# HUGO*vision*

*Assessing the economic and political environment in New Zealand*

March 18 2016 | Confidential to HUGO members


## Labour's positioning

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Labour leader Andrew Little grabbed headlines this week by advocating heavy-handed bank regulation and suggesting Asian migration should be curtailed. Yet the party has created very little traction ahead of next week's Future of Work conference – a key part of the new policy-building effort it has said needs to occur in 2016.

## Dairy downturn – political implications

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The economic implications of the reduced Fonterra payout are serious for farmers and rural communities. The RBNZ's bank stress testing exercise, even if half right, implies a large number of farm failures. The political implications flow from the inevitable slide in economic confidence and the flow-through to difficult issues including RMA and freshwater reform, and irrigation. In the Beehive, anger with Fonterra's perceived arrogance and stuttering performance.

## RMA reform enters a critical phase

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Select committee hearings on the Resource Legislation Amendment Bill, containing RMA and other environmental law changes, will begin soon. The risk for the govt is that it doesn't yet have a clear path out of the select committee.

## Water allocation decisions some distance away

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Environment Minister Nick Smith is no hurry to settle the framework for water allocation. It may be punted beyond the 2017 election. NZ First's scare-mongering on the process for recognising iwi rights and interests in freshwater is a theme National MPs are hearing a lot from constituents.

## Where to now for monetary policy?

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RBNZ governor Graeme Wheeler's unexpected OCR cut produced an instant exchange rate effect, but by the time the US Federal Reserve had pulled back its plans for rate hikes and NZ's GDP figures for March came in stronger than expected, that was wiped out. Another cut looks ever more likely.

## TPP legislation tactics

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Trade Minister Todd McClay is seeking advice to try and keep all TPP-related legislation in one Bill, in the hope of forcing Labour to vote for the whole package, rather than being able to pick and choose from a suite of bills amending separate laws, as would normally be expected.

## Flag vote – as good as lost

The flag referendum looks to be lost, if ongoing polling is accurate. UMR's latest sounding shows almost no shift in support for the current flag among those intending to vote, at 58%, compared with 35% supporting change. UMR reckons the referendum result boils down to 20% of voters who support a flag change, but not to this option. The minister in charge of the flag consideration process, Bill English, appears to have got off scot-free despite the widely held view that it was flawed.

*Text finalised March 18*

## The Future of Work and the future of Labour

Labour's Future of Work conference in Auckland next Wednesday/Thursday has the capacity to pull the party considerably further to the populist left than when it was first mooted. The conference is occurring against the backdrop of a populist revolt from both ends of the US political spectrum against trade liberalisation, globalisation and income inequality. The connection to the US primaries will be all the stronger for the presence of Clinton presidency era Labor Secretary-turned- academic commentator, **Robert Reich.** On Feb 26, Reich endorsed Democratic Party nominee Bernie Sanders, tweeting that Sanders was "leading a movement to reclaim America for the many, not the few". That's a play on the sub-title of his latest book, "Saving Capitalism – for the many, not the few". In part, Reich argues for lower tax on work and more tax on wealth as responses to the threat to existing jobs from automation and digital technology.

Also addressing the conference and attending meetings of the Labour ginger group, the Fabian Society, is Professor **Guy Standing** from London University. Standing's argument is that a new class, **the "precariat**" – people, many of them middle class, living in permanent uncertainty and insecurity caused by globalisation – will force the articulation of a new progressive politics. In tune with Labour's warnings that it must embrace new ways of working beyond traditional organised labour, Standing says there can be no return to the "labourism" of the past.

Meanwhile, Little has again endorsed the need at least to debate the concept of a **Universal Basic Income** to replace social welfare benefits and other transfer payments to people and families on low incomes. His finance spokesman, **Grant Robertson,** is warier on this issue, and the concept has best been no more than trialled in some countries. Finland is about to introduce an experimental form of UBI.

