

Precedent for *M. bovis* eradication

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Little has been made of the fact that NZ has once before successfully eradicated a cattle disease. An 18-year campaign waged between 1971 and 1989, using a 'test and cull' regime like that to be used for the *Mycoplasma bovis* plan, saw the eradication of brucellosis from the NZ cattle herd.

KiwiBuild – momentum-building imperative

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Housing, Urban Development and Transport Minister Phil Twyford has been copping it from all sides, losing his aviation responsibilities for breaching basic rules of plane etiquette, announcing an end to meth cleaning of houses that now appear never to have been contaminated, and facing growing scepticism about the achievability of KiwiBuild. He continues to project a degree of confidence at odds with that performance, perhaps because he is aware of a slew of imminent announcements on KiwiBuild.

Wage pressures and capacity constraints weigh on confidence

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Business confidence sagged again in May, with firms looking into a winter where growth in a capacity-constrained economy will be difficult and wage increases appear likely to increase costs. Are businesses focusing enough on the impact of the \$5b Families Package, which kicks in on July 1?

Headache for National in Northcote?

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The National Party is campaigning weakly in Northcote and early voter turnout suggests Labour is capable of giving the main Opposition party a scare at the by-election scheduled for Saturday next week, June 9.

Rail's new lease on life

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KiwiRail has yet to see much new capital to match the rhetoric from the govt about its revitalised role in the national transport system, but there is a head of steam developing around its repositioning as an instrument of multiple public policy objectives rather than as an SOE hobbled by infrastructure on which it can never hope to make a standalone commercial return.

Keep a close eye on the nurses' pay deal

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Pent-up public sector wage demand is one of Finance Minister Grant Robertson's biggest fiscal challenges. The revised offer published this week for public sector nurses should be a no-brainer, offering percentage increases that the govt and DHBs are underselling for fear of over-inflating other public servants' wage settlement expectations.

Trade and diplomatic relations

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The govt is still getting to grips with China, while MFAT is fundamentally reviewing the relationship. Jacinda Ardern appears to have persuaded her French counterpart that progressive allies make an EU-NZ trade deal worth the pain of fighting French farmers' protectionism, and the implications of the US repudiation of the Iran nuclear deal for NZ are explored.

Auckland light rail – not yet a done deal

The appearance of the NZ Super Fund as a potential PPP-type funder of the Auckland light rail project has gone some way to cementing the impression that the project is a done deal.

However, that is not yet the case. Discussions are continuing among officials, ministers and Auckland Council about the roughly \$4b funding gap in the Auckland Transport Alignment Plan update. No Cabinet decision has yet been made.

Disclosure of official advice that light rail comes at a cost some \$2.5b higher than bus-based alternatives for the proposed improvements to public transport from West Auckland and across the city's isthmus, is indicative of the extent to which the business case for light rail is not yet completely settled.

KiwiBuild – announcements imminent

Housing and Urban Development Minister Phil Twyford has taken a pounding in the media over the potential failure of the KiwiBuild policy, but the minister himself maintains a sunny disposition, apparently relying on an expected string of announcements in the near future, to demonstrate the potential for accelerated progress.

Under heavy wraps are plans to boost the prefabricated house-building sector. The NZ Super Fund was cited in official documents earlier this year as a potential investor in a central North Island prefab housing plant, and it appears those plans have continued to mature. Whether the Super Fund is a participant remains to be seen.

Other imminent announcements are expected to include the timeline for creating an **Urban Development Authority**, with fast-track development powers, for Auckland and the **release of land within the city's current urban boundaries** for new developments.

Immigration policy announcements are also expected shortly, which are likely to include the confirmation of a special 'KiwiBuild visa'.

The wider purpose of the announcements from **Immigration Minister Iain Lees-Galloway** is expected to be to further slowing net migrant inflows without harming international student enrolments or preventing migrants arriving to fill skills shortages.

Already announced is **Housing NZ's return to the bond market** for the first time in 20 years, allowing it to raise debt that off the Crown balance sheet.

