HUGOvision

Assessing the economic and political environment in New Zealand

October 9 2015 | Confidential to HUGO members

TPP – big win, big political headache **Page 2**

It's a moot point whether the TPP is a bigger political headache for the govt or the Labour Party. Entrenched opposition to the deal, especially on the political left, could force Labour to oppose a trade deal it would normally support. It risks being exposed to an economic vandalism narrative.

TPP timeline – not much needed from NZ Parliament **Page 2**

Fitch Ratings says TPP will have a long term positive impact on regional economic integration, but it's not a game-changer with little in the way of a short term boost. It will likely take a couple of years to ratify among member nations. The legislation required for NZ is minimal.

Science revamp focuses further on commercial impact **Page 3**

The govt wants private sector r&d to double in the next decade and for NZ's total science effort to push to 2% of GDP from a little over 1% at present – low by OECD standards. One of the ways it will do that is by requiring CRIs to take an even more commercial approach than at present. It would like less of the total R&D effort in agriculture to be govt-funded.

Govt increasingly focused on ICT sector's potential **Page 5**

The govt continued to roll out its refreshed Business Growth Agenda, which it is frustrated is generating very little media interest. The innovation chapter gives new insights into the govt's willingness to support apparently winning sectors, with ICT particularly favoured.

A hiatus for economic sentiment **Page 6**

Dairy prices have rebounded 63% from their low point in August and sit well above where the RBNZ assumed they would be by now. Meanwhile, business sentiment remains weaker than in the last year or two, but it's holding up, according to recent surveys. The case for interest rate cuts is getting weaker.

Napier-Gisborne line – KiwiRail assesses tenders **Page 6**

KiwiRail is giving itself more time to consider tenders from would-be operators of the Napier-Gisborne line, in an environment where sentiment about the 'true value of rail to NZ Inc' may be shifting. A low-cost first start would be a log train on the line between Napier and Wairoa.

Meanwhile, in Beijing **Page 4**

Little-noted by local media was the substance of Defence Minister Gerry Brownlee's recent trip to China, such was the impulse to report only on his efforts to secure two pandas for Wellington Zoo. In a carefully worded speech to the Defence University in Beijing, he outlined ground-breaking depth in the China-NZ military relationship.

Text finalised October 9

Labour's TPP choice: wreckers or builders?

Labour faces difficult choices if, as appears likely, the TPP clauses relating to restricting foreign ownership fall outside the party's five 'bottom lines'.

It can't stop legislation being passed, since the govt can rely on both ACT and United Future for a majority *(see item on timelines).* But if it promises to unpick elements of TPP after a change of govt, it would place strains on NZ's commitment to the deal and effectively signal an end to the traditional bi-partisanship that has underpinned NZ trade policy for decades, and was most aptly demonstrated by Helen Clark's pro-TPP intervention last week.

The most significant issue is Labour's fear that the investment chapter will unduly limit future govts' ability to regulate sensitive land sales. While Labour has carefully kept the word 'ban' out of its official policy statements, Phil Twyford wants to introduce an Aust-style 'ban' on residential property sales to foreign buyers unless they build a new house. That would not appear to be possible, based on MFAT notes summarising the deal.

They say that **"existing regulations inconsistent with TPP obligations are carved out of the agreement. NZ will therefore continue to screen foreign purchases of sensitive land, including farmland, through the Overseas Investment Office and require that these meet a 'benefit to NZ' test."**

"The non-discrimination provisions in TPP would prevent the govt banning TPP nationals from buying property in NZ. NZ retains the ability, however, to impose some types of new, discriminatory taxes on property."

Raising the threshold for regulatory oversight on such transactions from US$100m to US$200m also means a much larger number of land sales can slip under the regulatory radar than do at present. There is plenty of political mileage in NZ for any party opposing this outcome. But **would Labour really vote down a deal that promises market access to previously closed markets in the world's first and third largest economies – the US and Japan – which have steadfastly kept the door closed on a bi-lateral FTA with NZ over many years?** It's hard to imagine Phil Goff, Clayton Cosgrove or Damien O'Connor supporting such a stance.

There may be wriggle room in practice. Last month's decision not to allow the Lochinver farm purchase to proceed demonstrates that ministers have discretion to act against the recommendations of the OIO.

Labour's other problem is whether it will judge the TPP deal as having delivered "meaningful gains for farmers". The TPP deal has clearly under-delivered for the dairy sector, but not for others. Labour cannot look at dairy farmers alone.

