The New Zealand Herald

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MOOD OF THE BOARDROOM

"To have the KiwiSaver dubbed 'the rabbit out of the hat' shows this budget is all about politics."

ROB FISHER
EXECUTIVE CHAIR
SIMPSON GRIERSON

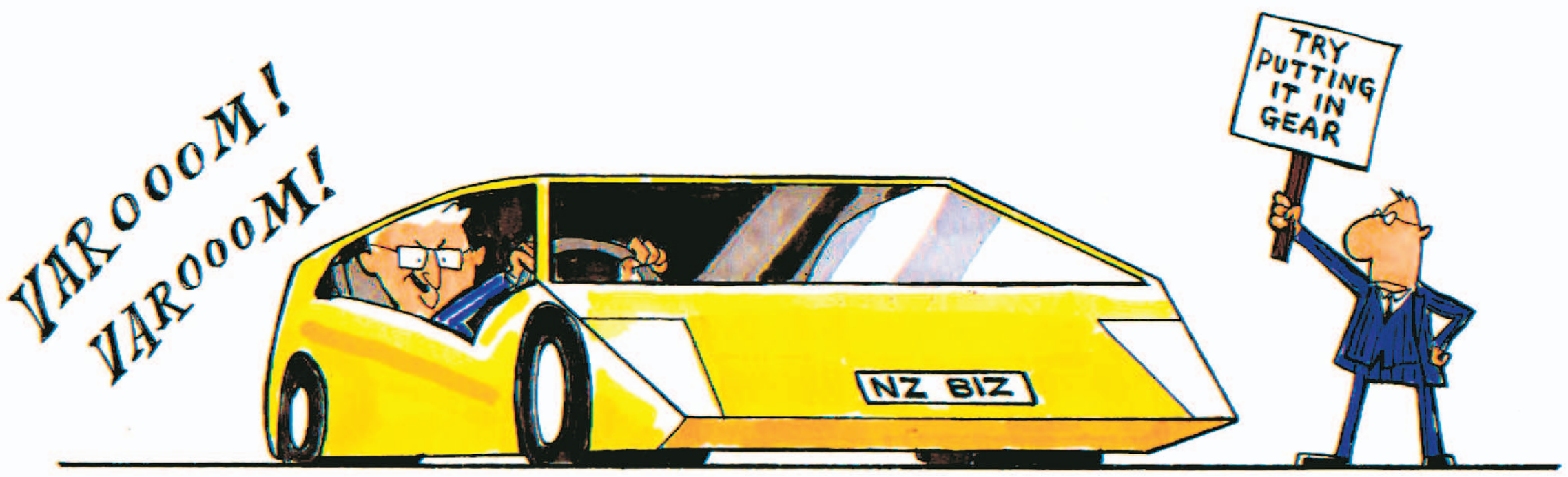
"Company tax cuts are a bonus but the skills shortages are hurting."

PHIL O'REILLY
CHIEF EXECUTIVE
BUSINESS NEW ZEALAND

"KiwiSaver has had minimal consultation – this will put pressure on business to respond quickly."

ANDREW FERRIER
CHIEF EXECUTIVE
FONTERRA

TAXING TIMES AS MICHAEL CULLEN HITS SAVINGS ACCELERATOR



CORPORATE TAX CUTS – But what do the bosses really think about that KiwiSaver AMBUSH?

HOT AIR: Is business ready to be 'CARBON NEUTRAL'?

TSUNAMI: Can the Government stem the POLITICAL tide?

"Whilst I personally support compulsory superannuation what's being dished up is just appalling."

CRAIG NORGATE
MANAGING DIRECTOR
RURAL PORTFOLIO INVESTMENTS

"There should be more reduction in bureaucracy and let people manage their own lives."

HUGH BURRETT
MANAGING DIRECTOR
ASB BANK

"New Zealand has a great opportunity to competitively differentiate itself on climate change."

ROB FYFE
CHIEF EXECUTIVE
AIR NEW ZEALAND

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MOOD OF THE BOARDROOM

Skills shortage

Labour shortages cost SME employers dearly

New Zealand's businesses are raring to go — they just want more workers and more capital, writes **Graeme Hunt**

WAGE hikes and labour shortages worry small and medium businesses the most, despite general optimism about the economy.

The New Zealand Herald Mood of the Boardroom survey, in association with Business New Zealand, reveals the tight labour market is inhibiting growth and putting companies under pressure to lift pay rates to nearer Australian levels.

Business owners said they struggled to find staff to fill many jobs and had to call on family members to "fill the gaps" or scale back their operations.

Bruce Gore, managing director of South Pacific Rewinders in Otahuhu, Auckland, said the inability to attract skilled workers made him want to give up the business.

"Things are not good. There is no enthusiasm in the business to step up and make it grow," he said. "Your option is to close it down and walk away.

"There is a diabolical skill shortage. I advertised for somebody two months ago and got two replies — one from somebody who had worked for me before and one from somebody who didn't have a work permit."

Gore said the situation was not helped by what he described as poor polytechnic training for young people. "The apprenticeship system [polytechnic training] is abysmal. It is going to come back to haunt the country."

His industry, like many others, had an ageing workforce, he said. Fifteen years ago, he employed 22 staff compared with eight today.

"Most of the people we employ are in their late 40s to my age [60]. Young people don't get steered into trades."

Skills shortages were endemic throughout the trade, he said. "I know that for hydro-generation repairs and power station repairs, they have to pull in people from all over the world to get the repairs done.

"People in New Zealand are underpaid and we have a government that says people are not saving but I say, how can they save? They are no earning enough to save."

Forbes Worn, managing director of Dorothy Home Cookery in East Tamaki, Auckland, said skills shortages were a major difficulty for the baking business.

"We will have one or two general bakers and will have to pick up school leavers but in the past five years we have not kept one of them.

Worn said some job applicants wanted to be paid under the counter or expected the company to sponsor them for residency.

The job market was so tight that it was no longer appropriate to talk about a simple skills shortage, said Employers and Manufacturers Association (Northern) chief executive Alasdair Thompson. "What started as a shortage of skills has become a shortage of labour," he said, blaming emigration. "We are losing middle-class New Zealanders. These are the people who have got the get-up-and-go and want to get ahead."

He said the problems facing small and medium businesses could not be solved by drawing more people into the workforce. "We have the highest engagement in the workforce in the western world. More New Zealanders want to work or are working than in any other country."

The answer, he said, was to create an environment that was attractive to business and encouraged New Zealanders to stay at home.

Thompson conceded New Zealand workers were underpaid compared with Australians but said pay increases had to be supported by a rise in productivity (see story, right).

Business Roundtable executive director Roger Kerr was happy about the tight labour market. "The objective should be a fully employed market, where labour is scarce and where employers will have to pay more for labour," he said.

But he also warned that pay rises could not come without productivity increases, and predicted the wages gap between Australia and New Zealand — already about 25 per cent — would widen.

"New Zealand is a much better economy than it was 15 to 20 years ago. But the big question is: are we doing as well as we could?" he asked. "New Zealand was performing as well as Australia in the early 1990s but now we are falling away."

Business New Zealand chief executive Phil O'Reilly said there was a risk of wage demands imposing an undue burden on small and medium companies.

"Wage deals done by the larger companies which do have union pressure will trickle down to them.

"I am not hearing from small business yet about cost increases of wages but things like cost increases of the extra week's holiday and KiwiSaver are legislative wage increases with no productivity benefits at all."

Not all small and medium businesses are struggling to find staff. Auckland-based clothing supplier Ambler & Co, known for its Summit brand, said it had not been affected by skill shortages.

"I don't think this is going to be the case for us," managing director David Ambler told the Herald. "We have a very contented workforce."

And Mike Hollier, co-founder of Auckland-based Vital Food Processors, said his industry's major problem was raising capital. "We are a research and development business and we don't have any issues in terms of skills shortages. Our issues are around raising capital."

He said the company, whose products included dietary supplements made from kiwifruit, had to undertake extensive research and clinical trials to expand its markets. To fund this Vital Food Processors last year sold a majority stake to BioPacific Ventures, a $100 million Australasian venture capital fund, with kiwifruit supplier Seeka Kiwifruit Industries as a co-investor.

The deal provided the necessary financial backing to complete research and expand international marketing but Hollier said the New Zealand capital market's lack of sophistication gave the company little choice but to go with BioPacific Ventures.

"We trawled around the New Zealand market for a year before we locked on BioPacific Ventures and we are very happy to have them."

Had tax laws been different, Hollier said, shareholders would have been able to personally claim accumulated tax losses because of the company's loss-attributing qualifying company status. But a change in shareholders meant those losses could not be passed on.

The absence of a vibrant domestic capital market meant New Zealand technology companies either failed to meet their potential or ended up being overseas owned, he said.

"It would be nice to see some better opportunity [for capital raising]. The loss of DFC New Zealand [the former state-owned development bank placed under statutory management in 1989] was a blow."

