

## **Principle meets practicality – foreign house buyers’ ban** Page 2

The Overseas Investment Bill looks likely to be amended as the pitfalls of restricting foreign capital in a capital-hungry, fast-growing economy become apparent. Impediments to rental housing and infrastructure investment look more compelling reasons for change than the complaints of would-be Wanaka lakefront villa-buyers.

## **BEPS – getting the balance right in international tax** Page 2

A creature of the previous gov’t’s commitment to the OECD’s initiative to crack down on cross-border tax avoidance, the legislation before select committee on base erosion and profit-shifting also looks ripe for softening.

## **The ‘Pacific reset’ – proxy for an emerging ‘China reset’** Page 2

To the general public, Jacinda Ardern’s Pacific tour has been an exercise in cementing her common touch in a regional context, and increasing aid to marginal states threatened by increasingly frequent climatic disasters. However, the charm offensive in Australia and the Pacific over the last week is setting out a more nuanced, less supine new policy on engagement with China. The exact shape of that rebalancing is still emerging.

## **National Party rejuvenation** Page 2

Simon Bridges has a free hand to make the first cut at creating the 21st century version of the party following the departure of the heavy hitters who dominated its rise to power over the last generation.

## **Special feature: climate change policy** Page 6

There are a lot of moving parts, but the shape of the gov’t’s approach to climate change policy is beginning to emerge. Expect some flexibility about which gases are given priority as agriculture comes into the emissions trading scheme.

## **State sector reform – a 30 year journey from inputs to outcomes?** Page 4

Not content with a massive agenda in education reform and managing day to day tactics in the House, Labour’s Chris Hipkins is also turning his mind, as State Services Minister, to fundamental reform of the 30 year-old State Sector Act. His challenge: legislating to encourage entrepreneurial public servants.

## **Global politics – volatility and challenges for democracy continue** Page 4

Germany finally has a government; Italy has elected a Parliament dominated by a party started by an anti-EU comedian, and China’s president wants to tear up the constitution to allow the possibility of becoming leader for life. The battle between democracy, authoritarianism, and political nihilism continues.

## Overseas buyer ban running into trouble

The pressure for pragmatic tweaks to the gov't's blanket ban on foreign buyers owning homes in NZ is growing as the Overseas Investment Amendment Bill goes through the select committee process.

The bill's architect, **David Parker**, has no sympathy for exemptions to allow foreign buyers access to elite real estate in areas like Central Otago and Northland.

There will be a growing number of NZ property owners in those areas waking up to the fact the policy will significantly diminish the market for such property, but Parker is unlikely to judge them an important political constituency.

More difficult to ignore is the critique this week from economist and rental reform advocate **Shamubeel Equb**, who fears the proposed new regime will stifle investment in affordable rental housing.

As drafted, the bill could discourage use of foreign capital for new rental housing because it requires such properties to be on sold – an outcome at odds with a rental property owner's desire to hold the asset for income generation.

Likewise, submissions by all three main telcos suggest the measures will complicate, slow down and add expense to the deployment of ultrafast broadband. Parker has said the gov't "will probably fix that" problem.

## BEPS reforms taking heavy fire

Two key proposals in the Taxation (Neutralising Base Erosion and Profit Shifting) Bill have attracted sustained criticism from accounting, legal and corporate taxpaying submitters to the finance and expenditure committee:

- deeming the credit ratings of NZ subsidiaries of multinational companies as being, for tax purposes, one notch below that of their parent is seen as a radical over-reach, which will often fail to reflect commercial reality, goes beyond regimes being enacted in other OECD countries, will raise the cost of capital for NZ companies;
- rules relating to mismatched hybrid financial instruments are seen as similarly unduly onerous and likely to create significant compliance costs and difficulty for SMEs caught by cross-border tax issues.

## Buoyant tax take still boosting Crown operating surplus

The gov't's operating surplus continued to track ahead of forecast in the first seven months of the financial year as optimistic consumers and low unemployment spurred higher income tax and GST. The operating surplus before gains and losses (obegal) was a surplus of \$2.44b in the seven months ended Jan 31, some \$677m better than expected.

