

POST-CABINET PRESS CONFERENCE: MONDAY, 29 FEBRUARY 2016

PM: OK, good afternoon. I'd like to start by conveying my thoughts to the people of Fiji following the devastation caused by tropical Cyclone Winston. The New Zealand Government has so far committed \$3.2 million towards the relief effort. This includes the deployment of a number of Defence Force assets and personnel. HMS *Wellington* arrived in Fiji yesterday and HMS *Canterbury* is on its way with hundreds of tonnes of aid and equipment. It's clear that Fiji faces a major recovery operation. Murray McCully is in Fiji today to look at what the longer term needs might be.

As you know, I've just returned from Sri Lanka where I announced two significant dairy projects. These will help Sri Lankan farmers improve farming practices and boost incomes. We also reached an agreement with the Sri Lankan Government to reduce tariffs on our dairy products. Once implemented, this will mean significant savings for New Zealand and benefits for Sri Lankan consumers. The opportunities for New Zealand and Sri Lanka are immense, and it's important we work to take advantage of those.

I was pleased to see a number of agreements signed between New Zealand and Sri Lankan businesses during my visit and to discuss with the Sri Lankan Government ways that we can work more closely together. I am also pleased to see an agreement between Auckland Zoo and the Sri Lankan Government which will see the zoo gifted a new elephant in exchange for helping Sri Lanka improve its own wildlife management.

As you will have seen, the Government has announced an increase to the minimum wage. On April 1 this year the minimum wage will increase by 50c an hour to \$15.25 an hour, which represents a 3.4 percent increase. As always, when setting the minimum wage, it's important to strike the right balance between protecting our lowest-paid workers and ensuring jobs are not lost. Since coming to office we have put the minimum wage up every year, but in a gradual and sustainable way. New Zealand already has a very generous minimum wage compared to other countries. The latest increase will keep the minimum wage at around 50 percent of the average hourly rate, which is one of the highest proportions in the OECD.

You will have seen that the members of the Intelligence and Security Committee had today received a copy of the intelligence and security review. As set out in the Intelligence and Security Committee Act 1996, the report will be presented to the House after it's been considered by the ISC. I can't comment on the specifics of the review, as it's now before the committee. Members will discuss its public release when they meet on 8 March 2016. The meeting will not be open to public or media. The review is agreed as part of the GCSB law changes made in 2013, and it provides us with an opportunity to ensure the agency has a strong and clear legal framework.

In terms of Parliament this week, we will conclude the debate on the Prime Minister's statement and make progress on the Radiation Safety Bill and the Employment Standards Legislation Bill. Wednesday is a members' day. In terms of my own activities, I'm in Wellington today, tomorrow, and Wednesday. I'm in Palmerston North on Thursday and Auckland on Friday.

Media: Given what you know of the intelligence review, what's the likelihood of legislative reform?

PM: I would have thought highly likely. So the purpose of the review was to go away and look at the adequacy in particular of the SIS legislation—that hasn't been reviewed for a very long period of time—and to look at how the new GCSB legislation was working. I think you'll find that the reviewers have undertaken a very thorough review. They'll be making a number of recommendations. It's the Government's intention to try and reach

bipartisan support, so I'm very reluctant to move forward if we can't get Labour's support on the legislation and the recommendations. So one of things we'll be doing once we get the report is to see where there's areas of common ground and what we can craft in terms of a legislative response.

Media: Any time line on getting it before Parliament?

PM: It's very difficult to know because it depends on ultimately how much of the review is agreed between ourselves and Labour, and then ultimately getting it through that drafting process. But, I mean, I think it's extremely unlikely you'd see legislation passed this year—certainly introduced to the House this year but not passed this year.

Media: In broad terms, can you tell us whether it expands or recommends expanding the powers of the security agencies or curbing them.

PM: I think I'm pretty limited in what I can say at the moment. All I can really tell you is the process we're going through, which is committee members have now got it. We'll be going off to the ISC next week, and then from there we'll be able to publicly release it. It's been written in a way, as I understand it, that's not classified, so you'll be able to read it. I haven't actually seen a copy of it myself yet. I haven't seen a draft copy. But I did meet with the reviewers, Patsy Reddy and Michael Cullen, over the course of the period.

