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PLAY OF THE WEEK

Recess Thanksgiving

Parliament returns next week, but before it does so we should give thanks for what the recess has produced.

First up, thanks, a very big thanks, to the Maori Party, for reminding us the UN Secretary generalship should be open to the kind of political debate of any other political position.

This isn't - despite what some talkback hosts seem to think - like getting behind the Americas Cup, where we have to all wear red socks for Good Ol' Auntie Helen. Clark would, if she got it, almost definitely do a good job. But the assumption she is some sort of saint, above reproach, needs to be rejected.

Further afield, an extremely big thanks to Donald John Trump, for being a kind of Vincent Price of global politics. A strange and hammy mix of horror show villain and comic relief. Either someone slipped something into his coffee, or he really doesn't want the Presidency.

Also the Labour Party owes Phil Twyford a vote of thanks for manning...O what are we saying, this is the Labour Party - personning - the fort while the rest of the party went on holiday. Someone appears to have left Twyford with a stack of press releases and instructions to rearrange them around the words "Auckland housing affordability" every few hours on his computer screen before pressing "send."

National owes Steven Joyce a similar vote of thanks for similar reasons, only with a wider brief.

And we all owe ourselves a decent drink at the end of the week, to steady our nerves for the onslaught next week.

This Week..Govt wary new political forces sweeping the globe may effect voting here - Aust is feeling its tailwind...There are still pressing economic challenges ahead for the Key-English "dream team"...There are two sides to the housing issues...And Helen Clark rests Up Before her Sternest test in the battle to become the next UN Secretary-General.

Politics: Govt Wary Of New Political Fault Line

A new political fault line has opened up round the world, with a rising sense of insecurity, xenophobia and insularity as large segments of the population in major economies believe they are somehow missing out on rising living standards. So far NZ has remained relatively immune, an oasis of stability. Even Aust, which for 20 years happily wore the label of the "Lucky Country," no longer feels so lucky. **This is not surprising, as for example miners who were being paid \$A150,000 a year not so long ago find their take-home pay has shrunk to \$A50,000, if they still have work.**

The mood has become disconsolate, even though unlike many other OECD members Aust's rate of economic growth is still a respectable 2-3% a year. This mood stretches up into Govt, where the coalition is struggling to regain traction after an unsettling Federal election. In a strange twist, Canberra is now looking to NZ for solutions, particularly as it seeks to repair the Federal budget, with Social Services Minister Christian Porter looking for inspiration to the NZ "investment" model. He is likely to pick up Bill English's mantra the aim is to provide better public services rather than "cuts" to budget funding.

The Australian Financial Review summed it up this week. "The combination of John Key as PM and Bill English as Finance Minister has achieved an increasingly rare feat in any advanced economy. It includes returning a budget to surplus while managing better growth along with substantive social, economic and taxation reform. All within a political framework of relative popularity, especially a track record good enough to be re-elected with stronger voter endorsement for its programme. Better outcomes in health and education, fewer people on welfare and a return to surplus - not bad."

Pressing Economic Challenges Ahead

The Govt cannot rest on its laurels. It faces pressing economic challenges. Business leaders are concerned at economic issues, such as the high cost of housing as well as rising rents in Auckland which make it difficult for workers to find accommodation. Last week *Mainfreight* chairman Bruce Pledsted was bemoaning the average house in Auckland costing ten times the average household income. He says globally it is accepted three to five times the average income is desirable.

Pressure on housing has been accentuated by the inflow of migrants, where only three years ago the outflow to Aust was running at 40,000 a year, that has reversed to an inflow of 2000 a year. The Govt has the expectation the inflow may slacken quickly as the Aust economy picks up speed again. But levels of under-employment in Aust are persisting so there may be no early relief there. In any case the boom in building construction has led to a shortage of skilled workers, which may need to be filled by overseas recruitment. The Govt also faces problems with the high NZ dollar.

The Reserve Bank is expected to cut the OCR again next week but not many economists believe it will take the NZD down. **The economic dilemma now seems to be if currency weakness is to be achieved, the growth cycle would have to reverse,** the last thing the Govt wants. ANZ Bank in a commentary this week said it is not convinced a lower OCR will be fully passed on into retail deposit and borrowing rates, particularly with bank funding costs higher than last year and credit growth outstripping deposit growth.

Deposit rates cannot be taken continuously lower, which means the same for borrowing rates. A wedge between wholesale and retail rates will help the RBNZ as it tackles competing housing and currency tensions.

BREAKING DOWN

- ▶ Govt aware of new political fault line in world.
- ▶ Aust on tail end of change.
- ▶ Key and English regarded as "dream team" by Aust media.

Local Government Too Hot For Lotu-liga?

Local Government Minister *Sam Lotu-liga* gives every impression of flirting in the “*Last Chance Saloon*.” Following a series of debacles associated with his Ministry of Corrections portfolio, the Maungakiekie MP was handed the usually benign portfolio of Local Government. Now even that is turning to custard.

Local Government NZ has turned its big guns on the Minister. It opened with a verbal salvo from Invercargill’s feisty Mayor *Tim Shadbolt* that the Minister’s Local Government Amendment Bill was a denial of democracy. The reason: It hands the Local Government Commission power to combine local council water and wastewater undertakings into regional businesses as Council Controlled Organisations governed by a Board appointed by participating councils. Not on, says Shadbolt. His Council wants to keep control of its own water supply, as do others.

