

PM's political radar on the blink?

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The land tax for foreign buyers is “seat of the pants” politics, while John Key’s failure to recognise the need to act decisively on evidence that his legal adviser attempted to peddle influence on the foreign trusts issue in 2014 are but two recent examples of political fumbling by the PM.

NZ First gaining

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Reasonable people can disagree about whether the Roy Morgan NZ poll is a useful guide, but its latest result is consistent with the view we’ve argued: NZ First is on a roll, Labour continues to struggle, and while National is still dominant, it’s not immune to sharp losses of support at the halfway mark in its third term.

Key’s China trip

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A variety of useful new trade and commercial agreements were announced or moved forward in the PM’s state visit to China. An upgraded FTA is going to be difficult, but not impossible. Xi Jinping wedged Key on China’s strong desire to extradite some of its NZ-resident citizens.

Funding Auckland infrastructure

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The Treasury turned heads with its advice to Bill English last Dec that forcing Auckland Council to sell commercial assets – think airport and port shares – wouldn’t yield enough capital to help with new infrastructure while robbing the city of revenue. Instead, it suggests putting the Crown balance sheet to work creatively to accelerate services essential to denser urban housing.

Pressure to cancel ‘laundered’ carbon credits

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Pressure is mounting on the govt to cancel ‘laundered’ low quality eastern European carbon credits showing in the NZ ETS as respectable AAU credits. The so-called ‘dodgy’ credits could be used to help reach NZ’s 2030 emissions reduction goal post-Tokyo.

Regional infrastructure

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Big news for Hawke’s Bay Regional Council’s infrastructure plans this week. The uptake from users of the proposed Ruataniwha irrigation project is sufficient to support the business case for an institutional investor; and a formal proposal to reopen the Napier-Wairoa line has been submitted to KiwiRail.

2016 CEO Retreat: Aug 18 to 20

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The revamped Hugo Group annual CEO Retreat will be held at Millbrook, August 18 to 20. We have an interesting and challenging new programme combining tried and true elements, increased executive relevance, and high quality local and international speakers and thought-provokers.

John Key needs a new lawyer

John Key faces a serious political problem following publication of a 2014 letter from the his legal adviser, Ken Whitney, to Revenue Minister Todd McClay in which Whitney says he has “spoken to the PM” about an alleged “sudden change of view by the IRD in respect of their previous support for the (foreign trusts) industry”. The letter allows the inference to be drawn that the PM’s advice to speak to the relevant Minister was in some way intended as an indication that McClay would view Whitney’s approach favourably. The fact that McClay wrote to Whitney five months later saying that, “owing to wider government priorities, we will not be considering regulatory reform of your industry at this stage” is also extremely unhelpful.

Sophisticated observers will see this for what it almost certainly is: an attempt by a lobbyist to use powerful personal connections to advance a political cause. **To Key’s opponents – acting on polling advice that says he can be successfully attacked on his personal integrity – no such consideration will be given. News media will equally merciless.** Key did nothing wrong by advising Whitney to speak to McClay in 2014, but he has arguably erred in his response to publication of the letter, especially in the context of the Panama Papers. **Whitney, an adviser to a foreign trusts business, has already caused Key serious embarrassment simply by association. Key rightly stood by him then. The Dec 2014 letter to McClay is another matter.** Whitney has clearly attempted to use his personal connection to Key. If Key wanted to cauterise the political impact of what is arguably a betrayal of a professional advisory relationship, he would have dismissed Whitney as his personal adviser on learning of the letter. **Instead, he has excused Whitney’s behaviour, adding to the sense that his political radar has begun failing him lately.**

“Seat of the pants” land tax

Senior ministers admit privately that **the PM’s sudden proposal for a land tax on foreign residential property buyers is a “seat of the pants” effort** intended to demonstrate the govt’s concern that the housing market is leaping away again. It appears unlikely, however, that the initiative will see the light of the day in the May 26 Budget. The Cabinet met on ANZAC Day to sign off the Budget, but did not discuss land tax in any detail. Bill English subsequently refloated the Productivity Commission’s proposal in its ‘using urban land for housing’ report that local govts should be required to release land for housing, when a house price-

to-income ratio was breached. This was another “directional” statement about the govt’s concern on the issue.

