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PLAY OF THE WEEK

Point Duty On Car Houses

On one level it is funny, the other level it is far from hilarious. To deal with the humour first: Labour Party leader *Andrew Little* and his backroom team – a team which tends to have a higher public profile than most Labour MPs – thought it would be a very good way to illustrate the housing crisis by staging a photo opportunity in the back streets of Otara.

Unfortunately Little went to the wrong place and stood in front of a house where the people were living in the car because the house was being renovated not because it was overcrowded. As an aside, for some reason at least one of the television channels chose not to mention this lapse in basic political competence. Others were not so gentle: the result being the Labour Party, once again, being unable to do the political equivalent of walk and chew gum at the same time.

So far, so much political gamesmanship. It makes for great point scoring, and if Parliament were sitting this week one can hear, in one's mind's ear, *John Key's* gleeful snark at his opponents. But that in itself is the kind of Wellington-centric, politics-as-team-sport approach, which Key and others on the Govt side deride in Labour.

"Focusing on what matters" has been a mantra of National – and poor, overcrowded housing matters much more than Labour's latest faceplant. The Govt would be wise to score as many points as possible off Labour on this when Parliament resumes next week. On housing, it is well behind on points. And those points count more.

This Week..The budget is expected to reveal the thinking behind the Govt's new fiscal strategy...The politics behind the budget is also crucial as the Govt looks to re-election...Housing issues are still a big concern in Wellington as the Govt struggles to find answers...And the economy is going so well Bill English says it may start to run up against capacity constraints soon.

III Budget Reveals Reasoning Behind New Fiscal Strategy

John Key and *Bill English* have been talking up a new fiscal strategy. So what's changed? All will be revealed in next week's budget. The key is Treasury's forecast of solid, sustained growth over the next few years, building on the stronger-than-expected economic performance in the second half of 2015. NZ is now on track towards surpluses which by 2020 could be very substantial. It has forced a major re-think of how the Govt should tackle the priorities it had previously set itself of delivering tax cuts in 2017, and of lowering debt.

The new factor in the equation is the higher-than-expected population growth which has increased pressure to lift baseline spending, alongside the Govt's focus on investing in better public services, especially in social welfare. This is why some of the spending previously earmarked for budget 2017 of \$2.5bn will be brought forward into this year. In turn this left little for a tax cut, as originally envisaged, either to be included in next year's budget, or to be implemented, say from April 2018. Ministers had looked at a tax cut this year, but discarded the idea because the \$1bn available would deliver a cut worth just \$6-\$7 a week, most likely through moving the thresholds for the tax bands. The PM told his post-Cabinet press conference on Monday the current fiscal forecasts would probably allow a \$3bn tax cut but the Govt wants to get closer to them to see what they looked like, because Treasury forecasts in the past had changed quickly and he takes macro-economic forecasts with a "grain of salt."

The Govt believes the pressure for tax cuts will grow over time, as the average wage, now about \$68,000, gets closer to the top personal rate of 33% at \$70,000. Both Key and English have said they want to address the higher marginal tax rates faced by low and middle income earners. What Ministers now envisage is mounting an election campaign next year, with major tax reform a centrepiece. It could embrace an objective, not just of relief for income tax payers, but also for some reduction in corporate tax rates in order to improve the competitiveness of NZ business against for example Aust business.

III The Politics Behind The Budget Plan

A great deal of careful political thinking has gone into shaping this year's budget. General elections are won and lost in the centre-ground, which is why Ministers have decided to increase spending in several major sectors, particularly health, education, and social housing, because the emerging pressure points could have swayed centre-ground voters to look at what other parties are promising. As the governing incumbent, the Key-led coalition has to show its spending programmes are more effective than those proposed by Opposition parties.

The option of a small tax cut did not look electorally viable, since Opposition parties could have dismissed it as a "bribe," and campaigned on cancelling it in order to spend more on life-saving drugs and paid parental leave. *John Key* and his Ministers are convinced they can win a fourth term but they need to keep the powder dry, until the campaign begins. This is why they are leaning to the view even including a tax package in the 2017 budget would give too much ammunition too early to Labour which could then argue there was plenty of scope to fund its own big-spending programmes.

By building a campaign platform around a tax reform package, National would reinforce its claim to be a responsible fiscal manager, and at the same time beat off the challenge of Opposition

THE FISCAL FAITH

- ▶ Projected surpluses mean a new fiscal track can be taken.
- ▶ Tax cuts put on the back burner for now.
- ▶ Re-election is the background issue for this budget and next year's.

McCully Off To Teheran To Re-build Trade Platform

The globe trotting Foreign Minister *Murray McCully* is off again, this time to Iran. On a mission to rebuild relationships with the middle eastern state, which used to be a major market for NZ meat and dairy products, McCully will be seeking to build a platform on which the trade can be reconstructed after the removal of sanctions. He leaves this week for Teheran for talks with Iranian Foreign Minister *Dr Javad Zarif* (who earlier this year visited Wellington) and other senior figures in the Iranian administration. It's still not plain sailing, despite NZ formally lifting sanctions, because of restrictions imposed on banks releasing the funds which would lubricate trade.

Trade Minister *Todd McClay*, with a delegation of exporters, will follow up McCully's mission. After his Teheran talks, McCully is to represent NZ at the World Humanitarian Summit in Istanbul, which aims to co-ordinate the flow of resources to the victims of war and natural disasters. The NZ Govt this week committed an extra \$2.5m to support displaced persons in Jordan, Lebanon and Turkey, taking the total supporting Syrian refugees to \$22.5m.