Eradicating *M. bovis* – recent history says it can be done

The govt's decision to try eradication over management of mycoplasma bovis has a precedent – the successful eradication of brucellosis from the NZ cattle herd in the 1970s and 1980s. That effort took 18 years, but the national herd was declared brucellosis-free in 1989 after the operation of a 'test and slaughter' regime akin to the approach being taken with *M. bovis*. The diseases share the potential to induce abortions in pregnant cattle, but brucellosis also included risks to human health. *M. bovis* carries no such risk, although that has not prevented pockets of consumer concern, particularly in the Asian infant formula market.

So far, the Cabinet – if not MPI – has displayed reasonably sure-footed crisis management, and the strong fiscal position means a 10-year cost of nearly \$900m is manageable.

However, there will likely be longer term implications if suspicions that the origin of the outbreak can be traced to a network of farms using high-tech breeding techniques are correct. How such farms source semen and embryos is likely to form part of the ultimate response to the outbreak of a condition common to herds in other countries, but until now not present in NZ.

The farm currently identified as the first to see the disease has been operating to a goal of lifting its annual per cow productivity to 600kg of milk solids against a current national average of around 380kg.

There will also be questions about the performance of the Ministry of Primary Industries and its Bio-Security division. When he was in Opposition, **Primary Industries Minister Damien O'Connor** clashed frequently with **MPI Director General, Martyn Dunne**. That may not augur well for Dunne's long-term future at MPI.

Shifting bio-security into a standalone entity may be among the options for the future.

The future of rail

KiwiRail is enjoying sharply improved standing with the govt, although it has yet to see much capital flow to the extensions and upgrades to services it is seeking now that it can expect to be treated as an integrated part of the national transport system on a level footing with roads.

A new chairman, possibly former EY and Business Roundtable chair **Rob McLeod**, is expected shortly and the govt-owned rail service provider may be reconstituted as a Crown-owned entity company rather than an SOE. The distinction is subtle but important. While both are bound by the

requirements of the Companies Act and have their own governance structures, Crown-owned entity companies “are generally established by the Crown to further certain policy objectives”, the Treasury website says. “The objectives are entity-specific and can be a mix of social, cultural, public policy and commercial goals. This entity form is used where the context or environment in which a function is to be undertaken is not fully commercial or the entity undertaking a function has mixed objectives.”

This move will give a degree of permanent, public policy legitimacy to the fact that KiwiRail is incapable of running at a profit if the cost of expanding, maintaining and depreciating its rail network is included. It can produce positive cashflow from its passenger and freight operations, including maintenance and upgrade – if not new investment – in rolling stock, but depreciation on the rail corridor infrastructure puts KiwiRail under water. The same would be true if trucking firms had to pay the full cost of the national roading system.

That said, KiwiRail expects also to become eligible for funding from NZTA and road user charges levies as the gov’t’s policy framework takes shape. While some ministers have been keen to split the rail operation back into separate infrastructure and operations companies, KiwiRail is resisting that push and urging focus on embedding a new mindset for rail. That shift in thinking appears to have occurred at MoT and MBIE, but not so much at the Treasury.

While rail is being seen as a way to harness regional growth potential, the economics is not always obvious. Reopening the badly damaged **Gisborne to Wairoa line, for example, appears a low priority**, while strengthening and extending Northland’s rail services to allow freight movements from **Whangarei’s Northport is not a slam-dunk business case**. As well as moving most of Auckland’s port movements to Northport, there is embryonic consideration of relocating the **Devonport naval base** there too, in part to improve two-way freight volumes.

However, it has also become clear that **imported cars are not susceptible to transportation by rail**. If they were landed in Northland, they would be trucked to Auckland. Given that a rail upgrade into Northland would almost certainly put highway improvements from Wellsford to Whangarei on ice, that is unlikely to be a welcome prospect.

Northcote by-election – lucky Labour?

