HUGOvision

Assessing the economic and political environment in New Zealand

August 28 2015 | Confidential to HUGO members

Wobbly China: don't panic
Pp 4&5

The latest volatility in Chinese financial markets is tarnishing Beijing's reputation for sure-footed economic management and reducing the prospects for an interest rate rise in the US this year. While the impacts of a slower growing China on NZ are already apparent through the impact on commodity prices, volatility in Chinese equities need not have a significant global impact beyond its influence on sentiment.

Auckland transport glasnost
Page 2

The govt has got its way with Auckland Council over transport planning. Having refused to commit taxpayer funds to earlier versions of the draft Unitary Plan's transport strategy, a year-long process should deliver a new blueprint in time for next year's local body and 2017's general election.

When will interest rates ever rise again?
Page 4

Turmoil in China adds up to caution in the US, where the Federal Reserve is no longer expected to raise interest rates for the first time in nearly a decade next month. A rate rise in December is now where the market lies, and a delay into 2016 can't be discounted.

Electricity: transmission pricing and profits
Page 5

Electricity companies are spitting out cash while closing old plant to try and put a new floor under static wholesale electricity prices as a revolution in customer behaviour looms. Meanwhile, the Electricity Authority has quietly amended its transmission pricing methodology

Earnings season: capital returns to the fore
Pp 6&7

Earnings seasons don't always have trends, but two have been apparent in the 2014/15 financial year end reporting of recent weeks: a push for capital returns by institutional investors rewarded by a number of NZX 50 majors, including Spark and most of the power companies. Also noteworthy is the number of companies unable to offer fully imputed dividends at present.

Transport charging revolution afoot
Page 2

Big data and GPS arrived as long time ago for transport logistics firms, but the govt is only now planning to use the power of data to reform road user charging to make most efficient use of the national roading system, particularly in Auckland.

What? Me worry?
Page 3

It should have been a torrid couple of months for the government – global economic panic stations, Asian investors in Auckland real estate, the Saudi sheep deal, not to mention the dairy commodity price collapse. But nothing has really changed in the latest polls.

Text finalised August 28

"Smart" infrastructure plans

The National Infrastructure Plan clearly sets out the boundaries within which govt policy will increasingly be delivered:

- Funding by adding to either central or local government debt faces much higher hurdles;
- The govt is wary of privatisation, if not active asset management through incremental sales;
- **Demand management will become a key consideration** prior to new funding decisions;
- **User pays will be a key element in managing demand, as long as it incentivises desired outcomes rather than purely raising new revenu**e;
- Local govt reform will continue but not through amalgamation.

The plan is designed for a NZ with an increasingly older, larger population, overwhelmingly located north of Taupo. It is also designed to take account of the growing economic power of Maori and for climate change.

Much of the current infrastructure dates back as far as 100 years and was built in a pork barrel Ministry of Works political environment.

Finance Minister Bill English says much of it is decrepit and gives as an example the "three waters" systems in the Waikato. No one can explain where nearly half of the fresh water, storm water and sewage that flows through these pipes either comes from or goes.

To help local govts better deal with these kinds of challenges, Local Govt Minister Paula Bennett is proposing formation of task-specific Council Controlled Organisations with other local bodies to aggregate expertise.

Auckland's transport 'pinch point'

Thursday's agreement to terms of reference between central govt and Auckland Council on the city's transport funding is a fundamental step forward, for all that it all constitutes another year of reports and delay. Without it, Ministers were willing to hang tough on govt funding for Auckland transport.

Note that the agreed structure is weighted in the govt's favour, unlike initial collaboration proposals from Auckland Council.

As demanded, **an aligned strategy will concentrate on just two things: alleviating road congestion and improving public transport options.** Expect this to be a test-bed for the infrastructure funding options discussed above. For example, a more data-driven approach to demand management could see trucks charged road user charges based on time of day and route taken, as well as kilometres travelled. Trials will start later this year.

Such an approach might be expected to assist the economics of **KiwiRail,** which is also close to presenting new strategic options to Cabinet.

A paper accompanying the infrastructure plan sets out for the first time all known capital expenditure on infrastructure that the Crown could undertake in the next 10 years, including IT projects.

A very large proportion of the total spending flagged is on transport, and in the upper North Island, where the focus is increasingly on creating a few, highly efficient multi-modal freight corridors, capable of being served by both road and rail.

