

THE GREAT SOUTH BASIN – THE QUEST BEGINS

The exploration tenders for the Great South Basin have recently been released. The following may provide some extra information.

Crown Mineral's Group Manager's Report states "Having been unexplored for almost 30 years, and with only a handful of wells across a vast area, the Great South Basin is perhaps the sleeping giant for New Zealand's petroleum industry. The 3,200km survey was completed without incident in March 2006, and the results from it have served only to reinforce the excitement as to the scale of what might lie beneath the GSB.

Energy security continues to be a critical factor in New Zealand's economic transformation. We will work with industry on improving our knowledge of existing reserves from producing fields. At the same time, we will seek to gain a better understanding from explorers of play concepts in emerging basins. This will enable New Zealand's inventory of prospects to be more scientifically based and provide a better forecast as to the possible scale of future oil and gas discoveries."

The Great South Basin lies offshore from the coast of Southland and South Otago, and at over 500,000 sq km is one of New Zealand's largest petroleum basins (covering an area 1.5 times New Zealand's land mass.) The current area of awarded permits covers 18% of the basin.

The Great South Basin has only been very lightly explored, so until recently, little has been known about the geology and prospectivity of the basin. Recent data indicates the Great South Basin may have the greatest petroleum volume potential of all New Zealand's basins. In particular it has the thick sediments required to produce hydrocarbons, favourable reservoir and source rocks, and is not affected by large scale seismic faulting found in most New Zealand Basins. In comparison with Maui which is about 3.8 trillion cubic feet of gas and has produced approximately 225 million barrels of oil, the Great South Basin indicates the possibility for potential of up to ten times those figures, which

are, obviously at this stage, unproven. It is intended the other 82% of the Great South Basin not covered by the awarded permits will be opened up for future exploration. Exploration companies and the Government will be waiting to see the results of the explorations which are about to start before deciding what to do with the rest of the basin. There is no doubt that a commercial discovery in the permitted areas would encourage further seismic acquisition and exploration in other areas of the basin.

It is likely to be at least four years before any of the companies awarded permits will know if there is a commercially viable amount of oil or gas in their permit areas, and then another 10 years before oil or gas reaches the market.

The timeline is likely to be:

- Identify oil and gas targets (1st phase done as part of bidding process)
- Confirm targets with seismic data (In next 2-3 years)
- Start test drilling (3-5 years from now)
- Evaluate and appraise any discovery (2-5 years from initial discovery)
- Make decision whether or not to develop any discovery (2-5 years from initial discovery)
- Make decision whether or not to award mining permit (2-5 years from initial discovery)
- Assuming a discovery is economically viable, production of first commercial oil or gas (10 years + following discovery).

If commercially viable quantities of oil and gas are found, it would be sold primarily overseas. However, if there is any threat to supply for New Zealand, New Zealand has the right to retain enough oil for our needs, and would be able to order some of the oil directly to the Marsden Point

ISSUE 77
AUGUST 2007



View these profiles at www.bizdirectorynz.com



Elmwood Garden

Elmwood Garden Function Centre - is private, elegant and intimate. With two main ground floor function areas, separated by a spacious foyer, the dining room caters for up to 180 guests, and the ballroom / bar area, 100 people for a meeting, or more for a wedding dance. A beautiful private garden allows indoor / outdoor facility.

309 Dee Street,
PO Box 1316,
Invercargill,
Ph 218-3125, Fax: 218-3124
Email: elmwood@ilt.co.nz

Freeze Dri

BACK COUNTRY
Cuisine

Back Country Cuisine is a range of light-weight meals for use by trampers, climbers, and hunters: anyone in need of a quick, satisfying meal. The meals are sold in camping and sports stores throughout New Zealand, Australia and South America. Their reputation is fast growing as tasty, nutritious food.

Ph: 0800 BCF LTD (0800 223 583)
216-2001 Fax: 216-1771,
150 Otepun Avenue, Invercargill
E mail: arthurb@extra.co.nz

invest south ltd
"Investing in Southland"

Invest South Limited's core business is the provision of partial equity funding to small and medium size companies whose objective is growth, economic development and job creation in Southland and Queenstown. Businesses looking to establish themselves in the Southland region are also welcome to apply.