The **conference comes at a time when Little is drifting as leader** – his comments on both controlling banks' lending practices and immigration policy seemed to come from thin air rather than strategic consideration – and **Robertson is attracting criticism for being slow to come to grips with his economic portfolio.** The party is facing the t**emptation to double-down on its lurch to the left in its TPP policy** and seek some of the same populist energy as is animating US politics. Bear in mind: **2016 marks Labour's 100th anniversary since formation** and at present it has little to celebrate. Without a more compellingly articulated position, it risks getting to the end of the year still polling below 30%, let alone near the 35% minimum it needs to have a credible shot at forming a govt next year. **Another leadership spill is unlikely.** More probable is that Little will increasingly take his lead from the trade union backers who put him in the leadership role.

## Heavy weather ahead in dairy/economy/environment nexus

The dairy sector may not be the whole economy, but the capacity for its fortunes to affect both economic and voter sentiment is very real. The latest Fonterra payout cut has the capacity to shift the political mood through weaker economic confidence. Political and mainstream news media are highly focused on the dairy issue, while Opposition political parties are exploiting it to claim a wider lack of urgency and coherence in the govt's economic agenda. Particularly challenging is the call from the Tourism Export Council for a halt on large-scale irrigation schemes, which gave instant credibility to the same calls by the Green and Labour parties. Irrigation is being cast as dairy-specific when many schemes would benefit other agricultural, as well as urban and industrial, water needs. The issue is then easily tied to the widely argued view that the govt should target "swimmability" as the benchmark for freshwater bodies and is pandering to dirty industries by failing to do so. This has the makings of a vicious political cycle.

## McClay intending to embarrass Labour over TPP

Trade Minister Todd McClay is optimistic that parliamentary procedures will allow him to present Parliament with one bill on the TPP, thus forcing Labour to vote yes or no on the agreement. Ordinarily a bill like the TPP would be split apart during the committee stages, with each separate provision becoming an amendment to the principle act dealing with that particular area. But McClay has asked the Clerk's Office to check that he may not need to do this. His view is that he may not. Andrew Little has said Labour would support much of what's in the TPP but would vote against any provision that infringed NZ sovereignty. Ironically, the main provision Labour complains about – the inability to ban house sales to offshore buyers – won't be covered in any legislation because it is simply a continuation of the status quo. It is notable that Labour has scaled back its opposition to the agreement recently and is now focussing largely on the house sales ban. Labour's trade spokesman, David Clark, and McClay have a good working relationship going back to when McClay was Revenue Minister and Clark, Labour's revenue spokesman.

## Advancing RMA reform

The dairy politics dynamic has the capacity to impact on the progress of the Resource Legislation Amendment Bill and plays into the politically challenging issue of freshwater allocation (*see article below*). On the Resource Legislation Amendment Bill, PM John Key made a rare exception to his usual rule that a bill shouldn't be introduced unless it has a clear path through the select committee phase. This one doesn't, and t**he stakes are the higher for the fact that it only exists because previous attempts at RMA reform have failed** for want of a parliamentary majority. Could it happen again? While both Labour and the Maori Party supported the bill at first reading, neither have pledged further support. NZ First abstained at first reading but has since attacked the bill as favouring iwi interests. The inclusion of the iwi consultation process was part of the price for preliminary support of the Maori Party. Nick Smith hopes he can play the various minor parties off successfully and is not ruling out dropping current deals to carve a solution out that could involve NZ First, Act, or United Future rather than the Maori Party. The bill faces wide opposition in key areas, including the greater powers proposed for ministerial intervention. While these have developed out of the govt's concerns to accelerate responses to housing supply shortages, they are capable of applying far more widely. The moves will be welcome to those who see the RMA as far too constraining and bureaucratic, but feared by those who want greater protections and support greater local autonomy. Even within National, there are some misgivings about how environment ministers in a future Labour-Green administration might wield such power.

## Water allocation decisions a long way off

Also moving along an uncertain path is the govt's timeline to decisions on freshwater allocation. There is clearly still considerable distance between ministers and the iwi leaders' group on this contentious issue, let alone the difficulty of convincing more conservative arms of the National Party that any deal with Maori on freshwater is politically wise. The issue is proving a gift to NZ First in provincial electorates.

