

NOTHING NEW UNDER THE SUN

The Government's proposal to make bio fuels part of the transport mix takes me back to 1976 when I was involved in trials at BP of a 10% methanol; 90% petrol mix. The trials had nothing to do with sustainability or CO₂ emissions – the issue was the price of oil, which had gone up from \$US3 barrel to nearly \$US12 by the mid-seventies. "Think Big" projects for the manufacture of methanol from Maui gas were another driver of BP's strategy.

By and large the trials went well – the odd car objected to the mixture, and there was concern over how some of the older vehicles might perform over time. The real problem though was the costs involved in converting the distribution system, i.e. all the pumps, tanks and valves at service stations and oil depots around New Zealand. The project was quietly put on the back burner for another day. Dial forward to 2007 and the plan to use 3.4% of bio fuels by 2012. Same problem; the distribution system would need to be modified, or new tanks and pumps installed for cars running on 100% bio fuels. The second option was chosen by Brazil, who was using ethanol derived from sugarcane, 30 years ago. At that time the most common car there was the VW Beetle, which seemed to run ok on this stuff, but was prone to frequent backfiring. I found this quite unnerving when visiting Sao Paulo in 1980. In one of the most violent cities in South America, it was hard to distinguish between gunfire and traffic noise.

The bio fuels notion is of course only one plank of a government drive on sustainability, the Kyoto Protocol emissions, carbon footprints and the like. Supposedly, the goal is to become 'carbon neutral', thereby propelling New Zealand ahead of every other country in the CO₂ reduction stakes. As we produce only 0.04% of the world's CO₂ emissions, this is hardly likely to save the planet, so the goals may be as much driven by political positioning as anything. Nor has any attempt been made to cost out the programme

that will lead us to the Holy Grail of carbon neutrality.

The question for business is how to respond to this. Even if you are not a subscriber to global warming (which the current 'summer' here casts some short-term doubt on), it is easy to see both threats and opportunities emerging. An example is the 'food miles' argument being mounted by European producers against the importation of New Zealand produce across 20,000km of ocean. This carries little scientific weight, but it is not easy to come up with counter-arguments that consumers understand. Intuitively, it ought to be easier on the environment to buy local products rather than those coming from thousands of kilometres away, especially if the latter are out of season.

Similar arguments might emerge locally if carbon neutrality takes hold. Businesses may be asked by clients about their own 'carbon footprints', and their sustainability policies. It may become compulsory when tendering for government work, or for establishing a business in the first place. If you can smell another compliance industry coming down the highway you'd be right: measuring carbon footprints could well be the new TQM (Total Quality Management, the flavour of the '80's and '90's). Already the trading of carbon credits is a multi-billion dollar affair between countries, and has penetrated to individual consumer level where you can buy carbon offsets or certificates to compensate for your 'footprint', or even your pet's if you wish! I'm predicting there'll be an internet scam involving this quite soon.

One thing's for sure: the cost of energy and every other business input is going up, so businesses need to take stock of this and develop strategies that will work in this environment. These will probably need to go further than the government's own



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The Chamber is seen as the voice of Southland business and is constantly called upon to express their view.

As an advocate for businesses, the Chamber performs a number of functions including lobbying local and central government on behalf of business interests.

Visit our website to read the three submissions posted this year

- Local Government Rates Inquiry
- Energy & Climate Change Submission
- New Zealand Energy Strategy to 2050



NZIM TRAINING July/August 2007

Audit Training – 17 July

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Women in Leadership Advanced Workshop (1/2 day) – 13 August

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 28 August

For more details and registration

Phone: 03 230 4981

Email: info@nzimsouth.co.nz

Web: www.nzimsouth.co.nz



The role of the Chamber of Commerce Southland is to influence and inspire business vitality in the Southland Region. To help you "Be the best that you can be in business". We do this by positively influencing the environment in which businesses operate and by providing "opportunities, products, and services" that will improve the success and vitality of business.