The issue won’t disappear in a hurry. LGNZ Chief Executive *Malcolm Alexander*, a canny backroom operator, is masterminding the local government lobby. Statements by Commission Chair, Sir *Wira Gardiner*, that council-owned water and wastewater utilities are on a “*to do*” list for future Commission activities injected further fuel into the debate.

In a somewhat ironic twist to the debate on control of water and wastewater utilities. *Stephen Sellwood*, Chief Executive of the Council for Infrastructure Development, this week hailed the 20-year asset management plan of Auckland’s water Council Controlled Organisation, Watercare, to deal with a capital spend of \$4.9 billion over the next decade.

He says “*the ability to look out 10 and 20 years and produce a fully funded investment programme is made possible by the company’s consolidation of activities inside a special purpose, non-profit council company resourced by user charges. Having the ability to charge consumers directly to fund future investment to support growth is fundamental to the success of this model.*”

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II Housing Has Its Sunny Side - As Well As Downside

The Govt sees the housing issue slowly turning around in the wake of the unveiling of Auckland’s Unitary Plan, and its own measures taking effect. The media are still preoccupied with the downside, but there is also a sunny side. The impact of the building boom is sustaining economic momentum at a time when otherwise it might be slackening.

Building and Housing Minister *Nick Smith* says it’s NZ’s largest building boom ever. “*We’ve topped 29,000 homes being built for the first time in 12 years.*” He’s particularly encouraged by the strong new home consents for Auckland of 921 for the month of June - up 31% from the 704 in June last year. **This suggests the building boom has yet to hit its peak and will run through election year and beyond** which, along with the feel-good factor generated by rising housing valuations through onetime Labour strongholds, points to a potential electoral swing in favour of the Govt.

Smith has also eased the Homestart scheme’s terms, and the Salvation Army has welcomed Social Housing Minister *Paula Bennett’s* announcement of \$9m in a flexible fund to support people in severe housing need. Meanwhile Labour and the Greens put themselves at odds when Green co-leader *Meteria Turei* called for Auckland house values to fall by 50%.

III Race To The Top At UN: Clark Faces Sternest Test

Helen Clark faces her sternest test yet in her quest to become the next UN Secretary-General of the UN, with a straw poll vote in the Security Council tomorrow. The NZ Govt has been putting in a huge effort in the bid to get her into the top group of favoured candidates (which might then constitute a short list). Unless she advances on her initial rating, the game may be over. However, there are encouraging indications.

The principal players, Russia, the US, China, France and the UK, have all been briefed by NZ. The non-stop lobbying by *John Key* and Foreign Minister *Murray McCully* underlines the enormous importance NZ, one of the UN founding nations, is placing on electing a highly qualified candidate, rather than a time-serving figurehead who has little capacity, or will, to confront crucial global issues. They are battling the rotational system, which in the first straw vote saw the Russians, the Europeans and the non-aligned group ganging up to push East Europeans into top spots on the list, leaving Clark in no man’s land.

The question is whether a favoured East European candidate (if seen as a tool of *Vladimir Putin*) gets taken out by a veto. **The US system has so far not been heavily engaged in the process**, with other events taking priority, but Clark has been lobbying in Washington this week to capitalise on the earlier work by NZ with Vice-president *Joe Biden* and Secretary of State *John Kerry*. By mid week it seems many of the earlier front-runners have slipped back.

III Trade: RCEP Deal Inches Towards Finality

The protracted process of negotiating the Regional Comprehensive Economic Partnership FTA takes another step forward at the 4th Ministerial meeting being held in Laos this week. Some analysts see this as a useful, though not full, substitute for the TPP, if the US Congress fails to ratify it. Trade Minister *Todd McClay* says following NZ’s hosting of the 13th RCEP round in Auckland in June, **the Ministerial meeting is reviewing the overall state of negotiation and addressing key issues, including in services, investment and goods.**

McClay says he will be pressing his counterparts to ensure the negotiations deliver a modern, comprehensive and high quality agreement. The countries involved in RCEP have a combined population of over 3bn and account for about 27% of global trade. “*They include six of our top 10 trading partners who took nearly \$30Bn of our exports in 2015.*” McClay reckons if RCEP is successfully concluded it will offer NZ businesses a single set of rules delivering access to key Asian markets.

IN THE LOBBY

This week is the last of the very long winter adjournment and MPs kept their distance from Parliament with no Select Committees meeting. There are just over 40 sitting days left until the House rises for the summer break.....**Next week Parliament will resume with the Govt intending to complete the committee stage of the [Appropriation \(2016/17\) Estimates\) Bill](#)**, or as it is better known the Estimates debate, with four hours and 54 minutes remaining.....**Wednesday will be a Members Day. First up will be the committee stage of a Private Bill** – the Royal New Zealand Foundation of the Blind Act Repeal Bill. The Bill is non-controversial, so MPs are likely to debate the [Minimum Wage \(Contractor Remuneration\) Amendment Bill](#). The Bill, in the name of *David Parker*, made it to Select Committee with the support of the Maori Party and *Peter Dunne*. The Committee, dominated by National MPs, recommended the Bill not proceed.....**The House could also debate the first reading of Marama Fox’s [Oaths and Declarations \(Upholding the Treaty of Waitangi\) Amendment Bill](#)**.....**The Trans-Pacific Partnership Agreement Amendment Bill is still before the Foreign Affairs and Defence Committee and not due back by November 12.** However consultation on the patent term extension provisions in the Bill close on August 8 with Ministers making decisions on those in a parallel process.

