

John Walley, NZMEA Chief Executive

**May 2008**

## Which Straw Breaks the Camel's Back?

Thus far, in 2008 April has been a landmark month for the New Zealand economy. The Government signed the 'Free Trade Agreement (FTA)' with China, which along with its supporters, claimed would ensure New Zealand's exporting and economic future. However, a week later, Fisher and Paykel announced that it was closing its Dunedin factory with the loss of 430 jobs. On the same day, clothing maker Tamahine cut 50 jobs, and the ANZ-National Bank signalled a reduction to its workforce by 500. Now that the dust has settled following these events, the question is which direction do we look towards? Has the FTA secured our economic future or should we be more concerned with the ongoing loss of jobs and capability from within our tradable sector?

The signing of the FTA was listed as being one of the reasons behind Fisher and Paykel's decision to pull its production out of New Zealand; indeed the Government was quick to defend the deal against such accusations. However, to link the two directly is little more than an effort to try and gain political leverage against the deal. Fisher and Paykel's decision was made long before the Free Trade Agreement was signed, and as the Association stated publicly, the debate over the particular reasons as to why companies such as Fisher and Paykel are moving production and jobs out of New Zealand is nothing more than a "side show". The FTA was just one final straw that broke the camel's back.

Having signed the FTA, the challenge for New Zealand is how to maximise the terms and conditions of the deal throughout our elaborate sectors, without simply becoming China's farm. There has been a strong level of cheerleading surrounding the deal,

especially from the broad church organisations, yet pragmatism is required, rather than outright blind celebration. It seems at this point that the Mutual Recognition Agreement will make no practical difference to how New Zealand manufacturers can access the Chinese market. Therefore, for manufacturers and exporters, the agreement seems to be pretty well empty.

The deal may have opened up one of the world's largest markets to New Zealand goods and services, but we are going to have to work hard if we are to prevent our trade deficit with China from blowing out. To some, such sentiment may be scare mongering, yet statistics show that the gap increased from NZ\$1.4 billion in June 2004 to NZ\$3.4 billion in June 2007. On current trends, the deficit will run out at NZ\$3.9 billion to June 2008. There is a difference in the economies of scale, yet there is the risk of China becoming the financial 'tsunami' that has the capacity to flood our economy.

It is too early to fully understand the implications of the trade deal with China, good or bad. The signing of the deal increases the need for changes to monetary policy so that our tradable sectors have a chance of competing successfully in this new era. The Government is looking at concluding trade deals with other East Asian partners, but if monetary policy in New Zealand continues to counter inflationary pressure while driving the cost of borrowing and exchange rates upwards as a result, then the benefits from any agreement might be lost or at best, severely damaged.

*Continued on Page 7*

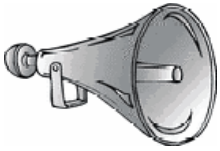
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## Confidence Drops Again

The latest New Zealand Manufacturers and Exporters Association (NZMEA) Survey of Business Conditions completed during April 2008, shows total sales in March 2008 decreased -1.2% (export sales decreased by -9% with domestic sales increasing 5%) on March 2007.

The NZMEA survey sample this month covered NZ \$374m in annualised sales, with an export content of 40%.

Net confidence dropped to -36, down from the -10 result reported last month.

The current performance index (a combination of profitability and cash flow) is at 98.5, up from the previous month's 97.5, the change index (capacity utilisation, staff levels, orders and inventories) dropped to 100 from 102 the previous month, and the forecast index (investment, sales, profitability and staff) is at 101, down on the previous month's result of 104. Anything less than 100 indicates a contraction.

Constraints reported 9% capacity, 27% staff and markets 64%.

Staff numbers for March increased by just over 3.6%.

"These results from this survey now mirror the weaknesses that are spreading throughout the New Zealand economy, as well as the manufacturing and exporting sectors. A number of the respondents report that sales figures are holding up, although forward orders have slowed. Domestic sales have also slowed from the previous month, although not as sharply as export sales", says Chief Executive John Walley.