CHAMBER WELCOMES NEW MEMBERS



Tile Centre

Young Reflections

Speedy Signs Invercargill

cont'd from page 1

actions – replacing ministerial limos with slightly more fuel-efficient vehicles is hardly transformational. Indeed, government could do a lot more to enlist business enthusiasm for CO₂ reductions by demonstrating an holistic understanding of, and approach to, the problem. Millions of flatulent cows and sheep create unique problems for New Zealand, but non-primary industries should not have to shoulder the load. Likewise, a significant contributor is the inefficiency of commercial buildings in their energy utilisation – Government buildings in Wellington being a prime example. Much could be done in the residential areas as well with the right incentives for solar heating, double-glazing and other energy-saving measure.

Above all, a thorough analysis of the costs and secondary impacts of any proposed policies needs to be undertaken. In Brazil, the drive to plant more and more sugar cane led to a significant depletion of the rain forests, arguably creating a poorer environmental outcome. Bio fuels here may give us a small benefit on the emissions front, but at what cost to the environment and energy balance of the nation?

Duncan Simpson

Chief Executive

Otago Southland Employers Association

ANNUAL GENERAL MEETINGS

May was the month of Annual Meetings for the Chamber.

Wednesday 23rd May saw a good sized crowd meet at the Hokonui Moonshine Museum for the Eastern Southland Executive Committee annual meeting.

After drinks, nibbles and networking, Jim Geddes presented the vision they have to create a 'Cultural Heritage' zone with the purchase and development of a further property in the area. This offers a very exciting innovation and would be a major asset to the town.

The Annual General Meeting was held within it's usual time span of 7 minutes. Nick Jeffery stood down after three years as Chairperson of this committee. The CEO Richard Hay in announcing the new committee thanked Nick for the working relationship and in particular for his enthusiasm. John Wilson was nominated as Chair and on moving into the position also thanked Nick on behalf of the membership for his 3 years of commitment and drive. The committee was announced as, Nigel More, Justine Abernethy, Tony Shallard, Pauline Adams, Ewen Whitefield, Melissa King, and Garry Inder. One position remains vacant, which the committee is able to co-opt into.

Donna Wilkins (for those not up with the play – nee Loffhagen) was Guest Speaker for the evening, and proved as able a speaker as player on both the netball and basketball courts. Donna's track record is hugely impressive unfortunately space precludes listing all her achievements. Interestingly, when Donna was still young and at school they were asked to write their goals down. Donna's goal was to be a New Zealand

representative in both netball and basketball. Her teacher tried to pour cold water on Donna's goal, telling her it was not possible to achieve that status in both sports. She says that was extra fuel to prove her goals were achievable. I wonder how many of us can say we wrote our life goals down when we were young and have achieved them! Donna is a phenomenal ambassador in the sporting arena, for Southland and for New Zealand. It was a privilege to have her speak and we extend every good wish for her future.

The evening concluded with more drinks, nibbles and networking.



Tuesday 9th May was the date for the Southland Chamber of Commerce.

Close to forty people met at 5.30pm for networking and fantastic nibbles in the boardroom of Environment Southland.

Prior to the commencement of the annual meeting, the Young Enterprise Group "Illuminate" from James Hargest College presented their product and business plan. This Company won the Environment Southland award for the "Most Environmentally Friendly Product or Service", and as the BA5 to follow was entitled "Making \$'s and cents in a greening world" this was an appropriate presentation.

President Andrew Leys welcomed everyone and the meeting flowed on from there. The Annual Accounts were received and the Annual Reports of the President and CEO, Richard Hay were accepted.

Andrew Leys was re-elected as President, and Dave Rohan as Vice-President. The Committee members are Paul Hemburrow, Neville Cook, Tony Williamson, Michael Weusten, Eastern Southland, John Wilson and Export Forum Mark O'Connor.

More detailed information on the annual meeting can be viewed on the website at www.commercesouth.com

At the conclusion of the annual meeting Environment Southland hosted a BA5 led by Gretchen Johnston assisted by Carolyn Dean of FutureGenz and Angela Halliday of Venture Southland. A review of this evening can be read on page 7.



UK JOB OPPORTUNITIES EXPO 2007

Venture Southland allocates funding each financial year to attend one Migrant Expo, and has traditionally attended Manchester and London for the past 5 years.