> 'What started as a shortage of skills has become a shortage of labour. We are losing middle-class New Zealanders.'
>
> **Alasdair Thompson**
> **Chief Executive, EMA (Northern)**

WAGE CATCH-UP PEGGED TO PRODUCTIVITY

Upgrades, outsourcing and new technology are just some of the suggestions New Zealand's small and medium enterprises (SMEs) are making to improve the country's lacklustre productivity.

They are contained in the latest Mood of the Boardroom survey, which also reveals that nearly six out of 10 SMEs would be prepared to match Australian pay rates if they were linked to better productivity.

Employers generally agree that New Zealand workers are poorly paid compared with Australians but say there is limited scope to act unless productivity improves dramatically.

Employers and Manufacturers Association (Northern) chief executive Alasdair Thompson (pictured) said living standards could not be lifted unless productivity was raised. "It is not about people working harder, it is about people working smarter."

He said greater investment in staff training was needed to get the best out of employees. "A lot of firms will introduce a CRM [customer relationship management] system but not invest in staff training."

Thompson welcomed the company tax cut announced in the Budget, saying it would allow companies to retain earnings for investment.

Business Roundtable executive director Roger Kerr said business productivity had been abysmal lately but had escaped official attention.

"I have been critical of the Reserve Bank because of its recent focus on housing," he said. "Inflation comes from printing too much money."

Kerr said Government efforts to cut compliance costs by amending legislation such as the Resource Management Act and the Local Government Act were "minuscule stuff" among the hurdles business faced.

"If you look at Budget, the projection for business investment over the next four years is weak. That tells me it is not an economic environment for business investment. New Zealand has lost ground in a shocking way since 2000 — the biggest decline in competitiveness in the OECD. The exchange rate has been the biggest factor but regulation has been a cost to the economy."

Mike Hollier, co-founder of Auckland biotech company Vital Food Processors, said exchange-rate volatility was a major challenge and stability would come only if New Zealand adopted the euro, the US dollar or a basket of Asian currencies.

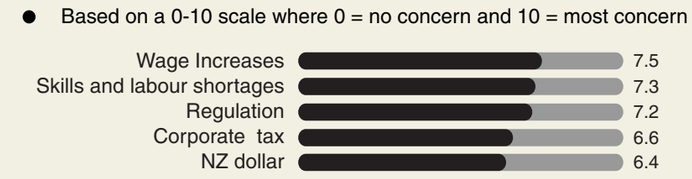
Business New Zealand chief executive Phil O'Reilly said businesses wanted to do things for themselves rather than receive government handouts.

"The No 1 thing companies can do [to increase productivity] is increase skill levels. They may not be strong enough to make big capital spending but something they can do is give themselves and workers new skills. They can invest in their own skills."

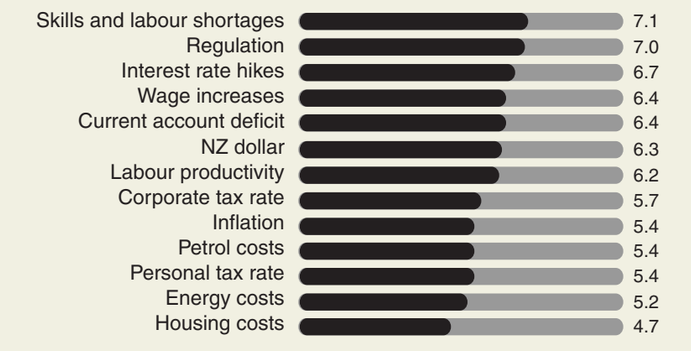
— Graeme Hunt

TOP WORRIES FOR SMALL TO MEDIUM SIZED BUSINESSES

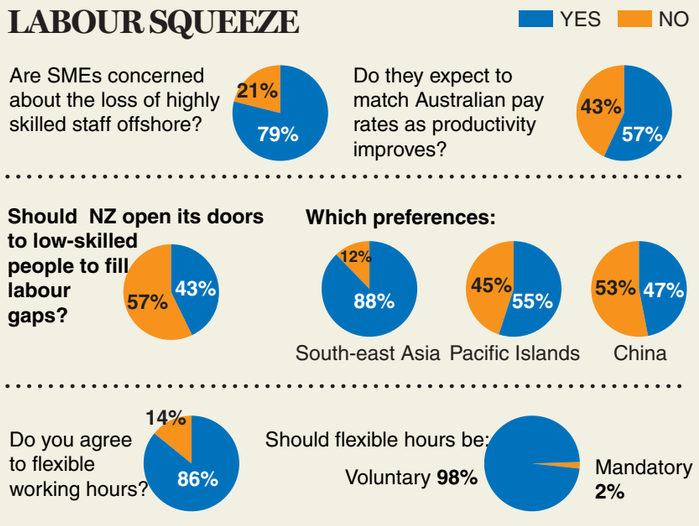
● Based on a 0-10 scale where 0 = no concern and 10 = most concern



HOW THE 'BIG END OF TOWN' RATES ECONOMIC CONCERNS



LABOUR SQUEEZE



Results: 135 SME chiefs from Business New Zealand's membership and 70 CEOs of major NZ corporates and professional firms contributed to the 2007 Mood of the Boardroom Survey.

Source: New Zealand Herald 'Mood of the Boardroom' survey May 2007 HERALD GRAPHIC

CONTENTS

D3 KiwiSaver: Reaction to the Budget's big secret
D4 Economy: Brian Fallow runs his ruler over the results
D5 Climate Change: Are our companies up to the challenge?
D6 Housing: Should anything be done about the roaring market?
D7 Taxing stuff: Just bring it on please, Dr Cullen
D8 Power: Welcome to the Beehive wrestling match

MOOD OF THE BOARDROOM 2007

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Taxes and KiwiSaver

Thanks for the tax cuts, but about that ambush...

Michael Cullen's eighth Budget had plenty in it to delight business but the KiwiSaver change broke the 'no surprises' rule. **Fran O'Sullivan** reports

Chief executives of major New Zealand companies are quietly savouring the prospect of company tax cuts from April 1 next year — but they're getting impatient over the Government's failure to deliver personal tax cuts.

That's shown in the Herald's annual Mood of the Boardroom survey which reveals a strong desire by New Zealand's chief executives to get to grips with issues impacting on this country's international competitiveness.

Chief executives believe the Government's 'run out of steam' and have already factored in a Labour loss at the 2008 election.

But that doesn't mean they're not keen to make use of the best parts of Finance Minister Michael Cullen's latest Budget — particularly the tax changes resulting from the Business Taxation Review.

Many intend to plough their upcoming company tax cuts back into developing their businesses and take advantage of the tax credits for research and development expenditure.

But the CEOs are not sure that Finance Minister Michael Cullen's latest Budget has done enough to address our relative competitiveness with Australia.

"The lack of action on personal tax rates or thresholds is a serious gap," said Deloitte chief executive Murray Jack. "We will have to wait for 2008 to understand the tax strategy, if any.

"In the meantime, Australia, continues to provide a share in their economic gain for most if not all taxpayers. The contrast is stark."

The Budget's focus on saving and investing has hit a chord with many chief executives who have to go offshore to access international capital to expand their businesses.

Ninety per cent of respondents to a pre-Budget question said New Zealand's level of savings should be higher.

But Cullen's decision to compel companies to match their employees' KiwiSaver contributions — without under-taking prior consultations with business — has astounded many CEOs.

They rated the Budget's KiwiSaver announcement almost as important as the upcoming cut in the company tax rate from 33 cents to 30 cents.

"To have the KiwiSaver dubbed the 'rabbit out of the hat' shows this budget is all about politics," said Simpson Grierson's Rob Fisher.

Fisher argues the savings scheme is discriminatory as not everyone qualifies. "Of those who do, many will not be able to afford to join."

More than 80 per cent of the 70 chief executives who responded to the Herald's 2007 survey want cuts to personal income taxes.

"It's arrogant to think they can spend our money better than we can," said a manufacturing CEO.

Several suggested the Government should follow the McLeod Taxation Review's call for a lower, flatter structure with a medium-term target of reducing all income taxes to 25 per cent or below.

> 'To have KiwiSaver dubbed the 'rabbit out of the hat' shows this Budget is all about politics.'
>
> Rob Fisher, Simpson Grierson

Others saw the necessity to cut taxes to reduce the amount of cash flowing into Cullen's Budget surpluses and curb increases in Government spending.

Nearly nine out of 10 CEOs are concerned about New Zealand's international competitiveness. They cite skills shortages and the loss of talented staff to Australia as particularly worrying.

Many are concerned at the growing personal income tax wedge between New Zealand and Australia. Deloitte analysis shows that any New Zealander on a pay rate of less than $180,000 will pay less personal income tax in Australia. From next year that income level jumps to more than $200,000.

