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Assessing the economic and political environment in New Zealand

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POLITICS AND POLICY

What made Gerry Brownlee so angry?

Bill English showed great forebearance this week when colleague in charge of the Canterbury quake recovery, Gerry Brownlee, exploded over the Treasury's first ever report detailing the state of play on current major public sector investment projects.

The Managing Government Investment Projects 2014-15 report is ground-breaking for providing a snapshot of the govt's overall investment programme and recently implemented changes to the way it is managed. It covers $6.4b of spending on 409 projects with a net worth of $74b.

However, management of the Canterbury quake response broke every rule in the book during the early phase of emergency response – a style of operation that Brownlee came to favour for its capacity for quick decisions unhindered by bureaucrats. Brownlee's seniority and Cabinet colleagues' sympathy for a 'man of action' approach meant that wasn't a problem in the early phase of response. But throughout that period, English was driving the Treasury to bring more discipline and transparency to govt capex. That's how the Treasury came to label the Christchurch convention centre "unachievable", when judged against the expected processes, leading to Brownlee's outburst, which coincides with a delicate moment in negotiations for both the convention centre and Christchurch school rebuilds.

It seems English was willing to let Brownlee vent this week in the expectation of his acquiescence to process from here on in.

IT projects still troublesome

Elsewhere, govt management of major IT projects continues to stumble. With the notable exception of Inland Revenue's upgrade, whose cost has roughly halved to around $1b, Treasury's major projects review outlined problems with a police computer system and integration of some govt services with the RealMe digital identity project, and select committee questioning uncovered ongoing problems with the Joint Border Management System.

IRD is benefiting from selecting an existing off the shelf system, Gentax, already used in 30 countries and US states. The system is said to be agile, capable of adapting to new tax types "in a matter of months", which the current FIRST system cannot do, while interacting easily with other systems' data.

Neither the Police nor Customs opted for off the shelf products. Instead, both developed their own systems and experienced multiple changing requirements.

Treasury's summary of the Police system is damning. "A short review by PwC has found there are risks to the go live date of 1 April 2016 and current payroll defects are greater than anticipated. Costs have risen by $10m (29%) and the project is unlikely to be delivered within its total appropriated costs of $56.2m," the Review says.

The Customs/Ministry of Primary Industry Joint Border Management System began life in 2010 as a $75.9m project. So far it has cost $120.6m and is projected to have cost $207.8m by the time it is finished sometime next year. Things got so bad on this project that the Comptroller of Customs, Carolyn Tremain, had to have weekly meetings with the supplier, IBM. Those meetings now involve another executive from Customs and are chaired by an accounting firm. These projects are just part of a total of 38 risky capital projects budgeted at $20.5 billion which Treasury is monitoring. ICT projects make up 31% of the total cost; Defence procurement, 23% and construction investments 45% – though projects on watch-lists make up only 18% of the total. TVNZ has also been forced to explain why a $33.6m new building will now come in "under $60m".

MPI in the gun

It remains to be seen what kind of PR campaign is being planned by the Ministry of Primary Industries and the dairy industry to try and "correct" public opinions formed after shocking footage of maltreatment of bobby calves aired on TVNZ on Sunday. However, the officials and industry will need to take great care not to be seen to be ignoring or down-playing the issue. Agri-business specialist commentator Jaqueline Rowarth came dangerously close to trivialising the issue in radio comments that boiled down to "everybody does it" – sacrifices bobby calves to ensure milk production – and it was unfair to single out NZ. Maybe so, but that's not the point.

MPI chief executive Martyn Dunn felt the heat at select committee hearings this week, where he was taxed by questions from Labour's Damien O'Connor and NZ First's Chester Borrows, on the issues of both bobby calves and Hepatitis A found on imported berries. The bobby calf issue is a PR nightmare. People not born on farms are largely unaware that giving birth to an expendable calf is essential to the milk production process. But milk will continue to sell – it has weathered many such attacks on its integrity as a health food. Remember A2's early attempts to link A-1 milk's possible link to developing schizophrenia?