Allocation was kicked for touch in last month's 'next steps' document on freshwater reform. Nick Smith says the govt is "not in a hurry" on the issue and is opaque on whether that means decisions are unlikely before the 2017 election. This is frustrating for the irrigation lobby, whose ambitions are under political pressure because of the dairy price slump.

The **next step in the journey to allocation decisions is appointment of a technical advisory group.** Smith says the terms of reference and membership should emerge "in the next few months" for what he says is "the most complex part of the reforms". He identifies the need for efficiency standards and best practice water management as essential before any allocation framework can be determined. These are a key focus of the 'next steps' document. **"It's meaningless to discuss allocation if there's nothing to allocate. Those two areas will precede any allocation system,"** says Smith.

The Maori allocation issue is being conducted at both the level of principle, now that the courts have established Maori rights and interests exist under the Treaty of Waitangi, and also as part of a wider negotiation to ensure Maori have the means to exploit communally owned land for greater economic return, as envisaged by Te Ture Whenua Act reform. The **govt is committed to the principle of catchment by catchment settlements rather than a fisheries-style pan-iwi settlement on water,** and to giving final decision-making power to local authorities.

## ETS review

Parliamentary Commissioner for the Environment Jan Wright favours retaining the $25 per tonne price cap on carbon under the emissions trading scheme for the meantime, to prevent too sudden an upsurge in the price of carbon, but also calls for a price floor to give the scheme greater stability.

Climate Change Minister Paula Bennett confirmed this week that the one-for-two concessionary treatment for major emitters will be removed, although gave no sense of when or on what transitional scale. Wright says for as long as NZ has no access to international carbon markets, the $25 per tonne price cap should be retained, as "a rapid increase to a very high price for carbon would be very destabilising", just as the collapse in carbon prices after 2011 set back not only the market's development but also the plans of would-be NZU suppliers, particularly plantation forestry owners. Wright does not name a proposed floor price.

NZUs traded above $11 a tonne this week for the first time since 2011, following Bennett's comments, with $15 per tonne a rule of thumb level at which forestry carbon farming becomes viable.

### Local govt mergers

The Government's intention to go ahead with legislation to allow council-controlled organisations such as water and transport entities to merge is designed to facilitate infrastructure renewal in areas such as the Waikato where that infrastructure (in the Waikato, the three waters' infrastructure) cuts across local govt boundaries. It thus avoids central govt being caught in the middle of fractious arguments about council mergers.

## Spur to wood processing in ETS review?

ETS forestry accounting rule changes could incentivise local production of wood products.

Possible changes are discussed in a Ministry for the Environment technical note on forestry's treatment under the ETS, including the potential to use 'averaging' rather than real-time accounting method. Under the ETS at present, forest owners surrender 60% of their NZUs when a forest is felled, with the other 40% surrendered on a formula based on the rate of assumed decay of stumps and roots over the following decade. However, an averaging system might make that more of a sliding scale approach, especially if NZU surrender was also linked to the commercial life of harvested wood products. Such an approach would make the ETS less of a factor in harvesting decisions and "create greater certainty of wood supply for wood processors and sawmillers."

"Deferring NZ ETS liabilities from harvested wood products might encourage forests to be managed for the production of longer-lived timber products or encourage more domestic wood processing because of possible additional incentives for producing greater volumes of longer-lived wood products." Industry standard look-up tables would govern such a scheme, rather than requiring foresters to understand what their wood was later turned into.

Such an approach would "ensure the administrative complexity and cost were minimised by putting the obligation as high up the supply chain as possible", and would avoid creating artificial incentives to increase the production of high value wood products.

## Transmission pricing methodology report delayed

The much anticipated second issues paper on transmission pricing methodology, due by March 31, has been delayed to mid-May, at the latest. The Electricity Authority board asked for elements of modelling presented at a board meeting this week to be adjusted "to ensure the implications for the sector are clearer and can be better understood". It expects to decide on a release date at its April 7 meeting with release by mid-May at the latest. A review of Part 6 distributed generation pricing principles will be released at the same time as the TPM papers. A final TPM decision by June 30 appears to be on-track.