And I think the broadest way I'd describe it is that there is a general perspective that the SIS legislation at the moment is not fit for purpose. I think there are areas where they can see improvement in the way that the GCSB and SIS can work together. So there's—I can't say too much more than that, but, you know, they're doing their best to come up with something that is both workable, far more practical for the modern environment we're in, and hopefully acceptable to both Labour and National.

Media: They're not recommending a merger of those two agencies?

PM: I need to just leave all of that until you ultimately get to see the report.

Media: Do you think it'll be politically controversial given what we've seen previously in GCSB legislation?

PM: Well, one of the instructions we tried to give the reviewers is to see if they could come up with some recommendations that not only worked but could meet common ground. Because I haven't had an opportunity to read the report yet, I'm not sure whether they've achieved that objective. But, you know, there has been, up until the point where the GCSB legislation was passed, bipartisan support for intelligence legislation, and my preference is to try and get an outcome from this review that will lead to improving the current legislation but also, you know, get that bipartisan support reinstated.

Media: On the living wage and minimum wage, the living wage has today been set at \$19.80, obviously, versus \$15.25. That gap seems rather large. Could the Government ever close that?

PM: Well, I can't tell you whether it's been closing it over the last 7 years—I just haven't seen any analysis on that. But I don't spend much time focusing on the living wage, to be frank. The rate that we can control is the minimum wage, and every year we've put the minimum wage up. As I said in my remarks, the real balance here is trying to make sure that we don't cost people their jobs. So the advice that we have from MBIE is that if the living wage was adopted at broadly just under \$20 an hour, it would impact an estimated 30,000 to 35,000 jobs. That's the sort of estimates that they make. So, obviously, as Prime Minister, you know, my responsibilities are to try, as best I can, to raise the minimum wage, while not putting at risk those jobs. The Department of Labour advice, or the MBIE advice, is that at \$15.25 it won't put any pressure on current employment.

Media: Do you accept that it's still a struggle for people to live on that?

PM: For sure, but, I mean, I think it would also be—it's important to acknowledge a number of things. So for lower-income New Zealanders their paid employment is generally

speaking only part of what they receive. So they're often in receipt of Working for Families. They're often in receipt of income-related rents. They're often in receipt of other support from the Government.

I think it's also important to understand with the minimum wage that there's—you know, we think because we're moving at this 50c from 14.75 to 15.25 it affects about 150,000 employers, so the higher you go, the more people, obviously, you catch in the net that you're increasing. And there's generally a flow-on to those that, for instance, say, are currently earning \$15.50 an hour. You'd expect to see them bumped up over time. But it is—you know, it is a balance. Again, if you look at the profile of people earning 15—earning the minimum wage, there is a variety, but sometimes they're often people starting out in employment; not always the case, but often people, for instance, starting work at maybe a takeaway outlet or something like that. It's sort of—it's not always the case but it's sometimes the case, so it just depends on the demographics.

Media: You said that we have one of the most generous minimum wages in the world. Who are you comparing us to—

PM: Well, there's a calculation they do looking at the minimum wage as a proportion of the average hourly wage, and we're in the—some of the highest in the world.

Media: Does it concern you that the 3.3 percent increase is actually quite a bit more than inflation and it could therefore stress or pressure margins—

PM: Well, it doesn't concern me, but it reflects the fact that it is a real pay increase. Because, as you pointed out, I think it's a 3.4 percent increase against current inflation—that's sitting at about 0.1 percent, so it's a 3.3 percent real increase. It's always a balancing act, and what we try and do is make sure we don't put so much pressure on businesses that they shed staff or don't hire staff, particularly small businesses, where the pressure is greater, nor do we want to see costs flowing through to other consumers unnecessarily. But on the other side of the coin, most people would reflect on the fact that those earning the minimum wage, you know, are doing it pretty tough and so increasing their wages is a good thing to do if we can do it.