Other bottom lines met

On **Labour's other bottom lines:** the deal is far weaker than the pharmaceutical sector sought and it appears the **impact on Pharmac will be minimal**, especially compared to early claims it would have to be dismantled. Labour's requirement that Pharmac be protected appears to be met. Likewise, **a special carve-out for NZ recognises govts' obligation to honour the Treaty of Waitangi.** Its fifth bottom line relates to **protecting govts' rights to regulate in the public interest without threat of being sued under investor state dispute settlement provisions**. Despite a lot of arm-waving, the threat appears minor.

For Labour, the political calculus will become this: **does it side with the negativity of the TPP opponents and potentially kill a deal that will benefit many NZ industries and jobs,** or will find a path that allows it to be both positive about the economic opportunity and staunch on the public interest concerns the TPP undoubtedly raises?

Union position crucial

The position of the trade unions will be difficult to manage. There is strong anti-TPP sentiment, but the movement itself suffers from a dearth of talented or fresh leadership. The death of CTU general-secretary Peter Conway and the retirement of its president, Helen Kelly, who is terminally ill, has exposed how parlous union leadership has become. This week's merger of the EPMU and Service and Food Workers Union is as much a reflection of retrenchment as solidarity.

TPP timeline from here

Barack Obama will release the full text within 30 days under a 90 day notice-giving process ahead of a Congressional vote to allow the text to go forward.

Under 'fast track authority', **Congress can only vote the treaty up or down. It can't change the content.** It's likely that lobbyists will be trying to use these last few days prior to public release to massage the text during the legal 'scrubbing' process that officials are now undertaking.

Reports from Washington trade media suggest **there is huge pressure to get the document into the public domain more quickly than 30 days.** The Congress will vote early next year on whether to allow the text to go forward. That puts the vote in the midst of the US presidential primaries. Obama is expected to have to exhaust another chunk of political capital to get a positive result. Democratic presidential hopeful **Hillary Clinton's opposition to TPP, declared this week, makes his task all the more difficult.**

However, US ratification won't occur until all other signatories have completed their parliamentary processes. That could take two years or more. Reports suggest the treaty will come into effect once at least six countries representing 85% of the region's activity have ratified the deal. That appears to require US ratification, given the relative size of the American economy in TPP.

In NZ, the process is to send the text to a select committee, along with a national interest analysis prepared by officials, for public submissions. This is likely to spark ferocious contributions from opponents. It will be interesting to see whether TPP supporters, including govt ministers, are any more adept at building the case for the agreement once the text is public than when it was secret. The auguries to date are not strong.

The whole text does not automatically go up for parliamentary debate. Leave could be sought for a wider debate, but technically, **only those parts of the TPP agreement that require legislation will go to the floor of Parliament – and that won't be much.** Identified so far are a small number of tariff changes, along with changes to copyright legislation to extend the standard term from 50 to 70 years.

EU-NZ FTA next?

A formal announcement to start negotiations for an FTA between NZ and the European Union is expected when John Key is in Europe next month.

While no negotiations would be likely to start before 2017, the statement of intent has been a long time coming and is a milestone. The NZ International Business Forum and the Brussels-based European Centre for Political Economy both released reports in the last month advocating the initiative.

ECIPE is arguing the EU must engage more in the Asia-Pacific, should be negotiating FTAs with TPP countries where it doesn't have them, and that the first such effort should be with NZ.

While small, NZ's economy is larger than Peru, which has an FTA with the EU, ECIPE notes.

Science policy revamp

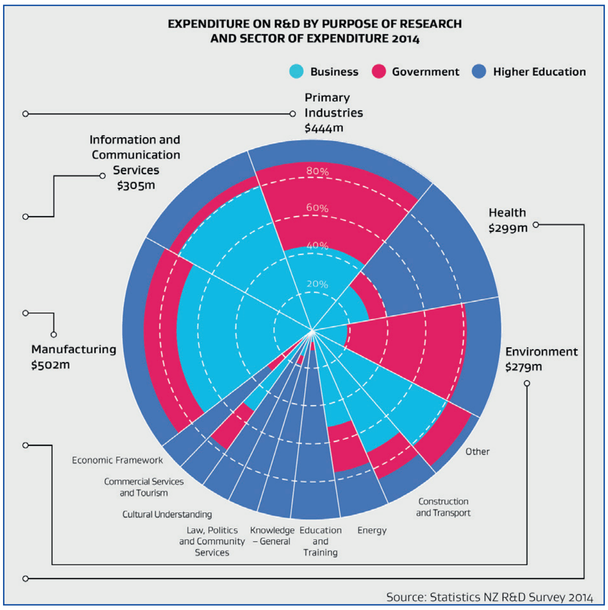
The Govt appears to be applying its philosophy of "creeping privatisation" to the science sector with the Crown Research Institutes facing new pressure to orient their activity to commercially relevant rather than pure scientific discovery.