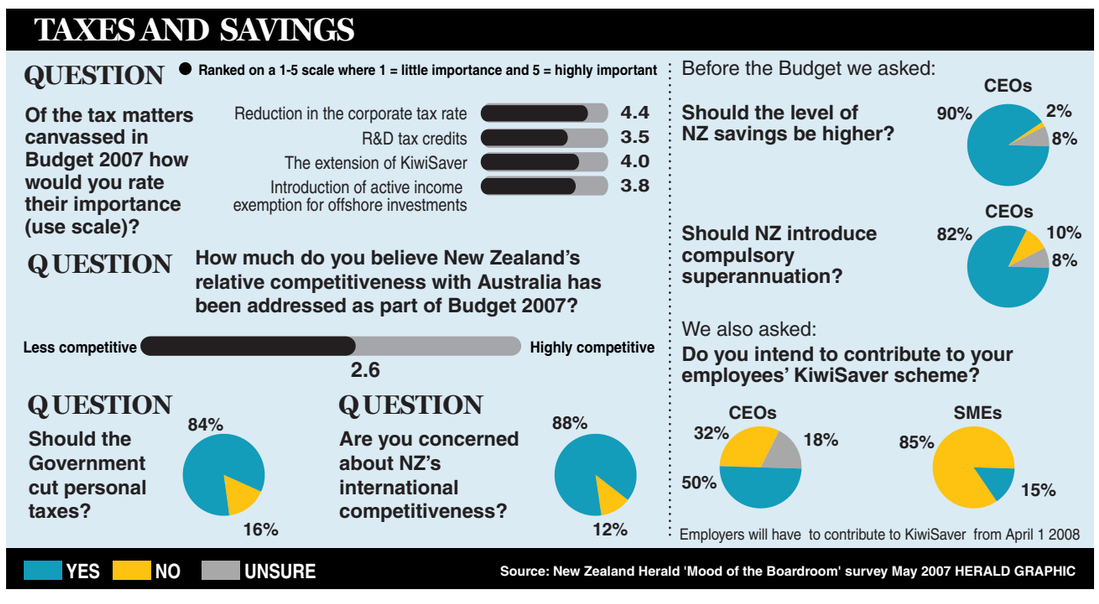
"We simply are not doing enough, nor are we keeping our best," said ABN Amro chief executive Simon Allen. "We are way below global benchmarks in terms and conditions and the gap is widening."

Air NZ chief executive Rob Fyfe said New Zealand needs to create a policy framework and business environment that plays more to NZ's strengths — nimble, innovative, creative, supportive of R&D, genuinely supportive of productivity improvement, technology friendly, attracts offshore investment. "Today we pay lip-service to many of these concepts," said Fyfe.

A motor firm chief executive put forward his own international competitiveness plan: Dump the Reserve Bank Act. Replace Working for Families with a lower tax scale at the bottom end. Introduce a carbon tax. Promote and protect the international brand value of New Zealand — clean, green sustainable. Engage in bipartisan talks to ensure bold legislation affecting the country's future is not shoved in the too hard basket.

Other suggestions to boost competitiveness include cutting the company tax rate to 20 per cent and progressively there afterwards.

Begin to understand the implications of their policies over the last eight years.



CEOs not ready for big boom in Kiwi savers

Chief executives of New Zealand's leading companies strongly support the introduction of compulsory superannuation.

Before the Budget was unveiled on May 17, 82 per cent of chief executives responding to the Herald's 2007 Mood of the Boardroom survey said compulsory superannuation should be introduced.

Some hail the Budget's announcements on KiwiSaver as a "bold, positive step" and a "good start to addressing savings problems" — others are up in arms.

At issue is Finance Minister Michael Cullen's failure to consult them before announcing that from next April businesses will be forced to begin matching their employees' KiwiSaver contributions.

Businesses, which were still scrambling to get ready for the introduction of KiwiSaver (Mark 1) had not factored in the Government's surprise move.

"There's a good case for despair amongst business," said Rural Portfolio Investments managing director Craig Norgate.

"Business doesn't like surprises and while I actually personally support compulsory superannuation, what we're being dished up is appalling.

"For people to smile glibly and take credit for a surprise — when it's a surprise that will put some businesses out of business — spells the end of a long period of healthy relationships."

> 'For people to smile glibly and take credit for a surprise — when it's a surprise that will put some businesses out of business — spells the end of a long period of healthy relationships.'
>
> Craig Norgate

A food industry boss said the Government clearly wanted to inject an "element of positive surprise" in the Budget.

"But it's completely compromised industries' ability to effect changes with care and consideration."

Another chief executive said, "While its introduction was slightly dishonest, the end result is OK".

Fonterra chief executive Andrew Ferrier said the lack of policy detail will pressure businesses and employers to respond quickly.

Another food industry CEO said his company faced the prospect of dismantling a far superior company super scheme, simply to manage the raft of compliance issues the late changes have created. "It's a mess."

Two-thirds of chief executives now want the Government to undertake consultation on KiwiSaver's design to ensure it can be efficiently implemented.

"It has been made too complicated and very bureaucratic," observed EMA Northern CEO Alasdair Thompson.

KiwiSaver will ultimately create a big pool of investment funds which NZX chief executive Mark Weldon believes will boost the New Zealand economy and provide ready capital for local businesses.

Nearly 80 per cent of chief executives believe state-owned enterprises should be partially privatised so that KiwiSaver funds can be invested in them.

Seventy-five per cent say the Government should also launch public private partnerships.

The Herald survey provides an insight into why Cullen decided to make employers match their employees' KiwiSaver contributions.

From April 1, 2008, they will have to contribute one per cent of an employee's pay to their KiwiSaver account, rising by one per cent a year until 20111-2012 when their compulsory contribution will reach four per cent.

Before the Budget announcement, just 50 per cent of CEO respondents said they intended to contribute to their employees' KiwiSaver schemes. But 85 per cent of SME respondents said they would not contribute.

There is already considerable disparity on the level of company super contributions. Fonterra kicks in up to 10 per cent of the salaries of collectively employed staff. Others offer a range of "salary sacrifice" options.

A series of EMA post-Budget seminars has confirmed SMEs are very concerned that the KiwiSaver changes will boost overall wage and salary demands.

This is reflected at major company level where chief executives fear they will soon be enticed into an auction system where employees who decide not to join KiwiSaver will ratchet up their own pay negotiations to see if they can achieve an equivalent total remuneration package to those that sign up.

One chief executive said the fact that KiwiSaver is voluntary will make it very difficult to forecast wage and salary costs when employers do not know how many of their employees will sign up. "It would have been easier to just introduce compulsory super on an across-the-board basis."

Others say their staff object on philosophical grounds.

"KiwiSaver and its ramifications is really annoying staff," said an energy sector chief executive.

"They object to the use of compulsion to obtain tax benefits.

"They also 'hate' it being offset against salary increases."

But not all the sentiment is negative.

An energy sector CEO said KiwiSaver was an excellent start. "They should have moved straight to the four per cent."

— Fran O'Sullivan

Tapping the mood of business

The New Zealand Herald Mood of the Boardroom survey, with Business New Zealand, focuses on New Zealand's international competitiveness.

We set out to find out what chief executives and proprietors of a range of businesses thought about the state of the market and the challenges the country faces. Most responded before this month's Budget but we also polled chief executives after the Budget to find out what they thought of measures introduced by Finance Minister Michael Cullen, such as compulsory employer contributions to KiwiSaver and cuts in business tax.

Some 70 chief executives from large companies and 135 heads of small and medium enterprises (SMEs) took part — a response rate of around 40 per cent.

The CEO survey database was drawn from the Deloitte-*Management Magazine* Top 200 list, the Business Council for Sustainable Development and the Business Roundtable.

Small and medium business responses came from Business New Zealand members.

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Simpson Grierson's Global Team, from left: Stuart Hutchinson, William Akel, Mariette van Ryn, Earl Gray, Greg Towers, Denis McNamara, Phillipa Muir, Don Holborow, Rob McLean.

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MOOD OF THE BOARDROOM

Economy

BUSINESS IS FINE — IT'S THE ECONOMY WE WORRY ABOUT

Business leaders are more optimistic about the prospects for their own industries than for the economy as a whole.

Among respondents to the Mood of the Boardroom survey, 46 per cent said they were more optimistic abut the general business situation in their industry than they were a year ago, while 42 per cent were less optimistic.

A majority expected to increase capital expenditure over the year ahead (58 per cent) especially in information technology (71 per cent).

And more expected to increase staff numbers (54 per cent) than reduce them (24 per cent).

But when asked about the New Zealand economy, 60 per cent were less optimistic and only 26 per cent more optimistic than a year ago.

About the global economy 53 per cent were more optimistic than a year ago and 29 per cent less so.

An emphatic 88 per cent were concerned about New Zealand's international competitiveness.

Govt urged to save Auckland from councils

Chief executives are concerned Auckland's international competitiveness is dropping and say it's time the Government stepped in and forced amalgamation on the city's territorial authorities.

The results are the clearest indication yet that local government in the region has fallen from grace as far as business is concerned.

"Auckland's regional politics are farcical — no momentum, no leadership and competitiveness is being eroded," said a transport sector chief executive.