However, even as National’s polling continues to show support comfortably above 40% and Labour still struggling to secure 30%, **this issue looks increasingly like an Achilles heel.** National has relied to some extent on the wealth effect of rising house prices in Auckland to shore up its vote there. However, the NZ Herald’s campaigning on the issue, new research showing a surge of investor interest in lower-value South Auckland suburbs and evidence that Auckland is one of the world’s most expensive cities to buy a house suggest a political tipping point, where even beneficiaries of the housing boom will start to worry.

NZ First making gains

The latest Roy Morgan NZ poll confirms our view that the main beneficiary at present of disaffection with the govt is NZ First. While National slipped to 42.5%, or 3.5 points, in what is one of the more volatile polls, Labour also fell, down 2 points to 26% support. NZ First rose 3.5 points to 12.5% support, a 20 year high, while the Greens were up a half point at 14.5%. The combined Labour/Greens support of 40.5% puts the Opposition within two points of National, but 1.5 points lower than the previous poll. Interestingly, both the Act and Maori parties showed a relatively strong 1.5% support each. Roy Morgan’s ‘right track/wrong track’ measure suggests the recent fractious political environment and economic news are having a negative impact, with 57.5% (down 3.5%) saying NZ is ‘heading in the right direction’ compared to 30.5% (up 1.5%) who say NZ is ‘heading in the wrong direction’.

KiwiRail’s future

KiwiRail released its Dec 2014 commercial review to some alarmist media reporting because it concluded that closure was the logical commercial approach. However, the govt rejected that view last year in favour of the national benefits of rail beyond KiwiRail’s standalone profitability. The next couple of months will see work on what KiwiRail hopes will become a four year capital support package. So far, the longest pre-commitment has been two years, but with consensus on rail’s purpose, longer planning horizons should be possible.

KiwiRail sees particular opportunity, as the track owner rather than a train operator, **to help the govt in Auckland with congestion problems** which it also believes could yield easy wins in demonstrating its wider ‘value of rail’ argument.

For example, a 3km extension to rail around Wiri would have significant impacts on both rail and road bottlenecks. Investment in tracks will focus on where rail can best help exports. Meanwhile, the **Hawkes Bay Regional Council has submitted a fresh application to KiwiRail to establish a log freight service between Wairoa and Port of Napier.** Previously, HBRC proposed to run the service with another operator but its latest plan would see KiwiRail running the trains as well as maintaining the tracks. **Critics of KiwiRail say the new HBRC proposal demonstrates the SOE is determined to prevent a rail competitor** that might challenge its cost base.

The 'dodgy' carbon credits saga

Climate Change Minister Paula Bennett is under political pressure to cancel at least a portion of the 123,000-odd tonnes of low-quality carbon credits purchased by emitters under the ETS, mainly from former Soviet bloc countries. Her office confirms she's "taking advice" on the issue. Parliamentary Commissioner for the Environment Jan Wright says

NZ should "begin in 2020 with as clean a slate as possible" by not carrying over any units beyond that year. While many of the carbon credits held on the govt's books appear to be legitimate Assigned Amount Units (AAUs), many are **"in essence 'laundered' ERUs"**: units created from 'hot air' in eastern Europe and Russia. Cabinet papers also show why Bennett is coy on the ratification timetable for the Paris agreement, which she signed on NZ's behalf in New York last week. Rules on carbon trading and land use have yet to be written and could make NZ's target unachievable. But if NZ dallies, there's a chance of being shut out of the rule-making process. **UMR polling on NZers' attitudes to climate change** show a predictable split on party lines on whether the govt is doing enough and a stark lack of confidence that climate change can be tackled. Only 14% were confident "in the ability of the world to organise a meaningful response to deal with the issue of climate change"; 58% were not confident. Numbers accepting human activity is a cause of climate change climbed to 67%, the highest since UMR began asking the question in 2003. After a pause above \$13 a tonne, NZUs traded above \$14

late this week. At \$15 a tonne, the NZ carbon price becomes attractive to forest planters for carbon sinks.