## School zoning

Education Minister Hekia Parata's forthcoming rewrite of the Education Act, which will abolish the decile ratings for schools, is likely to focus much more on data-driven funding for schools and much more open access to that data. Parata believes that this will be one way around the school zoning issue which raises real estate prices in Epsom but leaves schools short of pupils in South Auckland. Though she will not implement performance pay there is likely to be some form of an incentive for teachers to go to less attractive schools.

## The security review

The security agencies, the SIS, the GCSB and the National Assessment Bureau, are already all co-located in a new building in Wellington and the Cullen-Reddy review proposes that they be governed by one piece of legislation. More importantly, under other proposals in the review they would all report to one over-arching manager at deputy-secretary level within the Department of Prime Minister and Cabinet. This, along with the appointment of human resources expert Andrew Hampton to head the GCSB, makes it clear the govt is determined to tidy up the security sector. Hampton is moving from his position as Chief Talent Officer for the State Services Commission, a new role that he was first to fill.

## Maori land reform

The Waitangi Tribunal has urged the govt to ensure it protects small Maori landowners in law reform aimed at making it easier to use collectively-owned iwi land.

In its final report on proposed changes to Te Ture Whenua Act, the tribunal found there were valid concerns about the way the Crown went about its consultation, recommending policymakers go back to build consensus among iwi before proceeding, and also that the bill itself needed reworking to ensure small groups of landowners weren't prejudiced in any decisions to sell land.

Labour and Green MPs have already expressed their opposition to the bill, and are highlighting the Waitangi Tribunal's criticism that the govt hasn't established what the barriers to land use are, and that the legislation hasn't won the support of wider Maoridom.

Maori Development Minister Te Ururoa Flavell embarked on reforming the legislation after his appointment in 2014 in an effort to drive agricultural business development among Maori landowners. His review of the law, which covers about 5% of NZ's land, seeks to deal with the fragmentation among Maori land owners with a view to improving the performance of the land and tap into what's seen as its major economic potential.

## Where to next for monetary policy?

If there was a need for proof that central banks are feeling their way in the current low inflation environment, last week's call by the RBNZ to cut the official cash rate by 25 basis points provided it. Notwithstanding governor Graeme Wheeler's signal in a seminal speech in Feb that lower than expected inflation expectations would be a cause for monetary easing, his timing and the shift in rhetorical emphasis represents a major shift in his previously predictable hawkish thinking.

We now must build in at least another 25 basis point cut, probably by mid-year, and the possibility of an OCR as low as 1.5% can't be dismissed.

However, last week's cut now makes it more difficult to know what the RBNZ will focus on next, although its analytical note on inflation expectations, released Monday, gives some clues. It discusses the bank's rationale for seeing falling inflation expectations as problematic and justifying an easing stance.

"If the recent material decline in a broad range of inflation expectations measures continues, the bank would need to reconsider the outlook for interest rates," said deputy governor and head economist John McDermott. That suggests the bank will not only countenance an OCR below the 2% low-point assumed in its latest MPS, but that a sub-2% OCR looks almost certain. With headline inflation likely to remain low then inflation expectations are likely to fall further and in so doing trigger the reconsideration the RBNZ suggests.

Yet the cumulative evidence suggests that there is no need for the RBNZ to loosen monetary policy any further any time soon. However, the likelihood is that it will. The odds look to be about 50/50 on lowering the cash rate in April, with willingness to contemplate more sooner rather than later. This is the implication of unusual actions in unusual times.

The difficulty is that trying to create inflation in this environment, which is still what the RBNZ is trying to do, carries risks that may outweigh the hoped for benefits. In particular, why overstimulate an already-stimulated economy using up one's ammunition to fight the war prior to the outbreak of hostilities?

One of the RBNZ's differentiating factors, compared to global counterparts, has been that interest rates remain far from zero. The closer they get to zero, the less room it has to move.

