

**Date and Time:** Monday 9 September 2024 18:01:00 CEST

**Job Number:** 233038053

**Documents (55)**

1. [*How to feed 9.7bn people? Startups take on the global food problem In the hunt for a sustainable solution to a rapidly rising population, agriculture has begun to adopt a venture capital mindset*](https://advance.lexis.com/api/document?id=urn:contentItem:5JX5-HSM1-F021-6497-00000-00&idtype=PID&context=1516831)

**Client/Matter:** -None-

**Search Terms:** emission and energy or emission and reduction or emission and targets or emission and greenhouse gas or energy and reductions or energy and targets or energy and greenhouse gas or reductions and targets or reductions and greenhouse gas or targets and greenhouse gas

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

2. [*Deere Announces Second-Quarter Earnings of $ 495 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5JTM-8PB1-JD3Y-Y4YK-00000-00&idtype=PID&context=1516831)

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3. [*Deere Announces First-Quarter Earnings of $ 254 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5J47-3S01-F0K1-N38J-00000-00&idtype=PID&context=1516831)

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4. [*Deere Announces First-Quarter Earnings of $ 254 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5J47-3S01-F0K1-N2Y8-00000-00&idtype=PID&context=1516831)

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5. [*Deere Announces First-Quarter Earnings of $ 254 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5J4W-19K1-JD3Y-Y3M6-00000-00&idtype=PID&context=1516831)

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6. [*Deere Announces First-Quarter Earnings of $ 254 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5J4W-19K1-JD3Y-Y32T-00000-00&idtype=PID&context=1516831)

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7. [*- Deere Announces Earnings of $ 351 Million for Fourth Quarter and $ 1.94 Billion for Full Year*](https://advance.lexis.com/api/document?id=urn:contentItem:5HG2-K9W1-JD3Y-Y41W-00000-00&idtype=PID&context=1516831)

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8. [*Colder, hotter, wetter, drier — and more violent Climate change conflicts*](https://advance.lexis.com/api/document?id=urn:contentItem:5GT1-WF61-JCM4-600C-00000-00&idtype=PID&context=1516831)

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9. [*The Great Land Rush: Indonesia – Saving the earth*](https://advance.lexis.com/api/document?id=urn:contentItem:5J6K-KG41-JCM7-G4B7-00000-00&idtype=PID&context=1516831)

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10. [*What price Indonesia 's forests?*](https://advance.lexis.com/api/document?id=urn:contentItem:5J7B-8GR1-JBFS-D065-00000-00&idtype=PID&context=1516831)

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11. [*Firm appeals against solar farm refusual*](https://advance.lexis.com/api/document?id=urn:contentItem:5HNJ-C901-JCG2-C3MF-00000-00&idtype=PID&context=1516831)

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12. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3C-4VT1-F021-60M5-00000-00&idtype=PID&context=1516831)

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13. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3B-TPD1-JCJY-G159-00000-00&idtype=PID&context=1516831)

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14. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3C-4VT1-F021-60M3-00000-00&idtype=PID&context=1516831)

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15. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3B-TPD1-JCJY-G158-00000-00&idtype=PID&context=1516831)

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16. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3B-TPD1-JCJY-G15B-00000-00&idtype=PID&context=1516831)

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17. [*UN drops plan to create group to relocate climate-change affected people Australia opposed the idea, despite the US , Britain and France support for it, and it has been left off draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3B-TPD1-JCJY-G157-00000-00&idtype=PID&context=1516831)

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18. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3C-4VT1-F021-60M4-00000-00&idtype=PID&context=1516831)

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19. [*UN drops plan to help move climate-change affected people Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris*](https://advance.lexis.com/api/document?id=urn:contentItem:5H3B-TPD1-JCJY-G15C-00000-00&idtype=PID&context=1516831)

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20. [*SRI sectors in focus: Evolution of green bonds*](https://advance.lexis.com/api/document?id=urn:contentItem:5H5X-T3K1-F0GS-H2KS-00000-00&idtype=PID&context=1516831)

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21. [*Corporate nonfinancial disclosures: An illuminating look at the corporate social responsibility and sustainability reporting practices of hospitality and tourism firms*](https://advance.lexis.com/api/document?id=urn:contentItem:6BM4-FYP1-JBMY-H0HS-00000-00&idtype=PID&context=1516831)

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22. [*Parties clash over negative gearing as election talk swirls - question time live Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra , live*](https://advance.lexis.com/api/document?id=urn:contentItem:5J69-3BF1-JCJY-G224-00000-00&idtype=PID&context=1516831)

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23. [*Small state plays big role at climate talks Marshall Islands ' push for 'loss and damage' could cost West billions*](https://advance.lexis.com/api/document?id=urn:contentItem:5HH9-19M1-DYR7-C1WS-00000-00&idtype=PID&context=1516831)

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24. [*Big role at talks for vanishing Pacific state Marshall Islands ' push for 'loss and damage' could cost West billions*](https://advance.lexis.com/api/document?id=urn:contentItem:5HHC-MPN1-JC85-N155-00000-00&idtype=PID&context=1516831)

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25. [*The potential of One Belt, One Road*](https://advance.lexis.com/api/document?id=urn:contentItem:5HNC-67H1-JD1P-T4D4-00000-00&idtype=PID&context=1516831)

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26. [*- CF Industries and CHS Commence Strategic Venture*](https://advance.lexis.com/api/document?id=urn:contentItem:5J15-83P1-JD3Y-Y062-00000-00&idtype=PID&context=1516831)

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27. [*Parties clash over negative gearing as election talk swirls - question time live Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra , live*](https://advance.lexis.com/api/document?id=urn:contentItem:5J69-3BF1-JCJY-G225-00000-00&idtype=PID&context=1516831)

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28. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5JXS-F3V1-JDGP-843X-00000-00&idtype=PID&context=1516831)

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29. [*Namibia Monthly Briefing September 2015*](https://advance.lexis.com/api/document?id=urn:contentItem:5T1T-KKW1-DYRW-V0YY-00000-00&idtype=PID&context=1516831)

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30. [*Coalition says negative gearing changes a tax on investment as opposition targets NBN - politics live Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra , live*](https://advance.lexis.com/api/document?id=urn:contentItem:5J69-3BF1-JCJY-G228-00000-00&idtype=PID&context=1516831)

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33. [*The incredible plan to make money grow on trees One of the most cutting-edge projects to tackle climate change is being pioneered in one of the most remote, undeveloped countries on earth. Does it have any hope of succeeding? By Sam Knight*](https://advance.lexis.com/api/document?id=urn:contentItem:5HFN-JTV1-F021-60HB-00000-00&idtype=PID&context=1516831)

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34. [*Blessed returns FT BIG READ: INVESTMENT*](https://advance.lexis.com/api/document?id=urn:contentItem:5K1H-31X1-JBFS-D1SM-00000-00&idtype=PID&context=1516831)

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35. [*The incredible plan to make money grow on trees One of the most cutting-edge projects to tackle climate change is being pioneered in one of the most remote, undeveloped countries on earth. Does it have any hope of succeeding? By Sam Knight*](https://advance.lexis.com/api/document?id=urn:contentItem:5HG8-N6C1-F021-60TP-00000-00&idtype=PID&context=1516831)

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36. [*Hitler's world may not be so far away Misunderstanding the Holocaust has made us too certain we are ethically superior to the Europeans of the 1940s. Faced with a new catastrophe - such as devastating climate change - could we become mass killers again?*](https://advance.lexis.com/api/document?id=urn:contentItem:5GXY-K861-JCJY-G4M3-00000-00&idtype=PID&context=1516831)

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**Search Terms:** emission and energy or emission and reduction or emission and targets or emission and greenhouse gas or energy and reductions or energy and targets or energy and greenhouse gas or reductions and targets or reductions and greenhouse gas or targets and greenhouse gas

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

37. [*Coalition says negative gearing changes a tax on investment as opposition targets NBN - politics live Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra , live*](https://advance.lexis.com/api/document?id=urn:contentItem:5J69-3BF1-JCJY-G229-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

38. [*- Deere Announces Second-Quarter Earnings of $ 495 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5JV8-66R1-JD3Y-Y24X-00000-00&idtype=PID&context=1516831)

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39. [*- Deere Announces Second-Quarter Earnings of $ 495 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5JV8-66R1-JD3Y-Y1VK-00000-00&idtype=PID&context=1516831)

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40. [*Letters to the editor*](https://advance.lexis.com/api/document?id=urn:contentItem:5HRH-G8W1-F0JC-M4RG-00000-00&idtype=PID&context=1516831)

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41. [*Chinese president hopeful of enhanced strategic ties with UK*](https://advance.lexis.com/api/document?id=urn:contentItem:5H5Y-7KT1-JC8S-C3W5-00000-00&idtype=PID&context=1516831)

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42. [*- Deere Announces Third-Quarter Earnings of $ 512 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5GS2-54G1-F0K1-N01C-00000-00&idtype=PID&context=1516831)

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| **Content Type** | **Narrowed by** |
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43. [*- Deere Announces Second-Quarter Earnings of $ 495 Million*](https://advance.lexis.com/api/document?id=urn:contentItem:5JV8-66R1-JD3Y-Y1RS-00000-00&idtype=PID&context=1516831)

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44. [*How palm oil demand has left orang-utans on the brink of extinction As an ever-increasing global trade in palm oil fuels mass deforestation in Indonesia , conservationists are fighting to save Sumatran orang-utans from near-extinction*](https://advance.lexis.com/api/document?id=urn:contentItem:5GGJ-8K21-F021-63WW-00000-00&idtype=PID&context=1516831)

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45. [*Hopes high for future of Asian SRI*](https://advance.lexis.com/api/document?id=urn:contentItem:5H5X-T3K1-F0GS-H2SB-00000-00&idtype=PID&context=1516831)

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46. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5GPR-W751-DYX4-73BJ-00000-00&idtype=PID&context=1516831)

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47. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5HD6-43F1-JCG2-C55X-00000-00&idtype=PID&context=1516831)

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48. [*Malcolm Turnbull pressed on Nationals deal and marriage equality - as it happened Turnbull declares that his elevation to Liberal leader was not expected but his government is strong, while former Abbott ministers jostle before a cabinet reshuffleTurnbull holds the line on climate policy and marriage equality plebisciteLiberal party stands back to watch the 'Malcolm experiment'*](https://advance.lexis.com/api/document?id=urn:contentItem:5GXM-VD01-JCJY-G0S9-00000-00&idtype=PID&context=1516831)

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49. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5HK2-XXC1-JCG2-C0M7-00000-00&idtype=PID&context=1516831)

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50. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5H7F-97Y1-JCF2-H3BV-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

51. [*STANDARD LIFE INVESTMENTS PROPERTY INCOME TRUST LTD - Annual Report and Accounts*](https://advance.lexis.com/api/document?id=urn:contentItem:5JK4-F6P1-DXP3-R4MM-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

52. [*FIDELITY JAPANESE VALUES PLC - Final Results*](https://advance.lexis.com/api/document?id=urn:contentItem:5JF8-YVW1-DXP3-R3DG-00000-00&idtype=PID&context=1516831)

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53. [*No Headline In Original*](https://advance.lexis.com/api/document?id=urn:contentItem:5HC3-RSR1-JCG2-C12F-00000-00&idtype=PID&context=1516831)

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| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

54. [*China and Australia sign historic free trade agreement - politics live With the G20 now done and dusted, MPs are gathered in Canberra for a special sitting of the parliament. China's president Xi Jinping has addressed the parliament, and inked a new free trade deal with Canberra . All the developments, live*](https://advance.lexis.com/api/document?id=urn:contentItem:5GTY-NMC1-JCJY-G00T-00000-00&idtype=PID&context=1516831)

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| **Content Type** | **Narrowed by** |
| News | Timeline: 20 jul 2015 tot 20 jul 2016; Locatie: International; Plaats van publicatie: Europe; Taal: English |

55. [*BISICHI MINING - Final Results*](https://advance.lexis.com/api/document?id=urn:contentItem:5JKS-BSP1-DXP3-R527-00000-00&idtype=PID&context=1516831)

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# [***How to feed 9.7bn people? Startups take on the global food problem; In the hunt for a sustainable solution to a rapidly rising population, agriculture has begun to adopt a venture capital mindset***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JX5-HSM1-F021-6497-00000-00&context=1516831)

The Guardian

June 1, 2016 Wednesday 2:28 PM GMT

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**Section:** WORLD NEWS

**Length:** 1632 words

**Byline:** Nic Fleming in Wageningen

**Body**

The raw numbers make for daunting reading. One in 10 people out of the current global population of 7.4 billion already goes hungry. Crop yields that soared in the decades after the second world war are flatlining, and the UN predicts there will be 2.3 billion more mouths to feed by 2050.

So how to keep people fed without trashing the planet? Some estimates put the contribution of the global food system to manmade ***greenhouse gas*** ***emissions*** as high as a third. Unsustainable farming methods are depleting soil nutrients significantly faster than they can be replenished. Rising demand for meat is driving deforestation as land is cleared to grow feed for livestock.

Related: And now for something completely different: some positive news

Green shoots of change, however, are starting to emerge, with researchers seeking out possible solutions on the borders between disciplines. The startup and venture capital culture, driving rapid change in other spheres, is gaining a foothold in food and ***agriculture***, and spreading from its stronghold on the US west coast.

The root of the problem

One idea gaining traction, particularly in hotter climates, is a new way to keep crop roots at optimum temperatures regardless of the weather.

Farmers have made increasing use of greenhouses and technologies that can heat and cool both the air around plants and the soil beneath them, but Roots Sustainable ***Agricultural*** Technologies, based near the Israeli city of Netanya, claims its system is smarter, cheaper and greener than existing technologies.

"If the temperature difference above and below the surface is too big, plants are unable to efficiently transport nutrients from their roots to the canopy," says Sharon Devir, an ***agricultural*** engineer and co-founder of the company.

