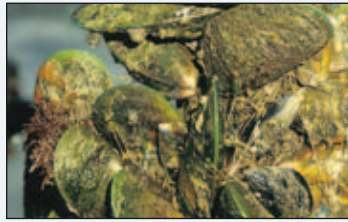




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Prime Minister John Key meets President Medvedev of Russia at APEC Summit.

FTA talks to start with Russia in 2011

New Zealand's cracking pace in setting new trade arrangements continues with Prime Minister John Key leveraging off the APEC summit on 13 November, to announce that negotiations on a Free Trade Agreement with Russia, Belarus and Kazakhstan will start early 2011.

"Free trade deals offer real benefits for jobs and economic growth in New Zealand," said Key.

The APEC timed announcement follows a meeting on 9 November between Trade Minister Tim Groser and Russian Economic Development Minister Elvira Nabiullina, at which a Joint Ministerial statement stated New Zealand, Russia and its Customs Union partners Belarus and Kazakhstan would commence negotiations on a comprehensive and modern FTA and to complete these by the end of 2011.

Experts' scoping discussions began in June 2010 and produced a roadmap for the FTA negotiations.

An FTA with Russia would present a unique opportunity for New Zealand to future-proof its relationship with the largest country in the world, and the 12th-largest economy, says the Ministry of Foreign Affairs & Trade.

"While New Zealand's current trade with Russia (NZ\$187m of exports in 2009) is currently relatively modest, the relationship is one which has strong growth potential.

"Russia was the world's fifth-largest food importer in 2008, with imports totalling US\$30bn, adds MFAT. "There is little question that Russia could be a sizeable growth market for New Zealand's high-quality products in Russia."

New Zealand's exports to Russia grew 267% from NZ\$51m in 2000 to NZ\$187.1m in 2009. The average annual growth rate over this period was 23.1%.

"Despite this strong growth, Russia is currently only New Zealand's 35th-largest export destination and an FTA could further boost the trade relationship and better position New Zealand to take advantage of the opportunities in the Russian market"

In addition to Russia, an FTA would also cover Belarus and Kazakhstan. In 2010, these three countries established a Customs Union, with a common customs tariff and customs code, which is why New Zealand is negotiating an FTA with all three countries.

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Trade winds blow towards Britain

UK landowners lining up to invest in wind energy based on the 500kW turbine made by Windflow Technology may generate an export windfall for the Christchurch manufacturer.

"Britain is now firmly a very large opportunity for us," Geoff Henderson, Windflow's Chief Executive, told Trade News during an investment roadshow to attract expansion capital.

Windflow reports significant demand for its 500kW turbines by Scottish farmers in particular as they scamper to lock in exceptional electricity prices that will be subject to a 2013 rates review.

The introduction of a renewable energy feed-in tariff in the UK in April 2010 provides such stellar returns for would-be wind turbine owners that Windflow's new UK distributor Ventus Green Energy has had at least 370 enquiries in the first three months.

Determined to encourage renewable electricity generation, through small scale distributed generation, in April 2010 the UK Government mandated regional electricity companies to pay a range of generation feed-in tariffs to renewable energy generators. The top of the available scale is 500kW, which Henderson describes as 'the sweet spot' held by the Kiwi turbine.

Scottish farmers commissioning the 500kW Windflow turbines will receive an 18.8pence/kWh feed-in tariff for the electricity they generate over the next 20 years, plus turbine owners will also get a minimum of 3p/kWh for any electricity exported to the national grid. Both tariffs are adjusted for inflation each year.

"The level of this incentive, combined with our world-class turbine, is a compelling investment opportunity," said Henderson. Depending on wind speed a single Windflow 500 turbine could earn gross revenue of £200,000 to £425,000 per year.

"The fact that the FIT will be reviewed for turbines commissioned after March 2013 is creating urgency in the minds of rural landowners who stand to benefit most from this scheme," said Henderson.

A rate change will not affect any turbines in operation by March 2013, meaning those turbines will continue to enjoy a rate of 18.8p/kWh, indexed to the UK's Consumer Price Index as a proxy for the rate of inflation until the 20th year.

VGE has so far carried out over 113 site surveys for possible customers and planning applications have begun to be lodged. Firm orders will depend on several factors, including planning approvals and finance.

VGE is marketing the turbines with reference to the quick payback time of a commissioned turbine. Windflow calculates revenue from one of its 500kW turbines at £230,000-£364,000 per turbine per year and annual returns on investment for the turbine owner as being between 20% and 30% per turbine.

Windflow puts the current sale price of the Windflow 500 for the UK market at around £800,000 per turbine, each sale contributing around NZ\$250,000 to Windflow's gross profit. By moving into the UK market Windflow expects to move rapidly towards breakeven in 2011-12.

Coinciding with the completion of a major R&D programme, Henderson describes the UK market as a likely 'game-changer'.

From the medium term there will be strong cashflow arising from progress payments capable of covering manufacturing costs, however, additional capital is



A new market opens in Britain for the Windflow 500 wind turbine made in New Zealand.

being raised to provide a stronger balance sheet to cover export sales in the near term.

Due to component lead times, an order will take up to 10 months to ship to the UK. This time lag between fixing the exchange rate on an order and receipt of final payment carries an exchange rate exposure that will be offset by exchange rate cover. The foreign exchange hedging contracts will be matched by cash deposits at the Bank of New Zealand as a further de-risking measure.

Advance payment guarantees will be provided by the New Zealand Export Credit Office within NZ Treasury in support of the sale of the first 20 turbines to the UK following a detailed assessment of the Windflow export business plan. The guarantees are set at 100%.

Coincidentally, Windflow is getting special encouragement from the UK Government to catch the new trade wind to Britain. UK Trade & Investment, the trade promotion arm of the Foreign & Commonwealth Office, has named Windflow as the winner of the expansion category in a market entry competition which will fast-track the company into the UK market.

From 60 applicants, UKTI asked 30 companies including Windflow to submit their business plan for assessment for the market entry competition. "The plans were treated as privileged information," said Paul Wilkinson of UKTI.

"We wanted to let NZ companies know there are a lot of services freely available to help them set up in the

Continued on page 7

Ireland takes Euro bailout

Defiant to the last, but bowing to the inevitable, the Irish Government finally went cap in hand to the EU and IMF asking for cash.

"After guaranteeing the debts of privately owned banks operating in Ireland in October 2008 the government's obligations have become so large they can no longer feasibly keep those banks solvent," says Tony Alexander, chief economist of the Bank of New Zealand.

"In recent months with worries growing about still falling property prices (down 30%), soaring unemployment (now 13%), major fiscal austerity measures including some public sector wage cuts amounting to 20%, depositors have been quitting the Irish banks in droves.

"If they were to collapse credit circulation in the economy would essentially cease and the impact on the economy of no new ventures being financed, plus housing and business loans being called in would be a massive depression, says Alexander.

"The amount which will be lent to Ireland and the terms of the loan have yet to be decided, though the common pick is €85bn. Greece was bailed out to the tune of €110bn in May. Next off the rank is expected to be either Spain or Portugal."

In order to secure the deal the Irish government has announced new fiscal austerity measures including an increase in the rate of sales tax from 21% to 23% by 2014, cuts in pensions, a reduced minimum wage, welfare payments and public sector pay. The company tax rate will however be left at 12.5%.

