

National open to electoral deal in Ohariu as well as Epsom

Page 2

Both domestic opinion polls and the tide of international political sentiment towards nationalist, anti-migration parties favours Winston Peters and NZ First. National knows it may have to work with Peters, but it will work hard to make sure it has alternatives in 2017.

Labour's leadership becomes undisciplined

Pages 2
& 5

Andrew Little has made a virtue this year of insisting on much more discipline from his caucus than it had exhibited in recent years. However, his attack on once-party member and Wellington mayoral candidate Nick Leggett and his finance spokesman, Grant Robertson's, attack on the Govt Statistician were out of step with this new, more disciplined approach.

Media mergers under pressure

Page 3

The Commerce Commission has kicked the NZME/Fairfax merger approval to next March, at latest, citing concerns about the impact of the merger on the competitive provision of news. It was to have issued a determination today. A similar extension looks likely for the Sky TV-Vodafone merger proposal, given the weight of submissions from competitors.

Graeme Wheeler's charm offensive

Page 3

RBNZ governor Graeme Wheeler is especially sensitive to the widespread criticism he's copping for the fact that nothing the central bank does seems capable of either restoring inflation to the target 2% annual rate or reducing the value of the NZ dollar. The main reason for that: the US Federal Reserve keeps holding off on its plans to raise American interest rates.

Dairy recovery gathering pace

Page 5

The sharp lift at the last two GlobalDairyTrade auctions are allowing the sector to hope that it has now turned the corner on three seasons of very low prices – or more accurately, a recovery in prices, even if not to the \$8-plus per kg of milksolids of four years ago.

Wellington airport runway argument heats up again

Page 8

The airlines and the management of Wellington International Airport are back in the trenches following publication of a consultant's report for the airline lobby, BARNZ, drawing negative conclusions about the demand for long-haul flights to the capital, based on similar figures used by the airport's consultants to build the case for them.

HugoVision – normal transmission resumes Sept 2

Today's edition of HugoVision is out of the normal fortnightly cycle because of the timing of last week's Hugo Group CEO Seminar & Retreat at Millbrook. Thanks to all who attended for a stimulating and challenging weekend. The next edition of HugoVision will appear, as usual, on Friday Sept 2.

Nats focus on Peters alternatives

The general election is still 16 months away, but the National Party is clearly thinking hard about how to create alternatives to the almost certain pressure it will face to deal with a resurgent NZ First party next November – assuming the election is held on the usual timetable.

The usual accommodation with the ACT party in Epsom is assured, but while the National Party leadership rates its youthful leader David Seymour, it's far from convinced the Act brand is capable of carrying more than one parliamentary seat. Two would be nice, but there are no expectations.

More controllable, they are starting to reason, is an electoral accommodation in Ohariu. It seems long-serving MP and lone United Future party MP Peter Dunne is rethinking retirement in 2017.

Labour and the Greens have already indicated some willingness to have one party stand aside in an Epsom-style deal in Ohariu. National is thinking it would be willing to do the same thing to help Dunne back for the 2017-20 term. Dunne held the seat in 2014 but only by 710 votes. If Labour's Virginia Andersen, with 12,859 votes, had also had the Greens' 2,764, Labour would have won the seat. However, if National hadn't stood a candidate and assuming Dunne would have picked up most of Brett Hudson's 6,120 votes, Dunne would have won comfortably.

Elsewhere, senior ministers' opinion appears to be ambivalent about the Maori Party's capacity to do better than its current two MPs. Co-leader Marama Fox is attracting column inches from political media, but mainly because of her attack on Helen Clark's bid for the UN Secretary-Generalship. The Kingitanga's flirtation with support for parallel Maori sovereignty is a political minefield.

