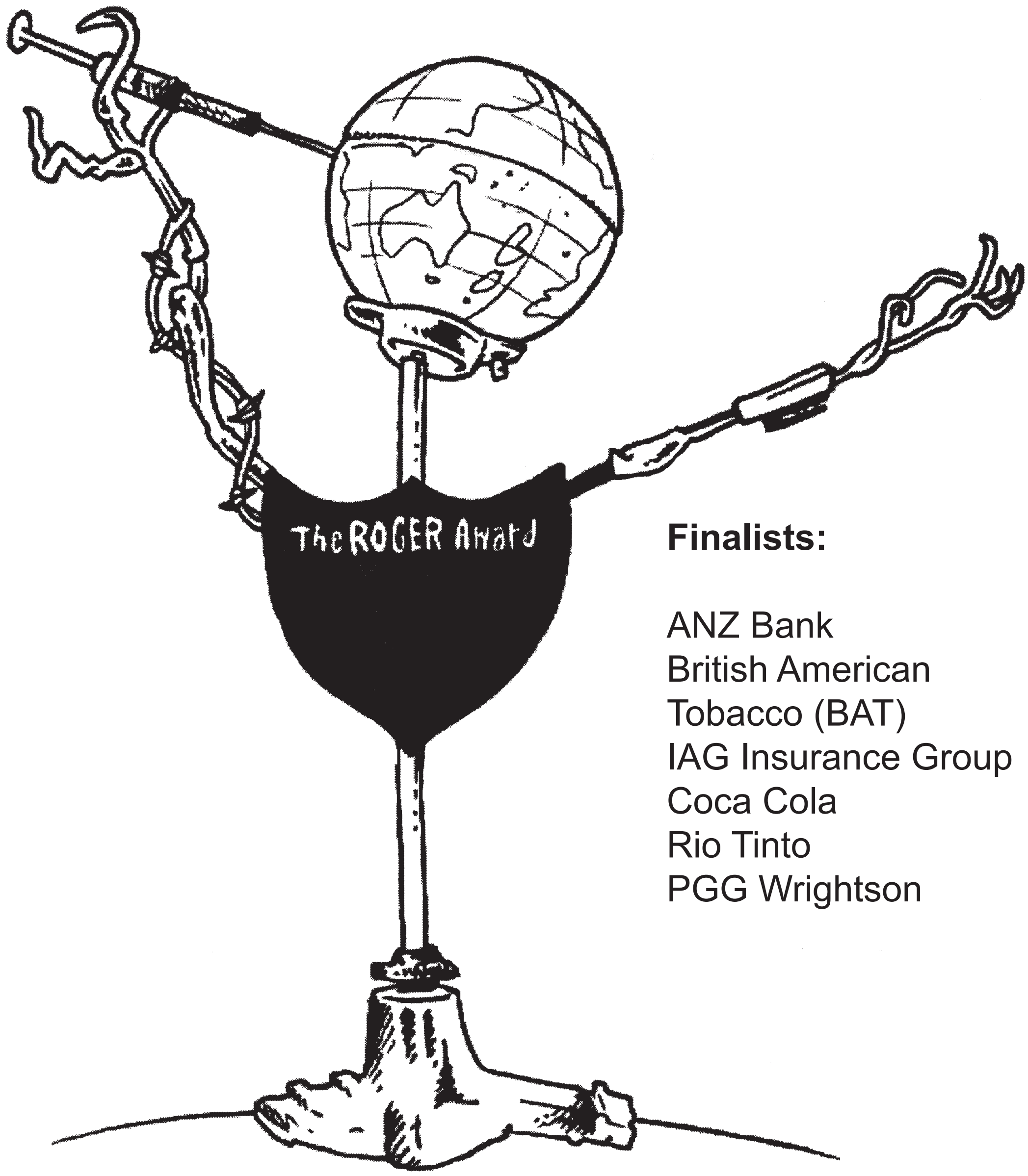
# The Roger Award 2014




**Finalists:**

ANZ Bank
British American Tobacco (BAT)
IAG Insurance Group
Coca Cola
Rio Tinto
PGG Wrightson

For The Worst Transnational Corporation Operating In Aotearoa/New Zealand in 2014

# The Roger Award

For The Worst Transnational Corporation
Operating in Aotearoa/NewZealand

## Judges' Report

Winner
**ANZ Bank**

Second
**IAG Insurance Group**

Accomplice
**Food & Grocery Council**

**Judges**

Paul Maunder, David Small, Sue Bradford,
Dean Parker, Dennis Maga

# 2014 ROGER AWARD

## Chief Judge's Statement from Paul Maunder

**Finalists:** **ANZ Bank**
**British American Tobacco**
**IAG Insurance Group**
**Coca Cola**
**Rio Tinto**
**PGG Wrightson**

The Roger Award has been around for nearly 20 years now. It operates, with tongue in cheek, from the point of view that a few Lefties can judge the world of the transnationals and have an impact on their behaviour, mainly through their brand vulnerability.

As well as revealing the relative omnipotence with which transnationals operate, the Award uncovers the occasional horror story and gives a glimpse of the semi-criminal goings-on of the governors of the system.

The criteria for judging were:

1. Economic dominance: monopoly, profiteering, tax dodging, cultural imperialism.

2. Treatment of people – both employees and clients.

3. Environment – environmental damage, abuse of animals.

4. Political Interference – interference in democratic processes, running an ideological crusade.

And I added:

5. The judge's "gut feeling", which includes taking into account that the Award is a political exercise to make people aware of the impacts of neo-liberalism and globalisation.

The judges were: Paul Maunder, cultural worker, co-ordinator of the Blackball Museum of Working Class History and coordinator of Unions West Coast; Dean Parker, Auckland writer and former Writers Guild delegate to the NZ Council of Trade Unions; Sue Bradford, community activist and former Green MP; David Small, lawyer and Senior Lecturer in Education at the University of Canterbury; and Dennis Maga, union activist from the May First Movement Philippines, organiser of First Union and founder of Migrante and UNEMIG.

The 2014 *Judges' Statement* covers the usual range of villainy and some repeat offenders; in fact the repeat offenders (the Aussie banks, Rio Tinto and the insurance companies- generally dominated by IAG) begin to demand a three strikes and you're out system.

These were the nominees: **ANZ Bank, British America Tobacco (BAT), Coca Cola, IAG/State Insurance, PGG Wrightson, and Rio Tinto**.

### The Also Rans

**PGG Wrightson** has developed and sells high tolerance (HT) swedes and other herbicide- tolerant brassicas to farmers. You plant the seeds; then spray the land: the weeds die, but the swedes come up. Everyone's happy except quite a number of cows suddenly died after eating the swedes.

Everyone, from PGG to farmers' organisations shuffled around, trying to ignore the problem. Dairy cows were the most affected. Does the problem move into the milk? Once again, no one knows. The dairy industry seems to be waiting with bated breath for the big one and then the economy will collapse. That will give the media something with which to fill the hour.

**Coca-Cola Amatil** has been filling people up with sugar for decades, helping to create obesity (we are the fourth fattest country in the Organisation for Economic Cooperation and Development [OECD]); tooth decay (even in two year olds); and diabetes (250,000 and growing); and making a very good profit in the process – "things go better with Coke". Faced with public reaction it has reduced the sugar content of drinks supplied to schools, and contributes to "good causes" such as obesity campaigns. But it is lobbying hard against sugar intense drinks being taxed; clear labelling; and any marketing restrictions. The Chief Executive Officer, Wendy Raynor, believes in self-regulation. So did Pike River Coal Company. Part of Coke's branding (it spends $81 million per year on marketing) is to be closely associated with sports teams and feel good public events, as well as to cover every dairy and fast food outlet with its signage.

This poisoner is joined of course, yet again, by **BAT**, which markets a further killer and addictive product - tobacco. Once again, it is lobbying hard against the public and State campaign to ban its' product.

Aware of transnationals poisoning us via the oesophagus, we move to perhaps the most regular contender for the Roger Award, **Rio Tinto** (formerly known as Comalco), which not only receives subsidised power (for the last 40+ years) and which not only avoids any sort of carbon emission tax (instead got a subsidy), but also received a further $30 million tax-free bailout when the price of electricity went up. Faced with any downturn, it holds the country and the Southland area to ransom. Despite the supposed difficulties it was facing, the parent company managed to post a profit of $3.7 billion in 2013. Did it return the $30 million bailout? Afraid not. Instead it tried to underpay the holiday pay of shift workers, until forced to remedy the situation by the Employment Relations Authority. [1] It is the classic transnational act and as a country, we remain the classic victim. Once again, it received good marks and was judged the winner by one of our team.

## The Runner Up: IAG

**IAG** (Insurance Australia Group) is a company that has been in the sights of the Roger Award since the 2010/11 Christchurch earthquakes. It first came to our attention when it began buying up failing insurance companies and playing some dodgy games. I quote from the 2012 *Judges' Report*:

> "Meanwhile, some insurance companies, e.g. AMI, went broke because they weren't reinsured to a sufficient level, and were bought up by the Insurance Australia Group which now trades as State, AMI and NZI. But does IAG want all of the customers of the company it has bought? And when someone sells a damaged, yet to be repaired house, are they selling the insurance claim against damage, or are they selling the replacement agreement, if that is what is required when the land is surveyed? And there can be a significant difference. Well, that's a matter that can be argued out in the courts. The biggest of the insurance companies, Insurance Australia Group (IAG) has been predatory and hard-nosed in this muddled environment, even managing a $115 million profit in the midst of chaos. In the words of one of our judges it can be accused of being 'slow to communicate with clients and slow in paying out... IAG has miscalculated sums involved in claims. It has arbitrarily changed the status of many 'red zone' properties from total loss to repair, and it has restricted the legal rights of those purchasing earthquake damaged properties. And it has increased its premiums'".