The capex list includes assumed ongoing support for KiwiRail of $100m to $200m a year. A key question may be whether the rail link to **NorthPort** at Whangarei is mothballed, given the growing difficulties Ports of Auckland is experiencing with expansion at its Waitemata Harbour site.

Canadian wild card in TPP mix?

The TPP process grinds on, with officials meeting in Mexico to continue the legal 'scrubbing' process for the 95% or so where there's agreement. However, initiatives to unblock the three key areas of ongoing negotiation have gone underground for now. Those areas are automotive tariffs, patent protection for certain new generation pharmaceuticals, and NZ's biggest issue, dairy sector access.

Conventional wisdom to date has been that the dairy issues, in particular, won't be settled before the Oct 19 Canadian general election. That has been based on the expectation that incumbent PM Stephen Harper wouldn't risk politically alienating his vocal domestic dairy lobby during an election campaign.

However, another theory is that Harper may be more likely to embrace TPP during an election campaign if a completed deal can be presented in time. The reasoning goes that if there were a risk visible to Canadian voters that the US and Mexico were about to enter an Asia-Pacific trade and investment pact without Canada, that would focus minds.

This assumes that Harper can win. The economic nationalist New Democratic Party is currently leading the polls by a small margin.

Transmission pricing breakthrough?

Peace appears to be breaking out over the Electricity Authority's proposals to reform transmission pricing. In part, that's because the EA has demonstrated the impacts on charges for household consumers will be far less dramatic than its initial calculations suggested. Early forecasts of major increases in transmission charges in three politically charged areas – the economically depressed Northland and West Coast regions and in Auckland, the largest voter base – were found to be incorrect.

For example, Westpower customers would expect to pay perhaps $189 a year more under the EA proposals, compared with an initial estimate of $676. In Northland, a Top Energy customer might expect a $225 annual increase, rather than the $421 initially estimated. Vector customers in Auckland might face $227 in additional charges, compared with $519 initially modelled. While these are still significant and unpopular increases, the recalculation takes much of the political sting out of the original proposals.

Submissions to the EA reflect this more politically settled outlook.

Polls static after a big month

Two new political polls, from Digipoll and Roy Morgan NZ, show National apparently entrenching its support at or about 50%, offer some evidence of votes shuffling between the Labour and Green supporters, and NZ First still in touch as a kingmaker.

John Key's preferred PM rating in the Digipoll, down less than a percentage point at 63.7%, remains stratospheric for a leader in his seventh year in office after a month in which there have been political attacks on Asian investors in Auckland real estate, national protests against TPP, and an embarrassing saga involving cash payments to disgruntled Saudi businessmen authorised by a Cabinet Minister.

The Digipoll, taken over 10 days to Aug 24, showed National at 50.8% support, almost unchanged from its July poll. RMNZ had the Nats at 50.5% in a poll taken in the first half of August, suggesting the previous poll's 43% reading was a rogue result.

Labour was at 27%, down 5 percentage points, in RMNZ, but up 2.3% to 31% in the Digipoll. Just being in the 30's is vital for Labour and Andrew Little, who rated 13.3% as preferred MP in the Digipoll. The Greens were at 9.3% and 11% respectively in the Digi and RMNZ polls. NZ First was at 6.9% and 8% in the two polls respectively. While NZ First in combination with Labour/Greens puts the trio well above the 45% support required to have a realistic shot at forming a govt, the reality is that while the Nats poll above 50% and can count on at least four support party MPs, there is no realistic prospect of a change of govt.

Labour's policy drift

Trying to work out what is going on in Labour over its seemingly endless policy debate is a bit like observing China in the 1960s. Occasional snippets of information emerge which indicate one faction or another is prevailing. This is the downside of "keeping your powder dry" till closer to the election.

Grant Robertson's Future of Work exercise has seen publication of four working papers in the five areas of policy development. They cover technology, security, economic development and sustainability, and education and training. A paper on equality is pending.

None has so far gained media traction. Party insiders concede these are very much early works in progress that have yet to set out any distinctive new positioning for Labour.

