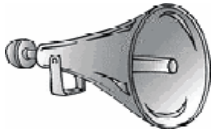


John Walley, MEA Chief Executive

October 2007



Export the Activity and We Will Be Importing the Product

During September it was reported that New Zealand's current account deficit for the year ending in June had reduced, due in large part to the strength of global commodity prices. This is the third quarter out of four in which the deficit has narrowed, some have been quick to hail this as good news for the New Zealand economy, especially if dairy revenues continue to be high in the last quarter as expected and import numbers have slowed. However, as New Zealanders, we continue to spend far more than we earn and the cumulative current account deficit is well over 80% of GDP, the highest in the developed world.

At present, New Zealand's economic momentum is being buoyed by the primary and post-primary sectors and strong world commodity prices. There is little sign that this wave will subside in the immediate future, given the current demand placed on foodstuffs from developing countries such as China and India. However, the questions are whether New Zealand can build sustainable economic growth off this base and how sustainable is the approach in the long-term? After all, developing countries vigorously pursue policies to build and develop their manufacturing sectors and increase world market share, often at the expense of countries such as New Zealand, so why should we think they will act differently in regard to their primary sectors?

If New Zealand is to continue to reduce its current account deficit, then it needs the primary sectors to be strong performers, however it also needs a strong exporting manufacturing sector. Unless we add strength and value into all aspects of our economy by growing and making things the world wants, we will all have to learn to get by on less.

During September, Morgan Furniture announced that it was relocating all production to Thailand and China due to the strong dollar and the company's struggle to compete with 'China price'.

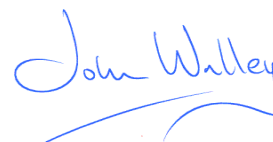
The company will still retain local connections but once again, more of our activity and manufacturing and exporting capability is lost to China and low cost competitors.

'China price' is a reality that New Zealand manufacturers have to deal with, and it is only a matter of time before other sectors of the economy are confronting the same challenge. At present, demand for agricultural commodities is high, thus pushing prices up, but once other countries increase the volumes of soft commodities they push onto world markets, then that will change. If New Zealand confronts the challenge that low-cost countries present to our primary sectors in the same way that it has to manufacturing, then our economy will not be sustainable.

New Zealand is focusing on short-term transient issues and gains in regard to manufacturing, rather than addressing long-term strategic thinking and what is going to be important to underpinning our economic development in the future.

If we take the view, as some organisations in this country do, that local companies moving offshore to low cost countries is inevitable, regardless of what we do, then it becomes a self fulfilling prophecy. Conversely, deciding on what is important for the future, and working hard to keep it, might have very different outcomes.

This is why it is important that we implement the range of policies that do not hinder, and where possible, support manufacturing and export companies. On shore activity supporting exports is of more value to New Zealand than the trickle back effect from all exported activity. Exporting manufacturing activity may also see New Zealand exporting what remains of its capability in an effort to sustain a developed economy, and "China wages" might be the ultimate pay-off for chasing "China price".



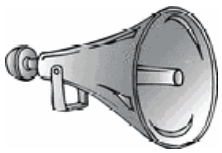
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MEA on the web



www.mea.org.nz



Two Economies Means a lot of Work to be Done

The latest Canterbury Manufacturers' Association (CMA) Survey of Business Conditions completed during September 2007, shows total sales in August 2007 increased just under 1.5% (export sales dropped by 6.8% with domestic sales increasing just over 9%) on August 2006.

The CMA survey sample this month covered NZ\$402m in annualised sales, with an export content of 44%.

Net confidence improved to -18, up from the -60 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 96, the change index (capacity utilisation, staff levels, orders and inventories) increased to 103 on the previous month, and the forecast index (investment, sales, profitability and staff) is at 102. Anything less than 100 indicates a contraction.

Constraints reported 18% staff, and markets 82%.

Staff numbers for August increased by just over 4%.