## Dairy lending stress tests

NZ's five biggest lenders to the dairy sector – ASB Bank, ANZ Bank New Zealand, Bank of New Zealand, Westpac New Zealand and Rabobank New Zealand – have strong enough balance sheets to withstand a protracted downturn in dairy prices, but will likely end up with a sizeable farming portfolio on their hands that might be difficult to shift.

The lenders stress tested their dairy portfolios accounting for about 98 percent of the nation's $38b debt to the sector at the Reserve Bank's request under two scenarios: one that's slightly more pessimistic than the current industry view where prices don't recover to the $5.30 per kilogram of milk solids breakeven point until 2017/18, and the other "particularly unusual" but "not totally implausible" outcome where prices stay below $5/kgMS until 2019/20.

Under the first scenario, dairy farm land prices are expected to drop 20 percent and lenders would face an increase in their bad debt expense of about 3 percent on average, writing off about 12% of loans. The more severe scenario would likely lead to a 40 percent drop in farm prices with banks facing increased impairment charges of about 8 percent, with 25 percent of loans written off.

The Reserve Bank's analysis of the testing suggests the banks will need to prepare for a longer exit from any farms foreclosed on with a glut of listings likely to create "very challenging market conditions" in an environment where there may not be enough buyers.

Head of prudential supervision Toby Fiennes said lenders aren't rushing to foreclose and are helping their customers through the downturn by providing working capital, something the stress testing predicts would continue in the short-term.

Conducted last year, the stress tests excluded other agricultural sectors, dairy processing and firms servicing dairy farms.

Since then, Fonterra has cut its forecast payout for this season to $3.90/kgMS, and hinted it will provide more support to cash-strapped farmers, half of whom are thought to be operating in negative cash flow for a second season.

That downgraded forecast prompted Moody's Investors Service and Fitch Ratings to warn NZ's banks will come under increased pressure from another season of low dairy prices, by threatening the asset quality of their loan books and any contagion into the broader economy.

Moody's said that stress was already showing up in BNZ's accounts, with its non-performing loan ratio rising to 0.68% in the December quarter on an increased number of dairy exposures being impaired, without any loss expected.

# CORPORATE ROUND-UP

## Dairy industry

**Fonterra CEO Theo Spierings** has lost a key lieutenant with the departure of head of people, culture and safety **Maury Leyland**, who was closely aligned to Spierings' "V3" strategy and helped oversee the launch of the Fonterra Shareholders' Fund. She also took a lead role in defending Fonterra's culture in 2014 when the govt's final report was released into the 2013 whey protein scare. Leyland's departure is the latest of numerous senior manager departures in the last couple of years, including former global ingredients and foodservice MD Andrei Mikhalevsky, former CFO Jonathan Mason (who retired), NZ Milk Products head Gary Romano, Leyland's predecessor Chris Caldwell, cooperative affairs director Todd Muller, APMEA chief Pascal De Petrini and communications director Kerry Underhill. **Of greater concern to Fonterra should be the simmering anger evident in the Beehive towards the cooperative**. It is seen to be underperforming commercially, communicating poorly, and to have lost its leadership edge. **As a creature of regulatory intervention, this could be dangerous for Fonterra,** if the impulse to intervene were to emerge strongly enough to prompt action.

**Synlait Milk** is due to report first-half results and may give guidance for the full-year showing the extent of A2's booming demand and details of the supply deal with US baby products manufacturer Munchkin for its new Grass Fed infant formula range. CEO John Penno has projected sales volumes to rise to 122,500 metric tonnes in 2016 from 97,800 MT in 2015, with more than half the growth from higher-margin infant formula sales. **Landcorp Farming** has heeded criticism from its Crown owner about dairy conversion plans at odds with a weaker outlook for dairy. It will scale back conversion of 14,500 ha of former forestry land to dairy farming on leased land at the Wairakei Estate north of Taupo. Landcorp gained PR points for the move, which it characterised as good for waterways. It will now consider other options, including dairy support and sheep milking, paring the development's original budget by between $25m and $35m. With a 2016 operating loss of $8m and $12m, there will be no dividend paid for the second year running.