However, there may be some firming in the party's approach to the TPP, where left wing MPs feared the party's "five bottom lines" would prove a foil that would allow Labour to maintain its bi-partisan tradition on international trade. However, Andrew Little has been firming up Labour's opposition to TPP. This raises the question whether the party might not be being pushed to the left the same way the British Labour Party appears to have been pushed by widespread grass roots pressure to make the left wing candidate, Jeremy Corbyn, the favourite in its leadership election.

National will be hoping so.

Hugo website log on

We have upgraded our website this year with a member-only section, which includes back issues of Hugovision, a full compendium of legislation before the House, our forward speaker programme, and copies of the presentations given at our breakfast meetings. And, we will soon be adding the Hugo Handbook, containing long-range policy and economic forecasts and a Who's Who of the government.

Please let us know if you have not yet received an email with your user name and a temporary password:

hugo@thehugogroup.com

Policy moves

Commerce Minister Paul Goldsmith announced a new approach to **anti-dumping** duties with the introduction of a **consumer welfare test** to better assess whether a dumped product has harmful economic impact. Broadcasting and Communications Minister Amy Adams has released a **green paper on digital convergence,** aimed at tidying up anomalies arising because of the convergence of telecommunications and traditional broadcasting. IRD is consulting on applying **GST to foreign-sourced e-commerce service transactions,** such as Netflix and iTunes. GST on low value physical goods imports will take longer and involve the Customs Service.

HUGOvision
August 28 2015

The real Chinese adjustment

The China-inspired gyrations in global financial markets over recent weeks are significant in themselves, but perhaps of greater significance is the change in sentiment about the supposed omnipotence of Beijing policymakers.

One of the mantras of China-watchers in recent years has been that the Chinese authorities are not only capable, but skilled in the art of managing the world's second largest economy – or largest, depending which measure you use – to a soft landing.

The combination of a clumsily implemented new monetary policy regime to allow the renminbi to trade more freely on global markets, the apparent inability and this week unwillingness to try to shore up local equities markets and increasing scepticism about officially announced growth rates add up to far greater scrutiny on the competence of Beijing's economic management.

A growing chorus of commentary critical of the Chinese authorities' less than usually sure-footed economic management sparked media speculation that Premier Li Keqiang's position may be in question.

One clear implication is that hard and soft commodity prices are unlikely to start recovering while China retains substantial productive overcapacity and while its local govts, once the primary source of infrastructure investment, remain effectively frozen while they seek to address excessive levels of debt. That said, policymakers have plenty of room to cut interest rates to stimulate Chinese economic growth. And while tumbling Chinese equities have dominated global financial market headlines, barely 2% of Chinese shares are held outside China.

More Fed delay?

The rout on global equity markets sparked from China looks almost certain to delay the US Federal Reserve's track for increasing interest rates, raising the prospect of the global financial system being propped up by QE and zero interest rates for an eighth year since the global financial crisis.

There is little risk to the gradual US economic recovery from a slowdown in China. US exports to China are tiny and there is less capacity than in the past for China to pursue either competitive devaluation or to undercut American production costs.

However, low oil prices and deflation exported from China could seriously weaken the Fed's case for needing to raise interest rates to control inflation, since inflationary pressures can be expected to be that much less than was anticipated.

The Fed had until recently been expected to make its first upward move in interest rates in Sept, but that has recently shifted to Dec. If current weak sentiment persists, we have no difficulty imagining the Fed sitting pat at current levels into the first quarter of 2016.

Lower Aussie dollar helping

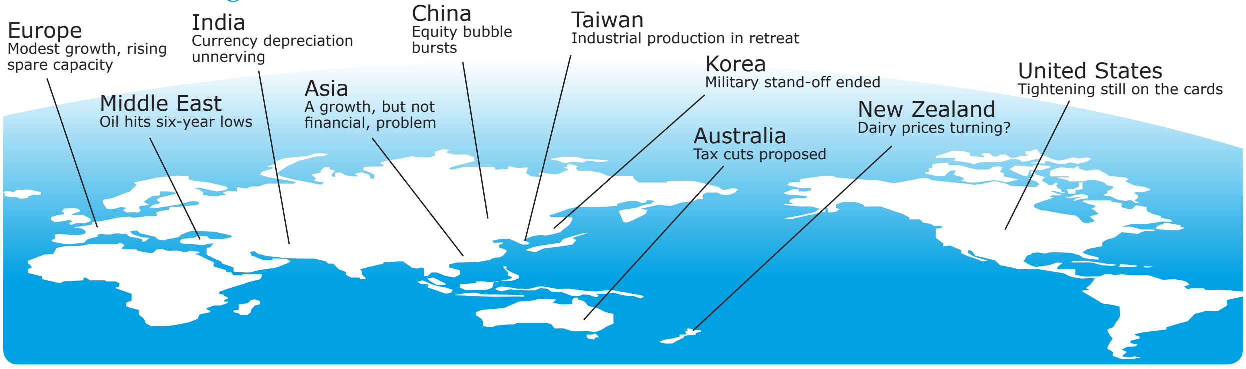
Aust policymakers are more comfortable with the level of the AUD, which has fallen 15% in the last year and is now affecting consumer behaviour and domestic economic conditions.