"Some blue skies research will continue to be conducted in the CRIs, but primarily in areas of interest to their industry partners, and to inform their more applied work," Science and Innovation Minister Steven Joyce's office told us. The CRIs receive bulk funding payment from the Crown each year from a $202m core fund and then compete for contestable science funding allocated by MBIE. Joyce is now reviewing that core funding and calling for bids to set up regional research institutes which will be private non-government research centres.

They will be located outside Auckland, Wellington and Christchurch and modelled along the lines of Nelson's successful **Cawthron Institute.** Ministers enthuse about Cawthron and its science "impact" which means science that business and industry can use. A key change from last year's draft science strategy is its 'pillars" for success are now just two: impact and excellence; instead of seven originally proposed.

In Cawthron's case, much of its $23m budget is met by the fishing, marine and aquaculture industries, making it something of a poster child for the govt's ambition to see private sector R&D rise from 0.5-0.6% of GDP to "well above" 1% of GDP by 2025. At the same time, it envisages a more modest boost to govt funding, from 0.65% of GDP at present to 0.8%. **If NZ R&D effort was at 2% of GDP by 2025, it would be roughly in line with today's OECD average of 2.3%**, but still well below the small, developed economies such as Israel, Denmark and Finland, where policymakers have been seeking inspiration.

Joyce, whose approach continues to raise hackles at the pure science end of the spectrum, says he isn't looking for radical change, but doesn't believe in no change and that resources needed to move to the area where they could be most effectively used. That said,



this is yet another round of restructuring in the science sector, which has been in a state of constant review since National came to power in 2008. Joyce made it clear he wants "blue skies" research to occur mostly in universities.

The govt has set aside **$25m over the next three years to fund the new regional institutes, which will be established and maintained as private or private not-for-profit organisations with independent governance, and are being touted as a kind of regional development policy initiative.**

Note that the govt is also keen to see a higher proportion of private sector R&D contributing to agricultural research, which this regional institute approach may assist *(see graphic on page 3)*.

The new institutes must perform relevant research in support of industry-led efforts to increase their R&D intensity and should develop their own 'in-house' expertise, while working with researchers from other NZ institutions, or from overseas, with new policy focus on improving the opportunities for international collaboration.

New institutes are expected to bring new research activity into the regions whilst meeting Industry Proposals for establishing a new institute must make a business case that demonstrates ongoing financial sustainability beyond initial govt support.

Elsewhere, **the science investment statement foreshadows an increase in the funding available through Callaghan Innovation for direct R&D grants to businesses**, and **a change to the way MBIE funding to bridge the gaps between pure research and potentially commercialisable innovations** is managed to increase its impact.

Auckland housing policy

Calling for proposals for affordable housing to be built on Crown land in Auckland has had an interesting spin-off. It has forced Treasury to undertake some study of the Auckland housing market to determine risks the Crown might face as the developments proceed.

It is this study that led to Finance Minister Bill English's warning that Auckland might face a housing crash within the next eight years. His argument was simple: "When the supply of housing is relatively fixed, shocks to demand – like migration flows increasing sharply as they have recently – are absorbed through higher prices rather than the supply of more houses. Long lead times in the planning process tend to drive prices higher in the upswing of the housing cycle.

"Those lead times increase the risk that eight years later, when additional supply arrives, the demand shock that spurred the additional supply has reversed. The resulting excess supply could produce a price crash." He says that studies in the US after the house price crash that led to the GFC support his argument. A key component in any such scenario for NZ would be the potential impact of a sudden reversal in recent record levels of inward migration. While that is not expected, a less robust economic outlook in NZ or any sustained upturn in sentiment about the Aust economy – the greatest attractor of NZ talent offshore – could alter the rate of immigration growth quickly.

