HUGOvision

Assessing the economic and political environment in New Zealand

November 6 2015

Confidential to HUGO members

A fourth term RMA agenda emerging

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The govt is approaching the end of the parliamentary year with no sign of the RMA Reform Bill promised in January by Environment Minister Nick Smith. The delay is starting to break down some consensus-making initiatives (p. 4) and a newly ordered Productivity Commission inquiry into urban planning suggests a fourth term National govt would try to split the RMA in two.

Low-key or comatose? Labour's annual conference

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This weekend's national conference of the Labour Party will be judged a success by its organisers if leader Andrew Little emerges unscathed by the kind of ill-discipline that has helped scuttle other under-performing Labour leaders in recent years.

EVs and rail – Simon Bridges and the transport portfolio

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As Energy Minister, Simon Bridges became passionate about the prospects for the oil and gas sector. As Transport Minister, he has become a passionate enough advocate for electric vehicles that a pre-Xmas package of measures is imminent. Whether he will convince more senior Ministers that rail infrastructure should be centrally funded could prove trickier.

Challenge to electricity network owners

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Environmental lobbyists deride the absence of govt subsidies for roof-top solar electricity generation, but the Electricity Authority says current electricity network charging is favouring solar by pushing costs onto all other consumers, despite NZ having abundant sources of cheaper renewable electricity.

A weaker employment quarter

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Weaker employment figures were expected in this week's household labour force survey, but the 0.4% fall in employment was much weaker than the expected 0.4% increase. However, indications are that the NZ economy will continue to produce strong job growth, and wages are moving too.

6.5% p.a. growth target in China's new 5 Year Plan

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Abolishing the one child policy captured global headlines, but other parts of the new plan for the Chinese economy through to 2020 are equally, if not more, important.

Lochinver sold to local investors

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NZ investors have bought the central North Island Lochinver station, put up for sale by Stevenson Group and which ministers prevented from being sold to Chinese investor Shanghai Pengxin for $88m. **A sale price has not been disclosed.** The buyer, Rimanui Farms, is owned by Aucklanders Allan Wadams and Arthur Young, according to the Companies Office. **Shanghai Pengxin says it will persist in seeking a judicial review of the OIO process nonetheless.** The new owners said improving yields for beef and lamb had change their view of the value of the station, which Shanghai Pengxin had earmarked for dairy conversion.

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Labour's low-key annual conference

Labour's conference this weekend has attracted media criticism for being closed for most of its policy debate sessions. That's not all that unusual among political parties. National closes off large parts of its somewhat meaningless annual conference. So do the Greens and NZ First.

But Labour's problem is that its critics have an ingrained instinct to find splits and divisions within its ranks as the party and its leader fail to fire in the polls. They do so also because they are usually rewarded. Andrew Little's current strategy appears to be to tidy up the party. The new president, Auckland University Business School Academic, Nigel Haworth, is an old ally of what used to be the EPMU, the union that Little ran. The new General Secretary is expected to be a former Parliamentary staffer and candidate. The decision to keep Annette King on as deputy has also avoided yet another divisive caucus brawl, although it played publicly as indecisive.

The big issue remains whether or not the party rank and file are ready to go along with Mr Little's subtle shift of the party to the centre. The test for this will be whether they demand a much tougher statement over the TPP than Little has so far made.

In a not-too-subtle post on a blog site, Napier MP Stuart Nash has argued the party must regain an interest in winning elections if it is to accomplish any of its goals instead of white-anting one another in public fora. Citing the left wing blog site "The Standard" as part of the problem, Nash argues that ideologically driven left wing solutions will not assist that process.

Unfortunately, that post had a white-anting appearance and saw an explosion of Labour left vitriol that continues to entertain political media and Labour's opponents.

By watching what has happened to the British Labour Party under Jeremy Corbyn, Labour's leadership will be well aware of the danger of allowing its hard line left wing too much, if any, rope. The political damage to the Australian Labor Party of being seen to undermine Aust's yet-to-be-signed FTA with China is another lesson in the same political conundrum. That's why the doors will be closed on the policy debate sections of this weekend's conference.

Town and Country Planning Act all over again?

