroom survey.
Nearly a half (45 per cent) of more than 100 respondents said they are planning to authorise more capital expenditure over the next 12 months.
A further 28 per cent will be spending the same, but 25 per cent are expecting to spend less capital expenditure and two per cent were unsure.
The businesses are also thinking about advancing their technology systems. Fifty per cent said they expect to authorise more IT expenditure, 26 per cent will spend the same, 20 per cent will budget for less and 4 per cent were unsure.
The survey showed businesses were keen to increase and maintain skilled staff, grow sales and develop their customer services. One business summed it up by saying it wanted to continue innovation, increase its sales and profitability and sell a wider service range to existing clients.
Another said IT was the enabler to improve productivity, and it will invest in business development training and growth via strategic recruitments.
For a further business, technology would be used to simplify and automate all its processes because of higher labour costs relative to offshore competitors — and also drive value out of the upstream supply chain.
"Harnessing ICT will enable us to do and sell more without being strangled by the growth in overheads," said one respondent.
One exporter said it was expanding its production capacity in its Chinese plant and upskilling its staff, as well as consolidating new sales processes.
A majority of businesses opted for a stable exchange rate as the single biggest factor that would help them remain internationally competitive. They wanted the NZ dollar to stay at US$0.65.
One company said: "Keep the dollar at sensible levels and not let it become the plaything of the traders. Being the 11th most trade currency makes no sense at all."
The respondents also cited the following as factors to remain competitive:
- New Zealand must retain its reputation for safe, clean, disease-free food
- Access to high-speed broadband
- Reduce compliance costs

One business said it was becoming more effective to import than to try and manufacture, while another said: "Cut back on ACC and other levies which kill your capital flow that builds business."

Auckland needs new measures

Simon Mackenzie, Vector

Vector's chief executive Simon Mackenzie has proposed a special regulatory framework for Auckland to cope with the region's significant growth and the capital demands that go with it.

"The topical theme is the significant growth of Auckland as predicted and the amount of capital that's required to meet that growth, and then the confluence of issues such as new technology and regulation in getting that funding.

"We see that we are very much at the sharp end of the decision-making issue around new infrastructure. It's extremely challenging.

"Therefore, there should be a special regulatory framework for Auckland — applying to the likes of the airport which is fundamentally facing large growth — as opposed to the reality across the rest of the country, where things are flatly declining."

Mackenzie says investing in new technologies is crucial. "There is a huge amount of technology coming our way that we think is viable and that customers will want — and the cost of those are coming down pretty quickly.

"On the flipside, you have 40-year-old assets with the cashflow profile from a regulatory regime which doesn't make it viable to invest in them, especially when you've got whole new technologies coming in to substitute them."

He says Vector is progressive in its attitude towards the arrival of disruptive technology. Vector has an agreement with Tesla to bring its battery storage devices to the home market in Auckland.

"There is no doubt that the technology will fundamentally change energy structure right across the board. But it's your attitude that makes all the difference.

"We don't even call it disruptive technology. We call it opportunity."

Speaking of challenges and opportunities in the technology sector, Mackenzie zeroes in on education. "There's huge opportunity in the tech space from a New Zealand perspective — plenty of smart businesses — but it's extremely hard to get technology skills."

Talk about smart technology business drifts to Silicon Valley, but

My top business priority

New technology and more education in that space

What's likely to keep me awake at night?

The technological advances will have the greatest impact on business over the next five years

Mackenzie says the New Zealand-California connection is more than a one-way street.

"A lot of people obviously suggest trying to get in on Silicon Valley. But the irony of the whole thing is that from a lifestyle perspective, a lot of people from there want to set up here but can't get enough top talent to meet these technologies in their businesses."

"Therefore, we need an appropriately focused educational approach to reflect this and show how that can lead to great career pathways and in turn growth for New Zealand — that's really important and we need to focus on it."

Investing in job creation?

When asked whether the Government should require all foreigners entering New Zealand under the investor plus or investor categories to invest in businesses that create jobs for New Zealanders as a priority, most chief executives were united in response.

Fifty-seven per cent of survey respondents said job creation must be the top priority if investors planned to settle here. A vocal minority were quick to find holes in the strategy.

Kim Campbell, chief executive at the Employers and Manufacturers Association, said where investment was going was missing the real point. "The threshold to purchase residency is absurdly low. Population growth for its own sake has little lasting benefit to the economy. We need investment in productive enterprise."

Dr Oliver Hartwich, executive director at the New Zealand Initiative said, "we do not need government to second-guess investors' decisions and business plans. Job creation is not a legitimate goal of public policy in any case. Job creation happens when you get economic policy settings right."

Boardroom veteran Dame Alison Paterson said "I would rather focus on investment in profitable businesses."

One chief executive of a funds management firm thinks investment in New Zealand should be allowed if it is making a positive and material difference."Foreigners should be required to invest in such a way as to contribute meaningfully to New Zealand's future economic growth. Creating jobs is one aspect of that, but there are other ways."

One man who ticked the boxes – and no doubt had an influence on rethinking the rules around foreign investments and citizens – was Kim Dotcom. There's no doubt he created jobs in New Zealand during his stay – but a positive contribution? Debatable.

— Alexander Speirs

Jacki Johnson IAG

Christchurch's rebuild efforts are top of mind for IAG chief executive Jacki Johnson who says she is proud of the company's focus on the recovery over the past 12 months.

"Our best achievement in the past 12 months has been maintaining a focus on the Christchurch recovery whilst continuing to attract capital to keep New Zealanders insured," she says.

Johnson is slightly less optimistic about the general business situation in the finance and insurance industry as well as the New Zealand economy overall.

Despite this, she says it does not look like things were heading towards an economic slowdown.

She says housing affordability, shortage of skilled labour and labour productivity are having a concerning impact on business confidence both in New Zealand generally and in her industry sector.

IAG's main business priorities for the coming 12 months are skills and capability, maintaining focus on innovation, and the Christchurch recovery. Johnson does not believe New Zealand is in a housing bubble but has doubts for Christchurch's future.

"I do have concerns regarding Christchurch

as I believe there could be an oversupply in coming years," she said.

Johnson says the main reason for house price inflation in Auckland is increased migration into New Zealand and from the regions, and adds that the most useful way to help free up land for new houses would be to require councils to free up land supply consistent with the projected population growth.