Big week for water

The campaign against the govt's proposal to allow iwi to initiate agreements with local councils allowing them to "work together" with local govt on freshwater decisions is having an impact in National's caucus. The elasticity of the wording

in Environment Minister Nick Smith's Consultation document, "Next steps for fresh water" has allowed Don Brash and Winston Peters to gain traction in the provinces by suggesting that the proposal would allow Maori to "control" water allocation. This fear is inflamed in some areas where Maori would not only play a key role in consenting but also have a significant economic interest of their own in obtaining water rights. **The logical solution, advocated by a range of people from the Commissioner for the Environment through to ACT, is to put a price on water.** But this is adamantly opposed by Federated Farmers. Smith privately concedes he's "ahead" of the caucus on the issue. Submissions on the 'next steps' document were due last Friday. **A powerful addition to the clean water lobby is the Tourism Industry Association,**

which wants the value of freshwater acknowledged as a key part of the NZ visitor offering. Environmental groups called for more urgency, with **tighter timelines for stock exclusion** from waterways and a **more explicit removal of the potential to trade off improvements in water quality** within a catchment. Elsewhere, the **Ruantaniwha irrigation project took a step towards** realisation, receiving sufficient confirmed uptake from water users to meet its 'condition precedent'. Now it's down to the Hawke's Bay Regional Investment Co to **find the cornerstone institutional backer** required before it can tap debt funding from the Crown Irrigation Fund. ■

2016 CEO Retreat confirmed dates for your diary

The 2016 Retreat will commence with lunch on **Thursday August 18**, and conclude after lunch on **Saturday August 20, at Millbrook Resort near Queenstown.**

The revamped format will give a combination of a day tailored to senior executive development, led by an expert of global standing, and a day the traditional 'deep dive' of novel subjects. You can choose to attend either or both programmes.

We expect to have the programme finalised in the next couple of weeks.

Funding Auckland

The govt could accelerate Auckland's infrastructure provision by paying to develop assets that Auckland Council would buy back.

The Treasury advised last Dec against asset sales and spending cuts to help Auckland's capex needs, saying neither would make enough of a difference. Decisions should wait for the August completion of the ATAP Auckland transport funding project, Treasury said.

AUSTRALIA

A deflationary March quarter has caught economy-watchers by surprise and reignited debate about how weak the Aust economy may be. While the RBA held interest rates at its last review, a cut next week or at least in June is now widely tipped. Either date for a cut creates headaches for the Coalition govt of Malcolm Turnbull, which presents an early Budget next Tuesday and is gearing up for a rare double dissolution federal election on July 2. That said, there were **mixed signals in the inflation categories**. Product price inflation was more subdued in Q1, at an annualised rate of 0.6% (0.1% in the quarter). Firms are hinting at margin compression although labour cost inflation is picking up slightly. Retail and wholesale prices have eased, having ramped up in previous quarters – although **this was not apparent in official CPI**.

Meanwhile, **Murray Goulburn MD Gary Helou** and CFO Brad Hingle will exit the Aust dairy co-op after downgrading forecasts for its milk payment and profit, and announced a support package for farmers. Helou had insisted within recent weeks a A\$6 per kg/MS payout was still possible. The company slashed that to as little as A\$4.75.

Canberra has offended Japan but delighted both France and China by choosing a French partner for its A\$56b fleet of 12 new naval submarines. Former PM Tony Abbott reached out to Japanese PM Shinzo Abe over the snub to an Asian neighbour's technology, which is also part of Tokyo's ambitions to project militarily more strongly in the region - a development that Beijing doesn't welcome. **Building the subs at the state-owned ASC shipyards in Sth Aust is up to 30% more costly** than if the French contractor, DCNS, were to supply them. The Turnbull govt is reportedly considering a privatisation to try and limit that discrepancy to more like 10%.

The **March quarter NAB Business Survey** showed both a resilient non-mining recovery and an improving outlook. Robust conditions and business confidence are translating into rising employment

demand and improved investment intentions – **counter to official data showing weakening capex intentions (even in non-mining)**. The response to AUD depreciation has generally not been as positive as expected, although this in large part reflects the offsetting impact from import reliant industries such as wholesale and elements of retail.

Capacity utilisation and capex plans for the next 12 months suggest a more positive outlook for non-mining business investment, while stronger employment intentions point to further improvement in the labour market.

The **Victorian state govt budget** forecast A\$9.2b of fiscal surpluses over the next four years and unveiled major investment plans for public transport and to ease road congestion.