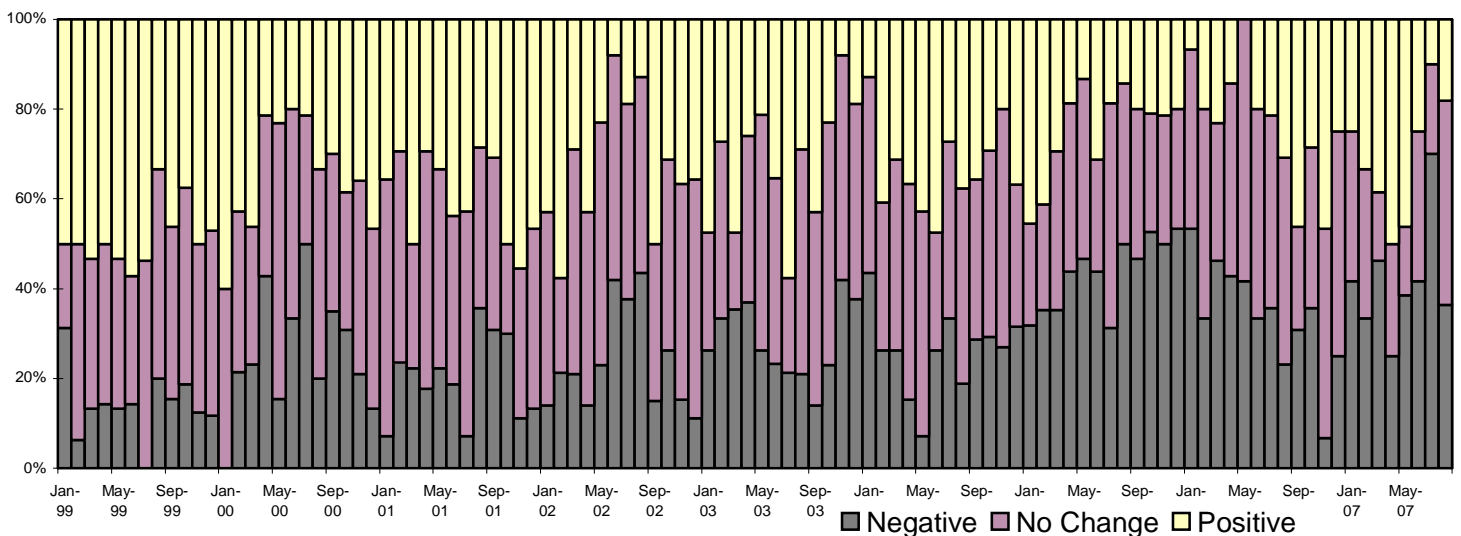
"This latest survey contains both good and bad results as current policy settings are delivering two economies, with one major exporter reporting that "things have not been so bad in a generation"; while another major player in the domestic market reports that "things have not been so good in a generation". Do these sentiments reflect smart management of the economy?" asks Chief Executive John Walley. "We think not".

"Companies with a domestic focus report favourable conditions, and the construction sector remains strong, especially large scale infrastructure projects outside of the four main centres, such as energy and road developments. The easing of the NZ Dollar against the AUD has also helped relieve some pressure on margins".

"Many of our manufacturing firms are continuing to struggle and we are seeing signs that companies within the supply chains are under increasing pressure as the larger companies, to whom they supply, look to cut their own costs and shift activity, resulting in a reduction in local orders. This is due in large part to the impact of the 'China price'. Some respondents are undertaking contract work, while others re-evaluate their business models in order to give themselves breathing space. For these firms, sales volumes are down and margins are under pressure, or gone altogether".

"The survey shows that New Zealand has 'two economies', divided essentially between tradeable and non-tradeables. The much higher levels of inflation in the non-tradeables sector are creating a response that is killing the competitiveness of the tradable sector, and we continue to export activity and capability offshore as a response. This is a short sighted solution that will bring long-term problems; there has to be a smarter way."

Confidence



Union Visits: Can Union Officials Talk to Employees Individually or Collectively?