Continued p4

RMA2 revealed at last

RMA reform 'phase 2' has finally been unveiled, seven years after the National-led govt began reviewing the Act. As expected, the scope of reform is far less than many of the National Party's supporters had originally hoped. There has been no prospect since the Northland by-election result in March of reforms to Sections 6 and 7 to alter the balance between environmental and economic outcomes. Nor were such reforms likely to survive a change of government.

The **only change to Section 6 is the addition of a reference to managing for natural hazards**, whose absence most observers agree was an oversight made plain by the Canterbury earthquakes. One potential problem: 'natural hazards' are not defined the bill.

Even without fundamental changes, the suite of reforms announced in the Resource Legislation Reform Bill is substantial and complex. The initial bill will divide eventually into five: Resource Management, Reserves, Public Works, Conservation , and Exclusive Economic Zone and Continental Shelf (Environmental Effects) Amendment Bills respectively. Key objectives achieved include:

- Measures the govt hopes will **speed up and lower the cost of new housing supply:** national templates for plan-making; faster and more flexible planning processes instead of the current six year process; minor issues no longer requiring consent; **more central govt direction** through National Policy Statements and National Environmental Standards. Appeal rights are limited on areas already consented for residential development; **development contributions** will be governed by the Local Govt Act only instead of there being an RMA option.
- **Giving collaborative processes legislative backing** following the success so far of the Land and Water Forum. Its informal status hasd been identified as having the potential to undermine the sometimes fragile consensus.

Along the way, the EPA's powers to appoint the decision-makers in EEZ marine resource consent applications will be taken back by the Minister for the Environment, aligning with the current responsibility for appointing commissioners to boards of inquiry under the RMA. **Environmental groups have seen this as a dark plot to improve the prospects of seabed miners**, who have lost heavily in the only two such applications heard under the new regime. Especially since no other aspect of the regime changes, and mineral sector lobbyists were more concerned to see a more permissive approach to "adaptive management" in situations of scientific uncertainty, **the claim is overblown**.

Iwi rights and interests

The price the Maori Party's support for the reform bill is found mainly in the guarantees for iwi participation. Local authorities will be required to consult tangata whenua, through relevant iwi authorities, on the appointment of hearings commissioners with an understanding of tikanga Māori and of the perspectives of local iwi and hapū for the purpose of hearings under Part 1 of Schedule 1. If the local authority considers it appropriate, at least one such appointment must be made in consultation with relevant iwi authorities. Consultations will occur within a six month timeframe. Mediations can occur, but planning processes cannot be held up by an order from a mediator. Similar provisions cover the involvement of iwi in plan-making processes. Formal iwi participation arrangements, including three yearly elections, are provided for.

The knowledge that these provisions and freshwater reform announcements were in the works prompted a print media campaign from the Act-aligned NZ Centre for Public Research. At this stage, it's not clear that it has gained any significant traction among parliamentarians.

Parliamentary support

Much was made of the Maori Party's support for the reform bill, which was important at the time of announcement. Labour, however, has already fallen in behind the bill's reference to select committee and has long said it supports many of the machinery changes outlined above. Act will oppose with impunity. The Greens remain opposed and NZ First will have its cake and eat it where possible, but the 92-14 majority at first reading suggests the reforms will receive the kind of cross-party support that should ensure as much certainty as any Parliament can give for the direction of policy travel.

Two things to watch: David Parker (now enviroment and water spokesman) has strongly held views on water and is an enthusiastic policy innovator (*see Labour reshuffle article*). Secondly, the govt's request for a Productivity Commission investigation into urban land planning is, as we have already reported, the first stirrings of a **National Party desire to split planning and environmental legislation in the longer term.** The meeting of minds between Labour's Auckland Issues spokesman and now fourth-ranked MP, Phil Twyford, and Oliver Hartwich of the NZ Initiative, on urban zoning, suggests Labour might get there too. **This is a long term political project – five years or more – as the elephantine gestation period for ultimately limited RMA reforms shows.**

Freshwater management

The RMA changes cannot be seen in isolation from the 4th report of the Land and Water Forum, unveiled a day later. The timing ensured that some of LAWF's least happy NGO members couldn't accuse the govt of only enacting a tiny fraction of its recommendations. The accusation is unfair. The publication of a freshwater NPS and National Objectives Framework far outweigh the import of many other recommendations. At the launch, it was felt implementation was above 50% by weight, following the RMA reform announcements. A public consultation document will emerge early next year for decisions in late 2016.