Changing the Resource Management Act was always going to take a long time. Now we start to see how long. National came to power in 2008 with reasonably well-developed plans for the RMA. Phase one was uncontroversial and was over in the first term. Phase Two – which wrapped more widely agreed process issues together with controversial proposals to two of the Act's three purpose clauses – has stalled ever since. Proposed changes to Sections 6 and 7, which would reweight environmental and economic considerations in favour of economic prioirities, will not advance in this Parliament because United Future and the Maori Party won't support it. A centre-left govt would almost certainly overturn such reforms anyway.

While an RMA Reform Bill has been awaited all year, and PM John Key indicated only last month that such legislation may emerge in 2015, it is running months behind schedule. So much so that it has prompted speculation as to whether Nick Smith will retain the environment portfolio in the reshuffle that will accompany Tim Groser's appointment as ambassador to Washington, also expected before Christmas.

It was already clear the govt would seek to skin this cat another way, by making greater of National Policy Statements, which can over-ride the key principle sections of the RMA. To that end, an NPS on urban development is scheduled for release next year with direction to "ensure adequate provision of new greenfields and brownfields development".

However, a more fundamental reform impulse lies behind the newly ordered Productivity Commission "first principles" investigation into urban planning. Ministers have been saying for some time that splitting planning law from the environmental elements of the RMA may eventually occur, effectively creating a modern version of the old Town and Country Planning Act. That has been seen as a five to seven year project. Given the commission won't report before the end of next year and that an election would likely prevent major reforms in 2017, that timetable looks as if it could come together under a fourth term National-led govt for passage by 2020.

Dunne digs in on RMA

Meanwhile, United Future's Peter Dunne, who may be a little red-faced when allegations that he is politically cynical appear in a soon to be published book by one of his former MPs, has dug his toes in on the changes to the Resource Management Act. Dunne claims the govt promised in June to produce an exposure draft of the amended RMA, so that he could make a final decision on supporting it. His opposition to changes to Sections 6 and 7 of the Act have been a stumbling block to the stalled reform bill.

He says that he has been told by ministers there is no point unless he can indicate willingness to support some changes. He argues the decision to refer the Act along with the Local Govt Act and the Land Transport Act to the Productivity Commission is the govt's reaction to his unwillingness to support the most controversial of its proposed amendments.

He's almost certainly wrong on that. Prompted by a number of outside voices, the Government has become convinced that the RMA as a concept cannot cope with the scale and scope of housing and infrastructure development that will be needed in Auckland. Hence its desire to have the commission start again.

Rail vs road – a policy shift

KiwiRail appears to be making headway in its campaign to win ministers and officials to the view that the rail operator's commercial performance is being leg-roped by requiring it to own the rail infrastructure that its trains run on.

NZTA has included a new priority in its 2015-19 Statement of Corporate Intent to "integrate road and rail to improve freight network productivity". That effectively replaces the priority in the previous SCI, which emphasised "moving more freight with fewer trucks". KiwiRail chair John Spencer says the company has Transport Minister Simon Bridges's ear in a way not true of his predecessors and the company will try to "strike while the iron is hot".

Whether that means KiwiRail will succeed in winning a change that would see NZTA fund the rail network in tandem with the roading network remains to be seen. There is deep antipathy to that approach among officials, who don't buy the argument that it's unfair rail pays for all its infrastructure while trucks are beneficiaries of subsidies to national highways. The counter-argument is that there are no other users for rail infrastructure than rail operators. Rail is more analogous to a port or airport. Local govt might choose to subsidise either of those, but central govt doesn't. KiwiRail is already suggesting it will be local govt support that keeps some of the most marginal lines open. The bid to reopen at least part of the Napier-Gisborne line for log transport will require substantial backing from the Hawkes Bay Regional Council if it's ever to happen.

Something will have to change. KiwiRail makes an EBIT trading surplus on its freight and passenger services, once infrastructure costs are excluded. But accumulated annual depreciation on the under-used 4,000km rail corridor wipes out profit every year – a situation that will likely never change, KiwiRail says. It relies on capital injections from the Crown, currently sourced from the privatisation sales kitty, the Future Investment Fund. That can't last forever.

EV competition heats up

The Green Party has launched a new policy package to encourage the uptake of electric vehicles, but the govt is hard on its heels.