SELECT COMMITTEES

Patents Bill Gutted

The Commerce Committee has criticised Commerce Minister *Paul Goldsmith* and his officials after it almost totally rewrote the Patents (Trans-Tasman Patent Attorneys and Other Matters) Amendment Bill. The Bill was intended to implement a single trans-Tasman registration regime for Aust and NZ patent attorneys and set up a single trans-Tasman patent process. The Committee, which is dominated by Govt members, kept the registration regime in place, but effectively threw the rest of the Bill out. They were scathing in their criticism and said the idea would have created costs for little benefit and was unlikely to be used.

The majority report expressed shock at the lack of consultation over the proposal, which caused much alarm in the usually quiet world of patent attorneys. The Committee said officials' work was "inadequate. Given the significant costs... the low likelihood that they would be used; and the lack of substantial benefits in terms of time and cost savings to NZ businesses, we consider that it is difficult to justify proceeding further with these initiatives." Labour MPs were even more critical in a minority reporting saying the Bill was in such poor shape it should have never been put before a Select Committee and the lack of due process had wasted money and time.

Watching The Watchers

MPs say Te Puni Kokiri (the Ministry for Maori Development) has a vital role in assessing whether the Whanau Ora programme is working. In its report on Vote Maori Development the Maori Affairs Select Committee said the appropriations 2016/17 is \$295.395m, a 16% increase from of \$255m in 2015/16. Funding for Whanau Ora increased by 25%, from \$59.275m in 2015/16 to \$74.212m. This includes a 37% increase in funding for commissioning Whanau Ora outcomes. Since 2014/15, Whanau Ora outcomes have been contracted to three third-party "commissioning agencies."

The Committee asked what TPK is doing to assess the benefits of each of the Whanau Ora commissioning agencies. "We believe that TPK has a critical role to evaluate and assess Whanau Ora outcomes and the effectiveness of the commissioning agency approach." The Minister said there are ongoing reviews and reports to assess the benefits of Whanau Ora. "When asked how many whanau have reported that they are self-determining over the last two years, the Minister said that he would provide us with a written response. We believe this is information that should have been readily available at the Estimates hearing."

Govt Fills The Parliamentary Recess Void

The Govt has carefully spaced major announcements through the recess. This week it sprang its solution to the *David Bain* compensation claim. Justice Minister *Amy Adams* says the Govt is offering \$925,000 as an ex-gratia payment. Bain maintains he is innocent of the murders of his family. So should he have got more? Legal experts says Cabinet should have stuck to principle, rather than take a pragmatic approach.

Adams says it is in no-one's interests for the case to be dragged out further. She believes it is a one-off resolution to one of the most complex, unique and high-profile cases in NZ's history.

Former Aust Supreme Court judge *Ian Callinan* had a neat summation. "People in real life and the courts that adjudicate upon conflicting facts know that all of the questions cannot always be answered, and all of the issues neatly resolved. This is such a case. Addressing the sole question that I am asked, and confining myself strictly to it, my answer is that Bain has not proved on the balance of probabilities that he did not kill his siblings and his parents on the morning of the 20th of June 1994."

Positive Signals For Dairy Industry (At Last)

Two positive signs for the NZ dairy industry, battling a prolonged downturn in global prices, emerged this week. *Fonterra* confirmed its forecast payout of \$4.25kg/MS, after some analysts had suggested it might be trimmed, and raised its guidance for earnings per share to rise to the 50-60c range. Then at the latest *GlobalDairyTrade* auction prices rose 6.6%, ending a series of minimal changes. The average price rose to \$US2436 a metric tonne with wholemilk powder up 9.9% to \$US2265.

Fonterra has faced a constant barrage of criticism it hasn't succeeded in adding enough value to the raw milk it processes. But this week it said returns from its ingredients, consumer and foodservice business is growing, reflected in its forecast of earnings per share rising to the 50c-60c range this season, up from the 45c-55c range for the 2015-16 season.

Chairman *John Wilson* reports its infant formula sales in China are running ahead of expectations, despite its Chinese partner *Beingmate* anticipating a first half loss. "Our Annum sales, through *Beingmate*, are increasing at a faster rate than our business plan." Fonterra expects the payout to shared-up farmers to be in a \$4.75-\$4.85kg/MS range, still short of what some analysts suggest is the breakeven price of \$5.25, but providing a comfortable margin for those highly efficient farmers whose cost of production is below \$4kg/MS.

Trade Minister Back On His Bike...

Trade Minister *Todd McClay* got back on his bike this week (after nearly crashing last week) to deliver a keynote speech on NZ's trade policy. He believes NZ must refresh its trade strategy in the face of "global creeping protectionism." Multiple trade deals have brought a myriad of rules and regulations which can be confusing and costly for businesses to navigate.

This is particularly true for small businesses and businesses new to exporting. "Take for example one of our close trading partners, Malaysia. Would a NZ business in future use the Malaysia/NZ FTA, AANZFTA, TPP, or RCEP for their trade access? From a tariff point of view this may be fairly straight forward but when one considers rules of origin, it is anything but. Businesses are now demanding Govts simplify trading arrangements."