## National Party rejuvenation

It is becoming clear that there has been over the past year a much more substantial debate within National about tax cuts than was obvious from the outside. **Steven Joyce**, backed by **Bill English**, led support for the cuts. Now that both are gone, **Simon Bridges** and the new finance spokesperson **Amy Adams** are saying that the cuts policy will be reviewed.

This is the beginning of a "new" National, which in the words of one leading former Minister who opposed the cuts, can finally move out of GFC recovery mode.

Bridges will announce his new shadow Ministry early next week. Though he has spoken to the key players, he has yet to talk to others like leadership aspirant **Mark Mitchell**. But the front bench after Bridges, **Paula Bennett** and Adams will include **Judith Collins**, probably with Economic Development to go up against **David Parker** and **Shane Jones**; **Jonathan Coleman**, Mitchell, and **Nikki Kaye**.

However, there is little confidence that Bridges has the chops to win in 2020 unless the Ardern administration implodes, perhaps during another global economic shock. Without some factor like that, National still looks friendless in 2020. While it might hope to create a new relationship with NZ First, especially assuming **Winston Peters** hands the baton on during this parliamentary term, it is just as possible that NZ First struggles to win an electorate seat or cross the 5% MMP threshold to guarantee its presence in the next Parliament. If that happens, then National is left with the same high-risk strategy as in 2017 – an outright majority win.

Among the more florid rumours about future National Party leaders is the suggestion that **Simon Power**, who quit politics in 2011 when it became clear **John Key** was entrenched as leader, may seek a return. We are not promoting that view, but note its emergence.

## Peters and the shifting view on China

**Winston Peters**'s off-the-cuff comments at the Lowy Institute about China's "Belt and Road" surprised

the Prime Minister's office, the Ministry of Foreign Affairs and Trade, the Australian High Commission in Wellington and foreign affairs officials and observers in Aust.

However, the comments demonstrated three fundamental aspects of Peters' operational methods and mindset.

He clearly conflates his opposition to Chinese migration and direct investment in NZ with an instinctive opposition to China; he has a tendency to operate without official advice and without bothering to use conventional policy-making channels; and his ultimate political yardstick is to oppose whatever the previous govt did.

Add to this the fact that he has little regard or perhaps appreciation for the significance of the confusion he causes when his apparently official comments are contradictory. In the context of the NZ-China relationship, Peters's most recent comments are at odds with his first speech on the issue, late last year, in which he took an unexpectedly conciliatory line on China's poor human rights record.

This opacity makes it all the more difficult to read the extent of an underlying shift by the current administration to a more skeptical view of China than the previous govt took.

So far, no govt minister has yet adopted the language of the "Indo-Pacific" rather than "Asia-Pacific" – a shift to marginalise China begun by US president Donald Trump at last Nov's APEC summit.

But in the context of the govt's "Pacific reset" policy, outlined by Peters to the Lowy Institute in Sydney last week and Ardern to the Institute of International Affairs in Wellington, China is cast more as a rival rather than partner.

And though Ardern has not endorsed Peters' claims that there is a review of NZ's signing of the MoU with China over the Belt and Road, she equally has not endorsed the support contained within the memorandum. In her IIA speech, she said only that China's leadership in climate change and trade liberalisation "could" assist NZ's policy objectives.

None of this may worry Beijing too much, but a decision to withdraw the support for Belt and Road would. That would be a real and substantial shift from NZ, which has so far managed not to pick sides between western and Asian influence in the region.

However, there is clearly pressure on NZ from Aust and probably Japan to back away from its usually soft language on China and perhaps to pull back from Belt and Road endorsement.

And there is a recognition at the top of the govt that the NZ economy may have become too dependent

on the Chinese market and that this is constraining foreign policy choices.

The CPTPP may offer some help here with the opening up of markets in Japan, Canada and Mexico and potentially very importantly, Viet Nam.

Note also that as the CPTPP signing was occurring in Chile, Japan was talking up the potential for other countries to join, including Sth Korea – potentially more interested now that it has to renegotiate its US FTA – Thailand, the Philippines, Sri Lanka and even the UK. Taiwan could also join, although may be unable to without China joining first.