The main issues facing IAG that were concerning to Johnson were competitive pressures, meeting customer expectations and digital disruption — something she says is also likely to have the biggest impact on the business in the next five years.

> I do have concerns regarding Christchurch as I believe there could be an oversupply (of housing) in coming years.

How the law deals with disruption

The country's biggest law firm, Simpson Grierson, is seeing an increase in mergers and acquisitions (M & A) and other commercial work, says its chairman Kevin Jaffe.

The market has been stronger over the past six to nine months, following the election, and clients including those from overseas are more positive — they have access to funding and are looking for opportunities.

"The commercial team is busy — that's good for us — and the M & A activity is right across property and construction and there are also one-off transactions in other sectors such as agriculture and energy."

Jaffe says the law firm operates in a highly lawyered, competitive market and is looking at different angles to grow its revenue — such as more advisory work and project management.

"We want to build a strong bond and cohesive relationship with our clients and understand their strategic plans instead of just being reactive to their legal needs.

" In this way we can hit the right spots."

Simpson Grierson hired former Minister of the Crown Tony Ryall to provide public policy advice and an insight into how business interacts with government.

Jaffe says his firm is very aware of the disruptive nature of technology advances.

"A lot of people can get legal advice from Google, but what they access is generic and we need to add value and push our specialist advice.

"We need to be efficient and provide clients short and snappy one page summaries, even diagrams, rather than 50 pages of education.

"Data processing capability is doubling each month and in 10 years time this work will be done in a few seconds. It's happening to all knowledge-based industries and it's happening in law.

"You can't fight technology advances and we have to look closely at how we deliver advice and what people need from us," he says.

— Graham Skellern

The top three issues facing the nation and how they should be resolved:

- Auckland housing market — it would be useful to have more information and understand where the demand is coming from.
- More resourcing for Overseas Investment Office to speed up and improve the efficiency of processing applications — more focused and targeted tests for issues such as sensitive land (a tiny bit of reserve is of no interest to anyone).
- Many of the regions are struggling — more consistency in central government policy-making and funding, and better relationship with local government.

Top three business priorities

- Retain and attract good talent
- Drive revenue growth
- Prepare for technological disruption

Mood of the Boardroom The Regions

We need to look beyond Auckland

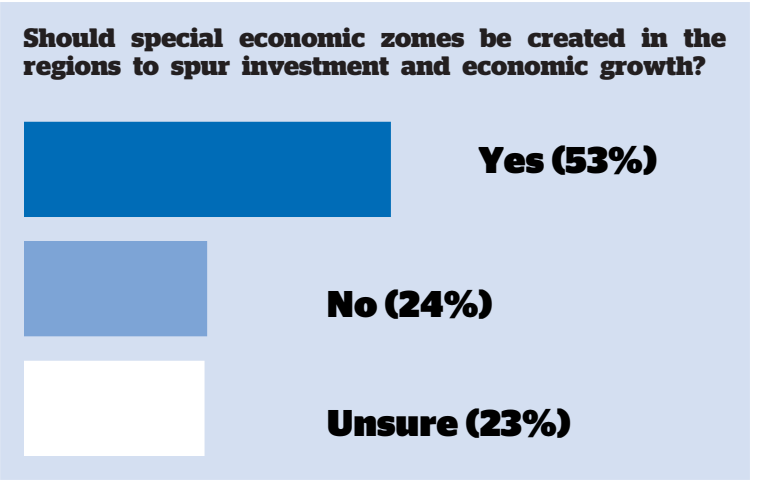
New measures are needed to boost regional growth, writes **Thomas Pippos**

Regional economic development, now defined as everything outside Auckland, has become the new vogue topic from both an economic and political perspective; consistent with answers to the *Mood of the Boardroom* survey.

Fuelled in part by the outcome of the Northland by-election, and more generally by the juggernaut that is Auckland (played out almost daily in the media around residential property prices), it's not a topic that is likely to go away anytime soon.

Consistent with this, the overwhelming majority of respondents to the survey saw New Zealand's success as also materially predicated upon the success of the regions and metropolitan areas outside of Auckland; with only approximately 6 per cent believing this wasn't the case. The comments reinforced this sentiment, including one respondent who said, "Experience in Europe, UK, Canada, USA shows how strong small centres become strong larger centres making the country a more dynamic place."

The fact that this is an "and" issue, where Auckland still remains critically important and different, was conveyed by the comment "New Zealand's prosperity is built on the productive capacity of the nation's local economies and the sustainable use of natural resources and human and financial capital. New Zealand is not all about Auckland but when a third of the population lives there it has to be treated differently from other regions."



As is often the case, solving problems is more complicated than identifying them. Respondents were broadly neutral as to the anticipated success the changes in the point system dealing with new migrants would have to spur investment and growth in the regions; and there was overwhelming scepticism that this would take the pressure off Auckland. Unsurprisingly, the overwhelming majority believed any change in the points system needed to require migrants to live in the stated region for at least three or five years to have any real effect.

Notwithstanding the policy challenges special economic zones create, less than a quarter (24 per cent) of the respondents were dismissive of them, which was somewhat surprising and potentially reflects a greater openness to consider solutions to what is now seen a material issue. Over 80 per cent of respondents took the opportunity to implicitly vent their frustration with the Resource Management Act (RMA) by suggesting such zones should have fast-track planning consents for new projects. Almost two-thirds (63 per cent) also believed relaxed Overseas Investment Office (OIO) criteria should be prevalent in such zones and over 70 per cent that rating relief should also exist.

The policy challenges with such initiatives, particularly in relation to tax, still loomed high as there was no consensus view as to whether local and central government should look to appropriately share GST and income tax revenues to be suitably incentivised on this issue. But respondents seemed quite open to considering this as part of a solution, recognising that to date there has been effectively no discussion on this matter.

To the extent that that the importance of this topic wasn't already clear, around 70 per cent of the respondents felt that that regional economic development outside of Auckland needed to be a focus and priority of the current and successive governments; or put another way, only around 6 per cent thought it shouldn't be a focus or priority. Positively for the current Government, respondents also felt that they were visible on this topic albeit that less than 7 per cent felt that they were much more than that. This is a clear indication that respondents are looking for that vacuum to be filled by either a greater understanding of what the Government and its agencies are doing, or by stepping up initiatives in this area. One respondent did take the opportunity to vocalise that the Government "has no cohesive strategy other than election year bribes."

