

## **Unwanted 'winter of discontent' now baked in?** Page 2

The govt had wanted to avoid a repeat of the Clark govt's so-called 'winter of discontent', experienced in its first year in office in 2000. However, that prospect appears to be baked in, as business confidence sags and a string of recent decisions cause as much uncertainty as antipathy among domestic and foreign investors in the NZ economy.

## **But Labour Ministers' internal morale is high** Page 2

With the possible exception of Health Minister David Clark, who has floundered publicly in recent weeks, morale among key Labour Ministers is high. With their first Budget nearly done and dusted, trade policy back on track, and progress emerging on key climate change, housing and transport initiatives, there is growing confidence that the promised transformative agenda is starting to gain traction.

## **Not so happy in the Greens** Page 4

Green Party co-leader James Shaw may be running the same risk as Rodney Hide did when he allowed the heady challenge of ministerial portfolios to override political party management responsibilities. There is mounting discontent with Shaw from the left of the parliamentary party and in its wider membership.

## **Public sector tested by more interventionist govt** Page 2

Shane Jones's widely reported criticisms of a "treacle-ridden" bureaucracy reflect a public service that has served govts that, for most of the last 35 years, promoted a light-handed, market-led approach to the economy. The more interventionist, activist approach of the new administration is proving a challenge to public servants with little or no experience of such a govt.

## **Gas reserves downgrade imminent** Page 4

NZ Petroleum & Minerals is very close to announcing what the oil and gas sector has either known or suspected for some time – that there are only about 7 years of known P2 gas reserves left in existing production fields. The govt has talked up an 11 year supply in its decision to end offshore oil and gas exploration.

## **Banks and petrol retailers in the gun** Page 7

It has been a difficult fortnight for trading banks and transport fuel retailers, and the political pressure on both looks likely to mount. While fuel retailers already expected a Commerce Commission market study into their competitiveness, the banking sector is under pressure to demonstrate a commitment to something far more open and transparent than its claims to date that 'things are different in NZ' compared to Australia, or risk a deeper inquiry.

## **First hints at next round of RMA reform**

Environment Minister David Parker has announced the intention to begin a fresh review of the Resource Management Act in 2019, following minor amendments this year to "correct" some of the reforms of the previous govt, including restoration of some appeal rights.

## Business blues bothering govt

The govt has been acutely aware of the need to bring business with it, and was focused early on the need to avoid a 'winter of discontent'.

It knows now that it has failed. PM Jacinda Ardern referred this week to the recent round of sagging business confidence indicators as "the elephant in the room" during her pre-Budget speech to BusinessNZ.

"I know the perceptions we face, but I will always focus on improving New Zealand's reality with the goal that perception will then reflect that," she said.

The combination of significant policy changes in the foreign investment regime, irrigation support, and the end to oil and gas exploration licences are the tip of the iceberg.

Workplace relations reform, the implications of climate change policy for some energy costs, contradictory signals on immigration, and a wider sense that the govt is stronger on its vision for a transformative agenda than its practical implementation are all at play.

So, too, is the fact that while the NZ economy is still robust and growing, but has probably passed the top of the cycle and will struggle to maintain growth rates, largely because of labour market and other capacity constraints.

The govt's commitment to the Budget Responsibility Rules is also intended as a bulwark against perceptions Labour-led govts are weaker fiscal managers than National-led administrations. Hence, despite criticism from both left and right that the rules are unnecessarily tight, Labour will not be resiling from them any time soon - certainly not in this term of govt.

## But its internal confidence in its agenda is high

Given the sceptical business mood, it would be easy to underestimate the cohesion and optimism that core members of the Cabinet are projecting.

Within the team, there is a palpable sense that they are pursuing a brave, exciting and progressive agenda that is overdue for NZ.

**Economic Development and Environment Minister David Parker**, for example, was clearly energised by a meeting last week in Melbourne with Australian environment ministers, where he was able to compare the agenda he is able to pursue with a federal muddle across the Tasman.

He believes the new administration has come through a tough and very busy patch but now has the foundations in place to start reshaping NZ's

economic future, especially in the context of climate change action and environmentally sustainable primary industries.

Likewise, after fading from view for much of the year to date, **Housing and Transport Minister Phil Twyford** is also starting to claim some victories.

The announcement of the \$28b transport plan for Auckland, the suburban development on the Unitec site, and unveiling the first official KiwiBuild home were important political markers.