Labour has nothing to lose in the Northcote by-election but has the chance of giving National a bloodied nose. Labour has been energetically leaking a poll which shows its candidate, **Shanan**

Halbert, only 2 percentage points behind National’s candidate, **Daniel Bidois**.

National admits that its party organisation in a blue-blooded electorate where sleep-walking to victory has been the norm, is not strong. It has been having to call on supporters from across Auckland to help with the campaign. They have been surprised to find among their own supporters an often hostile reception on the doorstep to the fact that Jonathan Coleman resigned so soon after being re-elected. **Strong early voting** suggests National needs a decent turnout if it is to see Labour off convincingly.

A sign of the concern in National ranks is **campaign chair Paula Bennett’s** decision to have **John Key** make a Facebook video to endorse Bidois, subtly undermining the authority of National’s new leader, **Simon Bridges**. National should hold the seat but with a reduced, possibly much-reduced, majority.

Nurses’ pay deal a fine balance

Threatened industrial action by nurses represents one of the most important tests of the gov’t’s relationship with the union movement since the election.

Using a large chunk of the \$640m of untagged contingency funding tucked away in the Budget to settle wage claims and meet unanticipated costs, the DHBs’ offer represents **a pay increase for some nurses of as much as 16%**.

For all the grumbling still emanating from the NZ Nurses Organisation, that makes it one of the most generous public sector pay offers in recent memory.

While the DHBs have been unusually aggressive in their communications tactics, hiring PR firm SenateSHJ and releasing details of the offer to the media rather than through the union, there has been considerable sensitivity about saying out loud what the size of the offer constitutes.

In its first statement on the new proposals, which doubled the value of a package previously worth \$250m, the pay deal was described as three 3% pay increases over 18 months, leaving media to do their own arithmetic to get to a 9% rise. In fact, with the cumulative effect of the second two 3% increases, the increase is a little higher than that. With a \$2000 lump-sum payment thrown in, new pay grades for the most senior nurses, and improved allowances, it looks like a deal that nurses would be foolish to turn down. However, the union’s elected leadership and professional staff are said not to be aligned and there is

2018 CEO Retreat

The sixteenth annual CEO Retreat at Millbrook is scheduled to run from dinner on **Thursday August 16 to lunch on Saturday, August 18**.

The programme will again bring members a mixture of actionable business insights and the traditional Retreat “deep dive” into domestic and global affairs.

Mark your calendar now.

a fighting mood among many nurses.

Grant Robertson needs a settlement that doesn't wipe out his ability to settle with other large groups, particularly teachers, or a nurses' settlement that over-stimulates expectations for other claims.

Note that the issue of a pay equity settlement is kicked out three years to the end of the proposed nurses settlement. This also reflects Robertson's need to juggle the fiscal impact of what are likely to be large, catch-up wage settlements across some of the most populous parts of the public service while also honouring pay equity pledges. The fact that NZNO is putting the offer to a vote suggests settlement is likely.

Trade and Diplomacy: Rethinking the China relationship

The recent criticism of NZ's relationship with China is partly animated by the hardline anti-China views of Anne-Marie Brady, a Canterbury University academic who has received some funding from Taiwan. However, the evidence is mounting of a belief among other Five Eyes intelligence-sharing partners that NZ has become too close to China.

There is a coordinated look to the fact the issue has received so much media attention recently and coincides with a fundamental review at MFAT of the way the relationship is working.

Bill English talked proudly about NZ's "truly independent" foreign policy, which balanced China against the US. But foreign affairs watchers in Wellington say that the dramatic mood change towards China in Washington is influencing views in Ottawa and Canberra; but not so much in Wellington.

The announcement that the US is to retitle its Pacific Command to an Indo-Pacific Command (which ostentatiously leaves China out) is a clear signal that the Trump administration is not only hostile to China over trade. While Australian political leaders have embraced the Indo-Pacific concept, **NZ ministers'**

failure to express a view on that pivot is noteworthy.