More Moves On Health

The Govt's determination to lift spending on health was reaffirmed this week when Health Minister *Jonathan Coleman* and Science Minister *Steven Joyce* in a pre-budget announcement said funding for health research would be stepped up by \$97m over the next four years. It underlined the increasing influence Coleman has wielded inside Cabinet in shaping this year's budget. The annual amount available for health research through the Health Research Council (HRC) will increase by 56% over the four year period from \$77m in 2015/16 to \$120m in 2019/20.

The Govt has also released a discussion document to inform the development of a new health research strategy. Coleman says "we need a more integrated health research system to deliver new treatments, new drugs and new technologies more quickly, both to improve the health of NZers and for export overseas." Meanwhile drug-buying agency *Pharmac* is to fund two new medicines to treat rare illnesses, including a rare form of tuberculosis, which could have significant effects if it spread.

parties. It needs in particular to neutralise any leakage of support to *Winston Peters*. Those "loose" voters would almost certainly find the prospect of tax cuts (\$20 a week would cost \$3bn a year) attractive enough to return to the National fold.

Housing Issues Stir Emotions - Major Election Issue

Homeless NZers and housing affordability were elevated up the political agenda this week as a precursor to next week's budget. These are issues which stir emotions and any Govt judged to be inactive in tackling them would be electorally vulnerable. The headache lies in increasing the supply of affordable homes, particularly in Auckland. The Govt is in a tricky position because it couldn't get the numbers in Parliament for its initial proposal of a sweeping reform of the RMA, and has had to work on a more modest alternative. **Now it plans to ramp up pressure on those who are standing in the way of resolving the problem.**

This includes the Auckland Council which, facing local body elections, has been holding out in the expectation the Govt would come up with creative solutions on Auckland's infrastructure. So the Govt has devised a plan to step up the pressure, and some indication of the various moves it will be taking will emerge in next week's budget. Almost certainly a national policy statement will be included among those moves, containing a set of directions aimed at increasing the supply of houses. The Govt has signalled a significant amount of additional investment will be funded by re-prioritising within the Crown's large balance sheet. Just where it will be directed is expected to be spelt out in the budget.

Will The Economy Hit Capacity Buffers?

Finance Minister *Bill English* says with economic growth coming in higher than forecast, NZ is in the unusual situation where this growth is happening alongside low inflation, which might otherwise seem a sign of economic weakness. In fact, he says the labour market is relatively robust, with over 200,000 jobs created over the last three years. The proportion of all NZers who are working (and this includes retirees and students) is the third highest in the OECD at 65%, compared with 61% in Aust, 60% in both the UK and the US, and 52% across the EU. The average annual wage rose 2.3% to \$58,000 in the last year, and low inflation means this is not being eaten up by the rising cost of living.

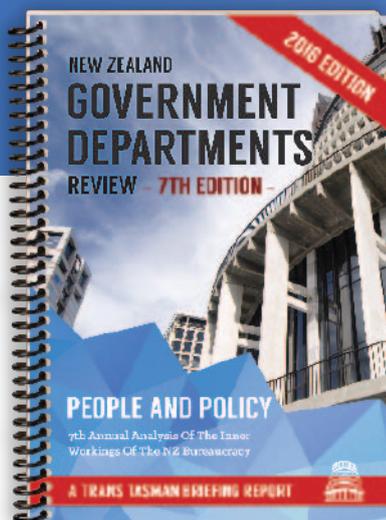
Even though the dairy industry is struggling and its exports earned \$3bn less in 2015, total exports actually rose by almost \$2bn. Exporters who were forced to become more efficient when the dollar was around US88c are now reaping the rewards from a much lower exchange rate. Business investment has risen from \$31bn in 2010 to \$41bn last year, and is expected to grow to \$48bn by 2020. This week the NZ sharemarket hit a new peak, underlining investors' confidence the economy is performing better than most. The question is whether the economy can expand even faster, or whether, as some economists suggested this week, it is already beginning to hit capacity buffers. And will the housing "bubble" burst? It could be as damaging to the Govt as a failure to hit its fiscal targets.

IN THE LOBBY

Last Thursday, the [Trans-Pacific Partnership Agreement Amendment Bill](#) was read a first time and referred to the Foreign Affairs, Defence and Trade Committee with a November 12 report back date. The vote was National 59; ACT 1; Labour 1; United Future 1 with Labour previously saying *Phil Goff* had been given permission to vote against the caucus position. Labour's remaining 31 MPs, the Greens 14, NZ First 12 and Maori Party 2 opposed the bill. Goff did not speak in the debate, nor did David Shearer or others who privately feel it is foolish to not join the agreement. Labour however did roll out some heavy hitters from the front bench to defend their position.....**The [New Zealand Public Health and Disability \(Southern DHB\) Elections Bill](#)** was also read a third time. The Bill cancels this year's election for the Southern District Health Board while a commissioner tries to sort out the troubled operation. It was opposed by the Greens and NZ First.....**This week there was a recess with the House resuming next Tuesday with the Budget on Thursday May 26.** Ahead of the Budget, the Govt intends to make progress on the committee stage of the [Residential Tenancies Amendment Bill](#).....**On Wednesday morning the House will sit under extended hours for the second reading of the [Hineuru Claims Settlement Bill](#)** and the first readings of the [Ngai Te Rangī and Nga Potiki Claims Settlement Bill](#) and the [Te Awa Tupua \(Whanganui River Claims Settlement\) Bill](#).....**Wednesday will also be a Members' Day with MPs due to debate a number of second readings including Sue Moroney's [Parental Leave and Employment Protection \(Six Months' Paid Leave and Work Contact Hours\) Amendment Bill](#)**.....**The [Births, Deaths, Marriages, and Relationships Registration \(Preventing Name Change by Child Sex Offenders\) Amendment Bill](#)** was reported back from Social Services Committee. The Committee said the Bill, in the name of National MP *Jian Yang*, should not proceed. The intention of the Bill was to stop a convicted child sex offender from being able to change their name. The Attorney-General said the Bill breached the Bill of Rights Act.....**The [Shop Trading Hours Amendment Bill](#) was also reported back from the Commerce Committee** with MPs tied and unable to agree on whether it should pass or not. National supported the bill, Labour and the Greens did not.