The Greens would cut fringe benefit tax on company cars for a seven year period, with a potential cost of up to $95m by the end of that period, assuming a 20% penetration of the national vehicle fleet by EVs within that timeframe. The policy expands the Greens' $10m pre-2014 election package, to help fund a national fast-charging network.

Simon Bridges is no fan of direct subsidies and is likely to look miserly by comparison, and may concentrate more on public education, fostering the fast charge network and perhaps a bias towards EVs in the govt fleet as models become available.

The relative competitiveness of EVs means direct subsidies are less necessary than consumer knowledge and, perhaps, a faster depreciation path than a normal car, since the up-front capital cost of an EV is offputting, even when lifetime savings are provable.

Ultimately, what is needed is greater product range and a public perception that charging infrastructure is available. **International experience suggests it's where communities get behind EVs that take-up takes off**. The Northpower experiment, putting fast-charging infrastructure in Whangarei off their own bat, is a good example. Norway and Denmark both discovered such support is more important than central govt support.

From a political perspective, the interesting thing about the competitiveness over EVs is that it puts the National and Green parties in the same policy space, with the same intent. For new co-leader James Shaw, seeking to convince voters that the Greens should eventually be able to work across the political spectrum for green wins, it's hard to think of a better example of working together with National.

Once again, the question might equally be: where is Labour on this politically saleable issue? Even NZ First's Northland MP, Winston Peters, is on the green bandwagon, championing the Northpower EV initiative.

TPP text released; Jane Kelsey scores $600k Marsden funding

The text of the TPP agreement has finally been published after various hold-ups, including the need to brief the incoming Canadian govt and some delay in the legal "scrubbing" process. Trade media in the US are speculating the US Congress may not vote on the TPP until after the US presidential election, in the so-called 'lame duck' session that follows the election and precedes the swearing in of a new president.

The publication coincides with the announcement of a **$600,000 Marsden Fund grant for Prof Jane Kelsey** The University of Auckland Law School to study **"transcending embedded neoliberalism in international economic regulation: options and strategies".**

The NZ govt has now also formally announced the intention to pursue an FTA with the EU from next year, as first reported in the Oct 9 edition of Hugovision.

Reputation management – Westpac vs Hager

Westpac extracted itself from the PR nightmare created by its release of personal banking records belonging to activist writer Nicky Hager, but only when a bow-wave of media – mainstream and social – started to build against its original actions.

The episode is a lesson in reputation management.

Yes, the Privacy Act allows the police to seek the release of private, personal information without a court order. But the bank is also allowed to say 'no'. Westpac's appeal to an undisclosed 'internal policy' that allowed the release inflamed the issue. Media were only placated when informed that this policy had changed. While grumbling that Westpac detailed neither the original nor the altered policy, the story died.

At first, Westpac tried to tough the issue out, hoping an initial lack of media reaction to the Weekend Herald's story, based on affidavits obtained from the High Court by the Scoop website, would continue.

Instead, the story built momentum slowly.

The Privacy Commissioner has already been already investigating the incidence of this kind of document discovery by law enforcement agencies because of concerns it is being too liberally used.

There has been a very large uplift in such requests since the Kim Dotcom raid in early 2012, marking a period of heightened interest in copyright piracy, money laundering, organised crime and terrorism, accompanied by much better cyber-analysis tools. There are some suggestions that Westpac's the decision to release was delegated to a staff member whose tasks may not extend to considering reputation and political risk. If so, that shows a remarkable lack of self-preservation on the govt's banker's part.

ProdCom to investigate tertiary ed

The Productivity Commission will be kept busy next year, with an investigation into global trends in tertiary education added to its brief along with the new project on urban planning.

The commission has until Feb 2017 to report on "new and emerging models of tertiary education", with ministers concerned they don't understand enough about what value tertiary education is creating for the billions spent supporting it.

NZ universities are notable for having no academic presence in other countries, unlike many other developed economies, whose universities have invested both in bricks and mortar offshore and in distance learning.

The commission is to consider "how changes, in technology, costs, and internationalisation, might change the way we fund, organise and deliver tertiary education and training in the future." Polytechs, PTEs and wananga will also be covered.