Edinburgh was our first site for 2007. The NZ Opportunities Job Expo had never been to this city before, and Southland was targeting trades people specifically. Over the weekend more than 2000 people talked with the NZ exhibitors, and for Queenstown Lakes District Council and Southland, the calibre of people wanting to come was more in tune with what we were targeting, as opposed to the 10,000 highly skilled Londoners who came to talk with us a week later.

We were targeting primarily trade skilled migrants e.g. hairdressers, plumbers, electricians, carpenters, auto and diesel mechanics; Project managers and professional engineers with degrees in chemical, civil, mechanical and electrical fields; Healthcare professionals, especially midwives; agriculture – skilled and experienced people from the sheep and dairy industries; Education – Maths and Science teachers (all levels); Transport Drivers and Digger operators, along with Local government – Senior Planners, Water and Waste management staff

Most families looking to migrate take more than one visit (one year) to the expo to make the decision to start the immigration process. There were three main groups – young people coming for a working holiday, families coming out at Christmas to look around, and those who hadn't been out but were definitely coming, (having started on the immigration process and selling up their assets). No financial assistance is provided to migrants. Unless an employer supports them, they have to come under their own support.

The Southland site had long queues of people waiting, especially in Edinburgh, when they discovered that we offered rugby, highland dancing, similar weather to Scotland, and the same sense of community that, as children, the parents had grown up with. People were looking to come to New Zealand for many different reasons, but similar to enquiries we receive weekly from people living in the North Island, they want a quieter, less stressful, less violent, more friendly and secure community. Less work and more time with family is a common theme.

Workforce Employment Demand studies have confirmed the urgent need for Southland to attract skilled migrants to our region. To retain 1% pa growth we have to replace 400 people who move overseas or out of the region, and potentially 1200 people who will retire from the active workforce. 1600 people a year need to be brought in as replacement.

The Department of Labour has funded Southland's Settlement Support project to assist in this New Zealand wide problem of competing globally for skilled migrants. Once we get new workers into the region it is important they are provided with as much support and assistance to stay with their families. A referral point has been created to supply help to support this goal.

If you meet any newcomers or overseas visitors looking to move please take time to ask if they have made contact with Settlement Support in Invercargill, so we can ensure they receive the best possible support to convince them Southland is the place for them. If you are looking for skilled workers phone Sue for contact details.

Sue Morrison-Bailey
Co-ordinator, Settlement Support
Tele: 03 211 1803
Venture Southland,
Spey Street, Invercargill

GOLD CARDS

The Government has announced the introduction of a SuperGold card from August 2007.

This is available for New Zealand residents aged 65 or over, or who otherwise qualify for NZ Superannuation or a Veteran's pension.

- It will establish entitlement to discounts for everyday goods and services from participating businesses and help facilitate easy access to concessions on government and local authority services.
- Over half a million people, including around 15,000 under the age of 65 will be eligible to receive the card in August 2007
- It is predicted there will be a million cardholders by 2026

- The ministry will produce a directory and establish a searchable website listing discounts being offered to cardholders.
- Business partners will get a free listing in the directory and on the website
- 600,000 Discount Directories will be printed each year and distributed to cardholders and relevant outlets.

The Ministry of Social Development is accepting expressions of interest from businesses keen to provide discounts to cardholders wanting to tap into this lucrative market. The SuperGold Card business discount freephone is 0508 65 00 00 and is taking calls from 'Business Partners' interested in providing a discount.

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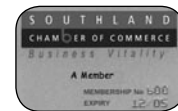
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DR BOLLARD THROW HIS TOYS

With so much going on in financial markets, it is a bit difficult to figure out what NOT to talk about this week.

Clearly the most dramatic action we have seen over recent days has been the Reserve Bank's intervention in the currency market. This is the first time they have directly sold New Zealand dollars in the market in an attempt to push it down.

This intervention came a few days after Dr Alan Bollard, Governor of the Reserve Bank increased interest rates by 0.25% to 8.0%. This in itself surprised markets. Over the past couple of years, he has attracted a reputation in markets as a Governor that has more bark than bite in that he often tries to talk markets down rather than take action. Thus, his decision to firstly raise rates, and then intervene in the currency hit those in the markets like a Southerly blast.