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SELECT COMMITTEES

Long Hours

With Parliament in recess only one Select Committee met this week. The long suffering Local Government and Environment met in Auckland again as it continued to hear submissions on the Resource Legislation Amendment Bill.

Keeping An Eye On The Money

The Auditor-General's work on reviewing the management of the public sector's financial assets has been praised and endorsed by the Finance and Expenditure Committee. The public sector's financial assets were worth \$132bn in 2014. Most of these financial assets are held by ACC and the NZ Superannuation Fund. However a number of departments and local Govt councils also manage large financial assets. The Auditor-General reviewed a sample of public entities and concluded the financial assets are generally well managed and governed. Nevertheless, the A-G suggests further work would be desirable. *"We fully endorse the Auditor-General's recommendations... We agree with the Auditor-General that while individual entities may be managing risk well, it is still important to look at the public sector's whole risk profile across the country."*

Unity On OIA

A Select Committee process has ended with all parties agreeing Parliamentary Under-Secretaries should be covered by the Official Information Act. The Government Administration Committee examined the Official Information (Parliamentary Under-Secretaries) Amendment Bill after National and ACT's *David Seymour* could not prevent it completing its first reading. The Committee unanimously agreed the Bill should be passed. National MPs and Seymour probably decided it was pointless fighting the change as they did not have the numbers to stop it, though the Bill does fill a clear gap in the OIA.

No Unity On IRD Move

A Select Committee has declined to get involved in IRD moving its Hamilton office from the city's central business district. Two petitions raised concerns about the move's effect on Hamilton's CBD and the tendering process. The Finance and Expenditure Committee said *"We consider that this is not an issue in which the committee has a proper role"* as legal remedies have not been exhausted. If the petitioners believe the tendering process was not properly handled they should pursue other avenues of complaints before asking the committee to investigate. Labour MPs produced a minority report saying they were concerned about the effect of the relocation and believe the move *"breaches the Govt National Property Strategy and Principles requirement for the clustering of Govt offices."*

III Southern Media More Buoyant As Merger Looms

Media were preoccupied last week with the proposal to merge the NZ businesses of Aust media companies *APN* and *Fairfax*. *Michael Horton*, former managing director of the NZX-listed *Wilson & Horton* which published the NZ Herald, says the merger is a sign of the times - *"it is really the only way, commercially, they can survive."* Other industry authorities foresee diminishing competition in the industry. The only other significant newspaper in NZ is the *Otago Daily Times* whose owner *Allied Press's Sir Julian Smith* says there is no plan to sell the ODT *"while there is a good viable business."*

Allied Press has unveiled plans to launch a multimedia hub in Dunedin covering news and events from North Canterbury and Invercargill across multiple platforms. The initiative, *Southern Media Partnership*, is to receive \$396,821 from NZ on Air, and will launch on September 1, with Allied Press's newsrooms producing news and video for online, terrestrial television and print editions. A bulletin will be broadcast daily on Dunedin Television. Announcing the funding, NZ on Air CEO *Jane Wrightson* says cross platform regional partnerships have the potential to increase audiences. *"We asked regions and their media to come up with their own solutions."* Other organisations receiving funding include: *Very Nice Productions* (four regions in the North Island) \$400,000; *Star Media* (Canterbury) \$400,000; *Te Reo Irirangi O Te Hiku O Te Ika* (Te Tai Tokerau), \$180,000.

III Dairy Farmers Adjusting To New Era

Dairy prices ended the 2015/6 season on a firm note with the GlobalDairyTrade price index rising by 2.6% at this week's auction. The average winning price across the auction was \$US2283 a tonne. Whole milk powder firmed 3.0% to \$US2252 a tonne while skim milk powder dropped by 0.9% to \$US1658 a tonne. Good gains were made by anhydrous milk fat, up 4.9% to \$US3340 a tonne, butter 3.8% to \$US2697 a tonne, butter milk powder 16.2% to \$US1545 a tonne.

AgriHQ dairy analyst *Susan Kilsby* says the lift in the whole milk powder price on GDT was supported by the fact the volume made available by Fonterra for sale on the platform was the lowest it had offered to the market in more than three years. *"The GDT result last night was positive with the market now heading in the right direction, but the result was off low volumes. Hopefully the market can sustain this positive direction as offer volumes start to increase in the coming months."*

Fonterra's farm gate milk price forecast for the current season, which ends on May 31, is \$3.90/kg/MS compared with Dairy NZ's estimate of breakeven of \$5.25. **AgriHQ forecasts a lift in the milk price forecast for next season to \$4.64.** The co-operative will later this month issue its forecast for 2016/7 and analysts are picking a milk price of around \$4.50. Some authorities contend global dairy supplies are rising faster than demand, and this means NZ dairy farmers will have to adjust to the milk price hovering about \$5 for several years.