So, too, is this **morning's announcement of a package to extend emergency housing and services to combat homelessness**, which will play strongly to Labour's base.

Considerably more progress will soon become apparent on the creation of an **Urban Development Authority for Auckland and the removal of rural-urban boundaries**.

Twyford is also clearly making progress on ways to finance urban and transport infrastructure in ways that will not compromise the Budget Responsibility Rules debt target, while allowing additional capital to be raised.

**Discussions with trading banks on a 'shared equity' scheme** to assist low income households to purchase affordable homes backed by private capital, perhaps with a govt guarantee element, is also advancing.

In the current climate, where NZ banks are acutely aware of the potential to trigger a banking inquiry, their willingness to engage in assisting flagship policies would appear to constitute wise political insurance.

## Public sector capacity tested

One of the govt's biggest challenges – expressed most forcefully by Shane Jones – is a bureaucracy unused to servicing a willingly activist and interventionist govt.

The coalition believes more than any administration since the Muldoon era it can harness the state to lead the creation of new industries, work opportunities, and other public policy goals. Hence its use of the expression "tripartite" – little heard since the early 1980s to cover leadership initiatives involving the govt, business and the union movement. **The Future of Work Forum**, announced this week, is one such. It will be led by **Finance Minister Grant Robertson**, **BusinessNZ CEO Kirk Hope** and **CTU president Richard Wagstaff**.

Likewise, the creation of a new unit in MBIE, called Just Transitions, to help shape the economy-wide response implied by a serious effort to retool NZ for

a world beyond fossil fuels.

Public service leaders concede much of the bureaucracy lacks the “muscle memory” to service an interventionist govt.

## Ministry of Works reborn?

**Infrastructure and Regional Economic Development Minister Shane Jones** is seeking solutions to his frustration with a “treacle-ridden” bureaucracy in pushing for a new agency to handle govt-wide infrastructure projects.

The proposal is embryonic and may not have the support of the Treasury, but appears to involve recreating an agency with some of the overarching brief of the long-departed Ministry of Works. However, it would not be an operational agency as the old MoW was, with capacity to undertake the execution of infrastructure projects using its own equipment and workforce. Rather, the concept seems to involve a desire to tap the infrastructure project management skills available from agencies such as the NZ Transport Authority and Crown Infrastructure Partners (formerly Crown Fibre Holdings). In part, the desire is to end the fragmented and variable quality of infrastructure planning and execution across the public sector.

## Cabinet tweaks

A minor portfolio reshuffle announced this week appears designed mainly to lighten the loads of David Parker in the trade portfolio and Winston Peters in the detail of state-owned enterprises policy.

Parker did not seek Trade, which involves substantial international travel and interferes with his domestic responsibilities in Economic Development, Environment, and Attorney-General. Giving Primary Industries Minister Damien O’Connor the title of **Minister of State for Trade and Export Growth**, effectively signals that O’Connor will do most of the offshore glad-handing that Parker doesn’t have time or inclination for now that the CPTPP is bedded down and a clear agenda is mapped out for negotiations with the EU and UK for FTAs. While the **China FTA** is meant to be under renegotiation, **expectations of any significant improvement in its terms appear to have faded**, with the govt resigned to the fact that it is on track to deliver gains in the early 2020s anyway, under its current terms.

By making **Shane Jones** associate minister of SOEs, Peters is relieved of a workload the **increasingly invisible Deputy PM** may neither want nor need, while delivering Jones authority in areas such as rail.

**Peters also becomes Disarmament Minister**, a

revived portfolio, and **Meka Whaitiri** picks up some of Jones’s load by becoming Associate Forestry Minister.

Meanwhile, **the govt intends to release a formal protocol for Peters’s period as PM** during Jacinda Ardern’s maternity leave, due to start next month, based on her due date of June 17.

## Greening the Blues

Behind the suggestions during the coalition negotiations that **National could do a deal with the Greens** was a belief within National that a lot of Green supporters are urban middle-class conservatives. The party believes they are the missing component in its own vote.

Now that such a deal is off and near impossible to contemplate – even **James Shaw** (*see next item*) says wait till at least 2023 before even raising it – **National has decided to contest this vote**. They are encouraged in this ambition by the election of **Marama Davidson** as Greens co-leader and the evidence that the Greens are being pulled to the left (*see next item*).

This is why **Simon Bridges’s first show case major speech as leader is to be on climate change**.

