METTLE

ISSUE SEVENTEEN

METTLE, a collection of stories and interviews with influential New Zealand business leaders, curated by MinterEllisonRuddWatts.

WELCOME TO ISSUE 17 OF METTLE.

Rarely, if ever, have I had the question 'what's next?' thrown at me more than over the past few weeks and months. As the world works to regain its footing following a global pandemic, we are challenged by political instability, rising inflation and energy crises. The need to look ahead has become more than pressing; it is now urgent and vital to ongoing business success.

MEttle seeks to inform your thinking by sharing insights from New Zealand's leading company board chairs, directors and chief executives.

In this issue, we examine topics as diverse as New Zealand's energy challenges and opportunities for decarbonisation; tips to avoid greenwashing as ESG reporting requirements grow; and how our business environment is likely to adapt as a result of 'three great deflations' ending.

By asking questions and providing insights in this publication, and as a firm, we seek to share perspectives that are useful as you lead your organisations and shape New Zealand's future.

I hope you enjoy the views, insights and opportunities revealed in this issue of MEttle.

Sarah Sinclair, Chair, MinterEllisonRuddWatts

QUESTIONS, QUESTIONS, QUESTIONS.

As we emerge from two and half years of pandemic-powered pandemonium, the questions begin to materialise. Questions like ‘what have we learned from it all?’, ‘what’s next?’, ‘what sort of correction is coming?’ and ‘how will our business environment adapt as a result?’.

As energy and inflationary cost of living crises grip the world and climate change demands attention, New Zealand begins to look ahead to an election year in 2023, which will prompt even more questions for the business sector.

Fortunately, MEttle is able to direct these questions to a phenomenal pool of people at the forefront of New Zealand’s business world. First, we asked New Zealand’s top corporate leaders to identify lessons from their own pandemic experience, drawing out insights that will drive future growth and organisational success.

We also discuss the economic forecast with Sharon Zollner, ANZ’s Chief Economist, Sean Keane, Founder and Managing Director of Triple T and non-executive director of Jarden, and Mark Averill, CEO and Senior Partner at PwC New Zealand. They share their views on the factors behind the current economic environment, what they anticipate is next, and how New Zealand businesses should prepare.

Climate change litigation cases continue to rise around the world, and organisations are treading a careful line between setting targets and reporting on ESG progress while avoiding greenwashing. MEttle talked to Lloyd Kavanagh, Senior Partner at MinterEllisonRuddWatts, an acknowledged expert on the governance requirements of ESG statements, processes, outcomes, and risks. We also asked Nick Traber, Chief Executive of Fletcher Building Concrete, about how this all works in practice for one of the most scrutinised materials on the planet: concrete.

As we head towards the 2023 General Election, the stage is set for co-governance to be a keenly debated. MEttle spoke to notable director and Chair of Te Whatu Ora Health New Zealand, Rob Campbell CNZM, and former Attorney-General and Minister for Treaty of Waitangi Negotiations, Chris Finlayson KC, to gain their understanding, views, and insights.

And if that were not enough, MEttle posed questions on the front-burner topic of New Zealand’s energy resilience to four exceptional sector leaders: Vince Hawksworth, CEO of Mercury NZ and former CEO of Trustpower, Fraser Whineray, Chief Operating Officer of Fonterra and previous CEO of Mercury NZ, Simon Mackenzie, Group Chief Executive of Vector, and Amy Barrett, New Zealand Country Manager for Fortescue, a large Australian iron ore miner on a mission to decarbonise.

We hope this issue of MEttle answers a few questions you might have and provokes thought for the future.

Mark Forman, Partner – Corporate and Commercial

THE VIEW AHEAD ABOVE THE STORM

SEISMIC SHIFTS ARE UNDER WAY AS MULTI-DECADE GLOBAL TRENDS END, AND THE WORLD'S GEOPOLITICAL AND FINANCIAL TECTONIC PLATES MOVE

Everywhere you look, dark clouds are in view. The combined challenges of war, pestilence, climate change and inflation – described with dramatic intent by some commentators as The Four Horsemen of the Apocalypse – are creating a spectre of a global future that few currently dare to name: the R-word.

In undoubtedly turbulent times, MEttle asks three leading financial experts to look above the tempest to describe what in their view is causing the current environment in which we find ourselves, what they anticipate is coming next, and how New Zealand businesses should prepare, adapt, and change over the next five to ten years to drive their future success.

Sean Keane has a career that spans 35 years within the financial sector in a variety of senior roles. As Founder and Managing Director of Triple T, he provides policy advice to central banks and regulatory authorities in Asia-Pacific as well as market analysis and interpretation to a variety of hedge funds, asset managers and commercial banks around the world. In 2012, Sean joined Jarden as a non-executive director, and he is also Chair of Pearlfisher Capital.

Sharon Zollner joined ANZ's Economics team in 2010, becoming Chief Economist in late 2017. She started her career as a macroeconomist at the Reserve Bank of New Zealand in 1998 and has also worked at the Central Bank of Norway.

"We can't ignore the fact that we have not operated in an inflationary environment for a very long time. There are many business and political leaders that have no experience of it."

Sean Keane, Triple T

Mark Averill is CEO and Senior Partner at PwC New Zealand. Since 2016, he has been responsible for the executive leadership, strategy, and all aspects of the New Zealand firm's relationship with other PwC member firms and PwC Global. He sits on the PwC New Zealand Board, PwC Asia Pacific Leadership Team and PwC Americas-Asia Pacific Leadership Team. He brings more than 35 years' experience, including over 20 years as a Partner at PwC.

THE DEATH OF THE THREE GREAT DEFLATIONS

Mark Averill begins by acknowledging the extraordinary pace of change we've seen in recent years and that we are all leaning into some new realities.

"When you look at the megatrends, the global environmental factors reshaping the world we live in, these are all changing at an incredible rate. From shifts in global economic power, demographic and social division, technological advancements, as well as climate change and increasing resource scarcity, there is no doubt we're experiencing an interesting time in history."

"All these challenges are bringing the threat of dark clouds, such as geo-political tensions, wars, post-Covid supply issues, an inflationary environment, as well as global warming and an energy crisis – to name but a few."

"To solve these complex and difficult issues it will take strong and bold leadership. But we can't ignore the fact that we have not operated in an inflationary environment for a very long time. There are many business and political leaders that have no experience of it, and for those who have, it's well in the past and the memory of it is long gone. Leaders are navigating an unknown path which adds to the challenge."

Sean Keane picks up this baton, agreeing that right now there is plenty to occupy executive leadership teams. Specifically, he cites the end of 'three great deflations' from which we have all benefited significantly over the last 30 years.

"The three great deflations have changed the way the world and businesses operate, including how we plan our supply chains and manage our labour markets. Their departure has also brought an end to the era of ultra-cheap money, and the financial repression of zero and even negative interest rates. There is now much greater awareness that the costs of doing business are higher, that the certainty of supply is lower and that the world is now a much more complex and dangerous place."

The first great deflation Keane talks about is globalisation, and the opening of markets such as China, and to a lesser extent India, Mexico, parts of Latin America and some of North Africa.

"Globalisation over the last three decades brought more than a billion people into the supply chain as producers and consumers of goods that were manufactured in emerging markets at a much lower cost than was previously available. New factories and manufacturing facilities massively increased production and output, quality improved, and consumer prices actually fell. The resulting goods deflation delivered an economic tailwind the entire world has enjoyed.

"Peak globalisation had likely peaked even before Covid as various countries began displaying more protectionist tendencies towards trade, and the pandemic accelerated the downtrend by lowering confidence in the robustness of the global supply chain. The response has been an increase in nearshoring and onshoring of production, as organisations and governments accept that there is an uncomfortable trade-off between security of supply and the cost of production. The outcome is more production being undertaken closer to home, but at a higher cost."

The second great deflation that peaked during the pandemic was the relatively easy movement of cheap labour across international borders. Keane states that "globalisation and the establishment of long multi-faceted supply chains created demand for cheap labour that brought workers from emerging economies into the global market. Pre-Brexit Britain welcomed qualified workers from Poland and eastern Europe into the UK. They brought needed services and skills that helped keep prices down. The combination of lower labour costs and cheaper goods imports delivered lower prices and goods deflation to consumers. Companies were able to hold their prices while still making more money."

The last great deflation is all about energy. Keane cites the example of Germany signing up to take Russian energy exclusively, which made them almost 100% dependent on Russia.

"This undoubtedly gave the German economy a great deal in terms of price, but it came at the cost of national security. Much of the German economic miracle of the past 35 years was based on very cheap energy inputs, that allowed the German automotive and heavy industry to thrive. The energy subsidy has now been removed following the Russian invasion of Ukraine, and German's are consequently having to adapt to triple digit increases in energy costs."

WALKING THE TIGHTROPE OF FRIENDSHORING AMID GEOPOLITICAL CHANGE

Connected to these dying deflations are the tectonic changes happening in the geopolitical landscape, such as the Ukraine conflict and the rise of China, creating navigational challenges for New Zealand and organisations based here. Averill cautions that global geopolitical change means New Zealand's positioning on these factors has an important impact on business.

This is supported by Keane, who says that "New Zealand has walked the narrow line between West and East well, but we are at a point where we're going to have to make a call one way or another. The Americans are pushing for a harder line on China, and it's a role that Australia has willingly accepted. Our New Zealand Defence policy is effectively 'Australia', and they are saying to us: 'you're hiding under the umbrella of our protection, but taking advantage of these opportunities to occupy markets Australia is now blocked from because we've spoken up'.

"New Zealand has walked the narrow line between West and East well, but we are at a point where we're going to have to make a call one way or another."

Sean Keane, Triple T

"However, New Zealand's reliance on China is huge, with \$21.5 billion in exports and \$15.5 billion in imports. New Zealand's exports are heavily focussed on the Primary sector, with dairy production leading the way. Our export basket is narrower than Australia's, however, and we have fewer industries to fall back on in difficult times. For a long period now, we have enjoyed the benefits of China's demand for our dairy products and baby milk powder as there are few reliable suppliers elsewhere.

"Unless we get access into the US, we must continue to sell where the market is, but we need to work hard to lessen our reliance on China because we are too vulnerable to a single market. The US has said that it wants to aid its friends in the region, otherwise known as friendshoring, and that could provide us with the opportunity to build business in the US and diversify away from the China concentration risk."