III Tough Road For Auckland's Mayor (Whoever Is Elected)

Auckland's mayoral campaign is already throwing into stark relief the almost intractable problems which *Len Brown's* successor will have to tackle. Three of the mayoral candidates say Ports of Auckland must be moved for the growth and prosperity of the city. Their comments came after a survey of 328 small business representatives by MYOB revealed 39% would vote for a mayoral candidate who proposed to move the port. The survey also found 31% opposed a move while 32% said it would not affect their vote. During a mayoral debate on *Newstalk ZB*, *Phil Goff*, *John Palino* and *Victoria Crone* said moving the port was important.

Mark Thomas meanwhile opposed their views. He says there are other priorities the council needs to deal with before looking at moving the port, such as further investment in rail. Early last year the port was subject to protest after consent for two huge wharf extensions was granted without the public's knowledge. Following the *"Save our Harbour"* campaign, the High Court ruled consents for the project were invalid because the public were not given a say.

Then there is the issue of road congestion. *Phil Goff* as the front-runner says he supports *"some form"* of road charging. And the outgoing mayor *Len Brown* has proposed a motorway toll during peak times. It's drawn fire from mayoral candidate *Victoria Crone* who says the idea of a motorway toll is *"outrageous,"* given the growing number of Aucklanders who don't have proper access to good public transport. *"The \$2 motorway peak charge supported by the Mayor and Phil Goff is plain unfair."* *Mark Thomas* says road congestion is getting worse. He is promising to move quickly to reorganise council spending to boost transport funding and reprioritise Auckland Transport's approach to focus on key local priorities.

Auckland householders are already paying an annual transport levy of \$114 a year, with businesses paying \$182. Meanwhile Auckland Council is said to be heading towards a financial crisis because of its debt position. Credit rating agencies have warned the council of a rating downgrade if its debt-to-revenue ratio approaches 270%. *Len Brown's* latest budget forecasts a debt-to-revenue ratio of 265%. A one-notch downgrade would lead to an \$11m rise in interest costs. Interest costs are funded by rates.

Government Department Briefs

• **Katrina Casey** will become the Acting Chief Executive of the Ministry of Education on July 4 when the current Education Secretary *Peter Hughes* becomes the State Services Commissioner. Casey has been the Education Ministry's Deputy Secretary Sector Enablement and Support since 2012. She has previously worked in Corrections, IRD and the old Ministry of Works and Development.

• **The participation** rate of women on state sector boards and committees as at December 2015 was 43.4%, an increase from 41.7% in 2014. This includes only Ministerial appointments considered through Cabinet committees. The Minister for Women's stocktake does capture other state sector board appointments. The Ministry believes there may be progress made in these appointments, which is not reflected in the Stocktake results. For example, in the relevant timeframe, the Ministry of Justice reports outside of APH and Cabinet Committees appointees, there were 134 persons appointed to board positions, and of them 85 were women. EEO Commissioner *Dr Jackie Blue* says the result is very pleasing and Ministers need to be congratulated for being focussed on improving the gender balance. *"At this current rate of progress, I'm confident that we will be able to reach the Gov't's 45% target by the end of 2017, and exceed it in future."* Blue said despite this she would like to see the target of having 50% women Ministerial appointments reinstated.

• **The current** term for the All-of-Government External Recruitment Services contract is going to be extended until September 2017. It was set to expire this September. Officials reviewing the current contract said feedback has been *"really positive and agencies are still seeing great value for money and efficiency gains. These include competitive pricing and a streamlined engagement process. We are confident further potential can be realised."*

• **A three year** Aus Research Council Linkage project which investigates how organisational responses to public interest whistleblowing can be improved in Aust and here is to be launched in NZ this month. The *"Whistling While They Work 2"* project is being led by international expert, Professor *A J Brown*, of Griffith University. The State Services Commission, Victoria University and the Ombudsman are supporting the project. WWTW2 is investigating the internal reporting of suspected wrongdoing in the private, public and not-for-profit sectors. Any organisation with more than 10 employees, based in or with significant operations in NZ or Aust, is invited to participate in the project.

III Economic Debate – Steady As She Goes – For Now

Westpac chief economist *Dominick Stephens* last month warned of a troubling rise in household debt. Relative to incomes, this debt has risen above the peaks reached before the 2007 global financial crisis. Reiterating those concerns this week, Stephens said NZ has entered a new debt-fuelled phase of economic growth as home owners borrow against their fast-appreciating properties. He foresees this continuing for *"another year or two."* Along with strong population growth and the Canterbury rebuild this should help push GDP growth along at 2.7% this year and 2.6% in 2017. But he cautions debt-fuelled growth *"is not sustainable."* Nor is the Canterbury rebuild or rapid population growth. Hence growth is forecast to slow from around 2018.

The household debt:income ratio of 162% is one figure Stephens cited. Indeed, it's higher than in 2007. This is no big deal while interest rates are low and debts easier to pay off but if interest rates rise or the economy takes a knock, those debt levels will become more burdensome.

As household debt rises, of course, household assets increase. RBNZ data show household financial liabilities increased by 7% in the nine months to September 2015 but net wealth (up 8%) outpaced it. Trouble is, this increase was propelled by the property boom - housing and land values (non-financial assets) increased by 12%.