New firsts in China relationship

While the Prime Minister was in New York endorsing President Obama's policies on Syria, Defence Minister Gerry Brownlee was in Beijing. Two academics from Victoria University's Centre for Strategic studies, in a review of Mr Brownlee's major speech to the National Defence University, said it broke new ground with Mr Brownlee calling China a "true strategic partner".

They also refer to a "Five Year Engagement Plan between the PLA and NZDF" which was cited as the first between a Western military and the People's Liberation Army, which Brownlee added to the list of the so-called 'four firsts' that NZ has achieved with China in the political and economic arena, with the FTA the crowning achievement. "The pattern of defence cooperation set out here still comes way short of the deep relationships that New Zealand has with its traditional partners," they say.

"That is, of course, nothing surprising. But this speech is the first time we can recall seeing a Cabinet Minister comparing NZ's defence relations with China and the US."

To underline the point, NZDF this week released PR photos of a joint capacity-building exercise involving the NZDF, PLA, and other allies in recent days on remote Penrhyn, in the Cook Islands.

The speech did contain warnings on cyber warfare and the South China Sea – moves which the academics say would have pleased Washington. Brownlee called on China to show the maturity of a "big country" in its dealings in an area vital to NZ's export sealanes.

Coupled with anecdotal accounts of an increased number of visits to and from Beijing by Defence officials, and it is clear that New Zealand continues to get closer to China.

Whether Brownlee's speech – the week of the TPP negotiations – was intended to be heard as clearly in Atlanta as it was in Beijing is open to debate.

But Trade Minister Tim Groser has in the past warned the US that if it failed on TPP it would begin to lose its ascendancy in the Asia-Pacific.

NZ's position on China and the US is subtly different to Japan and Aust, who are linked to the US by defence alliances. New Zealand thus has more room to manoeuvre between the two super powers.

BGA's digital economy focus

The innovation chapter of the govt's updated Business Growth Agenda singles out the information communications and technology sector for "proving to be an important source of innovation and an engine for economic growth". It cites rapid growth in R&D in the ICT sector as underpinning plans to double private sector R&D and grow exports. Announced in tandem was a policy to raise the target peak speed for rural broadband to at least 50 megabits a second to 99% of the country by 2025, from the current aspiration of just 5 Mbps to almost 98%. The govt has set up a cross-agency Digital Economy Work Programme with goals to attract foreign investment for ICT, build training and career pathways to meet workforce requirements, and promote digital uptake to small business owners. Other new programmes include MBIE working with the private sector to; develop new ICT procurement models; the Department of Prime Minister and Cabinet's review and refresh of the country's cyber-security strategy; Te Puni Kokiri establishing a Maori ICT development fund, and Statistics NZ encouraging the use of data for analytics and innovation through the Data Futures Partnership.

INTERNATIONAL ECONOMY

OECD's global tax proposals

Nearly 90 countries are signed up to the OECD/G20 Base Erosion and Profit Shifting (BEPS) project, which has broad buy in and was commissioned by the G20 countries. It tackles a series of anomalies in tax rules between countries that have allowed multinational companies to minimise their tax without breaking the law. Already, the appeal of tax havens is fading. The BEPS plan would codify global tax rules and force more disclosure on firms operating in multiple countries. Tax jurisdictions would share information, giving them a much clearer view of the total tax a company is paying. That will lead to increased scrutiny, compliance costs and audits in what some are seeing as a victory for red tape. NZ's largest companies with offshore operations will be caught by the new rules if they have total revenue exceeding 750m euros. The rule changes may change corporate behavior. As one international tax expert put it: "Big companies are under the magnifying glass." A paper is expected to be drawn up by IRD on NZ's version of country-to-country reporting and other measures such as preventing "hybrid mismatches and a crackdown on transfer pricing that are as likely to affect NZ companies as multinationals with NZ operations. Harmonisation of standards will take years but the first measures are slated for 2016, targeting a loss of global corporate tax paid of 4% to 10%. Small and medium-sized NZ companies shifting overseas will also need to watch they are not caught by rule changes including a widening of the permanent establishment rule where only a company's demonstrable home base attracts tax of offshore earnings. The govt says no decisions have been made yet and companies will have time to make submissions. Finance Minister Bill English says any benefits would be weighed against increased compliance costs.