Labour's internal divisions

Part of the reason National is so worried about NZ First doing well next year is because the Labour Party is deeply worried it's losing a significant slice of support to Winston Peters. Andrew Little's outburst against 'right-winger' mayoral candidate and former Labour Party member Nick Leggett earned him a drubbing from Wellington beltway critics, and for once it seems unlikely the move is playing out differently in the electorate. The Auckland event where Leggett was to appear with Stuart Nash – before Little told Nash he couldn't attend – was also attended by several other luminaries of the rejected Labour right, including David Shearer, his former political chief adviser John Pagani, and Shane Jones, who these days is more likely to angle for a NZ First

nomination in the Whangarei electorate. Idle talk of a new breakaway political party involving some of these characters, and including strong podium performers such as Pagani's wife, Josie, is just that: idle talk. With the exception of NZ First, breakaway parties under both the old and the current electoral system tend to sink into bit-part impotence or obscurity.

The latest polling

Much has been made of TV3's Newshub/Reed Research poll putting National and Labour/Greens neck and neck and indicating the potential for a change of govt. We are more sanguine at this stage. National is still polling at about the level it achieved in 2014, in spite of a terrible few weeks in which it's been hammered on trade, immigration and most of all, housing. The immigration issue is starting to gain sufficient traction to be a further headache for National, but the natural first choice of coalition partner for Peters remains National; all the moreso as the MoU between Labour and the Greens would make it very difficult for Labour to ditch the Greens at the altar in favour of NZ First after election day. Reed Research put National at 45.1%, Labour at 32.7%, Greens at 11.5%, and NZ First at 8.1%. One factor that may also be helping Peters is the absence of the Conservative Party, which snaffled nearly 4% of the vote in 2014 without winning a seat. Colin Craig's supporters are moral conservatives and older – in other words, classic NZ First supporters.

Auckland Council

The Auckland Council has passed largely unchanged the Unitary Plan as recommended by the Independent Hearings Panel. Whether their decisions will make much difference to the shape of the next council is a moot point. At present, little significant change appears likely. Former broadcaster Bill Ralston is the only centre-right candidate thought likely to win a seat (Waitemata) from a left Councillor (Mike Lee). The govt clearly believes Goff will win the mayoralty, which is why John Key will not endorse the centre-right candidate, Victoria Crone. Meanwhile, **there is finger-pointing from the National Party hierarchy at the failure of Auckland MPs Nikki Kaye and Paul Goldsmith**, and party operatives Michelle Boag and Sue Wood to produce a coherent centre-right campaign under one banner.

ProdCom proposes standing IHP

The Productivity Commission's interim report on Better Urban Planning proposes the creation of a permanent Independent Hearings Panel to help local govts make politically difficult trade-offs on urban form. "Facilitating development requires a more

restrained approach to land use regulation”, with “broader zones” allowing a “wider range of activities and a stronger evidence base to support new rules”. The report implies but does not specifically advocate splitting the RMA into two pieces of legislation: one for environmental management and the other for urban form. While environment management “within clear bio-physical limits” should be non-negotiable, urban areas should operate with “a presumption in favour of development”.

Govt headache over Labour bill

Labour’s Minimum Wage (Contractor Remuneration) Amendment Bill’s steady progress through the House is starting to alarm business groups. The private members’ bill, in the name of David Parker, intends to stop employers from skirting minimum wage and other employment law requirements by contracting out of them. United Future and the Maori parties continue to support the legislation at second reading, continuing robbing the govt of its bare majority. Labour appears aware there are problems with the proposals and are trying to propose amendments, the bill having emerged largely unaltered from a National Party-dominated select committee. It seems National MPs didn’t expect it to advance. This one will be worth watching over the next week or 10 days. All contractors are likely to be affected, especially those making fixed price contract offers and the customers who accept them.

Media mergers looking harder

The Commerce Commission is signalling that **competitive provision of NZ news is a bigger issue than might have been expected** in its consideration of the NZME/Fairfax merger proposal. It has pushed out its Aug 22 deadline for a determination to mid-March 2017 and will issue a draft in Nov for a further round of submissions and possible public conference in Dec. The commission’s statement announcing this is significant for citing first its interest in “areas such as the provision of national, regional and local news content and information, including the impact on the quality, accuracy and range of the news media in New Zealand”. The impact on advertisers was cited only as an issue “in addition”. NZME and Fairfax placed considerable store on the fact there was little pushback from advertisers in their most recent submissions on the merger.