The new administration is still getting to grips with its stance on China, which is complicated by differing NZ First and Green party instincts. There was, for example, extreme sensitivity about a line peddled by National Party MPs in recent weeks that NZ had neglected the relationship by failing to send any minister to Beijing until Winston Peters's visit last week. The lack of early contact is said to have been noted negatively in Beijing.

Universities, with their increasing reliance on fee-paying international students and for whom China is currently the largest single catchment, there is real nervousness about NZ becoming tarred with the same brush as Australia. Open disputes between Canberra and Beijing on a range of regional issues have seen the Chinese govt designate Australia as "not safe" for Chinese students. Enrolments have dropped dramatically.

They fear that NZ could be pressured into adopting a more stand-offish approach to China, with direct economic consequences.

That may explain why **Trade Minister David Parker** talked up the prospects of successfully concluding an FTA upgrade with China at a recent China summit in Auckland. Out of the public gaze, Parker has been indicating that China wants little from NZ in an upgrade, while NZ's list is ambitious.

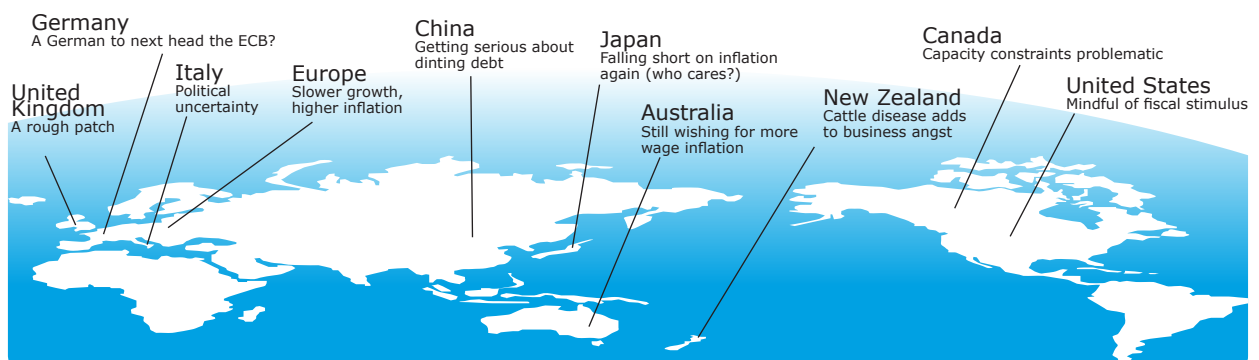
Parker appears most likely to claim minor victories as a good result and move on, knowing that many of the restrictions via trade volumes and tariffs progressively fall away in the mid-2020s anyway.

EU-NZ FTA: what Jacinda Ardern said to Emmanuel Macron

While probably embellished for political effect, reports emerging from Jacinda Ardern's European

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The world at a glance



Confidence slides further – services join the decline

Business confidence declined for the third month in a row in May, according to the ANZ Business Outlook survey, falling to a net 27% negative, compared to 23% net negativity in April. That's better than the immediate post-election reading of net negative 39% last Nov, but still falling away from the best score so far recorded since the change of govt, at net negative 20% in Feb.

The temptation to call this a political effect caused by the change to a centre-left govt is tempting, but only a partial answer. The NZ economy has been running at or near capacity for some time so the scope for further upside is inevitably limited while a slip back from recent high-points does not point to an imminent recession.

It's notable, though, that the most reliable indicator of real world activity – the 'own-expectations' part of the index – does suggest weaker growth ahead. While showing a net positive 14% in May, the running average is net 28% net positive and the latest result is a 5 percentage point slip from April.

A similar reading in June appears likely, making the July and August results particularly significant since they will be the first months to reflect the impacts of the **\$5b Families Package, which can be expected to stimulate consumption because of its skew to lower income households with limited propensity to save additional income.**

The outcome of the nurses' pay claim may be more of a double-edged sword. A 9-to-16% wage settlement will be a fillip to those who receive it and may breed confidence among other public sector groups and private sector workers in the same sectors – namely health and education – of similarly significant increases.