The UK vote to leave the EU has introduced new complexity to NZ's relationships with the EU and the UK. From a trade and economic perspective, NZ's continuing objectives are to maintain, and build on, current trade access into both the EU and the UK markets. McClay says in the Pacific, the PACER Plus agreement is on track to be finalised soon. NZ is also focused on the China FTA upgrade.

...Shifts In Trade Strategy

In refreshing trade strategy *Todd McClay* sees the need for a shift to a balance between negotiation of further agreements and making the most of those NZ has. Under the current strategy NZ has secured FTAs with markets covering 52% of exports. This will rise to 72% with TPP, and about 90% if all the current and prospective negotiations are successfully completed. This means NZ is likely to spend less effort looking to negotiate new agreements and more effort on implementing and upgrading existing agreements.

A second shift arises from a combination of what has been achieved to date, and the new challenges faced by business. **A third, important shift arises from the changing nature of business.** Services and investment are of increased importance. The digital economy is transforming the operating environment for NZ. The fourth shift is over time to put more effort into appropriately assisting NZ businesses to compete successfully in markets against foreign firms. NZ must become more integrated in, and play a greater role in, global and regional supply chains.

As part of the process for the refresh of NZ's Trade Policy Strategy, McClay plans to hold public meetings in the main centres, open to all NZers, to provide an opportunity to hear their views.

Government Department Briefs

• **The State Services Commission** has sought to get the Open Govt Partnership project back on track by outsourcing consultation to the engage2 company to develop a National Action Plan. The Govt accepted an invitation to join the OGP in 2013. However an initial attempt at an action plan was not well received by the international group as it was mainly a list of what was underway and not a plan to further the OGP principles of transparency, accountability and increasing public participation in govt. The SSC has fallen way behind schedule and has been criticised for a lack of openness in consulting on open Govt. Engage2 has outlined a plan to come up with recommendations by August 20, but past experience would indicate this is unlikely to be met.

• **As the Ministry of Social Development** moves out of the Bowen Street campus, the Govt has locked into an agreement to lease back the buildings which should fill the need for departmental space for the next 15 years. Precinct Properties have signed leases on four of its buildings as part of the Govt's Wellington Accommodation Project covering not only the Bowen Campus behind Parliament, but also Pastoral House, Mayfair House and 3 The Terrace. The deal also includes extended the existing lease at 1 The Terrace. Under the deal Precinct will spend \$380m upgrading the run down Bowen Campus, and refurbish other buildings. Who will fill the buildings has not been announced, but the deal underlines the ongoing centralisation of leasing of departmental buildings.

• **Statistics NZ** has taken the unusual step of delaying the release of the key quarterly Household Labour Force Survey data. It was due to be published on August 3 but has been delayed until August 17. The delay is to give time to check the June quarter figures following the changes to the HLFS earlier this year and complete a quality assurance process. The last time a key quarterly release was delayed was in 2011 to ensure methods for measuring GDP accounted for the Canterbury earthquakes.

• **Nine new** companies have been added to the All-of-Government Advertising Media panel. These are *Healthy Life Media*, *iSEE Digital*, *Niche Media*, *QMS NZ*, *Reachmedia*, *RhemaMedia*, *Screen Vistas*, *Snakk Media* and *Yellow Pages Group*.

• **This week** *Leo Donnelly* began his role as a temporary Ombudsman. He describes himself as an "insider" appointment as he has been with the Office since 1985. The Chief Ombudsman recently published his Strategic Intentions for 2016-20 which has targets to eliminate the backlog of aged complaints and improve timeliness.

II Economic Debate - Let's Hear It For Education

Moody's Analytics' examinations of the macroeconomic impacts of the American presidential elections candidates found Democrat *Hillary Clinton's* economic policies, when taken together, will result in a stronger US economy under almost any scenario. In ominous contrast, the US economy will weaken significantly if Republican *Donald Trump's* economic policies are fully implemented as he has proposed. A recession will begin in early 2018 and extend into 2020. During this downturn, "real GDP will decline peak to trough by close to 2.4%."

This and the global consequence should trouble us Down Under but the fate of the Trans Pacific Partnership seems to be troubling us more. Signed in Auckland eight months ago, the agreement doesn't take effect until it has been ratified by all 12 member nations signatories but doubts are being expressed about President Obama getting a deal through Congress before his term expires in January. If not - well, Trump opposes the deal and Clinton has lost her enthusiasm for it.

Our PM has acknowledged the agreement is under pressure but his grasp of the art of politics disinclines him to flag it away. Not yet. As he said "it's not unusual for politicians on the campaign trail to say one thing, and then for something quite different to happen." Alas, true - but politicians tend to do what is in their best political interests and, depending on who becomes President, plenty of other matters on the economic agenda will be crying out for attention. Finding enough bricks to wall off Mexico, for example.

US economics professor Greg Mankiw brought the TPP into play when describing anxiety about foreigners as a defining characteristic of recent political debate. He sees this anxiety in Trump's railing against immigrants and trade agreements and reckons it may explain Clinton's shift, under pressure from rival *Bernie Sanders*, against the TPP, which she once embraced as "the gold standard in trade agreements to open free, transparent, fair trade." He sees it, too, in the UK vote to exit the European Union. His explanation: "voters clearly aren't listening to economists" (not those who think like him, anyway). He takes heart from an analysis showing UK districts with a high percentage of college graduates tended to vote to remain in the EU while those with a small percentage tended to vote to leave. As society slowly becomes more educated from generation to generation, therefore, "the general public's attitudes toward globalisation should move toward the experts'."