Meanwhile, the **Sky TV/Vodafone merger proposal has taken some heavy fire** from a range of telcos and broadcasters. The main concern is that the merger would entrench Vodafone’s control of premium content, particularly major sports events, and stifle competition across both telecommunications services and

entertainment. Submissions show virtual unanimity among major players who say consumers would do better by Sky offering sports and entertainment packages to the whole telecommunications market rather than to one player. While that would be less profitable for Sky, it would be likely to expand the total market by more than the merged entity.

Wheeler’s charm offensive

RBNZ governor Graeme Wheeler has held a round of one-to-one briefings with leading economic commentators in the days following the Aug 11 monetary policy statement, where he cut rates 25bps and the currency rose again. The charm offensive reflects the extent to which Wheeler worries he’s losing the PR battle on the central bank’s record in managing monetary conditions. The simplistic analysis says he’s failed for too long to get inflation back to 2%, with no prospect of that level being achieved before 2018, and that macro-prudential tools have little impact on house price inflation. From where Wheeler sits, he can see no likelihood that more aggressively cutting interest rates would have any more than a transitory effect on the value of the NZ dollar. Rather, he needs to keep NZ’s monetary conditions calibrated to prevailing conditions internationally. As other central banks move, so will he, with a particular eye to developments in the US and Aust. This presents a problem if the RBA keeps cutting, which it appears likely to do, if the US Fed starts raising rates. Boiled down, Wheeler’s best hope of achieving a weaker Kiwi dollar rests almost entirely with the Fed resuming its tightening cycle, which has been on hold for a year. Latest Fed minutes suggest the appetite for a rate rise in Dec may be fading, although weekend comments from a Fed board member were more hawkish. **Janet Yellen’s Jackson Hole speech this coming weekend will be a bellwether.**

The latest MPS has room for 60bps of cuts, meaning the RBNZ is keeping its options open for cuts totalling between 50 and 75bps between now and the first half of next year.

Climate change policy

The govt’s concern to be at the negotiating table as new rules are written to govern the new Paris global climate change agreement has motivated a decision to ratify the agreement by Nov. Rules on the treatment of carbon sinks and the creation of internationally credible carbon markets are key. ■

KiwiSaver

The power of a simple idea in the face of a complex explanation is writ large by the horrified public reaction to news stories pointing out that global equities index-tracking funds catch manufacturers of arms, tobacco and other social ills. The issue is a problem not only for default providers but also new entrant, **Simplicity**, which uses **Vanguard**, the global fund manager highlighted in the reports.

Why China is tetchy with NZ

Though Murray McCully may suggest otherwise in public, it is being widely tipped among foreign policy people in Wellington that the problem kiwifruit exporters had in China may have had a political element in it; not so much to do with steel dumping but more because of New Zealand's low-key acceptance of the ruling of the International Court of Arbitration on the South China Sea. This may be an increasing phenomenon; where China applies political pressure on NZ through trade.

While far from a cold relationship – NZ is still where China sends top emerging diplomatic talent to learn the ropes in a benign Western democracy – it has chilled. To the extent that this is a result of more tension between the US and China in recent months, the Wellington adage that NZ “doesn’t have to choose” between its US and Chinese relationships is becoming less true.

Largely unreported is the fact that **the US is making a point of sending both its Navy and Air Force through the shipping lanes and air routes that China now claims as its own in the South China Sea.** US vice-president Joe Biden is reported to have described, during his recent NZ visit, a conversation with Chinese president Xi Xin Ping, in which he informed Beijing of Washington's intention to assert right of passage in the area. Xi's response: “how should we react?” was met with advice by Biden that “if you say nothing, neither will we”.

Key to India in October

PM John Key is planning a state visit to India in Oct, where he will seek to advance talks on an FTA with the govt of Narendra Modi. **Expectations of progress, however, are low.** The global swing to more protectionist sentiment plays to India's entrenched domestic political preferences. Modi's agenda is to modernise, rather than liberalise, the Indian economy.