Bay of Plenty MP **Todd Muller** has kept the climate change portfolio, though he and Bridges are not close allies. Muller supports the Climate Change Commission setting carbon targets and differs with the govt mostly on the pace of progress towards the ultimate carbon reduction goal.

The govt is targeting net-zero emissions by 2050 whereas National wants to cut emissions by 50% from 1990 levels by 2050. That means that although National may support the structural elements of the govt’s **Zero Carbon Bill**, it will be unable to support it wholly – except in the unlikely event of a change to the legislation’s name.

Muller and Bridges believe technological answers will prove key to the transition to a low-emissions economy over the next 30 years so there is no need to rush adjustment now. That view mirrors Business NZ’s, which is concerned about the momentum for early transition created by numerous recent reports, including from **Westpac** and the **Productivity Commission**. The business lobby takes the politically uninspiring but practical view that unless other countries also show leadership on climate change, NZ will cede economic growth to other countries,

### Carve-outs possible in foreign buyers’ ban

The govt appears likely to allow carve-outs for certain types of foreign investment in residential real estate.

Indications are that changes to legislation currently before select committee may assist retirement homes and rental dwelling developers. Details are scant, but the intent is real.

and promote so-called carbon leakage – where emissions just move from one country to another.

One easy way for National to keep its rural base on board through this process is to back the emerging consensus that methane, as a short-lived greenhouse gas, is a lesser problem than other GHGs, despite representing 35% of NZ's total GHG emissions.

The Forum not only brought together National MPs and some of the party organisation's key executives but also a number of sector groups including, **Greenpeace**, making **Green Party adviser Jack McDonald's** objection to the presence of former Green MP **Kennedy Graham** all the more quixotic.

While the positive debates at the all-day Forum were an impressive start, it won't be easy for Bridges to keep his caucus in line as he moves towards a more urban metro-based policy mix with an emphasis on the environment. But **climate change may be an easier environmental issue for him to get past his rural MPs than any dramatic moves on water allocation or quality, where the govt is likely to make progress in June/July.**

## The Dividing of the Greens

The lineup of former Green MPs opposing the waka-jumping legislation and their accompanying **criticism of the current party leadership – for which read James Shaw – suggests that all is not well within the party.** The decision to hand over their question allocation to National has caused deep parliamentary anger in some quarters and is pinned on Shaw, as is the commitment to the Budget Responsibility Rules.

The decisive win for Marama Davidson over Julie-Anne Genter for the co-leadership is the strongest public demonstration of Shaw's weakened position.

Labour is closely watching and concerned about the divisions between the party rank and file and some of the MPs. The Beehive believes the Green caucus is split with the Ministers on one side and the

remaining MPs on the other. Whether this could lead to the Greens eventually voting against the waka-jumping legislation is now a moot point.

Among those least loyal to Shaw is **Gareth Hughes**, who gained nothing from the govt formation process despite being a tireless advocate for green energy when he held that portfolio in Opposition. Hughes and first-termers Golriz Gharaman and Chloe Swarbrick represent part of the oppositional bloc forming in the parliamentary party.

If the Greens did defeat the waka-jumping bill, which has generated nearly 100% submissions in opposition to it, then the whole govt arrangement would be in jeopardy.

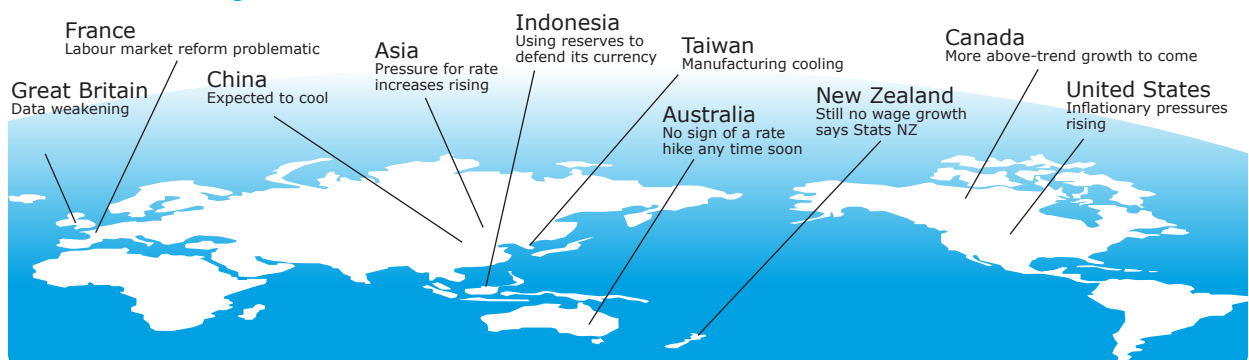
National sources say the **waka-jumping legislation was one of the very earliest bottom lines that Winston Peters put on the table during the coalition negotiations**, a clear indication of the importance he attaches to it. Any failure to pass it would surely be regarded by him as a major breach of faith by Labour and would come at a time when it is becoming apparent that NZ First is beginning to find its role within the govt more uncomfortable than it might have initially hoped.