Looking at this issue through another lens, opposition parties were not seen to be any further advanced on the issue, with one respondent also commenting "lots of talk but no policy." The upshot is that this provides an opportunity for a discernible point of difference to be developed.

Turning back to problem identification, respondents were clear that lack of authentic points of differentiation across regions, and fragmentation of local government leadership were real impediments to moving the dial on what is becoming a page one initiative to move the country forward, and take some of the pressure off Auckland; particularly the fragmentation challenge.

Central government's role intuitively therefore also includes ensuring local government plays its part in this issue; which due to fragmentation, is a considerably greater challenge outside of Auckland than within it.

Relevant also when considering the survey results is the natural Auckland bias of the respondents which would likely extenuate the result in favour of the magnitude and importance of the issue if a whole of NZ lens was applied.

In closing, considering Northland and what is happening in Auckland, these issues aren't going away any time soon and are likely to become even more pronounced with the passage of time, both economically and politically.

● *Thomas Pippos is CEO of Deloitte New Zealand.*

A regional plan for migrants

Scheme would alleviate pressure on Auckland but views differ on its viability, writes **Graham Skellern**

The Government's new immigration incentive scheme will only work if the migrants live in the provincial towns and cities for more than a year, say CEOs.

Prime Minister John Key announced changes to the immigration settings during his speech to the National Party conference at the end of last month. Skilled migrants will earn bonus points towards their residency application if they take up jobs or start businesses in the regions, other than Auckland.

They will have to commit to a region for at least 12 months instead of the current requirement of three months. The aim is to spread workers, skills and investment across the country — at present half of the 10,000 skilled migrants obtaining residency each year live in Auckland.

In the survey, more than 53 per cent of the CEOs say the migrants should stay three years in the regions to gain additional points and nearly 35 per cent say five years. Only 11 per cent of the respondents think one year is long enough, and Auckland Chamber of Commerce chief executive Michael Barnett says: "I'd go further — seven years."

Chorus CEO Mark Ratcliffe didn't put a number on it but he said: "At least one year and long enough to establish a successful enterprise."

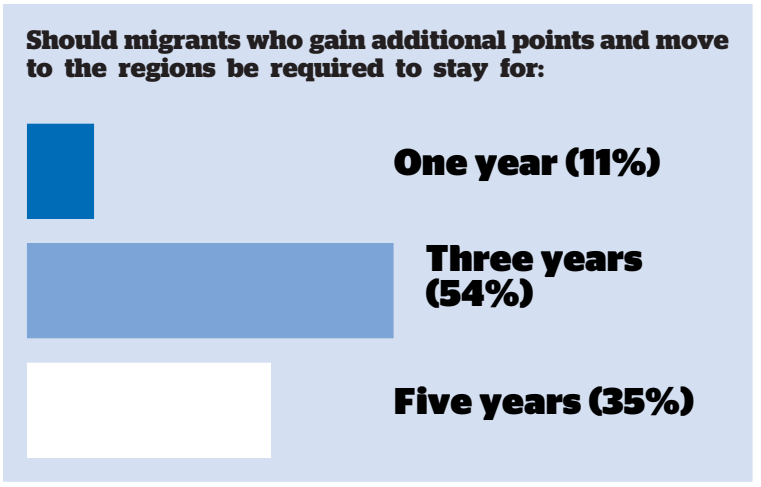
A company chairman says if the migrants want to come to New Zealand then they will take advantage of this incentive, and if they stay five years in a regional centre, they may well put down roots. "A requirement to stay in the provinces for a year doesn't make for long term commitment, but making a provincial centre a preferred destination is a good outcome."

A tourism boss says the longer the better — "hopefully the desire to relocate to a larger city will fade over time and they actually begin to like the slower pace of life."

There are some detractors. A dairy company executive wonders how the new rules can be enforced. "It is ridiculous. They must want to stay and not be forced."

A recruitment company boss is more direct: "It's just a silly idea."

Leading economist Shamubeel Eaqub has described some parts of the country as "zombie towns", falling behind economically, and says resources should be targeted their way. Picture / NZME



The CEOs have mixed views about whether incentivised skilled migrants and businesses will spur investment in the regions. Only a third of the respondents believe it would, 32 per cent say it wouldn't and 35 per cent are unsure.

As for taking the pressure off Auckland, 64 per cent say it wouldn't, 14 per cent think it would and 22 per cent are unsure.

A dairy company executive says: "We think the policy is weak and fraught with difficulty. More thought is needed to promote the regions. That should come from the regions, promoting themselves to attract business and people — this is how it occurs all around the world."

An energy company head says: "Creation of jobs has to firstly occur in those regions before anyone will move there. Good in principle but will it work?"

A manufacturer says it should alleviate pressure on Auckland but could also distribute lower skilled migrants, who are less likely to invest in successful businesses, to the regions.

Local Government New Zealand president Lawrence Yule told the recent LGNZ conference in Rotorua that a shared national approach to regional development was critical to lift economic growth over the next decade.

That meant investment in all the regions and communities, and transport infrastructure was a key driver to this growth.

Yule said the LGNZ's new transport study, Mobilising the Regions, highlights the economic and social impact of strategic transport decisions nationally and in the regions, and the direct link between regional development, national prosperity, social well-being and cohesiveness. "The study will provide the foundations for a better understanding of the importance of all modes of our transport network, and the impact on regional development.

"The study is critical given the recent changes in regional air travel and discussions on the future of rail, and this raises important questions about the resilience of the transport links that connect our regional populations and economies."

The CEOs were asked whether special economic zones should be created in the regions to spur investment and economic growth, and if so, should local authorities and government share income tax and GST returns within the zones. A total of 52 per cent agreed, 20 per cent disagreed and 27 per cent were unsure.

A trade organisation chief executive says it's important to look in parallel at ways of incentivising investment in the zones — overseas capital is great but we also have capital in New Zealand such as $750 billion in residential housing.

Tourism bright light

The resurgence in tourism may be overshadowing the economic reality of many of the regions, says Simpson Grierson chairman, Kevin Jaffe.