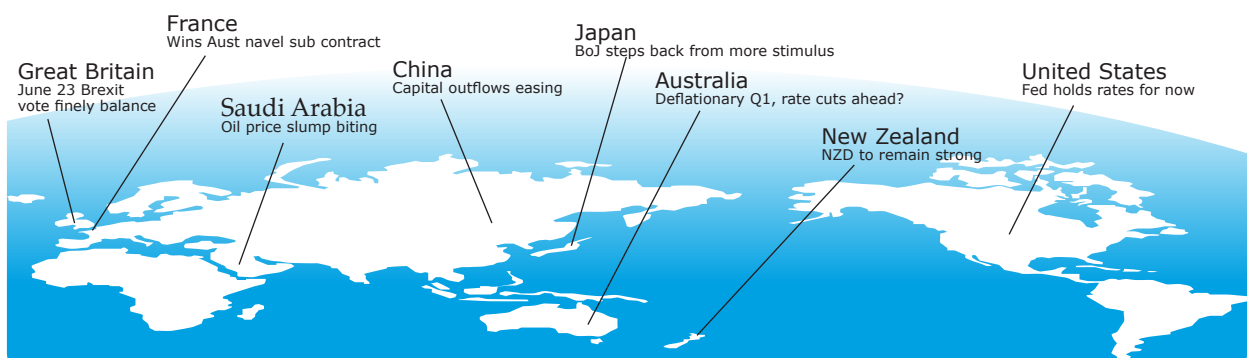
The PNG Supreme Court's decision declaring the Manus Island detention centre unconstitutional is a problem not just for the Aust federal govt. It's also a headache for Broadspectrum, formerly known as Transfield, which holds the contract for running the facility. The Broadspectrum board flipped its recommendation against a takeover bid by Ferrovial, telling shareholders they should accept the A\$813m offer two days after the court decision and following a trading halt.

ASIC faces sweeping structural changes amid demands for a royal commission into banks. The changes include overhauling the regulator's management, taking it outside the public service, reshaping its strategic outlook and resourcing it for technologically driven threats to financial consumers.

ALP and the ETS

The Australian Labor Party says it would introduce an emissions trading scheme in two stages, if elected, and would impose a renewable electricity target of 50% by 2030 and zero net emissions against 1990 levels by 2050. The Coalition govt, struggling to maintain its poll lead, attacked the policy. 🇺🇸

The world at a glance



DOMESTIC ECONOMY

Monetary policy

The RBNZ didn't do as we and one or two others thought they would and cut rates at the April 27 review. Attention turns to June and Aug. **Note that a timetable change means Graeme Wheeler gets two bites of the cherry, with full monetary policy statements scheduled in both June and Aug.**

The latter would normally have been a one page statement, but the bank is shifting MPSs to dates in Feb, May, Aug, Nov from Aug onwards. That makes them a month earlier than in the past. Given the bank's apparent preference for OCR changes to coincide with a full MPS, where it can explain its thinking at length, both June and August look to be live opportunities for further action, should the current easing bias remain intact. That's not entirely guaranteed. This week's OCR statement was less dovish than March's assessment, noting rebounding oil and dairy prices, although the kiwi dollar remains "higher than appropriate given NZ's low commodity export prices". Wheeler probably had to say that, knowing that by leaving the OCR untouched, the kiwi would rise after Thursday's decision. **Looking ahead, May 4 employment data** will be an important indicator for the RBNZ's stance, with as much focus on any signs of wage inflation as employment numbers.

Kiwi dollar – stronger for longer

The Fed's decision to "proceed cautiously" on future rate hikes is likely to delay any NZD/USD depreciation. The RBNZ's "reluctant easer" tag

provides a further boost. An RBA cut next week would add to the 2+cents recovery in NZD/AUD over the last week. Overall, a "stronger for longer" NZD path seems the likely near-term outlook for the NZD. A weaker currency may not emerge before the second half of the year.

Infrastructure

The government has pledged \$520m to roading projects to **ease congestion and improve freight links for Tauranga over the next decade**. The projects include the \$286m Tauranga Northern Link that will create 6.8km short cut on the main route to Hamilton and \$85m of safety improvements between Te Puna and Waihi. **Retiring Genesis Energy chief Albert Brantley is to be the CEO of Otakaro Ltd**, the new Crown company overseeing construction of Christchurch's so-called 'anchor' projects. **Genesis Energy has struck a winter hedge 'swaption' with a consortium of generator-retailers led by Meridian Energy**. The deal will keep the coal and gas-fired Rankine units at Huntly available as reserve generation until 2022, instead of closing in 2018. The outcome is a blow to the green movement, which had heralded the 2018 closure as the end of coal in NZ. It has arguably somewhat 'de-greened' the Meridian brand, while allowing the industry to remove one source of uncertainty from a picture clouded by weak demand and the potential overhang of a departure by the NZ Aluminium Smelters plant at Tiwai Point. On that front, NZAS faces around \$20m of backpay and future opex after exhausting avenues of appeal against wrongly calculating lieu day entitlements.