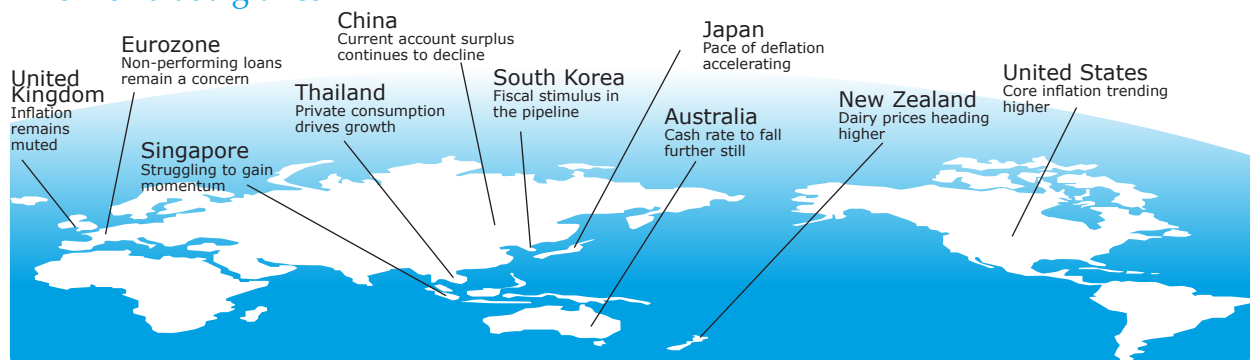
TPP – what hope?

A close confidant to the Hillary Clinton campaign, Derek Shearer, has been in NZ over the past week with MFAT backing, and addressing a range of business, political and academic groups. His view is that while Clinton has made it impossible to back the TPP once inaugurated, there is still a chance the pact will gain support in the ‘lame duck’ period between the US presidential election on Nov 8 and her inauguration in January. **The lame duck session is scheduled to start Nov 14**, while Barack Obama remains president, so passage then would give Clinton political cover and, if Donald Trump were to win the presidency, would put TPP into Congress before he was sworn in. Obama is clearly determined to try to ratify TPP before leaving office. He may be gambling that an array of pro-trade, anti-Trump Republicans will come to his aid in the same way as Bill Clinton was able to pass NAFTA back in 1993, Shearer suggests. Obama has sent a Draft Statement of Administrative Action on TPP to Congress, a key part of the trigger mechanism for advancing the TPP legislation, if he believes it's winnable. **There will be concerted opposition to a renegotiation**, which US lawmakers have suggested would ease TPP's passage, from the 11 other signatory nations. The WTO Doha round shows the dangers of extended negotiation leading to stalemate.

Helen for SG – time to exit?

Helen Clark goes into the straw poll for the Secretary General **vote on Aug 26** amid growing signs that will be her last time on the ballot. A combination of regional voting and possibly some preferences from Permanent members of the Council may have sunk her chances. Murray McCully's comments after a meeting with his Russian counterpart, Sergei Lavrov, last week clearly indicate support will not be forthcoming from Russia, one of the five permanent members whose support would be required. ■

The world at a glance



Dairy price recovery gathers pace

Dairy product prices soared at the Global Dairy Trade auction on Aug 16 amid signs that the worldwide supply glut is easing. The GDT price index gained 12.7% to US\$2,731, while volumes sold rose to 37,766 tonnes from 34,928 tonnes two weeks ago. Whole milk powder surged 18.9% to US\$2,695 a tonne, adding to a 10 percent increase in the last sale two weeks ago. AgriHQ said it was “a stunning result” and that it was **“now safe to say the market has turned a corner.”** Chinese imports of dairy products rose 26% in the June year while growth in EU milk production slowed for a third month in May. Fonterra says European milk production is growing at its slowest since early 2015, while output fell 2% in both Aust and NZ in the June year. US production rose 1%.

NZ dollar outlook

Once again, we are seeing a stronger-for-longer profile for the value of the NZD. Our **year-end target is revised up 4 cents to US70 cents**, while our end-2017 target is revised down by 1 cent to US67 cents. The NZD/AUD profile is little changed through to the end of 2017, within a range of A93-96 cents.

As noted on p3, the outlook for US monetary policy remains the key swing factor. Our forecasts assume three Fed hikes by the end of 2017 (previously four). There is upside to NZD/USD if the Fed keeps policy on hold. Indeed, the projected profile would look quite different in a no-change world, seeing NZD/USD appreciate into the high 70s next year.