Media: How much longer can you have this sort of huge gap between, in this case, minimum wage growth and the actual inflation in the economy?

PM: Well, I suspect given the inflation outlooks are really quite tepid for the next year or so, it's highly possible that actually you'll continue to see these real wage increases, and that's a good thing if we can increase real wages in a way that's not affecting employment opportunities. How long that'll carry on for I don't know, but certainly the inflation outlook for the next 12 months, from what we can see, is pretty mild.

Media: Do businesses need some interest-rate relief, given you've got these types of pressures coming on? They can't really put up prices; you've got funding costs rising, arguably, globally. They're facing tightening conditions, aren't they?

PM: Oh, well, ultimately that's a matter for the Reserve Bank Governor. I mean, if you look at some of the inputs, they've been getting cheaper, actually, for businesses. As you said, oil prices are considerably lower, interest rates have been historically at very, very low levels. So it depends on what sort of business that they're in. But, you know, that's one of the reasons why I think you've seen hiring intentions being quite strong. You've seen business confidence and consumer confidence high. For the most part, putting dairy to one side, the economy's been quite robust and probably a little stronger than maybe even the Treasury and the Reserve Bank expected. As I said, it really is a balancing act here. We're just trying to make sure that we push wages up as fast as we practically can, but, on the other side of the coin, keep people employed.

Media: You've said, a couple of years ago now, that a fair value of the currency was 65. Do you stand by that now, or is it too high?

PM: Probably I'll just leave it for any future predictions, but, as I said, it's for the Reserve Bank Governor and, ultimately, for the markets to determine what the right rate is.

Media: Well, it's still currency—I mean, is the currency too high? It doesn't seem to have come back to reflect the dairy prices yet.

PM: There are always a lot of different factors in currencies. I mean, for a start-off, obviously, it's getting measured against another currency itself, so it depends on what's happening in recent times. For instance, you've seen the New Zealand dollar, you know, effectively strengthen against the pound because of concerns of what would happen to the pound if they left the European Union. So there's always a lot of different factors, and while dairy prices have been weaker—and, actually, the general consensus would argue the kiwi would be lower with those dairy prices—you know, there've been other counter-balancing factors in our economy. So—and then the markets generally work it out.

Media: Do you think it's time to review the inflation targeting framework that the Reserve Bank and the Government have agreed, given that it seems to be consistently below the bottom of the range?

PM: I think that's ultimately something you've got to refer to the Minister of Finance. I mean, he hasn't raised with me any overarching concerns that it's not working. Everyone can see that, you know, the Government's quite a long way away from this 2 percent target. He'll have his own thoughts on what that means for interest rates, and as I've so often said before, in reality, he's trying to set interest rates for what he thinks inflation will be in a 12 to 18-month period in the future. So it's not quite as simple as saying what it is today; it's what his expectations might be.

Media: Because Bill English was saying on Thursday that the 1 percent part of the 1 to 3 percent band didn't seem as hard as the 3 percent; that he was—it didn't matter if we're actually below the 1 percent.

PM: Well, as I said, everyone will have their own different views and we're seeing some of the bank economists coming out today saying they expected to see interest rate cuts because inflation's much lower than what they'd anticipated. I'll leave that for the governor and the bank economists to fight out.

Media: Are you aware of any plans to close the rail line north of Whangarei?

PM: Ah, I think it's the opposite; I don't think there's any plans to close it. KiwiRail, over the course of time, is always looking at its business, like any good business does, to see, you know, where there are potentially efficiencies or gains, or where they're making money or where they're not making money. And I think as part of that it's identified some lines which are not profitable and I think the Northland line fits within that. But my understanding is the decision's been made to continue to keep the Northland line open.

Media: So is it making money, is it?

PM: I don't think so, no.

Media: Do you think that it's worthwhile for the Defence Force to take defamation action against Jon Stevenson, given that [*Inaudible*] cost us a million dollars now?

PM: Well, I think it was the other way around, wasn't it? I mean, Jon Stevenson took defamation against New Zealand Defence Force? You didn't get a choice in that. I mean, they become the—

Media: Do you stand by your criticisms of Jon Stevenson as being hypocritical, given the outcome of his case?