62 Don St
P O Box 453, Invercargill,
Phone: 214-1707 Fax: 214-1760
E mail: enquiries@investsouth.co.nz

SPONSORED BY



CHAMBER OF COMMERCE SOUTHLAND

Ground Floor, Menzies Building, Lower Esk Street, P.O. Box 856, Invercargill
 Telephone 0-3-218 7188 Fax 0-3-218 7927 Email: info@commercesouth.com Website: www.commercesouth.com

Business People working together for the Southland Economy

CHAMBER OF COMMERCE SOUTHLAND BOARD

President

Andrew Leys

Vice President

Dave Rohan

Past President

Kevin Frater

Board Members

Neville Cook

Tony Williamson

Michael Weusten

Paul Henburrow

GORE REPRESENTATIVE

John Wilson

EXPORT FORUM REPRESENTATIVE

Mark O'Connor

HONORARY ACCOUNTANTS

Ward Wilson WHK Cook Adam

SOLICITORS

AWS Legal

EASTERN SOUTHLAND EXECUTIVE COMMITTEE

Chairperson

John Wilson

Committee Members

Ewen Whitefield

Robyn Perkins

John Wilson

Nigel Moore

Richard Hay

Melissa King

Justine Abernethy

Gary Inder

Pauline Adams

Tony Shallard

CHAMBER OFFICE

Executive Officer

Richard Hay, JP

Office Assistant

Nikki Watt

Membership Services

Jennifer Sinclair

Helen van der Linden

Young Enterprise

Les Diack

COMMITTEE REPRESENTATIVES

International Friendship Committee

Geoff Lange

S.I.T. Committee Representatives

S.I.T. Business – Retail

Moderation Council

Neville Hayes

S.I.T. 2LRN Advisory Committee

Richard Hay

S.I.T. Gore Advisory

Justine Abernethy

Y.E.S. Programme

Les Diack

Focus Forum (EDU) – Gore

Ewen Whitefield

Melissa King

Nick Jeffrey

Dolamore Park Trust

Julian Morris

GDC Review Committee

Nick Jeffrey

ADVERTISING RATES

(10 issues)	(GST exclusive)
1/6 page:	\$540 pa.
	\$62 a month
1/4 page:	\$750 pa.
	\$86 a month
1/2 page:	\$1500 pa.
	\$172 a month
Full page:	\$3000 pa.
	\$345 a month
Per cm/60mm column	\$5.75 monthly

Inserts and Specials available
 10% Discount for Chamber Members
 (Cost of Inserts on application to Chamber Office)
 Reach other Chamber Members for so little

b fit TRAINING & SEMINARS



Building Brand Value

Invercargill: 30th May 8.30 am - 12.30 pm
 Cost: \$195.00 Member \$295.00 Non Member

Training for Health & Safety Representatives (Stage 2 - 2 day)

Invercargill: 11th, 12th June 8.30 am - 12.30 pm

Performance Development and Training (equivalent to leadership in Action Module 5)

Invercargill: 13th June 8.30 am - 12.30 pm
 Cost: \$175.00 Member \$250.00 Non Member

For more Information & Registration

Visit: www.commercesouth.com or

Contact: Chamber of Commerce

Phone: 03 218 7188 Fax: 03 218 7927

Email: training@commercesouth.com

CHAMBER WELCOMES NEW MEMBERS



Harcourts (W Thompson & Co Ltd)

Southland Copier Company

Southland Vehicle Sales

b connected 5 BUSINESS BUSINESS AFTER FIVE

Hosting a BA5 offers you a cost-effective way to showcase your business.

If you are interested in holding a BA5 event, call Jennifer at the Chamber on 03 218 7188 to discuss the various options available.

14 August - Tall Poppy Books

22 August - NZTE - Ken Stevens

12 September - Fonterra

15 October - Chamber new premises opening (still being optimistic! See notice on page 5)

6th November - TradeQual Dinner

14 November - Blue River Dairy Products



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.

refinery. In that case we would still pay the market price.

The companies which own the permits pay and take all the risks for the exploration. There is no risk to the New Zealand taxpayer.