Import-substitution is occurring and a competitiveness boost of as much as 1% of GDP is reasonably expected over the next two years. A weaker AUD is also increasing foreign direct investor interest in Aust corporate assets.

Inflation expectations are also rising and inflation is expected to return to the mid-point of the RBA's 2% to 3% annual inflation rate band in coming quarters.

UBS notes the June quarter 4.4% fall in new private capex is very weak, with a 19% 'recessionary' annual fall implied, based on previous years' experience. GDP risk remains to the downside, accordingly.

The world at a glance



Seismic shift in electricity market dynamics

Electricity consumers can expect the retirement of more than 1,000MW of thermal generation capacity to start underpinning higher wholesale electricity prices in the next three years. Genesis, Contact and MRP are collectively removing that capacity, mainly through the closure of 500MW of coal and gas-fired production capacity at Genesis's Huntly power station in late 2018 and 400MW of gas-fired capacity at Contact's Otahuhu-B station next month. **Already, forward prices from 2017 onwards have shown a bump up of around $6 per MWh.** The Contact decision took the market by surprise and prompted speculation the Huntly decision could be reversed, although Genesis would only consider that if buyers for Huntly output were to emerge at commercially attractive levels. They're not holding their breath. **Meridian** reckons there's money being left on the table by so much thermal plant going out of service. Various factors are at play, including: the long term outlook for slow or no electricity demand growth; far greater baseload generation from renewable geothermal capacity removing the traditional role of baseload thermal generation; greater reliance on fast-start gas-fired peaking plant to fill in any gaps created by fluctuating availability of wind or hydro power; Contact moving off take-or-pay gas contracts and preferring to be a flexible gas holder using its Ahuroa storage facility.

Meridian's Mark Binns believes the latest announcements will see new generation investment brought forward to as early as 2019, with incremental increases in generation rather than one-off major new projects.

Meanwhile, the fate of major energy user, NZ Steel, is under review by its Aust owner, Bluescope.

Credit trends worth watching

There are signs of household balance sheet expansion in the form of a strong pick-up in household credit, perhaps assisted by Auckland house price inflation. *(See p7)*

Rural debt also warrants careful attention, not only because of the distress in the dairy sector caused by the slumping Fonterra payout, but also because output is now almost certain to take a hit courtesy of the new El Nino, which will cut agricultural production over this summer and into next year.

But the impacts on the current account are more than offset by how low oil prices are going. **The impacts of China's economic slowdown and financial ructions on NZ, are not expected to be anywhere near as material as many seem to fear.** However, global financial volatility has increased and that will affect confidence and the NZ near term growth outlook.

Falling commodity prices and a global disinflationary pulse would tend to reaffirm the prospect of RBNZ rate cuts, with 25 basis points cuts still assumed for Sept and Oct.

Trading partner growth

(2014 actual; 2015-16 Concensus Forecasts; 2017-18 figures Hugo estimates)