PM: Yeah, I stand by all the comments I've made—yeah.

Media: Is that based on his reporting or is it something else?

PM: Oh, I'm not going to go into the details why.

Media: What advice did you receive with regards to Jon Stevenson's credibility?

PM: Well, I've got my own experiences and I'll keep them to myself.

Media: Have you sought any explanation about this Afghan commander who was brought over, his claims didn't stack up in court, and now he seems to be still in the country?

PM: No.

Media: Any concerns that he may have essentially used this trial to resettle in New Zealand?

PM: Well, that would be concerning but you'd need to take it up with the Minister of Defence.

Media: Have you asked him for an explanation?

PM: I haven't, no.

Media: Prime Minister, just on the melanoma drug Keytruda, the petition is due to be presented to Parliament tomorrow. Has there been any movement in funding it?

PM: No, not in the short term that I'm aware of, but, I mean, Pharmac's always looking at which drugs it thinks it should fund and in which particular order. We're also going through the Budget process now, as you'd expect, and so, you know, there's obviously a high expectation that there will be more money for health and potentially, therefore, more money for Pharmac. So I'm not going to rule out that it gets funded in the future. At the moment that's in the hands of Pharmac to decide, on an efficacy basis, which drugs it thinks it should fund and which ones it doesn't.

Media: Some people are comparing the cost of the drug to how much is being spent on the flag referendum. Do you think the flag funding would have been better directed towards Pharmac so it could fund it?

PM: Well, the Government spends \$73 billion a year, so there'll always be a mixture of views about what priorities should be there and what shouldn't. I mean, the flag debate is a debate about the nationhood of New Zealand and I think that from time to time there's a cost that's incurred by that. On that basis, if people were concerned about spending money, you would never have a debate about those, or a unilateral decision would be made by either me as Prime Minister or by the Government to make changes on constitutional matters. My own personal view is that I don't think the Government should do that. On that basis, the Government might change to a 4-year term, or it might do all sorts—all manner—of things which a whole lot of New Zealanders would, I think, rightfully say: "That's not the responsibility of the Government; it's actually the right of the people to decide." So you can't avoid that sort of expenditure if you want to have a debate on those issues.

Media: Do you think that sort of expenditure is more important than saving people's lives?

PM: I didn't say that. What I said was that the Government's spends \$73 billion dollars and there's always a range of different views. In the end, we put \$800 million a year into Pharmac. It's a substantial increase on what we've ever put in before. There's a range of different drugs that they decide to fund, and, actually, there's a range of different drugs that fit within that melanoma area. I think what you are going to see is not just a debate about the merits of Keytruda—or any other drug that's sitting in the melanoma space—but you're going to see a much more intensified debate over the years over different biologics. Because what we know is that the industry is creating more of these drugs and they're likely to have a degree of success with people and, therefore, there'll be campaigns, you know, I think quite actively run to get the Government to fund those.

On the other side of the coin, just the caution I'd make is simply they're very expensive, and the reason for that is that drug companies spend so much money on R and D that they

have to charge a lot to recover them. So this isn't an isolated debate to Keytruda. You know, you're going to see it increasingly in years to come.

Media: But is the Budget really keeping up with those revolutionary developments in pharmaceuticals?

PM: Well there's been a, you know, reasonably significant increase—I think about \$120 million - odd in recent years. But you can always spend more, and we're not ruling out spending more in the next Budget.

Media: Just on the flag referendum that kicks off this week, Winston Peters has said that immigrants shouldn't be allowed to vote. What's your response to that?

PM: Well that's the sort of thing that Winston would say.

Media: On Dr Ranginui Walker, what's his legacy been for the country today?

PM: Oh, I think he's been a great academic and has had a very clear and precise view about Māori—it's history—and he's left a great legacy for others to learn from. I engaged with him on numerous occasions over the years. I always found him to be, actually, a very respectful man, quite quietly spoken but with a very strong view about Māori, about the culture, about some of the grievances, and about the gains that needed to be made—but he always did that in a very respectful way.