The Vietnamese Prime Minister is due here next week. In some ways, New Zealand and Viet Nam are in a similar position with China, reluctant economic brides anxious to see a balance between China and the US within the region.

## The 'Pacific reset'

Many of the same tensions are reflected in the govt's 'Pacific reset'. While portrayed in mainstream media as primarily about boosting the aid budget, the policy subtly repositions NZ more closely to Aust and Japanese concerns to counter Chinese influence in the Pacific.

This is important in part because it creates an avenue to move beyond the tension created with Canberra by Ardern's repeated challenges to Aust's asylum-seeker policy. However, it is likely to come with increased Aust pressure for NZ alignment with Aust defence policy and greater investment in inter-operability and raw defence capability.

The recent Aust white paper on regional security sees integration of Pacific countries' economies into the Aust-NZ economies as a strategic goal to bolster regional security.

One speaker at the IIA conference warned Pacific Island countries, which are becoming more assertive and self-confident politically, are less disposed to welcome that kind of paternalism. Peters's Lowy speech acknowledged "Pacific countries want to stand on their own two feet as equals, make their own choices, and have their distinctive voices heard on the global stage".

However, a "dizzying array of social and environmental problems" are "attracting an increasing number of external actors and interests"

## Anti-dumping

Commerce Minister Kris Faafoi has upheld the previous govt's approach to NZ Steel's application for anti-dumping duties to be imposed on imports of Chinese and Malaysian steel. A second MBIE report on the issue saw Faafoi confirm this week the judgement that subsidies for steel reinforcing bar and coil are minimal.

NZ Steel owner Bluescope continued to stress in its latest half-year report that the viability of the Glenbrook steel remains under review.

and change that is “sometimes not for the best,” Peters said. “Need and temptation often leads to greater risk than prudence would suggest.”

He went on to claim that “with more regional instability and global uncertainty than at any time in living memory, Aust and NZ ... have never since 1945 never needed each other more”.

“We are in a serious struggle to get on top of the problem we have in the Pacific and we need best efforts from both of our countries.”

## Inputs to outputs to outcomes – 30 years of state sector reform

State Services Minister Chris Hipkins is in the early stages of planning major reform to the 30 year-old State Sector Act. Fashioned by Stan Rodger in the late 1980s, the Act’s fundamental shifts were to give corporate-style accountability to govt dept CEOs, and to end a focus on ‘inputs’ in favour of producing agreed ‘outputs’.

The next phase of reform envisages CEOs becoming collectively rather than individually responsible for broad govt policy ‘outcomes’. In that sense, Hipkins is adopting the same mindset, if not the same policy approach, as the previous govt, which sought greater coordination across govt agency ‘siloes’.

Hipkins believes legislative change is essential to creating a more entrepreneurial, risk-taking culture among public servants, with legislation expected next year.

## Insurance contracts review

The govt is resuming **reviews of insurance contract law it says have been stalled** since around 2007, looking particularly at whether treatment of non-disclosure is too onerous, and consumers’ ability to compare different levels of cover. An issues paper is due mid-2018, an options paper by year-end and policy decisions and legislation next year. 🇳🇿

## Europe

**Germany** finally has a govt, five months after elections were held. Angela Merkel has stitched together a ‘grand coalition’ involving her own Christian Democratic Party and the centre-left SPD. The combination keeps right-wing nationalist parties at bay, but has created some turmoil in the SPD. In **Italy**, the Five Star party formed originally by a comedian tired of the country’s politics, has won the largest share of the popular vote and is in a position to form a govt that may challenge Italy’s commitment to the EU. Voter returns indicate an electorate that continues to be polarised by region. The more industrialised north and major cities voted for centre-right and anti-migrant parties, while the south and the islands of **Sicily** and **Sardinia** were strongholds for Five Star and centre-left options. In the **UK**, **Brexit** negotiations have been going poorly for **PM Theresa May**. As the process drags on, **Brussels** is increasingly inclined to assert the far stronger hand that it holds in dealing with the UK. In the last week, attempts to carve out special status for the **City of London** have failed, and the steady exodus of financial service providers to European capitals continues.