Industrial users should note Nick Smith is minded to align them with the requirement that all farm takes over 5 litres per second be metered.

Continued from p2

The berries issue holds more lessons for food producers generally. Hepatitis-A is transmitted by contact with infected faeces and has nothing to do with any particular type of food. The fact it has turned up on berries is irrelevant. The most common sources of infection are unhygienic food handling and use of human waste in fertilisers.

Labour's reshuffle – the return of David Parker

Of all the changes announced to the Labour shadow Cabinet line-up, we believe the most notable is the rehabilitation of David Parker to a pivotal role, with responsibility for hot button portfolios of environment, water, ICT, and regulatory reform. That's a big call for the former finance spokesman blamed by leader Andrew Little for three unelectable, subsequently dropped policies - a higher pension age, capital gains tax, and centrally planned electricity provision.

The elevation of Phil Twyford, Jacinda Ardern and Kelvin Davis were all forgone conclusions – although note that Ardern continues to hold a very light workload with justice, children's issues, small business, and arts and culture.

Parker's re-emergence at 11th spot and on the parliamentary front bench ahead of a heavily demoted would-have-been leader Nanaia Mahuta, highlights the shallow pool in the Labour caucus as well as his undimmed enthusiasm for politics. While Parker drops trade, picked up by David Clark, his counsel on Labour's response to the TPP pact was instrumental in the party continuing to favour trade liberalisation.

There's clear potential for him to use the water portfolio to try again to get power companies and other major water users paying for water rights. The Power NZ electricity policy was as much intended to establish water charging as to improve sector competitiveness. Parker has strongly held views about how markets should operate and is unfazed by exploring complex policy responses, with or without officials' support.

His instinct to regulate is strong and his reputation both as Minister and in Opposition has always been as a politician willing to think outside the range of official advice and to heed his own counsel. With RMA reform bubbling under as a fourth term issue if National were re-elected, Parker's accession to the environment portfolio will be important to watch, as will his approach to telecommunications market and digital convergence, now that Clare Curran has been sidelined to a deputy role on ICT.

Nats reshuffle next year

Meanwhile, **National's reshuffle now appears destined to be announced in the New Year**. John Key has been out of the country four times in the last two months and has only one more sitting week of Parliament next week. Among r**umours we are discounting are any potential for Judith Collins to return to Cabinet**. Bill English and Steven Joyce are opposed, even if Key were to have forgiven her disruptive influence on last year's election campaign, where Collins was ultimately forced to resign. Key forced her hand when she was found to have made overtures to the Act party. We're unimpressed by Matthew Hooton-inspired gossip about a leadership run by Steven Joyce, whose star is seen to be waning.

Ones to watch? Jonathan Coleman, who is thought to be ambitious for the top job and biding his time; and lower order promotions for the likes of Todd Muller or Chris Bishop.

Commerce Act review – avoiding unintended consequences

Commerce Minister Paul Goldsmith wants to avoid "unintended consequences" - mainly undue or unpredictable costs - if the Commerce Commission is to have powers to conduct market studies to help determine competition issues.

MBIE didn't recommend introduction of market studies, but Goldsmith says they potentially useful, if cautiously approached. He doesn't want to "create a rod for campaigners to demand hugely expensive, disruptive reviews of sectors on the basis of a few allegations."

"Those sorts of things can be very resource-intensive, not just for government, but also for the industry being studied."

Similarly, Goldsmith wants a "slow and deliberate" review of financial advisers law, five years after major changes were implemented. His major concerns are any added cost and complexity restricting "people of modest means" from getting advice, and dealing with conflicts of interest. An options paper **offers no preferred fix, but identifies a ban on commissions, trail-fees, and bonuses against sales targets as "not preferred"**. Goldsmith is also likely to pursue **copyright law reform** later next year.

Housing NZ

Housing NZ ceo Glen Sowry is moving on just as the govt's social housing policy starts to get into gear. One of the tougher public sector jobs in NZ, Housing NZ also manages a larger balance sheet than Fonterra's. Sowry will become ceo of Metlifecare.