THE END OF THE DEBT SUPER-CYCLE AND GLOBAL LABOUR MOVEMENT

Sharon Zollner says it feels like we have come to the end of a debt super-cycle, that has lasted decades.

"For a long time globally, we have finished every business cycle with lower interest rates and more debt than we finished the last one. Interest rates have been trending down for 30 years. How many investors can remember a period when that wasn't the case? Part of that reflects the very welcome initial success of inflation targeting in bringing inflation down, then global deflationary forces took up the baton, and in recent years the extreme lows of interest rates have been more about policy choices – and, with hindsight – mistakes.

"However, the unintended consequence of interest rates trending ever lower is that people have been able to take on much more debt. That's fine as long as interest rates are low to lower. But we are now at a sharp turning point, and it's a bit messy and has the potential to become a lot more so, depending on how high inflation and therefore interest rates end up going."

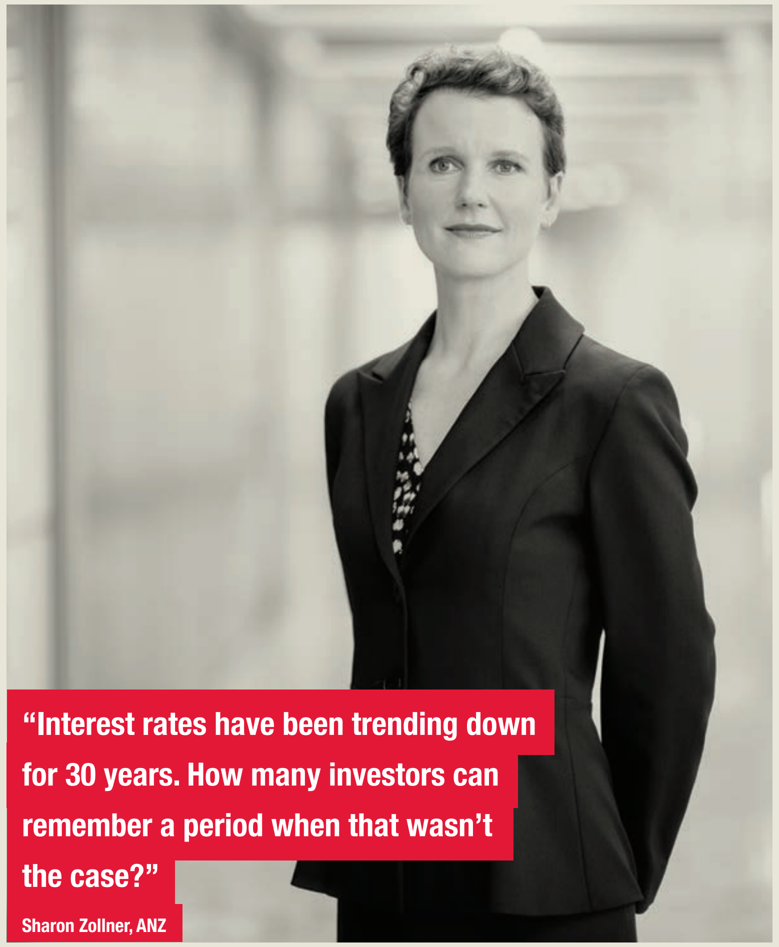
Zollner says that she is seeing this everywhere.

"The level of global debt – including government, business and household debt – has risen in response to the incentives and opportunities presented by a low interest rate environment. Central banks are raising interest rates at a startling speed in response to dramatically higher inflation.

"While there is concern about how borrowers will cope with the abrupt change, given high levels of debt, the fact is real interest rates are still relatively low currently. In the New Zealand context, the highest mortgage interest rate is only a smidge higher than CPI inflation – and lower than wage inflation. We've had real interest rates much higher in the past than they are today – but not with global debt at these levels. So the angst about how this could all play out is well founded. The consequences will play out over a medium-term timeframe."

At the time of MEttle's interviews, the 2 year swap rate touched 5% for the first time since October 2008. Keane agrees that interest rates are higher than they were, while agreeing with Zollner that it is not particularly unusual.

"The swap market began in New Zealand in the mid-1980s and the average rate over the 40-year period is circa 4.96%, so interest rates have gone up a lot, but overall, we're back to the average over time."



"Interest rates have been trending down for 30 years. How many investors can remember a period when that wasn't the case?"

Sharon Zollner, ANZ

Where it began to turn, says Keane, was Covid and the interruption of supply chain, followed by the Russian invasion of Ukraine and the interruption of food, oil, and natural gas supplies. These caused a squeeze on inflation which was compounded by the lack of movement and availability of labour.

"Everywhere there is a shortage of labour," he says. "And where did the labour force go? They have all been forced to go home. Everyone's supply of labour has been interrupted and that's caused a huge challenge where inflation is now becoming self-reinforcing."

"Where did the labour force go? They have all been forced to go home."

Sean Keane, Triple T

TIME FOR A CONTROLLED BURN TO AVOID A GREAT CONFLAGRATION?

Zollner predicts that after a demand boom such as the world has seen in recent years, some degree of 'bust' is inevitable, whether deliberately engineered by central banks or precipitated by something else. Either way, part of the healing process will be that we must pay the piper.

"Recessions are like controlled burns in a forest; they are scary but necessary. If you don't allow them to happen, and thereby remind people that risk is a thing, you're potentially piling up fuel for a great conflagration. That's my biggest concern for the next 5 years: the fix-it-quick strategies we've been relying on are hitting their limits.

"Typically, when equities or the property market fall and economies go into recession, policy-makers rectify it by increasing government spending, printing money or cutting interest rates. But inflation limits central banks' ability to cut interest rates, and many countries have levels of fiscal debt that are unsustainable. Rich countries have behaved like developing economies for several years, running any level of deficit they want and thinking it won't have any long-term consequences.

"'Deficits don't matter' fails the 'too good to be true' test."

Sharon Zollner, ANZ

"The extreme of this notion is 'modern monetary theory', which implies that deficits don't matter a jot; if you issue debt in your own currency you can just keep selling it to yourself indefinitely, with no difficult choices required. This fails the 'too good to be true' test. What happened in the UK recently was a shock to the system and showed fiscal policy has limits too – and they're not far off for some countries. If you play fast and loose with the market's trust that you're a reliable player, you will lose the ability to issue debt in your own currency on acceptable terms. People haven't wanted to believe it, but the market has a way of imposing limits itself when things have gone too far.

"If your debt is in your own country and it gets to a level where it becomes problematic – where paying interest on it chews up big chunks of your budget – the markets may start to question its sustainability. If the wall starts approaching, there are three options: Firstly, austerity forever; second, you can default, which would bring down large parts of your financial system; or as a last option you can inflate it away. One of those solutions is a lot less painful than the others and has been chosen by politicians' repeatedly over history.

"The whole future of inflation targeting is up for grabs at this point. We are assuming that politicians will allow central banks to do what is required to get it back to target and accept the consequences. This is a large assumption. Inflation targets could be raised. The whole regime could be parked for a few years. It's not written in stone."

Keane looks back to the 1980s, when central banks were given the mandate to control inflation, saying that every cycle of government has stepped back in terms of economic management.

"The economy works with two levers: monetary and fiscal policies. Up until the mid-1980s, governments ran the economy and would add liquidity through fiscal stimulus, or withdraw it through reductions in spending, and the economy would thus speed up or slow down, and inflation would rise or fall.

"Since the late 1980s, when central banks were first given the mandate to control inflation, governments have stepped back in terms of their direct economic involvement, and they have outsourced responsibility for economic management to their central banks.. This was entirely appropriate at that time as the western world was suffering from both high levels of unemployment and high levels of inflation, and the political appetite to bring inflation under control via direct government action was lacking.

"That approach was maintained for at least 10 years too long however, and one of the reasons that we ended up with over-inflated equity markets and asset prices is because central banks kept rates too low for too long in pursuit of their inflation mandate. When the traditional monetary policy interest rate tool proved ineffective in raising (rather than lowering) inflation the central banks deployed unconventional policies such as buying government bonds and other assets to stimulate risk appetite and demand.

"What should have happened was that as interest rates fell below approximately 2%, governments should have become more fiscally active via cuts in direct and indirect taxation, which would have reduced the pressure on the central bank and interest rate policy. This would have allowed interest rates to remain close to 2%, and avoided some of the distortions – both social and economic – that inevitably result from central bank decisions that target specific asset prices. In many cases these decisions have had the unintended outcome of widening inequality and left the central bank open to accusations that it is acting well beyond its mandate."

WHAT IS THE LIKELY OUTCOME?

Keane suggests in Q1 and Q2 2023 we will see a rise in global unemployment.

"It's not a popular view, but it will happen. In New Zealand we're close to the lowest unemployment rate we have ever had, and you don't get a recession or a slowdown with unemployment this low. The central bank therefore needs to engineer a higher level of unemployment to achieve a better balance between supply and demand in the domestic economy. That will slow consumption and allow employers to resist increasing wage demands that will inevitably result in the stagflation that is delivered by a wage-price spiral.

"As unemployment rises, central banks will execute on their mandate, which is inflation targeting."

He points out that for this rebalancing to take place, government must recognise that rising unemployment is a necessary part of the adjustment, and that they resist the political temptation to put pressure on the central bank to add more stimulus.

"It is uncomfortable, but we need to accept a higher level of unemployment. All we've done by pushing interest rates down to such extraordinary low levels in recent years is pull forward consumption. There has to be a period now where we flatline and growth slows – but that is an uncomfortable state which we are going to find out with house prices."

Zollner agrees.

"Every business cycle ends with a recession by definition, so I am confident this one will as well! We have been living beyond our means globally for a long time. Here in New Zealand our current account deficit has blown out to 8%, which is the same as it was just before the Global Financial Crisis. That's a reflection of the unsustainability of our recent spending.

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Sharon Zollner, ANZ

"Unfortunately for millennials, they have borne the brunt of the whole Covid policy response. This includes the decline in housing affordability and the overall debt they've had to take on to get into the market – which is now falling and putting them into negative equity. The fiscal response will affect them most as they are the ones who are going to be paying the debt back. And when you consider things like mental health and school dropout rates, its clear young adults have paid a high price for the health response as well, largely for the benefit of a different demographic cohort. All of these things will have consequences for 50 years."

She suggests that while uncertainty is extreme, it is useful to look back to at least the 1970s when considering the range of potential outcomes.

"We must open our minds to possibilities that we thought had been ruled out."

SO, WHAT CAN COMPANIES DO?