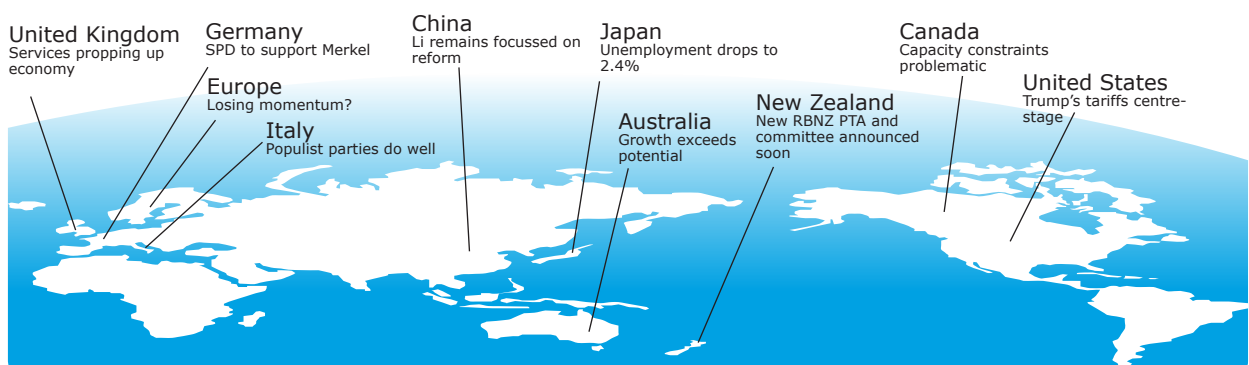
## Asia

Chinese president **Xi Xin Ping** has begun a process that would do away with the two five-year presidential term limit, opening the way to him becoming ‘leader for life’, should he choose to. The development is the **latest in a series of lurches globally towards authoritarianism over democracy**.

## South Africa

The South African Senate approved a measure to allow expropriation of land owned by white South Africans following the replacement of president **Jacob Zuma** with **Cyril Rampahosa**. 🇳🇿

## The world at a glance



## Confidence divergence persists

**Consumer confidence** gained in Feb, with the **ANZ Roy Morgan** consumer confidence index rising to 127.7 from 126.9 in Jan. The current conditions index fell 4 points to 127.3 while the future conditions index gained 4 points to 128. **Businesses, however, remained gloomy** in Feb, although sentiment improved in all five industry sectors in the **ANZ Business Outlook**. A net 19% of businesses were pessimistic about the year ahead, versus 38% in Dec.

## Economic indicators

**Annual net migration** continued to moderate in Jan, while staying near record highs, with student and resident visa numbers dropping while work visa numbers continued to climb. Annual net migration was 70,100 in the year to Jan, from 71,300 in the same period a year earlier.

The **merchandise terms of trade** increased 0.8% in the three months ended Dec 31 from a revised gain of 1.3 % in the Sep quarter. **Trading activity** rose in Jan, with **imports and exports both reaching new highs for a Jan month**. Goods exports jumped 9.5% to \$4.31b compared with Jan last year, while imports surged 17% to \$4.88b, resulting in a trade deficit of \$566m, the largest for the month since 2007.

**Commodity prices** rose in Feb, led by prices for dairy products and meat. Wool prices also rose. The **ANZ commodity price index** gained 2.8% in Feb and was up 5% on the year. In NZ dollar terms the index lifted 2.4 % in the month. Dairy prices jumped 6%, driven

by concerns about a potential early finish to the NZ season and cooler weather in Europe. Skim milk powder rose 9.4%.

**New vehicle sales** declined for the first month in more than two years in Feb as stock levels ran low after several cargo ships carrying vehicles from Japan were turned away on biosecurity grounds due to stink bug infestations. Some 11,531 new vehicles were registered in Feb, down 2% from the 11,785 vehicles registered in Feb last year and the first year-on-year decline since May 2015.