Soil close to the surface is heated and cooled by the warmth of the sun or lack of it. Roots SAT's system uses coils of water-filled pipes installed at depths of up to 7 metres to either heat or cool the soil around crop roots. It uses alternately isolated and non-isolated pipes around roots to do so without wasting ***energy***, and can also discharge water, fertiliser and pesticides into root zones.

The technology is unique in being able to both heat and cool roots, and in using ground source heat exchange. Many existing greenhouse systems heat the air rather than soil, and use expensive boilers to heat water that is circulated in pipes.

Roots SAT claims to have achieved increased yields of 10% for lettuces, 25% for strawberries and 30% for basil, and earlier cropping and ***energy*** savings of up to 80% compared to conventional heating systems in pilot studies in Israel. It has installed its system to test and demonstrate it at two farms in Spain growing cucumbers and strawberries, and is seeking $4m (£2.7m) in funding to expand its operations.

It wasn't the big taxi companies that developed Uber, or Hilton that developed Airbnb

Louise O? Fresco, academic

In the same way major pharmaceutical companies have struggled to innovate internally in recent years, big ***agricultural*** players have also stuck in large part to what they know.

"There hasn't been a great deal of disruption in the food and agro-technology sector in recent decades, much less so than in other sectors," says Jan Meiling, the director of StartLife, an incubator for mainly food and ***agricultural*** startups based at Wageningen University and Research Centre in the Netherlands. "It's traditionally been a very conservative industry that is set up in a way that does not facilitate radical innovation."

At a recent conference, Louise O Fresco, the president of the university, said: "The game has changed. It wasn't the big taxi companies that developed Uber, or Hilton that developed Airbnb. What we need is radical innovation."

Waste not, want not

While many ***agriculture*** innovators are seeking to increase yields, others are coming at the problem from a different angle. The United Nations Food and ***Agriculture*** Organisation estimated that about 1.3bn tonnes of food is wasted a year globally, or about one-third of total production. A large proportion of the waste comes about because of short shelf life and logistical difficulties.

FoPo, based in Bremen, Germany, hopes to tackle hunger and waste simultaneously by collecting fruit and vegetables destined to be discarded and turning them into powder in order to significantly extend their shelf lives.

The startup is, for instance, working with a German importer who throws away 27 tonnes of bananas a week because they ripen too quickly.

It plans to source batches of fast-perishing grapes, bananas, strawberries, cauliflower, broccoli, calamansi and durian that are close to their expiry dates from farmers and suppliers, and turn them into powders using freeze- and spray-drying.

"It's an absurd situation that in the 21st century one-third of the world's food is being wasted while 800 million people go hungry," says FoPo's co-founder Gerald Perry Martin. "It really is time we got a bit smarter and found ways to address this."

FoPo wants to supply its powdered foods to those providing humanitarian aid as well as large companies who might see it as an opportunity to bolster their corporate responsibility credentials.

Related: ***Reducing*** food waste would mitigate climate change, study shows

Later this year the company will launch its website selling direct to the public, aiming its powdered fruit and vegetables, priced about £2.50 per 50g, at consumers concerned about food waste.

A potentially transformative new technology developed by another Israeli startup shows how innovation often comes from solutions developed in other sectors. Sensilize, based in Haifa, recently launched a remote sensing service providing farmers with information that allows them to better tailor what they do to crops to conditions on the ground.

The system is an advanced form of a trend that has seen large farms increasingly adopt "variable rate technology", to vary seeding, irrigation, fertilising and pesticide use according to information gathered by a variety of sensors to boost yields and cut costs.

"Previously a farmer spraying fertiliser used the same amount on the whole field," says Sensilize's co-founder Robi Stark. "However land and crops are not homogenous so increasingly we are seeing the ability to act differentially to save time and money."

Stark and his colleagues used expertise gathered while working on military remote sensing applications to create an aircraft-mounted sensor that measures the proportion of sunlight being reflected by crops.

Called the Robin-Eye, it analyses levels of reflected light in different wavebands to reveal levels of pigments - green chlorophylls, orange carotenoids and the red anthocyanins.

Analysis of the information can tell farmers about the health of their crops, giving them early warning of any problems and allowing them to apply fertilisers, pesticides and water more efficiently.

Sensilize's system calibrates information according to varying seasonal, atmospheric and light conditions, allowing comparison over time.

The company, which has already demonstrated its technology to customers in Israel, South Africa, France and the UK, sells its data to those advising farmers at prices ranging from $2 a hectare for cereals to $15 a hectare for higher value crops such as grapes.

Stark's vision of tomorrow's ***agriculture*** is hi-tech. "Our system can help bring about the internet of things on farms," he says. "Drones will fly above gathering information which will be analysed so that swarms of robots can go in and spray crops much more efficiently on a larger scale."

Other companies at the Wageningen conference were focused on developing alternatives to meat and fish as sources of protein. Attendees were offered mealworms farmed in the Netherlands by Proti-Farm, seaweed pasta made by Amsterdam-based Seamore Foods, a convincing plant-based chicken substitute from Washington-based Plenti@Protein, washed down by algae-based drinks from Dutch company Algreen.

Related: We must rebuild farmers' resilience after Ethiopia's catastrophic El Niño

New approaches such as these can all play a role in tackling the challenge of feeding the world's rapidly growing population sustainably. However, to become solutions, ideas need funding. A report published in February by the online crowdfunding investment platform AgFunder found investors who had shied away from the sector were starting to take notice.

Global investment in ***agriculture*** technology has been approximately doubling annually for the last four years, the report says - from $500m in 2012 to $4.6bn last year. But while ***agriculture*** is responsible for 10% of global GDP, just 3.5% of venture capital investments go to the sector. US companies still dominate, but less so. While in 2014 they accounted for 90% of major investment deals, in 2015 the proportion was 58%.

"Despite huge inefficiency and waste, there has been relatively little investment in ***agricultural*** technology and few entrepreneurs working in the sector," says Adam Anders, a managing partner at Anterra Capital, a venture capital company that focuses on food and farming.

"What we're seeing now is a sentiment change with big corporates really paying more attention to innovation and investment, some in a defensive way and others genuinely looking at it as the future of their business. It's a change that is totally new to a sector that has not had external, entrepreneur-led innovation as part of its make-up."

This piece is part of our Half full series. If you have suggestions of stories, trends, innovations and people that you'd like to see included in this series please share them in the form below.

**Load-Date:** June 1, 2016

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[***Deere Announces Second-Quarter Earnings of $ 495 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JTM-8PB1-JD3Y-Y4YK-00000-00&context=1516831)

FinancialWire

May 20, 2016 Friday

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**Length:** 1819 words

**Body**

John Deere Capital Corporation

The following is disclosed on behalf of the company's financial services subsidiary, John Deere Capital Corporation (JDCC), in connection with the disclosure requirements applicable to its periodic issuance of debt securities in the public market.

Net income attributable to John Deere Capital Corporation was $ 69.6 million for the second quarter and $ 169.4 million year to date, compared with $ 115.9 million and $ 249.5 million for the respective periods last year. The decline for both periods was primarily due to higher losses on lease residual values, less-favorable financing spreads and a higher provision for credit losses.

Net receivables and leases financed by JDCC were $ 33.208 billion at April 30, 2016, compared with $ 32.877 billion last year.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under "Company Outlook & Summary," "Market Conditions & Outlook," and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company's businesses.

The company's ***agricultural*** equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers' confidence and financial condition. These factors include demand for ***agricultural*** products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.), international reaction to such programs, changes in environmental regulations and their impact on farming practices; changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results.

Customer and company operations and results could be affected by changes in weather patterns; the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

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[***Deere Announces First-Quarter Earnings of $ 254 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J47-3S01-F0K1-N38J-00000-00&context=1516831)

M2 PressWIRE

February 19, 2016 Friday

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**Length:** 1810 words

**Body**

February 19, 2016

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**Load-Date:** February 19, 2016

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FinancialWire

February 19, 2016 Friday

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**Length:** 1814 words

**Body**

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M2 PressWIRE

February 22, 2016 Monday

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**Length:** 1810 words

**Body**

February 22, 2016

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FinancialWire

February 22, 2016 Monday

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Customer and company operations and results could be affected by changes in weather patterns; the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers to comply with laws, regulations and company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; events that damage the company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; changes in demand and pricing for used equipment; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; security breaches and other disruptions to the company's and suppliers' information technology infrastructure; and changes in company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, to fund operations and costs associated with engaging in diversified funding activities, and to fund purchases of the company's products. If general economic conditions deteriorate or capital markets become more volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included in the company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q).

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[***-Deere Announces Earnings of $ 351 Million for Fourth Quarter and $ 1.94 Billion for Full Year***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HG2-K9W1-JD3Y-Y41W-00000-00&context=1516831)

ENP Newswire

November 26, 2015 Thursday

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**Length:** 3478 words

**Body**

MOLINE, Illinois - Net income attributable to Deere & Company was $ 351.2 million, or $ 1.08 per share, for the fourth quarter ended October 31, compared with $ 649.2 million, or $ 1.83 per share, for the same period of 2014.

For fiscal 2015, net income attributable to Deere & Company was $ 1.940 billion, or $ 5.77 per share, compared with $ 3.162 billion, or $ 8.63 per share, last year.

Worldwide net sales and revenues decreased 25 percent, to $ 6.715 billion, for the fourth quarter and were down 20 percent, to $ 28.863 billion, for the full year. Net sales of the equipment operations were $ 5.932 billion for the quarter and $ 25.775 billion for the year, compared with $ 8.043 billion and $ 32.961 billion for the same periods in 2014.

'John Deere has completed a successful year in the face of further weakness in the global ***agricultural*** sector and a slowdown in construction-equipment markets,' said Samuel R. Allen, chairman and chief executive officer. 'Sales and earnings for the year were the sixth-highest in company history, a notable achievement in light of the challenging market conditions we experienced. The company's performance benefited from the adept execution of our business plans and disciplined cost management. As a result, Deere remains well-positioned to serve its customers while continuing to make investments in quality and innovation that are designed to drive growth in the future.'

Summary of Operations

Net sales of the worldwide equipment operations declined 26 percent for the quarter and 22 percent for the full year compared with the same periods in 2014. Sales included price realization of 1 percent for the quarter and full year. Additionally, sales included an unfavorable currency-translation effect of 5 percent for the quarter and full year. Equipment net sales in the United States and Canada decreased 23 percent for the quarter and 18 percent for the full year. Outside the U.S. and Canada, net sales fell 31 percent for the quarter and were down 28 percent for the year, with unfavorable currency-translation effects of 11 percent and 10 percent for these periods.

Deere's equipment operations reported operating profit of $ 335 million for the quarter and $ 2.177 billion for the full year, compared with $ 910 million and $ 4.297 billion in 2014. For both periods, the decline was due primarily to lower shipment volumes, the impact of a less favorable product mix, and the unfavorable effects of foreign-currency exchange. In the quarter, these factors were partially offset by lower production costs, lower selling administrative and general expenses, and price realization. The full-year ***reduction*** in operating profit was partially offset by price realization, lower selling, administrative and general expenses and lower production costs.

Net income of the company's equipment operations was $ 200 million for the fourth quarter and $ 1.308 billion for the year, compared with $ 488 million and $ 2.548 billion in 2014. In addition to the operating factors mentioned above, a lower effective tax rate benefited both quarterly and annual results. The lower rate resulted mainly from a ***reduction*** of a valuation allowance recorded during the quarter due to a change in the expected realizable value of a deferred tax asset.

Financial services reported net income attributable to Deere & Company of $ 153.0 million for the quarter and $ 632.9 million for the year compared with $ 172.2 million and $ 624.5 million in 2014. Lower results for the quarter were primarily due to the unfavorable effects of foreign-currency exchange translation, and higher losses on residual values primarily for construction-equipment operating leases, partially offset by lower selling, administrative and general expenses. Results for the year improved due to growth in the average credit portfolio, the previously announced crop insurance sale and higher crop insurance margins experienced prior to divestiture, and lower selling, administrative and general expenses. These factors were partially offset by the unfavorable effects of foreign-currency exchange translation, less-favorable financing spreads, and higher losses on residual values primarily for construction-equipment operating leases.

Full-year results in 2014 also benefited from a more favorable effective tax rate.

Company Outlook & Summary

Company equipment sales are projected to decrease about 7 percent for fiscal 2016 and to be down about 11 percent for the first quarter compared with year-ago periods. Included in the forecast is a negative foreign-currency translation effect of about 2 percent for the full year and 4 percent for the first quarter. For fiscal 2016, net income attributable to Deere & Company is anticipated to be about $ 1.4 billion.

'Although our forecast calls for lower results in the year ahead, the outlook represents a level of performance that is considerably better than we have experienced in previous downturns,' Allen said. 'This shows the continuing success of our efforts to establish a more durable business model and a wider range of revenue sources.'

Longer term, Allen reaffirmed his belief the future holds great promise for the company. 'John Deere remains in a strong position to carry out its growth plans and attract new customers throughout the world,' he said. 'Thanks to the commitment of our employees, dealers and suppliers, our plans for helping meet the world's increasing need for food, shelter and infrastructure are continuing to move ahead. These trends in our view remain quite compelling and have ample staying power. All in all, we have confidence in the company's present direction and firmly believe it is on track to deliver significant value to our customers and investors in the years to come.'

Equipment Division Performance

***Agriculture*** & Turf. Sales fell 25 percent for the quarter and full year due largely to lower shipment volumes and the unfavorable effects of currency translation. These factors were partially offset by price realization.

Operating profit was $ 271 million for the quarter and $ 1.649 billion for the year, compared with $ 682 million and $ 3.649 billion in 2014. Lower results for both periods were driven primarily by the impact of lower shipment volumes, a less favorable product mix, and the unfavorable effects of foreign-currency exchange, partially offset by price realization, lower selling, administrative and general expenses, and lower production costs.

Construction & Forestry. Construction and forestry sales decreased 32 percent for the quarter and 9 percent for the year. Sales for both periods were lower mainly as a result of lower shipment volumes and the unfavorable effects of currency translation. For the full year, these declines were partially offset by price realization.