''Amalgamation of the local authorities is critical to achieving a world-class competitive city for the Auckland region and New Zealand," said another transport sector chief.

"Absolutely essential," agreed a media CEO.

Survey respondents are nearly unanimous on the two issues: 88 per cent are concerned at the level of Auckland's competitiveness and 80 per cent support the Government introducing legislation to force amalgamation.

Deloitte chair Nick Main — who is a member of the Committee for Auckland — cautioned that without Auckland success ''New Zealand will always be limited in its success . . . the solution is obvious but politically difficult".

But others suggested the region should first focus on what functions — such as roads, water, and sewerage — should go with what structures. Then it should decide whether they should be regional or local.

WARNING: CEO Murray Jackson.

Others said it was ridiculous for a country of New Zealand's size to have so many borough, district and city councils.

"The role of of local and national government needs resolving before the population reaches five million,'' warned Genesis Energy CEO Murray Jackson.

"We're geared for twice the population — so let's bring them in," said a motor industry boss.

But local body chief executives urge realism.

"I support rationalisation," said one. "But it is not the silver bullet some imagine."

Another territorial local authority chief said legislation was needed to strengthen local governance — "this is not the same as amalgamating local authorities".

Employers warm to job flexibility

Small and medium business owners overwhelmingly support flexible working hours for their workers but don't want the Government to make that flexibility mandatory.

The Mood of the Boardroom survey reveals that more than 85 per cent of SMEs agree with flexible working hours "when possible", though only about one in five has a written policy on flexibility. Asked if flexibility should be mandatory or voluntary, 98.5 per cent opted for the latter.

The results reflect a similar survey by the Equal Employment Opportunities Trust, which showed that workers, especially men, wanted to spend more quality time with families — something they could achieve with flexible working hours.

"Accommodating the new breed of parents in the workplace and developing family-friendly initiatives is as much about staff retention and morale as it is about being a good employer," the EEO Trust said.

But SMEs don't want the Government to become involved in the debate. Already the state provides up to 14 weeks' paid parental leave to new mothers or their partners and the Labour Department is co-ordinating a work-life balance project which, some employers fear, could lead to legislation for flexible working hours.

In reality, employers are starting to adopt flexible hours out of self-interest when they can be shown it leads to lower absenteeism and higher productivity. — *Graeme Hunt*

Workers no easier for big companies to find

It's not just small business that's hurting — large firms cite an 'absolutely impossible' labour market as the main constraint on growth, writes **Brian Fallow**

A SCARCITY of labour, especially the skilled variety, is chief executives' No 1 concern about the state of the economy.

Even after two years of below-par economic growth the unemployment rate is only 3.8 per cent.

The Mood of the Boardroom survey's finding that skill shortages top the list of respondents' economic concerns is consistent with Institute of Economic Research's March survey of business opinion. It recorded a steep rise in the proportion of firms saying it was getting harder to find both skilled an unskilled labour and a jump in the number of firms citing labour as the main constraint on increasing production.

Wage increases and skill shortage also top the list of concerns for small to medium-sized enterprises.

The population is ageing and net migration, while positive, does little to offset that. Because of the gap in incomes that has opened up between New Zealand and most other developed countries including Australia, we tend to lose three New Zealanders for every four immigrants.

And the pool of surplus labour created by the economic reforms of the late 1980s and early 1990s has long been drained.

Sleepyhead's Martin Ellis described the labour market as "absolutely impossible at the moment". He also detects a work-shy attitude among the young.

"We look to automate wherever possible but that is more about productivity gains than reducing employment."

Regulation ran labour shortages a close second among respondents' concerns.

THAT interest rates should rank high among business concerns is unsurprising when the Reserve Bank has just delivered another couple of official cash rate rises, continuing the tightening it started more than three years ago. At 7.75 per cent the OCR is one of the highest in the developed world.

Wage inflation, one of the bank's concerns, is a worry shared by business leaders.

Even with some signs of moderating in the last two quarters, wage inflation remains close to its highs for the cycle. The average wage and salary increase agreed in the March quarter, for example, was 5.4 per cent, Statistics New Zealand reported.

But chief executives rated the current account deficit as of much as a concern as wage inflation.

The deficit for 2006 was $14.4 billion, or 9 per cent of GDP. That is unsustainable and is evidence of an economy that is badly off-balance, with domestic demand overheating while the export sector, with some exceptions such as dairy farming, struggles.

The classical correction to a big current account deficit is a fall in the exchange rate.

But while economists have been predicting a fall in the currency — like a flattening of the housing market — for quite some time, it still hasn't happened.

'Employers held on to staff through the downturn for fear that if they let workers go they would not be there when needed.'

GREENER PASTURES: New Zealand loses three people for every four immigrants. PICTURE / HERALD ON SUNDAY

The kiwi dollar's strength is partly the mirror of US dollar weakness and may also reflect the market's tendency to see the kiwi as a commodity currency, buoyed by high world prices for dairy products and some other export commodities.

But it may also reflect a view in the market that the Reserve Bank is not yet on top of inflation and that interest rates will therefore keep rising.

Weak labour productivity, the next biggest concern, does not augur well either for inflation or growth.

The recent sharp decline in productivity is seen by some economists, including those at the Treasury, as a cyclical phenomenon, evidence of labour hoarding in the face of a structural tightening of the labour market.

Employers held on to staff through the downturn for fear that if they let workers go they would not be there when they needed to hire again. Productivity suffered and the household sector was, to some degree, sheltered from the downturn businesses experienced.

Even with the well-flagged cut in this month's Budget the corporate tax rate remains an issue for both the top end of town and the small to medium enterprise sector.

Personal tax rates as a lesser concern than the company rate, even though with dividend imputation it is the personal marginal rate which is the final rate of tax for local shareholders, and many small businesses are unincorporated.

But when asked if the Government should cut personal tax rates, the consensus is clear: 86 per cent of respondents said yes.

The fact that inflation in general, and petrol and other energy costs in particular, rate well down the list of concerns may prove temporary.

INFLATION is 2.5 per cent — within the Reserve Bank's target zone — and should drop at the next reading, as the outsized 1.5 per cent increase in the June 2006 quarter falls out of the annual figure.

But the economic indicators point to increasing activity and mounting inflation pressures.

Employment grew strongly the first three months of the year, with 25,000 new jobs. Retailers had their strongest quarter since the mid-1990s and house-price inflation returned to double-digit rates.

The Budget forecasts a stronger fiscal impulse next year than this year and Fonterra is forecasting a bumper payout for this season.

Petrol prices remain hostage to the tormented politics of the Middle East.

When asked to rank international concerns, respondents gave most weight to oil prices, followed by climate change, the US dollar, Middle East instability, China's competitiveness, the trend to offshoring, free-trade agreements and global inflation.

"The Government is hellbent on driving manufacturing out of New Zealand," said Ellis.

"Why they want a free-trade agreement with China is beyond me."

QUESTION

Rate the impact of international factors on business confidence

Ranked on a 0-10 scale where 0 = less important and 10 = the most important

Source: New Zealand Herald 'Mood of the Boardroom Survey' May 2007 HERALD GRAPHIC

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Climate change

Forget the science, follow Helen's rules

Business has little faith in the Government's spin on climate change but says it's taking steps toward a carbon-neutral world. **Graeme Hunt** reports

THE country's top chief executives don't think climate-change science is accurate and believe the Government is overstating the risk to New Zealand. But they're ready to prepare for a carbon-constrained economy.

The New Zealand Herald Mood of the Boardroom survey reveals that while most big-business leaders have scant respect for public policy on climate change, they are divided over whether New Zealand should go carbon neutral. Most feel the country should prepare for worldwide carbon constraints but they are in no hurry for it to become carbon neutral.

Indeed, nearly seven out of 10 CEOs surveyed said New Zealand's international competitiveness might be weakened if it became carbon neutral before other countries. But nearly two out of three identified a risk to the national brand or exports if New Zealand did not move to reduce carbon emissions.

The response from chief executives in small and medium enterprises to the greenhouse gas debate follows closely the views of big-company CEOs.

At least seven out of 10 SME heads (72 per cent) are yet to be convinced of the science of climate change, but 79 per cent say New Zealand should prepare for a carbon-constrained global economy. Sixty-eight per cent identify a risk to the national brand or exports if New Zealand doesn't move to reduce carbon emissions.

Deloitte New Zealand chairman Nick Main said whatever people's views about the science, it made sense for companies to at least measure carbon emissions to prepare for future carbon trading.

"Carbon emissions have become an issue for people buying our products overseas. You have to be careful if doesn't be come another non-tariff trade barrier."

He said business had to accept there was evidence of greater carbon emissions and global warming and that New Zealand was committed internationally to reducing carbon emissions.

"The Kyoto Protocol is in place and we have signed up to it, and positioning ourselves to help negotiate another treaty is very important to us. You have to take this seriously."

Main said sooner or later there would be a carbon-trading system here and companies would need to measure and audit their carbon emissions.