He says some regions, such as Hawke's Bay and Northland, are struggling economically, and one of the issues is around central government policy and funding.

There's a bit of a stand-off, and there has to be a better relationship between central and local government, Jaffe says,

The regions have to be strong to attract the right migrants into the areas where they contribute to the community.

The triangle involving Tauranga, Hamilton and Auckland will continue to be strong but other regions are not overly buoyant, though Taranaki is an economy of its own.

"I visit Hawke's Bay regularly and there's a lot of empty spaces there," says Jaffe. "Population loss is a major issue for them, and Northland. But tourism is quite buoyant and I think that overshadows what is happening."

A professional services boss says: "Doesn't the concept of special economic zones incentivise all regions to be special and we are all then no better off? Don't regions already have special characteristics?

"Most importantly, do we want a really successful large global city which can provide scale benefits for the rest of New Zealand."

Mainfreight's Don Braid says local government does not have the skill set or competence to manage costs and expenditure with the revenue base they have.

"Only with improved local government performance and competence could I support improving revenue sources."

Grant Samuel's Michael Lorimer adds that unless there is income sharing, local bodies have no incentive to assist and won't have the funds for the development needed.

Managing the risk of a slowdown

The country's economic outlook may have softened but the Westpac Bank is still positive about its own situation, says its chief executive David McLean.

He says the economy has softened over the past three months because of the continued low commodity prices especially dairy, and the Christchurch rebuild having plateaued.

"We are not too worried about our risks. From the point of view of Auckland house prices, we have strong stress tests for loaning money and we are comfortable with our lending book.

"From a macro-economic point of view, the house prices are not good for the economy. All other things being equal, it forces the Reserve Bank to keep interest rates higher than they should be and therefore the dollar is higher and this doesn't help exports."

McLean says "our challenge is to manage the risk of a slowdown. We will talk to customers early and help them, especially farmers. We will help them with budgeting, provide more facilities if they need them or give them interest rate waivers.

"We haven't had farmers knocking on our doors yet but if the (low) payout continues for two seasons, then all banks will have stressed farmers."

McLean says Westpac is planning to invest more this year on technology innovation and improve customer services and productivity.

"Around the world, there are dozens of startups targeting the profitable segments of the banking and finance business. We have to invest in new tools that meet customer needs and not leave the space for the startups to come and get business.

McLean says continuing to invest in infrastructure is also important, not just in Auckland.

"For instance, we will help fund irrigation schemes which are enablers to economic growth."

My top three business priorities

- Innovation to avoid disruptive technology
- Increasing profitability to complete innovation
- Proactively manage risks in a slowing economy

Best Achievement in the past 12 months

The innovation we have done to date has shifted market perception to a bank that is doing things and going places — innovations such as Westpac One Internet banking platform, and Air New Zealand credit card for gaining airpoints.

What's likely to keep me awake at night?

- To innovate and meet customers' needs
- Cyber security — the threat environment is rapidly escalating
- Lower dairy prices and flow-on effects to other parts of the economy

What are the top three issues facing the nation, and how would I resolve them?

- The risk of a two-speed economy between Auckland house price inflation, and exports slowing and affecting the regions — the Government needs to take a comprehensive view of the Auckland housing market.
- Longer-term intergenerational issue between superannuation and savings — people are not saving enough for their retirement and depend on taxpayer-funded support. Trouble is, the baby boomers have been working and paying for the retired people's support (superannuation), but the baby boomers are retiring and there will be a big demographic change — more retired people than workers ("the Government has a blind spot about this").
- Government should have a more active approach to improving infrastructure in the regions — infrastructure is a facilitator for economic growth.

Mood of the Boardroom What's important...

CEOs on the business outlook

compiled by Holly Ryan

Franceska Banga
NZ VIF

Technological advances are going to have a significant impact on business in the coming five years and New Zealand's private and government sector needs to be engaging to prepare for this, according to NZ VIF chief executive Franceska Banga.

Banga says competition for global talent as well as cyber attacks are international issues that are impacting on business confidence in her sector, but she also highlights technological advances as a potential issue.

She says there is a lack of engagement from both public and private sector on the impact of disruptive technologies on traditional industries and sectors.

"Take just one example, driverless cars, which could significantly address Auckland's traffic problems, within existing infrastructure, with changes in road rules and regulations, yet this is no serious discourse on this."

She says the hotel industry — airbnb, education — open access online universities and driverless cars are examples of recent disruption that "will have an impact on the New Zealand economy".

Banga says it is important that New Zealand diversifies its investment across different industries to avoid being over reliant on dairy.

"New Zealand hits well above its weight in technology led companies, but the level of government and private investment into these companies is extremely modest compared with similar sized economies," she says. "There needs to be a serious conversation about how we change this."

The fund's main priorities in the coming 12 months are attracting offshore capital for investment in high growth companies and retaining talent.

Banga says her organisation's best achievement over the past year have been the continued growth of its most successful investments in two of New Zealand's largest technology companies, but she says the issue most likely to keep her up at night is raising enough capital to support further investment growth.

> New Zealand hits well above its weight in technology led companies, but the level of government and private investment into these companies is extremely modest.

Mark Cairns
Port of Tauranga

Mark Cairns says from the Port of Tauranga boardroom, it looks like New Zealand is heading towards an economic slowdown, and although he is not overly concerned by domestic factors, the slowdown of both the Australian and Chinese economy as well as low dairy prices, is highly concerning to him.

Cairns is less optimistic about the general business situation in his industry and the global economy, and much less optimistic about the New Zealand economy than he had been a year ago.

Despite the lower optimism, Cairns says work the company has completed in the past year has been a major boost for business.

"Our best achievement in the last 12 months was successfully negotiating a long-term partnership with Kotahi guaranteeing more than 1.8 million containers across the Port over the next 10 years, giving our board the confidence to execute a $350 million capital expansion programme," he says.

"The dredging project let last month was the final building block to enable big ships to call into New Zealand, and unlock more than $300 million in benefits per annum."

He says the main factor that would help his business to remain internationally competitive from New Zealand would be to have "more rational transport infrastructure investment decision making".

The company's focus over the next year will be on completing the dredging project, attracting and retaining high performing staff and optimising New Zealand's domestic supply chains to be more efficient and have fewer empty containers moving around the country.