The RBNZ mentioned household debt:income ratios in its May Financial Stability Report. The likelihood of a third consecutive season of difficult conditions for dairy farmers is exacerbating risks associated with dairy sector debt. Household sector risks remain *"elevated"* too. Household credit continued to grow strongly (up 7.7% in the year to March) and credit growth is likely to exceed income growth in the near term, resulting in higher debt relative to incomes. While a large increase in mortgage rates seems unlikely in the current global environment, a relatively small increase could put pressure on some borrowers.

The RBNZ also looked at the rise in the household saving rate, some of it achieved by paying-down mortgage debts. Further debt repayment is expected while householders remain leery about the impact of weak commodity prices and low global growth. But the RBNZ is keeping an eye on the flow of money into household deposits. A slowdown might prompt the banks to turn to less stable sources of funding (eg international wholesale funding) or reduce the credit supply. Whatever their response, it would affect the financial system and the economy.

CAPITAL TALK..... **The Iron Duke has landed in Auckland and Phil O'Reilly's team received a warm welcome** from the city's *"who's who"* at a cocktail party last Thursday. O'Reilly's message, backed by the PM, was to help the private and public sectors work together for better public policy outcomes, especially to develop a more successful Auckland. O'Reilly says business often misunderstands how Wellington works - its language, customs, time horizons and success factors..... **"Trans Tasman is the canary in the cage"** - this comment from a leading Government Dept CEO at a recent function, brought some laughter to the *Trans Tasman* contributors - we'll take it as a compliment..... **NZ Herald deputy political editor Claire Trevett has stepped aside as press Gallery chair after several years in the role.** The incoming chair is *Katie Bradford* who, in a move to dampen expectations, has declared her reports and emails will not be as witty as Trevett's. To be fair, it would be a tough act to try to follow. **John Key's breezy instruction to the homeless - just rock on up to your local WINZ** - has apparently gone over like a cup of cold soup with WINZ frontline staff, who have already had to deal with waves of stropky, desperately unhappy and often mentally unwell clients..... **Bipartisanship or trolling?** Labour's *Phil Twyford* suddenly suggested abolishing Auckland's urban limit in order to build houses, and was quickly endorsed by both the Taxpayer Union and the ACT Party, whose policy was just this the previous two elections. ACT leader *David Seymour* tweeted Twyford is absolutely correct and the urban limit should be *"gone by lunchtime."* **Former Appeal Court Judge Douglas White QC has been appointed as the next President of the Law Commission.** Justice Minister *Amy Adams* says Justice White was appointed as a part-time Law Commissioner in February and becomes president effective immediately, as Sir *Grant Hammond* is stepping down after nearly six years in the role..... **John Key flies to Paris on a private visit this week to be present when his daughter Stephanie graduates from the Paris College of Art.** Key and his wife Bronagh may also catch the end of the Love Me Tinder exhibition which features Stephanie's work..... **Trade Minister Todd McClay has been in Peru this week for APEC talks, and then was going to Bogota in Colombia.** But did he get down to tinnacks with his Chinese counterpart on upgrading the NZ-China FTA?..... **Radio NZ heads have been quoted as saying they were "comfortable" for their journalists** to be part of the so-called *"investigative"* teams, along with *Nicky Hager*, to look at the Panamanian Papers. It caused some eyebrows to be raised in the Beehive which has been criticised by supporters of Radio NZ for not increasing the \$38m the taxpayer annually provides to the corporation. As some within the Beehive see it, the distinction between objective journalism and political activism gets very blurred whenever Hager is involved..... **Labour's Phil Goff deserves a pat on the back** for sticking to his guns and voting in favour of the TPP legislation last week... **Hamilton barrister and solicitor Philip Crayton has been appointed an acting District Court Judge in Whanganui** and Auckland barrister *Sanjay Patel* is to serve as an acting District Court judge in Manukau.

GOVERNMENT BUSINESS

EMPLOYER SURVEY. The Ministry of Business, Innovation and Employment needs a provider to conduct the 2016/17, 2017/18 and 2018/19 National Survey of Employers. The Ministry has conducted these annual surveys since 2011 to monitor employer practices and perspectives regarding recruitment, employment relations, employment standards, workplace health and safety, and the employment of recent migrants. The Ministry is looking for providers who can run a nationally representative survey of about 2,000 employers and advise on ways to increase the survey response rate, and reduce overall costs. Deadline noon May 25.

RFx ID 17483295

SUPPLY OF UNIFORMS. Te Puni Kokiri is seeking a provider for the supply and management of uniforms for Maori Wardens for a two-year period. The wardens are volunteers working in partnership with the NZ Police providing a support service within communities nationwide. Each warden is provided with a working uniform, a formal uniform and a wet weather uniform. The ministry is looking for providers with the capability, experience and infrastructure to meet uniform requirements, optimise delivery and provide the best value-for-money over the term of the contract. Deadline noon May 26.

RFx ID 17443526.

ASB CURRENT FORECASTS

< www.asb.co.nz >

↑	Housing. NEW Financial stability concern, more macro-prudential tools possible.
↑	Retail spending. Moderate despite a number of tailwinds.
↑	Manufacturing PMI. Lifted, consistent with robust manufacturing growth.
↑	Unemployment rate. Rebounced to 5.7%, labour market still soft.
↓	RBNZ. Left OCR on hold. OCR will need to fall further due to low inflation.
↑	Dairy prices. Rise at latest GDT auction. Lower production will support prices.