## Innovation/tech/high-value industry

**Endace**, whose technology measures, monitors and protects high-speed networks, is back in NZ hands after a management-led buyout from US parent Emulex. Endace is now owned by Echidna, a company set up by Endace CEO Stuart Wilson and CFO Andrew Harsant. Emulex was bought out last year and the new owner did not see Endace as core business. **GeoOp**, the workforce management app developer, narrowed its first-half loss $1.8m as revenue nearly doubled to $1m, and separately announced the acquisition of Aust mobile sales application developer InterfaceIT. The results included $284,000 in grants from Callaghan Innovation. **Pacific Edge** announced an important US market breakthrough by signing a supply deal with the US Veterans Administration for its innovative, non-invasive bladder cancer test. **Beijing Weying Technology Co** is taking a 2% shareholding in **Vista Group International** as part of a joint venture into China's film market. The initiative is expected to generate more than $30m for the NZ cinema software provider in the first year. **Trilogy International**, the skincare and home fragrance company, raised its guidance for full-year sales and earnings, partly on the contribution from NZ cosmetics and fragrance distribution business, CS Company, acquired last August. The **Serious Fraud Office** has ended its three-year contract with **Wynyard** a year early, saying the software couldn't meet all its requirements. Wynyard said the software had been delivered on time and in budget, but the SFO then requested a "unique feature" in the product, a request that Wynyard says was at odds with the product offering.

## Retailers

**Warehouse Group** beat its first-half profit forecast, suggesting the millions of dollars it has spent overhauling outlets and buying new businesses to drive future growth in the past few years is starting to bear fruit. Profit before items rose 22% to $45.6m as sales grew 8.4% to $1.57b. The gains were across its Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7 brands, helping lift retail group operating profit margin by 90 basis points to 4.9%. The finance business widened its operating loss to $2.7m in the first half, from $1.4m. The subsidiary expects to be unprofitable for the up to 24 months while it builds scale, having launched two Warehouse Money credit cards and five insurance products. Credit card uptake has been "very positive". **Briscoe Group** is forecasting a full-year profit of $47m and is "cautiously optimistic" about the year ahead in a "challenging" retail environment. Sales rose 9% to $553m, and were up 5.4% on a same-store basis. Margin widened to 40.5% from 38.9%. **Restaurant Brands'** annual sales rose almost 8% led by KFC, Carl's Jr. and Starbucks, while revenue from Pizza Hut fell. Sales for the year ended Feb 29 climbed 7.8% to $387m. The company invested in Aust for the first time, buying a NSW KFC franchise for A$82.4m in cash and scrip. QSR Pty, the biggest KFC franchisee in NSW, operates 42 KFC stores, has annual sales of A$100m and earnings of A$15m. **Retail spending on**

**electronic cards** rose for a 10th straight month in Feb, led by an increase in consumables and bolstered in part by soaring tourist arrivals.

## Real estate

**House sale prices** and turnover rose in Feb, with signs of a spillover from Auckland to the rest of the country. The median sale price increased 4.7% in Feb to $450,000 from the same month a year earlier, while the number of properties sold was up 18% to 7,291, REINZ figures showed. **Auckland sales dropped 18% to 1,936, while the median sales price was up 11% to $750,000, moderating from an annual increase of nearly 25% last year.** New record median prices were set in Waikato/Bay of Plenty, Hawke's Bay, Wellington, and Nelson/Marlborough.

## Business sentiment; growth

NZ manufacturing activity slowed in Feb, with employment intentions dropping to its lowest level in 30 months. The BNZ-BusinessNZ performance of manufacturing index fell to a seasonally adjusted 56 from 58 in Jan, after two months of increases. The BNZ-BusinessNZ performance of services index rose 1.5 points to a seasonally adjusted 56.9 last month. **Statistics NZ surprised markets by measuring 0.9% GDP growth in the March quarter,** against 0.7% expected, for 2.3% growth in the March year. High migration is a key element in the growth, with GDP per capita falling slightly.