Collaborative model under strain

The govt's experiment in collaborative environmental decision-making is under strain following the withdrawal of support for two key initiatives by environmental lobby groups.

The Fish & Game Council has left the Land and Water Forum, complaining the govt has acted on too little of the forum's recommended agenda and claiming an inability to advocate strongly while staying inside the consensual tent. In a similar move, Forest & Bird has declined to support the creation of a trust to foster environmental initiatives related to the Mackenzie Accord, signed three years ago to allow dairying in the high country Mackenzie area to be explored.

The Fish & Game withdrawal is the more serious knock, as it may become a spur to other LAWF members to peel off. Sources close to the LAWF say they hope that won't happen, but can't guarantee the activist instinct among some of the lobbies involved in the forum won't want to go the same way as F&G's Bryce Johnson.

An old-style combative lobbyist, Johnson was never comfortable with the consensus-making approach, which can act effectively to muzzle criticism in pursuit of a commonly agreed approach. He had asserted F&G was no more than an "active observer" in recent months – a position rejected by the LAWF, which argued this status was only available to central and local govt officials, who by the nature of their positions could not be bound to LAWF outcomes.

The forum is due to report again on progress on more than 200 recommendations for a new freshwater management regime, of which some 15 have been implemented to date. While that may look unimpressive, it ignores the fact that a National Policy Statement, National Objectives Framework and a new freshwater reporting regime – fundamental elements of a new policy framework – are all now in place as a result of the LAWF process.

Smith may be reaping the consequences of the govt's failure to get legislation amending the RMA into the House this year. One of the areas of reform promised by Smith in January was to enshrine collaborative processes in law. Without that legislative guidance, the door has remained open for detractors to walk away from the collaborative processes already under way.

Challenge to electricity networks

The Electricity Authority is pushing monopoly electricity networks to consider reforming their approach to network access charges because of the way current practice offers an effective subsidy to households installing solar PV units.

Based on NZIER analysis, which assumes in a high uptake case that PV installations could rise from 0.1% of consumers today to 40% within a decade, the EA warns that between $2.7b and $5b could be spent on PV installations that are not truly competitive with other renewable electricity generation.

The EA is concerned the environmental appeal of solar PV, which many consumers augment with a desire to be rid of their connection to a traditional power supplier, will over-ride economic commonsense. The reality is that hydro, wind and geothermal renewable energy is available at between 8c and 10c per kilowatt hour, whereas solar PV is still around 26c/kwH, notwithstanding plummeting prices in recent years.

An EA discussion paper, which is open for comment until February, suggests lower income electricity users who can't afford the up-front cost of solar PV will end up bearing costs that PV generators will avoid under current charging regimes.

At present, most network access is split between a fixed daily charge and a charge based on total consumption. The EA says it's time, assisted by smart meters, to start charging dynamically, based on peak and off-peak load, to incentivise electricity consumers to access the electricity network when it's most economic to do so. This should save the networks major capex over time, and keep line charges lower. Opportunities for doing so are on the rise with the combination of improving battery technology, smart meters, and the emerging potential of electric vehicles, which can be charged during off-peak periods. Without a shift to discourage peak period network use, there's a risk network companies will end up spending far more on infrastructure to meet peak load than would be necessary and that a diminishing number of network users will pay a higher cost for access.

The argument is a hard one to make politically, except when framed as an inequality issue. Even then, there is a deep disconnect in the public mind between the instinctive appeal of rooftop, grid-free solar power and the reality that 80% or more of NZ's electricity is already coming from far less costly renewable sources.

Either way, this emerging dynamic spells downward pressure for both gen-tailers and network owners on their prices, irrespective of the EA's success in reforming the approach to current charging.

To help think about this new world of competition, **Contact Energy has appointed Xero NZ m.d. Victoria Crone to its board**, as part of the current rejuvenation following the selldown by former majority shareholder Origin Energy.

Local govt changes

Paula Bennett's announcement of new local govt legislation next year will please Local Government NZ, which has been lobbying for the ability to form regional line-ups to create Council Controlled Organisations to deal with the looming infrastructure replacement programme that will need to take place in many parts of New Zealand. But the probability that cost containment of new infrastructure will also require more aggressive demand management, probably using meters and user-pays charges, means there will be considerable consumer resistance new CCOs. Bennett has already rejected any suggestion of CCOs being able to be privatised without separate legislation.