Macro-prudential tools

Govt Ministers are worrying about the Auckland housing market. They don't want to see an implosion before the election, which makes it likely that they will agree to the Reserve Bank proposals for debt to income ratios to be applied to mortgage lending.

At the same time, the hope that the Auckland building industry can scale up construction before the election would seem unlikely. Builders are already pointing to delays in the delivery of materials, and at least one major developer has pulled out of the apartment market there as construction inflation approaches 7%.

Unemployment stats revision

Statistics NZ has adopted a new methodology for unemployment figures, with the new data showing a fall in the number of people unemployed to 5.1% or 131,000 people in the three months from March to June. That's down from 5.2% in the previous quarter. The changes adopted bring the NZ stats more into line with international counterparts, but the strong numbers also reflect an economy growing quickly. The working age population rose 2.7% as NZ goes through a period of record migration. Because they are the product of a new formulation, the latest figures inevitably represent a step change that makes comparison with the past unreliable. However, Labour finance spokesman **Grant Robertson's suggestion the figures were being massaged by govt fiat is both farcical and one sign, among many, that**

Trading partner growth

(2014-15 actual; 2016 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	21.9	6.9	6.6	6.3	6.2	6.1	1.4	2.0	2.0	1.8	1.9
Australia	21.0	2.5	2.9	2.7	3.0	3.0	1.5	1.3	2.2	1.7	2.0
United States	14.1	2.4	1.5	2.3	2.3	2.2	0.1	1.2	2.3	2.2	2.2
Japan	7.4	0.6	0.5	0.8	1.1	1.1	0.8	-0.1	0.6	0.4	0.5
Eurozone	7.6	1.6	1.5	1.2	1.5	1.4	0.0	0.2	1.3	1.8	1.5
United Kingdom	4.1	2.2	1.6	0.6	2.0	2.2	0.0	0.7	2.4	2.0	2.2
South Korea	4.0	2.6	2.6	2.6	3.0	3.0	0.7	1.0	1.6	2.0	1.9
Singapore	2.9	2.0	1.7	1.9	2.9	4.0	-0.5	-0.6	0.9	1.5	1.2
Taiwan	2.7	0.6	1.0	1.8	2.4	3.0	-0.3	1.1	1.1	1.5	1.3
Malaysia	2.2	5.0	4.1	4.3	5.0	5.0	2.1	2.2	2.6	2.3	2.4
Hong Kong	2.0	2.4	1.0	1.5	2.2	2.5	3.0	2.3	1.9	2.5	2.3
Indonesia	2.0	4.8	5.0	5.3	5.5	5.6	6.4	3.9	4.6	5.0	4.8
Thailand	1.9	2.8	2.9	3.1	3.8	4.1	-0.9	0.5	1.9	2.0	1.9
Canada	1.7	1.1	1.2	2.1	2.1	2.0	1.1	1.7	2.1	2.0	2.0
Philippines	1.6	5.9	6.1	5.9	5.3	5.2	1.4	1.9	2.9	2.1	2.4
India	1.6	7.6	7.5	7.6	7.5	7.5	4.9	5.2	5.1	5.1	5.1
Vietnam	1.3	6.7	6.2	6.5	6.5	6.5	0.9	2.3	4.2	2.5	3.5
NZ Trading Partners	100	3.4	3.2	3.3	3.5	3.5	1.0	1.3	2.0	1.9	2.0
Forecasts for New Zealand											
Consensus		2.5	2.8	2.8	2.7	2.5	0.3	0.6	1.6	2.0	2.0
BNZ Forecasts		2.5	2.9	2.9	1.9	1.5	0.3	0.3	1.7	2.0	1.8
The World		2.7	2.3	2.7	2.9	3.0	2.1	2.8	2.9	2.7	2.8

Robertson is proving ill-equipped for his role.