"The availability of skilled staff remains a concern, as do exchange rates, although the NZD/AUS is providing some relief. Respondents report significant lifts in the cost of materials, especially steel, and other metal prices have risen significantly, adding further pressure to margins".

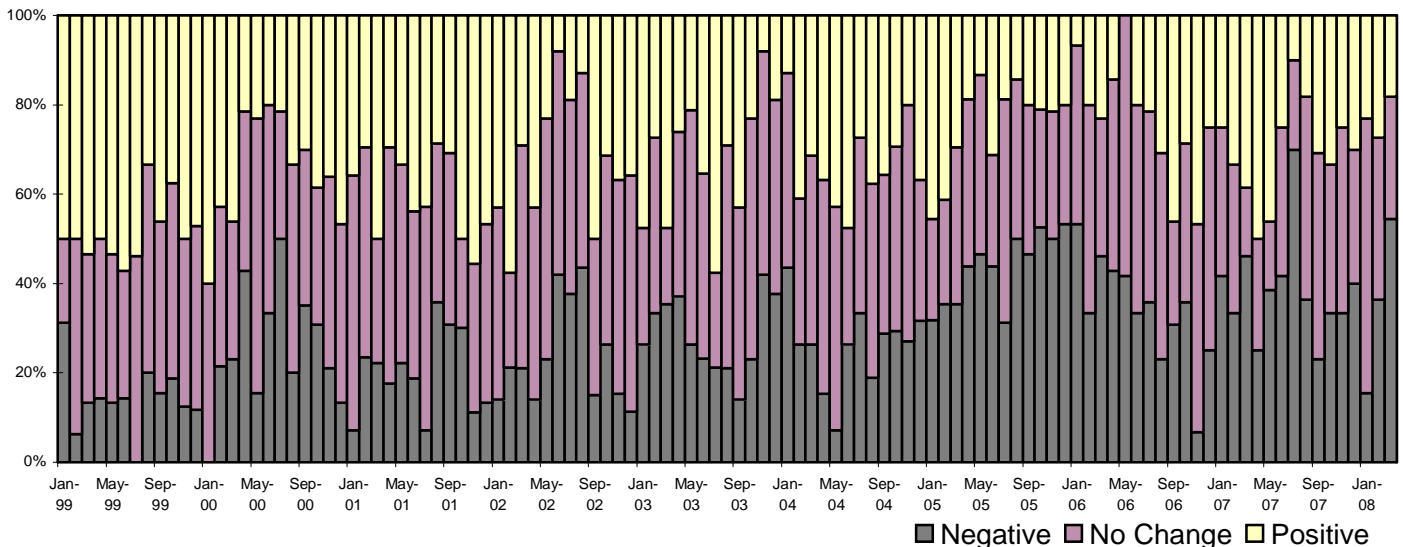
"There are also worries around the breakdown of complex supply chains with the continued loss of activity offshore, and these factors have combined to push confidence levels down even further; a trend for most of this year".

"We had anticipated some feedback on the China FTA from respondents. However, at this point; it appears that the Mutual Recognition Agreement will make no practical difference to how New Zealand manufacturers of elaborately transformed product can access the Chinese market. Unless this is rectified, the agreement will be pretty well empty for elaborately transformed manufactures and exports".

"The continued loss of top tier companies such as Fisher and Paykel is having an inevitable impact on what remains of the manufacturing sector, and some respondents report that the viability of their suppliers might be in doubt".

*The Canterbury Manufacturers' Association (CMA) has broadened the scope of its survey to include respondents throughout New Zealand. As a result, the survey will now be released by New Zealand Manufacturers and Exporters Association (NZMEA).*

### Confidence



## New Legislation – Breaks and Infant Feeding at Work

### Entitlement to Breaks

It may come as a surprise to many people to learn that there is currently no law entitling employees to rest or meal breaks during their working day. Some employment agreements do provide for these breaks, and many businesses have a policy or practice of allowing breaks for health and safety reasons. However, there is currently no legal entitlement.