Mark Averill says that despite the dark clouds ahead, there are shards of light which give reason to be optimistic.

"There is no doubt that the change we've seen will only continue – in fact it's inevitable and is likely to happen at a much faster pace. Through this uncertainty there is also optimism. This has come from the resilience demonstrated over the last decade and proven business economies."

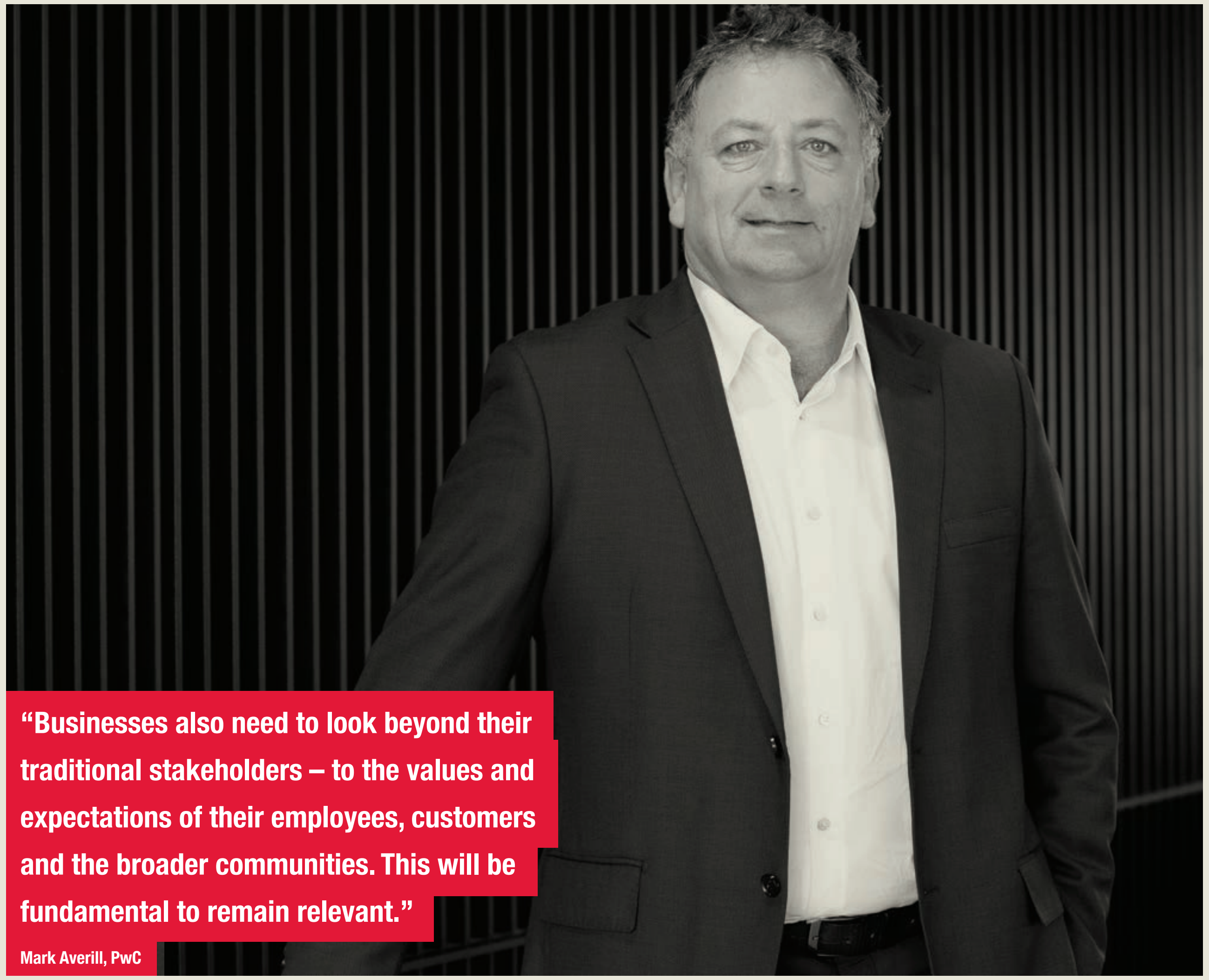
He adds that what we do over the next two years will significantly influence how we fare over the next ten. This requires new approaches – and new levels of agility – from business.

"How you adapt now will be a big determinant in your long-term success. Organisations need to be increasingly agile within this environment. I look at the situation with Ukraine, businesses made the decision to exit Russia in 14 days. The pace at which businesses are responding has quickened dramatically."

He believes that to meet this demand the operating rhythm of the boardroom needs to be more agile.

"Gone are the days of only long-term planning. Instead, you need to continually assess – and reassess – in order to adapt to the changing environment."

Looking ahead, Averill says that nothing short of transformation is going to be the key for leaders of organisations.



"Businesses also need to look beyond their traditional stakeholders – to the values and expectations of their employees, customers and the broader communities. This will be fundamental to remain relevant."

Mark Averill, PwC

"Transformation is essential to remain fit for the future – it's a non-negotiable. However, this can be cumbersome for larger organisations. Around the world we're seeing many simplify or diversify their portfolios to deal with the transition. Once through the change, once they're fit for the future, they'll then grow and scale."

"And there are some big questions to ask. How do you deal with energy transition, climate change, and the massive reallocation of capital required? This alone will really push change over the next period."

Averill says other areas of transformation needed for greater prosperity include creating a future-fit workforce, and unlocking innovation and entrepreneurship. Trust is also high on the agenda where businesses can no longer just focus on creating shareholder value through their financial performance.

"Businesses also need to look beyond their traditional stakeholders – to the values and expectations of their employees, customers and the broader communities. This will be fundamental to remain relevant. And this is where trust comes in. As the stakes get higher, trust becomes an absolutely essential factor in how businesses operate and deliver their strategic ambitions."

ENERGY

A TOPIC ON THE FRONT BURNER

In November 2022, on the 30th anniversary of the adoption of the United Nations Framework Convention on Climate Change, COP27 convened to consider the next steps required for the world to take decisive climate change action. At the same time, New Zealand continues to tread its path towards a net-zero 2050 'nuclear moment', with industries and organisations all over the country planning and navigating their route towards decarbonisation, which involves a core requirement: to seek secure renewable and alternative energy sources to help them on their journey.

However, this path is neither easy nor straightforward. Living at a time of significant energy issues in Europe and around the world, there now seem to be more challenges and questions for organisations to consider, and many domestic issues to think about, although they sit alongside opportunities.

MEttle posed questions on this front-burner topic to four exceptional energy leaders: Vince Hawksworth, CEO of Mercury NZ and former CEO of Trustpower; Fraser Whineray, Chief Operating Officer of Fonterra and previous CEO of Mercury NZ; Simon Mackenzie, Group Chief Executive of Vector; and Amy Barrett, New Zealand Country Manager for Fortescue – a large Australian iron ore miner on a mission to decarbonise and build a global portfolio of renewable energy projects to help others do the same.

IS NEW ZEALAND IMMUNE TO THE GLOBAL ENERGY CRISIS?

Fraser Whineray says that what is happening around the world, and particularly in Europe, shows how fundamental energy security is to modern economies.

"Electricity is about half of the energy we use in New Zealand. The sector is largely renewable and will be 100% renewable in time, with no cables to overseas countries. That's quite remarkable for an island nation to have a trilemma of security, renewability and long-term cost like we do. It is a massive competitive advantage for us. We can structurally reduce cost and balance of payment burdens for imported energy, and increase the security of all our activity that relies upon energy, through further electrification and renewable heat adoption.

"In my view, every country needs to have their own water, food, energy and capital. If not, you need to be conscious of who is sponsoring your short position, because if that sponsorship stops, then you're very vulnerable.

"We're in a great position, but we are not immune to international cost impacts."

Fraser Whineray, Fonterra

"We're in a great position, but we are not immune to the international cost impacts. Some of New Zealand's coal use is linked to what's happening to global energy prices, which in turn connects us to what is happening in Europe. We must take care of our energy security, because minor security issues drive cost, and without security the social, economic and societal consequences are very severe."

Vince Hawksworth agrees, saying that whilst New Zealand is insulated to some degree, we are exposed to fallout from northern hemisphere circumstances, like inflation in the supply chain for renewables.

"Globally, energy costs and security are two big drivers of geopolitical risk. This risk is shown through either security of supply and/or in price as people try to manage the risk associated with scarcity. This translates into increased demand for new renewable asset investment, increasing pressure on the supply chain and the cost of new renewables. This is particularly evident with the US Inflation Reductions Act, which encourages onshoring of manufacturing that would historically have been outsourced to China."

However, New Zealand is well positioned to de-risk itself from these tensions through its own natural assets, says Hawksworth.

"Geothermal provides good baseload and supply has increased over time, admittedly with a lot of investment. Our wind resource is also high quality. Although initially technologically challenging, this method of energy generation has improved, with around 40%+ generation capacity factor in New Zealand versus the 20% that is common in other markets. Our ability to harness wind is the envy of the world."

He says that Mercury is also seeing the emergence of investors considering grid-connected solar as the price of panels falls.

"If we're talking purely an economic-driven view, this is the right solution for us in New Zealand compared to rooftop solar. The challenge is finding suitably located land close to infrastructure to build large-scale solar farms. In Australia there are deserts with no other use and very high solar hours, but New Zealand is the land of the long white cloud, and our solar hours are different, so location is a highly critical component, resulting in a race for suitable sites.

Amy Barrett agrees that New Zealand is doing well with renewables when compared to other countries. However, she also warns against complacency.

"When you consider our wider energy consumption, we're around 40% renewables, which highlights our continued reliance on fossil fuels.

"We know that if we don't decarbonise, our economy and jobs will suffer. There's an increased international focus on ESG requirements, yet we're sending our products out to the world, which currently involves fossil fuels. The challenge is that we need to be very cognizant of our social licence. This makes decarbonisation an economic imperative, especially for the success of our economy, and not just climate."

"People are searching for the one perfect energy answer, which is simply not possible: it must be a suite of answers."

Amy Barrett, Fortescue

She suggests that as part of meeting the imperative, green hydrogen offers a huge opportunity, stressing all the while that it is part of the overall solution, not the whole solution.

"People can be very absolute and are searching for the one perfect energy answer, which is simply not possible: it needs to be a suite of answers. It is critical we remain open-minded, consider all options, and electrify everything we possibly can to be efficient. Hydrogen fits the gap that electricity can't fill, and this is where green hydrogen and its derivatives – such as ammonia, liquid hydrogen, Sustainable Aviation Fuel (SAF) – can come together to assist decarbonisation.

