

# HUGOvision

Assessing the economic and political environment in New Zealand

GOVERNMENT FORMATION SPECIAL

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## A less stable, less business-focused government

**NZ political leadership is undergoing a generational change** as a result of NZ First's decision to go into coalition with Labour, supported on confidence and supply by the Green Party.

While there is some irony in that change being ushered in by a 72 year-old parliamentarian, Winston Peters is also entering his last term as an MP. **The seeds of the NZ First leadership battle to come**, between deputy leader Ron Mark and returning 'newcomer' Shane Jones, **have have been sown in the prolonged tussle that occurred behind closed doors over whether to head left or right.**

We believe that Peters faced a split caucus and that the price of coalition with Labour – accepting **3 Green ministers and an under-secretary outside Cabinet – was a bitter pill for Peters.** However, without ministerial posts, the Greens could not have accepted relegation to a supporting role after last year's MoU with Labour.

That said, **many senior Labour MPs will be more than happy to have kept the Greens at arms' length and see NZ First's support base as a source of fresh support for Labour in 2020.**

**James Shaw** is putting the best possible gloss on the outcome, calling the result **NZ's first "truly MMP Parliament"** since there are no alternative combinations of minor parties that would deliver Labour a majority. All three parties will have to agree on policy to make progress. **Expect some graunching gears**, particularly if Peters's chief of staff, the excitable former Fed Farmers communications head, **David Broome**, maintains as significant a role as he has through the coalition negotiation phase.

For the 43.2% of the electorate who voted decisively against National – which was only just ahead on 44.4% – Peters's decision to side with change is having a demonstrably **euphoric impact.** Peters's promise to pursue **"capitalism with a human face"** captures the combination of social tensions that animated a mood among many for change, while underscoring that **this will not be a radical govt.**

**Investors, particularly those with foreign owners, will not be part of this euphoria.** The signs already apparent in manufacturing, services, and consumer and business confidence **indices of a more cautious economic mood are likely to be exacerbated by the uncertainty created by a new administration** after a prolonged period of continuity.

However, we retain our view that the change **will not 'derail' the NZ economy.** Global economic conditions continue to support NZ tourism and exports, the new govt will run a more stimulatory fiscal policy than National, and the fiscal position remains sound. Slightly higher inflation and a larger govt debt programme may push interest rates a little higher, although less positive sentiment may still see a weaker kiwi dollar.

## An almost totally new team

The next Cabinet will be largely untested.

**With the exception of David Parker, none of Labour's front bench has ministerial experience** and nor do the Greens, who reach the Cabinet table for the first time ever. Only Peters and Jones have been ministers from NZ First and both have a track record of sackings. **Jacinda Ardern has never led the party outside an election campaign**, is not associated with any major policy innovations and has largely inherited the policy platform built by Andrew Little. Expect the new administration to take **at least 12 months to really find its feet.**

However, **Ardern ignited the political imagination of a large section of the population**, and has shown a rare capacity for popular connection, sure-footed political instincts and authority. **Labour's much larger caucus will be a challenge** to manage, especially as the National Party's 56 MPs constitute an experienced and well-informed Opposition, even if several former Ministers depart Parliament over the next few months. We see **no reason for a swift change from Bill English although he is unlikely to lead National into the next election.**

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## 2017 ELECTION SPECIAL

National is consoling itself with the belief that a fourth term would not have allowed a fifth, but that an inexperienced govt involving NZ First may only last one term, if not less, creating credible potential for a return in 2020. It remains the largest party in Parliament and has emerging backbench talent even if the leader to tackle Ardern is not obvious.

In the meantime, on the policy front, it's clear that:

- Phil Twyford's **KiwiBuild** policy will be out of the blocks early as the new govt's flagship response to the housing affordability and supply crisis and comes with substantial policy detail;
- **changes to the Reserve Bank Act will not be as far-reaching as Peters would wish;**
- **export education for non-degree courses faces a crackdown.** International students, particularly Indian students in sub-degree private training, are an easy target as they are **one of the largest sources of net migration, inferior private training course quality is a major issue, as is their exploitation as underpaid labour.** Other moves to curb immigration may be muted;
- bottled water for export will face a royalty, but the **fate of David Parker's water tax is not yet clear;**
- farmers face a **more activist climate change policy,** including land use change initiatives. **A higher NZ carbon price is likely to emerge immediately;**
- Crown-assisted **irrigation** is finished;
- an early source of friction is likely with large-scale employers over Labour's **Fair Pay Agreement** initiative, which flew under the radar during the election but has the **potential to be a flashpoint** for any business antagonism towards the new administration.

While we **do not expect the Greens to be lead ministers for the environment, energy or climate change,** associate ministerial positions are likely, with specialist responsibilities. Expect former ECan councillor **Eugenie Sage,** one of the Greens most experienced hands, to get water responsibilities.

**NZ First expects regional development portfolios;** it would be unusual if Peters were to turn down the deputy prime ministership that Ardern has offered him.

### An early challenge

The new PM faces a significant early hurdle in the form of the **TPP-11** negotiation that could come to a head at the **APEC summit in Vietnam in three weeks' time.**

There is likely to be international media interest in the Jacinda Ardern phenomenon, but her govt's

desire to renegotiate ISDS clauses and to strengthen restrictions on foreign residential property purchases to a 'ban' could, in a worst case scenario, see NZ abandoned by the remaining TPP signatories.

Both Japan and Australia are pushing hard for a path to conclusion at APEC. A rejection of the NZ position would be an **early, high profile defeat for Ardern in front of both domestic and international audiences.**

If that looks likely, would she deputise to her trade minister? At this stage, she says she intends to make the trip. Ardern will be **hoping that other countries, notably Malaysia, derail progress with their own renegotiation demands** rather than put the spotlight on NZ's reversal from cheerleader to TPP laggard.

### Party agreements – other elements to look for

The detail of the agreements between the parties, including ministerial portfolios – 4 of which will go to NZ First and one under-secretary – will emerge shortly, but not necessarily before Labour weekend.

- **Tax reform:** there was no mention yesterday of the tax working group;
- **RMA reform:** NZ First opposes the Maori consultation elements legislated late in the last term with the support of the Maori Party. While all three parties agree the Act needs to deal better with conflicts between urban planning and environmental imperatives, it is not clear whether they believe splitting the act in two is necessary;
- **Water allocation:** NZ First opposes a water tax, is opaque on water pricing and opposes including Maori rights and interests in freshwater in an allocation policy. How much will this vital area of policy development, with a technical advisory group due to report in Dec, be further delayed?
- **Nitrogen charging:** a Greens policy that Labour supports in principle. Would Labour back it to achieve Green support, for example, for the ETS?
- **GM:** total opposition to GM organisms is a touchstone for the Greens.

### The basics

Labour and NZ First will enter a full coalition agreement, with a combined 55 seats (46 + 9), with the Greens guaranteeing their 8 seats on confidence and supply to give the new govt 63 seats in the 120 Parliament, **a majority of six** over National and Act's 57 seats (56 + 1).

We will update further as Cabinet membership and portfolio allocations are announced. 🇳🇿

*Patrick Smellie for The Hugo Group*