In April this year, the Labour Government introduced a Bill to amend the Employment Relations Act 2000 (the “ERA”) requiring employers to provide all employees with unpaid rest and meal breaks as follows:

- one 10-minute rest break if they have worked 4 hours or less;
- one 10-minute rest break and one 30-minute meal break if they have worked between 4-6 hours; and
- two 10-minute rest breaks and one 30-minute meal break if they have worked between 6-8 hours;
- employees working more than 8 hours will have the above entitlements refreshed as if their work period had started again at the end of the eighth hour.

There are also provisions regarding when those rest and meal breaks shall be taken.

### Infant Feeding

The Government has recognised that breast feeding is important for providing a good start for infants and also assists female employees to return to paid work after childbirth. To this end, the Bill also amends the ERA to require employers to provide appropriate facilities and unpaid breaks for employees who wish to breastfeed (including expressing breast milk) as far as is reasonable and practicable “in the circumstances”. This allows employers to take into account their operational environment and resources when making the decision of whether they are able to provide these facilities and breaks.

For those that are unsure, a Code of Practice will be issued when the Bill is passed into law to provide employers with guidance on how to fulfill their obligations in relation to providing infant feeding breaks and facilities. Some employers already allow mothers to feed their infants and work. However, we recommend that those employers check that their current policies comply with the new law if it is passed.


If passed into law, Employers will have to seriously consider whether facilities and breaks can be provided, even if it is a cost to the business. Employers may also recognise the benefits of infant feeding at work, including helping with recruiting staff in a difficult labour market and helping employees with infants to maintain a healthy work-life balance.

### Penalties

Penalties will be imposed for employers who do not comply with the proposed legislation for rest and meal breaks and infant feeding, with up to \$5,000 for individuals and \$10,000 for companies and corporations, as well as an order to comply with the provisions.

It is important to remember that these provisions are minimum entitlements which can be enhanced by employers.

*This article was provided by Brannigans Human Capital. If you require further information relating to this topic please contact the NZMEA at [mea@mea.org.nz](mailto:mea@mea.org.nz) or 0800 353 2540.*



One of the NZMEA's  
Membership Benefits:  
Trade Groups

We have a number of groups that are aimed at meeting specific needs, for example: Furniture, Engineers, ESICT, Textiles, Food, Construction Manufacturing, New Product Development. Contact the NZMEA for more information on how to be involved in these groups.



## FTA With China

Marco Polo is credited with introducing the silks and treasures of China to an unsuspecting 14<sup>th</sup> Century Europe and launching voyages of discovery to unknown quarters of the globe.

The immediate riches from the newly signed Free Trade Agreement with China are few, but the long term potential significant in the New Zealand context.

“The challenge for business lies in the realms beyond diplomatic words”, says Ryan Brosnahan Head of Working Capital New Zealand at ANZ.

“ANZ Commodity & Trade Finance is a core focus for ANZ China and the ANZ network. ANZ Group’s extensive Asia Pacific network and global processing platform enables us to offer our customers a distinct competitive advantage”.

The links between New Zealand and China are already strong with two way trade totalling \$7.5 billion in 2007. China is our fourth largest destination for exports and second largest supplier of imports.\*

Further growth will be facilitated by immediate cuts in China’s tariffs on a range of goods and the phasing out of remaining tariffs over time. As the first comprehensive agreement of its type negotiated by China, the Free Trade Agreement includes services and investment. It also provides protocols to cover enhanced regulatory cooperation to further reduce transaction costs associated with both movement of goods and services.

For New Zealand, the tourism industry is likely to be the first of many sectors to benefit as the flow of Chinese nationals will increase now that New Zealand enjoys favoured nation status.

Also boosting the value of the relationship, and the benefits for New Zealand, are the firms that have already established operations in China or who are looking to do so.

China has been a paradigm shift for many firms who have been able to meld their high reputation for the manufacture of high quality products and China’s low cost base to competitively enter third markets.