"We fully endorse electrifying everything possible. However, EVs and batteries have their limitations – in particular for heavier transport needs. Charging time and range limitations are factors. It's about looking at the use cases and determining which technology is fit for purpose. Overcoming the obstacles is a team effort. It's going to be electrification, hydrogen products, and biofuels: nobody can come in and do it by themselves and we can't wait for a perfect solution. We need to open our minds to the combination of solutions that are already emerging and start making those steps now. Even if the steps are small, they are steps. We're good at working together in New Zealand."

Barrett highlights that Fortescue is investing heavily in research and believes we will see green hydrogen and its derivatives in use in New Zealand and around the world in the not-too-distant future.

"At Marsden Point we are working on several potential products which are exciting. They include eSAF, a sustainable aviation fuel made from hydrogen."

In terms of exporting hydrogen from New Zealand, Barrett says there's opportunity, but it needs to be very large scale to be successful, given our distance from international markets.

"International demand is massive, our global Fortescue team has a supply agreement with E.ON in Germany and it is forecasting huge growth which will require investment in production facilities to deliver more over time."

RESILIENCE: THE BIG QUESTION

When considering the suite of opportunities open to New Zealand on the supply side, Hawksworth says the big question in the energy sector is that of resilience.

"The challenge with a renewable future is building resilience so we can handle energy challenges when we have dry years, or peak demand on a cold winter's night when the wind is not blowing and the sun not shining."

Vince Hawksworth, Mercury

"The challenge with a renewable future is building resilience so we can handle energy challenges when we have dry years, or peak demand on a cold winter's night when the wind is not blowing and the sun not shining."

The solutions are many and varied, he adds.

"We need to strike a balance between decarbonisation, sustainability, affordability, and reliability. One opportunity is the piece of work funded by the energy sector through Boston Consulting Group, which undertook an independent study and recently released their findings. The report identified many choices in how we can create a renewable future, and even highlighted a preferred pathway.

"Over the next decade we will see an increase of new renewables through more wind farms, solar, and geothermal. Boston Consulting Group recommended dealing with the issue of an energy shortfall and meeting capacity through the continual utilisation of a small amount of fossil fuels that will gets us to circa 96–98% renewable electricity. By the 2030s we will be moving into a much smarter and sophisticated ecosystem, which will require a different mindset in the sector about what good looks like."

COORDINATING INVESTMENT AND SMOOTHING PEAK DEMAND

Mackenzie says that as we consider resilience, another major question is that as we add more renewables to the system, are we not looking at it holistically from an inter-dependent risk perspective?

"On the decarbonisation journey we're shifting a lot of fossil fuel energy consumption for industry and vehicles to electricity. This exponentially elevates the criticality of electricity, and it becomes one of the most important pieces of infrastructure from an economic perspective for our country. A coordinated investment and decision-making environment is therefore critical. It must be cohesive to consider the step-change required to attract capital, investment funding and credit rating matrix.

"As part of this coordination, we also need to consider the energy zones that are being created. It might be perfect to build a wind farm in the South Island, but what is the point when this load is needed in Auckland, and you spend a huge amount on transmission? We need to move away from the siloed thinking and look at a whole-of-system cost asking, 'how do I get the best economic cost coupled with the reliability and resilience layer that can then meet the affordability objective?'"

He then adds that peak demand is the absolute killer of cost in the industry.

"If you can smooth those peaks out it creates a material benefit that is sustainable. The energy sector is incredibly supply-side oriented and looks at generation, transition and distribution. Even if you look at supply curves now, you'd normally expect some elasticity which comes down to how you put in place types of technology and platforms that enable load to be shifted around to avoid creating peaks."

He adds that research in other markets shows that people don't want to spend their time thinking about when to switch on.

"This enables technology opportunities to manage infrastructure in a more sophisticated and smarter way on both the supply and demand sides, traversing both regulated and non-regulated parts of the energy system."

This is something that Vector is exploring with its global strategic partnership co-development of technology alongside AWS and Google.

"We all share a common perspective of what is needed in the energy sector due to mindset alignment and what we were doing within our market. One frustration is the vast difference in perspective around what the energy sector perceives digital technology can do versus what we see. It requires a full digital transformation step-change in the industry and among regulators to understand what the capabilities are, and we need to think about how to manage things going forward."

Mackenzie stresses that we can't underestimate affordability and how we manage the price path.

"We need to move to a whole-of-system cost. To achieve that we need to enable more customer demand thinking through digital platforms technology. By overlaying the power of data and analytics onto the energy system we can optimise that transition which is currently nowhere where it needs to be."

RENEWABLE IMPACT FOR FUTURE TECHNOLOGY

One aspect of the resilience discussion in recent years is the creation of large-scale renewable energy to cut in at times of peak demand. Within this debate, one energy resilience project option that has enjoyed some airtime is a pumped hydro-project at Lake Onslow. However, Hawksworth is not alone among our interviewees in vocalising a degree of skepticism on its ability to be realised.

"Onslow is a very large project with as yet un-solutioned cost and mechanism to build. Sitting here in 2022, I think it would be difficult for a project like Onslow even if someone decided today that it was the pathway forward. A massive dam, tunnel and major power station would have to be built, and it is difficult to conceive those contracts getting through any form of a competitive process within two years. You'd get started in 2024 and it probably doesn't get into operation until the mid-2030s. The difficulty is what do we do in the meantime? And you'd have to determine how it gets funded and paid for, as we're talking about at least NZD4 billion."

Mackenzie says: "It has been evident for some time there are two well-known stand out issues in the energy system. The first is Tiwai and whether this stays or goes, and if it stays does it pay a fair price, and secondly the material risk (which is increasing) around dry years, both now and longer term. Regarding the latter, there isn't any clear or agreed solution, however all options need to be considered with an open mind."

Other alternatives for managing variable renewables against peak demand (not "Onslow" or "Huntly" scale) include new types of batteries, says Whineray, who expresses excitement about the amount of global R&D, ideas and technology coming through the energy space.

"At Fonterra we are working with Massachusetts Institute of Technology (MIT) to trial a world-first Polyjoule™ battery. This is a new organic, low-cost, safe, sustainable and long-life alternative. It offers an uninterruptible power supply for a brief period, depending on what you have stored. We installed one in Waitoa, as a glitch from the electricity grid on these sensitive UHT packaging machines can lead to a five-hour downtime. With the battery in place, the machine rides through.

"The other application for this technology is buffering renewables. People consume power when and how they want. A Polyjoule™ battery can buffer renewables without using rare-earth materials, and the associated mining consequences. Fonterra is assisting MIT with development of scale use cases for this leading technology. We're pleased to be partnering with

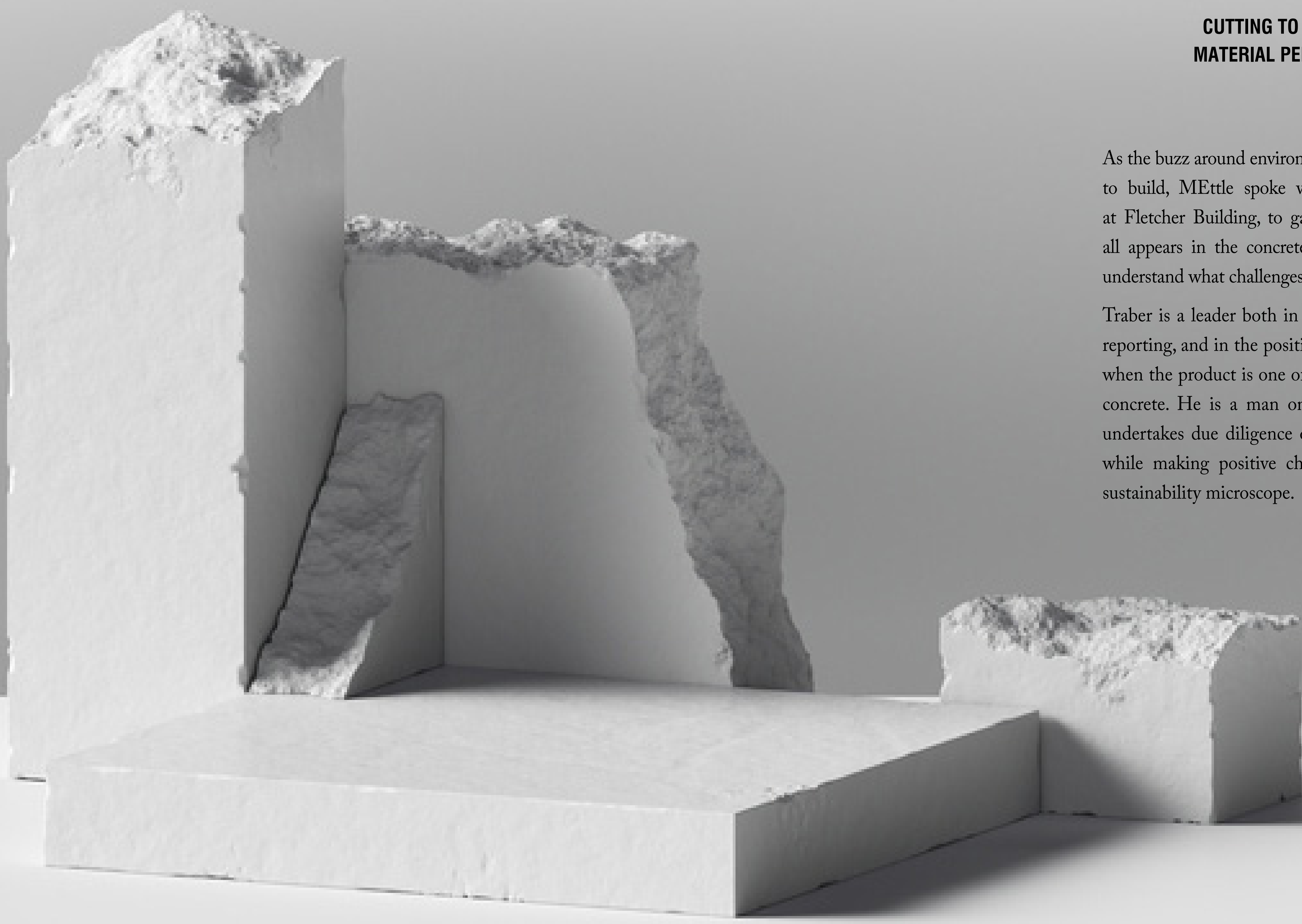
"By overlaying the power of data and analytics onto the energy system we can optimise that transition."