## Energy industry

**Trustpower** has confirmed it will reconstitute itself as two companies. One will spin out its Aust and NZ windfarms and renewable development pipeline into a separate business, the other will own its NZ retail customer base and hydro generation assets. Genesis CEO Albert Brantley recently declined to comment on whether the latter entity would be attractive for takeover to give a NZ gen-tailer greater retail scale.

Separately, **Trustpower has begun its Supreme Court challenge** to a Court of Appeal ruling backing Inland Revenue Department's decision to disallow tax deductions on spending for a feasibility study when Trustpower took early steps towards obtaining resource consents over four potential generation projects in the South Island. The work didn't proceed and IRD disallowed $17.7m of deductions on project costs between 2006 and 2008. The case is being closely watched by infrastructure firms.

## Transport/tourism

**Air NZ** will deepen its ties with **United Airlines** with a revenue-sharing arrangement on NZ-US routes. The agreement will come into effect from July 1 when UA launches its San Francisco-Auckland route and will see the carriers promote and sell each other's services. The airlines currently codeshare on UA's network in the US and to international destinations, and on Air NZ's network across the Pacific. The agreement comes after **Qantas** and **American Airlines**, members of the Oneworld airline alliance, gained approval for a tie-up operating between Auckland and Los Angeles, competing with Star Alliance members Air NZ and UA. Meanwhile, **Qatar Airways** has announced a daily service between Doha and Auckland in Dec, using a B777 aircraft.

**Guest nights** rose in Jan for the 22nd month in a row, reaching the highest level in the 20-year history of the survey. Total guest nights rose 6.1% to 4.8m in Jan from the same month last year. International guest nights rose 11%, domestic guest nights rose 3.1%.

Iwi-owned **Go Bus** has won four South Auckland public transport contracts, after Infratil's NZ Bus unit failed in its bid to retain the contracts. NZ Bus continues to negotiate on other Auckland contract renewals.

## Settlement platform

**The Reserve Bank** will retain and upgrade its **NZClear security settlement and depository business** after a tender didn't attract "suitable bids", including an offer from stock market operator NZX. The central bank will invest in a new platform for NZClear, which provides clearing and settlement services for high-value debt securities and equities, after none of the bids for the system met its service requirements and commercial terms, the bank said. The RBNZ looked at selling NZClear after a strategic review in 2014 found it wasn't a core business for the bank and required significant investment.

## Health sector

The $300m development of a new acute services building at Christchurch Hospital has been bogged down by unclear governance and a strained relationship between the Ministry of Health and the local district health board, the Auditor-General says. The Health Ministry has separately come under fire for its handling of the renovations for its headquarters.

## Media

NZME's CEO Jane Hastings has resigned after 18 months as its Aust owner, **APN News & Media,** considers its options for the NZ business. CFO Michael Boggs replaces Hastings. The independently owned **Otago Daily Times** is to institute a paywall, the first NZ daily newspaper publisher to do so.

LEGISLATION

# Some wins for the Opposition

Opposition parties had a couple of wins on the legislative front this month. The Employment Standards Legislation bill was amended to ban 'zero hour' contracts, with the amendments attracting support from all parties, bar Act. Labour claimed a win on an issue that even National MPs found troubling. The Christchurch Regeneration Bill was amended to give more power to local govt, allowing support from Opposition parties. Elsewhere, sweeping amendments to a bill dealing with natural health products regulation were tabled. Business and payroll services lobbyists called for reform to confusing holiday pay provisions in the **Holidays Act** after news reports highlighted long-term underpayment of entitlements by MBIE. Workplace Relations Minister Michael Woodhouse said he was in no hurry to act further after recent amendments.