Operating profit was $ 64 million for the quarter and $ 528 million for the year, compared with $ 228 million and $ 648 million in 2014. Operating profit decreased for the quarter mainly due to lower shipment volumes and the unfavorable effects of foreign-currency exchange, partially offset by lower selling, administrative and general expenses. Full-year results declined due to lower shipment volumes, the unfavorable effects of foreign exchange, and higher production costs, partially offset by price realization and lower selling, administrative and general expenses.

Market Conditions & Outlook

***Agriculture*** & Turf. Deere's worldwide sales of ***agriculture*** and turf equipment are forecast to decrease by about 8 percent for fiscal-year 2016, including a negative currency-translation effect of about 2 percent.

Industry sales for ***agricultural*** equipment in the U.S. and Canada are forecast to be down 15 to 20 percent for 2016. The decline, which reflects the impact of low commodity prices and stagnant farm incomes, is expected to be most pronounced in the sale of higher-horsepower models.

Full-year 2016 industry sales in the EU28 are forecast to be flat to down 5 percent, with the decline attributable to low commodity prices and farm incomes, including further pressure on the dairy sector. In South America, industry sales of tractors and combines are projected to be down 10 to 15 percent mainly as a result of economic concerns in Brazil and uncertainty about government-sponsored financing. Asian sales are projected to be flat to down slightly, due in part to weakness in China.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to be flat to up 5 percent for 2016, benefiting from general economic growth.

Construction & Forestry. Deere's worldwide sales of construction and forestry equipment are forecast to be down about 5 percent for 2016, including a negative currency-translation effect of about 1 percent.

The forecast decline in sales reflects the impact of weak conditions in the North American ***energy*** sector, especially in Canada, as well as lower sales outside the U.S. and Canada. In forestry, global sales are expected to be down 5 to 10 percent from last year's strong levels, primarily as a result of lower sales in the U.S. and Canada.

Financial Services. Fiscal-year 2016 net income attributable to Deere & Company for the financial services operations is expected to be approximately $ 550 million. The outlook reflects less-favorable financing spreads and an increased provision for credit losses. Additionally, 2015 results benefited from a gain on the sale of the crop insurance business.

John Deere Capital Corporation

The following is disclosed on behalf of the company's financial services subsidiary, John Deere Capital Corporation (JDCC), in connection with the disclosure requirements applicable to its periodic issuance of debt securities in the public market.

Net income attributable to John Deere Capital Corporation was $ 121.8 million for the fourth quarter and $ 498.2 million for the full-year 2015, compared with $ 154.2 million and $ 544.2 million for the respective periods last year. The decline for the quarter was primarily due to a decline in the average credit portfolio, higher losses on residual values primarily for construction-equipment operating leases, and less favorable financing spreads, partially offset by lower selling, administrative and general expenses.

The decline for the full year was primarily due to less favorable financing spreads, higher losses on residual values primarily for construction-equipment operating leases and the unfavorable effects of foreign-currency exchange translation, partially offset by growth in the average credit portfolio and lower selling, administrative and general expenses. Full-year results for 2014 also benefited from a more favorable effective tax rate.

Net receivables and leases financed by JDCC were $ 32.592 billion and $ 32.984 billion at October 31, 2015 and 2014, respectively.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under 'Company Outlook & Summary,' 'Market Conditions & Outlook,' and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company's businesses.

The company's ***agricultural*** equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers' confidence. These factors include demand for ***agricultural*** products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.),

international reaction to such programs, changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results.

Customer and company operations and results could be affected by changes in weather patterns (including the effects of drought and drier than normal conditions in certain markets); the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators;

actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

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changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs;

security breaches and other disruptions to the company's information technology infrastructure; and changes in company declared dividends and common stock issuances and repurchases.

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[***Colder, hotter, wetter, drier — and more violent; Climate change conflicts***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GT1-WF61-JCM4-600C-00000-00&context=1516831)

Le Monde Diplomatique (English)

September 1, 2015

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**Length:** 1899 words

**Highlight:** Climate change refugees and war provoked or exacerbated by drought and crop failures are already with us, and they will worsen through this century

**Body**

Between 2006 and 2011, Syria had its worst prolonged drought and crop failures since civilisation began in the Fertile Crescent. One and a half million people out of a total population of 22 million were affected by desertification, and many arable and livestock farmers and their families migrated to towns, worsening the tensions caused by the influx of Iraqi refugees after the US invasion of 2003. The Syrian regime has neglected Syria’s resources for decades, subsidised the cultivation of wheat and cotton, which need plenty of water, and encouraged inefficient irrigation techniques. Over-grazing and a rising population worsened the problem, and Syria’s water resources fell 50% between 2002 and 2008.

The collapse of Syria’s ***agriculture*** comes from an interplay of climate change, poor natural resource management and demographic dynamics. “A number of significant social, economic, environmental and climatic changes in Syria have eroded the social contract between citizen and government ... strengthened the case for the opposition movement, and irreparably damaged the legitimacy of the Assad regime,” write Francesco Femia and Caitlin Werrell of the Centre for Climate and Security, who argue that the emergence of IS (Islamic State) and its expansion in Syria and Iraq are in part a consequence of the drought (1). The drought is not just the result of natural climate variability, since, according to the *Proceedings of the National Academy of Sciences*: “Precipitation changes in Syria are linked to rising mean sea-level pressure in the eastern Mediterranean, which also shows a long-term trend. There has been also a long-term warming trend in the eastern Mediterranean, adding to the drawdown of soil moisture. No natural cause is apparent for these trends, whereas the observed drying and warming are consistent with model studies of the response to increases in ***greenhouse gases***” (2).

**Wheat and bread prices soar**

In eastern China in the winter of 2010/11, drought and sandstorms prompted Wen Jiabao’s government to fire rockets to trigger rain. Crop failures forced China to buy wheat on the international market, and the resulting spike in the world price worsened popular discontent in Egypt, the world’s largest wheat importer (its households often spend more than 33% of their income on food). Wheat doubled in price (from $157 per tonne in June 2010 to $326 in February 2011), which had a marked impact on Egyptians, as bread prices tripled, increasing popular resentment against Hosni Mubarak’s authoritarian regime.

In the same period, southern hemisphere wheat, soya and maize harvests were affected by La Niña, a severe climate event that caused drought in Argentina and torrential rains in Australia. Solomon Hsiang, Kyle Meng and Mark Cane describe in *Nature* the correlation they have established between civil wars and the El Niño Southern Oscillation (ENSO), which every three to seven years causes an accumulation of warm waters along the coasts of Ecuador and Peru and a reversal of the Pacific trade winds, associated with major global meteorological events (3). They calculate that the probability of civil conflicts doubles during ENSO, the first demonstration that the stability of modern societies is highly dependent on climate.

Climate change has become a threat multiplier and is changing international relations. Hard security, inherited from the cold war, has been replaced by “natural security”, a concept thought up by the US military at the Centre for a New American Security, a thinktank established in 2007 to counter climate change scepticism and identify emerging global threats. Sources of environmental insecurity are no longer confined to natural phenomena such as volcanic eruptions, tsunamis and earthquakes. Human activity, the acceleration of production cycles and their globalisation all contribute to climate instability. The neologism “anthropocene”, describing the current human-dominated era, acknowledges the exceptional impact that industrial societies have had on climate.

**Melting of the Arctic ice**

In the Arctic, where all the ice may have melted by the end of this century and the effects of global warming are twice as intense as elsewhere, claims over new land and sea borders have revived tensions. Russia, which has conducted Arctic exploration for centuries, is the only nation with a fleet of nuclear icebreakers. A giant ship, currently under construction in St Petersburg’s naval dockyards, will be completed in 2017. Moscow is also renewing its fleet of ultra-quiet, fourth-generation submarines capable of launching nuclear warheads. On the US side, the opening up of the Arctic is presented as a commercial bonus (links to Asia) and an opportunity to secure new ***energy*** resources (4).

The melting of the Arctic ice produces systemic effects. Variations in the polar vortex, an icy wind from the North Pole, caused the intense cold that affected North America in the winter of 2013/14. “The interaction between the Arctic and global warming is something new in strategic human history, because it transforms the meeting of geography and geophysics in this region into a new and strange power, one which is geophysical in nature and which we refer to as the environmental power of the Arctic. This operates on a global scale, with huge consequences,” said military strategist Jean-Michel Valantin (5). The Intergovernmental Panel on Climate Change (IPCC) has emphasised that there is no settled theory making it possible to assert that armed conflicts at the North Pole are likely. But the melting of the ice will test the robustness of the cross-border circumpolar institutions, such as the Arctic Council. Causation is complex, unstable and changing; the degree to which the effects of climate change weigh on societies will depend on the resilience of their political, economic and social systems (6).

In his book *Climate Wars,* Gwynne Dyer describes a world in which global warming accelerates, and refugees, hungry because of crop failures and forced to move by rising sea levels, try to reach the Northern hemisphere. Countries at higher latitudes, still self-sufficient in food, defend themselves — sometimes with nuclear weapons — against aggressive neighbours: the countries of southern Europe and the Mediterranean coast, which have become deserts (7).

**Effects of geo-engineering**

Faced with what some scientists call “anthropogenic climate disruption”, geo-engineering — deliberate intervention to counter global warming — is an attempt to take control of the climate. It embraces techniques to remove carbon dioxide and manage solar radiation, but risks introducing major social and ecosystem destabilisation. Sulphur spraying is supposed to produce a sufficiently thick layer in the atmosphere to impede the sun’s rays and cool the planet. But observing volcanic eruptions has led climatologists to conclude that, though sulphur particles may contribute to cooling the atmosphere, they also cause regional droughts and may ***reduce*** the effectiveness of solar panels, degrade the ozone layer and weaken the hydro-geological cycle. The most recent IPCC report warns: “Without global agreements on how and how much geo-engineering to use, SRM [solar radiation management] presents a risk for international conflict. Since the direct costs of stratospheric SRM have been estimated to be in the tens of billions of US dollars per year, it could be undertaken by non-state actors or by small states acting on their own, potentially contributing to global or regional conflict.”

Climate change creates not only the causes of violent conflicts, but also new kinds of wars, according to psycho-sociologist Harald Welzer: “Extreme violence establishes forms of behaviour and experience for which the largely peaceful western hemisphere of the post-second world war period offers no frame of reference” (8). Asymmetric conflicts between peoples and warlords in the service of big private groups are combiningin an ecosystem of violence exacerbated by global warming. The chaos in Darfur (Sudan) since 1987 is typical of this self-destructive dynamic, worsened by the weakness of states. In northern Nigeria, the degradation of land has disturbed rural ways of life and interfered with migratory routes. Several hundred villages have been abandoned and the resulting migrations have added to regional instability, giving opportunities to the Islamist group Boko Haram.

The most recent IPCC report describes compound risk, the convergence of multiple impacts with a given geographical area: “Because annual temperatures around the world are expected to rise 2 to 4 standard deviations, there is potential, *ceteris paribus* [all things being equal], for large relative changes to global patterns of personal violence, group conflict, and social instability in the future.”

Marshall B Burke of the University of Berkeley, California, and his co-authors anticipate a 54% increase in armed conflicts by 2030. Their study provides the first overall evaluation of the potential impacts of climate change on wars in sub-Saharan Africa. They illuminate the link between civil war, rising temperatures and lower rainfalls, extrapolating the IPCC’s median projections of ***greenhouse gas*** ***emissions*** for these regions between 2020 and 2039 (9).

The flow of refugees towards Europe’s haven of prosperity is likely to further increase this century. The political scientist François Gemenne says: “There are today at least as many displaced people in the world as a result of environmental degradation as people displaced through wars and violence.” These migrants are fleeing from distant wars, yet the West, despite its historical responsibility for global warming, refuses to acknowledge their status: “Denying the term ‘climate-change refugee’ amounts to denying the fact that climate change is a form of persecution of the most vulnerable.” These are victims of a transformation beyond their control.

Agnès Sinaï is an environmental journalist and a senior lecturer at the Institut d’Etudes Politiques de Paris

(1) “The Arab Spring and climate change”, The Centre for Climate and Security, Washington DC, February 2013.

(2) Colin P Kelley, Shaharzad Mohtadi, Mark A Cane, Richard Seager and Yochanan Kushnir, “Climate change in the Fertile Crescent and implications of the recent Syrian drought”, *Proceedings of the National Academy of Sciences of the United States of America (PNAS),* vol 112, no 11, Washington DC, 17 March 2015.

(3) Solomon M Hsiang, Kyle C Meng and Mark A Cane, “Civil conflicts are associated with the global climate”, *Nature,* no 476 (7361), London, 25 August 2011.

(4) “National Strategy for the Arctic Region”(PDF), White House, Washington DC, 10 May 2013.

(5) See Jean-Michel Valantin, “The warming Arctic, a hyper strategic analysis”, The Red (Team) Analysis Society ([*www.redanalysis.org*](http://www.redanalysis.org)), 20 January 2014.

(6) IPPC, *Climate Change 2014: Impacts, Adaptation and Vulnerability,* Cambridge University Press, Cambridge/New York, 2014.

(7) Gwynne Dyer, *Climate Wars: the Fight for Survival as the World Overheats,* Oneworld Publications, London, 2010.

(8) Harald Welzer, *Climate Wars: What People will be Killed for in the 21st Century,* Polity, Cambridge, 2012.

(9) Marshall B Burke, Edward Miguel, Shanker Satyanath, John A Dykema and David B Lobell, “Warming increases the risk of civil war in Africa”, *PNAS,* vol 106, no 49, 8 December 2009.

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**Length:** 3775 words

**Byline:** Pilita Clark

**Body**

It is just after 8.30am on a snowy February morning when Vidar Helgesen, Norway’s climate and environment minister, steps out of his home in Oslo, dodging frozen puddles to reach his waiting ministerial car.