"A properly designed carbon-trading system would encourage people to make economically rational decisions. You have to create a property right and regulate around the market but you don't have to regulate around what people do."

'Just 40 per cent of CEOs agree with the PM's aim to make NZ carbon neutral.'

GREEN AMBITION: Helen Clark wants to make New Zealand carbon neutral and a world leader in sustainability.

BANK of New Zealand chief executive Cameron Clyne reiterated his company's support for carbon neutrality, saying, "We have declared our commitment to carbon neutrality by 2010."

In March, the bank set a September 2010 deadline to be carbon neutral. Clyne said then the bank would start investigating a long-term solution to "offset its carbon footprint".

"We will also begin to work with customers to help them understand the impacts and opportunities that climate change presents for their business."

Air New Zealand chief executive Rob Fyfe said, despite the majority view, he would be more concerned about New Zealand's international competitiveness if it didn't take the lead on carbon neutrality.

"This is a great opportunity for New Zealand to competitively differentiate itself," he said. "We have a great platform in 100% Pure New Zealand and people will pay a premium for carbon-neutral solutions and experiences.

"While our costs may be higher, we can offset that with productivity and premium margins.

"We will never know definitively whether the science [of climate change] is right until it is too late. People care about this stuff and people's purchasing behaviour and lifestyles will become increasingly influenced by their beliefs."

A respondent from a power company warned against New Zealand "going it alone" in carbon neutrality. He supported investment in energy efficiency and renewable energy, but said policy development outside New Zealand was being appraised to ensure the country was aligned to large carbon dioxide emitters and "not going alone and getting caught out again — eg Kyoto [Protocol]".

BUSINESS Roundtable executive director Roger Kerr said many people had no idea what carbon neutrality would mean to New Zealand. "Carbon neutrality is completely unobtainable for the foreseeable future, even if we closed all our agricultural sector, banned all cars and other forms of transport and stopped economic growth."

Kerr said many companies were voluntarily conserving energy and reducing greenhouse gas emissions. But he was not surprised at scepticism of the Government's climate-change policy, which he said lacked credible cost-benefit analysis.

"What then should New Zealand do about the Kyoto Protocol? We are not going to meet our commitments by a country mile. Do we ignore the protocol or do we honestly withdraw from it?"

Give us power, broadband and roads but not the bill

Business is alarmed at the state of the national infrastructure but is not ready to give the Government a free hand to put it right.

Corporate chief executives want new power plants fast-tracked and more investment in the national grid but they're not prepared to pay more for electricity or have power stations closer to major cities.

The New Zealand Herald Mood of the Boardroom survey reveals major disquiet about the the country's infrastructure.

Half of those surveyed didn't believe the country had sufficient energy supplies for new growth, 70 per cent wanted new power stations fast-tracked and 90 per cent wanted investment in the national grid completed. But they didn't want power prices increased.

Chief executives said they wanted the regulatory framework fixed, particularly for electricity. "The Electricity Commission is a big mistake as currently structured," said an electricity sector CEO.

Among power company chiefs there were fewer concerns over long-term power supply than there were over transmission. At issue was the difficulty in getting planning approvals for major transmission projects.

They suggested incentives for more oil exploration, examination of fuel alternatives and seriously reviewing nuclear options.

Many (52 per cent) saw a role for the Government in investing directly in broadband but nearly three-quarters opposed it buying Telecom's copper loop and optic network. A similar percentage were against the Government investing directly in a new network. Fifty-six per cent supported major telecos taking a stake in Telecom.

CEOs said it was vital to move fast to world-class broadband. "The Government should select the best option to get there fast — don't rule anything out," said one local government head.

In roading, 54 per cent of chief executives supported the regional fuel taxes, but 40 per cent opposed them.

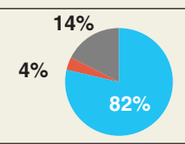
There was strong support for private capital investment in roads (71 per cent) but overwhelming opposition (93 per cent) to the principal means of funding that investment — tolls. The chief executives also opposed congestion taxes (70 per cent).

— *Graeme Hunt*

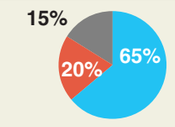
WARMING WORLD

YES NO UNSURE

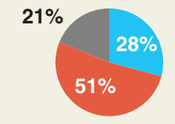
Should New Zealand prepare for carbon-constrained economy?



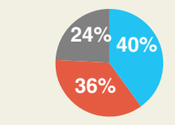
Is there a risk to national brand or exports if we do not reduce emissions?



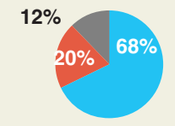
Are you sufficiently convinced the science of climate change is accurate and robust?



Do you agree with the PM's aim to make NZ 'carbon neutral'?



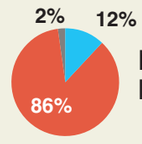
Are you concerned about NZ's competitiveness if NZ becomes 'carbon neutral' ahead of other countries?



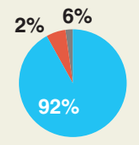
WARNING

Are you confident the Govt and bureaucracy will:

Get the policy settings on climate change right

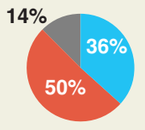


Miscalculate liabilities



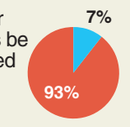
ENERGY

Are you confident NZ will have sufficient energy to fuel business growth?

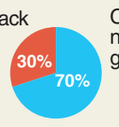


If no, should:

Power prices be ramped up

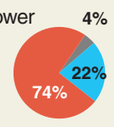


Fast-track new power plants



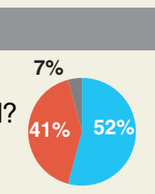
Complete national grid

Put power plants by major cities



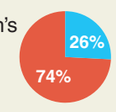
BROADBAND

Should the Govt invest directly in broadband?

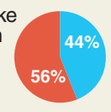


If yes, should it:

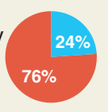
Buy Telecom's copper and optic networks



Take a stake (along with telcos) in Telecom's network

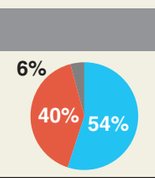


Invest directly in a new network

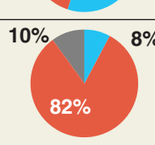


ROADING

Do you agree with regional fuel taxes?

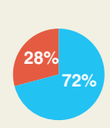


Has the Govt got the roading investment mix right?

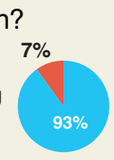


If no, what should happen?

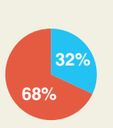
Private capital investment



Tolling



Congestion taxes



Source: New Zealand Herald 'Mood of the Boardroom' survey May 2007 HERALD GRAPHIC

Q. Can a leopard change its spots?
A. Yes. If it doesn't need to hide.

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MOOD OF THE BOARDROOM

Reserve Bank and housing

Tightening against the tide

Alan Bollard needs some mates to help in tackling inflation, say business leaders, and first among them should be the Government. Brian Fallow reports

BUSINESS leaders give Reserve Bank governor Alan Bollard a failing grade for his conduct of monetary policy and want the Government to restrain its spending to make his task easier.

By a ratio of four to three, chief executives responding to the Mood of the Boardroom survey disapproved of the bank's management of monetary policy. However, most believed that the bank did not have the right tool kit for its statutory task of curbing inflation.

"I don't know if the Reserve Bank can control inflation through interest rates when unemployment is low," said Sleepyhead's Martin Ellis.

"And people will always prefer to spend than save. KiwiSaver is long overdue."

One in three chief executives was concerned about the level offshore speculation in the New Zealand dollar. But respondents were strongly opposed to the Reserve Bank intervening directly in the currency market to try to get the dollar down. Intervention was added to the bank's armoury in 2004, but it has not used it.

One of the conditions for intervention is that it should be consistent with overall monetary policy, and the bank has been in tightening mode since early 2004.

Selling the kiwi for, say US dollars, to lower the exchange rate would be an easing move.

Chief executives were even more emphatic in rejecting the re-imposition of currency controls, which were scrapped when the dollar floated in 1985.

Exporters were still on balance upbeat, despite the high dollar. By a ratio of about three to one they said they would continue to expand and would not be battening down the hatches.

Several pointed the finger of blame at Government spending as a source of inflationary pressure. "The Reserve Bank has the right toolkit but cannot be successful acting in isolation," said one. "Its strategies need to be underpinned by Government policy and fiscal management."

Another was more blunt: "Government policy is a handbrake."

A third blamed public sector salaries for driving wage inflation.

> 'I don't know if the Reserve Bank can control inflation through interest rates when unemployment is low.'
>
> **Martin Ellis**
> **Sleepyhead Chief Executive**

In all, 94 per cent of respondents agreed that the Government should reduce its spending to take the burden off the Reserve Bank..

When they were asked what spending should be cut, however, it was a rather different story.