Trading partners		GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
	Weights %	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
China	21.7	7.4	6.9	6.7	6.6	6.5	2.0	1.4	1.9	2.6	2.0
Australia	21.9	2.7	2.4	2.9	3.1	2.8	2.5	1.8	2.6	2.7	2.4
United States	13.0	2.4	2.3	2.7	2.6	2.5	1.6	0.3	2.0	2.3	1.6
Japan	7.5	-0.1	0.8	1.7	0.7	0.8	2.7	0.8	1.0	2.0	1.6
Eurozone	7.3	0.9	1.5	1.8	1.6	1.5	0.4	0.2	1.3	1.5	0.9
United Kingdom	3.9	3.0	2.6	2.5	2.3	2.6	1.5	0.1	1.5	2.0	1.3
South Korea	4.4	3.3	2.6	3.3	3.6	3.2	1.2	0.8	1.9	2.4	1.6
Indonesia	2.2	5.0	4.8	5.2	5.7	5.2	6.4	6.4	4.9	4.7	5.6
Hong Kong	1.8	2.5	2.3	2.6	3.3	2.7	4.4	3.2	3.1	2.8	3.4
Taiwan	2.6	3.8	2.6	3.3	3.4	3.3	1.2	-0.1	1.5	1.4	1.0
Singapore	2.9	2.9	2.3	2.8	3.7	2.9	1.0	-0.2	1.2	2.1	1.0
Malaysia	2.5	6.0	4.8	5.0	5.3	5.3	3.1	2.1	2.8	3.0	2.8
Philippines	1.9	6.1	5.8	6.0	5.6	5.4	4.1	2.0	3.3	3.8	3.3
Thailand	2.0	0.9	2.9	3.6	3.8	2.8	1.9	-0.5	1.9	2.6	1.5
India	1.4	7.3	7.7	8.0	7.5	7.3	6.0	5.4	5.5	5.5	5.6
Viet Nam	1.4	6.0	6.2	6.4	6.2	6.2	4.1	1.4	4.3	3.3	3.3
Canada	1.5	2.4	1.1	2.1	2.3	2.0	1.9	1.2	2.0	2.1	1.8
NZ Trading Partners	100	3.7	3.5	3.8	3.8	3.6	2.2	1.2	2.1	2.5	2.0
Forecasts for New Zealand											
Consensus		3.3	2.5	2.5	2.5	2.7	1.2	0.5	1.9	2.2	2.0
BNZ Forecasts		3.3	2.4	2.2	2.1	2.2	1.2	0.2	2.0	2.7	2.1
The World		2.8	2.6	3.1	3.1	2.9	3.1	3.1	3.5	4.1	3.3

CORPORATE ROUND-UP

Tech results

Spark plans to reward shareholders with a special dividend of 3 cents a share in 2016 as well as lifting its ordinary payments, while flagging another year of modest earnings growth in what ceo Simon Moutter calls "a highly competitive market". **Ebitda** rose 2.8% to $962m in the year ended June 30 as revenue fell 2.9% to $3.53b, in line with Spark's guidance. Moutter said the results support the view that "a return to long-term, sustainable growth in free cash flow, revenue and earnings over the coming years is both realistic and achievable." In the latest year, Spark was eclipsed by **Datacom**, the privately-held IT services firm, as NZ's biggest information technology services provider. Datacom reported annual 6.3% sales growth to $937m. It had about 14% of the local IT service market, excluding business consulting and outsourcing services, as at Dec. 31, according to research house IDC. Profit fell 53% to $24.3m, reflecting a year-earlier gain from the sale of its Asian contact centre. **Vodafone NZ** reported a $120.7m net loss for the 2014/15 year, reflecting a 4.4% revenue decline and the last year of major costs relating to the integration of Telstra Clear, which Voda purchased in Nov 2012. **Wynyard Group**, the intelligence software developer, widened its first-half loss while boosting sales 39% and said the launch of its new cyber threat analytics software in the second half of the year, which it says has a shorter sales cycle and should "deliver significant recurring software revenue" in 2016.

Airline earnings

Air New Zealand posted a record annual profit of $327m, up 24% from a year earlier, as the airline benefited from lower fuel costs, strong demand and cost control. Operating revenue rose 6% to $4.93b. Lower fuel costs delivered a $120m benefit and is expected to provide $300m of savings in the year ahead, partly thanks to hedging. The results gave the company the room to declare an improved tax-paid dividend of 9.5 cents a share, making 16 cents for the year. The result included a $29m loss on its 26% stake in **Virgin Australia**. Air NZ faces more competition on domestic routes when **Jetstar** enters the market later this year and has already announced price cuts in anticipation.