It seems improbable, on this glacial day but, in less than 24 hours time, Mr Helgesen will have flown across the world to Indonesia’s sweltering capital, Jakarta, on a trip that will take him to a remote patch of Borneo rainforest to meet Dayak tribal villagers, who still hunt with spears and blowpipes.

He will have driven through a landscape pockmarked with coal mines and oil palm plantations that have spread so far that they have made Indonesia the world’s biggest deforester, losing an area as big as 100,000 soccer pitches in one year. And he will have found villagers who took three bulldozers hostage after discovering they had been used to raze nearby forests for yet another oil palm plantation.

Even for Mr Helgesen, an experienced diplomat who once led Norway’s efforts to broker peace in Sri Lanka, this will be an unusual journey — and a fraught one.

He may not be well known in much of the world, but in  [*Indonesia*](http://www.ft.com/topics/places/Indonesia), he is the billion dollar man, responsible for a lavish attempt to conquer one of the planet’s most pernicious environmental problems: the steady destruction of its tropical forests. As he heads to Indonesia, I join him to see if he can convince Jakarta to do more to limit deforestation and cut the ***greenhouse gas*** ***emissions*** it causes.

Waves of deforestation have occurred throughout human history as people have cleared land to make way for farms and towns, or harvested trees to fuel fires and build ships. Tree loss has generally followed population growth but, since 1950 — in the space of a single lifetime — the number of people in the world has exploded from 2.5bn to more than 7bn today, driving unparalleled demand for wood and above all,  [*land*](http://www.ft.com/land).

The precise rate at which the world’s forests are disappearing is the subject of considerable debate. But the problem is worst in the tropics, where population growth has been fast and forests teem with so many species of animals and plants that scientists have yet to count them all. Deforestation has been especially acute in two countries: Brazil, home to much of the Amazon, the world’s biggest rainforest; and Indonesia, the 16th-biggest economy and one of the top six emitters of ***greenhouse gases***.

In 2008, amid mounting calls for action and little sign of a solution, Norway did something unprecedented. The government declared it would give Brazil the huge sum of $1bn if it could stop chopping down so many of its trees. In 2010 it also offered $1bn to Indonesia.

Brazil’s deforestation rates declined so impressively that it has just been paid the last of the promised $1bn. But progress in Indonesia has been so woeful that Oslo has handed over only $60m, raising questions about whether even the most magnanimous efforts at stopping deforestation can succeed — and equally pressing concerns about climate change.

Before I met Mr Helgesen, I visited Lars Lovold, director of Rainforest Foundation Norway, one of the groups credited with turning Oslo’s attention to trees. I asked him to explain Oslo’s largesse. He said it came after the 2006 publication of an influential study on the economics of climate change by Nicholas Stern, a British economist, who argued that paying developing countries to halt tropical deforestation would be one of the most cost-effective ways to tackle global warming.

Mr Lovold’s group seized on the finding to lobby Norway’s government, led by then-Prime Minister Jens Stoltenberg, a trained economist. “He understood the arguments,” said Mr Lovold, to the point that in 2007, Mr Stoltenberg told a UN climate summit in Bali that Norway would provide up to $500m a year to help cut ***greenhouse gas*** ***emissions*** from deforestation in developing countries. It was such a big sum that Mr Lovold said he had trouble getting the summit newsletter to report on it, “because no one believed it was true”.

But it is. Which is why Mr Helgesen is setting off on his exotic journey.

A few hours later, as we fly through the night towards Jakarta, he takes a break from a thick wad of briefing notes to discuss what lies ahead. “The stakes are incredibly high in Indonesia,” he says. “If Indonesia can save its forests, it will massively increase the chance of saving the world’s climate.”

There have been signs of progress, he acknowledges, referring to measures such as the suspension in 2011 of new licences that allow companies to clear natural forests — one of several preparatory steps that Jakarta agreed to take under the $1bn deal with Oslo. “But we would obviously have hoped things would have progressed more quickly,” he says. “We haven’t seen actual progress in ***reducing*** deforestation.”

As he is about to see for himself, the path to achieving that progress has some colossal hurdles.

**Mapping a solution**

It is midday in Jakarta by the time the minister’s 17-hour flight touches down at the city’s sprawling international airport, where he and his small group of advisers are greeted by a team from Indonesia’s Norwegian Embassy. It includes the ambassador, Stig Traavik, who represented Norway in judo at the 1992 Olympics in Barcelona and likes to stay in shape by braving Jakarta’s hectic streets on his bicycle. Not long after taking up his post in 2012, he introduced the then governor of Jakarta to cycling, a man now better known as President Joko Widodo. That puts Mr Traavik in good company, athletically speaking, with at least one member of the Oslo entourage, Per Pharo, director of Norway’s international climate and forestry initiative. Mr Pharo is a wiry former McKinsey consultant who, according to his government biography, runs the occasional marathon “mainly because he likes it but also because it keeps him (partly) sane”.

Mr Helgesen, as it turns out, enjoys cross-country skiing, which is just as well because all three are going to need as much stamina as they can muster to cope with the schedule of Stakhanovite proportions prepared for their 31-hour stay in the capital. At least a dozen meetings have been arranged with ministers, company executives, journalists and conservation groups, and that does not include a yet-to-be-confirmed session with President Widodo himself.

There are at least two important things a country needs to do to stop forest loss: pass the necessary laws to protect the relevant trees and then make sure those laws are rigorously enforced. Brazil was well on the path to doing both some years before Norway’s $1bn offer materialised. Large swaths of land were put under state protection or declared indigenous people’s territory, and dozens of illegal loggers and land grabbers were caught and jailed.

Importantly, Brazil also had BNDES, the huge Brazilian development bank that manages the Amazon Fund, which raises money to help the country protect its forests; Oslo was happy to put its money there. A similar fund was envisaged for Indonesia in 2010 and the finance ministry has been working on its design. But that has not happened and the reason for the hold-up is revealing.

Indonesia is no longer the country it was in 1998, when former President Suharto finally stepped down after more than 30 years of authoritarian rule. Sitting in Mr Helgesen’s ministerial motorcade as it zips past the familiar signposts of modern urban life in Jakarta — the Marriott hotel; Starbucks cafés; a silver sea of towering office blocks — it is easy to forget that less than 20 years ago, Indonesia faced a fragile economy, secessionist rebellions and a gaping leadership vacuum. Since then, economic growth, free and fair elections and sweeping decentralisation measures that helped quell restive provinces have made Indonesia one of the biggest post-authoritarian success stories.

But there is still a lingering taint from the time of Suharto, a man the Transparency International governance watchdog group once named one of the world’s most corrupt leaders. Despite years of effort to root out corruption and strengthen the country’s political institutions, the influence of wealthy business elites remains a source of concern and some have considerable sums invested in the country’s forestry sector.

This came to mind as I listened to Kuntoro Mangkusubroto explain why there is still no permanent fund for Norway’s $1bn. He was formerly a senior official in the office of former President Susilo Bambang Yudhoyono and led a task force set up to bring the Norwegian forestry plan to life.

“That is not Norway’s fault. It’s ours,” he said, when we met in one of Jakarta’s plush hotels. “I know this country well and enemy number one is corruption.

“The second I became head of the task force, I told the Norwegian ambassador here: ‘Please allow me not to take your money before I can assure myself it will not be misused.’”

The problem, he said, was that if the money had ended up being treated as part of the national budget, politicians in Indonesia’s parliament could have insisted it go to certain consulting firms or companies in which they had an interest.

“That’s the game they play. I wasn’t going to allow that,” he said.

Worse, he said, the forestry ministry, for decades a virtually unchallenged power in the supervision of the country’s forest, also wanted to manage the money.

“I said: ‘No. That ministry is the crux of the problem.’”

Brazil had corruption problems too, but Mr Pharo, Norway’s international forestry initiative head, said it had institutions such as independent public prosecutors who did a considerable amount to ensure forest protection laws were obeyed. There was also a conscious decision by the federal government to deal with the problem. “That made a substantial difference. Illegal deforestation is still recognised by the government of Brazil as a key problem. But, generally, if you break the law the risk of being punished is very real. Impunity can no longer be taken for granted. In Indonesia, this process is just starting to happen,” he said.

There was a long list of issues on the Norwegians’ agenda at each Jakarta meeting, but one of the thorniest concerned reform of Indonesia’s chaotic system of land use management. Because different government ministries and agencies have each developed their own land use maps, the country is littered with examples of overlapping permits for different activities.

Adding to the confusion, provincial and district governments gained more control over land use after the end of Suharto’s rule, and they sometimes issued permits that were in conflict with what Jakarta had approved. “That mess has helped to allow deforestation,” said Frances Seymour, a US forestry policy expert who in 2006-2012 ran the Center for International Forestry Research, which has its headquarters in Indonesia.

One obvious solution to the tree loss problem, for example, is for plantation companies to use land that has already been cleared. But Ms Seymour said companies often explain they prefer uncleared forest because they can be more certain no one else has a prior claim to the land.

Efforts to address the problem and develop a common “one map” system began not long after the Norwegian forestry deal was agreed. But progress has been slow, as have allied attempts to advance indigenous groups’ rights to land, a move many conservationists believe would be likely to strengthen forest protection.

After Mr Mangkusubroto’s task force encouraged these groups to submit maps of their territories for the national mapping effort, activists went on to win an important Constitutional Court ruling, opening the door to recognition of indigenous people’s right to forest land previously claimed by the state.

“It’s kind of breathtaking that that would be possible,” said Ms Seymour, explaining that talk of indigenous rights in Indonesia was once considered subversive and this is just one example of how Norway’s $1bn initiative changed the debate in Indonesia. “It caused a tectonic shift in the politics of forests in Indonesia, which the Ministry of Forestry had had a pretty iron-clad grip on for the previous 30 years. It really shook things up.”

But it is still far from clear when or if this will translate into an actual cut in deforestation.

Nearly halfway through his Jakarta trip, Mr Helgesen’s motorcade pulls up outside the imposing environment and forestry building where he meets the minister in charge: a short, bespectacled woman named Siti Nurbaya Bakar. After the meeting winds up, I ask her why she thinks progress has been so slow. She says she and the president are both well-versed in environmental and forestry issues and committed to making the Norwegian-backed plan a success. “But still, as a developing country, we have a very big challenge,” she says, pointing out that the country also faces serious levels of poverty and economic infrastructure demands.

Before the Norwegians leave for Borneo, the news comes through that Mr Helgesen has been invited to meet President Widodo, sending a ripple of nervous excitement through the delegation. In fact, the meeting focuses on another part of Norway’s $1bn deal with Indonesia — peat bogs, a factor in last year’s massive fires.

Much of Indonesia’s soil is carbon-rich peatland. Peat is a fuel that is quick to burn and hard to put out, a menace in a country where fire is still used to clear land. Burning peat also produces ***greenhouse gases***, a fact that took on urgency as fires burned through 2.6m hectares of Indonesia last year, blanketing parts of Southeast Asia in a noxious haze that closed schools and disrupted flights. The fires were so big that some researchers thought Indonesia’s ***emissions*** on certain days rivalled those of the US. The World Bank estimated the fires cost Indonesia at least $16bn.

Following the disaster, President Widodo took the unusual step of appointing a former World Wildlife Fund director to head a new Peatland Restoration Agency. Now he tells the Norwegians that he will ban the clearing and draining of undisturbed peatland from June 1, a move Mr Helgesen describes as a potentially “monumental” contribution — if it is implemented.

**Into the forest**

Finally, it is time to leave Jakarta to see the forest and what is happening on the ground. It takes two flights and a spine-jangling four-hour drive to reach the remote village of Merabu on the eastern side of Kalimantan, Indonesia’s part of the island of Borneo.

The island is home to some of Indonesia’s last untouched wilderness areas and one of the world’s most endangered great apes, the orangutan. It is also oil palm country, the crop that has come to symbolise the destruction of Indonesia’s forests. Plantations spread out beyond the roadside towards the horizon.

In one 20km stretch of highway, we pass 11 trucks carrying the bright orange raw palm fruit; 19 of the pale green tankers that carry the oil itself; four motorcycles; and just one other passenger car.

The popularity of oil palm is understandable. It is hardy, cheap to grow and has a phenomenally high yield compared with other oil seed crops. Indonesia has grown it for generations. But as global demand has soared for an oil used in hundreds of household products, from shampoo and soap to doughnuts and chocolate, the country has become the world’s biggest producer. The amount of land used to grow oil palms has more than doubled since 2001 to about 10.8m hectares, creating an important export earner and an industry providing an estimated 4m jobs.

But the amount of forest already razed to grow the crop has made palm oil companies the ***target*** of damaging criticism from Greenpeace and other environmental campaigners.

Our first stop is an oil palm plantation run by a subsidiary of the Jakarta-based Triputra Agro Persada group.

As the Norwegians are led around the mill processing building, I ask one senior manager, Sutedjo Halim, what he thinks of environmentalists’ criticisms.

He says their criticisms ignore the industry’s efforts to boost productivity to ensure less land is needed for the crop. “We need to educate people,” he says, singling out recent efforts by legislators in France to boost taxes on palm oil. “I think this is 110 per cent not fair.”

But conversations with other palm oil companies operating in Indonesia revealed a more complicated picture. Over the past four years, some of the largest companies have pledged to ***reduce*** deforestation not just in their own operations, but also through their supply chains, including Cargill, the world’s biggest ***agricultural*** trader, and Wilmar, one of the largest palm oil processors. But both say they need Indonesian authorities to help their efforts.

“It has been quite challenging,” Jeremy Goon, Wilmar chief sustainability officer, told me over the phone. “We’ve got a regulatory environment which isn’t that conducive to a proper and thorough implementation of such pledges.”

Authorities can, for example, revoke land use licences if companies decide not to clear high conservation value forests and hand the land over to other groups who will, he said. “It’s a bit perverse really because that kind of puts the most biodiverse, precious, most high carbon stock into the hands of the people who are willing to clear it tomorrow. Because if we don’t clear it, they could.”