RBA on hold

The Reserve Bank of Australia has managed to slow the direction of monetary policy down to a complete stop. Keeping the cash rate at 2%, Governor Glenn Stevens this week released a virtual carbon copy of his statement a month ago, setting out the balance of forces keeping the benchmark rate at a record low. He gave no hint of further cuts, while indicating the economy was in better shape. The Australian dollar had adjusted to weaker commodity prices, the economy was growing at a sustainable pace without igniting inflation. Even though he namechecked Melbourne alongside Sydney as having an overheated housing market, Stevens noted that regulatory measures "are helping to contain risks that may arise from the housing market". Stevens repeated that equity markets were volatile but added that the functioning of financial markets generally hadn't been impaired.

US labour market

US non-farm payrolls for Sept showed a tepid 142,000 jobs were added, against forecasts of above 200,000, and with the previous two months revised lower. The track of the American labour market has discouraged bets on a Federal Reserve rate hike this month or even this year although that is still more likely than not. The payrolls series came after a private survey from the ADP Research Institute showed a 200,000 increase in employment, although with a spotty labour market still weak in areas exposed to the global economy. Fed officials want to normalise monetary policy which has kept the Federal Funds rate near zero since December 2008. If the Fed doesn't have confidence to raise interest rates this year, any hike premium may be priced back out of the greenback.

DOMESTIC ECONOMY

What to make of current economic conditions

A couple of months back, when dairy prices were still plummeting, it seemed as though a sudden confidence crash might be on the cards, perhaps even a recessionary quarter or two.

Now, with the exchange rate much lower and dairy prices rebounding at least recently, the outlook is less clear. We believe that although the RBNZ will cut interest rates another 25 basis points before the end of this year, it probably shouldn't. Inflation is too low, but lower interest rates aren't necessarily going to fix that.

For the hawks, there are some positives: The GDT price index is now 63% above its early August lows, and the RBNZ had revealed that it assumed dairy prices averaging US$1,500 a tonne when putting its forecasts together. Now they are sitting at US$2,824/T. Futures prices are over US$3,000/T suggesting even further upside risk to current prices. Business expectations for activity levels have remained more elevated than might have been expected and suggest GDP growth around 2.75%. Commonly watched indicators, the BNZ Business NZ PMI and PSI and this week's NZIER QSBO all point in the same direction. While house price inflation remains elevated, there is growing talk that the froth may be coming off the top of the Auckland market.

Doves would note that the NZ dollar is currently sitting at 71.2 on a TWI basis. This is almost 5% higher than the RBNZ assumed for Q4 and will put downward pressure on the bank's medium term inflation forecasts, which are already weakening according to the QSBO. Consensus just a fortnight ago was that the US Federal Reserve would cut rates at its December meeting. Commentary is now sliding off that timeline and into early 2016. This week's cut to global growth projections by the IMF, from its previous estimate in July, is a further spur to more dovish sentiment. The IMF now predicts global growth of 3.1% this year, and 3.6% next year. We suggest the environment in NZ is more like Aust's than has been recognised, and that the case for no further rate cuts is growing.

Napier-Gisborne railway tenders

KiwiRail has extended its deadline for considering tenders from parties seeking to run its closed Napier-Gisborne rail link. It was to have made a decision on Thursday, Oct 8, but is now "extending this period, and will make an announcement in due course." The Napier-Gisborne Railway Shortline Establishment Group, a bid backed by the Hawkes Bay Regional Council and Gisborne-based Weatherell Transport, among others, is waiting with bated breath. Under arrangements so far announced, HBRC would invest $5.46m, with costs to get the railway line operating again put at $3.5m to $5m. KiwiRail mothballed the line in 2012 and a washout early this year has made it impassable, without major repairs, between Wairoa and Gisborne. The plan is to reopen the Napier-Wairoa link, a low cost proposition because no major capital spending is required, followed by restoring the link to Gisborne, which will experience a major freight increase as maturing plantation forests are felled. The project group is encouraged by public comments by KiwiRail ceo Peter Reidy suggesting progress in winning Treasury and Ministers to Reidy's "true value of rail to NZ Inc" pitch, which says that value is not be caught by the models currently used to evaluate rail infrastructure. They also worry that KiwiRail may decide it doesn't want the competition. Labour's Stuart Nash is championing the initiative, which he says is tied to the viability of establishing a wood processing 'cluster' in Gisborne, based on mothballed existing plant. Local Govt NZ supports the reopening in its new Mobilising the Regions study.