Case for OCR cut weakening

A rate cut at the Dec 10 monetary policy statement might seem an almost foregone conclusion, with justification for a stronger easing bias to emerge as the kiwi dollar stays stronger than assumed. That's notwithstanding the likelihood of a correction, if as expected the US Federal Reserve raises rates for the first time on Dec 16.

At the Sept MPS, the RBNZ was forecasting annual CPI inflation to climb to 2.2% by Dec 2016 and the TWI at 67.9 through Q4 of this year, compared with 72.28 on Thursday this week, some 6.5% above the assumed level and worth at least 0.7% off the RBNZ's "peak" in its inflation rate forecasts. That means forecast CPI inflation should fall to just 1.5%, even with a rate cut. Consequently, **the implication is that not only should rates be lowered but that a very strong easing bias, thereafter, also remain in place.**

Underpinning this is wage inflation even weaker than RBNZ expectations, thanks to ongoing strong, migration-led labour supply. Meanwhile, inflation expectations remain well anchored below the 2% mid-point of the range, at 1.85% Dairy and oil price trends round out a weak inflationary environment.

However, there are some offsetting factors, led by strong activity indicators, with the ANZ's business confidence index measure of firms' own activity sitting above its historic long term average, and the BNZ PMI and PSI above their averages too at 53.3 and 56.2 respectively, compared with averages of 52.9 and 53.8. In other words, there is upside risk to the current inflation forecasts. Even the slump in the terms of trade recorded this week is less than the central bank had expected. Using the terms of trade alone would justify monetary policy tightening now, as does the ongoing inflation in house prices, now spreading beyond Auckland as investors avoid the macro-prudential lending limits inside the city limits. Credit growth continues apace and recent national accounts data suggest household savings have turned negative again. **Even if lower interest rates don't push consumers' prices higher, they are stoking asset price growth.**

Fonterra's challenges

While Fonterra chairman John Wilson affirmed the forecast for the 2015/16 season of $4.60 per kilogram of milk solids at last month's annual meeting, it was dependent on global dairy prices rising in the first half of next year. Higher prices in the latest GlobalDairyTrade auction haven't convinced analysts it is on target, with forecasts ranging from $4.25/kgMS-$4.60/kgMS, and there's speculation Fonterra may cut the forecast as soon as next week. While whole milk powder rose 5.3% to US$2,260 a tonne, Fonterra needs US$3,000 a tonne to support the forecast. A slow recovery is expected, given weak market fundamentals and increased volumes of milk, especially out of Europe. Fonterra has rounded out a busy few weeks, having entered a five-year, multi-million dollar deal organic baby food maker Bellamy's Australia to make baby nutritional powders at its Darnum plant in Victoria and committing $141m to rebuild its cheese plant at Stanhope destroyed by fire a year ago. The company is also weathering some bad press after losing a High Court case taken by former suppliers to the failed NZ Dairies milk processing plant at Studholme. They had challenged the legality of inferior supply contracts offered when by the dairy giant bought the plant out of receivership and company emails suggested an element of punishment and a warning to others that may leave the cooperative. Executives also fronted up to the AGM of Fonterra Shareholders' Fund, whose unitholders have opposite interests to farmers in that they want dividends, not a high payout. Chief financial officer Lukas Paravicini told them the $390m cost of its loan support package for farmers struggling wouldn't have a bearing on dividends. But some unitholders voiced concern about Fonterra's rising debt burden and constrained balance sheet.

Budget surpluses – so 2015

The Dec 15 half year fiscal and economic update and Budget Policy Statement will be notable for significant shifts in the fiscal and public debt targets the govt will set. Instead of targeting fiscal surpluses, there will be a shift to a focus on achieving something like fiscal "balance" – a small deficit will be as acceptable as a small surplus.

Net debt to GDP targets will also be seen to be harder to achieve at this set of forecasts, although ministers and officials hope the tendency for small shifts in big numbers to paint a better picture by Budget Day 2016. The current target is a net public debt to GDP ratio of 20%. The Budget forecast a miss at 22%. The HYEFU is likely to be worse.