On top of that, a number of senior Indonesian government figures have begun to complain publicly about the companies’ pledges, claiming they threaten the livelihoods of smaller palm oil producers unable to meet such standards.

The villagers of Merabu turn out to have an even more curious set of palm oil problems. Around 250 people live there, and as Mr Helgesen’s four-wheel drive fords the river that has to be crossed to reach the village, it seems that practically all of them have come out of their modest homes to greet him. As he and his team climb up the riverbank, each is adorned with a chunky handmade necklace and led towards a table of freshly cut coconuts and a vibrant display of traditional dancing.

Although Norway’s $1bn plan is aimed at Jakarta’s national government, Oslo also funds non-government organisations that encourage villages to use the forest more sustainably. That includes the US-based The Nature Conservancy. It has been working in Merabu to help it on to a greener growth path and Mr Helgesen was promptly taken on a tour to see the fruits of this work.

There is a small cattle ranch, vegetable gardens and some ambitious plans to make Merabu an eco-tourism destination. A boat trip up the river the next morning reveals plenty of stunning rainforest to attract the adventurous tourist.

Mr Helgesen and Mr Traavik are each presented with a towering tree in the forest that has been designated for their “adoption”.

“I already have four children. I had no idea I would adopt a tree,” says Mr Traavik.

**‘This is conflict land’**

With that, they head back to their cars to return to the airport and the long trip home.

I stay on a bit longer, having been promised a trip to a cave on the villagers’ land containing what are said to be 10,000-year-old hand print paintings and the chance to see a Dayak hunter use his blowpipe. Both turn out to be worth the effort. Cai, the hunter, even lets me blow one of his poison-tipped darts, which turns out to be surprisingly easy. A light puff sends it shooting off into the treetops, although I would not want that to be my only defence against the wild boar we see crashing about later.

As we head back to the village from the cave, I spot a large, yellow bulldozer tucked away behind some large bushes. Surely that cannot be part of any green growth plan? That evening, I track down the village head, a 26-year-old named Franly Oley, who explains it was one of three bulldozers that he and a group of villagers took hostage a few months ago after discovering they were being used to clear nearby forest for an oil palm plantation.

The forest is in an area that both Merabu and a neighbouring village believe to be their land, he says, and although the company clearing the land has a legal permit for the work, the villagers of Merabu did not think it should have razed trees on contested forest.

“We told the bulldozer drivers: ‘This is conflict land. Just leave the keys and we will take it from here,’” he says. The villagers then drove the machines home, causing a bit of inadvertent deforestation on the way by hitting a tree in the dark when they could not find a switch for the headlights.

“We’re demanding compensation of $100,000 for the trees they’ve already cut down,” says Mr Oley, explaining two bulldozers had been returned after a series of negotiations with the company, but the third was staying in Merabu pending a satisfactory conclusion to the talks. The company had offered the rival villagers the use of some of the land to grow their own oil palm crops, under a longstanding government-backed scheme aimed at encouraging local community development.

Mr Oley says Merabu is considering a similar offer but there is concern this will change the village culture and either way, “the compensation must go ahead”.

A spokesman for the company, Anugerah Agung Prima Abadi, says it complied with all the appropriate government regulations but it understood there was a difference of view about where the border between Merabu and the neighbouring village lay.

It had asked district authorities to find “a solution that will benefit all stakeholders”.

Before I leave Merabu, I ask Mr Oley if he can imagine a time when Indonesia will stop cutting down so much of its forests.

“I think that’s impossible,” he says, laughing at the question.

I put the same question to Mr Helgesen, the man trying his best to make that happen. There have certainly been many encouraging signs of change since Norway made its $1bn offer but it is clear that even a sum this large is not going to stop deforestation any time soon.

To my surprise, he turns out to be an optimist. He talks about the “immense complexity of Indonesia” and the fact that “politics in Jakarta are messy”. But he senses opportunity. The Norwegian effort has gained ground. It is just a matter of a few more years, he says.

“We’ve spent six years in this partnership not getting there,” he says. “In another two years we really should be there. It’s a critical matter for Indonesia but also for the world’s climate.”

*Project manager: Christine Spolar; Design and production: Kari-Ruth Pedersen; Editors: Christine Spolar, Sue Matthias, Orla Ryan and Chinny Li*

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[***What price Indonesia's forests?***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J7B-8GR1-JBFS-D065-00000-00&context=1516831)

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**Section:** FT WEEKEND SUPPLEMENT - LIFE & ARTS; Pg. 1

**Length:** 3719 words

**Byline:** Pilita Clark

**Highlight:** Norway has offered Indonesia $1bn to stop cutting down so many of its rainforest trees - but will the plan pay off? Pilita Clark reports

**Body**

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He may not be well known in much of the world, but in Indonesia , he is the billion dollar man, responsible for a lavish attempt to conquer one of the planet's most pernicious environmental problems: the steady destruction of its tropical forests. As he heads to Indonesia, I join him to see if he can convince Jakarta to do more to limit deforestation and cut the ***greenhouse gas*** ***emissions*** it causes.

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The precise rate at which the world's forests are disappearing is the subject of considerable debate. But the problem is worst in the tropics, where population growth has been fast and forests teem with so many species of animals and plants that scientists have yet to count them all. Deforestation has been especially acute in two countries: Brazil, home to much of the Amazon, the biggest rainforest; and Indonesia, the 16th-biggest economy and one of the top six emitters of ***greenhouse gases***.

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There have been signs of progress, he acknowledges, referring to measures such as the suspension in 2011 of new licences that allow companies to clear natural forests - one of several preparatory steps that Jakarta agreed to take under the $1bn deal with Oslo. "But we would obviously have hoped things would have progressed more quickly," he says. "We haven't seen actual progress in ***reducing*** deforestation."

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Efforts to address the problem and develop a common "one map" system began not long after the Norwegian forestry deal was agreed. But progress has been slow, as have allied attempts to advance indigenous groups' rights to land, a move many conservationists believe would be likely to strengthen forest protection.

After Mr Mangkusubroto's task force encouraged these groups to submit maps of their territories for the national mapping effort, activists went on to win an important Constitutional Court ruling, opening the door to recognition of indigenous people's right to forest land previously claimed by the state.

"It's kind of breathtaking that that would be possible," said Ms Seymour, explaining that talk of indigenous rights in Indonesia was once considered subversive and this is just one example of how Norway's $1bn initiative changed the debate in Indonesia. "It caused a tectonic shift in the politics of forests in Indonesia, which the Ministry of Forestry had had a pretty iron-clad grip on for the previous 30 years. It really shook things up."

But it is still far from clear when or if this will translate into an actual cut in deforestation.

Nearly halfway through his Jakarta trip, Mr Helgesen's motorcade pulls up outside the imposing environment and forestry building where he meets the minister in charge: a short, bespectacled woman named Siti Nurbaya Bakar. After the meeting winds up, I ask her why she thinks progress has been so slow. She says she and the president are both well-versed in environmental and forestry issues and committed to making the Norwegian-backed plan a success. "But still, as a developing country, we have a very big challenge," she says, pointing out that the country also faces serious levels of poverty and economic infrastructure demands.

Before the Norwegians leave for Borneo, the news comes through that Mr Helgesen has been invited to meet President Widodo, sending a ripple of nervous excitement through the delegation. In fact, the meeting focuses on another part of Norway's $1bn deal with Indonesia - peat bogs, a factor in last year's massive fires.

Much of Indonesia's soil is carbon-rich peatland. Peat is a fuel that is quick to burn and hard to put out, a menace in a country where fire is still used to clear land. Burning peat also produces ***greenhouse gases***, a fact that took on urgency as fires burned through 2.6m hectares of Indonesia last year, blanketing parts of Southeast Asia in a noxious haze that closed schools and disrupted flights. The fires were so big that some researchers thought Indonesia's ***emissions*** on certain days rivalled those of the US. The World Bank estimated the fires cost Indonesia at least $16bn.

Following the disaster, President Widodo took the unusual step of appointing a former World Wildlife Fund director to head a new Peatland Restoration Agency. Now he tells the Norwegians that he will ban the clearing and draining of undisturbed peatland from June 1, a move Mr Helgesen describes as a potentially "monumental" contribution - if it is implemented.

Finally, it is time to leave Jakarta to see the forest and what is happening on the ground. It takes two flights and a spine-jangling four-hour drive to reach the remote village of Merabu on the eastern side of Kalimantan, Indonesia's part of the island of Borneo.

The island is home to some of Indonesia's last untouched wilderness areas and one of the world's most endangered great apes, the orang-utan. It is also oil palm country, the crop that has come to symbolise the destruction of Indonesia's forests. Plantations spread out beyond the roadside towards the horizon.

In one 20km stretch of highway, we pass 11 trucks carrying the bright orange raw palm fruit; 19 of the pale green tankers that carry the oil itself; four motorcycles; and just one other passenger car. The popularity of oil palm is understandable. It is hardy, cheap to grow and has a phenomenally high yield compared with other oil seed crops. Indonesia has grown it for generations. But as global demand has soared for an oil used in hundreds of household products, from shampoo and soap to doughnuts and chocolate, the country has become the world's biggest producer. The amount of land used to grow oil palms has more than doubled since 2001 to about 10.8m hectares, creating a big export earner and an industry providing an estimated 4m jobs.

But the amount of forest already razed to grow the crop has made palm oil companies the ***target*** of damaging criticism from Greenpeace and other environmental campaigners.

Our first stop is an oil palm plantation run by a subsidiary of the Jakarta-based Triputra Agro Persada group.

As the Norwegians are led around the mill processing building, I ask one senior manager, Sutedjo Halim, what he thinks of environmentalists' criticisms.

He says their criticisms ignore the industry's efforts to boost productivity to ensure less land is needed for the crop. "We need to educate people," he says, singling out recent efforts by legislators in France to boost taxes on palm oil. "I think this is 110 per cent not fair."

But conversations with other palm oil companies operating in Indonesia revealed a more complicated picture. Over the past four years, some of the largest companies have pledged to ***reduce*** deforestation not just in their own operations, but also through their supply chains, including Cargill, the world's biggest ***agricultural*** trader, and Wilmar, one of the largest palm oil processors. But both say they need Indonesian authorities to help their efforts.

"It has been quite challenging," Jeremy Goon, Wilmar chief sustainability officer, told me over the phone. "We've got a regulatory environment which isn't that conducive to a proper and thorough implementation of such pledges."

Authorities can, for example, revoke land use licences if companies decide not to clear high conservation value forests and hand the land over to other groups who will, he said. "It's a bit perverse really because that kind of puts the most biodiverse, precious, most high carbon stock into the hands of the people who are willing to clear it tomorrow. Because if we don't clear it, they could." On top of that, a number of senior Indonesian government figures have begun to complain publicly about the companies' pledges, claiming they threaten the livelihoods of smaller palm oil producers unable to meet such standards.

The villagers of Merabu turn out to have an even more curious set of palm oil problems. Around 250 people live there, and as Mr Helgesen's four-wheel drive fords the river that has to be crossed to reach the village, it seems that practically all of them have come out of their modest homes to greet him. As he and his team climb up the riverbank, each is adorned with a chunky handmade necklace and led towards a table of freshly cut coconuts and a vibrant display of traditional dancing.

Although Norway's $1bn plan is aimed at Jakarta's national government, Oslo also funds non-government organisations that encourage villages to use the forest more sustainably. That includes the US-based The Nature Conservancy. It has been working in Merabu to help it on to a greener growth path and Mr Helgesen was promptly taken on a tour to see the fruits of this work.

There is a small cattle ranch, vegetable gardens and some ambitious plans to make Merabu an eco-tourism destination. A boat trip up the river the next morning reveals plenty of stunning rainforest to attract the adventurous tourist.

Mr Helgesen and Mr Traavik are each presented with a towering tree in the forest that has been designated for their "adoption".

"I already have four children. I had no idea I would adopt a tree," says Mr Traavik. With that, they head back to their cars to return to the airport and the long trip home. I stay on a bit longer, having been promised a trip to a cave on the villagers' land containing what are said to be 10,000-year-old hand print paintings and the chance to see a Dayak hunter use his blowpipe. Both turn out to be worth the effort. Cai, the hunter, even lets me blow one of his poison-tipped darts, which turns out to be surprisingly easy. A light puff sends it shooting off into the treetops, although I would not want that to be my only defence against the wild boar we see crashing about later.

As we head back to the village from the cave, I spot a large, yellow bulldozer tucked away behind some large bushes. Surely that cannot be part of any green growth plan? That evening, I track down the village head, a 26-year-old named Franly Oley, who explains it was one of three bulldozers that he and a group of villagers took hostage a few months ago after discovering they were being used to clear nearby forest for an oil palm plantation.

The forest is in an area that both Merabu and a neighbouring village believe to be their land, he says, and although the company clearing the land has a legal permit for the work, the villagers of Merabu did not think it should have razed trees on contested forest.

"We told the bulldozer drivers: 'This is conflict land. Just leave the keys and we will take it from here,' " he says. The villagers then drove the machines home, causing a bit of inadvertent deforestation on the way by hitting a tree in the dark when they could not find a switch for the headlights.

"We're demanding compensation of $100,000 for the trees they've already cut down," says Mr Oley, explaining two bulldozers had been returned after a series of negotiations with the company, but the third was staying in Merabu pending a satisfactory conclusion to the talks. The company had offered the rival villagers the use of some of the land to grow their own oil palm crops, under a longstanding government-backed scheme aimed at encouraging local community development.

Mr Oley says Merabu is considering a similar offer but there is concern this will change the village culture and, either way, "the compensation must go ahead".

A spokesman for the company, Anugerah Agung Prima Abadi, says it complied with all the appropriate government regulations but it understood there was a difference of view about where the border between Merabu and the neighbouring village lay. It had asked district authorities to find "a solution that will benefit all stakeholders".

Before I leave Merabu, I ask Mr Oley if he can imagine a time when Indonesia will stop cutting down so much of its forests. "I think that's impossible," he says, laughing at the question.