For Southland's economy this means a huge boost. The financial benefit for support services alone is in the order of tens of millions of dollars. If a significant oil and gas strike follows, the financial return to the region would be in the order of billions of dollars of direct investment. A commercially viable find would create a building and job boom.

The economic impacts of oil and gas exploration in Taranaki offer a possible point of comparison. A recent Business and Economic Research Limited economic study found that last year the oil and gas industry contributed \$733 million to that region's GDP, which is close to 17% of total regional GDP, and employed approximately 773 people. When including indirect and induced impacts, the oil and gas industry contributed \$1.41 billion in regional GDP and employed over 3100 full time equivalents.

A large number of companies from around the world took interest up to the final stages of the tender round. Many expressed strong interest in future development of the basin, and it is possible that as new data becomes available they will seek interests in the remaining areas of the basin. Five bids were received. Technical evaluation of bids comprised a detailed quantitative and qualitative process, which involved scoring information provided by bidders. Bidders also made an oral presentation to support their bid documentation and any information provided in this way was incorporated in the final evaluation and scoring of bids. The same process was used to evaluate the comparative merits of overlapping bids.

With the blocks attracting a high level of interest from both domestic and international companies, additional, more stringent procedures were put in place to mitigate risks associated with any review of the evaluation and decision making process. These more stringent requirements included the establishment of an Evaluation Team, a Steering Group and the engagement of Queens Council to ensure that the process was robust. Based on this process, officials made recommendations to Ministers who then made the final decisions.



NZIM TRAINING August/September 2007

Women in Leadership Advanced Workshop (½ day)

13 August

Women in Leadership (2 days)

14/15 August

Accounting for Non Accountants (Stage One)

28 August

Report & Proposal Writing (1 day)

3 September

Problem Solving & Decision Making Skills (1 day)

4 September

Process Mapping & Continuous Improvement (1 day)

5 September

Thinking on Your Feet (1 day)

19 September

Communication & Listening Skills (1 day)

20 September

Introduction to the Challenges of Leadership (1 day)

21 September

For more details and registration

Phone: 03 230 4981

Email: info@nzimsouth.co.nz

Web: www.nzimsouth.co.nz

THE INTERNET MAZE FOR BUSINESSES!

Visit www.biz.org.nz, the revamped E-Business Guide set up by the New Zealand Trade and Enterprise to assist small and medium sized enterprises (SMEs) to develop their online presence at their own pace. There is a self-service guide featuring checklists, background information and practice examples on a range of e-business subjects. There are also modules covering the use of e-business technology to help export and monitor effectiveness of e-business strategies long term. An advisor is available to talk to business operators and the entire service is available at no charge.

A recent Government report shows New Zealand's SMEs need better support to grow their businesses through e-commerce.

The following were identified as key barriers to e-commerce activity:

- Cost in time and money
- Access to suitable on-line banking facilities
- Difficulty in penetrating global markets
- Access to information on Customs and other regulations
- General level of business capability of the firm
- Motivation levels of the participants.

Small Business Minister Lianne Dalziel states learning how to grow SMEs' capability in this area is a priority. "E-commerce is a medium that, once established, gives businesses a low-cost means of entering the world-wide markets."

The project comprised 29 small firms nationwide, many of which had either

little or no e-commerce capability.

The firms received subsidised e-commerce services and products, as well as mentoring, to enable them to develop e-commerce techniques to sell their products internationally.

It formed part of the wider Central online Management and Export Trade (COMET) project, the aim of which is to 'e-able' 2000 New Zealand SMEs.

The next stage is to assemble a suite of products and services comprising the necessary building blocks for SMEs to become e-enabled.

The Minister is optimistic this better co-ordination of the public and private sectors will help SMEs overcome barriers.

Craigs brings home the Gold!



Yarrow Street • Invercargill
 Phone 0-3-211 0393
 Web: www.craigprint.co.nz
 Email: sales@craigprint.co.nz

ANOTHER GOLD MEDAL FOR CRAIGS!

At the prestigious NZ 'Pride In Print' Awards held in Christchurch, June 2007, Craigs Design & Print were awarded a

GOLD MEDAL

for Excellence in Production of their fine Publication of

**TRUCKS
 A VINTAGE COLLECTION**

In the first year of release, 5000 copies have been sold.