Trading partner growth

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

| Trading partners | Weights % | GDP Growth (ann avg %) | | | | | CPI Inflation (ann avg %) | | | | |
|----------------------------------|-----------|------------------------|------|------|------|------|---------------------------|------|------|------|------|
| | | 2014 | 2015 | 2016 | 2017 | 2018 | 2014 | 2015 | 2016 | 2017 | 2018 |
| China | 21.0 | 7.3 | 6.9 | 6.5 | 6.3 | 6.2 | 2.0 | 1.4 | 1.9 | 1.9 | 1.8 |
| Australia | 21.2 | 2.6 | 2.5 | 2.6 | 2.9 | 2.7 | 2.5 | 1.5 | 1.9 | 2.5 | 2.1 |
| United States | 14.5 | 2.4 | 2.4 | 2.0 | 2.4 | 2.4 | 1.6 | 0.1 | 1.3 | 2.2 | 2.2 |
| Japan | 7.6 | -0.1 | 0.5 | 0.6 | 0.5 | 0.9 | 2.7 | 0.8 | 0.0 | 1.6 | 1.3 |
| Eurozone | 7.3 | 0.9 | 1.5 | 1.5 | 1.6 | 1.5 | 0.4 | 0.0 | 0.3 | 1.4 | 1.8 |
| United Kingdom | 4.0 | 2.9 | 2.2 | 2.0 | 2.2 | 2.1 | 1.5 | 0.0 | 0.7 | 1.7 | 2.0 |
| South Korea | 4.2 | 3.3 | 2.6 | 2.6 | 2.8 | 2.8 | 1.3 | 0.7 | 1.2 | 1.8 | 2.0 |
| Indonesia | 2.1 | 5.0 | 4.8 | 5.0 | 5.3 | 5.0 | 6.4 | 6.4 | 4.4 | 4.9 | 5.0 |
| Hong Kong | 1.9 | 2.5 | 2.4 | 1.7 | 2.0 | 2.2 | 4.4 | 3.0 | 2.5 | 2.4 | 2.5 |
| Taiwan | 2.8 | 3.9 | 0.7 | 1.4 | 2.3 | 2.1 | 1.2 | -0.3 | 0.9 | 1.3 | 1.5 |
| Singapore | 2.7 | 2.9 | 2.0 | 1.8 | 2.2 | 2.2 | 1.0 | -0.5 | -0.3 | 1.0 | 1.5 |
| Malaysia | 2.5 | 6.0 | 5.0 | 4.2 | 4.4 | 4.9 | 3.1 | 2.1 | 2.6 | 2.7 | 2.6 |
| Philippines | 1.7 | 6.1 | 5.8 | 6.0 | 5.9 | 5.4 | 4.1 | 1.4 | 1.9 | 3.0 | 2.6 |
| Thailand | 2.0 | 0.9 | 2.8 | 2.9 | 3.3 | 2.5 | 1.9 | -0.9 | 0.5 | 1.9 | 2.0 |
| India | 1.6 | 7.3 | 7.5 | 7.6 | 7.7 | 7.3 | 6.0 | 5.0 | 5.2 | 5.3 | 5.4 |
| Vietnam | 1.3 | 6.0 | 6.6 | 6.4 | 6.5 | 6.4 | 4.1 | 0.6 | 2.6 | 4.3 | 2.9 |
| Canada | 1.6 | 2.5 | 1.2 | 1.7 | 2.2 | 2.1 | 1.9 | 1.1 | 1.5 | 2.1 | 2.0 |
| NZ Trading Partners | 100 | 3.6 | 3.4 | 3.3 | 3.4 | 3.4 | 2.2 | 1.0 | 1.5 | 2.2 | 2.1 |
| Forecasts for New Zealand | | | | | | | | | | | |
| Consensus | | 3.7 | 2.5 | 2.6 | 2.8 | 2.9 | 1.2 | 0.3 | 0.6 | 1.7 | 2.0 |
| BNZ Forecasts | | 3.7 | 2.5 | 2.4 | 2.5 | 2.4 | 1.2 | 0.3 | 0.7 | 2.0 | 1.8 |
| The World | | 2.8 | 2.6 | 2.4 | 2.8 | 2.7 | 2.6 | 2.1 | 2.6 | 2.8 | 2.7 |