As at 18 May, 2016

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COMPANIES IN THE NEWS

• **Outstanding Result For Kiwi Property.** Investors are looking more closely at property companies, as rising prices drive up land and property valuations. *Kiwi Property* this week reported a record \$250.8m profit, up from \$115.2m the year before, and says it now holds a \$2.67bn portfolio. Its shares have risen 22% over the past 12 months to \$1.49. CEO *Chris Gudgeon* says the record profit was driven by a strong operating performance and a significant rise in the value of its portfolio. Net rental income increased by 0.8% to \$1.3m, due to reduced income at the Aurora Centre in Wellington while it is being redeveloped in front of a new 18-year Govt lease.

A final dividend of 3.3c a share will be paid, taking the year's total to 6.60c, up from 6.5c. The company is projecting a 6.75c payout in the 2016-17 year. Chairman *Mark Ford* says the NZ economy continues to grow positively and investment property fundamentals remain supportive, particularly in Auckland. The company is planning a major expansion of its Sylvia Park development, with the intention of making it a world class retail centre with new brands, (including fashion giants *H&M* and *Zara*) concept stores and possibly one or two more department stores. Separately, *Kiwi Property* announced it will buy half of The Base retail complex in Hamilton, after its bid to buy all of it from Waikato-Tainui was unsuccessful. However, *Kiwi* said it would have the first right until 2021 to buy the remaining 50%.

• **Tui Operator Subject To Takeover Bid.** *AWE Ltd*, the operator of the Tui oilfield off Taranaki has rejected a \$A421m takeover offer from private equity firm *Lone Star Funds*, saying the bid doesn't reflect the value of the company. Sydney-based *AWE* saw its shares rise as a result of the offer, which at \$A0.80c was a 30% premium to its closing price on the ASX last week. *AWE* bought into the Tui oilfields in 2006 and increased its stake in 2013 by 15% to 57.5%. Through the March quarter the main production at Tui was coming from the Pateke-4H well, with inventory held at March 31 of 427,798 barrels. The partners have been discussing bringing the Pateke-3H well back into production.

Lone Star Japan Acquisitions offered 80Ac a share in cash in a preliminary proposal. *AWE* shares rose 16% to close at 71.5c in Sydney. *AWE* says "the board concluded that it is opportunistic and does not reflect the fair underlying asset value of the company," adding the proposal was non-binding and subject to a number of conditions. *David Biggs*, the company's new MD, said earlier this month the Aust explorer is focusing on the development of its Waitaisa natural gas project in WA and is seeking to take advantage of rising gas prices on the nation's east coast. In 2013 *AWE* rejected a \$A752m initial takeover proposal from *Senex Energy Ltd*, saying it undervalued its shares.

• **Infratil Loaded With Capital, Ready To Fire.** Wellington infrastructure investor *Infratil* has reported a net parent surplus of \$438m for the March year, up from \$383.5m last year. Divestments including its remaining shareholding in *Z Energy* and *iSite Media* realised \$530.5m and provided a gain on book value of \$419.3m. Net debt of *Infratil* and wholly owned subsidiaries fell to \$295.9m from \$760.8m. The company says a final dividend of 9c a share (8c last year) fully-imputed is to be paid on June 15. *Infratil* says it is building on the good operational performances of its businesses to take advantage of growth opportunities, and is well placed to create value for shareholders. It says it has unprecedented access to capital, with \$728.6m on deposit at March 31. Net debt comprises only 14% of capitalisation.

Trustpower has projects underway which will more than double its generation capacity in Aust. Wellington Airport is part way into a \$300m investment upgrade of its facilities, expanding its domestic and international terminals and building a land-transport hub and a hotel. *RetireAustralia* and *Metlifecare* are both increasing their construction of accommodation to meet increasing demand. NZ Bus is about to trial electric buses which could be the harbinger of a significant change to public transport in NZ. In addition to these internal projects *Infratil's* management is actively seeking external opportunities to deploy capital.

Trans-Tasman Financial Markets - Exchange Rates

New Zealand				Australia		
Historical	Latest	1 Month Ago	1 Year Ago	ASB		
USD	0.681	0.692	0.743	Latest	1 Month Ago	1 Year Ago
EUR	0.602	0.613	0.657	0.733	0.768	0.800
GBP	0.471	0.488	0.475	0.648	0.680	0.708
JPY	74.33	74.77	89.14	0.507	0.541	0.511
NZD/AUD	0.930	0.902	0.929	80.0	82.9	96.0
Interest Rates				1.076	1.109	1.077
90 days	2.35	2.33	3.50	2.01	2.29	2.14
10 years	2.63	2.81	3.72	2.30	2.49	2.95

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This Week: The Greens say they'll work with Labor if there's a hung Parliament, but at a cost... Unions call on Labor to promise it will legislate to enshrine penalty rates if it becomes the Govt... Tony Abbott's old chief of staff Peta Credlin is ruffling feathers with her political commentary... WA delivers a budget shocker... And hard pressed dairy farmers call for a milk levy to help maintain incomes.

Quotable

"I would much prefer to see adequate investment in Australian agriculture, particularly where that investment is aligned with the supply chain - everything from production at the Australian end through to the market and consumption at the other end done by an integrated supply chain involving investments from both sides."

John Edwards, a food security expert from Murdoch University, says overseas investment in agriculture is essential.

"You've got a government that has been the only government in the world to repeal strong laws on tackling global warming. You've got a government that is being condemned by human rights organisations for their cruel and brutal treatment towards innocent people seeking asylum."