Simon Mackenzie, Vector

MIT at the start of this journey to help prove applications in a real commercial environment."

Whineray then concludes with a useful caution: that concerted, coordinated action across the sector is what is required, as the adage 'every little bit helps' is a dangerous view to hold.

"It assumes we have unlimited resources, and we don't. If we are really serious about sustainability, we have to integrate sustainability with what's good for society. We must think about things as systems, and we must do the sustainability maths on what we prioritise before the memes. There's so much greenwashing going on; a misallocation of scarce time, people, and money against the situation the planet is in. If anything is mis-allocated against the best use of resources, it is making the job much harder."



CONCRETE CLARITY

CUTTING TO THE TRUTHS OF SUSTAINABLE MATERIAL PERFORMANCE AND GOVERNANCE

As the buzz around environmental and climate-related reporting continues to build, MEttle spoke with Nick Traber, Chief Executive Concrete at Fletcher Building, to gather his lessons and insights about how this all appears in the concrete reality of business operations, as well as to understand what challenges and opportunities exist for sustainable growth.

Traber is a leader both in exceptional and clear, detailed environmental reporting, and in the positive impact that it can make to business – even when the product is one of the most scrutinised materials on the planet: concrete. He is a man on a mission to explain how his organisation undertakes due diligence on its internal ESG performance and targets while making positive changes in a sector that is always under the sustainability microscope.

GETTING THE CONTEXT AND THE DATA RIGHT

In his current role for two years now, Nick joined Fletcher Building Concrete from global player, Holcim. An economist by training, and a graduate of the University of Zurich, Harvard Business School and the Singularity University in California, Nick brings significant concrete and cement sector experience to New Zealand from his senior industry roles over the past 20 years, including in Switzerland, Ecuador and Spain.

Saying that he has always loved operations and manufacturing, he admits to having "had a glimpse of several industries: finance, engineering, endurance. Then I landed in the cement industry, which gave me opportunities to take profit and loss responsibility at an early age, plus entrepreneurial thinking. In this industry, I've been to parts of the planet that not many industries would take you."

Unapologetically proud of the role that concrete plays, saying "whenever society develops, it is based on concrete," he also says that context is needed when it comes to understanding reporting around topics such as the CO2 emissions generated by concrete.

"In the last 15 years China has poured more concrete than the USA has in its whole history."

Nick Traber, Fletcher Building

"Globally, buildings account for 40% of the world's CO2 emissions. Of that, 30% comes from the materials that are used, and the other 70% comes from buildings in use. While concrete comprises 6% of all man-made emissions and is the second largest emitting manufacturing sector after steel, it is worth considering that more concrete is consumed than all other building materials together, and most of those materials have a higher impact than concrete. In the last 15 years alone, China has poured more concrete than the USA has in its entire history. This has contributed to the numbers enormously, although it is helping to lift people out of poverty thanks to the infrastructure the concrete creates."

When it comes to measuring CO2 impacts, Traber casts his mind back to a sustainability conference 10 years ago.

"Peter Baker at the World Business Council Sustainability Development said our industry was an endangered species if we wouldn't change. But sustainability was always the number one topic for me, and its importance has only grown. I consider us lucky at Fletcher Building that we started very early on the journey."

"We know the scope and boundaries of our emissions, so we can communicate with detailed data and confidence to our customers across the whole value chain."

Nick Traber, Fletcher Building

Explaining how Fletcher Building goes about creating its reporting, Traber says that the first and most important step taken by the company was to get the data right. To this end, Traber was involved with the global Get The Data Right initiative. This has provided him and his team with a global depository of industry data that goes back to 1990.

"We've worked with scientists and studies to prove what is working and where our focus needs to be. This means we know what has been achieved so far. We know the scope and boundaries of our emissions, so we can communicate with detailed data and confidence to our customers across the whole value chain. The global industry has us on a roadmap to get us to zero emissions by 2050."

To achieve this Traber says that Fletcher Building knows that to be credible first you need to have robust systems in place to measure with independent accreditation.

"Only claim what you're absolutely sure and can measure. It's extremely important that we are clear about what we do and don't know. This approach has served the industry well. It's comforting to see our industry measuring and setting targets in the same way which adds credibility and protects us from greenwashing or ultimately landing in court."

TAKING A HOLISTIC VIEW OF THE WIDER VALUE CHAIN

Traber then adds that he is seeing increased interest from investors who recognise the benefits of leading sustainable development businesses.

"That is why we work to stay at the forefront of sustainable development performance as reflected by awards, labels and indices. All our major product lines now hold environmental product declarations, we are the first building materials and construction company in New Zealand or Australia to set a science-based target for carbon reduction, we were awarded in 2021 the most improved company in New Zealand with the Carbon Disclosure Project, and we are one of 16 companies in our sector and one of only four New Zealand companies in any sector included in the Dow Jones Sustainability Index Asia-Pacific."

Traber says that a holistic view – taking in the whole value chain and lifecycle, and not just on a company basis but on a wider national and international basis – is essential.

"When you design CO2 systems and policies, you need to think about those side effects and collateral damage. New Zealand is in a unique position: we deliver our product through a local manufacturing base. This provides us with the ability to locally control the whole CO2 journey.

"Looking further afield though, Switzerland for example imports more CO2 than it produces itself because most heavy industries have gone. So, when you consider only what they are emitting locally it looks good, but not when you consider everything consumed.

"We need a level playing field, because otherwise we should simply shift CO2 abroad. This has been part of the European dilemma over the last 15 years, a lot of industries have left, and they then look at just importing the products and they become dependent on countries that you may not want to depend on."

SO HOW TO DEAL TO THIS CHALLENGE?

There is no silver bullet, says Traber, who is also keen to dispel the myth that timber is a more sustainable building material than concrete.

"Wood does have great advantages and is a great building material, and we use a lot of it in New Zealand, but it has limited availability and requires significant landmass, has biodiversity impacts, and waste. However, if you want to substitute just 20% the global use of concrete with timber, you'd have to cut down a forest bigger than India every year. It's just not feasible. We need to apply the right material for the right application in a smart way.

"In New Zealand we are in the privileged position to have a high supply of wood, which is why we build more with wood than many other countries. However, I would say concrete and wood are good complements and not necessarily substitutes."

WHAT IS THE FUTURE FOR BUILDING MATERIALS AND REPORTING?

"Low-carbon concrete is the building material for a sustainable future," says Traber.

"100% naturally sourced and recyclable, it is the most widely available material. It is low-cost, versatile on application, and it carries a lot of benefits regarding earthquake proofness, fire resistance, and can be fully recycled.

"Low-carbon concrete is the building material for a sustainable future."

Nick Traber, Fletcher Building

"We should apply the technology that is available right now, as it makes the most economic sense. We also need to continue to explore technologies that will be needed five to ten years from now, and decide the best approach and use of these as an industry."

Traber finishes up with the message that when it comes to purchasing products and services, consider the ESG benefit based on data.

"Our product is very transparent, allowing customers to decide based on facts. The other aspect is to ask what is your personal footprint? With 50% of CO2 emissions coming from our lifestyle choices, the power of the customer is a big factor. Ultimately, it's the customer who decides. When consumers make decisions, they look at sustainable products and data, so I ask you: what is your Environmental Product Declaration?"

GREENWASHING

THE NEW DUE DILIGENCE ENVIRONMENT

It has been five years since the Task Force on Climate-related Financial Disclosures (TCFD) published its recommendations. Since then, support for this global initiative – and for company climate and ESG reporting in general – has skyrocketed. Today more than 3,000 organisations in 92 countries with a combined market capitalisation of USD27.2 trillion have signed up as TCFD supporters, and thousands more businesses are also now publishing reports in this area.

As this agenda grows, a sister trend is also emerging: the growing risk of 'greenwashing' claims made against organisations eager to earn their social licence to operate. Following closely behind is a rise in litigation. The London School of Economics' Grantham Research Institute on Climate Change and the Environment announced recently that there are more than 2,000 climate change cases underway around the world, more than double those in 2015.

At a time when organisations around the world are treading a careful line between publishing reports of their ESG progress and straying into the riskier waters of greenwashing, MEttle talked to Lloyd Kavanagh, Senior Partner at MinterEllisonRuddWatts, who is an acknowledged expert on the governance requirements of ESG statements, processes, outcomes and key risks. He shared some of the key risks that surround greenwashing, as well as his insights for business leaders stepping their way through the complexities of this evolving environment.

WHAT IS GREENWASHING, AND WHAT IS DRIVING RISK IN THIS AREA?

The Cambridge English Dictionary defines greenwashing as 'behaviour or activities that make people believe that a company is doing more to protect the environment than it really is'. Kavanagh defines it as 'when the label doesn't match the contents of the tin' from an ESG perspective.

"For me," he says, "greenwashing is when an organisation makes false, misleading, or untrue statements or actions or set of claims about the positive ESG impacts that they or any of their products or services has. This is usually focused on environmental claims, but it can include wider social or governance claims."

Going on to say that ESG statements with no clear achievable programme are becoming high-risk for organisations where adequate internal due diligence is not undertaken, Kavanagh says that he sees two very distinct types of greenwashing.

"Firstly, where deliberate ESG claims are made that the person communicating knows or ought to know are untrue. Fortunately, this is rare, but essentially it's straight-out fraud.

"More commonly however, it's due to well-meaning aspirations at the board or ELT level to address investor or customer concerns, which are not translated into everyday business. The organisation signs up to commitments and policies at a high level, without putting in place the processes to change the fundamental way business is done day-to-day."

This creates potential risk on a growing scale, given the extent of reporting around the world. According to KPMG's 2022 Survey of Sustainability Reporting, based on an analysis of reports and websites from 5,800 companies in 58 countries, territories and jurisdictions, sustainability reporting is growing at pace. Over the past year, 96% of G250 companies reported on sustainability or ESG matters, and TCFD adoption has nearly doubled in two years, going from 37% to 61% among the G250.

Amid this rapid rise in reporting, Kavanagh says that greenwashing risk can be seen in four common situations.

"Firstly, greenhouse gas emissions reduction targets. Organisations are scrambling to meet net zero emissions by 2050. Reduction targets and pathways are capable of genuine intention, but they can be deemed misleading if they are not based on reasonable grounds."