> The dredging project let last month was the final building block to enable big ships to call into New Zealand, and unlock more than $300 million in benefits per annum.

Mark Powell
The Warehouse

The Warehouse chief executive Mark Powell is cautious in his assessment of the coming year, saying his view on both the New Zealand and global economy is unchanged from last year.

The Warehouse employs around 8000 full-time staff, and Powell expects this to remain the same in the coming year.

He says he isn't sure whether signs were pointing to an economic slowdown, but says there are mixed indicators both ways.

The main priorities for The Warehouse in the coming year are maintaining top line growth and translating this into profit growth, managing its digital transformation and managing the impact of the declining New Zealand dollar, which is likely to significantly affect the retail sector.

Taxation issues associated with the digital economy including online shopping are a big concern both in New Zealand and globally according to Powell, who says multinationals are not paying their "fair share" of tax.

"Overseas online retailers should be subject to GST to give a level playing field," he says.

The company's biggest success in the past 12 months has been achieving its second half-year goals.

"The hard strategic work of reshaping and transforming the business and stopping terminal decline over the last four years is starting to translate into profitable growth," he says.

Housing affordability is reasonably concerning to Powell and although unsure of whether New Zealand was in a housing market bubble or not, his view on house price inflation and foreign house buyers is clear.

"The main issue is supply of appropriate quality housing for the market demand," he says. "Barriers to supply need to be looked at and race-based attacks on buyers are completely inappropriate and deeply disturbing gutter politics."

In terms of needing to invest in other industries to diversify beyond dairy, Powell says it could be beyond the Government's control.

"We usually look too often to the Government to solve things, I'm not sure that the Government can do much here when there is a global market at play," he says.

"Ultimately, government interventions in markets and in 'picking winners' does not have a good track record.

"Encouraging innovation is important but I don't see it as driven by diversification from dairy — I see encouraging innovation and business as more something to do in its own right."

Powell says if he could make one change in New Zealand it would be to ensure it was producing more young leaders of character and courage who are interested in helping all of New Zealand flourish.

> Barriers to (housing) supply need to be looked at and race based attacks on buyers are completely inappropriate and deeply disturbing gutter politics.

Don Braid
Mainfreight

Mainfreight chief executive Don Braid says New Zealand's transport infrastructure is at a crossroads.

Braid singles out overly congested roads particularly in our larger cities, an under-utilised railway starving for support and recognition from its owners, and "a port strategy that is non-existent".

The Mainfreight CEO is more optimistic about the logistics and freight industry as well as the global economy than he was a year ago but there is room for improvement.

The past year has been a good one for the company, with record profits and sales exceeding $2 billion, but Braid says there are signs of a slowing economy with infrastructure a major concern for the industry.

One change Braid says he would like to see is to have the Government understand and implement a transport strategy "that works" — particularly focused on how rail could help reduce congestion on the roads. However he isn't confident that the Treasury would be able to come up with a good solution — "relying on a bunch of bureaucrats is nuts."

"To learn this month that one option provided to the Government from Treasury was to close our rail network down — how absurd. Our roading infrastructure would not be able to cope with the additional freight tonnage and passenger traffic spat out by the decision to close rail lines."

Mainfreight's rail volumes alone would add another 21,5000 truck movements to an already congested road network.

Braid sees other upsides from rail.

"If we are able to nurture our rail passenger network to points further south and north of Auckland, we have a chance to reduce the heat of the Auckland housing market," he says. "High-speed passenger trains to and from the less expensive rural areas south and north will become critical in the future

"As an adjunct rail has the ability to improve the productivity of our ports (Auckland included) and reduce greenhouse gas emission,

Mainfreight's focus over the next year is on sales growth and cost management as well as continuing global expansion. Braid says technological advances are likely to have a significant impact on his business in the next five years but adds that political disturbance could also be an issue.

He says improving education standards for children would be the single biggest factor to assist Mainfreight to remain internationally competitive from New Zealand.

> If we are able to nurture our rail passenger network to points further south and north of Auckland, we have a chance to reduce the heat of the Auckland housing market.

Paying their fair share

Attitudes to the taxation of multinational companies are varied, writes **Fiona Rotherham**

More than half of Kiwi business leaders don't think multinationals are paying their "fair share" of tax, although some feel it would be misleading to paint them all with the Google or Apple brush.

South Pacific Pictures chairman John Barnett, one of 53 per cent surveyed who think multinationals are not paying what they should, says it's not just a problem for New Zealand.

"But it is a problem as they take bigger shares of New Zealand business from domestic operators, but don't put anything back," he says.

Spark chief executive Simon Moutter says there needs to be taxation of multinationals here on the same basis as the NZ companies they compete with, while Port of Tauranga chief executive Mark Cairns says some multinationals structure their New Zealand business affairs as "tolling companies" to minimise paying their fair share of tax.

Earlier this year the OECD released a long-awaited report on base erosion and profit shifting (BEPS) which said the tax practices of some multinational companies had become "more aggressive". International tax frameworks haven't kept pace with changes in global business practices, especially relating to the digital economy.

The heart of the problem is what BEPs has dubbed "double no taxation".

Some multinationals don't pay tax where the income is earned because many countries, including New Zealand, only tax foreign companies on activities actually performed in their countries.

But these companies may not pay tax in the countries where they are headquartered, owned, or the activities took place, because of legal loopholes in domestic tax law and tax treaties.

Sophisticated tax planning allows multinationals to artificially reallocate taxable income to low-tax jurisdictions which rankles cash-strapped OECD governments hunting extra revenue.

Deloitte chief executive Thomas Pippos says from a New Zealand perspective the issue is more rhetoric than real.

"It's important NZ policymakers act accordingly."

Getting global consensus on a solution has proved difficult and there are indications it could be the end of 2016 before the OECD introduces any agreed changes.

EY tax partner Aaron Quintal says the problem for New Zealand, as a nation of exporters, is that there's no long-term benefit in going down a route where you tax other companies selling stuff here because then other countries could also tax Kiwi companies, like Fonterra, selling stuff offshore.

Beca chief executive Greg Lowe, whose company earns a lot of revenue offshore, says the issue needs to be carefully explored. "There are multinational companies based in New Zealand too."