Primary exports' performance

The recent performance of NZ's primary exports has been about as varied as the sector itself – some elements very strong, others very weak, and some in the middle. Overall, export values are higher than a year ago. Further growth looks promising over the coming two years, on better pricing and growing volumes, notwithstanding some potential weakness near term, which this week's trade data may confirm. Recent indicators suggest the economy has strong momentum, supporting around 3% growth forecast for this calendar year. **The coming fortnight's data including for tourism, migration, and construction** will give the latest on some key areas of recent strength. At the end of this month it should become possible to judge whether the recent lift in dairy prices and August OCR cut have added to already positive business confidence and activity expectations or, perhaps, to stagnant inflation expectations. Watch too for any initial signs of impact from the RBNZ's LVR announcement on the upcoming credit statistics.

Economic indicators

Consumer confidence dipped in August with respondents expecting house price growth to slow, particularly in Auckland. The ANZ-Roy Morgan consumer confidence index slipped to 117.7 last month from 118.2 in July. A net 25% of respondents expect to be better off financially in a year's time, compared to 29% a month earlier. **Producer input prices** rose at more than four times the pace of output prices in the second quarter, reflecting stronger prices for crude oil. Prices received by producers rose 0.2% in the quarter for an annual gain of 0.5%, while prices paid by producers rose 0.9% in the quarter for an annual gain of 0.3%, Statistics NZ said. Second-quarter **retail sales** rose at the fastest pace in close to a decade. Sales increased a seasonally adjusted 2.3% from the March quarter, the biggest percentage increase since the December 2006 quarter, Statistics NZ said. **Electronic card transactions** in July rose 0.4% m/m seasonally adjusted, despite a 6% fall in fuel prices during the month, indicating strong underlying volume growth. The July BNZ/BusinessNZ **Performance of Services Index** indicated some weakness, by comparison with the relatively robust performance of its equivalent index for manufacturing. The PSI slipped to an average level of 54.2. The employment measure in the index is still running strongly, at 53.8 for July. **ANZ's index of job advertisements** rose 1.4% in July, the sixth consecutive monthly gain and an 11% rise for the year. ■

Earnings season

Nuplex Industries, which is being taken over by Allnex Belgium, posted a 19% gain in annual profit as earnings lifted across all its key markets. Profit rose to \$84.4m from \$70.8m, a year earlier, while sales rose 2% to \$1.38b.

Freightways reported a 5.4% increase in full-year sales to \$505m while underlying profit before one-off items rose 8% to \$54.4m. The courier and document handling company recognised a charge of \$6.3m relating to the further write-down of the carrying value of its four Convair aircraft, which fully retire by the end of this month, and related spare parts.

Contact Energy posted little-changed full-year operating earnings amid signs that electricity demand is starting to grow after a long period of decline and that its investment in technology to gain and retain customers is starting to show returns. Earnings before interest, tax, depreciation, amortisation and changes in the value of financial instruments fell 0.4% to \$523m as revenue fell 5% to \$1.51b. **Genesis, Mercury, Meridian and Vector** are due to report in the week ahead. **Transpower** reported a slight decline (0.8%) in ebitdaf to \$794.4m for the June 30 year and declared a final dividend that will take total returns to the Crown this year to \$163m, from \$188m last year.

Summerset Group lifted first-half earnings 44%, beating expectations, and will pay a larger dividend than anticipated after enjoying a record second quarter of unit sales. Underlying earnings, which strip out unrealised movements in the value of its property portfolio, rose to \$24.7m from \$17.1m a year earlier. Metlifecare reports this week.

NZX's first-half profit dropped 80% to \$3.6m as costs related to the ongoing Ralec litigation offset gains in operating revenue. Operating costs rose 20% to \$27m while revenue rose 10% to \$37.9m.

Paymark increased its dividend by 56% to \$9.4m after reporting a 30% gain in revenue to \$68m and a 62% rise in profit to \$19.5m. The eftpos provider's strong result drew comment from Retail NZ, which said it was concerned about the scale of fees being charged to retailers by the banks and card companies, which were "substantially higher" than in Aust and the UK. Paymark hired Cameron Partners in February for a strategic review of the business after the owners were approached about their shares.

Loyalty NZ, operator of the FlyBuys retail rewards programme, produced a \$1.5m profit (\$0.83m the previous year) on operating revenue of \$89.4m. Some 250,000 new FlyBuys cardholders were registered last year, with 2.5m NZers now holding the cards.