In simultaneously raising interest rates and trying to push the dollar down, Dr Bollard is attempting to engineer lower inflation, along with a lower currency to help out the export sector. This is a tough ask, because one of the main reasons the dollar is so strong is because our interest rates are so high. By raising interest rates, he simply makes the Kiwi dollar look even more attractive to overseas investors.

Dr Bollard and his team are very smart people. They know this. And they also know that they haven't got the cash to be able to drive the currency where they want it, markets always have the last say. However, perhaps their goal is to generate some uncertainty, the one thing investors dislike most.

Raising the prospect that the NZ dollar might not stay high forever may start to make those investors in Japan, Europe and the US who find our deposit rates so appealing to rethink some of their New Zealand investments. These investors have been a key driver of demand for our currency, and are responsible in large part for its strong appreciation.

In lifting interest rates again he is trying to send a message that inflation is too high. And he didn't hold back when pointing the finger at who he believes is causing this inflation. First, are those who borrow money to speculate on property. This

activity doesn't really add much to the productive base of the economy, but it does stoke inflation. He also gave the government a blast. Government spending has exploded over recent years but has added very little to the productivity of our economy. Again, any money spent that doesn't generate wealth causes inflation.

There is an old saying in investment circles that investors should never "fight the Fed". This refers to the US central bank, the Federal Reserve, but the principle is the same anywhere. When the central bank is on the warpath against inflation, it is prudent not to take them on. They always win the inflation battle, they have to – 1970s-style inflation is untenable. In the past, asset prices have always struggled in the face of rising interest rates. This time around, house, farm and share prices have largely ignored the increase in interest rates, so far.

* * *

Kiwisaver and the other tax changes around managed funds and global shares are another major issue facing investors. Thankfully, I have just about run out of words so haven't got the space left to run through the intricacies of the tax changes. But it is worth saying that while the changes are complex, the outcomes are generally positive for all of us.

The good news is that there is no need to rush into anything. There is a lot more to be gained by taking your time to get a good understanding of Kiwisaver and the ins and outs of the tax changes before investing. Like any investment, your returns from Kiwisaver will depend on how prudently it is invested, how well it is managed and the level of fees it incurs, with the fees being by far the most important factor.

There are some good incentives from the Government for Kiwisaver, which could add up to just over \$2,000 a year for most investors. But remember your Kiwisaver funds are locked up until the age of entitlement, which is currently 65 years of age ... and will probably be 85 years of age by the time I get there!

*Cameron Watson
17 June 2007*

TRANSFORMING LIGHTING WITH LEDS

The technology revolution is about to touch one of the few areas it hasn't managed to affect so far – light.

New light emitting diodes (LEDs) are tipping out the old fluorescent and incandescent with bright effective technologies. These LEDs are not the simple red, yellow or green flashing lights of earlier years. They are power efficient, small, bright and long lasting and are able to produce a spectrum of colours. High brightness LEDs now represent a \$US 4 billion industry with a growth rate of 42% per year mainly until now supplying mobile phone manufacturers.

LED performance has expanded at an enormous rate with the amount of light being produced doubling every 18 to 24 months and are continuing to get more powerful and less expensive. This is giving them the edge over standard lighting technology, consuming less power, have a 70 fold increase in lifespan and use fewer pollutants. As a result they are cropping up everywhere as camera flashes, advertising displays and by 2015 will be the light of choice for most homes.

New ideas coming on stream include bench-tops lit from below and LED lit high visibility search and rescue equipment.

Look for some 'long overdue illumination' in the lighting industry in the future.

Source: www.business2.com



SHAREHOLDERS AGREEMENTS

With regard to the recent announcement of the reduction of the Company tax rate by the honourable Dr Cullen, it is important for Investors and Business Owners to consider their structures for tax efficiency. We anticipate that many small to medium Investors and Business Operators will now consider the incorporation of a Company structure for their investment and business purposes.

When considering a Company structure with un-associated Shareholders, consideration needs to be given for a Shareholders Agreement. A Shareholders Agreement regulates the relationship between the Shareholders of the Company as well as codifying the common objectives of the Shareholders.

When considering a Shareholders Agreement particular attention needs to be paid to the rights and entitlements of Shareholders such as for example, the appointment of Directors to the Board and the majority of votes required to pass Shareholder Resolutions.