This behaviour has not changed in subsequent years. Its yearly profit in 2014 was $200 million, yet it could well continue to raise its premiums for, according to its Chief Executive Officer (CEO), Jacki Johnson, "some parts of the business are not producing acceptable profits, and home insurance is one".[2] Meanwhile it continues to acquire other insurance companies; in 2014 it was the Lumley Insurance group, taking its share of the NZ insurance market to the 50% level. While this move caused concern amongst other insurers and the wider community, the Commerce Commission approved it. Of course, IAG is not resting on its laurels, but closing most of its State Insurance branches throughout the country, resulting in 91 job losses.[3]

What has this meant at the personal level? There's a 90 year old woman pleading with IAG to fix the house she has lived in since childhood, before she dies. It seems the insurers took two years to get around to knowing she existed. Meanwhile, she faced another cold winter.[4] And then there's the 92 year old, one of more than 4,000 vulnerable claimants still waiting action on their homes. He'd been "packed up" waiting for promised action on the demolition and rebuild of his home for 18 months.[5] But it's not only private home owners being given the run around. After a lengthy court process building owners are finally able to claim for damage caused by each earthquake, rather than have the damage lumped into one claim (with a lower liability cap). [6]

A developer who has bought individual titles from previous owners of an apartment building is finding that IAG has plenty of room to give the new owner the run around in terms of previous multiple insurance policies. Court action will be inevitable and costs mount as everyone gets geotechnical surveys and engineering reports.[7] Another shop owner had his building sitting broken for more than three years and now has to take IAG to court after it offered him less than half of what he believes he is entitled to. His engineer's report recommended replacing the ground floor slab; IAG's engineer recommends filling the slab. "They feel that if they delay me long enough I will go away but I won't" [8] As the nominator states: "We pay insurance for peace of mind. For huge numbers of Christchurch people they have had, and continue to have, anything but that". Instead, IAG has acted in a predatory manner, colonising the industry, cutting costs and preying on misery - behaviour worthy of receiving the Roger Award.

## The Winner: ANZ

But IAG was pipped at the post by **the 2014 winner**, **ANZ Bank**, which has managed to behave in an even more "robust" manner. The Aussie-owned banks have been in our sights for some time. They featured as well in the 2012 Award for making obscene profits and rewarding their CEOs in an alarming manner. ANZ (a finalist several times over and winner of the 2009 Roger Award; http://canterbury.cyberplace.co.nz/community/CAFCA/publications/Roger/Roger2009.pdf) has continued the above behaviour, but as well, gone on the offensive in terms of its staff's wages and conditions. Let's start with its profits, rising 31% to $853 million in the first six months to 31 March, 2014. [9] And then the CEO receives annual remuneration of over $4 million. This same, reasonably well-paid "worker", David Hisco, memorably stated: "I don't think employees should see the business they work in as a partnership where profits are shared. Banks don't ask workers to chip in out of their own bank account when they are short of capital" [10] You can't get clearer than that, so when ANZ offered workers a pay rise of between 2-3% and tried to cut back conditions so that some workers would only know month by month which days and which start times they would be working, essentially a process of casualisation, the workers went on strike. They even picketed a one day cricket match featuring the ANZ-sponsored Black Caps. There was an ANZ ad which featured on Sky TV when the cricket was being played, a wonderful vision of multi-ethnic New Zealanders realising their dreams. ANZ likes to support "the community', but as First Union organiser, Maxine Gay, said: 'Bank staff have lives outside of their job, and many of them are deeply involved in their local community, faith and sports groups. How on Earth could they ever meet their commitments to these groups if they don't know from month to month what days and times they'll be free to volunteer … Chopping and changing the hours of your workforce is not supporting the broader community".[11]

## Underhand Tactics

Being the good-faith negotiators that we would expect, the union had to take ANZ to the Employment Relations Authority during the dispute, for "underhand tactics", namely making an offer to non-union members.[12] Talking of underhand tactics, ANZ is good at moving jobs between countries. It uses NZ as a cheap labour site, making the country "Australia's Mexico", to quote First Union President, Robert Reid. Information technology (IT) functions are moved to Bangalore, India. It is always looking "for opportunities to operate more effectively and efficiently", ANZ spokesperson, Stefan Herrick, was reported as stating. [13]

One of those opportunities backfired, forcing the bank to pay $18.5 million to rural customers who complained about interest rate swaps to the Commerce Commission. In the heady days of prime mortgage rate speculation and the like, banks had persuaded farmers to enter into interest rate swaps as a way of controlling their borrowing costs. When interest rates dived many customers remained locked into rates as high as 11-15%. Still protesting that it had done nothing wrong, ANZ settled out of court, so as to "bring certainty and avoid years in the court for everyone", stated ANZ spokesperson, Graham Turley.[14] Big of them. However, the average payout of $100,000 to affected farmers falls well short of the losses they have incurred. As well, many farmers affected had not come forward as "they were scared of reprisals from lenders, which had the power to call in loans and kick them off the land", stated Janette Walker, the farm debt mediator who uncovered the swaps sales saga. She felt that the $18.5 million was "small change, given the estimated total of swaps was $8 billion, with ANZ accounting for about 60%". [15] To cap it all, ANZ increased its fees for its default Kiwisaver scheme, on the promise that active management would increase returns, a highly debatable proposition. [16]

Some commentators consider that we are in a new period of "primitive accumulation". The behaviour of ANZ would seem to confirm this. It is certainly a worthy winner.

## The Accomplice Award

This generated greater interest than is normal in 2014, with four contenders: the **Government** (which is always entered) but, as well, some newcomers: **Callaghan Innovation; the Food and Grocery Council and Te Runanga A Iwi O Ngapuhi**.

**The Government** was entered mainly because of its Trans-Pacific Partnership Agreement (TPPA) negotiations, with one judge agreeing with the nominator, that it "will reduce NZ to a conquered nation". But the majority decided to focus on the other nominees, which are, to say the least, devious.

The **Callaghan Innovation (Fund**), of the NZ Ministry of Business, Innovation and Employment, has been discovered giving taxpayer grants for research and development (R&D) to transnational companies such as Bayer (German-owned), Radio Specialist 4RF (Cayman Islands holding company-owned), Endace Technology (USA-owned), Atlantis Healthcare Group (predominantly British Virgin Islands-owned), CRV Cattle Breeding Specialist (Dutch-owned) and Fisher and Paykel Appliances (China/Singapore…). These companies, operating generally from tax havens, set up a NZ branch which then qualifies for a grant. At the same time, the NZ branch usually "loses" money and produces a tax credit. Bayer, for example, had sales the previous year of $49 billion, with a net profit of $3.2 billion. Why would it need a R&D grant from the NZ taxpayer? As we have seen from ANZ and IAG, ruthlessness is the flavour of the time. Atlantis Healthcare Group is, it seems, a "world leader in designing and implementing patient support and adherence programmes", whatever they may be. It is 76% owned by an entity in the British Virgin Islands, where the company tax rate is zero. Nevertheless, it gets a grant from the NZ taxpayer. The story goes on. We better sell some State houses to pay for this. [17]

## The Runner Up: Te Runanga A Iwi O Ngapuhi

Parlous as the above may be, **the runner up** in the Accomplice Award is **Te Runanga A Iwi O Ngapuhi**. In 2012 the Roger Award was won by Taejin Fisheries Company Ltd (http://canterbury.cyberplace.co.nz/community/CAFCA/publications/Roger/Roger2012.pdf), for operating slave ships using Third World workers, aided and abetted by the NZ fishing companies that held the quota. The truly awful conditions on these ships had been exposed by journalists, forcing the Government to promise to pass a Bill which would enforce all ships operating in NZ waters to fly the NZ flag and operate under NZ employment law. This Bill duly came before Parliament in 2014, but Ngapuhi inveigled the Maori Party to get an amendment added which would give the Runanga an exemption on the employment of foreign crews on foreign vessels. According to Maori Party MP Te Ururoa Flavell: “Maori wanted more time to get into the business”. Presumably he meant more time to accumulate capital, and the best way to do this is to exploit labour. As Talley Group’s Peter Talley stated: ‘It is a national scandal that Maori, given settlement quota for the purpose of bringing young Maori into the business of fishing, are now given a preferential right to use Third World foreign labour to harvest those very resources”. [18] Luckily, the amendment was thrown out, and the Bill passed. It was a scandal that iwi had been involved in this exploitation of their Pacific brothers. To try and hold on to that exploitation was extraordinary. But that, as they say, is capitalism.

## The Winner: Food And Grocery Council

But competition was fierce in the Accomplice Award and **the winner** proved to be an innocuous sounding body, called the **Food and Grocery Council**. But the Council, in fact, “represents a range of large and aggressive foreign and local companies including those marketing alcohol, the biggest seller in supermarkets”.[19] The CEO is Katherine Rich, former National Party MP. The Board Chairman who appointed her was the NZ Managing Director of Coca Cola Amatil.

Rich has become then, a leading industry lobbyist in fighting attempts at alcohol and tobacco law reform, and public health policies aiming at reducing obesity and other initiatives. Often these are difficult cases to argue (you mean we should feed our kids sugary drinks?), so how does she lobby? Mainly via Carrick Graham, son of former National Government Minister, Doug Graham, who in turn feeds *Whale Oil* blogger, Cameron Slater, PR releases, which Slater posts as his own blogs (in return for payment). For example, when Fonterra (a member of the Council) was in trouble for E.coli contamination, Rich could send, via Graham to Slater, a placating and calming statement, which then appeared as Slater’s opinion. The same methodology was used when a class action was proposed against Coca Cola re type 2 diabetes. This involved attacking people involved in the class action. It was the same thing for the proposal to ban energy drinks in schools and attacks on infant formula for babies.

But the plot thickens, as they say, for Rich was appointed by the National government to the board of the Health Promotion Agency, which guided its policy on alcohol, obesity and tobacco, and was supposedly acting in the best interests of the nation. It is a Mafia world of manipulation by corporate forces and degradation of the political process. Unfortunately, as Nicky Hager has pointed out only too well, it is the political reality within which we live.