CORPORATE ROUND-UP

Pumpkin Patch affirmed its earnings guidance for the year ended July 31, and said it had seen a “pleasing second half performance”, although it’s still considering further restructuring and is looking for more “flexibility” from its lenders. Normalised earnings before interest, tax, depreciation and amortisation were between \$2.8m and \$3.4m in the year, a range the retailer initially gave with its first-half results in May.

Freightways posted an 8% gain in full-year profit to \$54.4m with both revenue and profits driven by increased migration and higher consumer demand. The company is predicting incremental growth in the year ahead.

Fletcher Building posted a 71% gain in full-year profit, and met its earnings guidance, driven by an improved performance in Australia and gains in its NZ distribution, residential and construction divisions. Guidance for 2017 was for ebit in a range of \$720m to \$760m, helped by the contribution from Higgins Group, which was likely to offset the impact of Pacific Steel, Rocla Quarry Products and Fletcher EQR operations falling out of the P&L. The company expects to fully impute dividends through to 2019 and will fully frank Australian dividends where possible.

Bluescope’s NZ units, NZ Steel and Pacific Steel, lost A\$53.5m, a A\$20.3m deterioration on the previous year and are targeting a further A\$15m of annual savings on top of A\$45m achieved last year. The NZ assets remain under review as to whether they can be made internationally competitive, but Bluescope said Aust and NZ steelmaking will continue “for now”. Total volumes of steel sold from the NZ units was down, while ironsands sales spiked. The hunt for a buyer for the Taharoa ironsands business continues.

Steel & Tube posted a 9.3% decline in full-year underlying profit to \$19.4m as it faced increased costs, including for substandard products, and “intense” rivalry in the local steel market. Sales rose 3% to a record \$516m but the gain was swallowed up by selling and administration expenses and a one-off cost in the second half related to product quality issues.

Precinct Properties annual profit rose 13% to \$138m while gross rental revenue fell 14% to \$146m. It lifted its dividend guidance to 5.6 cps for 2017, from 5.4 cps in 2016, and gave earnings guidance of 6.2 cps.

Opus International Consultants turned to a loss in the first half after writing down the value of its Aust and Canadian businesses, which have struggled on falling oil and gas prices. The Wellington-based company posted a net loss of \$23m in the six months

ended June 30, from a profit of \$15.9m a year earlier. That included a \$22.6m impairment on goodwill and writedown of its Athabaskan Resource JV.

Heartland Bank boosted annual profit 12% and will pay a bigger dividend, after widening margins as low interest rates reduced funding costs. Net profit rose to \$54.2m from \$48.2m.

Port of Tauranga posted a 2.3% decline in full-year profit, while announcing plans to return \$140m to shareholders over four years, starting with a tax-paid 25cps special dividend. It also plans a five-for-one share split to boost liquidity. Profit fell to \$77.3m from \$79.1m, while operating revenue fell to \$245.5m from \$268m. The port company had reviewed its capital needs because its five-year, \$350m capex programme is coming to an end. It claims \$200m of ‘headroom’, should it wish to move on commercial opportunities at short notice.

Spark posted a 1.3% drop in annual profit thanks to a bigger tax bill and weaker revenue, although the country’s biggest telco promised to pay another special dividend in 2017. Profit slipped to \$370m from \$375m, but included a 33% increase in tax to \$147m. Revenue fell 1% to \$3.5b. CEO Simon Moutter called for the creation of a new venture capital fund backed by major NZ corporates.

Skellerup’s annual profit fell 6% to \$20.5m as weaker demand for products in its agricultural business weighed on improved earnings from its industrial unit. The result was within guidance. Chairman Selwyn Cushing said earnings are expected to improve in the coming 2017 financial year.