“The ANZ Trade Finance team offers complete solutions to our trade customers in Mainland China - from simple trade products and services to more complex solutions tailored to meet their unique requirements”, Ryan Brosnahan says.

“Our capability is greatly enhanced by long standing relationships with local financial institutions and regulatory authorities”. Knowledge and expertise is essential. China is not one but many markets, often with different local regulations and interpretations of rulings from Beijing.

“By joining forces with our clients we excel in the identification and management of risk and focus on achieving the results our clients desire”, Ryan Brosnahan says.

For more information on doing business in or with China contact your ANZ relationship manager or Lloyd Guy on 09 358 9399 or [Lloyd.Guy@anz.com](mailto:Lloyd.Guy@anz.com).

\* Figures from Statistics New Zealand: <http://www.stats.govt.nz/default.htm>.

ANZ, part of ANZ National Bank Limited, a subsidiary of Australia and New Zealand Banking Group Limited (ANZ Group).



## Workshops/Programmes

Workshops are open to all members of your staff and to members and non-members of the NZMEA. For more information or to register on-line, visit [www.mea.org.nz](http://www.mea.org.nz) - Events/Training.

### Date

Starting 19 May

Wednesday 28 May

Starting 29 May

Thursday 29 May

Wednesday 11 June

Thursday 12 June

Wednesday 25 June

Thursday 26 June

Thursday 26 June

### Workshop

Certified in Production and Inventory Management - Basics of Supply Chain Management (Five half days) Dates are: 19, 26 May, 9, 16, 23 June

Employment Legislation: Are You up to Date? (Half day workshop)

Production the TOC Way Workshop

(Two full days held at Skope Industries) Dates are: 29 & 30 May

Getting it Right Eventually (Half day workshop)

Company Direction - Improving the Effectiveness of Your Board (Full day workshop)

Creating Value (Half day workshop)

Finding and Assembling the Right Team (Half day workshop)

Lean Manufacturing (Half day workshop)

IPC-A-610D CIS Training Workshops - Acceptability of Electronics Assemblies

(Five half days) Dates are: 26 June, 3, 10, 17, 24 July

## Voluntary Administration – What Companies Should Know

The Australian based Voluntary Administration (VA) insolvency regime came into force in New Zealand in November 2007, as part of a range of amendments to the Companies Act. When appropriate, this new regime may be utilised to restructure businesses experiencing financial difficulty and avoid company liquidation. VA is now the most common method of commencing formal insolvency in Australia.

Managers need to know what options they have:

- if their debtors appoint a voluntary administrator; or
- for restructuring their own businesses if experiencing financial difficulty.

The objective of VA is to allow for the affairs of troubled businesses to be administered in a way that maximises the chances of a company, or as much as possible of its business, to continue. Alternatively, if the business is unable to continue, then the objective is to achieve a better outcome than would result from an immediate liquidation.

VA is easily initiated. By directors' resolution, any company may appoint a voluntary administrator. A Court order or special resolution of shareholders is not required.

From commencement, a moratorium comes into effect to give the company breathing space. This prevents creditors from taking action against the company, or its property, without the administrator's consent (the exception is for a secured creditor who holds a debenture over substantially the whole of the property of the company). It prevents lessors from repossessing goods. It also prevents lenders from enforcing guarantees given by directors or their relatives. The moratorium is a major legislative development, particularly for leasing companies.

There is a seven day "no liability period" for an administrator, after that the administrator becomes personally liable for rent or lease payments if the company itself cannot pay.

After an initial meeting of creditors to confirm the appointment (or otherwise), an administrator will investigate any possibilities for rehabilitation.

At the second meeting, usually held 28 days later, the future of the company will be decided. Creditors can either vote that the company execute a Deed of Company Arrangement (DOCA), or resolve to liquidate the company, or return the control of the company to the directors.

A DOCA may be an external proposal to purchase the business and carry on under the existing corporate structure. Alternatively, it may be a proposal from management or shareholders to continue the company's business and offer the creditors a compromise arrangement.