The politics of these moves is that hitting aggressive fiscal targets is becoming more difficult in a slowing economy with very little inflation. The fiscal drag impact on the tax take is absent while the revenue dividend from stronger growth is also lacking. A weaker dollar has some impact on debt servicing costs. The BPS is unlikely to be ambitious, beyond confirming that the new spending cap for next year will be $1b and a confirmation it will rise to $2.5b in election year. There may not be much specificity about FY18's spending envelope.

Yuan one step closer to reserve currency

Beijing marked an important milestone with the IMF's admission of the yuan/renminbi to Special Drawing Rights status. The move is a crucial step in China's long term strategy to resume the Middle Kingdom's status as a great world power.

The RMB joins the US dollar, GB Pound, Euro, and Yen as an SDR currency - a somewhat arcane concept created with the IMF after the Second World War to pursue Western-oriented order in global financial markets. The Peoples' Bank of China made various statements intended to convey that there is no intention to surprise global markets again with unsignalled depreciations, as occurred in August.

Market consensus suggests higher US interest rates would see the yuan depreciate against the greenback - still by far the dominant global currency of trade and finance. The yuan passed yen this year to be the fourth most-used payments currency in the world, but it is still less held in foreign currency reserves by govts globally than the Aust dollar, representing about 1.1% of total global assets.

Fed to move on Dec 16

US Federal Reserve chair Janet Yellen has now met the credible criteria set by RBNZ governor Graeme Wheeler for when the Fed will raise rates. He said it would be one of the most clearly signalled rises in the history of monetary policy, since after nine years of stable or falling US interest rates, rising rates will be a shock to the global financial system. No surprises is all the more important.

Yellen has now said: "On balance, economic and financial information received since our October meeting has been consistent with our expectations of continued improvement in the labour market.

"Continuing improvement in the labour market helps strengthen confidence that inflation will move back to our 2 percent objective over the medium term."

The only fly in the ointment would be a poor non-farm payrolls figure for November, due early Saturday NZT, with market consensus around 230,000 new jobs for the month.

Yellen explicitly noted the risk of waiting too long to raise rates because it could require a steep rate track that might choke off the US recovery.

"An abrupt tightening would risk disrupting financial markets and perhaps even inadvertently push the economy into recession" and "could also encourage excessive risk-taking and thus undermine financial stability."

The scene is set for a rocky Christmas/New yeark period, when new global monetary conditions and holiday periods could easily coincide to give markets a few false signals on light trading days.

A deal in Paris

There is virtually no doubt a new climate change pact covering a far wider range of nations than the Kyoto Protocol will emerge from the Paris summit, scheduled to finish Dec 11.

It will be based on internationally non-binding Intended Nationally Determined Contributions, which will allow countries virtually to choose their own path to decarbonising their economies.

Failure to meet stated goals will carry internationally enforceable sanctions, not least through the delivery of a behaviour-changing carbon price by virtue of capping the international supply of carbon credits.

Some environmental NGOs see this as a cop-out; that only internationally binding agreements are worthwhile. Pragmatists in international diplomacy accept international law is murky on environmental commitments and may not be enforceable. Better to create a permissive environment in which as many countries as possible are in the tent than a restrictive, rules-bound approach with too few adherents a la Kyoto, the argument goes.

NZ's Tim Groser has been donkey-deep in the INDC initiative. It was known in UNFCCC circles earlier this year as "the New Zealand solution".

Not that this is recognised in NZ. Local media coverage has been sidetracked by the politically effective but misleading impression that opposing direct subsidies to consumers for fossil fuels - one of the biggest areas of potential gain for both the climate and developing countries' fiscal positions - can be conflated with bog-standard central govt support for resource research and deductible expenses on opex.

That said, the exclusion from the NZ ETS review of agriculture, even at a conceptual or principled level, demonstrates the extent of National's desire to keep its farming constituency onside - comparable to the health and safety exclusion of farming from 'high risk' industries.

Meanwhile, the price of carbon is rising. NZ Units cracked $8 for the first time in years this week. Carbon foresters are looking for $15+.