## Gas reserves downgrade coming

Public announcement of a substantial downgrade to P2 (proven + probable) gas reserves – those most likely to be able to be developed commercially – is imminent. While the extent of the downgrade has been apparent for some time to bidders for Shell NZ's production assets, the official confirmation with NZP&M's annual announcement is likely to cause a fresh round of political pressure for the govt and soul-searching for major gas users.

The key issue is likely to be less that the horizon for reserves will shrink from about 11 years to 7 years than that producing those reserves will require additional projects which are likely to be harder

## The world at a glance



## POLITICS AND POLICY

to secure, given the govt's sudden decision to end offshore oil and gas exploration. While domestic gas prices may rise and make existing field extension commercially attractive, any significant reduction in gas offtakes – for example, through the loss of one or more major gas users – could negate the benefit to field owners of higher prices.

The Major Electricity Users Group has joined critics of the oil and gas decision in a diplomatically worded commentary that notes there may be no need for additional renewable electricity generation capacity “if policy changes lead to large commercial and industrial businesses exiting the country due to high costs relative to their international competitors”.

Those comments may also be a nod to the Productivity Commission's modelling showing a NZ Unit carbon price as high as \$250 per tonne may be required to achieve net-zero emissions by 2050.

### More roadblocks for offshore exploration?

The govt's attempt to reassure gas producers and users that there are still plenty of opportunities to discover new offshore fields risk becoming somewhat hollow if proposals inadvertently disclosed by the govt this week go ahead.

A parliamentary legislative calendar shared with the Opposition included a bill for marine mammal protection from seismic surveying in the name of Conservation Minister **Eugenie Sage**.

Without detail, it's impossible to know quite how

restrictive the proposals might be, but if seismic surveys are to be significantly restricted, the capacity for existing exploration licences to be conventionally explored could be severely limited.

### Detente emerging on Singapore

The simmering stoush between the Singaporean govt and NZ looks almost to have been solved.

Announcements are tipped for some time next week over the issue of Singapore's insistence that NZ honour the terms of the Singapore-NZ free trade agreement, which were breached by virtue of the govt's failure to carve out Singapore from its ban on foreign ownership of residential property. That carve-out was negotiated for Australia, consistent with the CER trade deal.

However, treating Singapore the same way would have triggered MFN clauses in the China-NZ FTA, which could have seen Chinese buyers also exempted – a politically unsustainable outcome given Chinese buyers are an unspoken primary target of the policy.

The Singaporean govt, one of NZ's longest-standing and closest friends in Asia, was outraged by what it saw not only as a betrayal of that relationship, but as made worse for the absence of consultation before announcement.

Trade Minister David Parker has been working on a fix for months, with indications that a satisfactory settlement has been found, subject to nailing down final details. 🇳🇿