## Construction and real estate

The value of building work rose in the fourth quarter as a flurry of activity in industrial and commercial accommodation properties such as hotels made up for slower residential construction. The seasonally adjusted value of total building work rose 2.3% in the three months ended Dec 31. Non-residential work lifted 5% while residential work increased 0.9%.

**Residential building consents** edged higher in Jan as permits for new houses, apartments and townhouses made up for a decline in retirement unit applications. Seasonally adjusted consents increased 0.2% in Jan to 2,445, with new permits for houses rising 3.7% to 1,715.

**Auckland house prices** are expected to be relatively stable over the remainder of the summer and autumn sales season, says Barfoot & Thompson. The number of properties on the market picked up and prices declined in Feb, according to the realtor. The average sale price fell to \$919,454 in Feb. ■

## Trading partner growth

(2015-2016 actual; 2017 – 2019 Hugo and Consensus Forecasts)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
China	26.2	6.9	6.7	6.8	6.5	6.3	1.4	2.0	1.6	2.2	2.2
Australia	20.3	2.4	2.6	2.3	2.7	2.7	1.5	1.3	2.0	2.1	2.3
United States	12.5	2.6	1.5	2.3	2.7	2.4	0.1	1.3	2.1	2.1	2.1
Japan	7.6	1.2	1.0	1.8	1.4	1.1	0.8	-0.1	0.5	0.9	1.1
Eurozone	6.7	1.9	1.8	2.3	2.2	1.8	0.0	0.2	1.5	1.4	1.6
South Korea	3.6	2.8	2.8	3.2	3.0	2.8	0.7	1.0	2.0	1.9	2.0
United Kingdom	3.3	2.2	1.8	1.7	1.4	1.5	0.0	0.7	2.7	2.6	2.2
Taiwan	2.6	0.7	1.4	2.6	2.4	2.2	-0.3	1.4	0.6	1.3	1.3
Singapore	2.3	1.9	2.0	3.4	3.0	2.7	-0.5	0.6	0.6	1.0	1.5
Malaysia	2.3	5.0	4.2	5.8	5.3	5.1	2.1	2.1	3.9	2.8	2.8
Indonesia	2.1	4.9	5.0	5.1	5.3	5.4	6.4	3.5	3.8	3.6	3.8
Hong Kong	2.1	2.4	2.0	3.7	2.8	2.6	3.0	2.4	1.6	2.3	2.1
Thailand	2.1	2.9	3.2	3.9	3.8	3.6	-0.9	0.2	0.7	1.4	1.6
Philippines	1.6	6.1	6.9	6.7	6.5	6.4	1.4	1.8	3.2	3.6	3.5
India	1.6	7.9	7.1	6.6	7.4	7.6	4.9	4.5	3.5	4.7	4.7
Vietnam	1.6	6.7	6.2	6.5	6.5	6.2	0.6	2.7	3.7	4.3	4.3
Canada	1.5	0.9	1.4	3.0	2.1	1.8	1.1	1.4	1.6	2.0	2.0
<b>NZ Trading Partners</b>	100.00	3.8	3.6	3.9	3.9	3.7	1.1	1.4	1.8	2.1	2.2
<b>Forecasts for New Zealand</b>											
Consensus		2.5	3.0	2.8	3.0	2.9	0.3	0.6	1.9	1.8	2.0
BNZ Forecasts		3.5	4.0	2.9	2.8	3.0	0.3	0.6	1.9	1.2	2.0
<b>The World</b>		3.0	2.5	3.2	3.3	3.1	1.9	2.4	3.4	4.6	2.8

## CLIMATE CHANGE POLICY

## Climate change policy taking shape

Climate Change Minister **James Shaw** is expecting to pass a Zero Carbon Act around April 2019 – assuming the crush of other major legislation piling up for 2019 passage doesn't derail his plans.

Before then, an interim Climate Change Commission will start the process of drawing up a recommended carbon budget, which will have legislative force under the new Act. Importantly, the commission will not have policy-making powers, which will remain with Cabinet and Parliament.