NZ Steel closes on $50M savings target

Efforts by Bluescope's NZ Steel and Pacific Steel units to find $50m in annual savings appear to be going well. The company announced a new collective agreement with EPMU members on the site, which is expected to save around $12-15m, with blue and white collar restructuring to come. NZ Steel has also been renegotiating supply contracts, including with distressed SOE Solid Energy, which this week announced it was closing its unprofitable Huntly East mine.

Land swap helps Ruataniwha

The Ruataniwha Water Storage Scheme is an important step closer to being possible following a land swap that will allow the scheme to flood 22 hectares of the Ruahine Forest Park in exchange for 170 ha of private land currently carrying beech forest and regenerating bush.

New ISO 9001 update

A new edition of the international flagship standard ISO 9001 Quality Management Systems – Requirements has been published, following more than 3 years of revisions contributed by more than 90 participating and observing countries to bring the standard up to date with modern needs.

Business confidence

NZ business confidence fell to the lowest level in more than four years in the third quarter with the balance of firms now expecting conditions to deteriorate. A net 9% of businesses in the NZIER's quarterly survey of business opinion see general business conditions getting worse, compared with a net 5% who saw things getting better three months ago. By contrast, firms' perceptions of their own activity got more optimistic with a net 17% seeing better trading ahead, up from 13%. The survey suggested businesses had little price power, in the face of low inflation, with a net 6% cutting prices in the quarter, the lowest reading since June 1999. Retailers have become more optimistic about their sales outlook, and manufacturers are more upbeat about exports, while noting weaker domestic demand. Confidence dropped sharply in the construction sector.

Dairy prices

Milk powder futures traded on the NZX have become a more accurate predictor of prices on the GlobalDairyTrade platform, rightly projecting gains in each of the past four auctions. Whole milk powder (WMP) prices rose 12.9% to US$2,824 a tonne, the highest since late March, although not yet back to the highs of Feb. But the NZX dairy derivatives market indicates WMP will reach US$3,000 a tonne before the end of 2015 and remain above that level, regarded as breakeven for many farms, for the rest of the season. The AgriHQ 2015-16 Farmgate Milk Price, which tries to plot the future path of the milk payout, rose 74 cents to $5.39 per kilogram milksolids – above forecast of $4.60/kgMS. Fonterra is now selling around 70% of its total product through channels other than the GDT, having cut WMP volume by a third in August.

Commodity prices

NZ commodity prices rose 5.5% in Sept, based on the ANZ Commodity Price Index, after a sharp rebound in dairy prices. Dairy prices rose 15% in Sept, ending a five-month decline, with prices for whole and skim milk powders up 21%. ANZ Bank said the recent gains on the GDT platform indicate prices may keep rising, though they're still 24% lower than a year ago. Beef, lamb and log prices fell last month, while aluminium rose 2.5%.

Guaranteed price ends

Fonterra is calling a halt to its guaranteed milk price after three seasons. Price certainty was attractive to some of Fonterra's biggest suppliers, including Landcorp, but it also bred disquiet among some farmers that those who didn't opt for the guaranteed price could end up subsidising those who did. Fonterra scaled back its GMP programme in June as farmers sought to shelter from volatile pricing by offering to supply 45.2m kilograms of milk from 443 farms, exceeding the 40m kgMS the company had made available under the guaranteed price. Farmers can apply for a further 20m kgMS in Dec. When the programme was piloted in the 2013/14 it was the only price risk management tool available for farmers. Landcorp's 2015 operating profit tumbled to $4.9m from $30m, mainly reflecting a sharp drop in the price of milk solids. The year might have proved even more challenging if the company hadn't secured a significant volume of supply to Fonterra under the guaranteed price.

Voting rights

Shareholders of Silver Fern Farms (SFF) are being asked to vote on a 50-50 merger with Shanghai Maling, but the message from the notice of meeting and independent appraisal is that continued support from the meat processor's banks is in no way certain if the deal doesn't get off the ground. Despite slashing debt and projecting it to be relatively low in 2016, the deal is structured to allow SFF to repay all its debt and return surplus funds as a dividend to existing shareholders. But Shanghai Maling would wield the whip hand in some circumstances given the casting vote powers that are envisaged for its co-chairperson as a condition of the deal. The notice of meeting says the Shanghai Maling would be able to exercise a casting vote on approval of the annual business plan, the annual budget, the annual financial statements, dividends and the tenure of the ceo. That sets the meat company up for challenges down the track, if and when the shareholder-farmer side, represented in the new JV with the cooperative, don't concur with the Chinese investor but find they are one vote short to vote it down. SFF directors this week urged shareholders to accept the deal and ignore an undetailed alternative underwriting offer.