I put the same question to Mr Helgesen, the man trying his best to make that happen. There have certainly been many encouraging signs of change since Norway made its $1bn offer but it is clear that even a sum this large is not going to stop deforestation any time soon.

To my surprise, he turns out to be an optimist. He talks about the "immense complexity of Indonesia" and the fact that "politics in Jakarta are messy". But he senses opportunity. The Norwegian effort has gained ground. It is just a matter of a few more years, he says.

"We've spent six years in this partnership not getting there," he says. "In another two years we really should be there. It's a critical matter for Indonesia but also for the world's climate."

Pilita Clark is the FT's environment correspondent

**Load-Date:** March 4, 2016

**End of Document**



[***Firm appeals against solar farm refusual***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HNJ-C901-JCG2-C3MF-00000-00&context=1516831)

Western Gazette

December 24, 2015 Thursday

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**Section:** NEWS:OTHER; Pg. 3

**Length:** 197 words

**Body**

A COMPANY wishing to build a solar farm north of Langport has appealed against the district council's decision to refuse permission.

Andrew Maltby, the owner of Aller Court Farm in Aller, put forward plans in 2014 to construct a 17mW solar farm covering 11 hectare of ***agricultural*** land.

The plans entailed photovoltaic cells of up to 2.4 metres in height being erected, along with eight inverter stations of up to three metres which would feed ***energy*** into the National Grid.

The plans were refused by South Somerset District Council's area north committee in July, which prompted applause at a packed meeting at Edgar Hall in Somerton.

Speaking at the time, committee chairman Shane Pledger said: "The impact of this proposed farm on the land makes me shudder. Solar panels are a good idea but not in this place."

Mr Maltby is now appealing the decision on the grounds that the solar farm would contribute towards ***reducing*** reliance on fossil fuels for ***energy*** generation.

A spokesperson for Mr Maltby said: "The proposal will make a valuable contribution to cutting ***greenhouse gas*** ***emissions***."

The appeal has been passed to the Planning Inspectorate which will give its decision in the new year.

**Load-Date:** December 21, 2015

**End of Document**



[***UN drops plan to help move climate-change affected people; Australia opposed the plan for a group to assist migration, and it has been left off the draft agreement for UN climate talks in Paris***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5H3C-4VT1-F021-60M5-00000-00&context=1516831)

The Guardian

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**Section:** ENVIRONMENT

**Length:** 1329 words

**Byline:** Oliver Milman

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Australia had spent more than $50m in climate resilience projects in the Pacific and contributed another $200m to the Green Climate Fund.

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Last year the Kiribati government bought 20 sq km of land on Vanua Levu, one of the Fiji islands, in case its people cannot be moved internally. It has a policy called " migration with dignity " if its cluster of 33 coral atolls becomes inhabitable.

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Advocates for displaced people argue that a new international framework needs to be created to help them, given that the UN refugee convention does not cover them because they are not fleeing persecution.

"I'd hope the UN would put a new apparatus in place. At the moment this is being dabbled in - there's nothing systemic," said academic Scott Leckie, founder of Displacement Solutions, an NGO that facilitates moving people displaced by climate change within their countries.

Leckie's organisation focuses its work in five countries - Bangladesh, Colombia, Fiji, Panama and the Solomon Islands - but said climate displacement was a global problem, even in wealthy nations such as the US where people in Alaska have had to move and Boston faces a future of being a "city of canals" because of sea level rises.

"Successful relocation is very complicated and there's a real gap in how governments do this internally," he said. "It may seem simple to move 30,000 people within Panama, for example, but when you get into it there is a variety of land and ethnic tensions.

"The question for people on small islands is whether to stay or go, which is almost impossible to answer because the stakes are so high. Once you have people leave, you get a brain drain, investment dries up and you get into a vicious cycle of despair and poverty.

"This is solvable with political will and resources. There needs to be a coordinated human rights approach. Just as Australia takes in 12,000 Syrian refugees, there's nothing stopping a further 1,000 places earmarked for people who have nowhere else to go in the Pacific islands.

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**Load-Date:** October 7, 2015

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**Byline:** Oliver Milman

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**Length:** 1329 words

**Byline:** Oliver Milman

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**Length:** 1330 words

**Byline:** Oliver Milman

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**Section:** ENVIRONMENT

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**Byline:** Oliver Milman

**Body**

Australia's opposition to the creation of a body to help people escaping the ravages of climate change appears to have paid off, with the idea dropped from the draft agreement for the crucial UN climate talks in Paris.

A previous draft of the deal to be thrashed out by nations included a "climate change displacement coordination facility" that would provide "organised migration and planned relocation", as well as compensation, to people fleeing rising sea levels, extreme weather and ruined ***agriculture***.

Related: Pacific leaders voice frustration over Australia's position on climate change

However, this reference has been removed in a revised text ahead of the December climate conference negotiations. Australia opposed the facility, although Guardian Australia understands the prime minister, Malcolm Turnbull, has shown interest in the issue of displacement.

"Australia does not see the creation of the climate change displacement coordination facility as the most effective or efficient way to progress meaningful international action to address the impacts of climate change," a Department of Foreign Affairs and Trade spokesman said. "Australia is already working closely with our Pacific partners on these important issues."

Australia had spent more than $50m in climate resilience projects in the Pacific and contributed another $200m to the Green Climate Fund.

Opposition to the coordination facility is not shared by Australia's traditional allies, with representatives from the US, British and French governments indicating they were open to the idea.

"Climate change is one of the most serious threats we face, not just to the environment, but to our economic prosperity, poverty eradication and global security, hitting developing countries the hardest," said a spokeswoman for Britain's Department of ***Energy*** and Climate Change.

The impact of climate change is anticipated to displace up to 250 million people worldwide by 2050, including many in low-lying Pacific islands such as Tuvalu, the Solomon Islands and Kiribati.

In areas of the Pacific, sea level is rising by 1.2cm a year, four times faster than the global average. For coral-based islands two to three metres above sea level this has resulted in communities being relocated, and drinking water and crops are threatened by salt water inundation. Recent research suggests islands will not be submerged but will change shape and height, posing difficulties for fixed infrastructure.

Related: Pacific island leaders fail to shift Australia and NZ on climate ***target***

"Why on earth would Australia not support a coordination facility?" said Phil Glendenning, president of the Refugee Council. "We are talking about the most vulnerable people on the planet who are facing threats to their food security, seeing their water supplies diminish and their entire cultures at risk.

"The world is going to have to deal with this displacement. We need to get on the front foot. Australia can't say we are doing enough. People in Kiribati and Tuvalu are the canaries in the coalmine and they are looking to Australia."

Last year the Kiribati government bought 20 sq km of land on Vanua Levu, one of the Fiji islands, in case its people cannot be moved internally. It has a policy called " migration with dignity " if its cluster of 33 coral atolls becomes inhabitable.

Maria Tiimon, who moved to Australia from Kiribati in 2006, said people in her homeland were scared but did not want to become climate migrants.

"I speak to the young people there and they say they don't want to move. This is where our ancestors came from," said Tiimon, who is a Pacific outreach officer at the Edmund Rice Centre in Sydney. "Displacement really has to be the last resort. Pacific islands need help to adapt and the rich countries need to cut their ***greenhouse gas*** ***emissions***.

"People in Kiribati are now very worried about climate change. They say, 'No wonder it's getting hotter, that it's hard to find fish.' The young ones are worried about the future. One said he wanted to be a doctor but that he'll be unable to do so because of climate change.

"That's not right. This has become a human rights and justice issue. These people haven't contributed to climate change but they feel they have no future because of it."

Tiimon said homes on the island where her family lives had been shifted inland, although there is little space for people to move to.

"People rely on well water dug from the ground because Kiribati is so flat. The water is becoming brackish because of the salt water," she said.

"I tell Australians where I'm from and people don't know where Kiribati is. But in Kiribati all the children know a bit about Australia. We look at the country as a big brother because we are almost in your back yard.

"I hope and pray Australia will do more. Australia is a wealthy country. It should take the lead on climate change and help the Pacific islands."

Related: The Pacific islands losing a way of life to climate change - in pictures

Relocation of people is occurring across the Pacific region. Dozens of villages in Fiji will be moved, and 2,000 people from the Carteret atoll of Papua New Guinea will be transferred to mainland Bougainville, a three-hour trip on a wooden boat, because of salt intrusion and destructive tides.

Last year engineers from Australia and Britain helped plan the relocation of Taro, a town in the Solomon Islands, to the adjacent mainland. The move will mark the first time a regional capital in the Pacific has been displaced for environmental reasons.

Pacific island leaders have appealed to the international community in increasingly stark terms, with a succession of governments calling for action at a UN gathering in New York last week.

"I speak as an islander who has walked the shores of many atoll islands, where there was once sandy beaches and coconut trees," Peter Christian, president of Micronesia, told the UN assembly. "Now there are none. I am told this will continue.

"We must become more cohesive in our actions to bring a useful conclusion to help mitigate the threat of sinking islands and prevent the potential genocide of Oceanic peoples and cultures."

Advocates for displaced people argue that a new international framework needs to be created to help them, given that the UN refugee convention does not cover them because they are not fleeing persecution.

"I'd hope the UN would put a new apparatus in place. At the moment this is being dabbled in - there's nothing systemic," said academic Scott Leckie, founder of Displacement Solutions, an NGO that facilitates moving people displaced by climate change within their countries.

Leckie's organisation focuses its work in five countries - Bangladesh, Colombia, Fiji, Panama and the Solomon Islands - but said climate displacement was a global problem, even in wealthy nations such as the US where people in Alaska have had to move and Boston faces a future of being a "city of canals" because of sea level rises.

"Successful relocation is very complicated and there's a real gap in how governments do this internally," he said. "It may seem simple to move 30,000 people within Panama, for example, but when you get into it there is a variety of land and ethnic tensions.

"The question for people on small islands is whether to stay or go, which is almost impossible to answer because the stakes are so high. Once you have people leave, you get a brain drain, investment dries up and you get into a vicious cycle of despair and poverty.

"This is solvable with political will and resources. There needs to be a coordinated human rights approach. Just as Australia takes in 12,000 Syrian refugees, there's nothing stopping a further 1,000 places earmarked for people who have nowhere else to go in the Pacific islands.

"I think every country in the world responsible for CO 2emissions have some measure of responsibility for the predicament they've caused. Top of that list is Australia, given it is the worst per capita emitter in the world."

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[***SRI sectors in focus: Evolution of green bonds***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5H5X-T3K1-F0GS-H2KS-00000-00&context=1516831)

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**Section:** GREEN BONDS,SRI,CLIMATE AWARENESS BOND,STANDARDISATION,GREEN BOND MARKET,CBI,CLIMATE BONDS INITIATIVE

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**Body**

The green bond market, and the climate investment universe more broadly, can be assessed in two ways. On one hand, it has created out of nothing an increasingly deep and diversified pocket of the fixed income markets through which capital can be channelled directly to environmentally supportive projects. It has captured the attention of some of the world's biggest institutional investors, and put their money towards initiatives worldwide from BogotÃ¡ traffic to Swedish water filters. But on the other hand is an uncomfortable suspicion that not one project funded by climate bonds would not have been funded anyway by conventional means. Whether this is simply an evolutionary stage, or if it even matters at all, is a subject for reflection.

Certainly, the market has developed critical mass. "We are seeing a number of milestones and tipping points," says Christopher Flensborg, head of sustainable products and product development, fixed income and DCM, at SEB.

Flensborg, along with the World Bank, are considered architects of the green bond industry having helped to invent the concept in 2007.

"The product we created was basically designed to enable institutional investors to have an interaction with financial specialists and project specialists. Every day, you see new people coming in and engaging. All of them have a strength: water management, efficiency, public transport. And for every one coming on board we get a clearer picture of what's needed."

Numbers support the view of a market finding its feet. Looking at the green bond universe "" which is not the whole story "" there were $65.9bn outstanding as of June 2015. There are mixed feelings about its direction: the market doubled in size during an outstanding 2014, but has not kept up that pace in 2015, though we may see an increase later in the year in the run-up to the UN Climate Change Conference in Paris. The biggest issuers so far have been the European Investment Bank (â,¬10bn), World Bank ($8.5bn) and, lately, KfW ($4.78bn). Developments banks in Asia, Africa and Japan have been active too.

There are clear signs of market evolution. "Since 2013, the market has asked for benchmark investment instruments," says Aldo Romani, deputy head of funding, euros, at EIB, one of the major green bond issuers through its Climate Awareness Bonds, the first of which appeared back in 2007 in what is believed to be the first instance of ring-fencing proceeds in a dedicated liquidity portfolio for investment into projects contributing to climate action. "Before then, transactions were really ***targeted*** at specific pockets of demand."

EIB has been instrumental in building a benchmark curve, issuing â,¬10bn to date, including a â,¬3bn issue that remains the largest green bond outstanding in any currency, and a â,¬1.25bn 12 year bond due in 2026"" the longest green benchmark in existence. It has bellwether issues out there in euros, dollars and sterling. Between 2007-2013 alone, climate awareness bonds proceeds were allocated into 55 projects in 19 currencies.

Below the multilateral level there are signs of activity from municipalities (in the US from DC Water, and in Europe notably from the Swedish city of Gothenburg and France's ÃZle-de-France), from corporates (big early entrants were EDF and GDF Suez), and even high yield (NRG Yield, Abengoa Greenfield, Paprec and TerraForm Power being examples). Most deals come in euros and dollars, but labelled green bonds have appeared in 23 currencies from the Turkish lira to the Indian rupee.

More than labels

Moreover, there's more to climate finance than the ring-fenced green bonds one sees from the multilaterals.

"Labelled green bonds don't make up the sum of the whole of all bonds associated with climate," says Sean Kidney, chief executive at the Climate Bonds Initiative (CBI), a not-for-profit he founded to mobilise the bond markets towards climate change.

"The broader issue is how do we get capital allocated at scale to addressing climate change." He cites figures from the International ***Energy*** Agency saying that $3tr-$4tr a year needs to be committed towards climate solutions and says "we think we need about a trillion a year of bonds overtly related to climate solutions".