As to the global deal, agreement by the US and China is crucial and **the US Congress will start to be a pivotal influence, threatening to upset a new climate pact just as it has with the TPP process.**

Mixed performance from tech sector

Orion Health Group, the healthcare system software developer, posted a wider first-half loss in line with its forecast and a 26% gain in sales driven by a weaker kiwi dollar and recurring revenue in North America. The company had cash of $77m as at Sept 30, and at current cash burn has ample time to pursue its strategy of more revenue from recurring sales vs its traditional perpetual licences. **ERoad**, the logistics and fleet management software and hardware developer, turned to a first-half profit from a loss a year earlier as gains in Aust and NZ made up for slower growth in North America. The profit of $611,000, on sales of $12.2m in the first half allowed the company to affirm guidance for full-year sales of $26.5m. **Smartpay Holdings**, the listed payment terminal supplier, posted a 90% drop in first-half profit, partly as a result of dropping a major wholesale contract to sell directly to Aust's taxi industry at the expense of its major wholesale contract, which ended in Dec last year. Smartpay, whose chairman Ivan Hammerschlag stood down this month after three years in the role, said it has made "substantial progress" in adding taxi sales.

Ruataniwha progress

Rural Equities, the farm investment company associated with the Cushing family, has disclosed it will take 2m cubic metres of water a year Ruataniwha Water Storage Scheme for its three Hawke's Bay farms. It says the price is at the top end for water schemes but the company stood to get a "huge benefit" from the water, lifting production and potentially switching from arable and livestock to dairying. Hawke's Bay Regional Investment Co is confident of funding for the $275m project through a mix of equity and debt, including $80m from its owner HB Regional Council. It has been in talks with three potential equity investors and banks on the funding package. The scheme would suit a long-term investor, with reliable cash flow once it has enough demand for the water. An announcement on funding isn't expected until next year. Delays include Forest & Bird's High Court challenge to a Department of Conservation land swap deal that will allow the scheme to proceed. Assuming no further setback, construction work could start in Sept 2016. It has about 75% of the 35-year water contracts secured out of a target 42m cubic metres of water.

Xero selldown

Xero founder Rod Drury and directors Craig Winkler and Sam Morgan have sold shares on market, taking advantage of the stock's strong performance this year. Drury and Winkler each sold 1m shares at $20.01, reaping some $20m apiece, while Morgan raised $10m, selling 500,000 shares at the same price. The selldown keeps Drury and Winkler as Xero's two biggest shareholders at 15.2% and 12.8% respectively. Morgan's stake reduced to 3.4% from 3.8%. The stock's rollercoaster ride has allowed investors to book profits more than once. Drury previously sold shares in 2010 and 2012 at prices between $1.45 and $6. Winkler bought Xero stock in 2009 at 90 cents a share, joining Drury in a sell-down in 2012 at $6 a share. Morgan bought into Xero's IPO in 2007 at $1. Capital raisings have ensured Xero has more than $200m in cash to pursue growth at the expense of profit.

Leaky building lawsuits

Carter Holt Harvey will get to argue its case in the Supreme Court over whether it can be held liable for the Ministry of Education's leaky schools. The manufacturer has been granted leave to appeal a Court of Appeal ruling that largely threw out Carter Holt's attempt to quash the ministry's claim. The approved grounds are whether the Appeal Court was correct to conclude that the negligence claims are arguable, whether claims for negligent misstatement aren't arguable, and whether the 10-year limitation on claims under the Building Act don't apply. The Appeal Court ruling in July didn't establish the building products maker was liable, rather it paved the way for the ministry's claim in the High Court to recoup the costs of remediating 880 buildings across schools. Meanwhile, lawyer Dan Parker, who claims more than 500 potential claimants are ready to join a class action suit against James Hardie Industries, has sought a High Court ruling on their status if denied the opportunity to take NZ's first leaky homes class action. The potential plaintiffs would become ineligible because of a Dec 31 cut-off date which bars later claims.

Resources

Refining NZ, operator of the Marsden Pt oil refinery, has commissioned its $365m Te Mahi Hou continuous catalyst regeneration upgrade after a four year build, producing "on-specification" petrol three weeks earlier than originally scheduled and replacing 50 year-old plant. **Todd Energy** has yet to greenlight its methanol plant in Louisiana. In 2013, Todd was targeting 2016 commissioning of a 5,000 MT per day methanol project in St. James Parish, Louisiana. Oil prices have tumbled since. **Chatham Rock Phosphate** is seeking a judicial review of $795,000 of costs sought by the **EPA** from hearings on its failed application for resource consent to mine phosphate from the seabed on the Chatham Rise. The EPA sought summary judgement for the costs, which CRP says are unjustifiable.