Economic indicators

NZ consumer confidence rose in April as Kiwis remained optimistic about the state of the economy, shrugging off concerns a downturn in the dairy sector would spread. The ANZ-Roy Morgan consumer confidence index increased to 120 in April from 118 a month earlier, just above the historical average. Both the current conditions and future conditions indexes gained by 2 points to 123.2 and 117.8 respectively.

NZ has recorded record net migration for a 20th month in March, as more people moved across the Tasman from Aust. Net migration was 67,600 in the 12 months through March 31, as arrivals rose 9% to 124,100 and departures fell 2% to 56,400. Net migration from Aust was a gain of 1,900, the highest since Aug 1991 and the sixth straight month of annual gains. Amongst international students, the rate of **Indian student arrivals slipped 4.1%**, **although they remain the largest group (9,815)**. Chinese student numbers rose 20% to 5,719 and Filipino students, at 2,239, were up 70%

Measures of both the manufacturing and services sectors slowed in March, although not enough to herald a marked slowdown in the economy. The BNZ-BusinessNZ performance of services index fell 1.9 points to a seasonally adjusted 54.8, the lowest since November 2014, while the manufacturing measure (PMI) fell to 54.7 last month from 55.9. The composite index fell 1.7 points to 54.8 on the GDP-weighted basis.

NZ inflation met the Reserve Bank's forecast in the first quarter at 0.2% for an annual gain in the consumer's price index of 0.4%, as an increase in tobacco tax, food and housing-related costs offset the impact of low fuel prices.

International trade

NZ has recorded its **biggest annual trade deficit in 7 years in March** at \$3.8b, reflecting lower prices for exports of dairy products, beef and lamb, and increased imports of vehicles and machinery. The monthly trade surplus narrowed to \$117m in March from \$367m in Feb, as exports fell 14% to \$4.2b and imports dropped 3.7% to \$4.1b.

Dairy season

Milk collection is down in both NZ and Aust in the first 10 months of the season, reflecting destocking in NZ in the face of low milk prices and unfavourable weather across the Tasman, Fonterra reports. Milk production had stabilised in the EU and eased in other major exporting countries. ■

Key's China mission

John Key's mission to China established that it will be difficult to get momentum into an upgrade of the FTA to match Aust's dairy access, but should not be impossible. Chilled meat access is on the agenda, but so is Beijing's strong wish for an extradition treaty. Key says if a treaty were agreed, it would be subject to no extradited Chinese citizen being tortured or executed. If the NZ govt were to learn of that, it would cancel the treaty. Key pushed hard for a beginning to talks for an FTA upgrade, which was heard sympathetically, but no timetable for commencement has emerged. Trade officials have seen offers on investment access for the first time from a number of Asian nations, including China, in the 12th round of negotiations for the **Regional Comprehensive Economic Partnership (RCEP)**.

Z Energy gets Caltex / Challenge!

The reason for the prolonged consideration of Z Energy's application to buy the Caltex and Challenge! brand retail fuel businesses of Chevron becomes apparent in the **split majority decision of the Commerce Commission to allow the deal**.

In 22 mostly non-urban locations, the commission found evidence of potential for a substantial lessening of competition and **will require Z to dispose of 19 petrol station sites and one truck stop**. It found no problems in other areas of overlap, including aviation and marine fuel, storage facilities, commercial sales, bitumen, or loyalty schemes. The deal will give Z close to 50% of the downstream transport fuels market and the decision to allow the transaction was by a margin of 3:1 on the retail sites. The decision rested on a judgement that Chevron had been "a passive competitor in New Zealand and followed the lead of its rivals rather than taking an aggressive approach in its pricing."