### 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	2.3	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	2.1	2.2
Japan	7.6	0.9	1.7	1.4	1.1	0.5	-0.1	0.5	1.0	1.0	1.6
Eurozone	6.7	1.8	2.3	2.4	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	1.5	1.5	1.6	0.7	2.7	2.6	2.2	2.1
Taiwan	2.6	1.4	2.9	2.7	2.5	2.1	1.4	0.6	1.3	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
Malaysia	2.3	4.2	5.9	5.4	5.2	4.8	2.1	3.7	2.7	2.7	2.9
Indonesia	2.1	5.0	5.1	5.3	5.4	5.2	3.5	3.8	3.6	3.9	3.9
Hong Kong	2.1	2.1	3.8	3.2	2.7	2.4	2.4	1.5	2.2	2.3	2.4
Thailand	2.1	3.3	3.9	4.0	3.7	3.2	0.2	0.7	1.2	1.5	1.6
Philippines	1.6	6.9	6.7	6.6	6.5	5.9	1.8	3.2	4.2	3.6	3.5
India	1.6	7.1	6.7	7.4	7.6	7.5	4.5	3.7	4.8	4.8	4.8
Vietnam	1.6	6.2	6.8	6.6	6.5	6.2	2.7	3.5	4.2	4.1	4.2
Canada	1.5	1.4	3.0	2.0	1.9	1.8	1.4	1.6	2.2	2.0	2.0
<b>NZ Trading Partners</b>	100.00	3.6	3.9	3.9	3.8	3.4	1.4	1.8	2.2	2.2	2.3
<b>Forecasts for New Zealand</b>											
Consensus		4.0	2.9	2.8	2.7	2.6	0.6	1.9	1.7	2.0	2.0
BNZ Forecasts		4.0	2.9	3.0	3.0	2.4	0.6	1.9	1.7	2.2	2.0
<b>The World</b>		2.5	3.2	3.3	3.2	2.9	2.4	2.5	2.7	2.6	2.8

## DOMESTIC ECONOMY

## Budget 2018

**Finance Minister Grant Robertson** says he is scrutinising existing spending to ensure the government can fund its policies, having freed up \$700m of planned spending to reallocate in the May 17 Budget.

“Combined with our moves to crack down on speculators, tax dodgers and ensuring multi-nationals pay their fair share of tax, we have freed up \$1.4b worth of funding for this government’s priorities over the next four years,” Robertson said in a pre-Budget speech.

## GST extended to e-commerce

The govt will impose GST on small online retail purchases, making foreign suppliers collect the tax and dropping some border duties for the buyer.

**Revenue Minister Stuart Nash** and **Customs Minister Meka Whaitiri** said from Oct 2019, GST will be applied on goods bought overseas and valued at less than \$400.

The move follows an eight year campaign by retailers that saw the issue stalled when it was handed to the **Customs Dept** to manage, and was judged too difficult to implement cost-effectively.

It was only when the last Revenue Minister under the previous govt, **Judith Collins**, grasped the issue that it began to progress. Nash and Whaitiri have effectively finished the work she began.

The regime will only apply to retailers selling more than \$60,000 of goods to NZ buyers annually, and will likely be porous, since identifying every such liable tax gatherer offshore will be difficult. However, major suppliers such as **Amazon** can be expected to register and comply.

## Competing energy models

Business NZ is investing afresh in modelling to assist scenario planning for NZ’s energy needs, at time when a range of models – most developed to assist climate change policy thinking – are competing for attention by policy makers.

The BusinessNZ Energy Council (BEC) and public and private partners have commissioned the model.

“The new model will help industry participants, regulators and govt clarify our challenges and opportunities as we grapple with important issues such as the end of oil and gas exploration, the electricity sector review, renewable targets, and new technologies and consumer preferences,” BEC chair David Caygill said.

The model is being developed by the Paul Scherrer Institute, Switzerland’s largest federally funded

research institute, and modeller for the World Energy Council’s scenarios.

Auckland University, through the Business School’s Energy Centre, will host and maintain the model, which will be accessible on commercial terms.

## Economic indicators

**Unemployment fell to its lowest level in almost a decade** in 1Q18, at 4.4%, while wage inflation remained anaemic, at a quarterly rate of 0.3% and an annual 1.8%. The number of employed people rose 0.6% in the quarter to 2.62m and was 3.1% higher than a year earlier. The data has reinforced views that the central bank will continue to signal no increase in interest rates in next week’s review.

**March trade figures** showed a March monthly deficit for the first time in a decade, at \$86m, reflecting a jump in fuel imports outweighing higher exports of butter and logs. The annual trade deficit for the year ended March was \$3.42b, compared with \$3.71b in the prior year.

**Residential building consents rose in March**, largely boosted by apartments. Seasonally adjusted consents for all dwellings increased 14.7% on the month in March to 3,025 while seasonally adjusted permits for houses were up 0.1% to 1,769.

**House value growth slowed in April** in urban centres as investor activity dropped and the market heads into winter. Quotable Value reported residential property values nationwide increased 7.6% year-on-year in April, and were up 1.1% for the previous three months, to an average \$679,000 in the Auckland region, which has led gains in house prices over the past five years, but where prices rose 0.8% on an annual basis.