WHY YOUR INITIAL STAFF ENTHUSIASM WANES

Through a process of participative decision making, your staff enthusiastically agreed to undertake that new initiative - but you've noticed that the initial exuberance has begun to wane. Why has this happened?

One of the following factors, or a combination of them could be at the root of the problem:

- You took too long to get the initiative started after the planning phase. In the meantime, other interests or imperatives have intervened and your staff have "cooled off".
- In the initial planning stage, you may not have taken account of unanticipated events or conditions that can distract your staff. Did you spend time trying to foresee such obstacles?
- The momentum of plans that span holiday periods runs the risk of slowing down. Timing is an essential ingredient of any new initiative.
- Did you set reasonable objectives that were attainable? Or were your staff like the greyhound chasing the rabbit at the dog track - kept running, but never able to catch the wretched thing!
- If your staff are having difficulty with some activity early in the programme, they could drop their bundle.
- You may have failed to plan periodic feedback sessions to identify and remedy difficulties encountered. Feedback and evaluation keep interest high.

Remember - planning begets confidence, confidence begets enthusiasm and enthusiasm conquers the world.

And you can gain staff commitment.

SOUTHLAND GOLD CARD BENEFITS



Is your Business listed in our Catalogue?

Become a Membership Partner
PROMOTE YOUR BUSINESS THROUGH GOLD CARD

Call us now to arrange your promotion

**Chamber of Commerce
 Phone 03 218 7188**

"I demonstrate the art of leadership with a simple piece of string placed on a table. Pull the string, and it will follow wherever you wish. Push it and it will go nowhere at all. It's just that way when it comes to leading people."

Good advice from wartime commander and later US President, Dwight D. Eisenhower.

BE WARY OF TAKEOVER OFFERS

There has been a rash of takeover offers for New Zealand companies over recent months, and we may see many more over the remainder of this year. Recent news of a potential offer for Auckland Airport highlights the increased activity in mergers & acquisitions. It is typical for takeover activity to increase at this point in the cycle when earnings are beginning to slow and companies are seeking to maintain growth by taking over other companies. Takeovers are great for the short-term performance of a share portfolio. The Auckland Airport share price rose 15% in the wake of the offer to certain shareholders by a Canadian pension fund. However, this gain is like a sugar rush, it doesn't last long, and when the company has been taken over you often feel worse than you did originally.

There is a view that Kiwi investors have, in general terms, been too quick to accept takeover offers in the past. Recent examples include Waste Management and Capital Properties, both of which would today be worth a great deal more than the price at which they were taken over.

Many of our top companies are potential takeover targets including Auckland Airport, Fletcher Building, Telecom, Contact Energy, Sky City, Fisher & Paykel Healthcare, Fisher & Paykel Appliances and The Warehouse. Losing any of these companies would be a shame, and losing all of them would seriously hollow out our market and vastly reduce the local investment universe.

It is time for shareholders to dig their toes in and reject offers that are pitched too low, or are for an asset that should continue to be an excellent long-term investment. Auckland Airport is a classic case. It is one of our premium listed companies and should continue to be a good investment for many years to come with its land bank, defensive income streams and strong market position.

The danger is that it is easy to be dazzled by an offer price that might be 30% above the recent price and thus looks very attractive. However, this price may look pathetic in 10 or 15 years time. Staying with Auckland Airport, the price has been trading around \$2.20 most of this year, and has spiked to \$3.30 since the offer was made. That's a gain of 50% in the space of a few weeks. Little wonder that many shareholders think about selling and locking in the gain.

However, what will the share price be in 10 years time after the company has built its new runway and new terminal and has developed more of its 150 hectares of bare land? It is impossible to forecast that far out, but the price could be double or triple the current price. On top of this are the dividends that would be paid along the way.

All takeover offers should be considered with a cool head. Some of the issues we consider when assessing takeover offers are as follows.

We tend to accept offers when we believe;

1. The price is compelling relative to fundamental value
2. The offer is supported by the independent report and independent directors (although there have been instances where we have dismissed the recommendations of both)
3. There are better alternatives for reinvestment
4. We see a mixed outlook for the company
5. In the event that the offer is withdrawn we see significant price weakness below the pre-bid price that may be difficult to recoup on fundamentals in the medium term.