Health, education and New Zealand Superannuation were all regarded as sacrosanct. They are the big-ticket items, representing between them half of all Government spending.

There was more support for hacking into welfare payments and family support, but still a majority of respondents did not want to see welfare (55 per cent) or Working for Families (61 per cent) cut.

But the bureaucracy was friendless in these quarters, with 98 per cent calling for a cut in their numbers.

Treasury forecasts released with the Budget estimate that the "fiscal impulse" — a measure of the extent to which fiscal policy becomes more or less stimulatory from one year to another — will be stronger in the year ahead than it has been in this year, 1.6 per cent of GDP compared with 0.7 per cent.

Reserve bank governor Alan Bollard has been citing fiscal policy as a source of inflationary pressure for the past six months.

But he has been clear that it comes well behind the housing market.

One respondent, a manufacturer, concluded that a capital gains tax needed to be considered to curb property speculation.

Others backed measures to boost other forms of saving than housing, either through a tax incentive (which Cullen has introduced) or compulsion (which he opposes).

A "substantial" carbon tax had an unexpected supporter from the automotive industry.

"It would take money out of circulation, discourage bad behaviour (for example the wasteful use of fossil fuels) and give the Government the opportunity to reduce income tax or GST."

By contrast the Reserve Bank's official cash rate increases were the equivalent of putting a tax on borrowing or a on enterprise, he said. "It takes money out of circulation but it discourages good behaviour."

The housing conundrum — what to do?

There is no doubt house-price inflation has led to a seriously unbalanced economy, but there is little agreement on how to deal with it, writes Brian Fallow

A HOUSING boom that just won't quit has business leaders worried. By a ratio of two to one respondents to the Mood of the Boardroom survey say they are concerned about the affordability of housing.

Their concern is understandable. Five years of house-price rises have turbocharged consumer spending through the wealth effect, which has people borrowing and spending on the strength of their rising housing equity.

It is one of those good things you can have too much of. It has resulted in an economy seriously off balance, with spending growing faster than incomes and demand growing faster than the economy's ability to meet it.

The upshot is high interest rates and a sky-high dollar.

And with buying a first home out of reach for more people, they have one more reason to head for the airport departure lounge, compounding labour shortages.

Chief executives are split almost 50:50 on the merits of one measure mooted to cool the housing market — a capital gains tax on investment properties.

Gains people make by trading in investment properties are already taxable and, as a signal to the next commissioner of Inland Revenue and more active property investors, the Budget boosted funding for enforcing that provision.

Respondents were also split on the suggestion of getting rid of interest deductibility on investment properties. That would be a dramatic change to the tax laws.

But a milder option, dealing to negative gearing by ring-fencing operating losses from investment properties so that they cannot be offset against other income, is something officials have been looking at.

As far as moves to expand the supply of housing go, respondents recognise that house-price inflation is largely land-price inflation and are more than two to one in favour of making more land available for subdivision. A similar proportion are against more investment in state housing.

On the demand side, proposals to limit offshore ownership of properties or have a higher interest rate for investment properties find little support.

Respondents also come down against limiting banks' ability to offer loans for 100 per cent of the value of a property, by a margin of two to one. A similar proportion oppose cheap loans for first-home buyers.

The consensus seems to be that the market should be allowed to work as freely as possible.

They are strongly in favour — by more than five to one — of moves to make investments other than housing more attractive.

One of the drivers of the market is the conviction that the best way to accumulate wealth for your retirement is not to save through vehicles such as superannuation schemes, but to borrow money and buy housing.

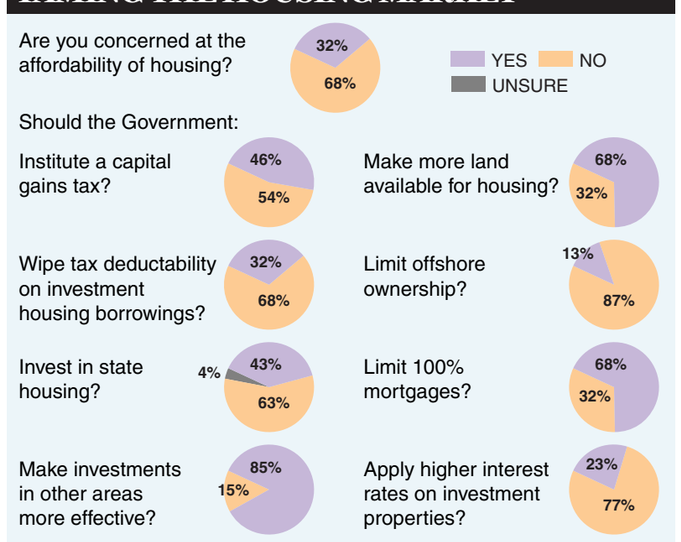
That is a rational response to the contrast between the tax laws' long-standing lenient treatment of housing on the one hand and stringent treatment of other forms of savings, such as superannuation, on the other.

National Party leader John Key has indicated he would prefer to see the playing field levelled by making other investment options more attractive rather than making housing less attractive, though he has not suggested how.

And Finance Minister Michael Cullen would no doubt say that the Budget's moves to boost KiwiSaver, with other recent tax changes relating to managed funds, do just that.

Small businesspeople see things pretty much the same way as the big end of town, except that far more — 78 per cent — oppose a capital gains tax on investment properties.

TAMING THE HOUSING MARKET



Source: New Zealand Herald 'Mood of the Boardroom' survey May 2007 HERALD GRAPHIC

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Taxes and takeovers

CEOs extend welcome mat to private equity

Business is taking the sale of prime assets in its stride, even if it means fewer NZX listings. **Fran O'Sullivan** reports

The wave of private equity firms seeking to buy prime New Zealand companies presents little fear to a majority of chief executives.

Nearly 60 per cent are unconcerned at the acquisition spree which has seen private equity firms gobble up some of NZ's plum corporate assets such as Independent Liquor, Hirepool and Telecom's Yellow Pages and bid for TV3 owner CanWest MediaWorks.

They suggest it will lead to greater efficiencies for local businesses and (ultimately) higher management skills. Discussions with chief executives responding to the Mood of the Boardroom survey suggest some would welcome the opportunity to run companies without the hassle of quarterly reporting restrictions which expose too much of their operations to competitors.

Not to mention the opportunity to gross up their own pay-packets if, as is often the case, an incoming owner offers them significant inducements to stay onboard.

But the two out of five CEOs who are concerned about the level of private equity-led acquisitions worry the trend will exacerbate the hollowing out of the New Zealand economy and the loss of listed stocks from the NZX.

This issue needs to be confronted as New Zealand begins the process of building its own wall of cash on the back of the KiwiSaver expansion, they suggest.

Defusing such concerns is the fact that many target companies will ultimately end up back on the NZX, either in a slimmed down form, or, through floats of significant assets that have been worked over by their new owners.

"They are potentially a source of new exchange listings," said an accounting firm chair. "But New Zealanders' ability to get part of the action depends on our ability to save."

"I believe ultimately these companies will end up back in public markets," agreed an investment banker.

A business organisation head suggested the private equity infusion would also enable companies to access capital and fund growth that New Zealand "can't afford". Another organisational chief pointed to the higher regulatory costs involved in accessing capital through the stock exchange which is contributing to the trend.

Many of the private equity-led acquisitions in this country are funded from Australia which has more than $A1 trillion of funds under management and is now a net capital exporter.

TV3's JOHN CAMPBELL: His network is a top private equity target.

Scott St John
First NZ Capital

Murray Jack
Deloitte

First NZ Capital chief executive Scott St John admits to concerns about the growing level of private equity acquisitions. "Not because of the activity itself, but because citizens of overseas countries that are better savers than New Zealanders are doing the buying.

"Generally you do not generate wealth from wages - generally asset ownership is a better path.

"But ultimately a number of these will come back to the NZX."

Deloitte chief executive Murray Jack cautions the trend might exacerbate the removal of decision-making on investment to Australia and the loss of job opportunities for highly-talented people

Ironically in Australia, private equity, or, other cash buyers, will face a tough time pursuing prime corporate assets after bids for high-profile companies such as Qantas, Coles Myer and APN failed to win sufficient support from institutional shareholders.

At issue is whether (and how) private capital firms will triumph in a country where share-prices have a life of their own and the institutional sector's war chest is being topped up by some $A100 billion each year from superannuation funds.

"There is shortage of quality assets at the right price," said a banker." More institutions are now holding on rather than just flicking stocks when takeover offers come round."

The Reserve Bank of Australia, and, Treasurer Peter Costello have put up warning flags about the excessive leverage on companies that comes with some private equity acquisitions.

The $A1 trillion of funds now under management in Australia has been sparked by the compulsory superannuation scheme that compels employers to put nine per cent of employees' salaries into super funds.

But Costello worries that excessive leveraging might lead to the collapse of many companies (as happened in the late 1980s) if there is an economic downturn.

Typically, target firms debt levels are loaded up in a fashion which enables the new owners to extract cash and reduce overall taxation.