While that sounds an unthinkable number in the context of a $65.9bn universe of labelled green bonds, in fact it's not as distant as it might seem. The Bonds and Climate Change report the CBI put out in July, identified a far greater pool of bonds that could be labelled climate related, but do not carry the green bond badge.

Putting those into the mix, the universe becomes a $597.7bn market of 2,769 bonds from 407 issuers as of June10 2015, across transport, ***energy***, buildings and industry, ***agriculture*** and forestry, waste and pollution, and water. Just under half of it, $266.3bn, falls within mainstream indices. (The precise methodology involves screening the Bloomberg data universe for companies for whom more than 95% of revenues are from climate aligned assets.)

By far the largest part of this is transport, and, within that, rail which accounts for over $400bn of the total. ***Energy*** is next, making up $118.4bn of the climate-aligned universe through a range of hydropower, wind, solar, bio-***energy***, geothermal and nuclear production.

The report calculated that the climate-aligned universe had increased by $95bn in the space of a year, $30.6bn in new labelled green bonds and most of the rest in issues financing rail from China and India to France and the UK. It also provided some reassuring context around range of maturities "" most relevant outstanding issues having tenors exceeding 10 years, reflecting the long-term nature of assets such as rail infrastructure bonds "" and diversity, with 37 currencies represented. It would be a shrewd market commentator who guessed the most widespread one: the renminbi, because of the many Chinese rail and hydro-electric bonds.

While it's almost entirely an investment grade market, it is quite widespread in rating; filtered through some mainstream index-like rules to make a $266.3bn accessible universe, the market breaks down as $70.1bn triple-A, $79.4bn double-A, $47.4bn single-A, and $69.4bn triple-B.

A long way from success

While all of this sounds positive, it hasn't cheered Sean Kidney.

"In the long run what we are trying to do is green the whole economy," he says. "By any axis of measurement, we're a long way from success. All we have really been able to do is gently get a few shoots up through the soft earth. To be useful, it needs to be a whole tree. A forest, in fact.

"We should not be about issuing bonds that make us feel soft and cosy now because they're called "~green bonds'," he says. "It should be about designing a trillion dollar plus a year market which can contribute to making a difference which the current market palpably does not. Theinvestment flow is nowhere near large enough to make a difference and we are under no illusion of the work ahead of us."

Kidney gets angry when discussing the failure of government to do enough to shift policy away from fossil fuels and towards climate mitigation. "As Jeffrey Sachs says, we've spent 20 years pissing in the wind and wasting our money on lawyers in Paris and ***emissions*** have continued to increase," is a fairly representative comment.

But whatever governments do, there is clearly opportunity in the attitude of private investment if it can only be harnessed, and that is largely the point of what Kidney is trying to achieve. "The big win so far is that we now have investor demand. We have investors left right and centre saying they want these bonds: "~give me a deal'. But they can't find enough issuance to buy.

"We have $45tr-worth of pension funds in the world who have signed up to statements on the importance of acting against climate change," he says. "Every one of them is interested in green "" if they can also meet their fiduciary obligations." And this is the point: finding a way to attract finance that does meet the compliance obligations of vast and cautious retirement savings vehicles.

Governments, Kidney says, have a role here, rolling out investments at scale that create buying opportunities similar to the assets that pension funds already hold: "shifting portfolios," as Kidney puts it, "from green crap to brown good. But governments have to pick up part of the risk here."

A sea of green demand

Kidney is absolutely right to say that investors are ready to take part. If anything, investor demand exceeds supply. Public promises to build significant green bond portfolios have come from Zurich Insurance, Deutsche Bank treasury and KfW among others, while fund managers building green bond funds include SEB Asset Management, BlackRock, Nikko Asset Management, State Street and the specialist Natixis subsidiary Mirova, which recently launched a green mutual fund.

"There are sufficient bonds out there now for a diversified fund," says Wigley, who manages Mirova's fund. "We've got more than 40 in our dedicated green bond fund, diversified notjust by issuer but by currency, maturity and credit rating. There's a lot more diversity than when the market started."

Not only are they willing, they are increasingly savvy and demanding too. Romani at the EIB says: "The question of accountability has changed from a quantitative dimension "" a transparent description "" to a qualitative one, which is people asking: "~What is the impact of the projects that are receiving allocations?'"

The key to the success of green bonds is that a fund manager does not have to do anything different in order to be allowed to buy one. As Flensborg puts it: "If you can buy a bond, you can buy a green bond. Why wouldn't you?" This is crucial, since it's not easy for a fund manager or institution to completely change their stance on investment. "Our first consideration is financial return," says Ashley Schulten at Blackrock, which manages more than a billion dollars worth of green bonds, including a significant mandate from Zurich.

"It all has to be done with a view on the market, spreads, rates, curves and available supply," says Schulten. "It's a work in progress: issuance has definitely gotten better and as standards have improved, the process becomes easier."

So if issuers can qualify as green bonds and there is a fervent investor base waiting for them, why are most of them not doing so? The CBI hopes they will do so, "taking advantage of the marketing benefits of the green label, winning new investors, reinforcing investor loyalty, and being seen to be part of a larger, more liquid bond universe."

Some are doing so "" Vestas, the wind power company, for example, has issued mainstream bonds for years, but only in 2015 decided to label a corporate bond as green "" and perhaps others will do the same.

"Companies just have to track and be able to report annually on qualifying assets, and get a certification or credible independent review," says the CBI. "Simple."

Is it? Questions of certification, endorsement and standardisation pepper discussions around green bonds. And here things become a little more complicated.

Standardisation

Standardisation is a tricky subject. The idea is that if there is a standard template that all investors can look at when assessing a green bond, showing precisely what green project the proceeds will go to and what the environmental impact will be, it will be easier for them to participate. The argument against is that something as complex and diverse as climate challenge cannot be boxed and partitioned like other credit.

"I've always said that with the green bond market, because it is young and growing, that we are walking a tightrope in terms of standardisation," says Wigley at Mirova. "On one hand, we do not want the market to be too rigid. It needs to be flexible as it grows, and it needs to be innovative, so great are the challenges from climate change that it needs to address. On the other hand, the green bond market has always held integrity to be very important and we need to maintain that."

Issuers see this too. "For smaller investors who cannot do all their own research, standardisation is helpful," says Tom Meuwissen at NWB Bank, which finances the Dutch water authorities and has completed two labelled green bonds to date. "But bigger investors might rely on their own research and standards anyway, judging projects on their own regardless of the general opinion on their greenness."

For those bigger names, a cookie-cutter standard that removes diversity from the market might actually be off-putting.

Asked if standardisation is necessary for the market to grow, Flensborg responds: "I disagree, heavily. I do agree that standardisation is needed on the definitions of what is what"" what is a green bond "" but too much standardisation will kill the market, not create it.

"It is unrealistic to believe that any two cities will have the same challenges around infrastructure or pollution, or have the same definitions of what is green, or the same solutions. Those cities need to be allowed to have that difference in order make a transition to a green economy."

Still, one argument for standardisation is that it ***reduces*** the risk of sub-standard issuance getting into the market, because reputation, here, is enormously important.

"We don't want to see any disappointments, or anything that weakens the market in any way," says Wigley. There is a danger, already, that this could be happening. "It's been the case this year that at least two issues have come to market and been self-labelled as green, but with no link to identifiable projects," he says, declining to name them beyond being green technology specialists. "It is vital any green bond has a link to an identifiable project, otherwise that money could be used elsewhere."

Equally, though, it is perhaps part of the evolution of any market that there will be missteps. "When we started out, the World Bank was being extremely careful and prudent in what it was doing "" it still is," says Flensborg. "But now we are seeing people trying to loosen the quality quite a bit, to allow people to have different approaches and philosophies. And as that very strict policy of the early issuers is built out into a loose one, we will see some failures." That's not all bad, he suggests. "It will cause the market to find a more strict definition of what is and is not acceptable."

The Green Bond Principles are an attempt to impose some order on the burgeoning field; their first iteration came out in 2014, they were strengthened and revamped in March 2015, and will likely evolve again by 2016.

The principles are governed by a membership secretariat of green bond issuers, investors and intermediaries, and represent a voluntary set of best practice guidelines for labelled green bonds, focusing on transparency of use of proceeds, the process for project evaluation, and reporting. The principles are hosted by the International Capital Markets Association.

Alongside that, in acceptance of the fact that standards of greenness are not going to be the same for every-one, the green assessment group Cicero has launched something called a Shades of Green methodology.

Director Kristin Halvorsen explains that Cicero has three shades: dark green, implementing a 2050 climate solution today; medium green, on the way to a 2050 climate solution; and light green, offering short-term gains but not a long-term climate solution.

In practice, renewables like solar or wind tend to get the deep green methodology; efforts in sustainable buildings and ***energy*** efficiency are more likely to be medium; and projects that bring a short-term ***reduction*** in ***greenhouse gas*** ***emissions***, but do not move away from fossil fuels will be light green.

"Our shades of green aim at giving investors a better indication of how green the projects they want to invest in really are," Halvorsen says.

Certification and impact

This brings us to a second key issue: certification, which is clearly crucial for investor confidence. The most common method is to seek an independent review, often known as a second opinion, most commonly issued by Cicero or Vigeo. "A Cicero second opinion gives investors and issuers comfort," says Meuwissen.

Beyond certification, there is also increasing interest in understanding impact. Possibly the most widely discussed document in the industry right now is the World Bank's Impact Report, a June 2015 document that spells out in detail the 77 green bond eligible projects that have so far been supported by the IBRD's Bank's 100 green bonds up to June 30, involving $13.7bn of commitments (total loan amounts that will be disbursed over time) and $5.6bn of disbursements sofar.

It discusses each project, the data around projected impacts, such as ***energy*** savings, or other results, depending on the sector and project.

The results themselves are not really the point, so much as their actual disclosure, and the guidance this gives to the industry to encourage them to do the same.

"The impact report not only tells you how money is used, but what to expect to obtain in terms of an environmental outcome," says Laura Tlaiye, sustainability advisor at the World Bank. "The importance was in demonstrating that it is possible to provide investors with information that they can use, whether by project by region or by sector, to get an idea of the scale of the outcomes and impacts of their investment."

Heike Reichelt, head of investor relations and new products at the World Bank, adds: "Any information issuers can provide about expected impact gives investors additional information that will hopefully feed into every investment decision that they make."

Fund managers seem encouraged. "Issuers who were reluctant to provide reporting a year ago have come around and see the investor arguments for it. We've been working with the World Bank and EIB to create a uniform template for impact reporting," says Schulten at Blackrock. "When we request impact information from issuers, they often say: "~What do you want to see?' We're working with the World Bank to answer that."

There are, for example, potential nuances about how reports are given over the life of the project, and what exactly needs to be reported.

"There are some issuers I have been pleasantly surprised by what they provide, and some where I have been disappointed. But we are all in a learning process," she says. "Impact reporting is what we need to push the market further."

Much of this process is just a question of a new and improved dialogue.

"What is happening with climate finance is that you are merging two languages," says Flensborg. "There is impact management on the environmental side, and also the economic side. We talk about break-evens and returns, and the environmental people talk about CO2, methane and pollution, and these languages actually meet at the end of the day, but until now they have not been spoken in the same room. Green bonds are now allowing that to happen."