A Shareholders Agreement may encompass a variety of issues such as Shareholder loan accounts, pre-emptive rights on the transfer of Shares, the valuation of Shares, Share sale and purchase options, financing by third party lenders, dividend/distribution policy. Meetings of the Board and Shareholders of the Company, exit mechanism, budgets, accounts and operational information.

It is essential to provide in a Shareholders Agreement a dispute resolution process to be followed in the event of a dispute. A dispute resolution process needs to include an exit mechanism such as Share Put or Share Call clauses which can be exercised should a dispute not be resolved.

When incorporating a Company, it is important to consider a Shareholders Agreement to ensure that the Shareholders share a common intention and will co-operate with one another to meet their goals.

Please remember this information is designed as a guide only and shouldn't replace the advice of your legal professional. We welcome your comments.



KEEPING THE AIR CLEAR

Nearly 70% of Germans opt to holiday at home as an alternative to flying abroad because greenhouse gas emissions from aircraft are perceived as more damaging than from cars or trains. According to Germany's Federal Environment Agency, a return flight to Thailand 'costs' six tons of CO₂, while a return train journey from Berlin to the Baltic 'weighs' 3.5kg.

German travel agents are being encouraged by the higher commissions from selling upscale holidays close to home. Some 78% of Germans polled want their country to act as a trailblazer in climate policies and the German Chancellor is saying she wants to lead the way in demanding drastic changes in the European Union's climate policies. EU commissioner Gunter Verheugen however, has warned of a developing 'hysteria' and says it is more important to persuade the US, China, India and Russia to become more active in climate change programmes.

What impact could this have on New Zealand's tourism?

15 HOTEL SECRETS (FOOD FOR THOUGHT)

Hilton's European Housekeepers have gathered for the first time to celebrate their efforts and exchange best work practices. The two-day conference was held at the Hilton Dusseldorf in Germany. Housekeeping facts released by the hotel chain:

- Every year a Hilton housekeeper will on average make 3840 beds, fold 26,880 towels, drive a vacuum cleaner over 115,000sq,m (the same as 15 soccer fields) and expend 460,000 kilocalories or the same energy as 2000 50g Mars Bars.
- The strangest object left behind by a Hilton Dusseldorf guest and found by a housekeeper was a set of false teeth
- The biggest housekeeping tip at Hilton Dusseldorf was \$2190
- A survey has shown that a room attendant can make a bed in four minutes and 40 seconds
- The average room takes 15-30 minutes to clean, depending on whether it is a stay-over or a checkout
- A clean set of linen for the Hilton Serenity Bed weighs 5.06kg for king size and 8.5kg for two doubles
- A committee of 10 people from Europe, including general, purchasing and technical managers as well as housekeepers, took a year of testing to choose the best mattress for their guests,
- In line with lifestyle trends, Hilton now uses duvets rather than heavy quilted bedspreads. Covers are washed after each guest checkout.
- Hilton Vienna cut the number of times a toilet is flushed during roomcleaning to twice after realising it was industry standard to flush five times (this saved 3000cu.m of water in six months, the equivalent of filling 12 Olympic swimming pools to a depth of 2m).
- Hotel Paris collects unfinished water bottles from the meetings and banqueting department to refresh hotel plants (in three months, this saved 480 litres of water).
- Chambermaids at Hilton Brussels collect unused soap from guest rooms for the Salvation Army to distribute to the needy.
- Hilton Prague has exchanged floral arrangements for longer-life potted orchids the initial investment was returned within three months and is better for the environment.
- Hilton Prague produces sachets made from recycled bed sheets filled with dried lavender instead of synthetic perfumes (these are placed with dry-cleaned clothes).
- Hilton Prague switches on only one lamp instead of three during the nightly turndown service which has cut energy consumption by 66 percent.
- Hilton Paris created a 30 minute training video on environmental best practices for its housekeeping department.

Action springs not from thought, but from a readiness for responsibility – Deltrich Bonhoeffer

This article appeared in the February edition of the CIM magazine and has been reprinted with the permission of Publisher, Rob Yeomans

"MAKING \$'S AND CENTS IN A GREENING WORLD"

This was the theme of the BA5 hosted by Environment Southland in their Boardroom on Tuesday 29th May.