Primary sector

Fonterra will pay another 10cps share of its previously announced 2015/16 forecast dividend of 40 cps to advance dairy farmers’ cashflow as the sector continues to see prices below the breakeven milk price, which Fonterra has reset to \$5.05 per kg / MS, from a previous \$5.25. The change reflects sector-wide cost control that is bringing down production costs, while the current season’s forecast payout remains at \$4.25. Independent director **John Waller** will resign from the Fonterra board on Aug 31, having served since 2009. Health reasons are understood to be behind the move. **Amalgamated Dairies**, the investment vehicle for the Goodfellow family, sold down its stake in fishing company Sanford to 27% from 33%. Earlier this year, a separate Goodfellow vehicle and the second-biggest shareholder of Sanford, Avalon Investment Trust, sold \$25m of shares to Japanese food group Maruha Nichiro Corp, leaving it with 9.2% of the fishing company.

Zespri was due to resume shipments to China last

CORPORATE ROUND-UP

week after an overhaul of the process for checking kiwifruit prior to export. Exports were briefly halted when Chinese inspectors found NZ kiwifruit entering Chinese ports carried the fruit-rot fungus *Neofabraea actinidiae*. The problem is not new and the fungus is in fact present in China. While the phyto-sanitary issue is legitimate, it appears as if political messages were being sent by raising the issue now (*see p.4*).

Silver Fern Farm shareholders have reaffirmed their support for the sale of a controlling stake in NZ's biggest meat exporter to China's Shanghai Maling Aquarius for \$261m at a special meeting called by a minority opposed to the deal. Some 2,610 shareholders voted, representing 62.2% of eligible votes, with 80.4% cast in favour of the deal. The sale was a done deal anyway, according to chairman Rob Hewett, because the company had a mandate from the first vote. The deal still awaits Overseas Investment Office signoff.

Tegel Group says it has been cleared to export raw poultry to Australia for the first time after working alongside the Ministry for Primary Industries to secure access. Tegel exported A\$70m of chicken to Aust in its 2016 year, less than 1% of a market estimated to be worth A\$7.1b.

Technology and innovation

Martin Aircraft is to enter a technology-sharing agreement with cornerstone shareholder KuangChi Science which will see CEO Peter Coker step down to take a new role in KuangChi's "Global Community of Innovation" (GCI) while chief financial officer James West is promoted as his replacement. GCI "will explore ways to share services to lower costs and leverage technology". **Snowball Effect** narrowed its loss in the 2016 financial year as it reaped bigger fees from its equity crowdfunding platform, but said it may have to crowdfund itself if expected growth doesn't materialise. The company posted a net loss of \$76,428 in the year ended March 31, from a loss of \$214,720 a year earlier as revenue rose 42% to \$415,253.

Litigation and regulation

ResMed has filed a patent infringement complaint

in the Southern District of California, as well as lawsuits in Germany and NZ, and to the US International Trade Commission against **Fisher & Paykel Healthcare** just days after the Auckland-based company filed its own lawsuit against its US rival in the market for breathing masks and air flow products. F&P Healthcare says it will "vigorously defend" the allegations.

Michael Hill has agreed to pay \$30.3m to the Inland Revenue Department to settle a long-running tax battle over the transfer of the group's intellectual property to Aust in late 2008.

Vector has won for a second time against the Inland Revenue Department over its tax treatment for a \$53m payment made by grid operator Transpower for access to the company's Penrose to Hobson St tunnel and a North Shore transmission corridor.

The Justice Ministry has issued a consultation paper on the second tranche of legislation required to meet NZ's obligations under the **anti-money laundering and countering financing of terrorism**. Submissions are due by Friday Sept 16.

Wellington airport runway

The highly politicised Wellington International Airport runway extension project heated up again, with the release of a fresh report for the airline lobby, BARNZ, casting doubt on the airport's forecasts of demand for long-haul services out of the capital.

BARNZ members, which include Air NZ and most other carriers operating international services to and from NZ, oppose the \$300m, 350 metre extension proposal. They fear the extra length will be counted in WIAL's regulated asset base, despite the airport's statements to the contrary, and Air NZ in particular is committed to developing its international hub through Auckland.

Aust-based Ailevon Pacific Aviation Consultants said the likelihood of airlines establishing new long-haul services to the capital is "**extremely remote, implausible at best**". WIAL stands by the analysis from its consultants, InterVISTAS. The BARNZ report is one of hundreds of submissions received on the proposal following its application to the Environment Court for a resource consent. ■