## Agriculture in by late 2019

Expect the exact shape of the inclusion of agricultural emissions only to emerge as the legislation proceeds through select committee, with the intention that agricultural emissions face limited to carbon prices by Christmas 2019.

## All sectors, all gases, but ...

New Parliamentary Commissioner for the Environment **Simon Upton's** first report, dealing with the Act and released this week, is likely to prove a guide to official thinking.

Significantly, the Upton report **recommends focusing more on long-acting nitrous oxide than more powerful, but short-lived methane**. Technological solutions to reducing NO<sub>2</sub> emissions exist, whereas methane solutions are years from deployment, assuming they emerge.

The PCE report recommends retaining the all sectors, all gases approach underpinning the ETS, but suggests differentiated policy approaches will be more successful at mitigating emissions than hoping price signals will do the heavy lifting of prompting response.

## NDCs vs local policy framework

While NZ has offered a Nationally Determined Commitment under the Paris Accord to cut GHG emissions by 30% from 2005 levels by 2030, Upton says there's **nothing to say domestic measures have to be framed in Paris accord NDC terms**.

Domestic measures "will of necessity be consistent, but **their expression and formulation is in NZ's hands**", he says. "Should NZ decide to deal with long-lived accumulating gases and short-lived gases in different ways domestically, it is not constrained from doing so by international agreements."

## Environmental-economic accounts

**Statistics NZ's** first release in its newly developed series of environmental-economic accounts shows the scale of the challenge facing policymakers seeking empirical inputs not only to climate change policy-making, but also the natural capital leg of the govt's Living Standards Framework approach to public policy.

The first set of accounts is, by Stats NZ's own admission, far from a complete set. However, it does contain some **sobering messages relating to NZ's ambitions for forest-based carbon sequestration**

## to help meet 2030 GHG emissions reductions.

The accounts show the drop-off in new forest plantings since the late 1990s, combined with forests maturing for harvest in the next few years, **rapidly depletes the carbon sink value of plantation forests before 2030**. While the govt's plans to see a billion trees planted over the next decade will assist by doubling the level of planting otherwise expected, those forests will be far from maturity in 12 years' time, when the 2030 NDC target needs to be met.

**The implication is that far more NZ-based GHG emissions reduction, rather than offsets, will be required than is in the policy pipeline so far, especially as the supply of carbon credits on international markets is starting to look constrained**. NZ has previously indicated greater reliance than many other countries on buying its way out of emissions targets with international credits.

## Some grounds for optimism?

While Upton's report gives cause for pessimism about the capacity and cost of meeting the country's 2030 commitments, he suggests there are **some factors running in our favour**, compared to the UK experience with a Climate Commission, whose creation coincided with the GFC and the failure of the Copenhagen global climate summit in 2009.

"NZ, by contrast, contemplates legislation following the **remarkable progress towards global action taken at the Paris climate summit in 2015** and as the global economy is finally return to a solid growth path," says Upton. "Indeed, the scale required to transition to a low carbon economy is a huge potential source of growth and employment as infrastructure is rewired and completely new ways of doing business are pioneered. **It should be a much more optimistic moment to commit to long term action.**"

The Greens' \$100m green infrastructure fund, for which **announcements are due**, is a plank in encouraging that shift.

## Where to for oil and gas?

Senior Labour **Ministers are focused on whether to adopt a less supportive approach to oil and gas exploration**, including pulling back from the Block Offer process and restricting new exploration licences.

Such a move would cement relations with the Green Party and be consistent with PM Ardern's strong rhetoric on climate change action. However, Labour also faces **backlash from sections of its trade union support base, particularly EPMU** members working in industries servicing oil and gas, mainly in Taranaki.

## Adaptation focus lacking?

The PCE report drew criticism from insurers and local govt representatives for concentrating more on climate change mitigation than adaptation. However, ministers are focused on this.

**Recommendations** from the Climate Change Adaptation Technical Working Group (known to insiders as CCATWaG), are **due for release in April**. ■

## Primary sector

**A2 Milk Co** executives have enjoyed a combined \$36.6m payday after cashing in on a surging share price since the milk marketer's announcement that first-half profit more than doubled and it had inked a deal with **Fonterra**. Share sales over the four days following the Feb 21 announcement included \$18.5m sold by departing CEO **Geoff Babidge**.