CAPITAL TALK..... The head of Local Govt NZ **Lawrence Yule**, **Hawkins Group CEO Geoff Hunt** and **lawyer/consultant Fiona Mules** have been appointed to the National Infrastructure Advisory Board, and existing board member *John Rae* has been made the new board chairman..... **She's fighting the hardest battle of her long political life** but *Helen Clark* is taking two weeks' break from New York to travel to NZ to recharge her batteries in the mountains. The break fills the gap between the next poll at the Security Council, due at the end of August, which will help determine who will become the next UN Secretary-General. It is a hard fight, but she has the full weight of *John Key* and Foreign Minister *Murray McCully* locking the scrum. Old political differences no longer matter. Insiders say NZers will be surprised when they finally know just how hard Key and McCully have fought, surprising many of their counterparts with their bipartisan support.....**Finance Minister Bill English had some good press across in Aust this week.** It left some Ministers in the *Turnbull* Govt envious. According to the media there it seems they can't do much right.....**The Beehive went incandescent this week when the Maori Party disowned Helen Clark's candidacy for the UN top job.** Former Labour MP *Dover Samuels* described it as "political utu." But how petty can you get, putting party interest ahead of what would be truly an outstanding achievement for NZ as a whole? The only comment out of the Beehive (through pursed lips) - It's "unhelpful".....**The Reserve Bank is not relenting over its policy departure from pre-release lock-ups for news media and financial market analysts.** It has introduced new procedures for the release of its major reports after a halt to pre-announcement embargoed lock-ups for news media and financial market analysts when the March OCR decision was leaked from a media lock-up. Governor *Graeme Wheeler* said following requests by news media representatives to restore the lock-ups under different security arrangements, the bank commissioned a security review by *Deloitte*.....**A creative sector programme which helps young people from disadvantaged backgrounds make positive life changes** will receive \$90,000 under a new partnership between the Govt and Te Aratika Trust. Youth Minister *Nikki Kaye* says the Govt will contribute \$30,000 and Te Aratika Trust will contribute \$60,000 to support at least 770 young people to participate in the programme, which will be delivered by *Adair-Beatz*.....**Eleven people, five of them police officers, have been named as recipients of NZ Bravery Awards for putting their lives at immediate risk to save or attempt to save others.** Three NZ Bravery Decorations have been awarded for acts of exceptional bravery, and eight NZ Bravery Medals awarded for acts of bravery. The police officers recognised were *Senior Constable Blair Spalding*, *Constable Ben Turner*, *Sergeant Ryan Lilleby*, *Sergeant Chris McDowell* and *Senior Constable Deane Thomas*. Spalding and Turner, both dog handlers from Waikato, receive a NZ Bravery Decoration for their actions in disarming a violent and armed gunman in Hamilton. Lilleby and McDowell from Counties Manukau disarmed a violent and agitated man armed with knives at a Papatoetoe family violence incident. Thomas, recently retired, from Bay of Plenty, was first on the scene at a serious vehicle crash near Mt Maunganui, and made a rescue from frigid water.

GOVERNMENT BUSINESS

FRAUD CASE MANAGEMENT. The Serious Fraud Office requires suitable software solution/s for Case and Evidence Management to provide complete end-to-end management of their complaints, investigation and prosecution processes. The solution needs to incorporate several improvements with a long-term plan to support and achieve the SFO's strategic goals. The request for proposals says these include a more unified business view; standardisation of processes; better visibility of resourcing for capacity planning; and a time recording solution to allow accurate reporting and cost management. Deadline 5pm August 12.

RFx ID 17683157

EMPLOYMENT SERVICE. The Ministry of Social Development and Dept of Corrections want to engage providers to deliver the Supporting Offenders into Employment service trial in the Canterbury region. Ideally service provision would start from November. The trial period is three years (subject to performance). Providers are invited to submit an innovative service proposal which can be delivered within the \$2m a year funding available, to deliver the multi-service intervention to participants. The service delivered is to prepare people for work, get them into work and keep them there. Deadline noon August 11.

RFx ID 17673500

ASB CURRENT FORECASTS < www.asb.co.nz >

| | |
|---|---|
| ↓ | Trade balance. NEW Still in surplus as non-dairy (e.g. kiwifruit) exports remain strong. |
| ↑ | Residential building. Lifted and suggests demand is growing. |
| ↑ | Business Confidence. Lower in July, but underlying trend still lifting |
| ↑ | Annual net migration. Hit a new record high but annual flows look close to peaking. |
| □ | Dairy prices. Remained flat, but whole milk powder prices lifted slightly. |
| □ | Q2 CPI. Inflation pressures subdued outside of construction and fuel. |

As at 03 August, 2016

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COMPANIES IN THE NEWS

• **Will Port Of Tauranga Return Capital?** *Port of Tauranga* will be reporting its full-year result on August 18 and shareholders will be keenly awaiting news on progress on its five-year \$350m investment programme to prepare for larger ships. The harbour channel dredging programme has been the final building block in the programme designed for the big vessels to start calling at the container terminal by the end of 2016, and the expectation is the dredging programme will be completed ahead of budget, as suggested in April. The company has expanded landside capacity at the Tauranga container terminal and also ordered two new container cranes and 13 new straddle carriers, which are scheduled for delivery by September and will significantly enhance the port's "best in class" terminal productivity.