However, **employers are likely to be watching for signs of a wage breakout adding to costs at a time when the capacity for a coincident expansion in margins is unclear.** Firms intending to increase prices rose from 22% to 26% between April and May.

While there may be some inevitable impact on rural sector sentiment from the M. bovis outbreak, the signs of emerging weakness in the normally stable and buoyant services sector is of greater significance.

Economic indicators

Residential building consents fell 3.7% in April, after rising 13% in March. Multi-unit projects such as apartments and townhouses continue to cause volatility in the monthly numbers. Seasonally adjusted consents for all dwellings fell to 2,882 in April from 2,992 in March while seasonally adjusted permits for stand-alone houses slipped 1.4% to 1,737.

Annual **net migration continued to slow** in April as more non-NZers left the country. Annual net migration was 67,000 in the year to April, from 71,900 in the year to April 2017.

Short-term visitor arrivals reached 3.8m in the April year, up 5.4% from a year earlier. 🇳🇿

Trading partner growth

(2016-2017 actual; 2018-2020 Hugo and Consensus Forecasts)

Trading partners	Weights %	GDP Growth (ann avg %)					CPI Inflation (ann avg %)				
		2016	2017	2018	2019	2020	2016	2017	20187	2019	2020
China	26.2	6.7	6.9	6.6	6.4	6.0	2.0	1.6	2.2	2.3	2.3
Australia	20.3	2.6	2.3	2.7	2.8	2.6	1.3	1.9	2.2	2.3	2.5
United States	12.5	1.5	2.3	2.8	2.6	1.8	1.3	2.1	2.5	2.2	2.2
Japan	7.6	0.9	1.7	1.3	1.1	0.5	-0.1	0.5	1.0	1.1	1.6
Eurozone	6.7	1.8	2.5	2.3	1.9	1.4	0.2	1.5	1.5	1.5	1.7
South Korea	3.6	2.9	3.1	2.9	2.8	2.5	1.0	1.9	1.7	1.9	2.0
United Kingdom	3.3	1.9	1.8	1.4	1.5	1.6	0.7	2.7	2.5	2.2	2.1
Taiwan	2.6	1.4	2.9	2.7	2.4	2.1	1.4	0.6	1.4	1.3	1.1
Singapore	2.3	2.4	3.6	3.2	2.8	2.4	-0.5	0.6	0.9	1.4	2.0
Malaysia	2.3	4.2	5.9	5.4	5.1	4.8	2.1	3.7	2.4	2.6	2.9
Indonesia	2.1	5.0	5.1	5.3	5.4	5.2	3.5	3.8	3.5	3.8	3.9
Hong Kong	2.1	2.1	3.8	3.4	2.8	2.4	2.4	1.5	2.3	2.2	2.4
Thailand	2.1	3.3	3.9	4.0	3.7	3.2	0.2	0.7	1.1	1.5	1.6
Philippines	1.6	6.9	6.7	6.6	6.5	5.9	1.8	2.9	4.3	3.7	3.5
India	1.6	7.1	6.7	7.4	7.6	7.5	4.5	3.6	4.9	4.8	4.8
Vietnam	1.6	6.2	6.8	6.6	6.5	6.2	2.7	3.5	4.0	4.2	4.2
Canada	1.5	1.4	3.0	2.1	1.9	1.8	1.4	1.6	2.3	2.0	2.0
NZ Trading Partners	100.00	3.6	4.0	3.9	3.8	3.4	1.4	1.8	2.2	2.2	2.3
Forecasts for New Zealand											
Consensus		4.0	2.9	2.8	2.6	2.6	0.6	1.9	1.6	1.9	2.0
BNZ Forecasts		4.0	2.9	3.0	3.0	2.4	0.6	1.9	1.8	2.3	2.0
The World		2.5	3.2	3.3	3.2	2.9	2.4	2.5	2.7	2.6	2.7

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swing earlier this month suggest her intervention was crucial in securing French support for commencing EU-NZ trade negotiations.