Finance Minister Michael Cullen is sanguine about this risk saying New Zealand needs to access international capital flows (unlike Australia).

But the potential for excess leveraging of New Zealand companies and the economy is considered a risk by some chief executives (Though they do not rate this risk anywhere near as high as the potential for the hollowing out of the economy and loss of listed stocks).

Asked if the Reserve Bank should be given tools to monitor any additional leverage on the economy from private equity investment, 62 per cent said No. But one in five felt something should be done.

A majority (61 per cent) also said the Government should not impose restrictions on foreign firms investing in NZ.

New Zealand's open foreign investment regime has long been seen as an economic plus for a capital-starved nation.

But Cullen's decision to add an investment chapter to New Zealand's closer economic relations agreement with Australia has thrown the political spotlight on our laissez faire regime.

NZ First and the Greens want tougher criteria imposed on significant foreign investments.

They are not alone.

Nearly one-third of chief executives think it's time to have another look at whether foreign investment criteria should be imposed. "Majority ownership of certain critical infrastructure businesses should be retained within New Zealand," said a transport chief executive.

"Public interest factors need to be considered," said an investment banker." Key infrastructure assets should be viewed in a national interest context."

A communications company chief suggested there should be some sense of "shared reward" back into New Zealand from a successful investment.

Several chief executives believe it's time for New Zealand to adopt rules similar to those administered by Australia's Foreign Investment Board, or, Canada's Director of Investments, both of which have ownership restrictions on specific industries.

"The Government should study the benefits of imposing restrictions and then propose a strategy/philosophy for dealing with foreign company investment in New Zealand,,"said a consulting firm head.

But an investment banker said ownership was less of an issue that an appropriate operating framework in this context. And a law firm head warned "Governments do not do this well."

● Ranked on a 1-5 scale where 1 = little importance and 5 = highly important

QUESTION — 1 = little disappointing 5 = highly disappointing

Of the following matters NOT included as budget initiatives, how disappointing is their non-inclusion?

No deduction for other 'blackhole' expenditure, such as losses on buildings, capitalised R&D costs	2.9
Personal tax rate reductions	4.0
A general reduction in the trust tax rate	3.1
Tax credits for climate change initiatives undertaken by taxpayers	2.8
The ability of businesses not run through a company structure (e.g. sole traders,partnerships) to benefit from the 3% taxsaving given to companies	3.7

QUESTION — 1 =Unlikely 5 = highly likely

How likely is it that you will spend the reduction in the company tax rate by:

Greater dividends to shareholders	2.7
Rewarding staff	2.5
Reinvesting back into the business	3.7

QUESTION — 1 =Low importance 2 = high importance

Looking towards Budget 2008 how important do you see the following?

Material personal tax cuts	4.1
Personal tax cuts linked to saving	3.9
Clarity about ultimate aim of tax reform — an overall tax strategy	4.3

Do you think the corporate, trust and top personal marginal tax rates should be aligned? Yes 77% · No 16% · Unsure 6%

KiwiSaver is about to start on July 1, 2007:

- Is your business ready for the start of KiwiSaver on July 1, 2007? Yes 84% · No 13% · Unsure 3%
- Do you agree with compulsory employer contributions for employees who join KiwiSaver? Yes 56% · No 31% · Unsure 13%
- Do you agree with compulsory employee contributions i.e. for employees to be forced to join KiwiSaver? Yes 63% · No 28% · Unsure 9%
- Do you feel that the KiwiSaver proposals are too complex — i.e. the initial Government contribution, housing diversion, tax credits to employees for contributing, tax exemptions and now tax credits for employer contributions, compulsory employer contributions etc? Yes 72% · No 25% · Unsure 3%
- Do you think it would be easier if all Government funding for KiwiSaver went direct into individuals KiwiSaver accounts rather than via tax credits to individuals and employers? Yes 72% · No 13% · Unsure 15%
- Do you think there should be more consultation on design before the final introduction of the latest KiwiSaver changes to ensure that they are implemented as efficiently as possible? Yes 66% · No 25% · Unsure 9%
- Should the self employed be able to equally benefit from KiwiSaver? Yes 94% · No 3% · Unsure 3%

KiwiSaver will result in a pool of investment funds that will need to be invested:

- Should state-owned enterprises be at least partially privatised for investment by the public, including KiwiSaver funds? Yes 78% · No 16% · Unsure 6%
- Should the Government implement private-public partnerships again for investment by the public, including KiwiSaver funds? Yes 75% · No 9% · Unsure 16%

The trend towards private equity takeovers of listed companies is removing many blue chips from stock exchanges. Should the tax system be modified to put on an equal footing 100% ownership of businesses vis-à-vis shared ownership by cornerstone shareholders and the public generally (as currently the tax system is skewed to 100% ownership). This could be undertaken by making imputation credits refundable in certain cases / widening the loss offset rules. Yes 47% · No 47% · Unsure 6%

QUESTION — In relation to the outbound international tax announcements:

How important is it that when you operate globally you can take advantage of tax preferences that may exist in that foreign jurisdiction — i.e. the active income exemption

Low importance — 4.1 — Highly important

How important is it that you should be free to raise debt in New Zealand to fund your global expansion without New Zealand tax rules placing limits on your interest deductions – the proposal is that interest deductions be limited when the level of debt raised in New Zealand exceeds 75% of your New Zealand assets (use scale)

Low importance — 4.2 — Highly important

QUESTION — In terms of inbound international tax announcements:

Should the existing thin capitalisation rules that limit the deductions able to be taken in New Zealand be limited even further? Currently interest bearing debt can be up to 75% of the value of all assets. The proposal is to include all debt (including non interest bearing debt — i.e. creditors) in this calculation so as to effectively reduce the current 75% threshold. Yes 42% · No 39% · Unsure 19%

Source: New Zealand Herald 'Mood of the Boardroom' survey May 2007 HERALD GRAPHIC

Don't believe the tax reform spin

CHANGE creates winners and losers — and Budget 2007 was no exception, creating winners and losers with its international tax proposals.

Publicised as being taxpayer-friendly, they give with one hand but take with the other. Whether the give outweighs the take will depend on each affected taxpayer.

The generalisation that "New Zealand businesses will be better off under the proposals" will clearly not hold true for some.

The active income and wider dividend repatriation exemptions hold the limelight. The winners are those businesses currently operating outside the grey list in low-tax jurisdictions.

The repeal of the grey list and the interest allocation rules are lying in the shadows. Predicated on avoidance grounds, the losers will be a subset of taxpayers that operate within the grey list and/or have debt in New Zealand to fund their global expansion.

Why will they lose? Because those with a full grey-list exemption will need to reflect whether, and to what extent, they can benefit from the active-income exemption. To the extent that they can't, compliance costs will likely be huge relative to any extra tax New Zealand may gather.

All these taxpayers will face limits on how much capital they can raise in New Zealand to fund their total operations through restrictions on interest deductions. What is proposed is not best practice and is punitive by international standards.

How bad? It could be quite scary for many affected businesses — many are not even aware of these ramifications.

Other losers are those that can legitimately use the conduit and foreign investor tax credit regimes, which look like they may be on their way out.

Part of the debate is what the ultimate destination of tax reform should be — what tax strategy will retain New Zealand businesses and attract new ones from overseas. This is the missing link that simple positive statements do not address.

Part of the problem seems to be paranoia about avoidance, with the introduction of an active income exemption being used as the impetus for a total upheaval of the tax rules, rather than being seen as the final chapter of what was introduced nearly 20 years ago.

A further difficulty is that while the proposals deal largely with greater than 50 per cent holdings in international companies and the recently introduced fair dividend rate rules deal with holdings of less than 10 per cent, treatment of the 10 per cent to 50 per cent range is still up in the air.

It is hard to see how an active income exemption in substitution of a grey list would work here, given the information taxpayers would need to determine its application — that information becomes harder to glean as your shareholding reduces.

The dust is still to settle. For some, the ultimate destination of this reform can affect the other positive budget tax developments — which are very positive.

Avoidance needs to be addressed in a targeted manner, not through a wholesale change that also affects innocent bystanders.