In essence, we accept offers that we regard as a get-out-of-jail card in that, in our assessment, the potential risks facing a company and share price downside, outweigh the potential upside from continuing to hold the company.

We reject offers when;

1. The company is one that we believe is irreplaceable in portfolios as a long-term high-quality holding
2. The price is too light
3. Any potential softness in the price should the offer be withdrawn should, over time, be corrected by the fundamentals of the business. There is always tension around takeover offers that adds to the pressure on shareholders to accept offers. It is very important when considering offers to weigh up the facts and ignore emotive statements from interested parties.

WHAT DO YOU SAY AFTER "HELLO"?

We naturally like to talk about family, leisure activities and community interests. While we may be passionate about our business, we can crush a conversation. Beware of monopolising the conversation and talking about your business. You have two ears and one mouth and you are more stimulating when you use them in that ratio!

Your new-found friend is impressed when they have done all the talking and you have done all the listening. Ask open ended questions – what, when, why, where and who.

"Who would be your ideal client as I may already have some of those clients who fit that profile?" Provide a referral at this point if one comes to mind. Write their details on the back of your business card and hand to your contact.

Keep the conversation flowing – resist the urge to interrupt with what you have to contribute. Pauses are powerful. Enjoy the pause and wait. Some of the most valuable information is shared after the pause.

Develop the conversation with genuine interest and sincerity to build rapport with your new potential strategic partner. Focus on them and their opinions rather than "what's in it for you".

Be early or on time to functions and leave last. Being late is rude and an interruption. The best networking is done on arrival with fewer numbers of people.

If alcoholic beverages are served then moderation is the key. Many business professionals have embarrassed themselves and their company associate by over-indulging. The refreshments are provided to lubricate not intoxicate!

When you are clear about your purpose for attending networking functions your time investment is productive.

COMPANY CONSTITUTIONS

Nowadays, more people are using Companies as their preferred business entity.

Many people are forming their own Companies and neglecting to turn their minds to whether they should also be adopting a Company Constitution.

In the absence of a Constitution, the Company will be governed solely by the Companies Act 1993 ("the Act") and as such, there may be some key considerations which are overlooked by the Directors or Shareholders.

A Constitution allows the Company to negate certain presumptions under the Act such as:

1. Each share has an equal voting right unless your constitution provides otherwise.
2. Pre-emptive rights for share issues. A company must make a new issue pro-rata to all shareholders unless the constitution provides otherwise.
3. The directors have power to issue shares. You may wish to make an issue subject to shareholders approval instead.
4. The chairman does not have a casting vote at a shareholder meeting unless the constitution provides otherwise.
5. A director can vote even if they have an interest in a particular transaction. Most companies have articles which allow a director to vote in these circumstances. If it is not desired a specific provision should be included in the constitution of the company.

There are also a number of optional provisions you may wish to include in the Constitution which:

1. Permit a company to acquire its own shares. This allows the directors to buy out a retiring shareholder.
2. Permit the company to give financial assistance to others to purchase the company shares. This allows the directors to give financial assistance to a new shareholder to become involved in the business, or may allow the company to assist existing or new shareholders to buy out a retiring shareholder.
3. Indemnify or insure directors and employees in respect of claims brought against them.
4. Allow the directors to appoint a liquidator. The shareholders would normally exercise this power.
5. Pre-emptive rights for existing shares. If you want these as between existing shareholders you must include them in the company constitution.

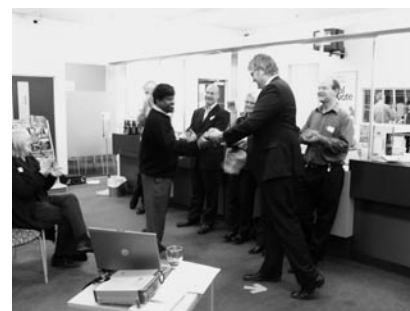
A Constitution is an important document which you and your Lawyer should draft together to ensure your requirements are met. To form a Company may be easy given the internet but understanding and drafting a Constitution is something that is often overlooked and can cause difficulties for an uninformed shareholder or director. See your Lawyer first.