Once the port's investment in this expansion is complete, the board has signalled a review in 2017 of its capital structure, which would involve options such as a capital return to shareholders, or a special dividend (which could make use of accumulated imputation credits). At the half year, net profit was reported as \$38.6m, down 9% as export log volumes fell and the board affirmed guidance for the full-year for profit to be unchanged at around \$79m. PoT shares trading at a current \$19.40 yield a gross of 3.79%.

• **Logistics Firm Reports Stronger Revenue And Margins.** Transport and logistics operator *Mainfreight* says its current trading is ahead of last year. MD *Don Braid* says within NZ it has achieved stronger revenue, margin and profit momentum in the first three months of the trading year, with new facilities in Hamilton and Christchurch assisting higher rail usage. Across Aust and the Americas results have been improving, and in Europe where there has been an improvement in financial results, the forwarding performance in Belgium "remains in need of an urgent fix." The company is looking for senior management changes to bring "increased use of Mainfreight disciplines and culture."

Braid says Mainfreight is putting a strong emphasis on sales growth, particularly outside NZ, where it sees many opportunities, but the current salesforce capability requires further improvement. The outlook in the medium to long term is for network benefits, geographically and by customer, to fuel continued growth. Noting Mainfreight's record result in the past financial year, Braid says: "Our expectations are to do better this coming year." Mainfreight's sales revenue is now greater than \$2.25bn, with 75% of it earned outside NZ. Mainfreight shares were in the \$17.30-\$17.40 range this week, a gain over the year of 16.65%. Currently the gross yield is 2.96%.

• **Tourist Boom Lifts Hotel Group.** *Millennium & Copthorne* has lifted profit by 98% to \$23.79m, as a result of the tourism boom with occupancy rates rising to 82% at its 13 hotels. The group's capital expenditure investments, revenue management initiatives and improvements to its overall costs of doing business all helped deliver the half-year result. The increase in profit has again been driven by demand for accommodation in NZ and ongoing productivity improvements at the company's hotels. Further strong sales performance also came from the majority-owned land development subsidiary CDL Investments. A one-off gain of \$4.31m was also recognised from the final insurance settlement relating to the Millennium Hotel Christchurch.

In June the company announced it had agreed on a management lease for the Rendezvous Grand Hotel Auckland from September and will rebrand this as Grand Millennium Auckland. The hotel is the largest in NZ and a truly international standard property with a total of 452 guestrooms. It will be the first Grand Millennium hotel in Australasia. On the outlook the company says the strong results to date reflect positive trading conditions in all of its business units and market segments. The board believes these trading conditions should continue in the second half of 2016 and should allow it to better its 2015 results. The company's shares, which reached \$2 this week, have risen 27% over the year.

Trans-Tasman Financial Markets - Exchange Rates

| New Zealand | | | | Australia | | |
|----------------|--------|--------|--------|-----------|--------|--------|
| Forecasts | Latest | Sep-16 | Dec-16 | Latest | Sep-16 | Dec-16 |
| USD | 0.724 | 0.670 | 0.680 | 0.761 | 0.720 | 0.730 |
| EUR | 0.645 | 0.615 | 0.618 | 0.678 | 0.661 | 0.664 |
| GBP | 0.542 | 0.515 | 0.540 | 0.570 | 0.554 | 0.579 |
| JPY | 73.08 | 69.68 | 72.08 | 76.8 | 74.9 | 77.4 |
| NZD/AUD | 0.952 | 0.931 | 0.932 | 1.050 | 1.075 | 1.074 |
| Interest Rates | | | | | | |
| 90 days | 2.26 | 2.10 | 1.90 | 1.79 | 1.60 | 1.35 |
| 10 years | 2.17 | 2.40 | 2.60 | 1.82 | 2.20 | 2.30 |

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 • PO Box 2197 • Christchurch 8140 • New Zealand • Tel 64-3-365-3891 • Publisher/Editor in Chief Max Bowden • Email: mbowden@transtasman.co.nz • Research Analyst: Tony Doe Email: t DOE@transtasman.co.nz • Senior Editor: Ian Templeton Tel 64-4-817-9254
 • Mobile 027-214-2642 • Email: transtas@xtra.co.nz • Associate Correspondents: Robert Hosking Tel 64-4-970-6377 • Mobile 029-970-6377 • Email: rhosking@paradise.net.nz; Bob Edlin Tel 64-4-237-8075 • Email: bob.edlin@xtra.co.nz; Brian Lockstone • Tel 64-3-3148367 • Mobile 021-0850-7351 • Email: brianlockstone@hotmail.com • Membership Enquiries: info@transtasman.co.nz. Membership Prices: \$595 (print) or \$565 (online).
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This Week: Malcolm Turnbull embroils himself in more controversy with his “captain’s call” not to support Kevin Rudd for the role of UN Secretary-General... The Govt has a majority of just one after the final votes are counted... The Greens have lost ground in the Senate at the election, with fewer senators than last time... And there are claims it is too late to hold a gay marriage plebiscite this year, despite the Govt saying it could do so.

Quotable

“The man is a psychopathic narcissist and that’s not just my opinion, that’s the opinion of a whole range of people who are currently sitting in the parliament. I can think of 12 Australians off the top of my head who would be a better secretary-general and one of them is my labrador, so let’s be blunt here, she has a lot more empathy than Kevin Rudd.”