Maori are also sitting on the side-lines, ready to pounce if they believe new water arrangements become too commercial without allowing sufficient opportunity for iwi interests, which are a combination of commercial, cultural and environmental.

Bennett's announcement underlines how much influence LGNZ is starting to have with central govt, assisted in part by research from the NZ Initiative think-tank.

It is increasingly lining up alongside organisations like the NZ Infrastructure Council, a prime mover in the Prod Com inquiry into urban planning.

Weaker Sept 1/4 labour market

The labour market slowed abruptly in Q3, but it looks unlikely that this was a permanent stall, even if the unemployment rate rises, as expected. The latest quarter may reflect the sudden freeze on sentiment created by the plunge in global dairy prices during the period. Dairy prices have since stabilised and turned around somewhat, boosting sentiment.

It's looking increasing likely that employment will find its feet in Q4 and keep expanding at reasonable rate in the New Year, even though job creation is less likely to keep pace with net inward migration and high labour market participation rates in a cooler economic environment in 2016.

On that basis, unemployment is likely to keep rising above 6% and could hit 7% and stall there through to election year, notwithstanding underlying labour market strength. This will be a political headache for the govt, but won't be a fair reflection of what should still be reasonably strong employment conditions.

That said, this week's 0.4% fall in total employment was a surprise. Market consensus was for a 0.4% increase. Less part-time work caused the drop, with full-time employment rising 0.2% in the quarter.

It's also important to note that the drop in the labour force participation rate – to 68.6%from 69.3% – was not trivial, although it remains high by OECD standards and well above Aust.

The **Labour Cost Index** figures also released this week show wage growth is occurring, despite the flood of available workers in recent times. At 1.7%, annual LCI inflation is consistent with the 1.0 to 3.0% target band on CPI inflation.

Nominal wage and salary measures were still running around the 3% per annum mark in Q3, which represents solid growth. Wage inflation will be something to keep an eye on, for any slack it starts to convey about the labour market.

The weakness evident in the Sept 1/4 figures argue, if anything, more strongly for an OCR cut at the RBNZ's December monetary policy statement.

House price inflation

Auckland house price inflation does appear to be slackening, if realtor Barfoot & Thompson's figures are a guide. New buyer identification requirements for foreign buyers started on Oct 1 and new macro-prudential rules for Auckland purchases from Nov 1. While B&T showed a 14.1% rise in Auckland average prices for the year to Oct, the increase in the last three months was only 1.5%.

Moderate global growth in 2016

As a year of patchy global growth, widespread disinflation, and commodity market bloodbaths draws to a close, the global outlook for 2016 already looks fairly similar. Inflation may edge higher, particularly as the plunge in global oil prices works its way out of the statistics, but is likely still to be low and disinflationary impulses will continue. Globally, central banks are likely to maintain growth-enhancing "accommodative" monetary policy settings, although the US Federal Reserve must be assumed to raise interest rates at some time in the next six months, if not in December.

However, slower, lower rate hikes are likely to be favoured in the US, while the sluggish record from the EU may start to turn, with monetary and fiscal policy settings easing and a recovery in the credit cycle.

China's growth rate looks likely to continue to decelerate, but Beijing's ability to control the pace is still assumed. Emerging markets growth is likely to remain on the weaker trend seen in 2015.

Beijing's new 5 Year Plan

Global headlines focused on the abolition of China's one child policy as the most significant element of a newly announced 5 Year Plan from Beijing. The FYP contained other important economic and social goals, including: **6.5% annual growth targeted in the next five years**. Lower than the 7%-plus of recent years, but consistent with a much larger economy continuing to urbanise and a switch from infrastructure to consumption spending. That growth rate implies a doubling in per capita income by 2020 from 2010 levels.

Environmental protection and clean-up are high on the agenda. Coal will remain a fundamental input to the Chinese energy mix, but there will be focus on non-fossil fuel energy, new energy products, an environment tax, and action on pollution, which is a source of political unrest as well.

In social policy, an **updated minimum wage system**, free secondary education for poor children and **more of a social safety net**, with pension and serious illness insurance to cover the whole Chinese population.