Greens leader Senator Richard Di Natale says the Coalition is out of touch on key issues and needs to change its stripes.

"The problem is that both candidates are seeking a mandate but neither are levelling with us about the imminent cataclysm that's facing the country. Australia's economy currently depends on growth, yet look around the world and you can see that the big long boom since the 1950s is finally coming to a halt. Jobs will vanish and climate change is upon us... but you won't hear that from either of our so-called leaders."

Canberra writer Nicholas Stuart says neither of the two leaders is telling it like it is in this campaign so far.

Campaign

Greens Will Exact High Price For Power Sharing

With polls suggesting there's a strong chance of a hung Parliament, and the Greens indicating they'd enter a coalition with Labor, *Bill Shorten* is now learning the price he'd have to pay for such an arrangement. The Greens would expect Labor to abandon or severely modify its asylum-seeker policy, ban new coalmines and increase taxes on miners by at least \$2bn a year. Greens leader *Richard Di Natale* has dismissed Shorten's repeated declarations Labor won't negotiate with the minor party in a hung parliament, bluntly saying he did not believe the ALP will give up the chance to form the Govt. Shorten is sticking to his guns, ruling out a deal with the Greens. But Di Natale is still adamant Labor will come to him for a deal, citing previous deals between Labor and Greens, including the *Julia Gillard-Bob Brown* alliance in 2013 and the 2010 agreement in Tasmania. Di Natale says "can you imagine Bill Shorten with the prospect of either assuming Govt in a responsible, power-sharing arrangement, or taking Australia to another election? I don't think he'll do it."

Campaign

Unions Call For Labor To Protect Penalty Rates

Unions have told Labor they want penalty rates protected by "any means necessary," backing the Greens' call to enshrine overtime rates in law. Labor leader *Bill Shorten* has run into a storm with the unions after effectively conceding penalty rates could be cut under a future Labor Govt - despite the ALP promising to protect weekend penalty rates. The Australian Manufacturing Workers Union and the Electrical Trades Union both back a Greens proposal to protect penalty rates with legislation. AMWU national secretary *Paul Bastian* says "we won't accept any cut to penalty rates. Penalty rates need to be secured, they need to be put beyond doubt." The AMWU is politically close to Labor left faction leader Senator *Kim Carr*, who, in turn, is a key supporter of Shorten. Australian Services Union deputy national secretary *Linda White* backed the Labor leader over not legislating penalty rates saying "people who work unsociable hours should have penalty rates and that should be enshrined in safest way possible. If I was an employee I don't know if I would trust my penalty rates to the vagaries of the political process." At present, penalty rates are set by the independent Fair Work Commission, which is due to rule after the election on whether Sunday rates should be cut and brought into line with Saturday penalty rates.

Campaign

Credlin Causes Headaches With Scathing Criticism

Tony Abbott's former chief of staff *Peta Credlin* is causing upset among Liberals with her no holds barred attacks on *Malcolm Turnbull's* campaigning tactics, accusing the PM of "casting hopeful Liberal candidates into the cold." On Monday Turnbull was a no-show at a campaign event with the local Liberal candidate *Sherry Sufi* in the West Australian seat of Fremantle. Sufi argues gay marriage will lead to polygamy. Credlin says the candidate's absence was notable and becoming a pattern for the PM. She says "I think once in a while the candidate not being at a press conference in an electorate is fair enough, in isolation, fair enough. When it becomes a pattern, the pattern becomes a problem, and particularly the seat of Boothby and Dunkley where he did not have the candidates, Nicole Flint in Boothby and Chris Crewther in Dunkley, I think was a mistake, they're seats we hold, we've got retiring 20-year members going and anything you can do to boost name recognition is important." The PM and his party are publicly refusing to respond to Credlin's attacks, but privately believe she is in danger of sabotaging the Coalition's campaign. In 2010, Labor blamed former PM Kevin Rudd for causing the hung Parliament outcome, when their polling took a hit and never recovered after damaging leaks against his successor Julia Gillard were aired.

Campaign

WA Problems Could Hit Federal Budget

Western Australia's state budget couldn't have come at a worse time for the Govt, which is fighting a desperately close election campaign. WA has unveiled the worst set of books in its history, forecasting weak economic growth, rising unemployment and a drop in iron ore prices which could

Forecasts



Housing Finance. **NEW**

Growth slows, but trend could turn upwards following RBA rate cut.



RBA.

Cuts cash rate to 1.75%, forecasts imply further cuts are possible



Q1 Inflation.

Fell due to discounting by retailers. Inflation is to remain subdued.



Employment.

Rose 26.1k in March. Underlying labour market trends positive.



Unemployment.

Fell. Helped by the fall in the participation rate.



Residential Construction.

Activity continues to grow, led by apartment building

www.commonwealthbank.com.au

As at 18 May, 2016

"If Labor were to triumph at a workplace relations election, largely on the back of a well-funded and well-resourced campaign run by unions and their members, our national government would again owe a huge debt to the union movement. Invisible union leaders effectively would be sitting at every cabinet meeting, running a power of veto over a broad range of decisions — even if the cabinet meetings were held on Sundays."

The Australian's Editors blast Labor's connections with the union movement.

Stock Watch

VICINITY CENTRES VCX.

Hold this stock, it is slightly overvalued. This is one of Aust's leading retail property groups with 95 shopping centres. The company has been divesting assets in recent months, hoping to accrue up to \$1bn for re-investment. It has a strong development pipeline.