Quintal sees some refining of the rules in the final wash-up rather than a radical overhaul. New Zealand is likely to be a follower rather than a leader and wait until the OECD's final report, he says. "I don't think we'll jump the gun like Australia and the UK have done, we're more likely to wait and benefit from their experience."

The New Zealand Government hasn't been sitting on its hands since ratifying an OECD treaty allowing information sharing with other countries to limit tax avoidance opportunities.

It has tightened the thin capitalisation rules to stop foreign firms from artificially loading debt on to their New Zealand operations to minimise the tax they pay here.

In May it also proposed the first significant changes in 50 years to the taxation of non-residents to close loopholes in the way they account for income received from interest, dividend payments, and royalties. The move could add $50 million annually to Inland Revenue's coffers.

> I don't think we'll jump the gun like Australia and the UK have done, we're more likely to wait and benefit from their experience.
>
> Aaron Quintal, E&Y

The survey showed 52 per cent of business leaders have concerns about taxation of multinationals operating in the digital economy, with the majority perceiving little progress has been made on the issue in New Zealand or globally.

Employers and Manufacturers Association chief executive Kim Campbell says "we have a well developed transfer pricing regime but we don't adequately have a way of dealing with online business".

The Government is mooting adding GST to online offshore sales following similar recent moves in Australia and other countries as the amount Kiwis spend on small online offshore purchases steadily grows in dollar sales terms at around 20 percent a year.

NZ's political pariah

Auckland's runaway property value gains were a lost opportunity for a capital gains tax that could have raised revenue and levelled the playing field across different investment classes, say 42 per cent of business leaders in the *Mood of the Boardroom* survey.

Vector director Dame Alison Paterson says the existing legislation, where property investors are taxed if they buy and sell with the intent of capital gain, should have provided relief but has not been adequately implemented and monitored.

There's no sense from those surveyed of a political will to re-engage in a capital gains tax given the Government's proposed bright-line measures for investors who sell within two years of buying a residential property (apart from the main home) from October 1, is effectively a capital gains tax on property by another name. Any losses generated by the bright-line test are ring-fenced and can't be offset against other income, as a disincentive to a quick sale.

Deloitte's Thomas Pippos says the mantle capital gains tax is New Zealand's political pariah. "But, over time, the capital revenue boundary will continue to be eroded (as has been the case by the current and previous Governments) generally gradually, and in cases, by stealth."

Local Government Funding Agency chairman Craig Stobo says the bright-line test will be helpful but we already have a capital gains tax for those in the business of buying and selling houses. "What we haven't had is IRD resources to assess sellers and no case law on the boundary between capital and revenue account."

One electricity company head suggested an alternative — introducing fees associated with the value of the property's purchase transaction, similar to Australia's stamp duty.

"It is ironic that motorists throughout New Zealand pay 5 cents a litre on petrol to support Auckland roads, but a similar scheme has not been used within Auckland to address housing."

One professional firm boss says though a general capital gains tax is an impediment to activity and a targeted capital gains tax appropriate, targeted stamp duty is better.

Taxation issues seen as globally neglected area

A capital gains tax was never going to be the panacea to the cost of real estate in Auckland, as evidenced by what has happened in other global markets where such a regime exists but property prices have still spiralled.

In saying that, the majority of *Mood of the Boardroom* respondents do see that not introducing a capital gains tax is a lost opportunity to raise revenue and would somewhat level out the playing field across different investment classes. But no one really sees any political will to re-engage on this topic, albeit that almost overnight a two-year bright line test was introduced to tax capital gains realised over that period.

In fact there is a general calm around many of our general tax settings and a general perspective that they are competitive particularly when compared to Australia. There was a negative perception around taxing multinationals,still an area of work in progress, if for no other reason than the perception that a group are not paying their fair share goes directly to the perceived integrity of our tax system.

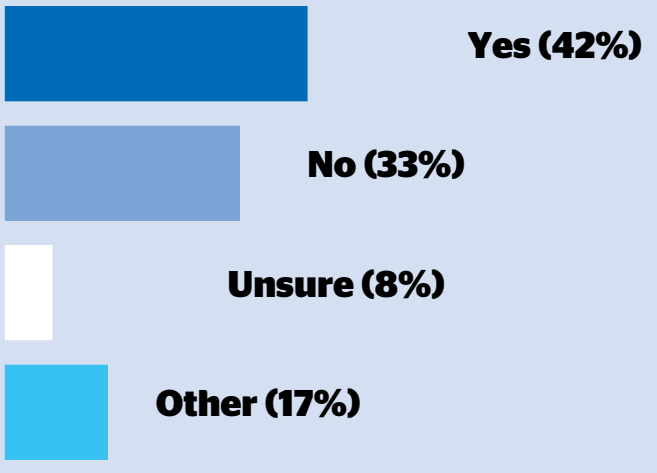
> It's surprising that a "everyone needs to pay their fair share" topic around the black economy isn't a Page One focus for politicians given it must resonate with most voters and can anecdotally result in material additional revenues for effectively nothing.
>
> Thomas Pippos

The taxation issues that flowing from the ever-increasing digitisation of our economy are seen as a material issue that is largely unaddressed both globally and in NZ. It is not surprising that this is the generally held view, the most recent manifestation being the debate around imported goods and services with specific focus applied on services provided by suppliers like Netflix that compete directly with local providers.

Interestingly and probably not surprisingly, respondents were somewhat distant from to the nuances of the black economy, including whether there were any regional biases. In some respects it's a little surprising that a considered "everyone needs to pay their fair share" topic around the black economy isn't a page one focus of either the Government or the main opposition parties, given it must resonate with most voters, and can anecdotally result in material additional revenues for effectively nothing if it is done right.

● *Thomas Pippos is CEO of Deloitte*

Was capital gains tax a lost opportunity to raise revenue and level the playing field?



Chipping away at the RMA

CEOs support sticking with the status quo on changes to the Act, reports **Brendan Manning**

National's defeat to Winston Peters in the Northland by-election in March forced John Key to rip up his proposed reforms to the Resource Management Act, requiring National to get another support party on board — aside from Act — to get the reforms over the line.

United Future and the Maori Party both support procedural areas of the reforms — which would help with problems such as housing affordability — but not changes to the core principles of the RMA.