Healthcare growth

Ebos Group continues to show the benefits of its transformative 2013 purchase of Australian drugs wholesaler and distributor **Symbion**, posting a 2015 profit gain of 15% as revenue topped $6b for the first time. Sales and margins improved in both its healthcare and animal care divisions, led by Australian healthcare. Ceo Patrick Davies says the company's existing debt facilities, cash flow and shareholder support means it can make acquisitions even while raising dividends.

Construction glass

Metro Performance Glass, which had one of 2014's more popular share floats, says first-half profit will miss its prospectus forecast because of what it said were capacity constraints in NZ's construction industry. Profit would be $10m to $11m in the six months to Sept 30, missing a forecast of $12.1m, chairman John Goulter has told shareholders. Sales would meet forecast at $94.1m. "Industry capacity constraints have led us to believe the current building cycle will last longer but have a lower peak than was anticipated last year at the time of IPO," Goulter said.

Dairy conversions

State-owned farming operator **Landcorp Farming** has found itself apparently at odds with its shareholding ministers about its debt level as it presses on with dairy conversions on its Wairakei Estate in the face of weak dairy prices. Finance Minister Bill English had said the govt was uncomfortable with the level of Landcorp's dairy conversion on the 26,000 hectare estate and PM John Key said there had been discussions between English, State-Owned Enterprises Minister Todd McClay and the Landcorp board. The economic assessment for the Wairakei had assumed a milk price payout of $7/kgMS, almost twice the payout **Fonterra** is projecting this season of $3.85/kgMS. Landcorp ceo Steve Carden had earlier rejected the suggestion that low dairy prices would warrant a review, saying Wairakei was a long-term development. **Landcorp** posted an 84% decline in annual NPAT of $4.9m in the year ended June 30, against $30m a year earlier.

The **spectre of Solid Energy** hangs over the Crown's stewardship of Landcorp, even though its debt-equity ratio is low at 13%. CEO Steve Carden is resisting pressure to delay long term investments, linked to supply contracts, in response to commodity price cycles. He says there is "unlikely to be a dividend this year" and that it "isn't a priority at the moment. It would be an unusual year to be paying a dividend I think for anyone in the farming sector."

Dairy exports

Dairy product prices jumped in the latest GlobalDairyTrade auction, rising for the first time in nearly six months on reduced volume of whole milk powder on offer. Ahead of the auction Fonterra reduced the volume of whole milk powder on offer by about 34% compared with its earlier target. Whole milk powder jumped 19.1% to US$1,856 a tonne. Whole milk powder futures had surged by almost 50% after Fonterra announced the cut to volumes. Rabobank says dairy prices are due a substantial recovery by mid-2016 as lower milk prices in China reduce its domestic production, and weaker international commodity prices reduce supply growth from the US and EU. Costs of getting milk powder to market may reduce as a result of Port of Tauranga's Coda joint venture with Kotahi, the logistics company owned by Fonterra and Silver Fern Farms. Ceo Mark Cairns says Tauranga now handles 97% of North Island dairy exports under arrangements that have slashed the number of empty containers and trucks between Auckland and Palmerston North, and the number of containers being sent empty overseas. **Tauranga's annual profit** growth slowed to 1% as log export volumes, which drove growth in 2014, declined, leaving total export volumes unchanged. Revenue growth also stalled. Dairy export volumes across Tauranga's wharves rose 12.6% to 1.75m tonnes in the 2015 financial year.

Value sent offshore

A government-commissioned Coriolis research report says most of the end value of NZ's dairy ingredients is captured by foreign-owned firms beyond the border. The report uses a carton of UHT milk to show how value goes offshore. Of the $1.73 price in a Southeast Asian store, the retailer gets 28 cents and consumer tax takes 21 cents. The Southeast Asian manufacturer gets 92 cents, while freight and insurance account for 2 cents. The NZ dairy processor and dairy farmer get just 13 cents and 18 cents respectively.

Manufacturing, services, confidence

Dairy's downturn contributed to slowing growth in both the manufacturing and services sectors in July. The BNZ-BusinessNZ performance of manufacturing index (PMI) fell to 53.5 last month from 55.1 in June, and was down from 54.1 a year earlier. The PSI measure of activity in NZ's service sector, which accounts for two-thirds of the economy, fell 1.6 points to 56.5 in July, the lowest level since Feb. Dairy may also have contributed to a slide in consumer confidence, which fell for a fourth month in Aug to the lowest level in three years. The ANZ Roy Morgan consumer confidence index fell to 109.8 in Aug from 113.9 in July, the lowest level since mid-2012. Still, a separate Roy Morgan political poll taken earlier this month showed 54% of those survey said NZ was heading in the right direction, up 3 points from the previous poll.