Former NSW Labor Premier Kristina Keneally lets loose on Kevin Rudd’s bid to be UN Secretary-General.

“...the Australian Energy Market Operator came up with a scheme in which 60% is produced by wind, 17% by gas and only 6% by coal. That’s the future facing our traditional generators as more turbines get built. Not blackouts, not big price spikes, but extinction. I reckon it’s the real reason their friends are upset!”

The Age’s Economics Editor Peter Martin says the coal industry is what’s behind the latest bagging of wind as an energy source.

“If Australia wants to never see any Australian child treated in the way that they saw on the ABC Four Corners program last week, speak to the most respected, experienced and long-standing Aboriginal leaders working with their people in the Northern Territory. These are the people who share and are directed by the vision of their people, know how to build strong and lasting ideas for the future, and have compassion for their people.”

Author Alexis Wright says the Northern Territory is a failed state which needs to be put right.

Politics

Turnbull Ignored Official Advice On Rudd UN Bid

Malcolm Turnbull disregarded formal advice to cabinet from the Department of Foreign Affairs and Trade on Kevin Rudd’s bid to be UN Secretary-General before telling the former PM the Govt will not support his bid. The advice was compiled by new Foreign Affairs Department head Frances Adamson and presented by Foreign Minister Julie Bishop, and stated Rudd compared well with the current field of 12 candidates for the UN’s top job. The case to nominate Rudd was also backed by Aust’s US ambassador Joe Hockey and British High Commissioner Alexander Downer. Bishop argued in Rudd’s favour and indigenous leaders also support his bid. But Turnbull says the Govt isn’t supporting Rudd because he is “not well suited” for the role.

Politics

Govt Has Majority Of Just One

The Coalition is considering an appeal which could force a fresh election after Labor’s Cathy O’Toole officially won the Queensland seat of Herbert by 37 votes, leaving the Govt with a majority of one. The extremely close outcome in Herbert has the LNP contemplating a challenge in the Court of Disputed Returns, due to a number of defence force personnel being unable to vote because they were out of the electorate on official duties on polling day. The LNP has 40 days to lodge a challenge. Labor’s victory in Herbert gives the Coalition 76 seats in the House of Representatives, with the opposition holding 69, and a crossbench of five comprising independents Cathy McGowan and Andrew Wilkie, and one MP from each of the Greens, Katter’s Australian Party and Nick Xenophon Team. It is the closest result since the hung parliament of 2010. The slim majority means on issues where the Govt does not have the support of any crossbenchers, Malcolm Turnbull will have to rely on the casting vote of the Speaker. Turnbull’s hold on power will also be at risk if there is a by-election in a Coalition-held seat.

Politics

Greens Senate Numbers Down On Last Election

The Greens are on track to have nine MPs in the new Senate - one fewer than previously - after Rachel Siewert edged out the Nationals’ Kado Muir in the battle for the final spot in Western Australia. It’s a blow to the Govt, which will find it more difficult to pass legislation in the Senate with an extra Greens senator in place. One Nation’s Rod Culleton claimed the 11th spot in Western Australia, giving the Pauline Hanson-led party its second Senate seat nationally. Culleton could face a legal challenge though, with claims he is ineligible because of a criminal conviction. The most likely result of any challenge to Culleton would be the election of One Nation’s No 2 candidate on the West Australian Senate ticket, Peter Georgiou. The most likely final Senate outcome is the Coalition will have 30 seats, Labor 27, the Greens nine, the Nick Xenophon Team three and seven independents. Nationally, the Greens suffered a 0.6% swing against them in the Senate as other minor parties gained popularity. The Greens’ vote in WA has fallen 5.1% from its strong showing in the 2014 Senate re-run election despite the party boasting of its biggest grassroots campaign ever.

Politics

Too Late For 2016 Same Sex Marriage Plebiscite

A submission from the Australian Electoral Commission shows coalition claims the same-sex marriage plebiscite could be held this year are unrealistic. Special Minister of State Scott Ryan says he believes it is still possible to hold it this year but the AEC submission to a senate committee inquiring into the plebiscite process estimates a popular vote would take 29 weeks to set up and conduct. Only 21 weeks remain in 2016. The commission says it needs eight weeks to develop and market-test a plebiscite pamphlet template, four weeks to develop guidelines for MPs and senators, and four weeks for an obligatory waiting period between the passage of legislation and the delivery of cases to the AEC. Another week is needed for further design and layout and a week for feedback and clearances, three weeks for further market testing, two weeks to get feedback and finalise design and content, and at least six weeks for printing and delivery - 29 weeks in total. Shadow

Forecasts



Inflation.

NEW

Picked up in Q2 remains low. Suggests the RBA will cut interest rates.



Employment Growth.

Softer than expected. But more full-time jobs, so a positive result.



Retail Sales .

Soft due to warm weather, soft wage growth and low price pressure.



RBA.

Leaves interest rates on hold at 1.75% One more cut expected.



Employment.

Rose. Unemployment was flat, it will likely have downward pressure.



Q1 GDP.

Rose 1.1% qoq, largely due to strong net exports.

www.commonwealthbank.com.au

As at 03 August, 2016

“Canberra must continue pushing back in deed, as well in word, ensuring that the RAAF and RAN maintain a consistent presence there. If the thread of that legally enshrined longstanding access is spooled in, Canberra’s defence relations in Southeast Asia will be significantly compromised. More important, we will have been bullied.”