Whatever the proposal, a DOCA must generally offer a better return to creditors than what they would be likely to receive in a liquidation before creditors will approve it. Managers should understand what is being proposed under a DOCA, against the likely outcome of a liquidation, before voting.

The IRD will retain its priority in a liquidation over other unsecured creditors. This is probably the main difference between the NZ and Australian VA regimes. As such the IRD may look closely at its treatment under a DOCA as compared with the priority position it would enjoy in a liquidation. The IRD have indicated that they will assess each administration on its own merits.

There are now more options available for rehabilitating businesses. The key feature of VA is, the moratorium to give companies breathing space and time to assess options. The procedure is designed to be more efficient than the other options currently available.

There have been a number of VA's in NZ now, the most high profile being Icon Digital Entertainment, which owned Sounds CD stores. No DOCA was proposed in that case and Icon went into liquidation after the second meeting.

New Zealand's business rehabilitation laws will now be largely aligned with those in Australia and the United Kingdom, which should enhance overseas investors' confidence.

*This article was provided by Lane Neave. If you require further information relating to this topic please contact the NZMEA at [mea@mea.org.nz](mailto:mea@mea.org.nz) or 0800 353 2540.*

# THE TEST AGENCY LTD

## The Components of Business

I sometimes wonder if people in business ever take stock of the various devices and items that collectively make up the components of a business. Perhaps if they did, they might end up with a list of machines, controls, computers, systems and so on, all of which have to be operated in certain ways, usually according to a manufacturer's manual. There are service and maintenance routines, performance capabilities, warnings against misuse, operating settings, limits – everything one could reasonably expect from a well designed piece of production hardware.

However, there is one device which comes in infinite variety. It has no warranty, no owner's manual, it can only be hired, not owned, and which operates according to its own rules, which are not published anywhere. Furthermore the different models of this gadget do not perform consistently. Even more dangerous is the fact that this device is not only capable of just breaking down or misperforming – it can retaliate!

Yes, you've got it, I am referring to the human device. How many employers and managers today consider, really consider, the people part of business? The fact is that no business ever fails or succeeds, only the people within it fail or succeed. A much wiser man than I once said "If you get the people right, you have got everything right - if you get the people wrong you have got everything wrong". Another equally wise said "Save he serve, no man may rule". So if you want to succeed in business you must put a great deal of effort into learning how to get the people right and how to serve them so that they will accept your rule. In other words, learn to run an operation which is based at its most fundamental level on people.

The principles you must master are:

1. How to attract the very best performers for your particular needs.
2. How to recognise these essential individuals when they show up.
3. How to train, motivate and develop each one.
4. How to weld your group of the best into a real, mutually supportive team.
5. How to retain the vital high performers long term.
6. How to create such corporate identity, loyalty and commitment that you can leave the day to day running to them and concentrate on what you do best, which is building the business.

Of course according to Murphy's rules and I quote "Success is a matter of luck; just ask any failure" and "Computers are unreliable, but humans are even more unreliable. Any system that depends on human reliability is unreliable".

So if you want your business to succeed you must become a skilled operator of the human device.

Shortly the NZMEA will be offering members a programme entitled "The People Part of Business". This programme will address each of the points listed above and it just might defeat Murphy.

*This article was provided by The Test Agency Ltd. If you require further information relating to this topic please contact the NZMEA at [mea@mea.org.nz](mailto:mea@mea.org.nz) or 0800 353 2540.*



## NZMEA HR Advisory Services

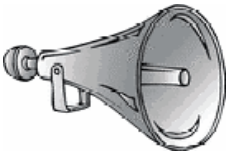
**Penny Shaw, Senior Consultant - Brannigans Human Capital:** Penny has experience in the facilitation of a wide range of HR functions including employment relations, performance management, negotiating skills, recruitment and selection and human resource audits.