"Underlying concern about the Irish banks collapsing, however, is not just the impact in Ireland but the impact on banks in the rest of Europe who would suffer losses that could send them under. At the end of June for instance banks in Germany held €100bn of Irish bank debt and UK banks just under that amount.

The NZ gross debt to GDP ratio is only 31%, notes Alexander.

Alexander says that in contrast to the Greek crisis back in May, "this time around there is far more talk about the inevitability of other countries having to be assisted, growing speculation about whether outright default may not be the preferred option, and more open discussion about countries quitting the Euro and how they should not have been in there in the first place.

"The default option ended up working well eventually for Russia in 1988, Mexico in 1994, and Argentina in 2002 — but they had their own currencies which could be devalued or allowed to fall and boost their export sectors.

"That cannot happen with the currently heavily indebted European countries," says Alexander. "Even quitting the euro is not an option because their debt is denominated in Euros and repayment using their own new/old currencies would prove increasingly costly — especially as the interest rates demanded by bond buyers would likely rise even higher than they are now."

"Markets are now speculating who is next in need of a bailout," says Mark Smith, economist at ANZ.

"There is also internal pressure from national central banks, with the Portuguese central bank warning of an

EU members Gross Debt as % GDP

• Slovenia	35%
• Slovakia	41%
• Finland	50%
• Cyprus	61%
• Spain	64%
• Netherlands	66%
• Britain	68%
• Austria	70%
• Malta	70%
• Germany	75%
• Portugal	83%
• France	84%
• Ireland	94%
• Belgium	100%
• Italy	118%
• Greece	130%

"intolerable risk" for its banks if the government failed to consolidate its public finances. With the Italian economy "too big to fail", Italian officials have been quick to talk up the progress made in sorting out their public finances.

"While a bailout package for Portugal would be manageable, assistance for Spain and other larger economies would sorely test EU resources and raise deeper questions about how serious these economies are about fixing their fiscal woes." Former BOE MPC member Willem Buiter noted "there is no such thing as an absolutely safe sovereign" and is predicting that sovereign default fears could soon extend to the US and Japan! Time for calm is needed.



WTO rules on apple access

The end of a 90-year trade barrier on New Zealand apples entering Australia's fruit market would boost export sales by \$30m over two years, say industry leaders.

Trade Minister Tim Groser welcomed the ruling of the World Trade Organisation's (WTO) Appellate Body, which in late November found in New Zealand's favour in the Australia — Apples case.

"The appeal report upholds the thorough analysis undertaken by the WTO dispute Panel around risk assessment and the science at issue," said Groser. "These findings — reached by independent external arbiters — settle any debate. This is good news for New Zealand apple exporters."

New Zealand has been seeking access into Australia for its apples since 1986 but has been barred from the market as a result of restrictive quarantine measures.

Australia has maintained that the alleged risk of introducing fire blight, European canker and apple leaf-curling midge justified the measures.

After exhaustive efforts to resolve the matter with Australia, New Zealand took the issue to the WTO. The WTO Panel report on the case was released in August. Australia appealed.

The Panel had found that all 16 of Australia's quarantine measures, along with their Import Risk Analysis, were inconsistent with Australia's legal obligations under the WTO Sanitary and Phytosanitary Agreement. The Appellate Body has now upheld the Panel's core findings.

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German confidence positive for Kiwi companies

Despite Europe's grim mood facing another Euro crisis in Ireland, German consumer confidence is at its highest level in more than three years. Low unemployment and an improving economic outlook boost income expectations.

"This unsurpassed growth spurt is in itself great, but for our office it also represents more opportunities to pass on to members as German companies look further afield again", says Monique Surges, CEO of the New Zealand German Business Association. The NZGBA is uniquely positioned to help both New Zealand and German businesses as well as individuals through an increasingly competitive global market environment.

"Now is time to be on the lookout for business opportunities in Germany", says Monique. She and her team are currently paving the way for several New Zealand businesses into the German retail market.

Germany's largest market research group GfK, Nuremberg, reports that its consumer sentiment index, based on a survey of about 2,000 people, has increased to 5.5 from 5.1 in November (the highest since October 2007)

Household spending is putting Germany's economy on a firmer footing as global demand for its exports starts to slow down.

While the pace of economic expansion

slowed to 0.7% in the third quarter from a record 2.3% in the second, private consumption was one of the main growth contributors.

"Domestic demand is becoming a more and more dependable pillar for the economy," GfK said in a statement. "Consumers believe that the German economy will continue to recover strongly over the coming months."

World Bank boosts Tonga aid

WASHINGTON: The World Bank is offering Tonga up to US\$50m in the next four years as part of the bank's new strategy for the Pacific nation.

The amount represents an increase of as much as US\$17m from the funding committed by the agency for Tonga since the country became a World Bank member in 1985.

The bank's assistance to Tonga is intended to support economic reform, generate opportunities through greater global and regional integration, and build resilience against shocks.

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NZTE opens fifth office in China

New Zealand Trade and Enterprise (NZTE) has opened its fifth office in China this time in Qingdao, Shandong Province.

Qingdao is a major city in Shangdong Province, the biggest industrial producer and one of the top manufacturing provinces in China. Enjoying an annual growth rate of around 16%, Qingdao has seen substantial economic development since the district of Qingdao was named a Special Economic and Technology Development Zone (SETDZ) by Chinese government in 1984.

It is also home to three large enterprises with well-known brand names: Tsingtao Brewery (the producer of most famous Chinese export beer Tsingtao Beer), Haier (one of the largest Chinese white appliance producers), Hisense (a major electronics producers in China).

The Vice Mayor of Qingdao Wu Jingjian, NZTE chairman Jon Mayson, NZTE chief executive Peter Chrisp and NZTE group general manager North Asia Rod MacKenzie attended the opening ceremony to mark its presence in this booming entrepot city in Northern China.

Mayson says that NZTE's Qingdao office will complement the agency's four other offices in mainland China. "The opening of this new office in Qingdao further demonstrates New Zealand's commitment to a closer and more collaborative relationship with China.

"New Zealand provides a range of high quality products and advanced technologies to China including Shandong Province. The addition of NZTE's Qingdao office will further enhance New Zealand business capability in the region and provide a platform for further export growth."

SPECIFIC PROSPECTS

"In addition to providing tailored support for New Zealand businesses, NZTE will also be identifying specific opportunities in Shandong province in key sectors such as agritech, food and beverage, specialised manufacturing, ICT and education."

Mayson says that Qingdao is well known for its strengths in manufacturing, food processing and aquaculture related businesses and is becoming a fast growing centre for food and beverage, agritech and specialised manufacturing developments.

"The Qingdao district has many similar characteristics to New Zealand in terms of agriculture and food production, and NZTE sees significant potential for New Zealand companies here.

"China is vitally important to New Zealand's economy. It is our second largest bilateral trading partner and our second largest export market for goods, worth more than NZ\$4.2 billion in the year ending August 2010. In the last 10 years New Zealand's exports to China have increased almost 200%, and the Free Trade Agreement which came into force in late 2008 has accelerated this."

Qingdao district is the fourth largest in China in terms of imports and exports. In 2009, the district imported \$609m worth of New Zealand goods and services, an increase of nearly 70% on the previous year.

A number of New Zealand companies have links to Qingdao including Beca, Scott Technologies and Teknatool.