In a recent decision of the Employment Court, the issue of whether a union is entitled to talk to employees collectively when visiting the workplace was clarified. This resulted from a challenge by the employer - Yunca Gas & Heating - to part of a decision of the Employment Relations Authority following proceedings between Yunca and the EPMU.

The Authority concluded that the union's right of access to the workplace encompassed both individual and collective discussions. Yunca challenged this part of the judgment, claiming that under section 20 of the Employment Relations Act 2000 (ERA), union officials are restricted to discussions with individual employees at any one time.

Section 20 of the ERA relates to the rights of access a union representative has to the workplace which must be for purposes related to the employment of union's members and/or a union's business. In particular, section 20(2)(e) includes as a purpose related to the employment of a union's members:

"with the authority of an employee, to deal with matters relating to an individual employment agreement or a proposed individual employment agreement or an individual employee's terms and conditions of employment or an individual employee's proposed terms and conditions of employment".

The plaintiff argued that union access must be confined to meetings with individual employees on the basis that:

- ss4 of section 20 refers to a discussion in the workplace *'with an employee'*.
- That section 33 of the Interpretation Act 1999 (providing words in the singular include the plural) did not have application in this context.
- Section 26 of the ERA provides for union meetings with employees collectively, therefore parliament intended other meetings were to be with employees individually.

- Section 20 is a code which should be given a narrow interpretation because of the infringement upon employer's rights.
- That ss4 and 5 of section 20 (which refer to the employee in the singular) were introduced into the ERA four years after it was enacted, demonstrates the application of meetings in section 20 was to be limited to individual employees.

However, Chief Judge Colgan commented that an underlying principle of the ERA is the promotion of collectivism. He also concluded that unions were principally involved in employment relationships on a collective basis and union access was generally expressed to be for collective purposes rather than individual. He interpreted the use of *'employee'* in the singular within section 20 as not restricting union representatives from talking to employees singularly but rather as being a minimum qualifying criteria for entry to the workplace (ie, there needs to be at least one employee to talk to but the union is not limited to talking to only one employee at a time).

It was also noted that under the Employment Contracts Act 1991, union access had been interpreted by the Court of Appeal as applying to both meetings with individuals but also with employees collectively. The ERA could be considered to be intended to broaden the scope of union access post Employment Contracts Act.

Although perhaps not a surprising outcome, employers may nonetheless be concerned at this interpretation of the union access provisions and how it may impact upon operations continuing during union visits.

This article was provided by McPhail Gibson & Zwart Ltd. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.

MEA 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 contact the HR Advisory Services by phoning 0800 353 2540, or email meassist@mea.org.nz



A Power of Choice

Are you getting fed up with your ever increasing electricity bills? Would you like more control over that cost, or would you prefer to remain with your current arrangements?

Now there is another choice, and the opportunity to achieve significant savings with ANZ becoming a participant in the wholesale electricity market. ANZ is very clear it will not supply electricity directly – there will not be a power bill with the bank statement. But it will allow those firms with power bills of \$1 million or more a year to take advantage of lows in the spot price and hedge against spikes, with the added benefit of smoothing cash flow.

“It is a means of returning direct control to manufacturers of a significant cost that has been difficult to manage,” says Greg Adlam, ANZ’s Head of South Island Markets and Electricity.

“Many of our customers are already familiar with the advantages of financial markets derivative products, like foreign exchange cover and interest rate swaps to minimise the impact of adverse short-term movements on profitability. Now we are extending that concept to electricity.”

ANZ has become the only independent participant in EnergyHedge, the wholesale electricity market that is used to price future wholesale electricity.

Now electricity derivative contracts will allow larger electricity users to move away from retail contracts and buy electricity using a mixture of spot prices and swap contracts (also known as contracts for difference).

“Taking control of load management and therefore pricing is likely to incentivise businesses to use power more effectively leading to both lower power usage and lower power bills. Such an outcome will be excellent for the business and for the environment,” Mr Adlam says.

ANZ will also be able to put manufacturers in touch with specialists who can assist in achieving power efficiencies.