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

The Kiwibank staff proved they are as good at running a BA5 as they are at looking after your banking needs.

Kiwibank is most certainly a 'people' bank and the team of Glenn, Clayre and Grace proved that to a good sized group that gathered in the Don Street Post Shop on Thursday 12th July. Business Banking Regional Manager Helen Hatchard presented a brief overview of Kiwibank Business Banking and how it can assist your company. The main aim of Kiwibank is to get to know your business, to learn your requirements and to work alongside you to set up a banking package designed to leave you free to get on with the running of your company, which is vital if you have a small to medium size business. They are dedicated to getting the best return for your business.

There are three hundred branches in New Zealand. New Zealand Post is the parent of Kiwibank and handles the day to day transactional business. A full range of products is offered from the traditional style of banking through to text banking plus many other benefits too numerous to mention here. Kiwibank has proved to be a success par excellence in the short time it has been in existence, as the half million customers they have will attest.



So often we continue a habit without considering whether it serves us best or not. Banking is one area this certainly extends to. Perhaps it is time for you to check out Kiwibank and see what they can offer your business.

Bruce Beckingsale and Kana Shanmuganathan won the business card draws, every attendee was presented with a small gift, and we thank Kiwibank and New Zealand Post for their generosity in these prizes and for putting on such a great, friendly, informative evening.

NEW MEMBER

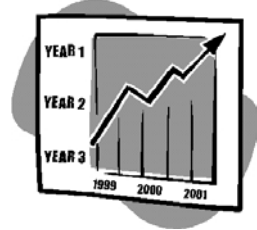
HEWITSON & ASSOCIATES

Accountants

Hewitson and Associates was formed in 1997, a move from Hewitson Taxation Services, when the founder, Darryl Hewitson saw a need for more personalised accounting services.

Situated upstairs in Dee Street, Invercargill, the four Associates specialise in rural, small, medium business practice and agricultural contract work.

They are a caring firm wanting the best for their clients, offering a flexible service, being more than happy to make farm or workplace visits. After hours visits are also catered for to fit in with their clients' busy lifestyles. Their 'open door' policy has worked well for them and this is a busy, thriving business.



Phone: 03 214 2328 • Fax: 03 214 2329

Mobile: 027 243 2395

P O Box 1599, Invercargill

Email darryl@hewitsons.co.nz

TOP 5

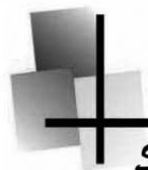
Is your office looking a bit wrinkly? If so, it's just reflecting a growing trend towards more older people in our workplace, according to a recent labour Department report.

- It's been dubbed 'the quiet revolution', the growth in the number of people aged 50 plus in work. Their ranks more than doubled between June 1991 and June 2005, from 267,000 to 547,000. As at September 2006 those aged 50 - 64 accounted for about a quarter of our total workforce.
- As the baby boomers age, not only are there more in the 50 to 64 age group (those defined as older workers), they're also working more. By September 2005, 77% were working compared with just 57% in 1991.
- Over the past 15 years, the biggest participation jump has been among those aged 60 to 64 (no doubt due, in part, to changes in the age threshold for NZ Super during this period).
- (Older) sisters have been doing it for themselves. The labour force participation rate for women in the 50 to 64 age group has grown faster than that of men.
- Despite a perception the chronologically challenged prefer to work part time or for themselves, the report found no increase in these proportions to bear this out.

Source: *Older People in Work: Key Trends and Patterns 1991-2005, Department of Labour (February 2007)*

Reprinted with permission of Fiona Rotherham, Editor Unlimited Magazine, April 2007

NEW MEMBER



TILE CENTRE

Southland's largest range of tiles

The Tile Centre, located in Nith Street, just around the corner from Tay Street, is well worth visiting - whether you need to purchase tiles or not.

Tiles made worldwide, including a good variety of locally produced tiles, are on display, offering a full range of colours, textures, patterns and designs, which will stimulate even the most unimaginative mind. Tiles are not limited to inside areas - launch out your creative side and create a backyard feature. An experienced, creative sales staff is more than happy to assist, plus there is a qualified technical tile laying team available. Contact the team at the Tile Centre for a free quote.