Secondly, he says that the standards for truthful labelling of products and services have risen.

> **"Labelling products as sustainable and green has moved from being broad to now imply a more defined and higher standard of conduct."**
>
> **Lloyd Kavanagh, MinterEllisonRuddWatts**

He adds that the New Zealand Commerce Commission acknowledges that consumers are increasingly considering the environment when making purchasing decisions and has released a set of claim guidelines governing environmental claims.

"They must be accurate, scientifically sound, and substantiated. The alternative for organisations is severe monetary penalties as well as loss of brand reputation."

Third is what Kavanagh calls Enterprise Branding.

"Consumer protection regulators, and environmental activists are increasingly scrutinising greenwashing in advertising campaigns. Therefore, statements must have evidential backing in a similar way to creating a financial product offering or statement."

Lastly is the topic of disclosure, specifically in financial reports and accompanying narrative, offer documents and, for some, mandatory climate reporting will be required soon.

Kavanagh says that the Financial Markets Authority has recently pointed out that businesses with financial reporting obligations have two reasons to consider the impact that climate risks and opportunities have on their financial statements.

“All entities have existing requirements to assess what impact climate change has on their financial statements."

Lloyd Kavanagh, MinterEllisonRuddWatts

“First, about 200 reporting entities must comply with a mandatory framework for climate-related disclosure (CRD). This is so that they provide investors and other stakeholders with better insights into the climate risks and opportunities impacting those entities. This will apply for reporting periods beginning on or after 1 January 2023.

“Second, all entities – whether or not they are captured by the CRD regime or other mandatory framework – have existing requirements, under current Australian and New Zealand Accounting Standards, to assess what impact climate change has on their financial statements. Most companies will be subject to some degree either to physical impacts or transition impacts, such as changing government rules and market forces as customers and investors move their preferences.”

Another factor raising the bar, Kavanagh says, is that two main groups are now focused on holding companies to account.

“Regulators, such as ASIC, and ACCC in Australia, are already active in doing this. Closer to home, both the FMA and Commerce Commission have published guidance to highlight the priority this must be given. These organisations are increasingly scrutinising products and services, and often at the encouragement of the Government.

“Secondly, regimes are also being policed by activist litigants who often have significant backing and funding. Not only do they take cases themselves, but they put pressure on regulators to be more active.

“Regimes are also being policed by activist litigants who often have significant backing and funding."

Lloyd Kavanagh, MinterEllisonRuddWatts

“This means, for example, that signing up to zero carbon banking initiatives requires you to have a plan and commitment that gives you reasonable grounds to believe you will achieve your aim."

“Given increased political and community scrutiny you must be careful and clear, and not mislead people. This requires a clear approvals process in your business. Claims about products should be run past not just marketing but legal as well.”

ESG DUE DILIGENCE

What can organisations do to improve their ESG due diligence and disclosures? Consider the seven points below when approaching ESG due diligence, governance and claims.

ONE

The ESG governance message needs to come from the top. If it’s not yet on your agenda, then you’re already behind.

TWO

Make reporting and disclosure in this area as important as other risks that are already reported and disclosed.

THREE

Apply the same due diligence processes you would when making non-financial (i.e. ESG) claims as you would to financial claims.

FOUR

Ensure that aspirational policies/claims are underpinned by detailed programmes that show you can reasonably believe that the policies and claims will be achieved – that they are not “pie in the sky”.

FIVE

Stand in the shoes of investors and customers to evaluate what they would expect the claim to mean.

SIX

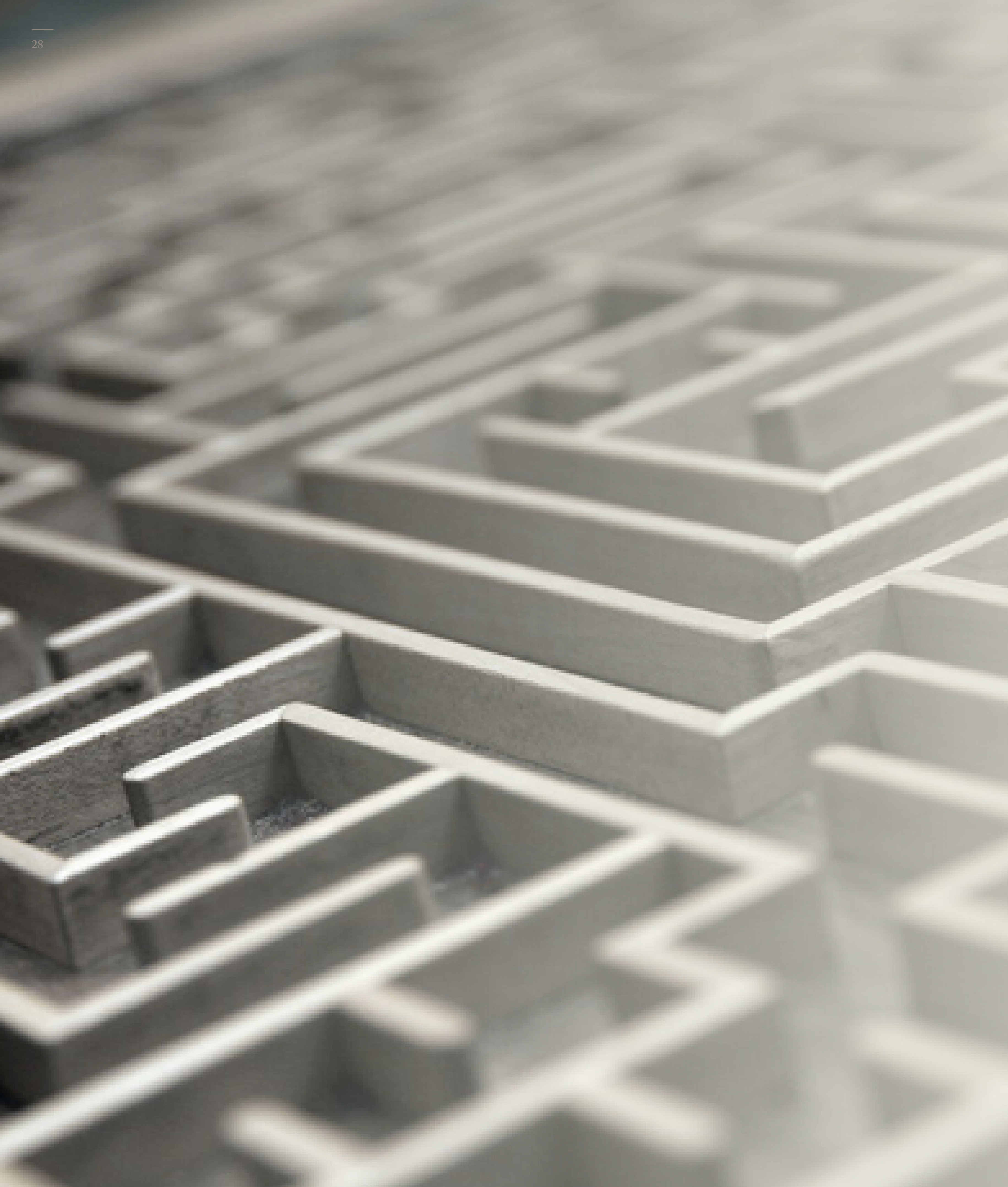
Listen to your customers and people – do they support or criticise your actions in this area? Also consider how they and your suppliers are likely to be affected.

SEVEN

Know your skills or knowledge gaps – if you need more awareness on this topic and the consequences it can have on you and your business, ask your legal team for an education session. Make sure you also have expertise in place as well.

Four key steps that should be on every leadership team’s ‘to do’ list

1. Identify current ESG-related claims made on websites, in press releases and disclosures.
2. Pinpoint your current communications approach and develop what you should consider going forward.
3. If ESG claims have resulted in misleading or confusing customers, consider options for customer redress – and then action.
4. Undertake a risk assessment of existing claims against regulator guidance/principles:
   - Be truthful and accurate
   - Be specific
   - Use plain language
   - Do not exaggerate
   - Make information easy to locate and access
   - Overall impression counts
   - Clearly explain and substantiate your claims (e.g. do you have reasonable grounds for a claim? How will you measure and achieve this claim?)



CO–GOVERNANCE

THE MISUNDERSTOOD POLITICAL HOT POTATO AND LIKELY ELECTION DOMINATOR?

As we head towards the 2023 General Election, one topic that is set to dominate debates and the airwaves alike is co-governance. A term of many layers and of real potency, co-governance is often as misunderstood as it is used to drive agendas across the political spectrum.

On the surface, co-governance refers to a shared governance arrangement, with Treaty of Waitangi – Te Tiriti o Waitangi partners having equal seats around the table. Often mistakenly believed to be about the ownership of assets, it in fact refers to partnership in their governance. It is not a new topic, with iwi and Crown entities managing many rivers, lakes and forests together under co-governance arrangements for a number of years.

It has acquired new relevance through recent debates sparked by proposals for Māori wards in local councils, the creation of the Māori Health Authority, Te Aka Whai Ora, demands for a referendum, and of course as a key pillar of proposed plans for Three Waters Reform.

It is not surprising therefore that the stage is set for co-governance to be a political issue that will electrify debate ahead of next year's election. As the ions charge, MEttle spoke to noted director, Chair of Te Whatu Ora Health New Zealand, and advocate for equitable and responsible practices in business, Rob Campbell CNZM, and former Attorney-General and Minister for Treaty of Waitangi Negotiations, Chris Finlayson KC, to gain their understanding, views and insights into this often-thorny topic.

WHAT DOES CO-GOVERNANCE MEAN

For Chris Finlayson, understanding 'co-governance' as a term is a vital starting point, as people often set off from the wrong place with it.

"Getting a clear definition of co-governance is very important. People say co-governance should really be 'co-management'. The US Ambassador recently asked me if co-governance is similar to joint management arrangements. It is. I said it is not an opportunity to micromanage the officials work, but a chance to set priorities and to have a say in how to manage a resource."

To this Rob Campbell adds, "To me, co-governance simply means sharing responsibility for governance. It could apply to any form of that sharing where there are separate interests. For example, in a joint venture one would expect to find co-governance, and you would in a partnership.

"The concept currently being debated in this country is typically framed as sharing responsibility between Māori and Pakeha. The most common arrangements attracting this terminology are between the Crown and some tangata whenua structure, often one created by the Crown for the purpose, to partially accommodate obligations under Te Tiriti o Waitangi."