**Sarah Bradshaw - McPhail Gibson & Zwart:** Sarah is experienced in drafting employment agreements/contracts for service interpretation of all legislation relevant to employment issues, attendance at mediation, advocating in the Employment Relations Authority and the Employment Court and conducting of disciplinary meetings for employers.

**Juanita Wilson - Next Step Solutions:** Juanita offers a practical, common sense approach to HR challenges in the areas of manufacturing, retail, distribution, administration and professional environments, advice on HR, health and safety process and systems, recruitment and selection, skill assessments, performance review systems, training and development and change management.

**For any human resource/employment questions please contact:**

NZMEA HR Advisory Services on our website: [www.mea.org.nz](http://www.mea.org.nz), or phone: 0800 353 2540, or email: [meassist@mea.org.nz](mailto:meassist@mea.org.nz).



## Which Straw Breaks the Camel's Back? (Continued from front page)

In other words, we have to get our own house in order if we are to reap any benefit from moving into someone else's.

Getting our own house in order requires wide ranging changes. Therefore any debate about compliance costs, the exchange rates, import prices, and the FTA pushing companies such as F&P offshore, is much like arguing over which straw alone broke the camel's back – diverting, but not much help at the end of the day.

It is the cumulative failure of policy and the impact of all factors that is driving our firms' offshore and making New Zealand an increasingly uncompetitive place to be productive. This is the key to the debate. You cannot tinker with individual policies or initiatives when the entire structure is unsound. We need to stand back, look at the broader picture and then decide the response as to why our manufacturers are leaving. For one reason or another, a number of our companies will relocate some or all of their operation outside of New Zealand. However, our concern is that domestic policy settings are accelerating the process.

We continue to hear arguments that it is inevitable for all the "dirty bits" to go offshore and that we can't do anything anyway and that somehow the "weightless economy" will ensure us a first world future. In this regard, it is worth noting that ICT exports are falling.

Such sentiment is a self-fulfilling prophesy. If we do our best to encourage our firms to retain production in New Zealand and support jobs and complex supply chains and they still have to go, so be it. However, if we fail to even try, we will lose solid productive activity that could have stayed here supporting our manufacturing and exporting sectors and the economy as a whole.



### Sustainable Manufacturing and Green Supply Chain Summit 16 & 17 July 2008, Stamford Plaza, Auckland

This groundbreaking summit on "Sustainable Manufacturing and Green Supply Chain" is dedicated to advancing sustainability in the manufacturing sector. The summit address the issues of procurement, the manufacturing process itself, right through to product delivery using green supply chains.

Delegates at this event will hear from industry experts in the fields of manufacturing and supply chain including case studies from companies at the forefront of sustainability.

- Added Value Supply Chains in an FMCG Environment - George Weston Foods Australia
- 101 of Sustainable Manufacturing: Manufacturing Chaos Fatigue the Australasian Epidemic - Synergistic Manufacturing Systems, Australia
- Journey to Achieving Sustainability - Palliser Estate Wines
- Sustainability vs. Cost; Cutting Carbon Emissions at a Fraction Cost of the Savings Made \$\$ - New Zealand Aluminium Smelters
- Competitive Advantage in rethinking the Supply Chain: Good for customers, costs and climate - Wellington Drive Technologies
- Industrial Ecology; Reduce, Reuse and Recycle - Resene

Here's your chance for a one-on-one with peers that have faced and successfully overcome problems that you might be facing in your industry or organisation. Register your place before **4 June 2008** to **SAVE \$300** with our Early Bird Saver!

**Register the following ways:**

visit: [www.brightstar.co.nz](http://www.brightstar.co.nz) / email: [register@brightstar.co.nz](mailto:register@brightstar.co.nz) / phone: 09 379 5892.