The NZTE office in Qingdao is located at: Room 912, Crowne Plaza Qingdao, 76, Xiang Gang Zhong Road Qingdao, Shandong Province, P.R. China.

Fish exporter fights currency tide

Foreign exchange variances reduced fish exporter Sanford Ltd's revenue by \$40.0m, to total revenue of \$421.0m for the current year, says the chief executive Eric Barratt.

"Volume increases in half-shell mussels, hoki fillet block, toothfish and scampi were offset by declines in skipjack tuna and other smaller-volume species. Positive price variances achieved in squid and orange roughly were offset by reduced prices for half-shell mussels, skipjack tuna and, to a small extent, hoki.

"Negative exchange rate variances affected all species," says Barratt. "While the exchange rate did not fluctuate as significantly as last year, it was approximately 12 cents higher with this year's average rate very similar to Sanford's forecast rate of US\$0.72."

The NZD/USD exchange rate has recently risen well above the average 2009/10 levels. Sanford uses a mixture of forward contracts and zero cost collars to actively manage foreign currency risk.

Foreign exchange gains totalled \$7.8m for the year compared to \$8.4m last year. Overall net surplus attributable to shareholders for the year totalled \$25.0m compared to \$39.1m last year.

"For the coming year, we have forward foreign exchange cover for approximately 20% of our expected US dollar receipts at an average rate of US\$0.67. Also, we have 20% of the forecast US dollar receipts covered with zero cost collars which protects a rate of US\$0.72 on the upside but limits our downside benefit to a rate of US\$0.62.

The revenue reduction this year of \$12.0m coupled with increased costs of \$7.3m resulted in a reduced EBITDA of \$19.3m. "The increased costs relate mainly to increased vessel operating costs, and higher charter fees on the basis of higher squid prices," said Barratt.

As a result of improved demand and higher prices, inventories reduced from \$57.1m at the end of March to \$45.6m at 30 September. This resulted in net cash-flow from operating activities improving by \$32.5m in the second six months.

MARKETS IMPROVE

Barratt commented on the improvement in many markets:

- Mussel pricing, which had been depressed, increased to far more realistic levels resulting from a combination of stronger demand and the establishment of the Pure New Zealand Greenshell™ Mussels operation in China.
- Squid prices increased to record highs in most markets as catches in most other countries declined. Although catching rates in New Zealand were not as high as past years, the higher prices enabled our own and our charter vessels to continue fishing squid to reach catch levels close to those of last year.
- While returns from our skipjack tuna fishing in the Pacific improved in the second six months, access to the fishery and fishing conditions continued to be a concern.
- Deepwater operations, encompassing our hoki freezer trawlers, toothfish and ling longliners, scampi fleet and charter vessels had an excellent year and made a strong contribution towards results.
- Inshore operations benefited from improved prices for many species including orange roughly.

MARKETS AND PRICING

"Over the last six months we have seen improved pricing across a range of species including Greenshell™ mussels, salmon, snapper, orange roughly, tooth-

fish, ling, squid, hake and southern blue whiting.

"Prices of hoki have generally been stable although competition in the Australian market has weakened prices there. We continue our focus mainly on hoki block and have secured volume contracts for the coming year," said Barratt.

"Skipjack tuna prices have been highly variable throughout the year and recently dropped to levels of around US\$1,000/mt.

Deepwater species have increased based on improved pricing for many of the species.



Stronger demand has helped to lift prices for Greenshell™ mussels.

"Aquaculture dropped back from 16% to 15%; this is influenced by weaker mussel prices offset by increased volumes in ship to market. A comprehensive comparison of revenue split shows a decline in Australia from 23% to 20%.

"Europe declined from 15% to 12%; North America, Korea and Other Asia have increased. North America was the result of increased volumes of toothfish, mussels and salmon, Korea from increased prices for squid and increased volumes of mussels.

"For the first time Asia in total reached 30% of our overall revenue and we can see this trend continuing in the future."

NEW FACTORY

A new automated machine-opening factory commissioned North Island Mussel Processors was opened by Prime Minister John Key in June. The factory features 28 dual-channel automated mussel-opening machines to produce half-shell product.

The cost to process clean shell mussels

is significantly reduced. "In the Coromandel last season a barnacle over-settlement on many mussels has frustrated our ability to operate the machines at full capacity.

"We are presently researching ways in which marine organisms such as barnacles can be removed from the shells prior to their reaching the automatic opening machines. As a consequence, volume and profitability targets were not met."

ACQUISITION

Sanford has entered into an agreement with Pacifica Seafoods to acquire its Greenshell™ mussel and Pacific oyster businesses for \$85m.

"The Pacifica Seafoods businesses and assets to be acquired include:

- Ownership of more than 70 marine farms, 400 hectares of water space and 800 mussel longlines together with lease, share and contract farming operations that include a further 130 hectares of space and 300 mussel longlines.
- 40% interest in an approved 2,695 hectare mussel farm development opportunity in Pegasus Bay near Christchurch.
- A large and modern mussel and salmon processing facility in Christchurch.
- Ten marine farm servicing and harvesting vessels
- Various properties near the Marlborough Sounds and in Christchurch.
- Pacifica's interest in a cooperative marketing company which markets mussels in China under the "Pure New Zealand Greenshell Mussels" brand (Sanford already has a 35% interest).

It aims to expand the existing 17,000 tonnes of annual production and will investigate the installation of automated opening machine technology in 2012. The acquisition follows on from Sanford's acquisition of marine mussel farms from Sealord in 2009.

The deal will combine New Zealand's two largest Greenshell™ mussel businesses and will consolidate Sanford's position as New Zealand's No 1 aquaculture producer and exporter. The acquisition also offers significant potential synergy benefits for Sanford, particularly in terms of export marketing and further processing automation.

OUTLOOK

"With improved demand and pricing for many species, we would expect to see an improved result for the 2011 year subject to the vagaries of the exchange rate regime. Recent strengthening of the New Zealand dollar against the US dollar towards US\$0.80 is of concern to all primary production exporters in New Zealand."

INTERNATIONAL INVESTMENTS

Weihai Dong Won Food Co Ltd Sanford's China joint venture, produced a much more satisfactory result and increased production volumes in an improved pricing environment. The plant is now achieving results close to expectations. Continuing difficulties in recruiting and retaining suitably qualified staff remain an issue.

The process of establishing the Pure NZ Greenshell Mussel Partnership was started earlier this year in China to exclusively market all Greenshell mussels produced by Sanford, Pacifica, Sealord, Aotearoa Seafoods and Greenshell (NZ).

Partnership and production shares were established relative to the past production of the five companies. The partnership was formally launched in Shanghai in June 2010 by Trade Minister Tim Groser and

appointment of a China based manager followed.

A wholly foreign owned enterprise is in the process of being established. Sanford completed product specifications, packaging designs, promotional plans and budgets and launched the product into the Chinese market in October 2010.

"A substantial portion of the first container of product was approved as a seafood item for the November 2010 Asian Games in China," says Sandford CEO Eric Barratt. "With the continued assistance of Aquaculture New Zealand and New Zealand Trade and Enterprise Pure NZ Greenshell had two stands at recent seafood shows in China and as a result has already received orders for 20% of first year forecast volumes at acceptable international prices."

New regional trade deal takes shape

Experts of Russia (MED), Belarus (MFA), Kazakhstan (MED) and experts from New Zealand's MFAT have comprehensively examined key aspects of the trade position of the parties.