“We are also interested in talking to companies about small scale electricity generation. This could be a company with existing on-site generation, or a company interested in that potential, as this could give rise to the opportunity to sell excess power and any carbon credits that may accrue.

“The introduction of a carbon trading regime will create opportunities as well as providing additional risks that need to be managed,” Mr Adlam says.

ANZ is well advanced towards establishing a carbon trading desk ready for the start of the Government’s proposed carbon trading regime.

“Carbon will be an addition to our suite of risk management solutions for foreign exchange, interest rate and electricity. With these products, firms will be able to better manage volatility in their costs and protect their competitive position where it counts, with their customers,” Mr Adlam says.

This article was provided by the ANZ Banking Group. If you require further information relating to this topic please contact Greg Adlam or Simon Neale on 04 471 0030.



FREE - Metal Industry Guidelines for Safe Work - FREE

These guidelines have been developed by a number of stakeholders who have joined together to form a **‘Metal Manufacturing Safer Industry Group’**.

This programme was facilitated by ACC in partnership with the Department of Labour, and involves the Heavy Engineering Research Association, the Employers and Manufacturers Association, Canterbury Manufacturers’ Association, the Otago Southland Employers Association, the Engineering, Printing and Manufacturing Union, and Competenz.

The CMA’s Engineers Industry Group (EIG) completed a specific project focused on reducing eye injuries. The initial stages involved a telephone survey, conducted by Associate Member TriEx Ltd, to 30 firms in CMA’s EIG.

The outcome of these surveys were followed up in two workshops earlier this year, where attendees had the chance to discuss these issues further and come up with solutions. The recommendations we provided to ACC were well received and are included in this new set of guidelines.

The guidelines highlight a comprehensive range of hazards typical to the industry, and how to address them. The emphasis is on providing employers, supervisors and workers with practical information that can be used in everyday work practices to improve safety, reduce occupational illness and bring injury rates down.

The guidelines will be available **FREE of charge** from late October; if you wish to request a copy simply email your details to metal@acc.co.nz or contact the MEA on 0800 353 2540 or email mea@mea.org.nz.



Aftermath of Unsolicited Electronic Messages Act 2007

Lane Neave LAWYERS

Following the enactment of the Unsolicited Electronic Messages Act 2007 (Act), businesses have scrambled to get their client databases in order, to ensure their compliance with the new rules regarding the sending of unsolicited commercial electronic messages.

One of the integral features of the Act is ensuring the consent of the recipient of the message is obtained. Since coming into force, many businesses have experienced confusion over whether the requisite consent has been sought from recipients of electronic messages.

The Act provides for three types of consent – express, inferred or deemed consent.

Express consent is given by the recipient's direct confirmation that they wish to receive certain electronic messages.

Inferred consent is when the recipient has not directly said they wish to receive messages, but where there is a reasonable expectation that the message will be sent.

Deemed consent is said to occur where (provided the regulations do not stipulate otherwise):

1. An electronic address has been conspicuously published by a person in a business or official capacity; and
2. The publication of the address is not accompanied by an anti-SPAM statement; and
3. The message that is sent is relevant to the business, role, functions or duties of a person in their business or official capacity.

In the lead up to the Act coming into force, email accounts around New Zealand have been flooded with messages requesting recipients to *consent* to continue receiving various types of electronic messages.

It was initially thought that a distinction should be made between commercial messages and promotional non-commercial messages, but this distinction has since been rescinded, in order to avoid confusion in having to distinguish between the types of electronic messages being sent.

Accordingly, under the Act, only commercial electronic messages that market or promote goods, services, land, interests in land or business, or investment opportunities will fall within the definition of "*commercial electronic messages*" and will require the recipient's consent prior to sending the message.

Since its enactment, one of the key areas of interest in the Act has been establishing when the exceptions regarding consent apply.

This is especially so where messages are sent to individuals or businesses, which have an ongoing relationship with the sender but where *consent* has not been expressly provided.