Protectionist by nature, especially with respect to trade in agricultural goods, France was seen as the most important country to win over to the concept, and success was not assured.

It appears that Ardern's one-to-one meeting with French president Emmanuel Macron was pivotal. Her advocacy of a set of democratic values – and a visible if tokenistic support for the Paris climate accord from the decision to ban offshore oil and gas exploration – sought to encourage the view that **NZ and France are natural progressive allies in a less democratic world.**

Pursuing an independent foreign policy very much in the Helen Clark mould – supportive of international rules and the UN and sceptical of the self-interest and current incoherence in US foreign policy – Ardern appears to have convinced Macron that there were significant benefits from strategic alignment versus the threat to French agriculture.

As a reformist president, Macron may also be more willing than most predecessors to open up elements of France's primary sector to limited competition. And as an EU leader, **the prospect of commencing negotiations with NZ is an opportunity to thumb a nose at the UK's clumsy progress towards Brexit.**

Common interests in the Pacific, also expressed in geo-political terms and which would have included NZ's claim to a strong understanding of China, were also part of Ardern's armoury.

Iran sanctions – implications

Also relevant to the discussion would have been NZ's positioning on the response to the US decision to abandon the multi-party deal with Iran on denuclearisation. While NZ trade with Iran is limited – the sheepmeat export trade only recommenced last year after a 20 year hiatus – a common alignment with the EU position on the Iran deal conveys moral support at a time when Europe feels betrayed by the US.

The US will give companies with existing contracts and licenses with Iran a 90-180 grace period to wind down operations. By Nov 4, all US sanctions previously imposed will resume in full effect.

MFAT's thinking will likely be guided by how NZ is regarded by Europe. With a NZ-EU trade deal coming into view and PM Ardern's wish to re-connect and re-align with Europe across a range of issues, including Middle East regional security, the govt is unlikely to stake out positions on US

sanctions that significantly outpace or lag behind those held by the EU.

However, the sanctions will inevitably add greater complexity and cost to an already complicated business environment in Iran. Companies trading with Iran will require robust due diligence processes and legal advice to ensure sanctions compliance. NZ banks will become increasingly wary about facilitating financing for companies engaged or seeking to engage in the Iranian market for fear of inadvertently breaching US primary and secondary sanctions. From a commodity standpoint, sanctions will probably make it difficult to expand market access for NZ dairy products, which constituted the bulk of our \$120m goods export to Iran in 2017.

Navigating waters clouded by sanctions is not unfamiliar to NZ govts and businesses. Yet the zeal of the Trump Administration's sanctions regime coupled with divided support among traditional allies and partners will demand an especially attentive and delicate touch.

H2 returns

The **underlying and ongoing influence on the Ardern govt of former PM Helen Clark** is underlined by the appointment of her former chief of staff, Heather Simpson (known as H2 to Clark's H1), to lead a comprehensive review of the public health sector.

Three waters reform

Local Govt Minister Nanaia Mahuta has signalled consolidation of local govt-owned water services into larger, aggregated businesses is a likely outcome of a review of so-called 'three waters' policy. Small councils, especially those with falling populations, face unmeetable costs in replacing ageing freshwater, wastewater and stormwater infrastructure. Nationally, there is also a **lack of expertise and capacity to run water systems well. Volumetric metering is clearly implied as an element in the reforms**, which local govt leaders are **likening to the creation of national regulation for the electricity and gas networks over the last 30 years.**

Land ownership stats changes

Stats NZ will publish statistics on property transfers by all NZers and overseas people from June 7, after taking over the task from Land Information NZ.

Data privacy study

Ministers for Digital Services and Statistics, Clare Curran and James Shaw, announced a project to assess how government agencies use algorithms to analyse people's data. ■

Primary sector

Fonterra raised its forecast farmgate milk price for the 2018 and 2019 seasons while cutting its projected dividends for 2018, saying rising global dairy prices are squeezing margins. The forecast milk price for the current season rose by 20c to \$6.75/kgMS and gave an opening price forecast for 2019 of \$7/kgMS, saying global demand for dairy products “is expected to remain strong” especially in China and for butter and anhydrous milk fat, in particular.