Theses included the following:

- (i) trade and investment relations between Russia, Belarus, Kazakhstan and New Zealand in recent years and perspectives for the future;
- (ii) the existing institutional and legal framework governing bilateral trade and investment relations between Russia, Belarus, Kazakhstan and New Zealand;

- (iii) existing regional trade agreements of Russia, Belarus, Kazakhstan and New Zealand with their respective trading partners and their possible impact on closer trade and investment relations between Russia, Belarus, Kazakhstan and New Zealand;

- (iv) perspectives of more active engagement of Russia, Belarus and Kazakhstan into the regional economic integration processes.

This examination preceded the recommended that negotiations on the establishment of a free trade area between participants be commenced.

For all participants such an arrangement shall cover trade in goods; in respect of Russia and New Zealand it shall cover also:

- Trade in services;
- Investment;
- Movement of natural persons, related to trade and investment;
- Intellectual property rights;
- Institutional issues;
- Dispute settlement, and

Other issues (like, e.g., government procurement, environment) which the participants may agree upon, and with respect of Belarus and Kazakhstan it

may cover also all previous categories, with due account of the regulatory system in the customs union between Russia, Belarus and Kazakhstan implying joint competence of the three countries on issues related to trade in goods.

The majority of import duties should be eliminated from day one, and for sensitive goods a relatively short transition period is envisaged, which should in any case be no longer than 10 years. Effective rules of origin are to be developed allowing participants to achieve a high degree of liberalisation.

Positive trends in Russian economy

Positive changes in the Russian economy began to take form towards the end of 2009, and strengthened during the first half of the current year.

By mid-2010, positive trends began to prevail, says the UK property consultancy Knight Frank, which is represented in Russia. Their in-market research analysts note an acceleration in most macroeconomic indicators.

According to estimates from the Russian Ministry of Economic Development and Trade, real GDP grew 4.2% during H1 2010 compared to the same period in 2009 (in 1H09 a decrease of 10.1% was recorded). Industrial production increased 10.2% and since March investments in basic capital has grown.

Underpinning the economic growth are an increase in exporter revenues, a slowing of inflation rates, and a recovery of consumer demand.

Unemployment levels have decreased monthly since January and at mid-year stood at 5.2 million, or 6.8% of the economically active population. Real disposable income for the population increased 4.8% during H1 2010 compared to 1H09.

Retail turnover increased 5.8% compared to June 2009.

The increase in consumer prices during January-June 2010 of 4.4% was lower than last year's 7.4%.

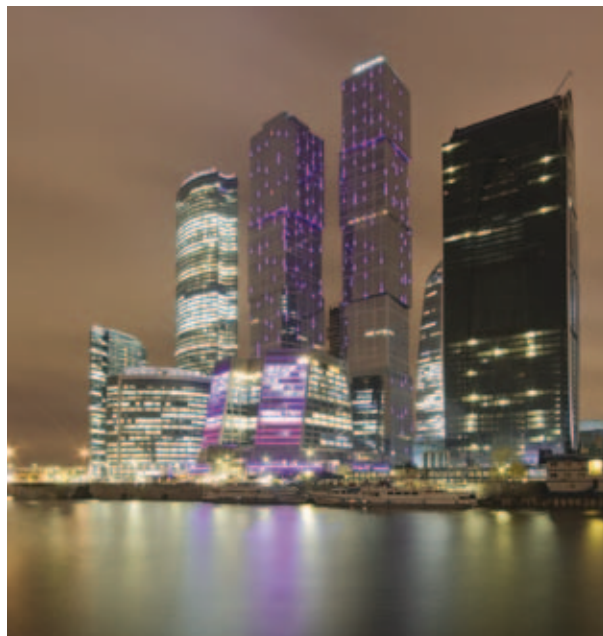
Consumer prices are at a record low level for growth.

"However, some economists are apprehensive that the draught caused by the exceedingly hot weather this summer, might accelerate a growth of prices for foodstuffs by the end of the year and add another 1.5-2% to the forecasted level of inflation," says Knight Frank the international property consultancy.

The banking sector stabilised during H1 2010, with an increase in real disposable income and a strengthening of the ruble facilitating growth in ruble deposits. The volume of holdings in the ruble among the population increased 15.9% during January-May 2010 compared to an increase of 2.2% during the corresponding year of 2009.

"At the same time, a series of problems persist," says Knight Frank. Rating agency Moody's underlined the fragility in the banking system, noting the growth in troubled loans (20% at the beginning of 2010 and slated to reach 25% by the year's end) and weak credit development.

"Solving the problem of "toxic assets" in the Russian banking system will require no less than two years, according to the most optimistic estimates."



Petrodollars underpin the resurgent Russian economy. Pictured: Moscow CBD.

"The foreign economic conditions as a whole were favorable to the Russian economy during H1 2010. Yet energy market processes were unstable and as a whole the price for oil remained sufficiently high (for example, the Brent oil price fluctuated within a range of \$70-90 per barrel).

These factors facilitated an improvement in the state of the national balance of payments.

According to the Bank of Russia, Russia's trade surplus for January-June 2010 equalled \$84bn, which is about twice as large as that from the same period of 2009. Moreover, the volume of oil exports, oil products, and natural gas increased by more than \$45bn compared with H1 2009.

"In Q2 2010, net inflow of private capital to Russia was recorded at about \$4.6bn.

Significant proceeds of "petrodollars" into the country provided for an increase of \$22bn — or 5% — in Russia's international reserves, the total volume of which reached \$461.2bn as of 1 July 2010.

Growth Potential

The IMF estimates Russian GDP in 2009 as US\$1.23 trillion.

Goldman Sachs estimated in 2007 that, if Russia met its productivity potential, it could have the 6th largest GDP in the world in 2050 — larger than any single European country, Japan, or Canada. Additionally, Russia was the only BRIC economy forecast to reach GDP per capita parity with Europe.

"Under those forecasts, its GDP per capita would be slightly less than the UK, but higher than France, Germany, and Italy," says MFAT. "Such an income level would provide a significant opportunity for New Zealand producers.

Real wages in Russia have doubled since 2002. Household debt is low, and disposable income high.

Russia is well known for its energy resources — it is the world's largest energy exporter — but its vast natural resources also signal its potential in a variety of areas. For example, Russia is the largest land mass in the world and has significant tracts of fertile agricultural land, it has 20% of the world's fresh water resources and enormous fish reserves off its coasts, and the forests of Siberia contain an estimated 20% of the world's timber.

- Belarus has a population of 9.5 million, and GDP of US\$60bn in 2008. GDP growth has been strong in recent years, averaging 9.5% from 2005-2008. GDP growth has resumed this year, and is projected to top 6% in 2010 and 2011. New Zealand exports to Belarus are small, totalling NZ\$1.2m in 2008, dropping to NZ\$630,000 in 2009, with fish being the main export.
- Kazakhstan has a population of 16 million and GDP of US\$135 bn in 2008. Kazakhstan's GDP grew by an average of 9.4% from 2000 to 2008, meaning GDP jumped from US\$20bn to US\$135bn. GDP growth of 6% is projected for 2011-2015. New Zealand's exports to Kazakhstan are small, totalling NZ\$930,000 in 2009 (mainly machinery and butter). Imports, however, are much higher: NZ\$9m in 2009 (metals, sulphates, acids).