## Time To Move Past Outrage

The Roger Award process has become something of a ritual, like the summoning and rebuttal of a malevolent god. There is nothing wrong with rituals; they have kept societies in balance over the millennia. But they can also become routine. There are now daily exposes of the doings of “The Empire”, as Negri et al characterise late capitalism, via blog sites, *Scoop*, *Democracy Now*, *Znet*, investigative journalism, our own *Foreign Control Watchdog*…yet still the Empire prevails. It creates crises and becomes stronger. Digital resistance seems to empower it, a troubling contradiction dubbed “communicative capitalism” by Jodi Dean.[20] The more we communicate electronically, the denser the Empire becomes. Of course there are exceptions: the extraordinarily determined campaign by the Cubans to obtain the release of the Cuban Five from US prisons, the international climate change gatherings… but I think it is time to move past outrage.

We have known since the 19th Century that capitalism is brutal, oppressive, without limit, and operates with a criminal culture. I read Marx’s “Capital” over the holidays and nothing much has changed. For a brief period of perhaps three decades capitalism was disciplined reasonably effectively by worker resistance which led to a reformed State. That has now become a nostalgic interregnum and increasingly there is a demand for a different paradigm. Occupation seems to be the political action that works: *to occupy, to take back, one’s work, to pass the time*…there are a variety of meanings.

## Occupy?

In the context of this award it sets up some interesting propositions. Is it possible to occupy the ANZ Bank? IAG Insurance? Would it be possible to occupy the aluminium smelter? It's easy enough to picket such places, but to occupy them? It would certainly need the help of the workers. The Food and Grocery Council? More possible. The Runanga? What would be the formalities in order to remain politically correct? Occupy the Government? Lenin had some views on this.

Interesting thoughts, and perhaps necessary ones, in order to ensure the continuing praxis of this Award. Possibly this becomes the real point at this stage, to have the judges ponder these matters, to articulate some contradictions, to begin to look at action past cheekiness (nothing wrong with cheek per se), but to seriously consider the concept of action after judgement, or action as judgement.

Once again it has been an honour to be asked to write these words and I pay tribute to CAFCA on its 40th birthday.

Endnotes

1 For a detailed history see *Judges Report*, 2012, http://canterbury.cyberplace.co.nz/community/CAFCA/publications/Roger/Roger2012.pdf
2 *Press*, 28/2/14
3 *Press*, 27/9/14.
4 *Press*, 9/10/14.
5 *Press*, 7/6/14
6 *Press*, 15/9/14
7 *Press*, 23/6/14
8 *Press*, 27/4/14
9 Media release, First Union, 1/5/14.
10 *Press*, 12/11/14.
11 First Union media release, 31/10/14
12 *Press*, 11/10/14.
13 www.stuff.co.nz, "ANZ Moves Jobs To India", 2/10/14
14 *New Zealand Herald*, 3/12/14
15 www.stuff.co.nz, 3/12/14.
16 *Press*, 26/6/14.
17 The information is taken from an article by *Chalkie*, *Press*, 12/11/14,
18 *Press*, 16/4/14.
19 "Dirty Politics", Nicky Hager, p83. The information is generally taken from "Dirty Politics"
20 Dean, Jodi, "The Communist Horizon", Verso, 2013.

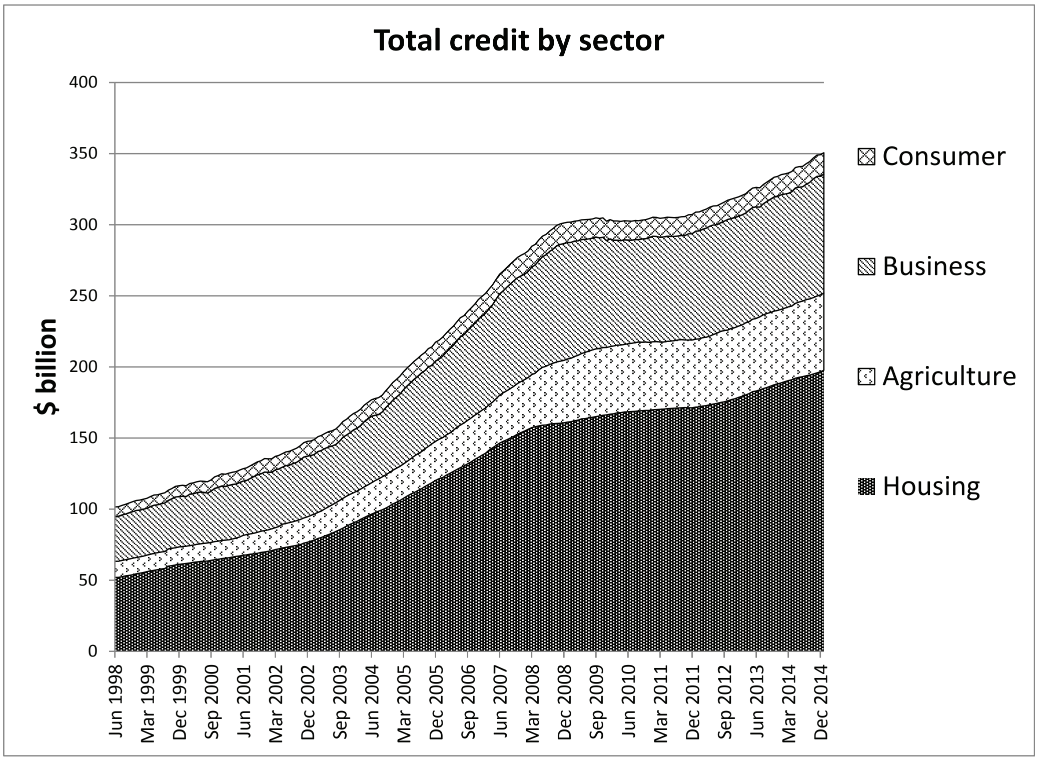
# Judges' Report

## Financial Analysis
## ANZ Bank Ltd

### Banks And The Global Crisis

"The current crisis of capitalism in the West", as Mark Blyth explains in his excellent book "Austerity"[1], "began with the banks and ends with the banks". Details vary from continent to continent and country to country, but the big global picture is of a predatory and parasitic financial sector sucking in huge rents while regulators and governments are either too scared to act, or complicit in the whole exercise. Thomas Philippon of New York University has estimated that in the USA the purely unproductive, parasitic component of the financial industry's revenues and profits - pure economic waste - account for around 2% of gross domestic product (GDP): "an annual misallocation of resources of about $280 billion"[2]. Translated to New Zealand terms, that would be $4 billion; roughly the same as the profits taken out of this economy each year by the four big Australian-owned banks.

The precise mechanisms through which the banks here create deadweight economic waste differ, obviously, from those in the USA, but the underlying effects of unchecked "financialisation" are comparable. A recent International Monetary Fund (IMF) study identified New Zealand as one of a group of countries in which private sector credit has expanded beyond the point at which finance becomes a drag on economic growth, rather than a stimulus [3], and indicated that the drag on growth could be of the order of a percentage point[4]. The IMF authors noted that "the relationship between financial depth and economic growth depends on whether lending is used to finance investment in productive assets or to feed speculative bubbles"[5], and cited earlier evidence that, whereas enterprise credit may be positively associated with economic growth, household credit is not. Bank lending in New Zealand, of course, has been primarily to households and for housing (see chart below), financing, and profiting mightily from New Zealand's speculative housing bubble since 2000. Housing credit has been consistently over 50% of total credit, rising from 51% in 1998 to 56% in 2014, while credit to business fell from 31% to 24%. As house prices have soared out of reach for ordinary Kiwis, the banks have loaned more and more money to speculators to buy up properties. Even the Reserve Bank has now belatedly accepted the need to restrain the banks' funding of speculation in housing[6].




Source: RBNZ Table C5 Sector credit: "Resident NZ Claims Of Registered Banks And NBLIs", http://www.rbnz.govt.nz/statistics/tables/c5/hc5.xls .

Two other facets of bank activities in New Zealand have huge negative effects on the economy: the use of offshore funding, which raises the country's international indebtedness in tandem with the boom in local house prices; and the Australian ownership of all four of the biggest banks which means that bank profits, as well as interest payments to foreign lenders, flow offshore. Meantime the persistent inflow of funds borrowed offshore holds up the exchange rate of the New Zealand dollar, hurts the country's producers of tradeable goods, and thereby weakens the economy's trading performance – a vicious circle which feeds back to rising overseas debt[7].

New Zealand's high level of international indebtedness is the straightforward outcome of the banks' lending practices. Over the past three decades, New Zealand householders and small businesses have been sucked into more and more debt, supplied by the banks in New Zealand dollars at interest rates increasingly above those prevailing overseas. To finance those loans the banks have gone offshore and borrowed at low rates, pocketing the widening margins as profit[8]. Nothing in the loan contracts signed by New Zealanders alerts them to the fact that they are actually borrowing from overseas, with the banks as eager intermediaries and promoters, locking a whole generation of New Zealand home buyers into lifetime debt peonage.