Dairy product prices fell at the **Global Dairy Trade** auction, with whole milk powder declining on increased supply. The GDT price index fell 0.6% from the previous auction two weeks ago. The average price was US\$3,593 a tonne. Some 19,292 tonnes of product was sold, down from 20,256 tonnes two weeks ago. Whole milk powder fell 0.8% to US\$3,232 a tonne. The **softening trend saw NZX Agri reduce its forecast milk price** for the 2017-18 season by 5c per kg/MS to \$6.26, 14c below **Fonterra's** current \$6.40/kg MS forecast.

**Log exports** to China reached a record last year as Asia's largest economy clamped down on harvesting its own forests, and the future points to constant or better demand in coming months, AgriHQ says. Total shipments were a record 18.8m cubic metres of softwood logs overseas in 2017, up 18% on 2016, with exports to China jumping 29% and accounting for three-quarters of the total.

## Banking, finance and insurance

The **Reserve Bank** says it asked for **CBL Insurance** to be put into an interim liquidation after the company paid \$55m to overseas companies, breaching the central bank's orders. CBL chair **Sir John Wells** announced his retirement as chair of **Fisher Funds Management** after 18 years on its board. CBL head **Peter Harris** has withdrawn from the **EY Entrepreneur of the Year** World competition. The insurer's success was recognised last year when he was awarded the EY NZ entrepreneur of the year.

Deputy governor **Geoff Bascand** says the **Reserve Bank** wants bank directors and auditors to take ownership in signing off on disclosure statements and is weighing up options to improve the attestation regime which the IMF criticised last year.

**ANZ Bank** is gauging interest in its NZ life insurance division after the sale of its life unit across the Tasman. The lender has sent an email to NZ staff saying it was engaging with a small number of parties to test their appetite for buying the business. ANZ's sale of its Australian **OnePath Life** unit for A\$2.85b to **Zurich Financial Services Australia** sparked interest in the NZ division. Meanwhile, former PM **Sir John Key** has been named to the ANZ's Australian board, having served as chair of its

NZ unit since Jan.

**Tower** reached a settlement with reinsurer **Peak Re** over a dispute relating to its 2015 adverse conditions cover. **Suncorp Group's Vero Insurance** sold its cornerstone stake in Tower to US private equity firm **Bain Capital** for \$53.9m, booking a \$7.5m loss in the process. Vero had built a 19.9% stake in Tower before mounting a takeover bid that was rejected by the **Commerce Commission**.

## Technology and innovation

**Xero CEO and co-founder Rod Drury** will hand over the day-to-day running of the company to Melbourne-based **Steve Vamos**, who's been tasked with transforming the software firm to a multi-national organisation. The handover will be effective from April, leaving Drury to focus on innovation and strategy as a non-executive director. Vamos's appointment attracted some criticism because of his competing workload as a director on several listed companies, including **Fletcher Building**.

**MYOB Group** lifted sales and profit in NZ in 2017 while seeking regulatory clearance on both sides of the Tasman to buy accounting software firm **Reckon**. Profit at MYOB NZ Group rose to \$4.8m in calendar 2017 from \$2.98m a year earlier. Sales rose to \$97.9m from \$83.5m.

**Rakon** is in talks to buy out its senior partner in an Indian manufacturing joint venture for US\$5.5m, having written down the value of its investment by almost half last year. **Martin Aircraft** is delisting from the **ASX** after posting a \$5.4m loss. Auditors PwC said the company is now dependent on the support of its largest shareholder, KuangShi Science, which is due repayment of a \$10m loan in Sept.

## Construction and infrastructure

**HEB Construction** posted a full-year profit of \$11.6m, turning from a loss of \$23.5m a year earlier when it booked a \$38.3mn loss on a major project. The construction company has 23 projects currently on its books, and lifted revenue 39% to \$462.1m, outpacing a 22% increase in cost of sales and a 24% increase in administration costs.