Lowy Institute International Security Programme Director Euan Graham says Aust shouldn't be bullied out of the South China Sea.

Stock Watch

ILUKA RESOURCES

Analysts say this mineral exploration and production company is currently 17% undervalued so is a buy opportunity. The company has just installed a new CEO and MD and is committed to two major mineral sands projects. It is continuing work on non conventional resources, with a focus on titanium.

Price: \$A6.84

☆☆☆

TECHNOLOGY ONE

This is a sell, as it is 40% overvalued. It has managed a 12% increase in revenue for the first half and the dividend is up 10%. It is expecting profit growth for the year of 10-15%. The company says it has a strong pipeline of contracts for the second half, and has a number of large contracts under negotiation.

Price: \$A5.78

☆

ASALEO CARE

Hold shares in this company which is 5% undervalued. Revenue and profit are all down for the company in its preliminary first half result. The company says this is down to lower revenue in the consumer tissue and personal care business. But it says traditionally 60% of its revenue is generated in the second half.

Price: \$A1.34

☆☆

Attorney-General *Mark Dreyfus* says the Govt doesn't consider the marriage equality plebiscite a priority and it is unlikely to be held this year. Conservative Liberal backbencher *Eric Abetz* has indicated since the election he thinks the Govt should not rush to hold a vote.

Energy

Govt Slips Back To Renewables Focus

New Environment and Energy Minister *Josh Frydenberg* has welcomed a declining role for coal in Aust's future energy mix, talking up reliable green energy, and locking in the current 23.5% renewable energy target by 2020. The policy is a marked departure from the strongly pro-coal rhetoric of the *Abbott* administration. Frydenberg also says recent price spikes in South Australia - where energies such as wind and solar power make up 40% plus of supply, and Tasmania where the figure is above to 90% - are not solely the fault of high renewable energy dependencies but a “*complex of factors*” including the failure of other energy distribution infrastructure such as Basslink, as well as the effects of drought, a cold snap, and high gas prices arising from inadequate supplies and suppliers. The Minister says this can be addressed in part by lifting “*blanket moratoria*” on new gas extraction in Victoria and “*parts of*” New South Wales, and technological advances in battery storage coming on-stream. He accepts the “*intermittency*” of renewable energy has been a factor in price peaks but not necessarily the main one. Frydenberg has also moved to burnish his own green credentials by rejecting criticism of his dual portfolio responsibilities, which he defends as, “*two sides of the same coin*,” while reinforcing the message he has never personally doubted the science of anthropogenic climate change, nor the fact the economy is transitioning away from coal.

Defence

Army To Purchase “Micro” Drones

The Army is to buy up to 200 drones small enough to be held between two fingers and fitted with cameras to let troops see potential threats. The Australian Defence Force has opened tenders to supply 200 of the machines, which are likely to cost several million dollars. One option is the game-changing Black Hornet nano, successfully trialled by Australian troops on operations in Afghanistan and Iraq. The drones transmit clear images by day or night in close to real time. The army wants nano drones quiet and small enough to avoid being spotted by an enemy and their cameras sharp enough to collect clear images from at least 1km away and from up to 2.5km in rough terrain or through the windows of high-rise buildings.

Resources

Iron Ore Price Rising Again

Iron ore futures in China have pushed back above the high seen during a speculative boom in April as stimulus continues to bolster manufacturing. The September contract jumped 5.5% to \$US73 a metric tonne, the highest level since February 2015. In Singapore, SGX AsiaClear futures for September rose 6.1% to \$US58.86 a tonne. The Chinese have maintained daily steel output at record levels, boosting demand for iron ore even as supply has remained strong, while expanded credit in China is helping to underpin steel production, which should see further demand for ore. The country makes half the world's steel. However steel stockpiles are high and the surge in price could be just another false dawn for the commodity

Investment

Airport Could Be Ray Of Sunshine For Investors

IT A top line up of Australian infrastructure investors is thought to be lining up for the opportunity to buy Sunshine Coast airport. The airport is expected to fetch at least \$500m - among those interested is IFM, which may bid with Palisade. The two companies jointly own Darwin Airport through the Airport Development Group, and are likely to vie for Sunshine Coast through the same entity.

Queensland Airports Group is working with *Grant Samuel* on its attempts to buy the asset, while AMP Capital, which is also an airport investor, is said to be a contender along with Colonial First State and the Queensland Investment Corporation. The Northern Queensland Airports Group is also expected to be in the mix. It owns Cairns Airport and is controlled by a consortium which includes *ILF Cairns Mackay Investment, The Private Capital Group's TIF, Perron Investments, Auckland International Airport and Mackay Airport.*

A number of prospective investors are looking to firm up details of exactly what will be for sale before lodging any bid. The airport, currently owned by the local council, is considering building an additional runway, which will cost \$374m to develop. It operates 24 hours and handles about 87,000 aircraft movements and up to a million passengers annually. The sale comes after Port Hedland Airport was sold last year to AMP and ICG. Annual ebitda is about \$10m.

Meanwhile, as China Huadian remains the front runner to buy the bulk of TPG Capital's \$3bn-plus Alinta Energy, the group is also expected to be looking at Origin Energy's Stockyard Hill wind farm project when it comes up for sale. The sale has faced delays due to changes to a wind mill development up for grabs. It consists of 157 approved wind turbines about 35km west of Ballarat.

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