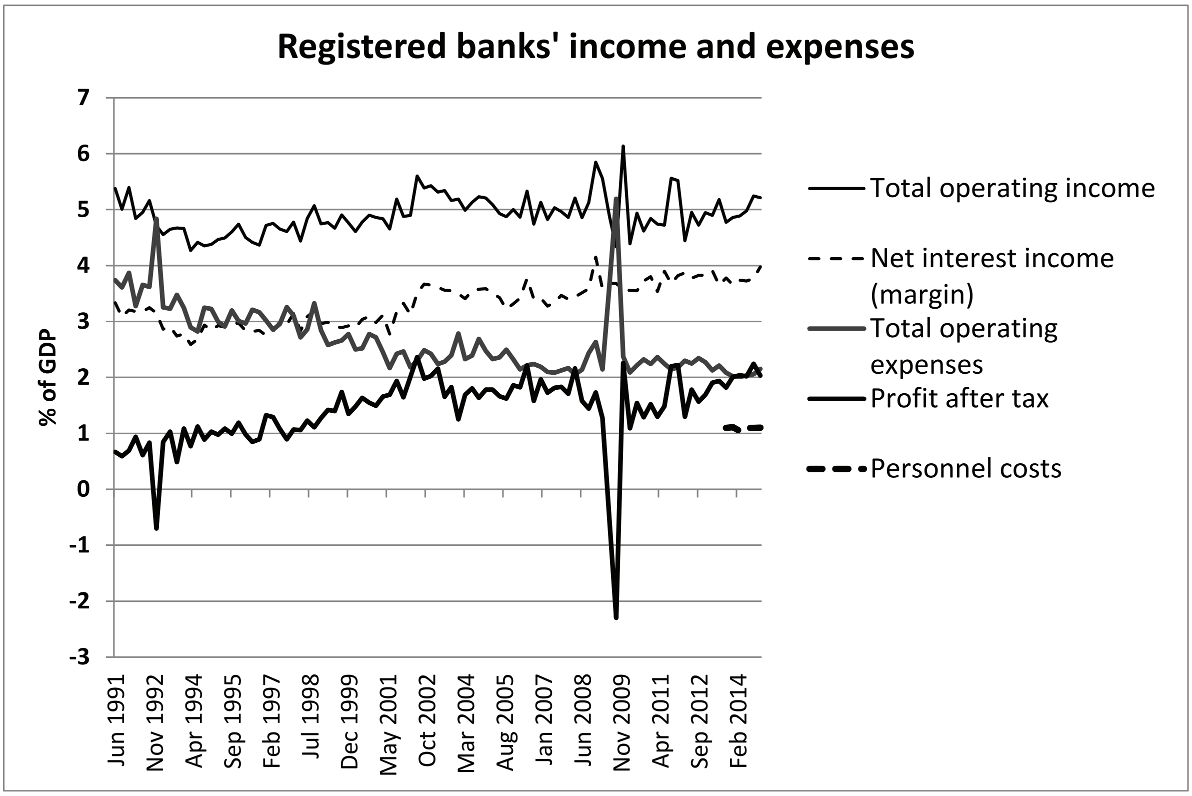
Nor are New Zealand home-owners who owe mortgages to, for example, the ANZ, told whether their mortgage, for which their house is pledged as security, has been sold off by the ANZ, or shifted into an obscure special purpose entity operated by ANZ to function as security for its "covered bonds" sold to overseas "investors" who could range from Belgian dentists to vulture funds[9]. The Reserve Bank's disclosure requirements regarding covered bonds are so weak as to make it impossible to trace the detail of which mortgages the banks have put into their "covered bond pools". However the ANZ's financial reports do disclose that $9.176 billion of residential mortgages have been sold "to the NZ Branch" and are no longer in ANZ's balance sheet, and that $7.283 billion of residential mortgages, and a further $7.963 billion of "assets" (presumably residential mortgages or other well secured loans) have been transferred into ANZ-operated special purpose entities as security for covered bonds issued and other ANZ borrowing.[10] These total more than $24 billion, and have been removed from the asset totals reported in the ANZ's balance sheet.[11]

In the USA the banks made themselves "too big to fail". After the Global Financial Crisis the big Wall Street operators were bailed out by Government and then allowed to grow even bigger. In Europe the banks are "too big to bail", putting the entire continent's economy in thrall to the bankers' austerity doctrines. In New Zealand, on the periphery of global financial capitalism, the pickings may be slimmer and the scandals smaller, but the banks' attitudes, behaviour, and success in regulatory capture, are all carbon-copied from the big league overseas.

Top dog among the banks in New Zealand is the ANZ, and top dog among the obscenely overpaid chief executives of New Zealand's big-business elite is ANZ's Chief Executive Officer (CEO), David Hisco. Hisco is paid $4.7 million a year, compared with $3.5 million for Fonterra's Theo Spierings and $3.3 million for Fletcher Building's Mark Adamson[12]. As his cash, bonuses and share options flow in, Hisco lectures his employees on the need for them to accept low pay increases, greater "flexibility" of hours, and no expectation of getting any trickle-down from the banks' swelling tide of after-tax profit. "I don't think employees should see the business they work in as a partnership where profits are shared", Hisco declares[13].

## Bank Profits: Where They Came From, And Where They Went

The chart below traces the New Zealand registered banks' collective income and expenses over the 24 years covered by the online Reserve Bank of New Zealand (RBNZ) data, with all numbers expressed as percentages of New Zealand's seasonally-adjusted quarterly GDP. Collectively the 20-odd registered banks had income equal to about 5% of GDP. Most of that income comes from the margin between the interest charged by the banks and their cost of funds (interest paid). That margin – "net interest income" - amounted to less than 3% of GDP in the early 1990s but had risen to 4% of GDP by 2014, reflecting steadily increasing markups in the deregulated policy environment.




Source: RBNZ Table S21 from http://www.rbnz.govt.nz/statistics/tables/s21/hs21.xls ; GDP from Table M5 at http://www.rbnz.govt.nz/statistics/tables/m5/hm5.xls accessed March 2015

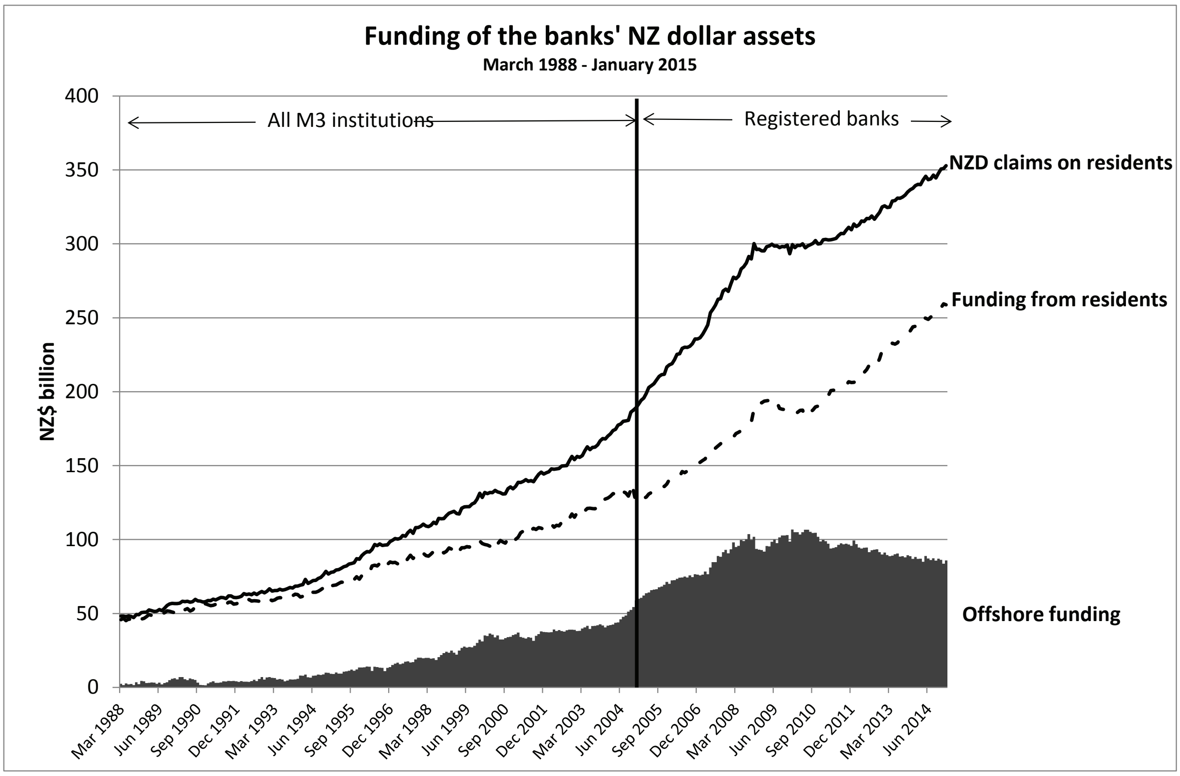
As interest rate margins have increased so have profits, but this was only half of the story. A steady and relentless squeeze on total operating expenses - of which over half are wages and salaries - has driven these costs down by 2% of GDP over the two decades[14].

Those two sources of rising bank profits – widening interest margins and a relentless squeeze on operating costs – reflect the ability of the banks to cash in on two key features of New Zealand government policy: the weakening of regulatory restraint on bank behaviour, and the stripping of workers' rights by the Employment Contracts Act 1991, which was only partially reversed by the Clark Labour government in 2000, after employers had had free rein for a decade. At the beginning of the 1990s, bank operating costs were 4% of GDP and profits were 1% of GDP. By 2014 operating costs had been driven down to 2% of GDP and profits had risen to 2% of GDP. The banks thus achieved a redistribution of at least a percentage point of national GDP from labour incomes to profits, contributing directly to the worsening of this country's income distribution.

As the biggest of the banks, ANZ led the way on inflating margins and squeezing costs – both by redundancies and by exercising its market power to prevent rising profits from flowing through to the wages and salaries of its staff. The outstanding exception to wage restraint, of course, was at the very top of the management pay scale: ANZ's Chief Executive David Hisco moved up to being New Zealand's highest-paid manager by 2014, "earning" roughly 120 times the income of the bank's average staff member[15]. Hence the award of the 2014 Roger.