Credit card spending

NZ spending on credit cards rose for a seventh month in July, recording the biggest annual gain since Jan 2008, before the global financial crisis set in. Total billings rose 1.7% to a seasonally adjusted $3.23b in July from June, and were 9.7% higher than the same month a year earlier, Reserve Bank data showed. Total advances outstanding rose an annual 5.7% to $6.44b. Govt figures this month showed the value of spending on electronic cards rose 6.8% to $6.26b in July from a year earlier, with core retail spending up 6.6%.

A2 in play

An insider trading investigation into US-based **Dean Foods** may have ended its involvement with Australian-based **Freedom Foods** in a potential takeover of specialty milk marketer **A2 Milk**. Dean and Freedom Foods, which is a major supplier to A2, put forward an expression of interest in A2 in June, although the offer amount was undisclosed. The A2 Milk board replied last month that it wasn't compelling enough and talks since have stalled. Australian reports suggest Dean Foods was distracted by an insider trading investigation launched by US federal authorities. The Wall Street Journal reported there were investigations into whether former Dean Foods chairman Tom Davis leaked inside information about a corporate spin-off to professional gambler William T Walters, who in turn, may have tipped off championship golfer Phil Mickelson. A2, meanwhile, has turned in an annual loss of $2.1m from a year-earlier profit of $10,000, reflecting investment in offshore growth and costs from its ASX listing.

Media companies

APN News & Media is taking its first step toward a digital subscription model for its flagship website, the NZ Herald, and plans to roll out registrations before the end of the year. The company's first-half profit declined 67% on one-time costs, largely related to the loss of an outdoor advertising contract in Hong Kong with Buzplay. Stripping out the exceptional items, profit rose 5.5%. It gave no update on plans to spin off its NZ assets in an IPO, having grouped them under the banner NZME. **Fairfax Media's** NZ business reported a decline in full-year sales and a 12% drop in earnings as it focused on cost control and building its digital market share in the face of weaker advertising and circulation. Parent company net profit fell 3.9%. **TVNZ** reported full year NPAT of $28.1m, up 55% on a 2.9% revenue decline at $350m, of which ad revenue was $314m, down 1.9% on the year.

LEGISLATION

Bills Introduced

Affordable Healthcare Bill: *Member's bill in the name of NZ First MP Barbara Stewart. Would require Parent Category migrants to have health insurance on arrival and to maintain it for 10 years; remove fringe benefit tax from health insurance; introduces a SuperGold card health insurance premium rebate.*

Agricultural Compounds and Veterinary Medicines Amendment Bill: *Introduced on Aug 11. Extends protection for confidential information given in an application registering an innovative trade name product from five to eight years, and expands the scope of data protection coverage.*

Electricity Industry (Small-Scale Renewable Distributed Generation) Amendment Bill: *Member's bill in the name of Green MP Gareth Hughes drawn from the ballot on Aug 13. Intended to encourage small-scale renewable electricity generation by mandating micro-generators' ability to sell surplus energy back to the grid.*

Employment Standards Legislation Bill: *Omnibus bill introduced Aug 13 making numerous amendments to employment law, including parental leave, employment relations, holidays and minimum wages. Expands the coverage and flexibility of parental leave, including "stay in touch" provisions. Provides for stronger enforcement of employment standards, includes tougher penalties and extends accountability for breaches.* ***Includes "zero hours"*** *contracts and unreasonable wage deductions policy changes. Prohibits employers requiring employees to be available for work over the contracted hours unless employees are able to refuse any work offered or the agreement provides compensation for availability. Bans cancelling shifts without reasonable notice or compensation. Awaiting first reading.*

Keep Kiwibank Bill: *Member's bill in the name of Labour MP Clayton Cosgrove. Would require any proposal to partly or wholly privatise Kiwibank to have the support of 75% of MPs or the support of a majority of voters in a referendum.*

Sale and Supply of Alcohol (Extended licensing hours during Rugby World Cup) Bill: *Member's bill in the name of ACT MP David Seymour. Grants extended licensing hours so licensed premises can open for the broadcast of Rugby World Cup matches without a special licence. Greens, Maori Party and a small number of Labour MPs opposed.*