When asked how the Government should proceed, almost 70 per cent of the CEOs supported continuing to seek minor changes to the RMA that would be able to cross the line in Parliament by gaining support from enough MPs to get over the 50 per cent voting threshold.

Starting again, and drafting a completely new piece of resource management legislation was supported by around 30 per cent of the bosses, while giving up and accepting the status quo was supported by less than 5 per cent.

"The first option is the best of a lousy choice," ICBC NZ chairman Don Brash said. "I admit to being surprised that National can't seem to exert enough influence on the Maori Party and/or Peter Dunne to make major change to the RMA possible."

All major political parties needed to work on reforming the RMA together, a real estate firm boss said.

"Keep at it," admonished Cooper and Company boss Matthew Cockram. Cooper and Company has had plenty of experience with the RMA with its redevelopment of the historic Britomart site in Auckland.

Others said starting from scratch would slow everything down even further.

Port of Tauranga boss Mark Cairns said the true costs of the RMA weren't properly understood "Whilst I accept the principles of sustainable management of our natural and physical resources, the consenting process and typically subsequent myriad of courts is crippling in terms of cost and time."

The dredging consent the port was just giving effect to took four years after numerous appeals and mediations and $2.5 million in associated costs, he said.

Winston Peters' win in Northland foiled the Government's plans for the Resource Management Act.

Others warned that environmental protection and a community voice was important.

Governments should subject councils to more direction

When asked whether councils should be subject to more direction by central government over their administration of the RMA, almost 80 per cent of the CEOs agreed. A further 9 per cent said No. The rest were unsure.

Deloitte chief executive Thomas Pippos said local and central government needed to be better aligned as to their joint aspirations and work towards those joint goals and be held accountable accordingly.

"Confusion reigns," said Mainfreight boss Don Braid. "Councils should have a commonality in their interpretation and application of the act."

"Consistency across NZ is important," Dame Alison Paterson added.

An infrastructure firm boss said the RMA should be modified to allow local government to act more unilaterally "without a public process that considers every tiny step".

Among the cautions: The current model allows personal prejudice and agendas to influence the process negatively and regulations were being introduced for regulations' sake.

Said a financial sector boss: "The underlying aims of the legislation are sound, said: however, we've lost sight of the value of it by enabling a ferocious bureaucracy at city, regional, and central government levels.

"We have to slim that down."

Effective frameworks needed

The country needs an infrastructure planning, funding and delivery framework that is integrated and supports national, as well as regional development, says NZ Council for Infrastructure Development CEO Stephen Selwood.

The framework needs to make decision-making processes efficient, effective, fair and transparent, and its funding needs to be directly linked to strategy, he says. "From NZCID's perspective this would include: reform of the national planning framework from 'effects based' to integrated national, regional and local planning framework."

Selwood says the current 78 local authorities need to be rationalised down to around 10 to 20 councils which would form partnerships with business and central government to develop regional growth and strategies and spatial plans.

The current Environmental Protection Authority should also be developed into a national environmental regulator, he says, with regional offices to take over the environmental regulation currently carried out by Regional Councils.

A national infrastructure commission should be established, to provide strengthened oversight, and to review and audit of infrastructure needs and the effectiveness of delivery.

Little love lost for for council ownership

An overwhelming proportion of CEOs — 70 per cent — believe councils should not set up enterprises to compete with private sector businesses.

Mainfreight boss Don Braid said councils should only do so if they were competing on a like-for-like basis: "However, one would have to ask what expertise they have to do so."

The vexed issue of council ownership is in the frame in both Auckland and Christchurch where the ruling councils are under pressure to realise equity from mature commercial assets — like ports and airports — and reinvest the proceeds in building new infrastructure.

Ports of Tauranga chief executive Mark Cairns said ports are a "bit of a sacred cow in this area".

Cairns said the Port Companies Act as drafted had a partial or full sell-down of harbour board assets by Regional Councils in mind. The legislation

> They should be divesting commercial enterprises, not creating them.

already contained the right guidance in Section 5 — which stated that the principal objective of every port company should be to operate as a successful business. "To me this distills down to port companies simply pricing and investing to achieve a cost of capital return.

"Once this happens, a natural hierarchy of ports will emerge not unlike what happened with our airports when the Airbus 380s commenced calling into NZ."

KiwiRail boss Peter Reidy said capital location and risk management was best performed by commercial operations. "Council can achieve this with the right governance and separation from council ideological perspectives."

Some commentary was pungent. Councils were by and large incompetent said one financial sector head. "They should be divesting commercial enterprises, not creating them."

Others commented on the use of public funds in this way saying they should only do so when there was a market failure or other public interest.

A professional services head warned that councils' roles should be minimised due to their ineffective governance, mis-prioritisation and limited access to funds. Their primary sources of funds are debt and rates and can never keep up with capex and management excellence to stay competitive. They struggle to attract quality people and cannot competitively compensate them."

— Brendan Manning

More to do on carbon emissions

Nearly a third of the CEOs surveyed believe either New Zealand, or their companies are not doing enough to reduce emissions and transition to a low carbon future.

Port of Tauranga chief executive Mark Cairns says ``We already have a very high proportion of renewable electricity generation. We could perhaps move a bit quicker to tighter vehicle emission standards, lowering the age of our light vehicle fleet and stopping New Zealand being a dumping ground for older imported used cars.

"Perhaps there should be some form of incentives to move to light electric vehicles. However our greatest CO2 emissions are not transport related and would require a significant move away from pastoral production."

EMA's Kim Campbell says there is little or no leadership in the area.

An energy sector CEO says it isn't only about the low carbon energy future. It is the low carbon today."

"We will be 100 per cent renewable electricity from January 1, 2016."

Mainfreight's Don Braid adds ``we

are attempting to reduce emissions at every turn. The use of rail and solar power, and recycling are all efforts we are undertaking, and using reliable biofuel would help our roading needs."

New Zealand has an unconditional emissions target of 5 per cent below 1990 levels by 2020 and 50 per cent below 1990 levels by 2050. Yet, emissions have increased since 1990 and though they are small globally, the country is ranked 22nd highest in the world on a per capital basis.

An inter-ministry Natural Resources Sector briefing late last year said New Zealand was off track in transitioning to a low carbon future and there is increasing international pressure to reduce emissions.