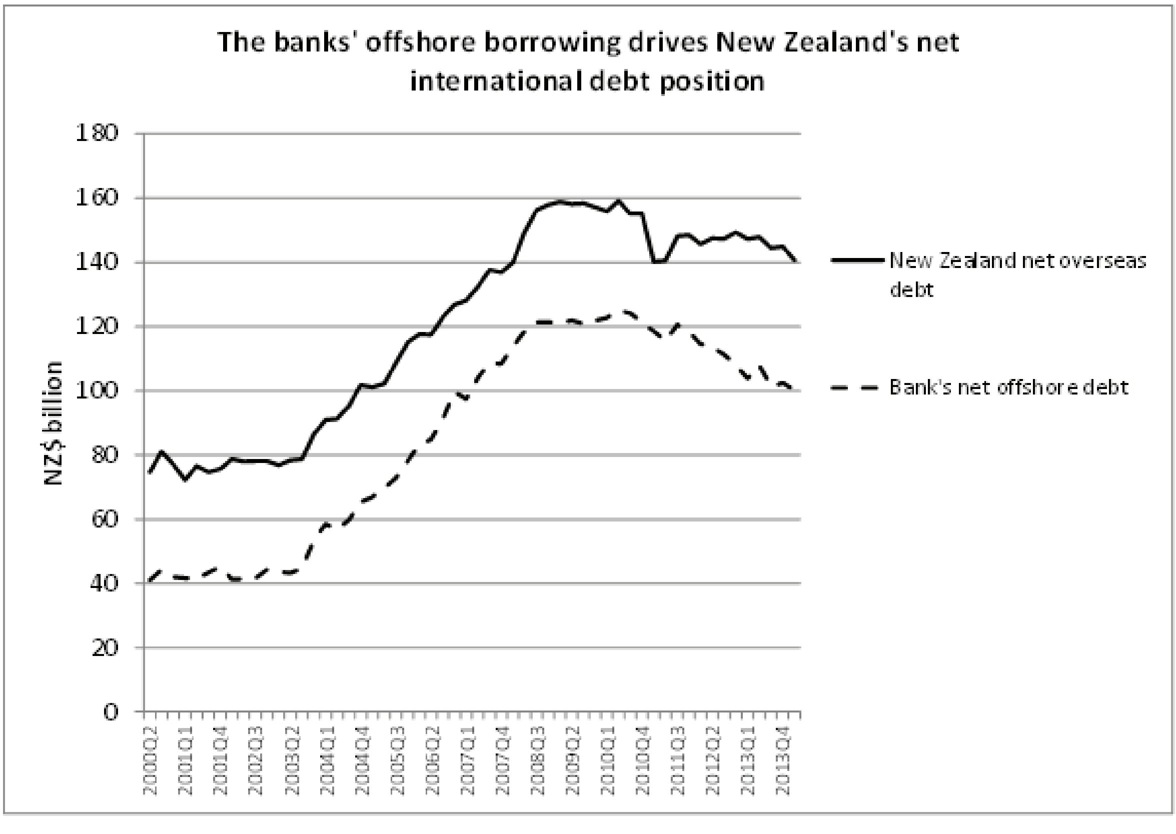
## How The Banks' NZ Lending Has Been Funded

The chart below[16] shows where the banks have raised the funds to support their lending activities in the New Zealand economy since 1988. Over the 20 years from 1988 to 2008 before the GFC struck, bank lending rose from $50 billion to $300 billion, and over $100 billion of that increase was funded by offshore borrowing. Since the GFC, the Reserve Bank's "core funding requirements", combined with less liquid overseas markets, have reversed the trend, with offshore funding down to $85 billion.




Sources: 1988-2004 from RBNZ Table C4, "Balance Sheets: M3 Institutions" at http://www.rbnz.govt.nz/statistics/tables/c4/hc4.xls. 2005-2015 from RBNZ Table S1 "Banks: Balance Sheet" at http://www.rbnz.govt.nz/statistics/tables/s1/hs1.xls , downloaded 18/3/15. Offshore funding calculated as total assets minus resident funding.

Statistics New Zealand's figures on New Zealand's overseas debt, in the chart below, show clearly how the banks' offshore fund-raising has driven the nation's net debt, both up and down[17]. Over the past decade the banks have consistently accounted for 70-80% of the total overseas debt, and their partial withdrawal from offshore markets after the GFC was the prime cause of the easing of the national net debt position.



Source: Statistics New Zealand Infoshare Table IIP027AA, Series IIPQ.S5AA2B, IIPQ.S5AA8C and IIPQ.S5AL8C.

## Bank Assets And Profits

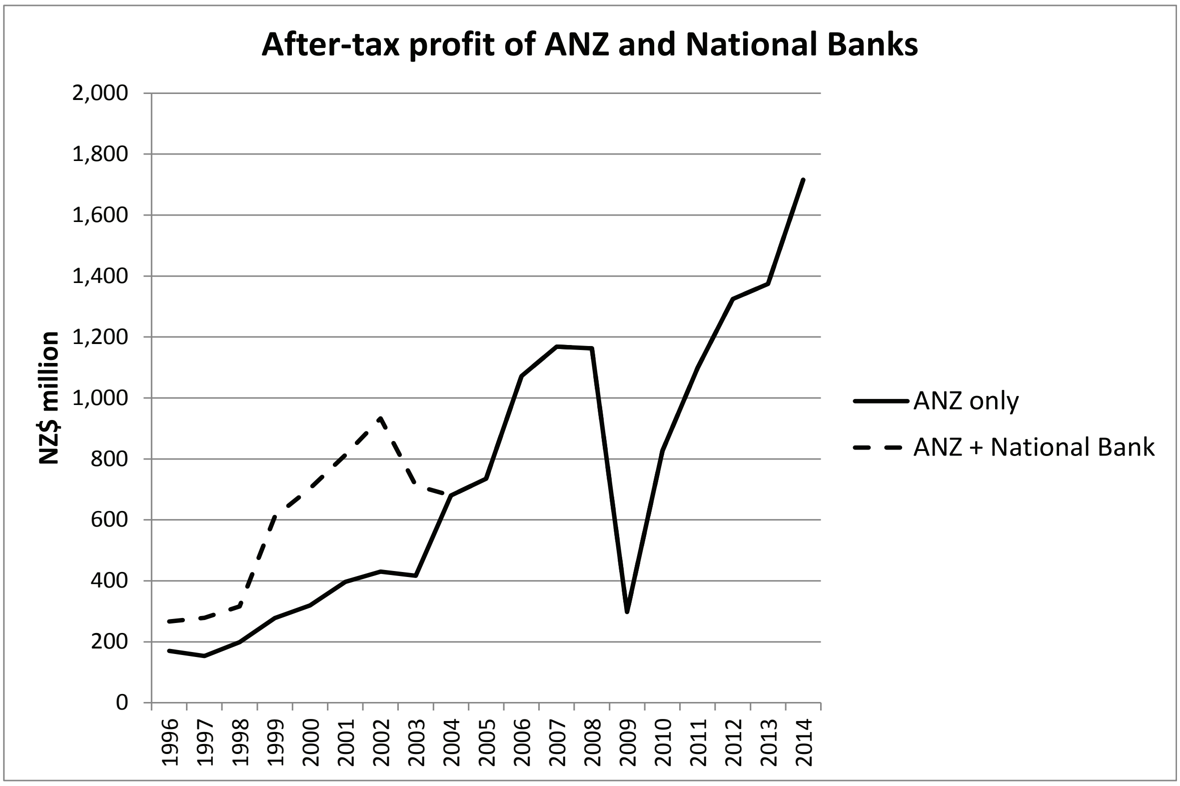
ANZ is New Zealand's largest financial institution, encompassing the ANZ, UDC Finance, OnePath Insurance, EFTPOS New Zealand, Bonus Bonds and Direct Broking brands[18]. The table below assembles figures covering the years 1996-2014 showing the assets and after-tax profits of ANZ Bank, National Bank up to 2003/04, and the combined ANZ-National operations, alongside the totals for all registered banks. ANZ and National combined have held a fairly steady share of total bank assets in New Zealand, around one-third, with a slight drop in recent years due to the growth of Kiwibank and entry of other minor players. Profitability has been stellar, but typical of banking in general; ANZ's steeply rising profits have been in line with the performance of the sector as a whole.

| | Total assets at March of each year, $ billion | | | | | After-tax profit, September years, $million | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ANZ Bank | National Bank | ANZ + National Bank | Total, all | ANZ-National % of total | ANZ Bank | National Bank | ANZ + National Bank | Total, all | ANZ-National % of total |
| 1996 | 19 | 17 | 36 | 108 | 34 | 170 | 97 | 267 | 968 | 28 |
| 1997 | 20 | 18 | 38 | 118 | 32 | 153 | 126 | 279 | 1,182 | 24 |
| 1998 | 24 | 20 | 44 | 135 | 32 | 199 | 117 | 316 | 1,171 | 27 |
| 1999 | 23 | 29 | 53 | 142 | 37 | 278 | 333 | 611 | 1,605 | 38 |
| 2000 | 26 | 30 | 56 | 162 | 35 | 319 | 384 | 703 | 1,747 | 40 |
| 2001 | 28 | 34 | 62 | 193 | 32 | 397 | 416 | 813 | 2,106 | 39 |
| 2002 | 27 | 37 | 64 | 194 | 33 | 430 | 503 | 933 | 2,646 | 35 |
| 2003 | 28 | 41 | 69 | 209 | 33 | 548 | 296 | 844 | 2,667 | 32 |
| 2004 | 77 | | 77 | 228 | 34 | 680 | | 680 | 2,407 | 28 |
| 2005 | 79 | | 79 | 250 | 32 | 735 | | 735 | 2,727 | 27 |
| 2006 | 94 | | 94 | 276 | 34 | 1,072 | | 1,072 | 3,105 | 35 |
| 2007 | 101 | | 101 | 300 | 34 | 1,168 | | 1,168 | 3,287 | 36 |
| 2008 | 113 | | 113 | 337 | 33 | 1,163 | | 1,163 | 3,246 | 36 |
| 2009 | 128 | | 128 | 398 | 32 | 298 | | 298 | 47 | 634 |
| 2010 | 114 | | 114 | 374 | 30 | 827 | | 827 | 3,040 | 27 |
| 2011 | 114 | | 114 | 383 | 30 | 1,099 | | 1,099 | 3,366 | 33 |
| 2012 | 115 | | 115 | 391 | 29 | 1,325 | | 1,325 | 3,660 | 36 |
| 2013 | 119 | | 119 | 403 | 30 | 1,374 | | 1,374 | 4,047 | 34 |
| 2014 | 124 | | 124 | 418 | 30 | 1,716 | | 1,716 | 4,922 | 35 |