The commission found "**possible, but not definitive**" evidence of retail pricing coordination among fuel retailers, but that such activity was not illegal under the Commerce Act and could occur in both competitive and coordinated markets. Again, Caltex's passive approach in recent times informed the decision that its absence was unlikely to exacerbate industry coordination. Z, which originally traded under its old Shell brand name before changing, has two years' rights on the Caltex brand and has said it will continue to run a multi-brand business, at least in the meantime.

Media

APN News & media may spin off its NZME media assets in NZ after abandoning an IPO in Feb, possibly through an in-specie distribution of NZME shares to APN shareholders.

CORPORATE ROUND-UP

Manufacturing/industrial

Nuplex Industries, whose shareholders will vote on whether to accept a \$1.05b takeover offer this year, has sold its Australasian pulp and paper chemicals business for A\$21m. The Aust unit of Delaware-based Solenis has agreed to buy the Nuplex assets in a deal expected to settle on June 30. The sale won't have any impact on the planned scheme of arrangement with US-based Allnex Belgium SA.

Euro Corp has reached an interim agreement with the Commerce Commission to resume selling batches of ductile steel mesh provided it passes independent testing. Euro and **Brilliance Steel** agreed last month to stop selling their steel mesh products after the commission's initial testing showed they didn't meet the standard for elongation, which allows it to stretch during an earthquake. **Steel & Tube** has already agreed to only sell mesh certified by an independent testing laboratory, while criticising current standards as ambiguous.

Innovation/technology

NZ startup **Dotterel Technologies** has won an innovation award for its noise-reducing drone technology at the 2016 NAB Show, the world's largest annual convention to launch innovative products to key influencers in media, entertainment and technology. Auckland-based Dotterel was set up nine months ago by brothers Mat Rowe, Shaun Pentecost, and Seamus Rowe after they won \$10,000 as finalists in Callaghan Innovation's inaugural C-prize competition. Noise reduction means filmmakers don't need to eliminate engine noise in post-production, reducing costs.

Spark's head of digital Tim Miles and ventures unit boss Rod Snodgrass will leave by the end of the year in an overhaul of the telco's executive structure. Miles will be replaced by chief financial officer Jolie Hodson, whose own position will be filled with an external appointment, while Snodgrass will be replaced with an insider. In other changes, Connect unit executive David Havercroft will take a temporary role as chief transformation officer, Claire Barber becomes chief digital officer of Spark's platforms business, and Mark Beder will lead the new Spark connect business.

Energy/environment

NZ Oil & Gas has upgraded the developed reserves at the Kupe field off the Taranaki coast and is still looking at ways to expand untapped reserves in the project. The gas and light oil field's developed reserve was lifted to 6.02m barrels of oil from 5.22m barrels and NZOG said there was likely to be an extra 3.6 petajoules of gas and 16.69 kilotonnes of LPG.

The joint venture partners in Kupe are also looking at ways to develop undeveloped reserves but haven't made a final decision on whether to proceed. **NZ Refining** wants shareholders to approve a change to its constitution that would allow a smaller board. Shareholders will vote on the plan for minimum board seats to fall to three from eight. The move follows the resignation of Dean Gilbert from the board and Chevron selling its stake.

Transport

Transport Minister Simon Bridges has proposed an overhaul of rules covering taxis, private hire and ride-sharing companies such as **Uber**, bringing them under a single set of regulations. Under Bridges' proposal taxis and Uber-like services would be deemed as a 'small passenger service'. Drivers would no longer have to have an area knowledge certificate, given the advent of GPS systems, or provide 24/7 service. In-vehicle camera recorders would still be required in the 18 main urban areas. Parliament will consider the proposals under the Land Transport Amendment Bill 2016.

Infratil's NZ Bus unit has signed a US\$30m deal with California-based Wrightspeed to transition its buses to electric technology. The technology would allow Infratil to repower its trolley buses and could be expanded to other vehicles in its fleet, NZ Bus says. Wrightspeed's technology is already used in waste management and delivery vehicles in the US. The company was founded by NZ-born Ian Wright and manufactures range-extended electric vehicle powertrains. NZ Bus will receive its first Wrightspeed powertrains by mid-2016 and expects to have the first bus on the road by year-end.