Section 6 of the Act provides for exceptions where electronic messages will not be regarded as contravening the Act, including where they:

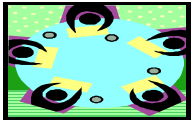
1. Provide notification or factual information about a subscription, membership, account or loan or similar relationship involving the ongoing purchase or use by the recipient of goods or services offered by the person who authorised the sending of the message, or the recipient's ongoing subscription, membership, account, loan or similar relationship; or
2. Provides information directly related to an employment relationship or related benefit plan in which the recipient is currently involved, participating or enrolled.

One of the difficulties being experienced by businesses with regards to the above is messages frequently contain information, which falls outside the employment or membership relationship and as such contravenes the Act. This is further complicated where such content is intermingled with information which *does* fall within exceptions under section 6 of the Act.

As such, senders of unsolicited electronic messages should exercise caution when sending out electronic messages. If there is any uncertainty as to the content of the messages being sent, consent of the recipient should be obtained.

Because the Act has only just come into force, its application gives rise to some uncertainty. However, the Act does provide a six month grace period in order to allow businesses and organisations to get their houses in order, in which case it is hoped many of the initial *kinks* will be ironed out.

This article was provided by Lane Neave. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz on 0800 353 2540.



Forums

Forums are open to all MEA members and their staff. Forums start at 4pm and generally run for 90 minutes.

We offer our web-conferencing facility for members out of town. For more information contact Trudy Diggs on 0800 353 2540 or email trudydiggs@mea.org.nz to register for a specific session. Only our Forums are available via web-conferencing.

Unlock the Pot: Research and Development Tax Credit Pitfalls and Opportunities **Tuesday 16 October**

This interactive forum will provide an insight into the mechanics of the proposed R&D tax credit and aims to assist businesses in arranging their affairs to maximise and make successful claims. Specifically this forum will:

- Answer common misconceptions and highlight pitfalls.
- Explain what constitutes an R&D activity.
- Clarify who can claim and how much.
- Identify when a claim must be made.

All good things come to those who plan ahead, so start planning for the R&D tax credit now.

Presenter **Mark Lodder** is a senior manager with the Christchurch *PricewaterhouseCoopers* tax practice and has over 10 years tax experience.

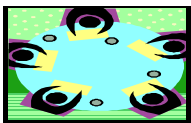
Key Performance Indicators - How to Create Value in Your Business **Tuesday 30 October**

Learn how the right KPI's can improve your business while the wrong ones can take your eye off the ball.

Tania King and **Michael Woodward** of *Mackay Bailey Butchard Ltd*, Chartered Accountants and Business Development Advisors will highlight:

- How to identify your critical success factors.
- The tricks and traps in developing your own unique KPI's.
- How to monitor your KPI's.
- When to change KPI's.
- How much is too much of a good thing.
- Aligning your KPI's with your business goals.

Who Should Attend? Company Owners, Managers and Supervisors who are serious about monitoring both the financial and non-financial health of their business.



Workshops/Programmes

Workshops are open to all members of your staff and to members and non-members of the MEA . For more information or to register on-line, visit www.cma.org.nz and select Training/Events.

<u>Date</u>	<u>Workshop</u>
Starting 17 October	IPC-A-610D CIS Training Workshops - Acceptability of Electronics Assemblies (Five half days) Dates are: 17, 24 & 31 October, 7 & 14 November – NEW DATES!
Starting 29 October	Production the TOC Way Workshop (Two full days held at Skope Industries) Dates are: 29 & 30 October
Starting 29 October	Elecon 2007 (Three full days held at Sudima Hotel Christchurch Airport) Dates are: 29, 30 & 31 October
Wednesday 31 October	Innovation - Unlocking ideas you already have but were too busy to see (Full day workshop)

New Zealand Emissions Trading Scheme Announced

COMMERCIAL, PRIMARY INDUSTRY AND RESOURCE MANAGEMENT LAWYERS

The Government has now announced that the much talked about Emissions Trading Scheme (ETS) will be implemented in New Zealand in January 2008.