Call for Submissions

- The Ministry of Foreign Affairs and Trade is inviting submissions on a Free Trade Agreement (FTA) between New Zealand and the Russian Federation (Russia), Belarus and Kazakhstan. The closing date for submissions is 22 December 2010.

FTA talks with Russia

Continued from page 1

Russia has the highest per capita income of the BRIC (Brazil, Russia, India, China) economies. Russia's economy grew an average of 7% p.a. from 1999-2008, a growth rate similar to that of India and China.

While Russia was hit by the global financial and economic crisis in 2009, it has since returned to GDP growth, and Russia's economy is projected to grow around 4.5% per annum until 2015.

Russia's potential is linked to its vast natural endowments. Along with its oil and gas reserves, Russia has significant resources in arable land, coal, fresh water, fish, timber, diamond deposits, potassium reserves, and rich reserves in nearly every other significant mineral.

Russia imports approximately 40% of its food needs. In 2008, Russia was, by value, the 3rd-largest global importer of beef, the 9th-largest global importer of dairy products, and the 16th-largest global importer of sheep meat.

New Zealand will be looking for further opportunities to export agricultural technology and know-how, as Russia is looking to develop its own agricultural sector.

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Demand in warehousing

Postponed demand returned to Russia's industrial warehousing market in 1H10, reports Knight Frank from its Moscow office.

"The volume of absorption for warehouse space in the Moscow region surpassed 360,000 sq m, which is more than twice as high as the absorption volume in the same period of 2009 (171,000 sq m), and is even more than 40% higher than what was put up for rent in H1 2008 (258,000 sq m) when the worldwide financial crisis had not yet affected the Russian economy."

An increase in the average area per warehouse rental deal has occurred for the first time since 2008.

The 1Q10 period shows that the average area of rental remises continued to decrease, descending to 8,500 sq m according to quarter totals (for compar-

ison, in 2007 the average was almost 20,000 sq m, while in 2009 it was all of 9,400 sq m), then in Q2 a growth trend for this indicator began to take form, equalling 10,200 sq m.

"Nevertheless, it is still too early to speak of a stable growth in average deal size: The trend may be picking up the incoming applications, requests for smaller area (less than 2,000 sq m) dominate as before. The share of such applications reaches 30%, whereas the share of requests for premises with areas greater than 10,000 sq m somewhat decreased in the total quantity of applications according to totals from H1 2010.

Commercial terms

The average rental value in quality warehouse complexes have not seen

significant changes since summer 2009, when rental rates were stabilised at a level of \$100-110 per sq m p.a. for Class A and \$70-90 per sq m p.a. for Class B.

A further decline in the quantity of rental supply for warehouses in the next 6-9 months might lead to a growth in average rental rates for Class A warehouse complexes to \$115-120 per sq m p.a., while for Class B warehouses rates might grow to \$95-100 per sq m p.a., says Knight Frank.

As a rule, rental contracts allow for an annual indexation of rental rates. "Today the practice of increasing rent 3% per year proves to be the most widespread, but not infrequently owners of quality warehouse complexes index rental rates in accordance with the USA's consumer price index (CPI), but not less than 2-3% per year."

New entrants in Russian retail

The entrance of new players to the Russian retail market continues.

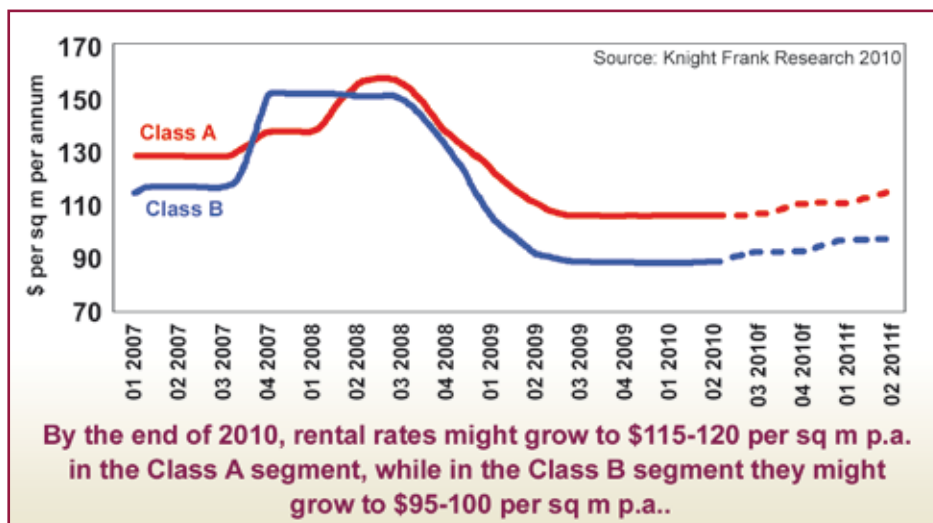
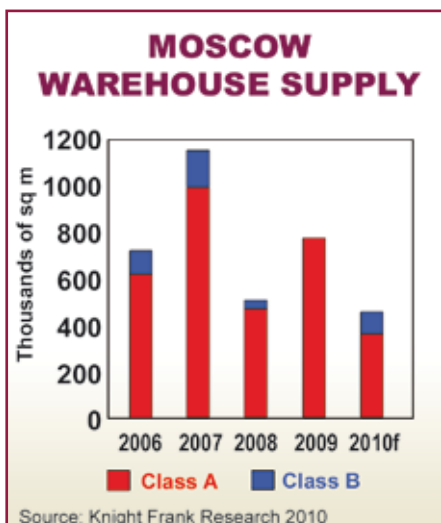
In Q2 2010 the first store for Uniqlo, a Japanese mark, opened, as well as the first cafe of Dunkin' Donuts, an American chain, which is returning to Russia after an unsuccessful entrance in the 1990s.

Kiabi, a French economy segment clothing chain, and Ann Christine, a German seller of clothes for young women, are both planning to open their first stores in Moscow.

There are plans for a return to Moscow for Diesel, Alexander McQueen, and Stella McCartney, all of which closed during the crisis. Arber Group, a Ukrainian company, and Biba, a Kazakhstani clothing chain for future mothers, have announced extensive plans for development.

The first store is planned for "Mal Mala Menshe", a new retail chain from "Rigla", a pharmaceutical retailer and "Deti", a chain from St. Petersburg, is continuing its active development in Moscow. "Budu Mamoi", a national chain, has plans to open 5-7 stores in the Moscow region.

Rewe Group, a German concern, has acquired 25% of "Billa Rasha", while Yum! Brands, Inc., an American company, has gained full control over "Rostik's KFC".



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New hotels for Moscow

During the first 6 months of 2010, 5 hotels in the 3-5-star category were opened in Moscow with a total capacity of 1,560 rooms.

According to Knight Frank the new hotels included 2 hotels of 5-star quality (54% of the added hotel-room capacity), 2 hotels in the 4-star segment (29% of the added capacity), and 1 hotel in the 3-star category (17% of the added capacity).

"By the end of the year, the capital's hotel-room capacity might be filled by about 700 more rooms.

"Thus, just during the first half of the year, one and a half times more hotel rooms were commissioned than during the whole of 2009. Such high commissioning rates are greatly due to the opening of several projects that were postponed to a later date during the crisis period, which period carried with it a material decrease in passenger flows.