Price: \$A3.38

☆☆☆

AUSTNET SERVICES AST

Brokers say sell this stock - it is 10% overvalued. This diversified energy network company operating in Victoria has delivered a 9.1% increase in ebitda for the full year, with its electricity distribution business a strong performer. Gas distribution was hit by higher expenses.

Price: \$A1.63

☆☆

SEVEN WEST MEDIA SWM

This is a sell - brokers say it is currently 18% overvalued. This a multi platform media business and is the operator of the 7 TV network which has the audience lead in Aust and is delivering market leading TV advertising revenue - print businesses are not doing so well.

Price: \$A1.18

☆☆

potentially blow a massive hole in federal budget assumptions. State Treasurer *Mike Nahan* blames "the mother of all revenue hits" for a record deficit of \$3.9bn expected next year and soaring net debt which will hit an unprecedented \$40bn by 2019-20. The worse-than-expected slowdown in Western Australia could prove a headache for *Malcolm Turnbull* as he campaigns on promoting jobs and growth. Dr Nahan predicts the Coalition could suffer at the federal election in WA as voters react to Canberra's failure to fix the GST distribution system and boost payments to the one-time boom state. The WA Govt is forecasting the price of iron ore to average \$US47.70 a tonne next year, putting it well below the forecast by federal Treasury. If the WA Treasury forecast is accurate, the federal Govt would be facing an annual \$6bn shortfall in nominal GDP and \$1.4bn in lost tax receipts. The impact on the federal budget would be to increase the deficit by \$4bn a year.

Farming

Dairy Farmers Call For Help As Incomes Plunge

Dairy farmers struggling to cope with milk price cuts have called for a 50c levy on every litre of milk sold. Amid predictions 20% of the 4600 Victorian dairy farmers who supply *Murray Goulburn* and *Fonterra* will go broke, Victorian Agriculture Minister Jaala Pulford has asked the major banks to show "sympathy and compassion" towards farmers facing sudden bankruptcy and farm foreclosure in a "catastrophic situation." All eight remaining farmer directors on the Murray Goulburn Board have now stood down, including *Phil Tracy*, the chairman and steadfast supporter of resigned CEO *Gary Helou*. Three directors of the 12-member board have quit in the past week, leaving non-farmer special board member *Peter Hawkins* and new COO *Fiona Smith* as the sole surviving directors. *Murray Goulburn* has slashed its farm gate milk price by 15% to 34.6c a litre and demanded farmers retrospectively repay "overpaid" milk income for the past 10 months, a move Fonterra mirrored a week later. This has left 75% of the Victorian dairy industry - the core of the \$2bn dairy export industry - with a "claimed" clawback debt of \$120,000-\$150,000 each. Farmers say their proposed "emergency milk levy" will solve the crisis. They say if the Govt won't allow a 50c emergency levy, a regulated minimum floor farm gate price is the only way to ensure farmers are fairly paid for their milk. Meanwhile *Coles* has announced it will launch a new Home brand milk, with the proceeds going to struggling dairy farmers

Farming

Call For More Foreign Investment In Agriculture

A new report is urging a "second green revolution" in the region to allow technological advances to meet the forecast doubling of Asian food consumption in coming decades and calling on Aust to open its doors to foreign investment in agriculture. The report says Asian food security can only be achieved through innovation and investment in "wasteful" supply chains to radically boost production, supplemented by food imports from countries such as Aust. But it's claimed Aust is not doing enough to welcome investment or drive regional trade co-operation which would reduce agricultural subsidies. Former Labor Foreign Minister *Stephen Smith* says Indonesia is on track to become the world's fourth biggest economy after the US, China and India, and Aust should welcome Indonesian investment into local supply chains and infrastructure. John Edwards, a food security expert from Murdoch University, says although there's concern about foreign ownership of Aust agricultural assets, it is essential. *Bark Taeho* a former South Korean Trade Minister says Aust is a major player in regional trade settings but is too "complacent" and should work to re-energise multilateral settings following the stalling of the Doha Development Round. "Australia should be playing a more important role in promoting multilateral settings, especially in the area of agricultural subsidy reduction."

Investment

GrainCorp Suffers Infant Formula Hit

Chinese regulatory changes have seen GrainCorp's net profit plunge 32.5% in the six months to March 31. The company cites a "subdued market" and dry weather as well as a delay in infant formula sales, which stemmed from Chinese moves to boost safety. In January Chinese authorities slashed the number of infant formula products a company can sell in the country as part of new food safety laws. GrainCorp CEO Mark Palmquist says this caused some uncertainty for its customers, which produce infant formula across Aust and NZ, with some having to re-register their products.

Oils revenue - which fell 6.6 % to \$440m - represent about one-fifth of GrainCorp's overall sales, which rose 4.8% to \$2.07bn. The company's malt business was its biggest earner, generating ebitda of \$76m - up 10%.

Strong demand from North American craft beer and global distilling markets helped fuel the increase. But overall net profit fell to \$20.4m in the six months to March 31, compared with \$30.2m in the same period last year.

Analysts say the first half of the year has been the toughest GrainCorp has experienced in "many years." It had well below average grain in storage, or carry-in, with 1.6m tonnes versus 1.9m tonnes a year earlier, and a lower exportable surplus amid intense competition for grain in eastern Australia, a larger world grain crop and cheap ocean freight. Meanwhile Palmquist says a plan from a consortium, which GrainCorp is a part of, to take over Australia's biggest wheat exporter, CBH Group, is still "alive," despite CBH rejecting the proposal.

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