Taxation (Bright-line Test for Residential Land) Bill: *Introduced Aug 25. Proposes a new "bright-line" test, requiring income tax to be paid on any gains from residential property purchased and sold within two years, with some exceptions, including the sale of an owner's main home, inherited property, or the transfer of property in a relationship settlement.*

Bills In Progress

Health and Safety Reform Bill: Described by the govt as the biggest health and safety reforms in 20 years. It intends to put more onus and legal requirements on managers and company directors to manage risks and keep their workers safe. Also establishes stronger penalties, enforcement tools, graduated offence categories and court powers. The bill will be followed by two phases of regulations, expected to be released for consultation later this year. *The bill has become controversial over delayed reportback, alleged "watering down" and a politically mishandled release of 'high risk' categories. Committee stage began on Aug 18 with govt revealing regulations laying out exemptions. The debate made it clear there was wide support for large parts of the bill, but Labour and the Greens in particular were unhappy with the exceptions for mandatory health and safety representatives in some workplaces. Peter Dunne and Maori Party remained in support after negotiating some changes. Committee stage completed after 14 hours of debate on Aug 25.*

Health Practitioners (Replacement of Statutory References to Medical Practitioners) Bill: Amends statutes to increase the range of functions that can be performed by health practitioners by changing references to medical practitioners to health practitioners. Introduced June 26 with interrupted first reading debate on July 23. All parties indicated support. *Completed first reading Aug 19 and sent to the Health Committee for consideration with a report due back by Feb 18.*

Minimum Wage (Contractor Remuneration) Amendment Bill: A bill in the name of Labour MP David Parker drawn from the ballot on June 4. Provides for contractors to be paid not less than the minimum wage. First reading debate interrupted on July 22 and completed on Aug 12. *National opposed, despite agreement in principle, fearing negative unintended consequences. Referred to the Transport and Industrial Relations Committee for consideration by 61 to 60. Submissions close on Sept 29 with a report due by Feb 12.*

Radiation Safety Bill: Repeals and replaces the Radiation Protection Act 1965. First reading debate March 10 and sent to the Health Committee with a report back date of Sept 10. *Reported back with mainly technical amendments on Aug 19.*

Social Housing Reform (Transaction Mandate) Bill: Introduced on July 1. Gives ministers authority to transfer Housing NZ properties and act on the behalf of the corporation or any of its subsidiaries. *First reading on Aug 18 and sent to the Social Services Committee. Strongly opposed by Opposition Parties on grounds of "privatisation" and exemptions for housing sales from the Public Works Act and other "offer back" provisions. Report due by Feb 18.*

Tariff (Free Trade Agreement between New Zealand and the Republic of Korea) Amendment Bill: Amends law as part of the implementation and ratification of the Free Trade Agreement between NZ and the Republic of Korea agreed in Seoul, Korea, on 23 March 2015. *Reported back on July 30 without amendment or dissent.*

Taxation (Land Information and Offshore Persons Information) Bill: Introduced June 22. Received its first reading on June 25. Authorises some of the Budget 2015 property purchase and tax rule changes. Any "offshore person" buying a second home would have to provide an IRD number and bank account details. *Reported back on Aug 14 with a number of changes, mostly around the definitions of "main home", "offshore person", as well as rules about exemptions and what information should be collected. Labour indicated support despite concerns it created too many loopholes while also imposing unnecessary compliance costs.*

Bills Passed

New Zealand Flag Referendums Bill: First reading March 13. Sets up a process for holding of two postal referendums on the New Zealand Flag. The first will determine which alternative flag design is preferred by voters, and the second will determine whether that alternative flag or the current flag is to be the NZ Flag. *Completed its second reading July 28 with Labour, Greens and NZ First voting against with the govt giving the bill a high priority. Committee stage interrupted on July 29 with the govt indicated the bill's passage will be given priority. Third reading completed Aug 13 with National, Maori Party, ACT and United Future in favour.*

PO Box 25120, Featherston Street, Wellington 6146, New Zealand
PHONE 04 385 6249 EMAIL hugo@thehugogroup.com **www.thehugogroup.com**
THE HUGO GROUP