First NZ Capital has cut its rating on **Fonterra Shareholders’ Fund** units, citing what it says is the dairy cooperative’s seeming inability to convert capital investment into earnings growth and poor track record in adding value raise questions over its ability to retain domestic suppliers.

The **NZ Meat Board** will increase the risk profile of its \$70m of reserve funds, adding shares to what is now mainly held in term deposits in a bid to lift returns.

Innovation

Fishing company **Sanford** and nanotechnology company **Revolution Fibres** have produced a high-tech nanofibre facepack from discarded hoki skins and hope the same fibres can be used to deliver topical medicines for burns, skin lesions and other skin conditions.

Level Two, the science and hardware coworking space that spawned **RocketLab** and **LanzaTech**, is planning a \$500,000 expansion to enable more companies to move in. The Level Two cluster turns 21 this year and is based on level two of the former Industrial Research Ltd building in Parnell, Auckland.

Banking and insurance

The **Reserve Bank** and the **Financial Markets Authority** so far haven’t seen any evidence of “systemic and widespread” misconduct in a review of NZ banks, FMA CEO **Rob Everett** told a parliamentary committee. There is “very little that would either constitute a breach of the law, or would require us to come up with a really urgent response,” he said. The RBNZ and FMA are keeping a watching brief on Australia’s Royal Commission, he said.

The Reserve Bank said the financial system remains sound but is still exposed to three key vulnerabilities: household sector indebtedness, dairy sector indebtedness, and the banking system’s exposure to international risks. *Mycoplasma bovis* is an emerging risk to the sector but in terms of the dollars per kilogram of milk solid financial impact for farms, it is not that large, it said.

Consumer Affairs Minister Kris Faafoi is seeking public feedback about concerns with the insurance industry, as pressure builds on the sector over conflicts of interest around incentives, harsh disclosure provisions, and unfair exemption clauses. A well-functioning, fair insurance system was essential, but NZ’s regulations were outdated, with legislation spanning six different acts, some of them more than 100 years old, Faafoi said.

NYSE-listed **Cigna Corp** has agreed to acquire ANZ Bank NZ’s **OnePath Life NZ** business for \$700m. The firm has been an insurance partner to ANZ NZ for 20 years and under the deal announced today it will continue to sell insurance products to ANZ bank customers under a 20-year strategic alliance.

Tower says it will have to raise premiums to offset higher reinsurance costs after a spate of wild weather across the Pacific weighed on first-half earnings and pushed it deeper into the red when combined with the insurer’s settlement with Peak Re. Tower’s underlying earnings dropped 27% to \$7.3m in the six months ended March 31.

Tourism, transport and logistics

Mainfreight posted a 6.3% gain in full-year profit to \$108m on a record result in NZ and growth in Australia and said the strong performance meant it would pay record bonuses to its managers.

Airlines for Australia and NZ, a lobby group, is ramping up pressure on **Auckland International Airport**, with member airlines complaining about the quality of service received by passengers arriving at the national gateway and the level of charging the airport applies, in submissions to the regulator on AIA’s bid for increased prices.

Air NZ’s international routes are expected to bear the brunt of oil prices near a 3.5 year high as stiffer competition and the cost of flying vast distances set a higher bar for the national carrier than the domestic market.

Energy and Resources

Energy-intensive heavy industry has a long-term future in NZ, but only if policies to decarbonise the economy can deliver a secure energy supply, says outgoing CEO of **NZ Aluminium Smelters, Gretta Stephens**. “For businesses such as the smelter, the security of baseload power is our Number 1 consideration, so if you’re going to go to 100% renewable and you’re going to have big heavy industries like a smelter or a steelworks, you need to think through what’s providing the baseload power”. NZAS reported underlying earnings of \$75m in calendar 2017, up from \$25m in 2016, reflecting

CORPORATE ROUND-UP

global metal prices on average 23% higher than the year earlier, and encouraged the smelter operator to reopen a fourth potline that's been cold since 2012.