- *Italics denote update from previous edition of Hugovision*
- *A full compendium of the legislation before the House is available on The Hugo Group website, www.thehugogroup.com*

## Bills Introduced

***Kermadec Ocean Sanctuary Bill:*** *Introduced on March 8. Will create an ocean sanctuary around the Kermadec Islands. The effect of the bill will be to ban all fishing and mining in 620,000 square kms of the Exclusive Economic Zone. First reading on March 15 with all parties in support. Maori Party voiced concern about the loss of iwi's allocated but unused fishing quota and the lack of consultation. ACT's David Seymour also labelled the bill "greenwashing". Referred to the Local Govt and Environment Select Committee with a shortened report back of Aug 2. The govt intends to pass the law by Nov.*

## Bills in Progress

**Agricultural Compounds and Veterinary Medicines Amendment Bill:** Introduced Aug 11 2015. *Deadline for report back from select committee extended from April 14 to June 17.*

**Building (Earthquake-prone Buildings) Amendment Bill:** Gives effect to decisions in Aug 2013 on managing earthquake prone buildings and gives the central govt a bigger oversight role. *Completed its second reading on March 2 by 120 to 1 with Act opposed.*

**Commerce (Cartels and Other Matters) Amendment Bill:** Completed its second reading on Nov 27 2014 with general support. In Dec last year, the govt moved to delete provisions criminalising cartel behaviour. *The bill is the subject of intense lobbying from the shipping sector and some exporters who fear the bill will prevent flexibility in vessel sharing arrangements and require too much bureaucratic oversight.*

**Environmental Protection Authority (Protection of Environment) Amendment Bill:** A bill in the name of Labour MP Meka Whaitiri. Reported back Dec 14 with the National party majority recommending it not proceed. *Defeated on March 16 with the Maori Party joining National and ACT to negate the bill.*

**Geographical Indications (Wine and Spirits) Registration Amendment Bill** - Introduced on Nov 3. The bill amends the Geographical Indications (Wine and Spirits) Registration Act which was enacted in 2006, but has not yet been brought into force. *Completed its first reading on March 17 with all parties in support and sent to the Primary Production committee for consideration.*

**Greater Christchurch Regeneration Bill:** Introduced on Oct 19. Provides a new legal framework to support the regeneration of greater Christchurch over the next 5 years. Replaces the Canterbury Earthquake Recovery Act 2011 to increase the role of local leadership and shift focus from recovery to regeneration. *Select committee reported back on Feb 25 with Labour, Greens and NZ First opposed, arguing it did not return enough power from central to local govt. On March 16 Gerry Brownlee announced changes after talks with Opposition parties over the role of local councils to allow those parties' support.*

**Land Transfer Bill:** Introduced on Feb 11, 2015. *First reading completed March 15 with the support of all parties, though Labour used the debate to attack the govt over dairy farm land valuations. Referred to the Government Administration committee for consideration.*

**Natural Health and Supplementary Products Bill: (Was Natural Health Products Bill.):** First reading Sept 2011, report back from select committee was delayed until Oct 2012. Second reading in March 2013. *After becoming stalled the govt tabled sweeping amendments on March 15. They widen the definition of natural health and supplementary product with a definition of natural health product. The requirement for a natural health product to contain only permitted substances will continue to apply.*

## Bills Passed

**New Zealand Business Number Bill:** Introduced March 31 2015. Second reading interrupted on Dec 3 and again interrupted on Feb 16, *before being completed on a voice vote on March 9.*

**Employment Standards Legislation Bill:** Omnibus reform bill introduced Aug 13 2015. *Completed its second reading on March 3 by 94 to 25 with Greens and NZ First opposed and Labour seeking changes to zero hour contracts clauses. At the committee stage on March 8, all parties bar ACT supported Labour's amendments to ban permanent employment contracts which required availability without the guarantee of reasonable hours of work. Completed its third reading on March 10 on a voice vote.*

**Radiation Safety Bill:** Repeals and replaces the Radiation Protection Act 1965. *Third reading completed on March 3.*

**Weathertight Homes Resolution Services Amendment Bill:** Introduced Feb 23 2015. Committee stage interrupted on Oct 21 and then completed Feb 16. *Third reading passed on a voice vote on March 9.*


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