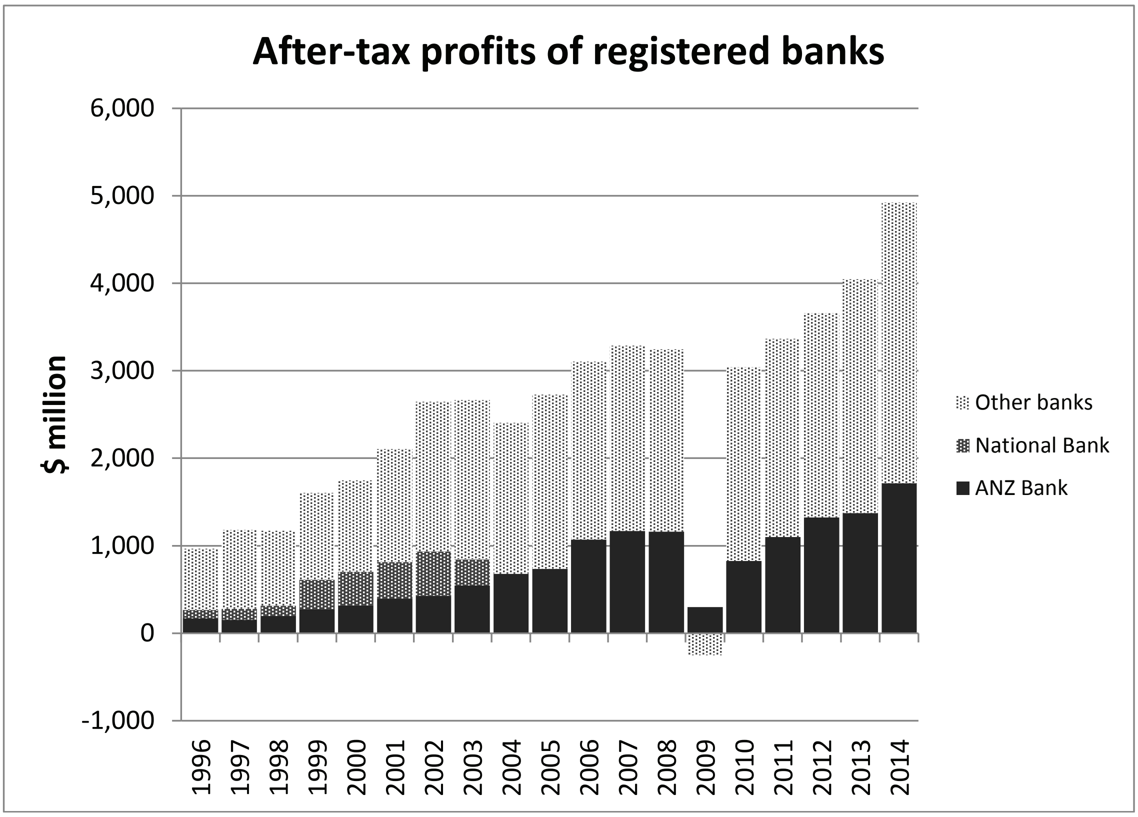
Sources: RBNZ Table S20, "Registered Banks Income Statement And Related Ratios", www.rbnz.govt.nz/statistics/tables/s20/hs20.xls , and RBNZ Table G1 "Information Extracted From The Key Information Summaries Of Locally Incorporated Banks" http://www.rbnz.govt.nz/statistics/tables/g1/hg1.xls

The two charts below track ANZ's after-tax profits since 1996, first on its own and second in the context of the total profits of locally registered banks. ANZ's after-tax profits have been on a steadily rising curve for decades, broken only temporarily by the GFC.

Between 1996 and 2014, ANZ's profit rose tenfold from $170 million to $1.7 billion. There was a temporary dip in the combined profits of ANZ and National Bank as the former took over the latter in 2003[19] (the separate branding of National Bank was not dropped until 2012); and another brief setback during the GFC in 2009, but since 2011 profits have hit new record levels each year, growing at an average rate of nearly 20%. ANZ and National Bank combined had one quarter of total bank profits in the mid 1990s, rising to a peak of 40% in 2000 and settling at around 35% since the GFC.




Source: RBNZ Table G1 “Information Extracted From The Key Information Summaries Of Locally Incorporated Banks” http://www.rbnz.govt.nz/statistics/tables/g1/hg1.xls




Source: RBNZ Table S20, “Registered Banks’ Income Statement And Related Ratios”, www.rbnz.govt.nz/statistics/tables/s20/hs20.xls , and RBNZ Table G1 “Information Extracted From The Key Information Summaries Of Locally Incorporated Banks” http://www.rbnz.govt.nz/statistics/tables/g1/hg1.xls

## "Cost Disciplines" And Personnel Costs

Reflecting its success in imposing "cost discipline" on its staff while sending off growing profits to its Australian owners, the bank and its CEO David Hisco have been receiving awards and praise from finance industry organisations[20]. Meantime the ANZ's employees have been forced to pursue increasingly frenetic targets to sell the "financial products" on which their CEO's bonus calculations are based[21], while their conditions of work have been eroded and they have been offered wage increases that bear no relation to the success of the enterprise. As Hisco said in a 2014 interview, as he pocketed his 14% pay rise (taking his total annual remuneration to $4.7 million[22]), "I don't think employees should see the business they work in as a partnership where profits are shared. Banks don't ask workers to chip in out of their own bank accounts when they are short of capital"[23] (Hisco neglected to mention that what banks do when they run short of capital is to dump losses on their unsecured depositors and squeal for bailouts by taxpayers).

Always hanging over employees is the threat of potential redundancies as the bank seeks to cut its costs. In the year to September 2012 ANZ in New Zealand shed over 300 head-office staff through "attrition", bringing staff numbers down to 9,057[24]. In 2012 the Australian parent ANZ Bank was shedding hundreds of staff[25] and the fear in New Zealand was that similar slashing of staff numbers was imminent. In January 2012, a bank spokesman said that "the bank has no plans for company-wide redundancies during 2012, although it d[oes] not rule it out completely [as] it is constantly making changes to simplify its business and making sure it runs efficiently"[26]. In a carefully calibrated statement in September 2012, CEO David Hisco reassured staff that following elimination of the National Bank brand, "all our <u>frontline</u> *[emphasis added]* staff will continue to be part of the new ANZ - there will be no frontline job losses as a result of the brand change". Behind the "frontline", however, the elimination of the National brand enabled ANZ to prune back-office staff numbers significantly. In May 2013 Hisco conceded that "some of the bank's cost savings come from … shedding 335 (full-time-equivalent) staff[27]". By May 2013 staff numbers were reported as "about 8,500" following 500 job losses since 2010[28]. In February 2015 ANZ's headcount was reported to have dropped to 8,225[29].

Through 2014, ANZ's workforce was engaged in a lengthy fight to secure decent pay increases and oppose casualisation of their working hours by a management focused on a drive to raise profits (and with them the CEO's personal bonuses). In May, following a surge in reported profits, the FIRST union called for: "a decent wage increase and less stressful working conditions for the staff", pointing out that "the untold story behind those profits is an intensification of pressure and stress on bank workers through aggressive sales targets"[30]. In September, when another record profit was announced, the union accused ANZ of being "morally bankrupt, for refusing to share its extraordinary profits with ordinary workers"[31]. Union members were balloted on industrial action to advance their pay claim and protect their job security[32] and 40 Wellington staff workers walked off the job on 29 September[33]. In early October, 500 staff around the country went on strike in protest at the lack of progress on their pay negotiations and the bank's demand that they agree to flexible hours of work which would see their days and hours change monthly; 80 of them picketed the Wellington office of the bank wearing masks of CEO David Hisco[34], accompanied by a giant inflatable rat to symbolise the bank's action in "ratting" on the union by making an offer to non-union members, in response to which the union filed legal action with the Employment Relations Authority[35]. Meantime the bank announced plans to "offshore" jobs associated with its information technology service desk functions[36].

Later that month, striking staff picketed a one day international cricket match sponsored by ANZ[37], and the Green Party's industrial spokesperson, Denise Roche, declared support, saying "ANZ Bank is raking in the profits while its workers face low pay rises and insecure working conditions…. ANZ's profits come about partly through the hard work and dedication of those who work for it. ANZ workers deserve a bigger slice of the profit this hard work generates… At a time of super-profits, casualisation and tiny pay increases for workers is simply unacceptable"[38]. CEO David Hisco responded with his now famous jibe about banks not being partnerships with employees[39].

In December, staff were twice on strike again, on one occasion marching up Queen Street in Auckland to ANZ's Queen Street store, where they were greeted upon arrival with a giant inflatable pig, symbolising the greed of ANZ in refusing to pay compensation for the pending casualisation[40]. In February 2015 negotiations were still dragging on[41].

## Personnel Costs Versus Profits

Table 2 is taken from the annual accounts for ANZ Bank New Zealand Limited. The bottom line of this table shows the total personnel and other costs as a percentage of profit before tax. It can be seen that there was a steep decline in personnel costs in the 2013 year (from $943 million in 2012 to $833 million in 2013), and a steady drop in the share of personnel and other costs relative to profits, from 58% of profits in 2011 to only 36% of profits in 2014. Clearly the back-office redundancies and "rationalisation" accompanying the killing-off of the National Bank brand were key drivers.