**Annual net migration slowed in March** as continued high immigration was offset by more NZers and non-citizens leaving the country. Annual net migration was at 68,000 in the year to March, from 71,900 in the March 2017 year.

## Confidence indicators

The **ANZ Business Outlook** reported a net 23% of businesses were pessimistic about the year ahead in April versus 20% in March. Fewer companies saw their own activity expanding, at net 18% compared to 22% in March, below a historical average of 28%.

The **ANZ Roy Morgan consumer confidence index fell 7.5 points** to 120.5 in April, slightly above the historical average. The current conditions index dropped 5 points to 123.1 while the future conditions index fell 9 points to 118.7. A net 13% of respondents saw good economic times in the coming 12 months, down from a net 25% in March. ■■

## Primary industries

**Primary Industries Minister Damien O'Connor** is putting an estimated cost of up to \$1b on containing the **micoplasma bovis** outbreak, which has now been found to have spread to the North Island. A govt compensation package will cover 40% of the cost of stock destruction required in herds where the disease is identified.

**NZ farm sales fell** 11% to 388 in the March quarter from a year earlier as growing compliance issues and the outbreak of mycoplasma bovis kept farmers cautious. Grazing and dairy farm sales led the decline, while strong lamb and beef prices supported an increase in finishing farm sales. The median sale price was flat at \$27,428/ha.

Dairy product prices fell at the **Global Dairy Trade auction**, led by declines in rennet casein and whole milk powder. The GDT price index slid 1.1% from the previous auction two weeks ago. The average price was US\$3,465 a tonne. Whole milk powder fell 1.5% to US\$3,231 a tonne. The decline followed Fonterra's revision of its full season milk production forecast, with **milk collection** tracking 2% lower than in 2017, a steeper decline than for the industry as a whole, at 1.3%.

**Seeka shareholder Farmind Corp** of Japan is transferring more than a third of its investment to NZers to reduce the fruit grower's foreign ownership. **Chair Fred Hutchings** told shareholders the company was above the OIO threshold, meaning certain purchases it made would go through foreign investment screening, and that could weigh on the business.

## Banking, finance and insurance

**ANZ Bank NZ** lifted first-half earnings 1% as mortgage lending continued to grow. Cash profit rose to \$941m in the six months ended March 31 from \$928m a year earlier. The NZ division expanded its loan book 3% to \$118.5b, with mortgage lending up 5% to \$73.7b, and commercial lending up 3% to \$41.5b.

**BNZ** reported a 17.8% increase in net profit after tax for the March 31 half-year, at \$490m. The result reflected deposit growth, strong lending growth to both businesses and home borrowers, an increase in net lending margins, and a larger gain in the same half a year earlier on the value of financial instruments. Cash earnings rose 8.6% to \$494m, as net interest margin increased by 9 basis points over the prior period to 2.24%.

Both ANZ and BNZ chief executives insisted the banking culture and regulatory environment in NZ differed significantly from Australia. The **Reserve**

## Bank of New Zealand and Financial Markets

**Authority** this week issued a call for NZ financial institutions to demonstrate, rather than simply claim, that they were not engaging in practices of the kind uncovered in the Australian royal commission of inquiry into the banking sector.

**China Construction Bank's** NZ subsidiary reported net interest income nearly trebling to \$24.5m in 2017 and net profit of \$10.4m, from \$1.8m in 2016.

**Kiwibank** appointed former ASB executive **Steve Jurkovich** its next CEO, effective from July. Jurkovich replaces Paul Brock, who departed in Nov, and ushers in a new phase with the NZ Super Fund and ACC investment fund as cornerstone shareholders.

**ACC CFO Mark Dossor** is to become ceo at boutique investment firm **Rangatira Investments**.

## Construction

**Fletcher Building CEO Ross Taylor** plans to restructure the Australian division to widen margins across the Tasman, which lag behind the core NZ business. The company may **also** have to pay \$40m to **SkyCity Entertainment Group** for delays in completing the Auckland international convention centre, according to First NZ Capital gaming analyst Paul Turnbull. He says SkyCity may receive the liquidated damages from Fletcher in the casino company's 2020 financial year, as a result of the six month delay. The Convention Centre and Hobson Street hotel are now expected to be completed in Dec 2019.