The ETS will be a “cap and trade” scheme which fits with the international trend toward such schemes. Emissions trading schemes are already in place elsewhere including Australia, the United States and the European Union.

Under a “cap and trade” model, an aggregate cap is applied to a group of emitters and allowances equal to the cap are issued in the form of emissions units into the market. The cap will be based on historical emission levels in that sector. To comply with their obligations under the scheme, emitters must surrender allowances equal to their total emissions at the end of reporting periods.

The emitter can introduce measures to rationalise its processes to reduce the number of emissions below the cap, or in the event that its actual emissions exceed the cap, it can accept the financial cost implication of purchasing additional emission units.

Key Design Features of the ETS:

- The ETS will be mandatory for those entities at, or above, the “point of obligation”.
- Sectors will enter the scheme on a staged basis, with forestry being the first sector to enter the scheme in 2008.
- The ETS is likely to consist of 170-200 entities across all sectors. The focus being on the large players in each sector.
- The obligation on emitters will be absolute. It will be irrelevant that a company is performing in accordance with industry best practice.
- The Government has indicated it favours a “free allocation” approach in the initial stages.
- The unit of trade will be known as a New Zealand Unit or NZU.

There are similarities between an emissions tax and the ETS. Both create a financial burden, have a self assessment regime, and are reinforced by penalties for non-compliance. The distinguishing feature of an emissions trading scheme is that the Government sets the aggregate maximum quantity of emissions that it is willing to tolerate and leaves the market to determine the price of the emission units and therefore the financial burden each firm will face.

For those companies that are upstream of the “point of obligation” the establishment of an ETS will mean the imposition of greater financial and compliance costs as they seek to either reduce emissions or face the cost of purchasing emission units.

There will also be issues surrounding any comparative advantages enjoyed by producers, and many will no doubt consider that their competitiveness may be placed at risk. For the remainder of the economy it is likely that the real cost will be passed on down the supply chain to them.

It is still unclear where core obligations will be imposed in each sector. In the liquid fossil fuel sector the point of obligation is likely to be imposed at the refinery or the place of import. From their proposed entry into the scheme in 2010, manufacturers in industrial processes such as the production of lime fertiliser, cement and pulp and paper are likely to have reporting and surrender obligations under the scheme.

It is arguable that while the imposition of the point of obligation further up the supply chain provides administrative efficiencies, it may also lead to inequitable outcomes for those downstream who have taken, or will take steps to manage emissions themselves but may not necessarily receive the benefit for this.

Although the entry point for many companies may be some time off, they need to start giving serious consideration to their emissions profile, if they have not done so already. At the same time they will need to also look at adopting a risk management strategy to protect against their exposure to fluctuations in the price of emission units, should they need to purchase them. Emission units will be tradeable and a developed international market already exists in emission units.

A large volume of emission units are currently bought and sold either on or outside of established markets and clearing houses. This presents a number of opportunities for both participants and non-participants in ETS. There are however a great many different types of units in the market place, some of which may be of questionable provenance. Units will need to be authenticated and subject to independent verification processes.

It is clear that the ETS will impose a number of challenges for those at all stages in the supply chain. Careful analysis and planning will be required by those with obligations under the scheme and those who wish to take advantage of opportunities afforded by it.

This article was provided by Goodman Steven Tavendale & Reid. If you require further information relating to this topic please contact the MEA at mea@mea.org.nz or 0800 353 2540.

MEAssist

To network with other MEA Members or get assistance from our Associate Membership contact: meassist@mea.org.nz or call 0800 353 2540

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

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

MEA networks relationships and transactions between manufacturers FREE of charge. Where the MEA 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.



^a Are you based outside of Christchurch, or not able to travel to Manca House?

^a Want to meet with your customers or suppliers but worried about the cost of air travel?



We have a solution!

The MEA 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, anywhere in the world.

Contact Trudy on 0800 353 2540 or email: trudydiggs@mea.org.nz to find out more.