ARE THERE LIMITS TO CO-GOVERNANCE AND WHAT IT SHOULD APPLY TO?

"In a multi-cultural world, not sharing governance makes no sense," says Campbell.

"I think it should apply anywhere there is agreed to be shared ownership between any parties involved. What is 'ownership' is the key question. Our culture and law have tended to see ownership as being based on the legal fiction that a particular economic interest assigns preferential rights to controlling an asset. That has been a powerful force in European economic development for some centuries, but it is hardly an eternal or all-cultural truth.

"If one takes a broader view of ownership to include traditional, or other economic relationships, then co-governance is almost inevitable and desirable."

That being said, Finlayson says that co-governance cannot apply to all areas of government.

"Obvious examples of where co-governance would be hard to apply are national security and foreign affairs. It is also important to distinguish between co-governance and initiatives developed by this Government to deal with an issue, such as the Māori Health Authority, which I don't regard as co-governance. The Māori Health Authority is an example of a government initiative to address health needs in the community. Whether it is a good idea is for the politicians to debate."

Campbell doesn't see the relationship the same way.

"Neither Te Whatu Ora nor Te Aka Whai Ora 'own' the health services system funded by the Crown in a meaningful sense. For example, our ability to sell any substantive part without Crown approval is very, and rightly, limited. The Crown health services system, which is half directly delivered and half funding of others, privately or community-owned, has simply been structured by the Crown into two governance entities with openly prescribed roles.

"Te Whatu Ora is the primary delivery and funding organisation. Te Aka Whai Ora has much smaller roles in both respects recognising in a very limited fashion that 'by Māori for Māori' practice has demonstrated superior outcomes for Māori and is likely to play a key role in eliminating the inequities they have experienced to date."

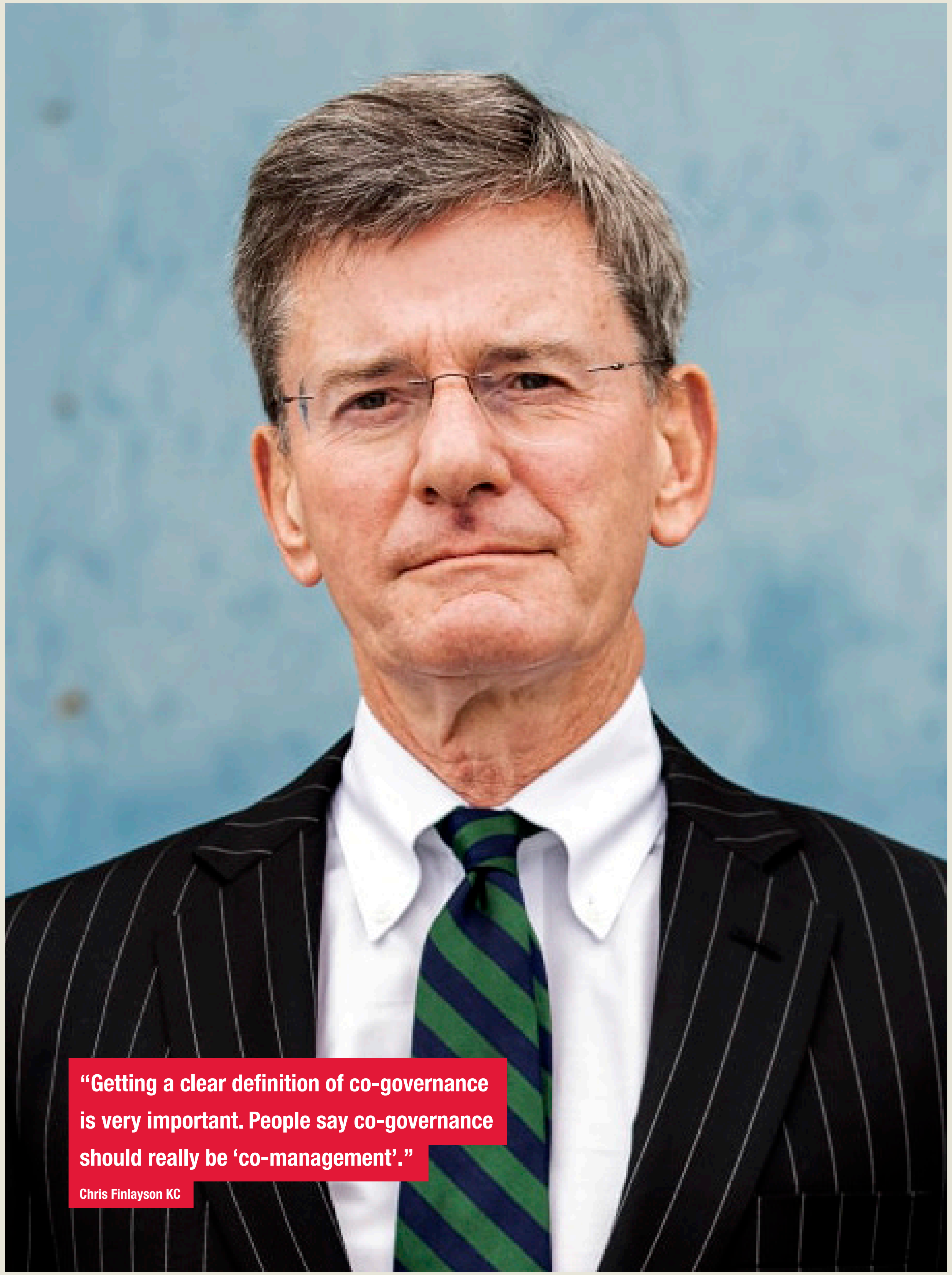
Campbell says that Te Aka Whai Ora also has a role in monitoring how Te Whatu Ora performs on equity of outcomes for Māori.

"They have one representative on our board to facilitate this. The two organisations have chosen to work closely together by sharing some other parts of each other's work because we think that is a better governance practice but neither has more than a consultative involvement with the other as of right. I am puzzled that some see this as co-governance rather than pragmatism."

IS CO-GOVERNANCE TODAY A RE-INTERPRETATION OF WHAT WAS MEANT AND SIGNED AT THAT TIME OF TE TIRITI?

Finlayson says that when you look back to the signing of the Treaty 182 years ago, part of the agreement was that the Crown would look after taonga.

"I don't obsess about the different versions of the Treaty. I am more interested in what we were talking about in 1840 when sovereignty was ceded to the Crown, and then a bargain done that Māori would be treated with same rights and obligations as anyone, and their taonga would be protected. I think it is implicit in this that the Crown wouldn't make all the decisions regarding taonga, ensuring there would always be room for Māori to have their say. I tried to do this as Minister for Treaty Negotiations following on from Michael Cullen's first steps with the Waikato River, designing a structure to ensure iwi were no longer locked out of any decision-making."



He then adds that people may be automatically against co-governance because they're fearful of it.

"There are certain people in the country who always assume the worst: I describe them as The Sour Right, a term a former British Foreign Secretary, Douglas Hurd, used to describe people whose basic world view is negative.

"Take for example Tūhoe settling with the Crown. For an initial period, there was going to be co-governance; after five years the new board would have a Tūhoe majority. Some people then immediately (and inevitably) said Tūhoe were going to block public access. That is unfair and incorrect."

So, do our interviewees think there is anything to fear in co-governance? And do we live in a climate in which people are frightened of speaking out for fear of being labelled racist or ignorant?

Campbell says there is some fear.

"That's my sense. I sense some people have an automatic adverse reaction to it. Maybe because they don't know what it means, and they think they are giving up something that they shouldn't."

To a limited extent Finlayson agrees, but for different reasons.

"There is fear, but because we have created an unhealthy climate that has stifled the opportunity for sensible and robust debate, which is healthy in a society. There is a tendency in this country for a group mentality. For instance, very few people questioned the lockdown. That is the fear that people have: keep your head below the parapet instead of engaging in civil and intelligent debate.

"I have high regard for the leader of the Act Party. David Seymour is perfectly within his rights to question the extension of co-governance without being labelled racist. It is contrary to free speech and contrary to the role of the Opposition which should be asking questions, and I find it highly offensive."

SO, WHAT DO WE NEED TO THINK ABOUT WHEN IT COMES TO CO-GOVERNANCE?

"Avoid labels," says Finlayson. "And, secondly, try and look at the substance of what is happening and understand it. I think the quality of discussion is very shallow. It is important that people be allowed to question applications or extensions of co-governance principles to other areas, and they have to be able to do that without being labelled racist or ignorant.

"In my opinion it makes sense to work with people who have lived alongside, for example, a river for hundreds of years; they can provide expertise and knowledge to manage it for better outcomes for all New Zealanders – practically that is a sensible thing to do."

LESSONS FROM THE PANDEMIC

FOR FUTURE SUCCESS

"Covid is a perfect example of how we can never assume the status quo will continue. It's the same in business. To stay ahead, we must always be searching for ways to evolve and improve." So said noted business author Simon Sinek in the depths of the pandemic last year.

Organisations the length and breadth of New Zealand have been taking the opportunity to identify lessons from their own pandemic experience, seeking insights that will drive future growth and power organisational success. To contribute, MEttle provides insights from two core sources: a survey of New Zealand directors and C-suite executives, plus a series of comments from business leaders, to identify what lessons have been useful and created positive impacts.

168 organisations responded to our simple, one-question survey to share their top lesson that has or will change their organisation in the coming years.

THE TOP LESSON TO EMERGE FROM THE PANDEMIC

The number one most-valued lesson for businesses to emerge from our survey is retaining agility and efficiency of decision-making process with 36.42% of respondents being clear that agility and efficiency is an absolute priority. This sentiment is supported by organisations across New Zealand and around the globe as the pace of change accelerates beyond anything we could have previously imagined.