TILE CENTRE

6 Nith Street

Invercargill 9840

Phone: 03 218 7713 • Fax: 03 218 7712

Email: info@4tiles.co.nz • Web: www.4tiles.co.nz

Working together in the interests of
Southland exporters with principal
sponsor **South Port NZ**



Trade Events and Fairs

Tell us your request we will find it

APPAREL

Fashion Exposed Melbourne
September 07

BUSINESS EXPO - General

Small Business Expo
Christchurch August 07

ENERGY

Oil & Gas Expo & Conference
Singapore December 08

ENGINEERING

Controls, Automation,
Instrumentation, Laboratory Singapore
Nov 07

ENVIRONMENT

Enviro Expo Singapore Nov 07

FOOD & HOSPITALITY

**Food & Hotel Equipment &
Supplies** Vietnam April 08

**Food & Hospitality & Specialist
expo events** (largest in Asia)
Singapore April 08

Foodhotel Expo Ho Chi Minh City
Nov 07

TIMBER & FORESTRY

International Forestry Trade Fair
Jonkoping Sweden June 2009

RETAIL

NZ Gift Fair – Auckland October 07

Checkout the full details:
www.commercesouth.com
bglobal - Expo's & Fairs

Live all you can; it's a mistake not to.

It doesn't so much matter what you do in particular, so long as you have your life.

If you haven't had that, what have you had?

Henry James

Export page sponsored by

HSBC  The world's local bank

It's more than twenty years since the New Zealand dollar has been so strong against the US dollar, a circumstance which rightly bothers agricultural exporters. After all, many of their contracts are written in US dollars, so that despite comparatively high global prices their New Zealand dollar returns are a lot less than they might have expected at the beginning of the year.

The New Zealand dollar has reached these stellar heights, moreover, at the same time as the Reserve Bank of New Zealand has acquired the authority to intervene in foreign exchange markets to stabilize the currency. Since the middle of the year the RBNZ has actively and publicly intervened, declaring that the currency is overvalued. The result, at least well into the middle part of this year, is that the currency simply went higher.

How can the New Zealand dollar trade higher if the central bank is working to drive it lower? Is "intervention" worthwhile? Will the RBNZ eventually achieve its objective?

In one sense the RBNZ intervention is a pretty good bet for the central bank. Intervening to drive the currency down, the central bank sells New Zealand dollars and buys US dollars. This should make New Zealand dollars less expensive in the market and US dollars more expensive. Since the RBNZ has the authority as a central bank to create as many New Zealand dollars as it likes it is not constrained by its stock of foreign exchange – as it might be if it was wishing to drive the New Zealand dollar up.

If it has picked the level correctly then at some point in the next few years the US dollars it buys today should be worth a lot more in terms

of New Zealand dollars than the RBNZ paid for them. It is therefore adding to its foreign exchange reserves at a comparatively cheap cost and it should be able to show a profit on the deal over a period of years.

But while it may make a profit, it won't necessarily influence the market – and hasn't. This is because the foreign exchange market these days is just too big. In the months of June alone, for example, New Zealand dollar foreign currency transactions just in the New Zealand market alone totaled \$350 billion. On a typical day – June 18, for example – foreign currency transactions through the New Zealand market totaled over \$10 billion.

In addition to these transactions, there are many more New Zealand dollar transactions in Sydney, Tokyo, Hong Kong, Singapore, London and New York. In all these markets and the New Zealand market traders are guided by the interest rate differences between currencies, or by credit standing, or by temporary speculative flows. The likelihood of RBNZ buying and selling a few billion New Zealand dollars might influence pricing at the margin, but won't change the basic trajectory of levels of the market.

The brutal and unavoidable fact is that the New Zealand dollar is very high because the New Zealand interest rates are high, and they are high because the RBNZ put them there. It had good reasons to do so, but it is ungracious to then turn around and complain about the consequences for the New Zealand dollar.

John Edwards

Chief Economist HSBC Bank Australia and New Zealand

CHAMBER OFFICE MOVE

As from the 25th July the Chamber Office will be relocated to the first floor of the Menzies Building while our building alterations are carried out. It is expected we will be in this location until the beginning of October but we will keep you informed.