— Thomas Pippos, Managing Tax Partner, Deloitte

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NZ $75 million
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Subject to shareholder approval
Joint Lead Manager & Underwriter
Current

New Zealand Exchange Limited
Feasibility study for establishment of a regional Carbon Market in New Zealand
Member of New Zealand Carbon Market Working Group
Current

TrustPower Limited
NZ $110.9 million
Eksport Kredit Fonden Backed Term Loan
Arranger & Lender
March 2006

Viridis Clean Energy Group
AU $126 million
Initial Public Offering
Sole Lead Manager & Underwriter
September 2005

Pacific Hydro
Purchase of forward CERs from CDM project
2005

Infratil Limited
NZ $153.8 million
Sale of 4% stake in TrustPower Limited and 6.2% stake in Infratil Limited
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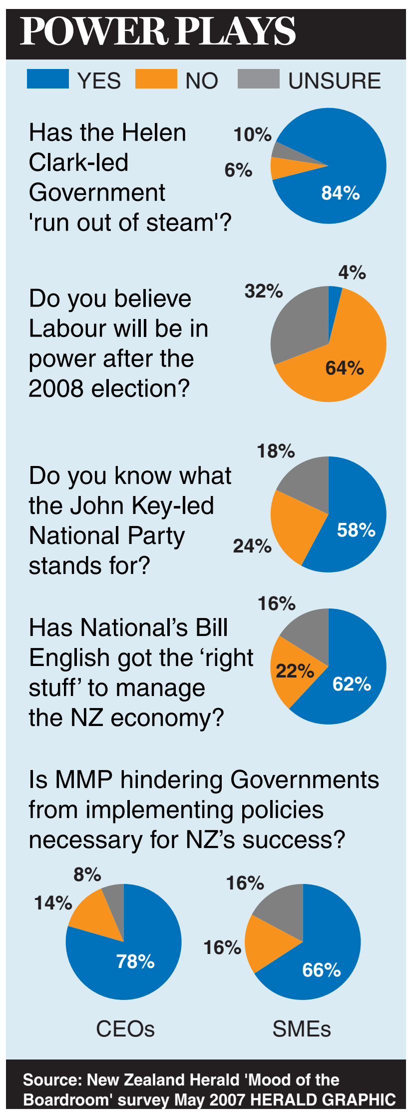
MOOD OF THE BOARDROOM

Politics

Parties urged to be bold and prosper

The message for both Labour and National is the same, writes **Fran O'Sullivan**. Business wants to see real policy, not vote-buying



NEW ZEALAND'S top chief executives have all but priced in a National victory at next year's election.

Just 4 per cent of CEOs responding to the 2007 Mood of the Boardroom survey believe that Labour will still be in power after the 2008 poll.

But 64 per cent are categorical that Labour will be voted out.

A majority of senior business people (62 per cent) believe National's finance spokesman Bill English has the "right stuff" to inherit Finance Minister Michael Cullen's shoes, and a similar proportion believe they know what National stands for.

They believe National is simply being realistic by not declaring its hand too early — "Helen Clark and Michael Cullen will just cherry-pick the best policies" — but are looking to the party for much clearer policy definition as the election draws closer.

"I cannot see National declaring its full hand until closer to the election," said First NZ Capital chief executive Scott St John. "However, when this does occur, I would like to see an increased sense of boldness."

After nearly eight years in power Prime Minister Helen Clark's Labour Government has accumulated political baggage and Cullen is accused of failing to make enough changes to benefit business and spark economic growth.

This is reflected by the 84 per cent who agreed with the proposition that the "Government had run out of steam".

But the chief executives said the last thing the country needed was for Labour to now go into defeatist mode. They wanted the Clark/Cullen team to show more leadership.

"The Government has become too cautious in its quest to retain power," said a transport company boss. "The country needs to stand up and take a strong position on the world stage on key issues. The business environment and economy needs an injection of fresh thinking if we are to improve our relative competitiveness — I see nothing that gives me confidence of anything but more of the same."

"Have a real go to get a fourth term, there is nothing to lose and everything to gain," said an international engineering firm head. "But put up clear policies — don't try and buy the fourth term."

Coming through the survey was a strong sense that business wanted the Government to listen to what it was suggesting, build positive relations with business and really engage on the issues businesspeople believed would contribute to New Zealand's international competitiveness. They wanted less bureaucracy, less "Nanny State" legislation, a serious commitment to the Government's top-priority goal of growth, a reversal of all its "anti-growth policies" and a more coherent vision of New Zealand's place in the world.

> 'The business environment and economy needs an injection of fresh thinking if we are to improve our relative competitiveness.'
>
> Transport company boss

Among the suggestions for the Government from the 70 chief executives contributing to this year's survey are:

■ Move away from bureaucracy and welfare to lower (zero) tax for lower income earners.
■ Be more willing to engage with the Opposition to deal with issues of significant importance to New Zealanders.
■ Get some talent into the ministries and move out the wasters.
■ Stop using global warming and iwi for political purposes.
■ Give fewer public sector pay increases, sell more state-owned enterprise, and create clear lines of control for SOEs so they can get on with delivering results.
■ Focus on the important issues.
■ Take a tougher stand on those who do not contribute to society.
■ Spend less, inject more accountability into health and education. Waste less on "politically correct nonsense" and policies demanded by MMP partners.

But several chief executives who had clearly lost patience suggested it was time for Labour to look at a "change of its top leadership" or "just resign".

John Key's strong engagement with business since assuming National's leadership is paying off. Key and English have made a good start, particularly by burying differences over the party leadership.

But to occupy the Treasury benches they need to demonstrate true leadership — "There's been some good signs but they have yet to make a decision," cautioned a leading manufacturer.

Many understand that National needs to recapture the centre and the important women's vote from Labour if it is to have a fighting chance of winning.

But others warn there is a risk about occupying the centre.

"It is still hard to know what they stand for and what they would do differently/better," cautioned a law firm boss.

In the election run-up they want National to:

■ Be bold, show genuine leadership and courage. Have a sense of vision that encapsulates and plays to our New Zealand sense of identity. Don't expect quick fixes but set some longer-term strategies
■ Make statements of what it stands for and policies that are consistent with them — outline an ambitious vision for New Zealand.
■ Show more positive policy options for the future rather than endless negativity about current policy. Engage in fewer petty personal attacks in Parliament and make a more constructive contribution.
■ Demonstrate a united and qualified front bench — be active not reactive.

"Just win the election," said five CEOs.

CULLEN AND ENGLISH GO HEAD TO HEAD OVER BREAKFAST

Finance Minister Michael Cullen and National's finance spokesman Bill English will square off at a special breakfast function in Auckland this morning to launch the 2007 Mood of the Boardroom report.

This is the first time the two finance supremos have debated publicly in Auckland this year.

The debate comes at a time when the Herald's Digipoll survey shows a heavy shift from Labour towards National — which could govern in its own right if it maintains its 50.1 per cent lead through to next year's election.

Political insiders say relations between Cullen and English are at their most "visceral" stage. Cullen enjoys taunting English by trying to drive a wedge between him and National Leader John Key. He claims English has to temper his leader's enthusiasms over hot issues such as tax cuts.

For his part English says "he's dying to have a crack" at Cullen, who's chalked up eight budgets since Labour swept to power in 1999 and never yet delivered growth-inducing personal tax cuts as his counterpart Australian Treasurer Peter Costello has done .

English was Finance Minister for six months during the last year of Jenny Shipley's prime ministership — then Treasurer for another six months — but he's never delivered a Budget.

A top-flight audience of chief executives and company chairpersons, with many of the city's leading small business leaders, will grill the duo on the survey results.

The New Zealand Herald and Business New Zealand are co-hosts.

CEOs want MMP put to the vote

Eleven years after the first MMP election business leaders are more opposed than ever to the voting system. Business has never warmed to MMP but distaste has turned to disgust and demand for change, according to the latest survey of business leaders.

The New Zealand Herald Mood of the Boardroom survey reveals that nearly eight out of 10 large-company chief executives believe MMP stops governments from implementing policies necessary for New Zealand's success. Fewer than one in five CEOs think MMP helps the country.

Seventy-seven per cent of chief executives want a national referendum on MMP versus the former voting system, first past the post — something denied to voters since the first MMP election in 1996. A similar proportion would welcome MMP being put to the vote against other forms of proportional representation.

Opposition to MMP is not restricted to big business. The heads of small and medium enterprises came to a similar conclusion. Two-thirds said they were concerned MMP stopped governments from implementing policies necessary for national success. Fewer than 17 per cent said MMP was helping the country.

Business Roundtable executive director Roger Kerr, a long-time opponent of MMP, said the survey results reflected the concerns of business before MMP was introduced.

"One of the things the business community was saying in the debate about MMP was that it would not aid New Zealand's economic performance and would lead to more compromises and low-quality decision-making because of deals done between coalition partners," he said.

"Members of the business community are well aware of the deleterious impact of MMP, even though they have not been stimulated by any recent public debate on it."

Auckland rental car proprietor and hotel owner Dick Langridge said MMP had proved terrible for business and he urged National leader John Key to commit his party to a referendum on MMP if National formed the next government.

"Labour can no longer govern without the support of the Maori Party and the Greens," he said. "MMP was designed in Germany to stop the Nazis regaining power and has denied governments having real power ever since."

Langridge said unless MMP was ditched, the New Zealand economy would continue to lag behind other western economies.

"We are going to get further behind. Apart from Fonterra, the economy is going down fast."

A chief executive in the motor industry said MMP had not delivered the co-operative and constructive Parliament it had promised.

"STV [the single transferable vote system] allows everyone's vote to count but it also allows for a single party to gain a mandate for its policies and the seats to implement them," he said.

— *Graeme Hunt*

COMPROMISING: Business leaders believe MMP prevents strong policy.

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