Agriculture/primary sector

Zespri says profit in the 2017 financial year is expected to be \$25m to \$30m excluding revenue from the release of 400 hectares of Gold3 licence being tendered next month and which is expected to be materially significant to annual profit. Zespri gave an indicative projection for orchard gate returns for the 2016/17 season just underway of \$4.20 to \$5.20 per tray for Zespri Green, from \$4.94 for the 2015/16 season. Zespri Gold has more potential upside at \$7.80 to \$8.80 per tray in 2017 from the forecast \$7.96 per tray for 2015/16.

NZ wool prices declined at auction this week with limited competition from buyers as wool contaminated with plant matter was discounted. Strong wool of 39 microns dipped to \$5.55/kg at last week's South Island auction, from \$5.75 in the previous South Island sale. Strong wool, which makes up the majority of NZ's production, is trading

CORPORATE ROUND-UP

about 8% higher than at the same time last year. Some 9,509 bales were offered at the latest auction, with limited competition from buyers capping the clearance rate at 74%, AgriHQ says.

Production volumes of NZ wine grapes this year are expected to be significantly higher than in 2015, although within a manageable range, Rabobank says. Its quarterly wine report says 2016 output would exceed 2015's 326,000 tonne vintage but probably wouldn't match 2014's record crop. NZ wine exports rose 7% to \$1.42b in 2015 and Rabobank says there is little sign that trend will reverse any time soon.

AsureQuality has teamed up with France's Bureau Veritas to buy out the partners in Australia's Dairy Technical Services. AsureQuality will own 49% and Bureau Veritas 51% of DTS, a food and beverage testing firm. The price wasn't disclosed.

Nine people have been arrested in China over the sale of counterfeit milk powder under the brands of Beingmate and Abbott Laboratories, which both have working relationships with Fonterra. Some 22,600 cans of the fake powder were sold. Those arrested were long-time formula distributors, familiar with production processes, Chinese media reported.

SeaDragon says it missed its annual pretax earnings guidance of \$144,000 as a downturn in sales pushed down prices of Omega-2 oil and says the final cost of its Omega-3 refinery will be more than previously expected. The company said the Omega-2 market "has proved to be challenging in the last few months of the financial year" with higher year-end inventory and reduced cash reserves. SeaDragon said the final cost of its Omega-3 refinery is likely to rise to \$10.6m.

Market regulation

NZX, the stock market operator, will increase risk assessment of market participants and clarify what practices by brokers and fund managers it regards as market misconduct, according to its 2016 regulatory programme. NZX expects to put out specific rule change proposals between July and Sept, with the aim of putting amended reporting requirements in place by the end of the year. It also plans to embark on a broader review of NZX Main Board/Debt Market rules this year, with the aim of simplifying its processes and responding to domestic and international changes in the regulatory environment,

it said. A separate review is looking at market participant rules.

The Reserve Bank has chosen European technology firm SIA to supply and support a new real-time gross settlement system to replace the current exchange settlement account system. The bank will use a Perago RTGS system supplied by SIA's South African subsidiary, Perago, which is already used by a number of central banks in Scandinavia, deputy governor Geoff Bascand said.

Corporate activity

Tegel Group Holdings, the poultry group controlled by private equity firm Affinity Equity Partners, will sell shares at \$1.55 apiece in the year's first initial public offering, near the bottom of its indicative price range. The price was set in a bookbuild with international investors. The proceeds will repay bank debt, pay out existing holders of Tegel's redeemable shares, cover IPO costs and provide bonuses for senior management. Affinity is reducing its 87% stake to about 45% through the offer, with at least half to be held in escrow until the company's 2017 results.

Veteran corporate raider Ron Brierley raised his takeover offer for **Kirkcaldie & Stains** to \$3 a share from the \$2.75 he offered in March and extended the closing date by a month to June 12. The revised price is just inside the \$2.99-to-\$3.49 range in the cashed up retailer's response to the original offer, which it rejected.

Oaktree Capital, the US hedge fund that owns MediaWorks Investments, has imposed a \$2m restriction on spending or liabilities the media company's executives can incur without recourse to the board. The constitution, prepared with the help of law firm MinterEllisonRuddWatts, replaces the version from 2013 when the media company's lenders seized control and pushed out former owner Ironbridge Capital.

Heartland Bank would compete with private equity buyers to bid for ANZ Bank's UDC

Finance business even though they would have the advantage of not be bound by capital adequacy ratio requirements, First NZ Capital analysts say. UDC Finance's AA- credit rating could be cut if ANZ sell the business or stops seeing it as a core business, S&P says. ■