Notice in the table that between 2012 and 2013, when total personnel costs fell by more than $100 million, "key management benefits" rose by $3 million (from $16 million to $19 million), presumably as reward for their cost-cutting success.

| | 2011 | Change | 2012 | Change | 2013 | Change | 2014 |
|---|---|---|---|---|---|---|---|
| | $million | 2011-2012 | $million | 2012-2013 | $million | 2013-2014 | $million |
| Profit before tax | 1,551 | +13% | 1,753 | +6% | 1,866 | +26% | 2,355 |
| Profit after tax | 1,099 | +21% | 1,325 | +3% | 1,371 | +25% | 1,716 |
| | | | | | | | |
| Personnel costs | 760 | | 804 | | 702 | | 716 |
| plus other employment costs | 139 | | 139 | | 131 | | 129 |
| Total personnel and other | 899 | +5% | 943 | -12% | 833 | +1% | 845 |
| | | | | | | | |
| Includes Key management benefits | 19 | | 16 | | 19 | | 18 |
| | | | | | | | |
| % total Personnel and other vs Profit before tax | 58% | | 54% | | 45% | | 36% |

Source: ANZ Bank New Zealand Limited *Annual Reports*, 2011-2014, including Note 23 Related Party Transactions.

### The Rural Swaps Scandal

Between 2005 and 2008 several banks, including ANZ, aggressively sold to New Zealand farmers swap contracts which were misleadingly packaged and reminiscent of the complex derivatives being pushed by banks in the USA. In November 2012 the Commerce Commission launched an investigation into these deals, and at the end of 2013 the Commission announced it was prosecuting ANZ, ASB and Westpac for "mis-selling complex interest rate swap loans to farmers, driving some to the wall"[42]. The *Dominion Post* reported that

> "Farmers believed that the swaps effectively swapped floating rate loans into fixed rate loans. But when the global financial crisis struck in early 2008, and official interest rates collapsed, the interest rates on the swap loans spiralled upwards. In some cases they rose to between 11% and 15%, far higher than farmers without swap loans were paying, as the banks sought to cover their own higher borrowing costs or the value of farms fell reducing their security. Farmers who cancelled their loan contracts faced break fees that often ran into hundreds of thousands of dollars, which many had to fund through increased debt. …
>
> "Farmers did not ask for the loans, but were subject to a concerted, high-pressure sales campaign by the banks… Former ANZ banker Sarah Lockhead-MacMillan said swap loans were sold on a large scale, running into hundreds of millions of dollars at ANZ alone, though not all swaps were mis-sold".

The *Marlborough Express* story was equally clear:

> "[H]undreds of farmers [were] persuaded by The National Bank (now branded ANZ) to take the financial product in 2007 as a way to 'beat' rising interest rates. Nearly inexplicable to all but financial experts, the products were often sold to farmers as being fixed-rate loans 'with benefits'. But when the global economy fell apart, interest rates on the swaps soared and fine-print penalty clauses kicked in….
>
> "In March a former banker, speaking on condition they were not named, told Fairfax Media many farmers had agreed to gagging clauses in deals offered by banks to get out of the loans. Others are understood to have sold up when threatened with foreclosure".

## Reminiscent Of ING Debacle

The scandal was reminiscent of ANZ's involvement in the ING managed funds debacle of 2009-2010 which cost ANZ $500 million in compensation payouts and won it the Roger Award in 2009. On that occasion the Roger judges commented that[43]

> "The ING funds fiasco is simply and plainly 'pure greed capitalism' at its worst. This debacle saw the bank immorally misleading small investors into taking their money out of safe term deposits and putting it into highly risky investments, while assuring them that these investments were safe. In fact, most of them were highly dangerous and dodgy, and lost millions of investors' money. When the betrayed investors got organised and put pressure on the bank to repay what had been lost, ANZ's repayment offer came with big strings attached - investors who refused to sign a waiver agreeing not to take legal action against the bank would receive no compensation. In the words of the judges, this was 'the most extreme case of anti-democratic manipulation by a transnational within New Zealand during 2009'. Simply, ANZ was employing financial pressure to erase the legal rights of investors – a truly Roger winning performance".

The swaps affair rumbled through the courts during 2014, with the Financial Markets Authority joining the Commerce Commission in the case. In December 2014, ANZ opted for an out-of court settlement[44] under which it paid $18.5 million to affected farmer customers and admitted that it had "engaged in certain conduct that was misleading to some of its customers"[45]. At the same time the bank reached a settlement with the Financial Markets Authority, under which it gave undertakings that will "require ANZ to engage a third party to review its processes and procedures for future sales and marketing of interest rate swaps and forex (foreign exchange) forward contracts"[46].

Federated Farmers limply lauded the settlement as "fair and reasonable", but the debt mediator who had uncovered the scandal pointed out that the $19 million payout was "small change" compared to the losses farmers had borne on the $8 billion of swaps sold by the banks, of which 60% were accounted for by ANZ. She pointed out that "many farmers had not come forward as they were scared of reprisals from lenders, which had the power to call in loans and kick them off their land. Others have reached private agreements in return for their silence"[47].

Labour MP Damian O'Connor was more forthright[48]:

> "Damien O'Connor said the failure by the [Commerce] Commission to seek evidence of why the ANZ promoted the swap loans continued a long New Zealand tradition of 'narrow' inquiries and commissions. It would not have happened in the UK or US, he said. 'This is all too comfortable for everyone but the farmers', he said. 'The gutless Commerce Commission have wimped out'".

O'Connor expanded on his comments in the *Timaru Herald*[49]:

> "The Commerce Commission 'needs to grow a pair' and stand up to big business. O'Connor said the Commission's settlement with ANZ was both sad and cynical. 'The Commission haa found failings by the bank but then lets it off the hook with a paltry $18.5m payment for total absolution'. The deal eliminated any possibility of further investigation into the selling of millions of swap loans by ANZ to farmers, O'Connor said.
>
> "'Even Mother Teresa would struggle with this level of forgiveness for a bank that between 2005 and 2009 pocketed $6b in pre-tax profits', he said. 'The Commission has proved once again it is too gutless to take on the big boys. This decision fails to expose a practice that misled farmers into taking loans with unknown and hidden costs, leaving thousands out of pocket'".

## The Rural Growth Fund Scandal

Yet another case of dodgy dealing by ANZ-National in the rural sector was the Rural Growth Fund (RGF), set up in 2007 purportedly to undertake equity partnership joint ventures with farmers to develop their properties. As with the interest swap contracts, the deals turned out disastrous for the farmer participants once the GFC struck. Gray Eatwell of the Bank Customer Collective described the scheme as follows[50]:

"… under an RGF contract National Bank took preferential shares in a farming company in exchange for investing funds of around 40% of the total value of a proposed purchase, or dairy conversion development. A farming company under the contract had to pay an up-front fee to National Bank of 4% of the investment capital, but that fee – typically in advance of $100,000 – was not refunded by the bank, amounting to a breach of contract.

"'The National Bank of New Zealand falsely promoted the Rural Growth Fund product. The conditions of the contracted arrangements to take preferential shares in farming companies were dishonoured after the agreed capital purchases had been made', Mr Eatwell says. 'The intention to breach the contract was not appropriately advised by National Bank to the farmer, irrespective of significant farm purchases having been approved, completed and funded by National Bank'".

One victim of the RGF scam took court action in 2011, and the case was eventually settled out of court by ANZ in 2013[51]. Meantime the Commerce Commission had declined requests to take action, while the Rural Growth Fund was quietly wound up by the bank.

## Fair Play On Fees

In 2013 a mass class action was brought against ANZ by 13,000 account holders, organised under the banner "Fair Play on Fees" and funded by the Australian firm Litigation Lending Services[52]. The action targeted ANZ's credit card late-payment fees and over-limit charges, dishonour charges, and unarranged overdraft charges, saying that all of these fees were at exorbitant levels that could not be justified by actual costs to the bank.

A parallel action in Australia succeeded with regard to late-payment fees in February 2014[53], giving additional impetus to the New Zealand case, though ANZ here has vigorously defended itself. The Australian court ruled the late-payment fees ANZ charged on credit cards were illegal, as well as "extravagant, exorbitant and unconscionable"[54]. By 2014 17,000 ANZ customers in New Zealand had joined the local action[55].

## A Look Back At Banks Behaving Badly

The Australian-owned banks have featured regularly in previous Roger Awards. The 2005 Award was shared by BNZ and Westpac for their tax-avoidance strategies – practices which, the judges' statement made clear, were adopted also by other banks including ANZ. As the judges remarked, "many of the practices [BNZ and Westpac] have adopted also apply to the other two large Australian-owned banks – ASB and ANZ – and had they also been nominated then the likelihood is that all four would have been joint winners of the 2005 Roger Award"[56]

ANZ's turn came in 2009[57]. The judges noted that: "During the 2009 year the banks were accused of:

1. Distorted lending margins in their favour and against their customers
2. Tax dodging on a grand scale
3. Poor lending and investment practices
4. Overcharging and profiteering
5. Poor employment and customer service practices

"The banks behaved so badly in 2009 (and 2008) that they were the subject of a Parliamentary Select Committee investigation early in 2009. Despite receiving reports giving good reason to conclude that strong Government action was needed to rein in the bad behaviour of the banks, and to require them to deal with both customers (and the Government, which provided them with security during the 2008 financial crisis) more honestly and fairly, the National Party-dominated Select Committee did not recommend such actions to Government. This led to the Labour, Green and Progressive MPs setting up their own Independent Parliamentary Banking Inquiry. This Inquiry exposed more issues of concern, and called for better legislation and regulation to protect the public from predatory banks.