"One Belt, One Road" is serious. China will continue to integrate into the global economy. NZ is on one of serveral maritime "roads" that China will seek to develop, along with ambitious Eurasian transport and supply chain initiatives. **Free trade zones, regional FTAs, and more active engagement in global economic governance also feature.**

Business sentiment

A return to optimism among companies surveyed for the ANZ Business Outlook in Oct may reflect more than the rebound in dairy prices from their lows in Aug. The services sector was the most buoyant in almost eight years in Sept, and the combined PSI and PMI pointed to annual GDP growth of about 3.5%, according to a BNZ estimate. BNZ ceo Anthony Healy says the lender has seen a pickup in demand for business credit, which he expects will extend into 2016. The ANZ monthly survey showed a net 11% of firms were optimistic about the general outlook for the economy over the coming year, an improvement from the previous month, when a net 19% of firms were pessimistic. A net 24% of firms saw their own activity expanding in the coming year, up from a net 17% in Sept. The prognosis of the Reserve Bank is that the economy is generally in good health, although somewhat hostage to the primary sector, the Auckland property market, and a trade-weighted index that hasn't fallen as it projected in its Sept policy statement, when it also lowered its track for GDP growth in the near term.

Convention centre contract

Fletcher Building's long-term relationship with SkyCity has paid dividends again with the award of the $477m contract to build the convention centre, five-star hotel and associated infrastructure. The relationship between SkyCity and Fletcher began when the construction firm developed the original SkyCity site, Sky Tower and Grand Hotel. The two companies have entered a binding commitment and expect to sign actual building work contracts this month. The 38-month build is expected to get under way by Christmas. SkyCity says it amounts to a $700m total investment in the Auckland economy. SkyCity is also exploring property-related funding options including the possible sale of its Federal Street carpark and is seeking external investors to fund and ultimately own the hotel. It has appointed JLL to help find investors for the hotel and expects to release an information memorandum this month. Under SkyCity's deal with the govt, its increased gaming concessions come into effect once the building contract for the convention centre is signed. It gets 230 new electronic gaming machines, 240 new automated table games and 40 new tables. It will also be able to expand its gaming to include the Federal Street 'footprint', including the Grand Hotel and convention centre, and gets a gaming venue licence extension to 2048 from 2021.

Kupe reserves

NZ Oil & Gas has lifted the estimate of its developed reserves in its 15%-owned Kupe field by almost 35%, based on production data and modelling from field operator Origin Energy. NZOG's 2P developed reserves, those with at least a 50% chance of being technically and economically viable, are 5.6 million barrels of oil equivalent as at Oct 1, from 4.2 mboe. Light oil reserves were revised up to 1 million barrels from 700,000, LPG was lifted to 97.4 kilotonnes from 75.7 KT and gas to 23.3 PJ from 17.4 PJ. The upgrade is good news for Origin, with a 50% interest in Kupe, Genesis Energy with 31% and Mitsui with 4%. NZOG ceo Andrew Knight said adding volume from the existing development wouldn't require additional capex. NZOG's undeveloped reserves of 3.2 million barrels in Kupe are currently the subject of further work, to assess options for developing further potential reserves. It will provide a complete update on developed and undeveloped reserves in the second quarter of 2016. NZOG earned $62.5m from Kupe in the 2015 financial year.

Spark drops plans to hike fees

Spark NZ backtracked on plans to raise its pool for directors' fees by 5% after a pushback by shareholders and general discontent over increased board payments. The telecommunications retailer dropped a resolution seeking to lift the pool by $80,000 to $1.58m a week out from its annual meeting saying "current sensitivity regarding director fee increases meant some had expressed concern." Other companies seeking to raise their directors' fees have been criticised by shareholders in the latest annual meeting season. Spark said the increase was justified given the company's progress in overhauling its business to a digital services-focused group and away from a traditional infrastructure operator. The company hasn't raised the fee pool in a decade, though it maintained the $1.5m level after carving out its regulated network business Chorus as a standalone company in 2011.