CORPORATE ROUND-UP

Offshore betting

The govt is proposing a fee on offshore gaming companies which take in $1b a year in bets on NZ racing and sports, and may also allow the TAB to widen its range of products t to lure Kiwis back. The proposals are from the Offshore Racing & Sports Betting working group, which estimates $58m of gross betting profit is lost offshore every year, with Kiwis betting online with the TAB's foreign competitors doubling since 2010 to 40,000. The group proposes ending the current prohibition on in-race betting, and allowing the TAB to accept bets on more sports. It also recommends an intellectual property fee for offshore gaming businesses that accept bets on NZ racing and sporting events, potentially raising $16.6m revenue in its first year, if set at 2%.

Icebreaker in play

The family of Jeremy Moon, founders of Icebreaker, have ceded cede control of the merino wool clothing company with the arrival of Pencarrow Private Equity. The Moon family has gone from a 75% controlling stake to about 37%, with Pencarrow on 38%. Constitutional changes have removed protections for Moon's Moon Comm vehicle, the JM1 Trust, and Stephen Tindall's K1W1 investment arm that allowed them to maintain their holdings on issue of new securities. Pencarrow puts executive director Rod Gethen and investment director Jonathan Goldstone on the board. K1W1 holds about 9.5%, ceo Rob Fyfe about 3.7% and TradeMe founder Sam Morgan's Jasmine Investment holds 2.6%. Icebreaker issued new shares at $37.03 apiece in July as part of a long-term incentive scheme, valuing the company at about $42.2m. Annual revenue is about $200m.

Education industry

Intueri Education Group shares have plunged to a record low after NZ's largest private training institution suffered a double-whammy – the Tertiary Education Commission is reviewing funding at two of its schools, potentially cutting $4-to-$5m from 2015 earnings and sentiment was hurt in Aust, where education provider Vocation was placed into voluntary administration after the Victorian govt withdrew A$20m in funding amid criticism of the company's courses.

Food industry ownership

About one quarter of NZ's food and beverage sector is foreign-owned, according to a govt-commissioned report aimed at attracting more investment into the sector. The Investors' Guide to the NZ Food and Beverage Industry, by Auckland research firm Coriolis, says food and beverage (F&B) exports account for 46% of all goods and services exports – $30.7b of the $66.2b total in 2014. The top 100 F&B firms in NZ have combined revenues of $51.5b, with seven dairy companies accounting for about half of that. Of those 100 firms, 76% are NZ-owned and the remainder are foreign controlled. Japan, the US, and Aust are the three biggest sources of ownership. NZ is strong in six sectors – dairy ingredients, meat, seafood, produce, processed food and beverages. It is the 'market maker' in the global ingredient dairy trade and the largest supplier of milk powders, butter, other dairy fats and cheese to Asia.

Drugmaker's IPO

AFT Pharmaceuticals, whose products include Maxigesic pain medication and Maxiclear PE nasal decongestant, is raising $33.2m in an IPO to fund a research and development pipeline over the next two to three years. AFT set the price of the 11.9m shares on offer at $2.80 apiece, valuing the company at $269m. The IPO includes $30.2m of new capital, with up to $4m of oversubscriptions, while the trustees of the Atkinson Family Trust, associated with founder Hartley Atkinson and wife Marree, will raise $3m selling their stake down to 76%.

ACC levy cut recommendations

Following feedback, ACC is altering its recommendations for $450m of cuts recommended for levies in 2016/17: an 11% reduction to average work levy; 4% reduction to earners' levy; 33% reduction to combined average motor vehicle levies.

Business NZ

After 11 years at the helm of NZ's peak business lobby group, Phil O'Reilly is stepping aside for Kirk Hope, the head of the Bankers Association. Hope is a professional lobbyist and is understood to have beaten out internal candidates Phil Love, Catherine Beard, and the head of the affiliate EMA, Kim Campbell. A global search appears to have come up short.

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