"Ukraine Hotel (Radisson Royal Hotel), and Lotte Hotel Moscow initially were planned to be opened in 2009," says the international property consultancy. "In connection with the fact that 4-and 5-star hotels prevail in the structure of hotels opened during the past 6 months, the relative share of 3-star hotels in the capital's hotel-room capacity decreased from 57% at the end of 2009 to 54% by the middle of the current year.

"The opening of Ukraine Hotel (Radisson Royal Hotel), brought available rooms to new heights "It became the largest 5-star hotel in the capital according to hotel-room capacity with 507 hotel rooms and 38 apartments, having outstripped the Marriott Grand Hotel, which has 386 rooms.

Looking to develop business in Russia?

There are several new hotels that anticipate higher rates. Moscow remains one of the most expensive cities not only in Europe, but also in the world. The annual-average room rate of the capital's hotels equals \$237, while in Paris it is about \$230, in London — \$216, in Berlin — \$189, and in Prague — \$141.

"The opening of this hotel provided for an increase of 17% in the total 5-star hotel-room capacity.

Gostinichnaya Kompania has created a management company VashOtel, and bring VashOtel, a new trade mark. The new company took the control of 11 hotels in the 2-3-star segment with a total hotel-room capacity of about 4,500 rooms.

The current level of annual-average occupancy for 4-5-star hotels in Moscow equals 58.5% — it is one of the lowest levels compared to other European capitals. For example, analogous indicator in Warsaw equals to 65.8%, while in Paris and London they reach 75.4% and 84.7%, respectively.

Commercial terms

The average room rate in 5-star categories during Q2 2010 found itself in the range of dollars to the rate from the same period of 2009. In the 4-star segment, the average room rate in Q2 2010 equaled \$160-170, or 5,100-5,300 rub.\$290-300, or 9,100-9,300 rub, which is 6.3% lower in rubles but comparable in US.



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Australia to bring in PPS Register

The Australian Personal Property Securities Act 2009, and the accompanying PPS register, will start operation in May 2011. Will it affect your business?

The Act fundamentally changes the rules governing security interests in personal property in Australia, by adopting a system very similar to New Zealand's. It will bring enormous change to Australian businesses, and will impact on many in New Zealand also.

Any New Zealand supplier to Australian businesses who retains title pending payment, or takes any other form of security over non-land assets, will be directly affected, says a Chapman Tripp legal team comprised of partners Michael Arthur, Matthew Yarnell and Hamish Foote and senior solicitor Jennifer Tunna.

"Just as in New Zealand, the Australian Act will cover all transactions that have the economic effect of creating security, as well as certain "deemed" security interests, including many leases," they say.

"Two useful websites contain further information. The Attorney General's Office is responsible for the development of the Act, Regulations and Register. And, although the Personal Property Securities Register is not yet live, the site is up and running and you can sign up for newsletters to keep yourself informed.

"It will be possible to register online. Those familiar with New Zealand's register should have no difficulty with registering in Australia. Similar, although not identical, information will be required. Data from a large number of existing Australian registries will also be automatically migrated to the new Australian PPSR."

When should you register in Australia?

"If you want to maintain the priority of your security interest in goods being shipped to Australia, you should, before you send the goods, make sure that:

- your security agreement is enforceable against 3rd parties (have a signed security agreement), and
 - your registration on the New Zealand PPSR is effective.
- Once the goods become located in Australia (or ideally, before that time), you must register your security interest on the Australian PPSR either:
- by the end of 56 days after the day the collateral becomes located in Australia, or
 - by the end of 5 business days after the day you first have actual knowledge that the collateral has become located in Australia.

For certain intangible property or financial property, you will need to register either when the debtor becomes located in Australia, or when the debtor transfers the collateral to a person who is located in Australia.

A single trans-Tasman register?

A single trans-Tasman PPSR is being considered as part of the broader trans-Tasman harmonisation programme, with the end of 2014 the indicative date for completion. New Zealand's MED is currently consulting interested parties.

"There will be considerable practical challenges in developing a single register but the development ought to be encouraged," says Chapman Tripp. "The ability to register once in respect of Trans-Tasman trade should be of real benefit both to individual traders, and at a more macro-economic level. Experience suggests that failure to register is the single biggest problem facing users of the PPSA.

How does the Australian PPSA compare to New Zealand's?

"The two Acts are conceptually very similar, but different and additional details in the Australian Act make it more complex," says Chapman Tripp. As a result, it presents more difficulties and risks than the New Zealand Act for some users, particularly retention of title (ROT) creditors and lessors."

- They say the essential scheme of the Australian Act is the same as in New Zealand.
- Broadly, the definitions of security interest are the same. Substance matters over form. The interest must secure payment or performance of an obligation. The location of title is irrelevant.
- The deemed security interests are essentially the same, although leases need only last 90 days in respect of serial numbered collateral, in order to be a "PPS lease" in Australia (the equivalent to New Zealand's "Lease for a term of more than one year").
- Just as in New Zealand, where the creditor does not have possession of the collateral, there must be a written security agreement. The Australian Act is a little less strict in that confirmation of the written terms can come from an act or omission (e.g. the placing of further orders) and need not itself be in writing.
- Perfection must be by possession or by registration on the PPSR in both jurisdictions. In Australia, perfection by "control" is also possible in relation to some financial assets.
- The fundamental priority rules are the same in both jurisdictions, with some additional exceptions in Australia.

"There are, however, many differences in detail, some of which will lead to significant differences in practice and outcomes for creditors," going on to list the following:

Serial numbered collateral — "The draft Australian regulations list seven types of collateral which can be registered by reference to serial numbers, whereas in New Zealand there are only two (aircraft and vehicles). Registration using serial numbers is not always compulsory in Australia, but the absence of serial numbers (even where not compulsory) increases the risk of losing priority"

Vesting on liquidation and bankruptcy — "A fundamental difference is that, unlike in New Zealand, an unperfected security interest becomes completely ineffective on the liquidation or bankruptcy of the debtor (it "vests" in the debtor). The rule applies only to "in substance" security interests, so does not catch a pure operating lease, but that will be of no comfort to a retention of title supplier, for example, who has failed to register."

Purchase money security interests (PMSIs) — "A creditor with a PMSI over non-inventory has 15 working days within which to register in Australia, instead of 10 working days in New Zealand. More significantly, in Australia that creditor must record on the financing statement that the creditor claims a PMSI.

"Failure to do so means the creditor will not achieve "super priority" over the pre-existing GSA registrations. Just as dangerously, claiming a PMSI in respect of a security interest which is not, in fact, a PMSI, will result in the financing statement being ineffective. The result, under the vesting rules, will be that the entire security interest is extinguished."

Factoring — "In New Zealand, there is no special priority rule for purchasers of accounts receivable. In Australia, those purchasers will be able to send a notice which will then give them priority over the ROT supplier (of the inventory that was sold to create the receivable). On receipt of the notice, the ROT supplier's only choice (in order to avoid the effect of the notice) will be to stop giving credit."

Trade winds blow towards Britain

Continued from page 1

UK. Most NZ companies are small and entering any market is expensive. We can find subsidised office space, assist on visas and company structure so that work on their business without wearing out shoe leather."

The timing is excellent for Windflow. Its NZ order book has been dwindling with flow-on implications for its suppliers.

The UK Department of Business and Enterprise & Regulatory Reform has projected demand for 100 to 500 kW turbines in Britain under a similar hypothetical feed-in tariff as nearly 1 GW (1000 MW) by 2020, which is equivalent to 2000 New Zealand turbines. There are no hard and fast expectations but Henderson is conservatively hoping to win 50% of whatever market size becomes the reality.