Media: Should New Zealanders be concerned about Donald Trump potentially becoming President?

PM: Well, we don't get a choice who becomes the next President of the United States—that's up to the American people. As I think I said on one of the morning media outlets this morning, in the end whoever becomes the next President of the United States of America, I'll be trying to work constructively with. I do that with every country that we have a relationship with, and that's because that's my responsibility. But who becomes President? We'll leave that to the good people of America to decide.

Media: Do you think it might be handy if you struck more of a relationship with Trump?

PM: Whoever becomes the next President of the United States, I'm going to try and work closely with. That's my responsibility and that's been true across the many Australian Prime Ministers I've had to work with in my time.

Media: Have you ever met him before?

PM: No.

Media: Does it worry you that he's anti-TPP?

PM: Well, I take all of the slogans that are made on the campaign trail with a grain of salt, to be frank.

Media: Can you see yourself playing golf with Donald Trump?

PM: Do I visualise that? Well, I don't know. Let's wait and see who wins the election first.

Media: He's built quite a few golf courses.

PM: Yeah, there's some pretty good ones too, I think.

Media: So you don't have an opinion on that but you do have an opinion about Britain staying in the EU?

PM: Well, it's not for me to choose the next President of the United States of America. I mean, that is for the people—

Media: No, I'm asking about the EU.

PM: Yeah, OK. Well, you're just saying I've got an opinion on one thing and not another; I was going to say the reason I've got an opinion on whether Britain should stay in

the EU is, in the end it's for the people of Britain to decide. The point I've simply been making is that when Britain is part of the EU it gives us a strong and supportive voice in the EU. As you know, at the moment we're trying to go through a free-trade agreement negotiation with the EU. Britain, along with Germany, has been one of the really strong supporters of our case. So on balance I think, if you're asking from New Zealand's perspective, are we better off with Britain as part of the EU or worse off, I think, on balance, we're better off. But, again, British people will decide whether they want to stay or go.

Media: On Auckland housing, would the Government consider intervening in Auckland if, for example, the council couldn't agree a unitary plan, to either impose commissioners or get some sort of interim legislation, because the special housing areas lapse in September?

PM: So, if I recall the summary of Bill English's comments last week accurately—and I think he said, look, in the end, potentially, you know, all options are on the table. But in the end I think most Aucklanders understand that the city needs to go out and the city will actually need to go up. My understanding of why some of the councillors voted against the unitary plan was partly about the process. I suspect partly it's election year—there'll be a range of different views. But, actually, Auckland is going to grow as a city and it needs to accommodate more people. There, like everything in life, will be a happy medium and a happy way through the answer to this, and I suspect those councillors are going to have to find an answer, because, in the end, they are charged with the responsibility of governing Auckland in a way that can accommodate the needs of Auckland. And the brutal reality is, Auckland needs to accommodate a lot more people. So they are going to have to address those issues. How they do it, I don't know. If they can't find a solution, could the Government do something? Well, technically, but we'd prefer, obviously, that Auckland Council could find a way through its own problems.

Media: How do you rate John Palino's chances in the race?

PM: Sorry, one more time?

Media: How do you rate John Palino's chances in the race?

PM: Well, I could offer you a view but probably I shouldn't. I was about to but that would be against my better judgment.

Media: Oh, go on.

PM: Well, I'll leave it to the good people of Auckland to decide.

Media: For Sri Lanka, is there still any animosity towards Fonterra after the DCD scare in 2013?

PM: No, actually, the chairman of Fonterra came with us to Sri Lanka, got a good reception up there. The gains that we potentially negotiated with Sri Lanka—I only say potentially because ultimately their current tariff rates are considerably above the WTO rates, and the commitment they've given is to reduce them by the middle of this year to the WTO rates; if that happens—are very significant for dairy farmers. So it's potentially a really good outcome. But like everything we just have to actually see that action. I think it will happen; I accept them at their word, but I just need to see it actually in practice. So I don't think there's any hard feelings there.