Tourist activity

Air NZ has forecast an 85% jump in first-half earnings, driven by lower costs and increased passenger demand. First-half earnings before tax are expected to rise to $400m from $216m a year earlier, excluding Virgin Australia. Chairman Tony Carter says significant earnings growth was achieved in the first quarter on the back of buoyant tourism in NZ, lower fuel costs, and savings from fleet efficiencies. The company is spending $2.6b in the next four years on new aircraft and has ordered another seven Boeing Dreamliners. Average occupancy across its fleet is 85% and overall fleet capacity is expected to rise 11% this year following a 12% increase last year.

NZ investments

The NZ Super Fund believes it has "hometown advantages" in investing in NZ, although the local market doesn't offer much in the way of scale, says ceo Adrian Orr. The fund's 2015 report shows $4.4b of its $29.5b portfolio is invested in NZ, up from $3.7b a year earlier. Domestically it made one major purchase in the past year – an additional 3.2% stake in Kaingaroa Timberlands, bringing its total investment in the North Island forestry business to 42%. "It has been a fantastic investment for us, as have Datacom and Scales," Orr said. "We are continually seeking and being very proactive in NZ for good investment opportunities but any investment still has to stack up with global opportunities." The fund's top-performing investment globally has been its 50:50 deal with Infratil in Z Energy, which cost $209.8m, and has already returned $784m. Its remaining 10% stake is valued at $246m. ACC, which has also tabled its annual report, achieved a surplus of $1.6b, which was $700m ahead of budget but down from $2.1b a year earlier. Future surpluses will be smaller because ACC's scheme is now fully funded and it is only required to set levies at a level to meet the cost of current claims. The return from ACC's $31.4b reserves portfolio was 14.5% in the 12 months ended June 30, compared to a benchmark of 13.9%.

Union merger

The **E tū** union has been inaugurated in Wellington, where delegates gathered to mark the **merger of the Engineering, Printing and Manufacturing Union and the Service and Food Workers Union**. The merger of the two private sector unions was approved when about 50,000 members of each organisation voted to support the amalgamation. National secretary Bill Newson said the merged entity would be in a stronger position to address the changing face of work as new technology continues to replace workers and employment practices embrace the use of casual and contract staff. Union membership has plummeted, helping drive the merger. Private sector union membership has shrunk to about 9% of the workforce, while public sector unionism sits at around 58%, for an overall 13% of the nation's workforce. E tū plans to investigate providing services to the burgeoning number of contractors who can't take collective action but may need help with everything from legal issues to accounting.

Poultry sector

Tegel Foods looks to be headed for an IPO and then an NZX listing, where the purported value for the company would ensure it a place in the NZX 50 Index. Affinity Equity Partners may seek a valuation of $800m for the poultry business it acquired from Pacific Equity Partners in 2011, reportedly for $600m. The company is said to have been pleased with the response from investors on an unofficial roadshow and it has also met Charoen Pokphand Group, Thailand's biggest private company, and JBS, the world's biggest meat processor, as part of the sales process. The company is running short of time to get an IPO away before Christmas. Affinity is being advised by Goldman Sachs and Deutsche Bank. It would ideally be left holding 30% to 35% of Tegel, dependent on take up. Since buying the business in 2011, Affinity has sold property including two long-lease chicken processing plants to buyers, among them Wellington-based Caniwi Capital.

Fishing networks

Sanford has tapped EY chairman Rob McLeod as a director next year, a move that could help forge deeper ties with Maori fishing interests. McLeod, a former chair of Sealord and Aotearoa Fisheries, accepted an invitation to join Auckland-based Sanford's board from Jan 1.

Wool scouring deliberations

Carpet maker Godfrey Hirst has reiterated its opposition to the creation of a wool scouring monopoly in NZ after the Commerce Commission released a second draft determination on a merger between Cavalier Wool Holdings and NZ Wool Services International's two wool scouring operations. The commission repeated its view that the public benefits would outweigh the loss of competition. But Hirst said a monopoly scourer could hike prices as much as 25%. The regulator considered the biggest constraint on prices from a merged business could be scours in China. It cited the experience of Aust, where scouring plants dropped to three in 2009 from 25 in 1995, while volume plunged to 54,000 tonnes of greasy wool, or 14% of total production, from 600,000 tonnes, or 82%, in 1995.

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