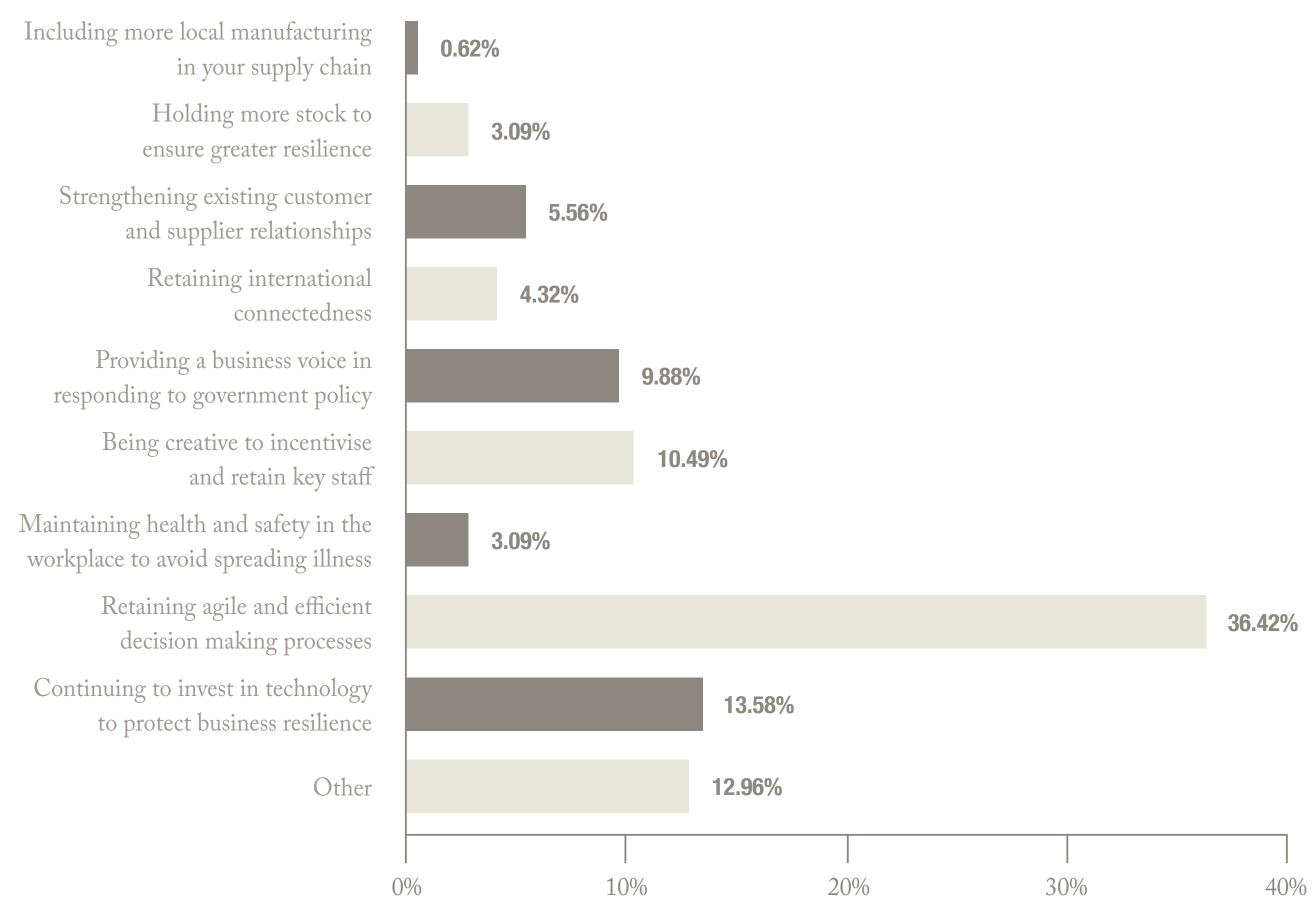
The second lesson to emerge from the survey was continuing to invest in technology to protect business resilience (13.58%). Technology has played an integral role in how many businesses reacted to and continue to support staff and customers during the last two years. The importance of technology is seen as a critical investment by many.

Surprisingly, at the other end of the response scale, given the disruption of supply chain impacting global markets, was that including more local manufacturing in your supply chain elicited only a 0.62% response.

LESSONS FOR THE FUTURE

To complement the survey, MEttle sought opinions from leaders of major organisations across New Zealand's business landscape on the insights from the pandemic that they will hold onto for future use. Following are excerpts from the various chairs and chief executives viewpoints:

WHAT IS YOUR TOP LESSON FROM THE PANDEMIC?



ROSS TAYLOR

CEO, Fletcher Building

"It highlighted how much you can get done in a short period of time in a big organisation with alignment. Everyone understood the need clearly and that we had to deliver outcomes at pace. The focus, cut-through and implementation was amazing. The fast changes we were able to make on costs, operational disciplines, pay frameworks, work flexibility etc. at a macro and micro level were astonishing. In a normal paradigm these would have been subject to frameworks and processes taking much longer and with likely a mediocre success rate.

"Now, on the right issues and opportunities, my approach is to up the ante on getting key things done in a similar fashion. It's not going to be ideal for everything but in some cases I would approach this in a higher energy and intense fashion."

JAMES MILLER

CHAIR, CHANNEL INFRASTRUCTURE

"Covid highlighted the unsustainability of our business model over the longer-term and enabled us to make transformational change that would have been more difficult in a normal environment.

"In doing this, the Board required a clear view and alignment around its risk appetite over the short and long-term. Having this clearly defined by management and debated by the Board, and being risk informed rather than risk adverse, is something of great value for us to take forward. The bold decisions taken by the Board have been recognised by the market with a 61% 12-month return."

SCOTT ST JOHN

DIRECTOR OF ANZ, MERCURY ENERGY, FONTERRA, AND CHAIR, FISHER & PAYKEL HEALTHCARE

"Great examples were anchored by great culture. I saw instances of business changing operating models overnight and reshaping hierarchical structures to ensure what needed to be done was done. Teams of leaders were less title driven and more outcome focused, and individuals had the opportunity to grow. These are all good things.

"When entire businesses or a country are on an emergency footing, there is an inevitability that the focus tilts towards short-term outcomes – be it for survival or the immediacy of opportunity. There is nothing wrong with this. However, many have had to remind themselves to step out of a short-term mindset and refocus on the long-term strategic outcomes they are pursuing.

"Recent supply chain issues have been a useful reminder that New Zealand is not a self-sufficient country – far from it. We are reliant on trade. Trade is a contest that contains the inputs of many markets, for example labour. We have been reminded that all businesses, even domestic focused, need to keep an eye on markets.

"We are all better at virtual meetings than we used to be, but there is an agenda-based rigidity that lacks the informal mediums to kick around ideas, or test concepts. We are a social species by nature and seem to get more from sharing ideas with each other, sometimes without an agenda."

PIP GREENWOOD

CHAIR, WESTPAC NEW ZEALAND

"For me, the pandemic reinforced the importance of culture. Great culture involving teams who trusted and respected each other enabled them to respond to the challenges during unprecedented times."

DAME THERESE WALSH

CHAIR, AIR NEW ZEALAND AND ASB

“During Covid, our organisations moved mountains to create new customer solutions and provide extra care for customers in vulnerable situations. That quick response to customer needs and the creative thinking that comes from being in crisis mode needs to be fostered and deployed on an ongoing basis.”

EARL GASPARICH

CEO, METLIFECARE

“The most significant takeout from our sector has been to balance risk with opportunity. While the threat of Covid outbreaks were major risks to our resident populations, the well-coordinated response of the sector and great work our teams did to keep residents safe meant that post-lockdown the demand for living in the retirement village environment soared.”

JOAN WITHERS

CHAIR, THE WAREHOUSE GROUP

“Covid challenges reinforced that although business continuity and disaster recovery planning are important, having the cultural competency to be able to react quickly as an organisation to changing situations is the most important element. For The Warehouse Group, our agile capabilities and training assisted enormously as did having a Group CEO and leadership team that worked in total sync and involved the Board at appropriate junctures.”

GRANT WEBSTER

CEO, TOURISM HOLDINGS LIMITED

“Relationships pay back in times of trouble, particularly with banks, so invest in those relationships. Be prepared to ask yourselves the deepest questions, the existential questions from a business perspective, the activist shareholder questions. That’s often when the heart of the issue is found, and more importantly, the heart of the solution.

“Build trust by being open to what’s going on in people’s personal lives. Whilst that may be controversial, through Covid we saw that understanding a home situation assisted dramatically in enabling people to be effective.”

JAMES MILLER

CHAIR, NZX

“NZX was designated an essential service during the Covid lockdowns, something our people took immense pride in, demonstrating the vital role markets play in providing capital to businesses in need. This was reflected in 2020 with a 149% increase in trading volumes and a 42% increase in value traded, a record level of activity in our markets.

“While the pandemic and extraordinary trading volumes did pose some operating challenges, NZX was well prepared with the right technology and tools, and the enormous commitment and resilience of NZX staff to deliver innovative ways to support customers and investors.”

MARK CAIRNS

CHAIR, FREIGHTWAYS EXPRESS LTD AND INDEPENDENT DIRECTOR OF MERIDIAN ENERGY, AUCKLAND AIRPORT AND SANFORD LIMITED

“When Covid was emerging, nobody knew what it was. The airline borders were quick to close but the port borders were forgotten about. When we got into closure there were a lot of knee-jerk reactions, with people not thinking through policy and what shutting down our ports would mean in terms of how to get PPE and vaccines into the country. We got close to the whole country being shut down.

“Borders are vital. We had a stage when most container imports were deemed non-essential, which meant that we couldn’t clear space in the container terminal to get the critical imports in. The big issue was getting essential products in like masks and gloves.

“During the pandemic, staff had to come to work, and they didn’t know what risks they were facing. At the time, people didn’t know if the virus was airborne or via surface transmission. We had foreign crews coming in deep sea directly from China and no one seemed to have it on their radar. We were expecting our tugboats and pilots to be boarding and putting themselves at risk when no one knew what this disease really was. I made a point that if we thought it was good enough for a staff member to board a vessel out of China, I should do it myself.

“It’s cheesy but culture always trumps strategy. You can read all the textbooks on culture but the moment you walk in the door you can see and feel it, and this must come from the CEO, Chair and Board. Those companies will always outperform others.”

DAWN FRESHWATER

VICE-CHANCELLOR, UNIVERSITY OF AUCKLAND

“The ability to tolerate and embrace uncertainty in the service of innovation; creating new and novel ways of communicating with staff and students; and constant questioning of taken-for-granted priorities and the assumed need for meetings and business.”

JOLIE HODSON

CHIEF EXECUTIVE, SPARK

“When Covid hit our shores, digital technology helped us adapt, keeping us connected from a distance, enabling e-commerce, working and learning from home and entertaining us.

“Covid has driven around 5 years’ worth of digital transformation across Aotearoa in the last two years alone. I expect this to continue accelerating as businesses reap the productivity benefits that digital adoption delivers, and as we transform to a low-carbon economy.”

CURATED BY / MinterEllisonRuddWatts