RBNZ waits and watches

The Reserve Bank is waiting to see whether the NZ dollar will lose its recent momentum before it decides to cut the official cash rate, having paused at last month's review. Governor Graeme Wheeler kept the benchmark rate at 2.75%, reiterating another reduction was likely, though it would depend on future economic data. The NZ dollar gained in the wake of his announcement, with traders deciding they had more time before they needed to sell the currency after Wheeler said it was "appropriate at present to watch and wait," ignoring his warning that sustained strength in the kiwi would warrant a lower interest rate track than previously signalled. The bank also published a research paper saying policy decisions can't be based on inflation outcomes alone, as that misses unexpected events that influence consumer prices and ignores the governor's mandate to manipulate the speed of bringing inflation back to the 2% midpoint target.

MTF still in play

Dunedin-based auto-lender Motor Trade Finance is still in play after financial services firm Turners lifted its stake to 7.6% in an offer to buy up to a fifth of the company. Turners is in talks with some shareholders who no longer write loans through MTF but still have to own stock as existing debt ran off, but has so far failed to build a blocking stake in the auto-lender after offering $1.15 a share. Heartland NZ intends to make a counter offer of $1.50 a share for between 10% and 20% of MTF with a view to mounting a full takeover offer, but wants to wait until the outcome of a Supreme Court hearing over whether MTF faces any liability for excess fees charged on 39 historic loans.

Bank profits

The big four Australian-owned banks managed to boost their annual earnings 4.8% in the latest financial year, as their interest margins came under pressure in a hotly contested mortgage market. Cash earnings across Westpac, ANZ, BNZ and ASB rose to $4.42b from $4.21b, with all four lenders citing the tension between mortgage competition and low interest rates reducing their cost of funding when reporting their results. ANZ, the country's biggest lender, reported the smallest growth, lifting earnings just 0.3% to $1.69b, and was the only major bank post a decline in net interest margins. ASB Bank, which reports on a June year rather than a Sept one like the other three, posted a 9% gain in earnings to $846m, followed by a 7.9% increase at BNZ to $966m, and a 6% rise for Westpac to $916m. The size of the lenders' earnings attracted criticism from opposition MPs claiming that profit was repatriated to the Australian owners, though the local banks haven't said how much they paid in dividends to their shareholders.

Foreign land purchases

Canada's Public Sector Pension Investment Board, whose NZ assets include 30% of Kaingaroa forest, doesn't appear to have faced the same level of public scrutiny as Shanghai Pengxin in expanding its dairy farm portfolio. The Canadian pension fund known as PSP Investments got approval to buy a 280 ha dairy farm near Oxford in North Canterbury in Sept, the same month the govt overruled the Overseas Investment Office to decline Shanghai Pengxin's $88m purchase of Lochinver Station. An Auckland firm, Rimanui Farms, has now bought Lochinver for an undisclosed sum. PSP met the test of a substantial and identifiable benefit to NZ with undertakings to create jobs, lift production and boost export receipts. The OIO also took into account its previous investments in NZ, which include a 964 ha dairy farm near Mt Peel in Canterbury, approved last December. It also gained approval last year to buy 18 commercial and retail properties for about $1b from AMP Capital Investors. Its increased investment in Kaingaroa and AMP Capital deal made Canada the biggest source of foreign investment between Jan 2013 and Dec 2014 in KPMG's survey of OIO data, putting China in second place.

Bolt-on acquisition

Trustpower can probably only expect to get to 80% of takeover target for King Country Energy, with the King Country Electric Power Trust unlikely to sell its 20% stake into the $126.6m offer. Trustpower, which counts Infratil as its controlling shareholder, has reached its minimum target already via a lock-up arrangement with Todd Corp's Nova Energy for its 54% holding of the central North Island electricity generator and retailer. The acquisition is only a bolt-on for Trustpower, adding about 17,500 customers to Trustpower's 252,000, four hydro generation stations and the Mangahao station near Palmerston North with installed capacity by 53.7 megawatts and producing an average 191 gigawatt hours a year.

Wine labelling

NZ regional wine naming conventions will be given legal backing by a decision to give effect to the nine year-old Geographical Indications (Wines and Spirits) Registration Act 2006, which has never been brought into force.

It establishes a geographical indications registration regime for wines and spirits, similar to the trade mark registration regime. The regime will mean that regional names, such as Marlborough or Martinborough will carry greater credibility.

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