Whether we like it or not there is a huge groundswell worldwide towards becoming more environmentally friendly. There is major concern at the wastefulness and there is concern for the future.

Gretchen Johnston, Resource Planner, Special Projects at Environment Southland challenged those present to look seriously at their companies. This entails more than counting the rubbish bags that go out per week – this means looking at what goes into the rubbish bags and seeing if there is a better way to deal with it. The catch phrase is prevent, reduce, reuse, recycle ... Many companies are already working hard in this area, and are making large savings – in all manner of ways – electricity, waste reduction levels, there are so many different areas we could all make a saving in.

Points covered included:

- Why 'green'. Why are businesses getting into green?
- What does being green involve
- Who is doing it
- Help

Carolyn Dean, Sustainability Consultant of Futuregenz spoke about the EnviroSmart programme for companies and how it

has benefited many companies already. For more information on this contact Carolyn on 03 2170 546 or phone EnviroSmart on 0800 366 275.

Angela Halliday Project Co-ordinator for Sustainable Tourism, Venture Southland presented tourism sustainability from an environmental viewpoint, and how tourism operators, hoteliers, motelier alike all need to be aware of what part they can play.

This was a thorough, thought-provoking presentation from three extremely switched on ladies who are passionate about the future of the environment. Many resources are available to assist us make savings in our business and personal lives, so if we are unsure, all we need to do is contact these people for sound, sensible, practical advice in order that we can all play a part in sustaining this part of our world. Thanks to Environment Southland for playing host, to Gretchen for spearheading the event and to Carolyn and Angela for their input.



"THE AURORA WAY"

Two and a half years on from the commencement of Aurora College, they are proving it is not just the stars that shine. With a new school, new staff and a new direction, their aim has been "How do we make more students more successful?".

The BA5 held at Aurora College on Tuesday 12th June revealed a team of passionate professionals intent on making education work for individuals, and they have proved they can "make more students more successful". To this end the teacher often becomes more of a facilitator, working to assist the student learner attain goals that have been set in an individual interview. From this interview a 'pathway' is defined for the student to follow to enable the student to work towards achieving the desired goals. There are several programmes on offer – the Gateway programme (dovetails with the Trades sector and NCEA), CPaBL (Career Pathways and Building Lives), Star (Schools/Tertiary alliance).

This is a situation where the worlds of education and business meet and both have much to offer the other. Education has students needing/wanting experience in the 'outside' world and businesses need willing trainees. The College is keen to develop better partnerships between school, business and industry projects. Some of their success stories have been in the areas of aviation, hospitality, plumbing, automotive, hairdressing, sound engineering to mention but a few. The local business sector is encouraged to become involved. It was disappointing more of our 'trades' members weren't present at this function. They can benefit by gaining future apprentices and at the same time help structure a young life. If you are able to assist please contact Andy Walker on 03 21 6040.

The other major vision for Aurora is to become a 'full service' school offering community support in areas of medical care, mental health, community and policing support. Community courses are offered, and they are open to suggestions on topics that could be introduced, or people offering their skills.

The evening opened up a new view of what this dedicated hard-working team is achieving. We thank Andy Walker and his team for sharing their vision with us and know there will be many more success stories in the future.

We should all be working together to encourage our community and the young people in our world.

For an interesting overview of the forefront of change in secondary education visit www.secondaryfutures.co.nz

A young Wellington entrepreneur said "Education is a marathon; it's not a 100 metre dash – it doesn't finish at the end of high school or at the end of university; we should perhaps establish the rule that you don't finish school and then begin your working life. Learning is something that happens and comes at you from all angles".



- 12 July – Kiwibank
- 14 August – Tall Poppy Books
- 12 September – Fonterra
- 15 October – Chamber new premises opening (being optimistic)
- 14 November – Blue River Dairy Products

Other Events

- 18 July – Energy Symposium 4pm – 6pm followed by drinks and nibbles
- 6th November – TRADEQUAL Dinner



Energy Symposium Guest Speakers:

- The Future of the Southern Basin – John Pfahlert PEPANZ
- The Future of Lignite as a Liquid Fuel – Don Elder Solid Energy
- The Future of Wind Powered Generation – Keith Tempest Trustpower
- The Future of the Bluff Smelter – Michael Scotton Rio Tinto Aluminium
- Panel Discussion

Watch for the invitation to this event – out shortly

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There are three kinds of people:

Those who make things happen
 Those who watch things happen
 And those who wondered what
 happened.