Govt ministers are using a range of "incorrect or misleading" arguments about the impact of its ban on issuing new licences for offshore oil and gas exploration, says oil and gas sector analyst **John Kidd of Woodward Partners**. Kidd said he expected a dump of gov papers that would show "little due diligence and preparatory analysis was undertaken before the decision", announced April 12.

As part of an effort to indicate support for some, if not all, extractive industries, **Energy and Resources Minister Megan Woods** is talking up findings from an assessment of NZ's strategic mineral potential by **GNS Science**. The study revealed **lithium** potential in the central North Island and the Hohonu Range on the West Coast of the South Island and **nickel-cobalt** potential in Nelson-Tasman-Marlborough and Southland regions. **Rare earth elements** potential exists on the West Coast. All would contribute source materials for various 'clean-tech' manufacturing needs, including solar electricity panels, batteries and mobile phone parts.

Tilt Renewables entered into an agreement with **Citigroup Global Markets** and **Forsyth Barr Group** to underwrite a A\$300m equity raising should it be successful in its bid for a 15-year power contract with the Victorian state gov in Australia. The agreement replaces an earlier deal with cornerstone shareholder **Infratil**.

Healthcare and retirement services

Orion Health Group says \$40m of cost-cutting between 2017 and 2019, plus a strong order book, might see the software developer move into profitability this financial year. If not, it's likely to be back in the black in 2020.

Metlifecare will build a \$180m retirement village in Auckland's Beachlands, one of the 'greenfield' sites the industry has been busy sewing up in the past 12 months. For Metlifecare, it marks the second investment of that magnitude in six months, after its \$240m proposal for Scott Point in Hobsonville, announced in Oct.

Manufacturing

Concerns that there may not be enough wood fibre

to supply a new \$180m particleboard plant proposed for Kawerau have been quashed by an industry study. China's **Guangxi Fenglin Wood Industry Group** last year announced plans to establish a plant in Kawerau by 2020 to produce 600,000 cubic metres of panel boards a year. "There is more than enough wood available to support an additional 700,000 cubic metres of domestic fibre demand," Finland forestry consultancy Indufor said in a report for NZ Trade and Enterprise.

Fisher & Paykel Healthcare lifted 2018 annual profit by 12% to \$190m, the top end of its forecast range and said it expects record earnings in the coming year, driven by global demand. Forecast 2019 annual operating revenue is about \$1.05b and profit of about \$210m.

Metro Performance Glass's full-year profit fell 16% to \$16m, in line with guidance it gave in April, because of softer growth in NZ and capital programme disruptions in Australia.

Telecommunications and media

Spark NZ expects annual earnings to fall by as much as 2.5% this year as it brings forward restructuring costs and accelerates its 'Quantum Programme' to transform into a low-cost operator. Ebitda is expected to be \$971m to \$991m in the year ending June 30. That's down from previous guidance of \$996m to \$1.02b, and compares to ebitda of \$996m in 2017.

TwoDegrees Mobile reported a 33% lift in net profit to \$19m on a 4.3% revenue gain in calendar 2017.

MediaWorks is to focus on prime time local content and the 25-54 demographic and hopes to return to profit this year. Total revenue for the free-to-air TV and radio broadcaster increased about 1% to \$300m in 2017 and its net loss was cut from \$14.8m to \$5.7m.

Corporate actions

Chinese **Tencent Mobility** is to acquire Auckland gaming software developer **Grinding Gears** for more than \$100m.

Comvita pulled out of takeover talks with an unnamed third party saying "we could not bridge the considerable distance between us on price".

Philippines-based poultry group **Bounty Fresh Foods** has sent the offer document for its \$437.8m takeover bid for **Tegel Group** to all shareholders and said the minimum acceptance condition will be satisfied. ■