Windflow Technology has a competitive advantage in this size range, and is the only company currently offering the new 500kW turbine in the UK.

Technically Windflow's 500kW turbines also stand apart, having recently received International Electrotechnical Commission (IEC) Class 1A, Edition 3, Type Certification (being the IEC class for the highest wind speeds and most turbulent conditions).

Certification by Aberdeen-based Lloyd's Register confirming performance in the highest wind speeds and turbulence is now a solid selling point for VGE.

"The 250-year old name of Lloyds Register is well-recognised in the UK," says Henderson. "Their Type Approval Certificate is verification of our design excellence, and is complemented by the turbine's excellent and growing track

record at the Te Rere Hau wind farm in New Zealand."

VGE is offering full turnkey project management for the landowner and a 5 year warranty.

Windflow has the capability to currently produce 60 turbines per year, from its Christchurch factory, but can ramp up beyond this to meet UK demand.

The UK is not the only export market that Windflow is targeting with opportunities in Chile, the USA and Australia.

Windflow sees an opportunity in the US in repowering older windfarms in Southern California that are now coming to the end of their service lives. Twenty years ago California had 1,161 MW installed, at the time 60% of the world's capacity. There is also a chance to capture market share of new capacity being installed in Southern California.

Windflow has a non-binding and conditional Memorandum of Understanding with Dutch Energy Corporation (DEC) to install two Windflow 500's on sites to be leased by Windflow for eight years on DEC's wind farm in Palm Springs California.

These two demonstration turbines will require a gearbox redesign to change the turbine from 50 Hz to 60 Hz operation for the US market.

There are further prospects in Australasia for Windflow but Windflow now has higher margin opportunities in foreign markets than it does in its home wind energy market.

Hopefully the compact (30m tower) but tough Windflow turbine proven on higher wind velocity locations can storm into Britain and make a powerful case for using smarter technology 'made in New Zealand'.

would not be surprised by the ruling.

"The expectation was that we would win the appeal cleanly and we have," he said. He warned, however, that the Australian government was "hanging on by a thread and open to lobbying".

"Until we deliver those first apples it's not a done deal."

He urged the Australians to accept the ruling and not "drag the chain".

"We expect to be selling our apples in Australia in 2012 and finally giving their customers a decent choice, and the Australian industry now needs to accept that they are going to be part of the global market for fruit".

Environment minister Nick Smith said the WTO ruling would inject some "much-needed confidence" into the apple industry here.

He said Australian consumption of apples was one of the lowest in the world, because they had lacked access to modern apple varieties. This made the apple ruling even more important, as an alternative to low return European markets.

Merger for Southern Spars

COPENHAGEN: New Zealand based rigging and spars manufacturer Southern Spars has merged with Danish mast manufacturer Nordic Masts.

"The merger will create a combined entity with over 350 staff that will be better equipped to compete on the world stage, supplying a comprehensive range of high quality carbon fibre masts, booms and carbon rigging to meet the demands of all market sectors," said Southern Spars.

Southern Spars specialises in the design and construction of carbon fibre spars and components, rigging, and rig servicing.

Nordic Masts has extensive experience in manufacturing quality carbon masts for comparatively smaller race boats, performance cruisers, and cruising yachts in Europe.

Southern Spars group general manager David Glen said that the company had been



Southern Spars produced the carbon fibre masts M34 class sailing boat.

looking for some time to both increase its presence and commitment to the European market, as well as expanding its product offering in carbon masts and carbon rigging.

"We now will have the opportunity to collaborate with the team at Nordic Mast who have considerable experience and presence in the European smaller race boat, performance cruiser, and production cruiser markets," Glen said. — NZ T&E

Partners in e-freight drive

Emirates SkyCargo, the cargo division of Emirates airline, and DHL Global Forwarding, the air and ocean freight forwarder of Deutsche Post DHL, will partner to drive an e-freight agenda across their networks.

Both companies recognise the strategic value of e-freight; working in an electronic environment will bring enhanced operational efficiency and improvement to the supply chain.

E-freight is an industry-led project involving carriers, freight forwarders, ground handlers, shippers and customs authorities. It aims to take the paper out of the air cargo supply chain, streamline processes, improve speed and reduce costs. A number of factors contribute to these positive results: reduced cycle times of 24 hours on average, greater reliability and accuracy due to one-time data entry at the point of origin, and much better visibility in the online track on account of electronic documentation.

"Emirates is a huge advocate of e-freight and is already one of the leaders in the industry in actual numbers of shipment carried on the e-freight lanes," said Ram Menen, Emirates' Divisional Senior Vice President Cargo.

"The benefits it has brought our business are enormous, which is why we are encouraging others to embrace it. E-freight is the future of our industry. By reducing paper and carriage of paper on aircraft, e-freight will help to reduce errors and increase accuracy. We believe by collectively engaging we can achieve better and coordinated results."

In 2010 alone, Emirates SkyCargo has carried nearly 30,000 international e-freight shipments — more than any other carrier.

"DHL Global Forwarding already handles more than a third of all international forwarder-issued e-freight shipments today," Michael Schaefer, Head of Global Airfreight, DHL Global Forwarding, pointed out. "We will work with Emirates SkyCargo to ensure that driving e-freight volumes stays a key strategic programme for us."

According to the International Air Transport Association (IATA) up to US\$4.9bn of annually industry savings could be generated by e-freight processes. The environment will also benefit from the elimination of 7,800 tons of paper documents worldwide — the equivalent of 80 Boeing 747 freighter aircraft per year.

WTO rules on apple access

Continued from page 2

On a subsidiary issue — whether there were less trade restrictive measures available to Australia — the Appellate Body overturned the Panel's decision on technical grounds.

But this does not weaken the central findings around risk assessment and the science, says the Trade Minister. "The Appellate Body has confirmed that Australia's objections to New Zealand apple imports are simply not backed by the science."

Australia is now under an obligation to bring its measures into conformity with its WTO obligations.

Pipfruit New Zealand chairman Ian Palmer, a Nelson orchardist, told the 'Nelson Mail' growers would be elated after poor returns for several seasons but they

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Mission to Hawaii planned

Expressions of interest are sought from companies engaged in international trade in participating in a cultural and trade mission to Hawaii in July 2011.

This opportunity should be of interest to exporters, importers, tourism and other service providers seeking to expand their business footprint into not only Hawaii but the US mainland, says the organiser PacifASIA.

The proposed mission will include a significant cultural aspect. The Auckland Symphony Orchestra is planning to travel in support of the mission. The orchestra of 75 players plan to perform two concerts in Honolulu during the week of the mission.

PacifASIA thinks it is a good time for businesses to consider an increased Pacific footprint into the more affluent parts of the north Pacific. Hawaii is seen as a logical market to cover from New Zealand because it has a significant negative trade imbalance. Imports of goods and services exceed exports (the balance is made up of tourism and US military and Government receipts).

It has a population of 1.4 million and annually attracts 5 million tourists mainly from the US mainland, Japan and

Canada. The average tourist spends \$US 172 daily.

It offers a ready made "test" market for the US mainland. The Trans Pacific Partnership FTA expansion negotiations which include the US may eventually lead to a free trade agreement with the US.