Also, we visited the model farm that Fonterra's got there. To give you some idea of the sort of numbers—the average New Zealand dairy cow produces about 18 litres of milk; the average Sri Lankan one produces about four. So you can see the enormous opportunities if we can pass that technology and transfer that technology and know-how to Sri Lankan farmers to improve their output and therefore the wealth of their farmers. And we actually met a bunch of farmers who've been doing exactly that—you know, using New Zealand technology, using funding that's coming from New Zealand to benefit their farms. So I think New Zealand's held in very high regard there.

Media: Is that 18 litres a day?

PM: I think so. They were the numbers they told us, yeah.

Media: Do you still believe that the medium-term outlook for dairy is good? There's been a number of commentators suggesting that there's been a structural change and that the world's going to be awash with milk for quite some time.

PM: I don't think that's right. I may be proved to be wrong, but anyway, for what it's worth, if you look at what's happening with dairy, I think it's largely an output issue out of Europe. I don't think it's so much what's happening in China. China had a build-up in inventories, but I understand China's slowly back in buying again now. If you look in Europe, they've really had their biggest market, Russia, closed to them, and they really increased their production last year, so there was quite a number of changes there. But notwithstanding that they're getting subsidised and all of those issues, they'll still be hurting. And so I think you will see a reduction in some of the output that comes from Europe and, ultimately, if you look at the correlation between, you know, when someone becomes a middle-income consumer and their desire to consume protein, it's highly correlated. So if you accept the notion that there'll be more and more middle-income consumers around the world, particularly out of Asia over the next decade or two, then dairy demand's very significant. Now, those numbers might have changed this year, but, actually, over time dairy demand's largely been growing at New Zealand's annual production a year. So it's very hard to believe in 5, 10, whatever years there won't be a significantly increased demand for dairy products.

Media: But is there a danger that many farmers won't be able to last 5 years?

PM: Well, I think it'll improve before then anyway, but putting that to one side, you know, of course they're doing everything they can to try and cut their costs and all of those things. But, ultimately, the Minister for Primary Industries has met with the banks; I think the general message they got from the banks is they're largely going to hold farmers in there.

Media: Just quickly to go back to the flag referendum, do you think there is any merit in changing laws so that only citizens can vote, or residents?

PM: No. Why would we do that? I mean, you know, you're entitled to vote if you're on the electoral roll, and we wouldn't have one set of rules for voting for a flag because it doesn't suit Winston and another set of rules because they might vote for him in a general election.

Media: Just on KiwiRail again, I mean, they haven't renewed a contract for the sole operator on the line north of Whangarei, because their wagons are too old and the bridges are falling apart and it's not commercially successful. So in September there's going to be no trains on that line and it's going to sit there with nothing using it.

PM: I don't think that's necessarily quite right, but you'd need to direct those questions at KiwiRail. I mean, my understanding is they're keeping the Northland line running. That's the advice my office has received and, you know, I stand by that.

Media: Do you think KiwiRail's being honest with you guys? Because, I mean, we've got leaked documents saying that that's the case.

PM: We got an email, and an email reflects that one person's perspective, and we asked KiwiRail, as we always do—because, by the way, we've put about a billion dollars into them in the last few years—to give us an update on how they could be a little bit more efficient and have a lower burn rate, and they came back with a whole bunch of potential suggestions, some of which were never go to be acceptable to the Government. And so there's no great surprise that they put up some Washington monuments, but, you know, at the end of the day, that's the way it works, and my advice is it's not getting closed.

Media: Have you picked up the phone yet to talk to Frank Bainimarama about—

PM: I haven't. The main reason is I've been, obviously, talking to the foreign Minister, who's been talking to his counterpart a lot. I did make suggestions that it's not impossible

I'd go up there—in the very short term—but I think at the moment we're just trying, as best we can, to not get in the way but be there and to be as supportive as we can. I think it's highly likely you'll see the foreign Minister announcing even more support today as a result of his visit, of being there. You know, we're very committed to trying to help the Fijian people, so certainly I'm not opposed to giving a Frank a ring. I'd more than happily do that, and, as I say, I'm more than happy to go and visit him, but we just want to make sure we don't get in the way. OK.

conclusion of press conference