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Australian output and employment are growing much faster than New Zealand's. So is demand. Consumption in Australia for example is increasing at twice the rate of New Zealand's. Inflation in the two economies is much the same, especially for the core measure. The trajectory of inflation is also similar, moderating in both economies since the middle of last year. In both economies wages growth has increased but remains quite reasonable. Both are in long economic expansions – sixteen years for Australia, and ten for New Zealand.

Given these facts one would expect Australian interest rates to be a little higher than New Zealand's, reflecting the risks of substantially faster demand and output growth in Australia as both economies approach capacity limits. Yet the New Zealand cash rate is actually much higher than Australia's. It is now 8% compared to 6.25% in Australia.

Looking at many of the same economic trends as his opposite number across the Tasman, Reserve Bank of New Zealand governor Alan Bollard has increased the cash rate three times this year, and may well do so again. By contrast Reserve Bank of Australia Governor Glenn Stevens has left the Australian cash rate unchanged since late last year, and in early June gave a speech that financial markets took to mean the cash rate would not change for the rest of the year.

How can two central banks in such close contact, in such similar economies, both claiming to represent best practice in monetary policies, respond so differently to essentially the same set of facts?

Part of the difference in the cash rate is certainly that New Zealand home buyers are cannier than Australians. Four fifths of New Zealand mortgages are fixed rate, which protects the borrower from changes in the cash rate. In Australia three quarters of mortgages are variable rate. As soon as Mr. Stevens announces an increase in the cash rate it is passed on to their monthly payments. In New Zealand the impact is slower and less direct. Dr Bollard has to work the cash rate harder to have a similar effect on households.

But while this difference in the mortgage market might explain some of the difference in the cash rate, it does not explain why Dr Bollard has tightened three times this year, and Mr. Stevens not at all. Nor does the difference in inflation targets explain it. In principle the Australian central bank aims at an average 2.5% and the New Zealand central bank 2%, but in practice Dr Bollard like Mr. Stevens regards 2.5% as a pretty good outcome – as indeed it is.

The big difference between the two central banks is their analytic style.

Like the US Federal Reserve, the Reserve Bank of Australia likes to feel its way in monetary policy. It thinks contemporary inflation numbers are important, not least because it thinks the core measure of inflation today is a pretty good predictor of inflation in six or nine months time. The RBA publishes an inflation forecast based on its best judgment, but is usually a bit vague about its output growth forecast.

By contrast the RBNZ predicts inflation in a year or eighteen months based on a formally modeled forecast of the difference between what it thinks demand growth will be, and what output growth it thinks possible. It pays little apparent attention to what is actually happening to inflation today. It is not in the least impressed, for example, that the core inflation measure (the trimmed mean) has moderated in New Zealand in exactly the same way it has in Australia. Since the inflation prediction results from an output growth prediction, the RBNZ effectively targets output growth. And since the New Zealand economy is stronger than it expected and it has increased its forecast for output growth next year, Dr Bollard has increased interest rates in response.

There are big differences, but in recent times Mr. Stevens has begun to sound more like Dr Bollard. He said in early June that inflation today is quite moderate but "if strong demand growth persists" the risks of higher inflation "will increase", and the firm output and demand data this year have "added credence" to the RBA's forecast that inflation will rise next year. If strong demand growth does indeed persist in Australia, it may not be all that long before Mr. Stevens not only sounds more like Dr Bollard, but acts more like him. But convergence may run both ways. If New Zealand inflation and wages growth remains moderate, Dr Bollard may accept that the New Zealand economy has indeed changed and lower inflation is sustainable despite firmer than expected demand and output growth.

Everyone is in favour of free speech. Hardly a day passes without its being extolled, but some people's idea of it is that they are free to say what they like, but if anyone says anything back, that is an outrage.

Sir Winston Churchill
 1874-1965 speech,
 House of Commons,
 13 October 1943