## Energy and Resources

**Petrol retailers face a new round of political pressure** on their pricing tactics following the leak to news media of a frankly worded email from a BP manager detailing its approach to pricing in the Horowhenua region, where it faces strong competition from **Gull**. Energy Minister Megan Woods says the retail transport fuels market appears to be "broken" and adds pressure for the Commerce Commission to undertake a market study, once that power is conferred under legislation currently before a select committee.

Into this environment, **Z Energy** announced an 8% increase in net profit for the year to March 31, at \$263m, with a full year's results from the Caltex retail operations included. Chief executive **Mike Bennetts** said the difference between the cheapest petrol and the most expensive petrol across the Z network was 20 cents per litre and that difference "exists in Auckland as much as across the country."

"This isn't a situation of provinces cross-subsidising urban centres, this is all about local individual trading markets competing fiercely on a site-by-site basis".

## CORPORATE ROUND-UP

**Mercury NZ** will spend as much as \$50m buying back some of its shares, enabling it to return capital to shareholders and rebalance its capital structure. Mercury will buy up to 20m ordinary shares on the NZX main board between May 7 and June 30, which will be held as treasury stock.

### Transport, tourism and logistics

The Commerce Commission is concerned **Auckland International Airport** plans to generate excessive profits from its regulated assets, which are subject to major capital investment over the next five years. In its preliminary view, the regulator said the airport's target return on capital of 7.06% may be too high, compared to the 6.41% mid-point of the commission's benchmark range.

**Salus Aviation Group** plans to go public next month, raising up to \$35m ahead of a dual listing on the ASX and NZX. The Auckland-based company, which counts Bancorp Wealth Management as its largest shareholder, is aiming to list in late June after selling about half the company to the public.

**Serko** shares rose to a record after the online travel booking software developer announced plans for a secondary listing on the ASX next month as a means to broaden its investor base.

### Telecommunications

The Commerce Commission estimates it will cost \$12m over three years to effectively introduce a new regulatory framework governing how fibre companies charge for access to their networks and wants feedback on its proposed funding plan. Some telcos fear the commission is simply making work for itself. Meanwhile, **Chorus** continued to talk up the benefits of a nationally regulated monopoly approach to 5G technology – a prospect vehemently opposed by **Spark**, **Vodafone** and **2degrees**. The select committee reportback on the Telecommunications (New Regulatory Framework) Amendment Bill was published this morning.

### Entertainment and media

**Carlaw Heritage Trust** and **Autex Industries** have acquired the **Vodafone Warriors** from businessman Eric Watson after months of speculation about a sale of the NRL club. No price was disclosed, although it was reportedly less than \$18m. Watson is parting

ways with the club after 17 years in charge.

### Earnings

ASX-listed retailer **Woolworths Group's Countdown** chain of supermarkets in NZ recorded a 3.4% gain in sales in the third quarter. Sales rose to \$1.63b in the 13 weeks ended April 1. Adjusting for the timing of Easter, comparable sales were up 3.8%.

**Oceania Healthcare** expects to lift underlying earnings by at least 51% and meet forecasts in its offer document, with strong demand for its aged care suites. The company says it's on track to meet the forecasts provided in its 2016 initial public offering document, implying underlying earnings will rise to at least \$51.4m in the year ending May 31.

### Corporate actions

**Tegel Group** shares surged after Philippines-based poultry group Bounty Fresh Foods announced a \$437.8m takeover bid for the chicken farmer at \$1.23 a share. Bounty Fresh already has Tegel's 45% shareholder, Affinity Equity Partners, on board.

**Former PM Bill English** has been appointed to the board of ASX-listed conglomerate Wesfarmers, which owns Bunnings Australia and NZ, Kmart and Officeworks. Wesfarmers' chair Michael Chaney said English has an "outstanding record of financial management and government policy development."

Sweden's **Datamars** paid more than \$100m for Simcro, according to the case summary from the OIO that cleared the transaction last month. Datamars specialises in radio frequency identification with markets in companion animal ID, livestock ID and textile ID products.

The Struthers family, which founded the **Avanti** bicycle brand and built **Sheppard Industries** into the largest cycling company in Australasia, has cut its final ties to the business, selling its remaining shareholding to a Swiss company, **Scott Sports**.

### Courts and regulation

**Abano Healthcare's** former shareholder Healthcare Partners has been ordered to pay the listed medical services investment firm \$429,000 in dispute costs that arose from a failed partial takeover bid. Building products firms **Timber King** and **NZ Steel Distributor** were fined \$401,000 for making false and misleading representations about steel mesh. 