"Also during 2009, bank after bank appeared before the High Court to answer allegations of tax evasion, amounting to billions of dollars. After high level negotiations they finally reached an out-of-court settlement that saw them collectively pay the Inland Revenue Department more than $2.2 billion".

ANZ, the 2009 Roger judges pointed out, was "the most rapacious, inept and irresponsible of the banks over the past couple of years… This bank was a distinguished finalist in 2007 also, for its despicable role in the saga of Godfrey Hirst and the Feltex carpet business". The 2009 award was sealed, though, by the ING saga.

### Profiteering

The four Australian-owned banks also made it to the Roger Award finals as a group in 2012[58]

> "Now we're in the thick of it - money, insurance claims, private equity – and banks. The big four – Australian-owned ANZ, BNZ, Westpac, ASB – comprise 91% of NZ's total incorporated bank assets. They have managed, in the midst of a recession, to make a seemingly fantastic profit of $3-4 billion, an increase of 20% on the previous year. Most of this, after they have helped to save a few endangered species, goes back to Australia, meaning the NZ government has to borrow the overseas currency to enable this to happen. For Green Party Co-Leader, Russel Norman, this constitutes the single biggest outflow of the current account deficit. Their net interest margins (the difference between the banks' borrowing and lending rates) are high, approaching profiteering. But academics such as Massey University's David Tripe believe this is okay and TINA (there is no alternative) smiles voluptuously. Funny that: the academics. Only a few of them question TINA, the rest are presumably partaking of her services. And the banks' Chief Executive Officers (CEOs) are creaming it: Westpac's $3.8 million, ANZ's $3 million, BNZ's $2 million… according to First Union's Finance Secretary, Andrew Cassidy, 60 times more than the average bank worker's pay. $70,000 a week. Presumably they pay tax, but I wouldn't bet on it. But even if it comes down to $50,000 a week (the average teacher's annual salary) what do they do with $7,000 a day? How do they justify this? The market sets the rate? What market? The market in CEOs? And meanwhile they rationalise staff numbers and quibble at a wage rise to match inflation for their workers, workers who are stressed because of the need to reach performance targets involving the selling of new debt to customers. And the banks charge $100 to reverse a one-off on-line payment. And for years they were tax dodgers. As Cassidy points out: 'It is simply unsustainable [in terms of] income inequality, good society and good economic principles'. As well, they have been persuading farmers into something very problematic called 'interest-rate swaps'. Someone with a fixed interest rates swaps with someone else with a floating rate. The economics are complex, but it amounts to gambling and as with the sub-prime mortgage disaster, it's not ultimately a sensible thing to do. Very bad marks. But why are their customers not all moving to NZ-owned banks? And how come the Government account is with an Aussie bank? And how come this is not generating the level of moral outrage that smoking generates?"

In 2013 ANZ was again a finalist: "In 2013 it has been selected as a finalist because of profiteering, and treatment of its staff. One nomination specified 'excessive pay for CEO; excessive profits; and charging excessive fees to customers'. ANZ is the first of the major banks to appear in court to defend the class action suit about excessive fees".[59]

### And Still The Bad Behaviour Continues

And so on to 2015, when it has been disclosed that ANZ, undeterred by its 2009 prosecution and conviction for tax-dodging, has embarked on a new scam, playing off Australian and New Zealand tax laws to double-dip on tax benefits[60]:

> "Five years after paying $413.7 million to settle a huge tax avoidance claim, ANZ Bank is under fire for a $1 billion deal that appears to 'double dip' on trans-Tasman tax benefits. The criticism follows the Australian bank's issue this month of $A970 million ($995 million) of hybrid securities to finance its New Zealand operations. Veteran businessman and tax campaigner Tony Gibbs described the issue as 'very smelly'.
>
> "While the income on the notes counted as interest in New Zealand, generating a tax deduction for the New Zealand bank, it was treated as dividend across the Tasman, allowing Australian investors to access tax credits. 'It sounds to me like double dipping', he said. Normally, interest costs are a business cost and are tax deductible to the company, while dividends are paid from after tax profits and are not. However, ANZ's transaction achieves tax benefits at both ends of the deal….

> "The deal's structure involved the Australian bank issuing mandatory convertible notes, which are a cross between equity and debt, through its New Zealand branch. The New Zealand branch then used all the money to subscribe for similar notes issued by ANZ's New Zealand incorporated bank. … The Australian notes were issued with a dividend of 5.6%, comprising a cash payment of 3.9% and franking credits of 1.7%. The New Zealand tax deduction gives an estimated further saving in the bank's after tax borrowing cost, reducing it to about 2.3%".

Asked to comment, an ANZ spokesman [*sic*] said blandly that "the tax implications are described in the prospectus and were signed off by both the Australian and New Zealand tax departments before the transaction proceeded." Watch this space – another Roger Award nomination may be in the offing.

### In Summary

ANZ epitomises the ugly face of modern finance, weakening the national economy while it rorts its customers through inflated margins; dodging tax at every opportunity, wriggling through the regulatory loopholes left open by lax legislation and poor enforcement, and dumping on its staff.

The nominator for the 2014 Roger Award said "I take particular exception to this statement by ANZ CEO David Hisco: 'I don't think employees should see the business they work in as a partnership where profits are shared. Banks don't ask workers to chip in out of their own bank accounts when they are short of capital'". ANZ in New Zealand puts into the spotlight the widening gap between ordinary workers and the high-flying club of self-serving greedy chief executives, running large businesses whose corporate strategies entirely lack any sense of social responsibility or ethical sense of direction. CEO Hisco is no more than an overpaid hired gun, facing down the bank's workforce for the benefit of his Australian owners (and his own pockets), and in the process setting new records for the gap between the top 1% and the rest of us.

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2: Philippon, T., "Why Has Finance Become Less Efficient? Or, Where Is Walmart When We Need It?" http://www.voxeu.org/article/where-wal-mart-when-we-need-it
3: Jean-Louis Arcand, Enrico Berkes and Ugo Panizza, "Too Much Finance?" IMF Working Paper WP/12/161, 2012, p.45 Figure 5.
4: Arcand et al 2012 p.44 Figure 4.
5: Arcand et al 2012 p.24.
6: "Bank Consulting On Property Investment Loans", http://www.rbnz.govt.nz/news/2015/bank-consulting-on-property-investor-loans-1.html .
7: For a good description of these processes see Bill Rosenberg, "Big Banks Behaving Badly", Foreign Control Watchdog 122, December 2009, http://www.converge.org.nz/watchdog/22/04.htm
8: The Reserve Bank has played along with this, publishing research that purported to show that the widening interest-rate margin "does not represent the true cost for banks. Bank funding is a highly technical and intensive process… relative to the pre-global financial crisis (GFC) era, bank funding costs relative to the official cash rate (OCR) have increased in the order of 170 basis points. This extra cost of funding has fed directly into mortgage rates…". See Jason Wong, "Bank Funding - The Change In Composition And Pricing", RBNZ Bulletin 75(2): 15-24, June 2012. A glance at the banks' profit record since then confirms that more has been going on than higher funding costs in pushing up retail interest rates in New Zealand.
9: Covered bonds are wholesale bonds which give their holders "secured" status, thereby putting those bondholders at the head of the queue to claim repayment in the event of bank failure, reducing the bank's ordinary retail depositors to subordinated status. See "Foreigners Get First Dibs On Bank Assets", Herald on Sunday, 30/9/12, and Geoff Bertram and David Tripe, "Covered Bonds And Bank Failure Management In New Zealand", Policy Quarterly (4):38-43, November 2012.
10: ANZ New Zealand Limited Annual Report 2014, Footnotes 12, 23 and 34. The $7.283 billion is collateral for the ANZ's covered bonds.
11: Legal arrangements between ANZ and the special purpose entities ensure that these assets and the interest earned on them are devoted to repaying ANZ borrowing. Should ANZ get into financial difficulties, those assets would not be available to other creditors owed money by ANZ. ANZ's depositors are among the creditors who would lose out.
12: "ANZ Boss Gets Bumper Pay Rise", Press, 12/11/14; "ANZ's Hisco The Heavyweight In NZ Pay Stakes", Business Desk, 20/11/14
13: "ANZ Boss Gets Bumper Pay Rise", Press, 12/11/14.
14: Note that the spike in operating costs in 2009 represents one-off costs of the crisis and does not affect the underlying long-run trend.
15: Christopher Adams, "ANZ Boss Gets More Than 13% Pay Boost To $4.7 Million", New Zealand Herald 12/11/14.
16: This chart copies and updates Chart 5 in Geoff Bertram, "New Zealand's Overseas Debt, The Banks, And The Crisis", Foreign Control Watchdog 120, May 2009, http://www.converge.org.nz/watchdog/20/04.htm.
17: Note that these Statistics NZ figures are not strictly comparable with the Reserve Bank figures used in the previous chart; they give larger numbers for bank borrowing offshore but have the same trends.

18: http://www.anz.co.nz/about-us/media-centre/media-releases/.
19: The purchase of National Bank in 2003 for $6.9 billion secured for ANZ a large rural customer base that had been built up by National Bank; cf Roland van den Bergh, “Axing National Bank Brand ‘Risky’”, Businessday.co.nz 27/9/12, and Hannah Lynch, “ANZ Scotches Speculation Of Company-Wide Redundancies In 2012”, Business Desk 13/1/12.
20: “ANZ Named New Zealand Bank Of The Year”, ANZ press release 29/11/12; “ANZ Bank And CEO Win International Accolades”, ANZ press release 24/4/13; “ANZ Investments Scoops Triple Win At Awards”, New Zealand Herald 27/2/15.
21: “ANZ’s Hisco The Heavyweight In New Zealand CEO Pay Stakes”, Business Desk, 20/11/14.
22: New Zealand Herald, 12/11/14.
23: Nelson Mail, 1/11/14.
24: Richard Meadows, “Huge Profit For ANZ”, Timaru Herald, 26/10/12.
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