**Fletcher Building** got a waiver from its noteholders in the US private placement market after losses at its Building + Interiors unit caused the company to breach its lending covenants. It is now in talks with its bank syndicate and USPP noteholders about amendments to the terms of its funding arrangements with a deadline of March 31, which **CEO Ross Taylor** expects will result in a lift in interest rates on the debt.

## CORPORATE ROUND-UP

### Energy

The chief executive of the **Electricity Authority, Carl Hansen**, has tendered his resignation after nearly eight years in the role, effective June 30.

**Vector** posted a 26% drop in first-half profit but reiterated its full-year guidance despite slower-than-expected growth in its technology business. Profit fell to \$79m in the six months ended Dec 31 from \$107.1m a year earlier. The prior year was bolstered by a one-time \$18.8m gain after a court ruling on a tax claim. Revenue lifted 8.1% to \$676.2m, driven largely by its 2017 acquisition of **E-Co Products Group**, better known as home ventilation firm **HRV**.

### Food and beverages

Oslo-listed **Tomra Food** has agreed to buy Hamilton-based small fruit packing and sorting company **BBC Technologies** for \$66.9m. The deal will see BBC's precision grading systems and innovative punnet and clamshell filling solutions for blueberries and other small fruits join Tomra's own fruit inspection and grading technology portfolio.

### Media

**NZME** and **Fairfax Media's NZ division, Stuff**, say they will renegotiate the terms of their merger if they successfully appeal the High Court's rejection of their deal. The merger agreement between the two companies has terminated, but if they are successful in their Court of Appeal hearing in June, they will renegotiate the commercial terms, which were to have seen NZME make a \$55m payment to Stuff, which would become a cornerstone shareholder in the merged entity.

**TVNZ** bucked the trend for linear broadcasters in the first half of the current financial year, as advertising revenues firmed slightly, against a previous trend of persistent decline. CEO **Kevin Kenrick** warns there is no sign of a major upturn, but is optimistic the change may reflect a shift in advertisers' evaluation of TV for brand-building rather than the retail activation for which online advertising is proving most effective. He expected **MediaWorks** to have experienced a similar uplift, although **Sky TV** was less likely to be benefit. The state broadcaster reported ebitdaf of \$30.2m in the first half.

Meanwhile, Sky cut the price of its basic packages to compete more effectively with streaming TV services,

including Netflix and Lightbox. **Spark** announced new broadband packages that include free Netflix subscriptions on fixed term broadband packages. It also halved its first-year dividend.

**RNZ** told a parliamentary select committee it was not looking to create a new linear broadcaster to compete with TV1 or TV3, but rather intended to expand its online offering to include more video content.

Broadcasting Minister **Clare Curran** appointed an interim public media advisory group, headed by Vector chairman **Michael Stiassny**, to recommend on whether to create a permanent body to oversee the distribution of govt funding for public broadcasting, with governance over **NZ on Air**.

### Retail

**Michael Hill International** plans to shut 24 of its 30 **Emma & Roe** stores at a cost of between A\$5.8m and A\$7.9m as the jewellery chain restructures.

**Investore Property** has sold its **Countdown** supermarket in Hornby, Christchurch, for \$21.5m to help fund its recent acquisition of three **Bunnings** stores. Settlement is due on March 23, and the deal represents an initial yield of 6.26% and a 10.8% premium to the value of the property as at Sept 30.

### Capital markets

NZ may have a busy year for **mergers and acquisitions** as interest rates remain low and deep-pocketed buyers seek out quality assets, says **Chapman Tripp**. The number of local M&A transactions rose to 127 in calendar 2017 from 97 a year earlier, notwithstanding a drop off in activity in the lead-up to the general election.

Share trading on the **NZX** rose 66% in February, a month encompassing heightened global volatility as international investors questioned the future track of US interest rates and a domestic earnings season that included major surprises from a2 Milk and Fletcher Building.

### Professional sport

**NZ Rugby** returned to profit in 2017 following a financial successful 10-match tour by the British and Irish Lions, which added \$40m to the bottom line. The body reported a profit of \$33m in calendar 2017, from a loss of \$7m in 2016. ■