A total of 42 per cent of the respondents think New Zealand and their companies were doing enough to make the transition, while 32 per cent said there isn't enough being done, and 26 per cent are unsure.

An agribusiness chief says a low carbon future has always been a technological issue.

``The reality is that we are not doing enough to avoid significant climate impacts.

"Climate change combined with population growth, resource depletion and technological change is going to radically reshape our lives in the next 40 years."

An infrastructure firm boss says: ``after all the rhetoric and systematic approaches are stripped away, we are left with the fundamental reality that we need to do more to reduce pollution.

"Good policy will do more than introducing carbon markets."

— Graham Skellern

CEOs on the business outlook

compiled by Holly Ryan

Dame Alison Paterson, Director

Dame Alison Paterson's range of board and chair positions in some of New Zealand's leading businesses, including as independent director for Vector Limited, have given her a broad understanding of New Zealand's business sector – a sector she has concerns about.

Paterson is less optimistic about both the New Zealand and global economy than she was a year ago, and attributes a lot of this to the current dairy sector issues.

"As I understand it, the problem for Fonterra is not only the stockpile of product in China, which will wash through, but also a surplus of milk production internationally," she said. "This could impact significantly on demand or on price."

Domestically she said regulation was a high level of concern for her with low-cost competition a high concern from an international perspective. She said the high reliance on the dairy sector was concerning but trying to diversify New Zealand's economy could be difficult. "Market forces will prevail and conversion from dairy back to pastoral farming will be one result – the beef market has been good for several years," she said.

Paterson said her top business priorities for the coming year were adapting to anticipate the impact of renewable energy on traditional business, innovation and opportunities in data collection, and dealing with regulatory challenges.

> Market forces will prevail and conversion from dairy back to pastoral farming will be one result.

She said her best achievement over the past year had been the successful SLT recruitment and organisational change.

Technological advances were likely to significantly impact on business in the next five years, but she said achieving top-line revenue growth, managing profit expectations and regulatory challenges were the three key issues that she was concerned about for the coming year.

Andy Routley DB Breweries

DB Breweries managing director Andy Routley is proud of what his company has achieved over the past year, specifically in its work around innovation, but he says they still have a way to go.

Despite being less optimistic about the economy, both in New Zealand and globally, Routley says he is more optimistic about the general business situation in his industry: "there is a higher level of innovation and value creation in our industry now".

His main focus over the next 12 months is on continuing the company's innovation expansion, focusing on a "born in New Zealand, exported around the world" philosophy. Reducing costs in the business and delivering a genuine and value added sustainability programme are also a main focus, but also a concern, in terms of how this would be achieved.

He says the main impacts on business confidence in New Zealand and within the brewing industry are weakening consumer demand, and the level of the New Zealand dollar and regulation.

The biggest factors likely to affect his company in the next year he says are technological advances."The game is changing so fast for business and we need to be able to track and respond quickly."

According to Routley the single biggest factor that would help DB Breweries remain internationally competitive from New Zealand would be if Callaghan Innovation or other organisations developed incentive programmes to build and develop innovation hubs for the company's global parent – Heineken.

> The game is changing so fast for business and we need to be able to track and respond quickly.

In the coming 12 months, Routley expects to increase capital expenditure and profit, but decrease the company's IT expenditure and number of staff.

Chris Gudgeon Kiwi Property

Chris Gudgeon, chief executive of NZX listed property investment fund Kiwi Property, says his biggest concerns are around the housing market and what he says is definitely a housing market bubble.

He says housing affordability is extremely concerning and is having a major impact on business confidence in New Zealand and in his business.

According to Gudgeon, the proposed Auckland unitary plan provides for new housing areas and land supply, and he says the Government instead needs to tackle the demand side of the equation.

He said the measures being introduced by the Government on October 1 do not go far enough towards curbing foreign and local speculative investment in the housing market.

As well as the market itself, a lack of skilled workers is also a concern for the executive.

"The shortage of skilled tradespeople particularly in the construction sector is an issue that needs deliberate investment," he says.

He says the company's priorities for the next 12 months are getting construction projects properly priced, resourced and delivered, building the company's talent base and getting the Government to address what he says is unfair tax treatment of earthquake strengthening.

Despite some of his concerns, Gudgeon says he is optimistic about his company, and is expecting to spend more on capital and IT expenditure in the next year.

> The shortage of skilled tradespeople particularly in the construction sector is an issue that needs deliberate investment.

He also expects to have increased profit and revenue growth.

Geoff Hunt Hawkins Group

Hawkins Group chief executive Geoff Hunt says despite indicators of a possible economic slowdown, it does not look that way from his boardroom.

"Construction tends to be the last to feel the effects of a recession due to forward orders and similarly last to feel the benefit of an expanding economy," he said.

Hunt is positive about the coming year for his business, saying he expected to spend more on capital expenditure and increase both his profit and revenue growth.

In terms of the construction industry as a whole however, he is extremely concerned about the adequacy of New Zealand's infrastructure in terms of transport, electricity and water, adding that this is having a significant impact on business confidence in his industry.

"The adequacy of infrastructure, particularly transport infrastructure in Auckland, is the result of years of underinvestment and we have been caught by the current rapid population growth," Hunt says.

"Alternative funding approaches are needed to accelerate progress."

Hunt says he believes there is a housing bubble, but only in Auckland, with the main reason for this simply being the lifestyle.

"It is a great city to live in and hence the population increase," he said.

"Christchurch and Wellington need to do more to make themselves attractive to business and as a place for people to live, that would reduce the pressure on Auckland."

> Christchurch and Wellington need to make themselves attractive to business and as a place for people to live,

Hawkins Group's main business focus in the coming year will be on improving financial performance, continuing offshore diversification and delivering more customer value. Hunt says the company's best achievement in the prior 12 months has been establishing a culture that was amenable to change.

Granting wishes

Labour's Grant Robertson will debate the results of the Mood of the Boardroom CEOs Survey with Finance Minister Bill English at a breakfast at the Langham hotel this morning.

It's the first time that Robertson has gone head-to-head with English in this theatre.

The Finance Minister has seen off other Labour contenders when it comes to gaining the confidence of the nation's boardrooms.

How will Robertson fare? Watch the live news feed on nzherald.co.nz from 7.50am and reach your verdict.