# MEAssist

To network with other NZMEA Members or get assistance  
from our Associate Membership

Contact: [meassist@mea.org.nz](mailto:meassist@mea.org.nz) or call 0800 353 2540

**NZMEA's Associate Membership includes a wide range of specialists, consultants and service providers who can assist NZMEA Members with:**

- |  |   |
|--|---|
| Ø <i>Strategic Business Development</i>  | Ø <i>Condition Monitoring - Products &amp; Services</i> |
| Ø <i>Business &amp; Technology Planning</i>  | Ø <i>ERP, MRP Solutions</i>                             |
| Ø <i>Business Coaching</i>   | Ø <i>Supply Chain Management</i>                        |
| Ø <i>Market Research &amp; Marketing</i>   | Ø <i>IT Systems – Design &amp; Implementation</i>       |
| Ø <i>Export Marketing</i>  | Ø <i>Internet Telephony</i>                             |
| Ø <i>Advertising &amp; Branding</i>  | Ø <i>Website &amp; Software Development</i>             |
| Ø <i>Communications &amp; PR</i>   | Ø <i>Industrial Automation &amp; Control</i>            |
| Ø <i>Import &amp; Export</i>   | Ø <i>Recruitment &amp; Selection</i>                    |
| Ø <i>Customs, Logistics &amp; International Freight Forwarding Services, plus 'less-than-container' services</i> | Ø <i>Human Resources Management</i>                     |
| Ø <i>Finance, FOREX &amp; Banking</i>  | Ø <i>Conflict Resolution &amp; Mediation</i>            |
| Ø <i>Accounting, Payroll &amp; TAX</i>   | Ø <i>Employee &amp; Immigrant Settlement Management</i> |
| Ø <i>Investment Capital</i>  | Ø <i>Management, Leadership &amp; Team Training</i>     |
| Ø <i>Insurance</i>   | Ø <i>Training Analysis</i>                              |
| Ø <i>Debt Collection</i>   | Ø <i>Knowledge &amp; Information Management</i>         |
| Ø <i>Business Sales &amp; Valuation</i>  | Ø <i>Employment Law</i>                                 |
| Ø <i>Research &amp; Development Services</i>   | Ø <i>Change Management</i>                              |
| Ø <i>Product &amp; Prototype Development</i>   | Ø <i>Temporary Staff</i>                                |
| Ø <i>Intellectual Property &amp; Patent Registration</i>   | Ø <i>Technical Publications</i>                         |
| Ø <i>Total Product Design</i>  | Ø <i>Business Graphics &amp; Printing</i>               |
| Ø <i>Engineering Analysis, CAD &amp; FEA</i>   | Ø <i>Energy, Water &amp; Waste Auditing</i>             |
| Ø <i>Project Management</i>  | Ø <i>QC &amp; QS Management</i>                         |
| Ø <i>Operations Management</i>   | Ø <i>Health &amp; Safety Systems &amp; Training</i>     |
| Ø <i>Theory of Constraints</i>   | Ø <i>International Travel</i>                           |
| Ø <i>Lean &amp; Agile Manufacturing</i>  | Ø <i>Fire Evacuation &amp; Compliance</i>               |
| Ø <i>Kanban, Production Planning &amp; Scheduling</i>  | Ø <i>Drug Testing</i>                                   |
|  | Ø <i>Maintenance &amp; Asset Management</i>             |

NZMEA networks relationships and transactions between manufacturers FREE of charge.

Where the NZMEA stimulates a transaction with Associate Members a standard charge, or referral fee applies. This is invoiced to the Associate Member providing the service. These fees vary between Associates and reflect a wide variety of pricing models. The fee is constructed to be less than the usual marketing overhead recovery component of an Associate's pricing which enables a saving for Associates while using competitive market pricing which benefits all parties involved.



- Are you based outside of Christchurch, or not able to travel to Manca House?
- Want to meet with your customers or suppliers but worried about the cost of air travel?



**We have a solution!**

The NZMEA offers on-line meeting rooms - so you can web conference our forums and join in the on-line conversation without the travel, all from the comfort of your office. Members can also access this service to conduct conferences with suppliers and customers - worldwide.

Contact Trudy on 0800 353 2540 or email [trudydiggs@mea.org.nz](mailto:trudydiggs@mea.org.nz) to find out more.