With the recent Hobbit movie deal and the visit of Secretary of State Hillary Clinton with the Wellington Agreement, New Zealand is very much on the radar of US businesses.

The mission will build on existing strong links with known commercial contacts in Hawaii who will be involved in all aspects of planning the mission.

Cocktail and lunch events attended by buyers, importers and key Government and State officials are planned in addition to a mini expo and a briefing by US Government agencies (Customs, FDA, Agriculture and Free Trade Zone officials).

Initial expressions of interest are required by December 3. Demand for places is expected to be high. Contact: Robyn Bartram, Export Consultant. Phone 04 478 9004 OR Charles Broad, Meridian Developments Ltd Phone 04 9387140. Email: cbroad@paradise.net.nz

Culture key to new concepts

BY ANNA MCINTYRE

Meeting the challenge of changing attitudes and behaviours in a dyed-in-the-wool industry, has earned John Brakenridge the respect of New Zealand farmers and fine wool retailers worldwide.

The chief executive of The New Zealand Merino Company since it began in 1994, John has helped to grow new categories for nature's performance fibre — merino wool — while developing new high-end markets, and changing the way the wool moves along the value chain.

Where once, merino farmers sold their wool at auction, John helped to convince them to adopt a collaborative model, establishing direct contracts between the growers and the retail brand partners. The result: a \$115m per year turnover, that generates between \$10m to \$15m annually in additional value for New Zealand merino growers.

But taking up the concept was not without its knots. There was initial "pushback" from the established supply chain, but the growers and newcomer brands, like New Zealand merino clothing label Icebreaker, were ready to embrace it.

"The key word throughout it all is 'culture'. It's probably one of those misunderstood words, and we are continuing to understand it more. Culture is key — it's an alignment of people, an alignment of interests, and that brings about certain behaviours that make a difference for everyone collectively," John says.

"The growers recognised that change was necessary, and today, it's on-going. When you are growing a natural fibre in a very extensive manner and you're up against cotton and synthetics, which are getting more efficient, it's a tough order."

His aptitude for staying one step ahead saw him introduce a world-first in the fibre industry — the Zque™ brand. Zque™ is an "ethical wool", combining natural performance with an accreditation programme ensuring environmental, social and economic sustainability, animal welfare and traceability back to the source.

John, who holds a Master of Business Administration degree from the University of Canterbury, became involved in the wool industry around the same time as his brother Brian — a merino farmer in the remote Pelorus Sounds — teamed up with Jeremy Moon to develop Icebreaker.

Always interested in the primary sector, John worked in the horticulture industry previously — most notably as international marketing manager for fruit and vegetable processor, Cedenco Foods.

"I've worked in different environments where there have been highly-driven passionate leaders, and to me that is the essence of it. The culture starts at the top — if the CEO comes in every day, fizzing and excited, it filters through the whole organisation. You can't imitate it, you either have that passion or you don't."

With The New Zealand Merino Company, John has taken a lot of motivation from building relationships to "make a difference".

"You're working with hundreds of growers, who are passionate about what they are doing and very good at what they do. Then all of a sudden there's an opportunity for them to engage with the retail brands now selling their wool, and that's fantastic. You see the lift they get from it. You talk to the companies, like Smartwool, and frankly they have a very similar passion," he says.

"For me, it's about aligning those groups. Compare that to other industries, where you might make some money for the company, but you're probably not getting the satisfaction of aligning interests and potentially making a difference within sectors, like the rural sector."



John Brakenridge, chief executive of The New Zealand Merino Company, was acclaimed as an outstanding leader in exporting in the 2010 New Zealand International Business Awards.

John is also passionate about marketing merino to the world, and is developing a concentrated campaign with brand partners to appeal to psychographic markets.

"Instead of trying to grow markets in isolated silos, we need a 'co-opetition' working where we align the interests of a number of brands to try to grow markets around certain types of consumers. Instead of trying to conquer the world, you pick off a part of San Francisco, New York or London, go in there with a number of brand partners and do a concentrated marketing campaign," he says.

On the production side, his plan is to invest in enabling more farmers to grow multi-purpose sheep that can meet the ongoing demand for fibre, and generate more income streams, from meat, lanolin and leather. There are about 800 growers in NZM today, but room for many more.

"The future is saying, how can we take this model, make it even better, and use it as an exemplar that we can engage with broader sectors within the New Zealand primary sector," John says.

John's skills were recently recognised by the government, through his appointment to both the Wool Task Force and the Investment Advisory Panel of the Primary Growth Partnership.

Judges' commendation

"John has taken real steps to revolutionise the primary industry and give it some hope for the future. It is a testament to his leadership style that he has taken the merino industry with him on this remarkable journey of transformation. He has done so with genuine passion for New Zealand and its economic wellbeing. John is larger than life and has a truly inspirational presence and vision for the country."

Lowest public sector corruption

New Zealand has retained its top spot as the country perceived to have the lowest level of public sector corruption according to Transparency International's 2010 Corruption Perceptions Index (CPI).

In 2009 New Zealand remained alone at number 1. This year the country shared the top spot with Denmark and Singapore, achieving a score of 9.3 out of a maximum of 10, compared with a score of 9.4 last year.

Somalia (1.1), Myanmar (1.4), Afghanistan (1.4) and Iraq (1.5) occupy the bottom four places.

Alex Tan, Transparency International NZ director says "Whilst the result is pleasing, there is no room for complacency."

"The CPI measures perception of corruption and not hard data. We note that in April this year the Serious Fraud Office announced an investigation into serious allegations of corruption at a public entity"

The CPI only measures the degree to which corruption is perceived to exist among public officials and politicians in New Zealand. It does not take into account the attitudes of the private sector when conducting business here and overseas.

"Transparency International NZ is very concerned about the apparent lack of awareness about issues of corruption amongst the private sector in New Zealand," said Tan. "In February 2010 we released a study into NZ private sector attitudes towards corruption." Key findings of the survey were:

- Only 44% of companies on the NZX50 have policies prohibiting bribery & corruption (this compares with 72% in the UK and 68% in the US)
- Only 14% of companies listed on the NZX 50 have sought to control the way in which facilitation payments are made by adding restrictions into their codes of conduct.
- Only 10% prohibit facilitation payments altogether.

Tan says "When we look at the study results for the NZX50 and then factor in the 2010 CPI results of some of our major trading partners, for example China is 78th with a composite score of 3.5, we believe there is a real risk that New Zealand organisations do not take the risks of bribery and corruption seriously when operating offshore."

"We also call upon the government to do more to strengthen our regulatory and legislative environment in respect of combating bribery and corruption. Although NZ signed the United Nations Convention Against Corruption (UNCAC) in 2003, we are one of only 18 countries not to have ratified it. 122 countries have both signed and ratified UNCAC.

Tan says "For a country that consistently tops the CPI, the fact that seven years after signing UNCAC we still have not ratified it is somewhat hard to fathom."

Tan adds "We know that New Zealand organisations operating overseas are sometimes under pressure to make inappropriate payments in order to obtain or retain business. The use of overseas agents also presents a significant risk which is often overlooked.

"The clear trend overseas is to enact and enforce legislation to strictly control both domestic and foreign corruption, including the use of agents. The UK has just passed the Bribery Act 2010 which has very strict provisions especially in terms of corporate governance and America rigorously enforces the Foreign Corrupt Practices Act. It is time for New Zealand to follow suit."

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