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| - | The activist viewWhat do the big activist groups make of climate finance? Groups like the World Wildlife Fund (WWF) have clear and sophisticated objectives around climate change, and see the mobilization of capital as a critical part of it.Samantha Smith in Oslo heads the WWF's Global Climate &amp; ***Energy*** Initiative. For her, direct finance to clean ***energy*** is as much about stopping it going anywhere else "" specifically fossil fuels "" as it is about getting it into renewables. "One of the obstacles in the transition out of fossil fuels into ***energy*** efficiency and renewables is that money is still flowing into fossil fuel projects "" a lot of public money, often in the form of subsidies for both consumers and producers, but without many benefits to the poor," she says.Groups like the WWF put considerable effort into stopping that flow, by advocating a phase-out of fossil fuel subsidies and divestment. WWF highlights examples such as Norges Bank Investment Management (which runs the more than $800bn Government Pension Fund Global sovereign wealth fund) divesting its interest in coal, and a similar commitment from the California legislature, as examples of the changes they want to see.Nevertheless, they very much support green bonds too, at least in principle. "Having vehicles to aggregate finance for renewables and ***energy*** efficiency is very important to attract institutional investors. In fact, it will be critical," saysSmith.Aggregation is a key word, because she notes that renewable ***energy*** projects tend to be decentralised and local rather than bigger utility-type projects. Their small size is a challenge. "My sense is that green bonds are funding some projects which otherwise wouldn't get done, not necessarily because they are not commercially viable but because the projects taken one by one are too small to attract investment," she says. "Green bonds can be a way of aggregating projects and providing a fixed return from them."Unsurprisingly, groups like the WWF want a green bond to be bright green, rather than some opaque shade of lime."Green bonds need to be really green, and there need to be agreed criteria on what greenness is," she says. "We say the standard of greenness needs to be high not just because we are environmentalists, but because if you are trying to encourage investors to make long-term decisions "" particularly institutional investors "" you want to provide them with something that is still going to be seen as green three, five or even 10 years from now."If there is one thing we know, it's that technology improvements, climate science and climate impacts will increasingly raise the bar for what is green enough."There is much less discussion of carbon credits these days, and the WWF does not seem inspired by their potential. "Carbon pricing can be an important tool at the national level," says Smith. "The main thing it does is to change some of the economics of using fossil fuels for power and stimulates some ***energy*** efficiency in manufacturing and industrial production. But it's not sufficient. We also need ***targets*** and other incentives for massive scaling up of renewables and ***energy*** efficiency."We don't see carbon credits as playing a major role in financing now," she says. "Many renewables and ***energy*** efficiency projects are commercial. The bigger issue is the mismatch between big investors and small projects, and the need for better vehicles for green investment. Carbon credits don't really help you with that."The other issue with carbon credits is that there is massive oversupply and the prices are very low. That is all about political will, because that's what creates the demand." | - |
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A question of timeBeyond questions of structure and regulation is a more fundamental and awkward question: is any green project being funded today through green bonds that wouldn't be funded anyway through conventional means?"The straight answer is no," says Flensborg. "But it is creating a financial infrastructure that can accommodate new flows towards climate finance."It's a conundrum that bothers Eugene Howard, economic advisor in the ***energy*** department at the EIB. "The next real challenge is "~how does this market translate into an impact on the actual project?'," he says. "Does the fact that we are looking for a supply of bonds have any impact at all on the initiation of that project? Atthe moment there isn't a direct connection between green bonds and projects: projects do not get added benefits, consumers do not pay extra, they are commercially rated bonds with no green premium. A future step is making a connection between the deployment of green bonds, and more direct and real impacts on the development of projects. But I don't foresee how or over what time period this may be developed."A common response is that it's just a question of time, and all part of what has already been a rapid evolution.Tlaiye at the World Bank says: "You could say green bonds fund investments that might have happened in any case because people were planning to do them, but are labelled in a very different manner. The next generation of bonds will be for projects that would not have happened without green bonds." Or, if not that, then at least green bonds will influence the way a project is done."I think as the green bond market takes hold, what we hope you'll begin to see is that issuers will re-think some of the projects they might otherwise have been trying to finance," says Peter Ellsworth, senior manager of investor programmes at Ceres, a non-profit in Boston that advocates for sustainability leadership. "They will find ways not only to characterise them as green, but actually transform them into green "" perhaps considering an ***energy*** efficiency measure requiring finance that they might not have considered without the green bond market."As with all things, price will be a factor. "We will get that [financing of projects that wouldn't otherwise happen]," says Schulten at Blackrock. "At some point you will find that green finance bonds may trade at better levels than non-green. If momentum continues, issuers will therefore get more attractive funding for being green than not."And even if the answer is no and all these projects would happen anyway, perhaps it doesn't matter."We believe they are transparent and that actual projects are benefiting from them, but some people say perhaps these projects would have been financed anyway," says Wigley. "But we feel the green bond market is growing and that increasingly it will be seen as a pool of capital available for further green projects." Greed and egoIn considering where the green bond market goes from here, it's worth evaluating the challenges it faces, which vary from logistical to personal."The biggest challenge is greed and ego," says one banker. "There is a risk that some people or institutions will focus on how they can benefit from this and try to drag the market in a way that takes it away from its intentions."On the practical side, some things will presumably sort themselves out in time, like liquidity and issuer range."The bid-side liquidity is as good as in any non-green fund," says Schulten. "But on the offer side, bonds tend to get put away and you don't see them floating around in the secondary market. There is strong investor demand to buy and hold "" and once you sell, you can't get them back."She notes wryly that "bankers always promise more supply and it doesn't materialise. But I would like to see better supply, not just more supply. If an issuer is not ready with third party verification or an impact report, I'd rather not see them issue."Ellsworth would like to see more corporate issuance, but accepts there is a natural progression to take place. "It's easier being second than it is first, and third rather than second," he says. "You are going to see an entire second tier of corporate issuers emerge because they are being shown the way. The first hurdle is to get a critical mass of top tier companies issuing green bonds that are credibly received by the market, and after that it's going to be a lot easier."In five years we will look back and wonder what the fuss was about in 2015, when we were not seeing as many new issues of green bonds as we thought we might."Getting more issuance below the supranationals does require there to be something in it for the issuer. "The reason for the success [of EIB's issues] is that a link is established between funds and disbursement, but the investor continues to be exposed to the risk of EIB, not the project," says Romani. "Now we need more participation in the market by corporate issuers, and there, things become a little more difficult. In order to issue these bonds a company needs to put in place parameters on impact assessment, disbursement, monitoring"¦ The responsibility has a cost, but there is no funding advantage, yet."The benefit then is mainly reputational at this stage, "a positive picture they can provide of themselves", but if that's not enough of a reason then corporates won't issue. Getting them to do so will otherwise be a question of policy.A more fundamental question is whether we will eventually see a market that puts its money where its mouth is and is priced differently, even at a premium, to conventional, so that there is a clear additional sum of money that serves an environmental purpose "" in other words, institutional investors not just getting to feel good about their green bonds but paying extra to support that environmental mandate. Today, the tyranny of expected returns is a barrier for investors spending more on a bond for its green characteristics."Until the way investor performance is measured changes, it will be hard for that [different pricing or additional cost for a green bond] to happen," says Reichelt. "Right now performance is based on benchmarks that don't factor in climate cost. There isn't a "~price on carbon' for every investment yet. If that's what you have to benchmark against, that's what you have to beat. The next generation might be different."Indices are beginning to appear, which is a start; S&amp;PDJ indices launched a Green Project Bond Index in 2014. There is a Barclays MSCI green bond index, and State Street is believed to be launching a tracker fund linked to it.Also, one must not forget investors are always driven by returns; we can, perhaps, go too far in the admiration we give the investment management sector for its green aspirations."People sometimes overestimate how much investors can care," says Reichelt. "They will invest in a bond based on its financial merits, because that's what they are measured against. If it's green that's an added bonus. A green bond might get you on to the radar screen of more investors who wouldn't otherwise have heard of you, or to those who manage dedicated green funds but the market has a long way to go before it is priced differently" to conventional bonds."I believe that green bonds are catalysing an overall development in the capital markets that will take a generation," she concludes.Nevertheless, it's striking how far the market has come already, and its pioneers have no problem admitting that it's a work in progress."It's difficult to be first but we have created a reference, a model for how it can be done," says Flensborg. "Eventually we will see critical mass, with 10, 15, 20 issues in each category, and then eventually it becomes more odd not to do it than to do it."That's the acceleration we are seeing, day by day and week by week. The awareness-building is done. People are aware of it. Now it's more about timing and policy."Reichelt believes green bonds are "a piece of the puzzle", alongside other elements such as donor money coming through climate investment funds and putting a price on carbon. "What the green bond market has done is give mainstream investors a chance to be part of an environmentally effective market through a product that they understand and know anyway."There is a lot more to do, not all of it easy. "We will see failures. Some people will be very angry about them," says Flensborg. "But the key principle will be that investors will need to do their homework, and as more due diligence is put on the table, it will be easier to make decisions. Failures won't kill the market. They will just be hiccups. The market will continue."Flensborg sees the green bond as "abeta product, at its first stage. It's not a solution yet, but it has allowed people to understand these projects, and we can use our experience to create an alpha product."Similarly, Reichelt at the World Bank calls green bonds "a starter product, to put your toes in the water as an investor, and move on from there. But it might change completely how you look at your investments overall in fixed income."

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| - | What investors want | - |
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| - | Ceres is a non-profit in Boston that advocates for sustainability leadership and brings together networks of investors, companies and public interest groups. It has been instrumental in driving the Investor Network on Climate Risk, which combines more than 110 investors representing more than $13tr in assets committed to addressing risks and (equally crucially) seizing opportunities resulting from climate change and other sustainability challenges.Following the publication of the Green Bond Principles in January 2014, Ceres and INCR convened a group of investors active in the green market to offer an investor perspective concerning disclosure, impact reporting statements, project eligibility and second party opinions. These discussions led to a Statement of Investor Expectations for the Green Bond Market, released in February, aspects of which were incorporated into the March 2015 update to the Green Bond Principles.Peter Ellsworth, senior manager of investor programmes at Ceres, is quick to point out that what they came out with was a statement of investor expectations, not standards. "The market is in an evolutionary phase," he says. "Five years from now it's entirely possible there may be a set of more prescriptive standards." He says there is a "surprisingly strong consensus" on standards and expectations. "Issues on project eligibility, disclosure and assurance really generate a great deal of common ground."If there's a fault line, or a sense of something that needs to be done, it's probably the fact that there is no independent entity to legislate what is green and what is not. "I think we've seen a couple of cases where bonds have been labelled green and they haven't been received as well as the issuer might have been expecting. Some of them may have pushed the envelope a bit, some lacked adequate transparency. Like any market, you're going to see some excesses from time to time, but the market is doing a pretty good job of self-regulation at the moment." He says experienced green bond investors, issuers and organizations like Ceres "are also doing their part to foster a crediblemarket".Perhaps the conclusion will be that a voluntary set of standards is not enough. "There is increasing convergence around voluntary green bond principles," says Samantha Smith, leader of the Global Climate &amp; ***Energy*** Initiative at the World Wildlife Fund in Oslo, "but where we will probably need to go is a regulatory or quasi-regulatory solution that allows investors globally to evaluate the "~greenness' of a particular bond issue."International regulation would be complex, she says, but since corporations sometimes use green bonds to finance activities in multiple countries a global or co-ordinated multilateral solution is best. There is potentially a role for the rating agencies."I'm not saying this is something that will happen immediately. But when we look at the need for green financing vehicles and the speed with which this has to happen, you see that we need a high standard, it needs to be very credible with investors and it must be more than voluntary." | - |
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[***Corporate nonfinancial disclosures: An illuminating look at the corporate social responsibility and sustainability reporting practices of hospitality and tourism firms***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6BM4-FYP1-JBMY-H0HS-00000-00&context=1516831)

Tourism and Hospitality Research

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**ABSTRACT**

This paper examined nonfinancial disclosures by hospitality and tourism firms on corporate social responsibility (CSR)/sustainability dimensions. Specifically, the study utilized content analysis to assess and document CSR and sustainability reporting practices by firms in this economic sector. The study found that in general, firms utilized the Global Reporting Initiative as the standard guideline for reporting. Findings also suggested that there is a vast difference in the types of information reported by firms in the industry’s various sectors. Lodging firms disclosed the most information on the CSR/sustainability dimensions than firms operating in the food and beverage and cruise line sectors. These findings suggested that CSR/sustainability reporting in the hospitality and tourism industry is in its infancy. Overall, the most frequently disclosed information related to performance on indicators associated with water usage, ***energy*** conservation, and waste generation. Community involvement activities were also frequently disclosed by sampled firms. The least reported dimensions were information germane to compensation and work–life balance.

**FULL TEXT**

**Introduction**

Today, academic and professional literature is replete with research and reports addressing the issue of corporate social responsibility (CSR) practices and reporting by firms. In fact, over the past two decades, organizations and researchers have sought to gain a better understanding of firm’s responsibilities to the communities in which they operate, and further, the importance of ensuring adherence to practices that are generally accepted as sustainable. This bourgeoning and sustained interest in CSR by firms has been driven in part by the societal trend of stakeholders holding firms responsible for their actions in the environments in which they operate (Jackson and Hua, 2009; Jackson and Parsa, 2009; Jackson and Singh, 2015). Consequently, several firms have implemented corporate policies and procedures aimed at ensuring that CSR becomes a central tenet of their corporate strategy. Although governments often extol the virtues and positive outcomes of such policies, it is important to note that CSR implementation and reporting for the most part, are typically unregulated, unilateral, and voluntary initiatives undertaken by firms. Furthermore, on a global scale, currently, there no clear methods for governments to fully incentivize or penalize firms for noncompliance with generally accepted CSR practices.

As such, firms typically adopt and implement dimensions of CSR that are financially feasible and will generate incremental economic and social benefits for relevant stakeholders. In conjunction, firms have also developed strategies aimed at informing stakeholders about their CSR initiatives via voluntary disclosures.

Voluntary CSR disclosures have increased exponentially since the 1990s. Such disclosures have been driven largely by societal demand for information about firms’ deliberate contribution to society, the environment, and the economy. In addition, firms have voluntarily disclosed their CSR efforts to leverage actual or ostensible stakeholder benefits. Such demands and benefits have encouraged firms to not only implement dimensions of CSR germane to their corporate objectives, but to also convey performance-related information and outcomes of CSR initiatives (Romero et al., 2014). For a fact, CSR reporting via disclosures is not a new phenomenon. Instead, the concept has been around since the 1970s, when it was formally described as social accounting, or the process of evaluating firms “social performance” and reporting such performance outcomes to internal and external stakeholder groups (Ramanathan, 1976). However, in recent years, the concept has expanded to include environmental and economic performances in stakeholder-driven CSR reports (Ballou et al., 2006; Garz and Volk, 2007; Goel, 2010; Romero et al., 2014; Slater and Gilbert, 2004). In the context of this research, stakeholders refer to groups or individuals who can impact or is affected by the achievement of an organization’s objectives (Mitchell et al., 1997).

As CSR and sustainability reporting becomes the norm, especially among publicly traded firms, it is conceivable to posit that there will be increased stakeholders need for such reports, especially for investment decision purposes (Garz and Volk, 2007; Romero et al., 2014). However, in the absence of specific legislated or industry-specific CSR reporting guidelines, a persistent challenge faced by today’s firms is deciding what to report, specific formats, and measuring CSR performance (Smith, 2010). This is due in part to the fact that CSR is a broad construct that encompasses several dimensions. Currently, The Global Reporting Initiative (GRI) offers a standardized set of guidelines to assist firms with reporting and disclosing CSR performance (Global Reporting Initiative, 2014). Several firms have utilized these guidelines to aid in documenting and reporting CSR initiatives.

Like most of today’s economic sectors, the hospitality and tourism industry has dutifully incorporated CSR principles into all aspects of operations and strategic management, and several firms have started to disclose performance voluntarily via CSR or sustainability reports. Such adoptions are typically driven by hospitality firms attempting to: enhance their company’s image; gain competitive advantages; retain employees; attract new employees and customers; comply with government regulation; ***reduce*** risk exposure; and ***reduce*** operational costs (Bader, 2005; Graci and Dodds, 2008; Jackson, 2010). To date, hospitality and tourism research is replete with studies addressing CSR-related issues such as: sustainability practices within the industry’s various sectors; CSR practices and financial performance; and CSR applied to specific entities such as restaurants, hotels, and the industry as a whole (Peršić et al., 2013). Despite advances in hospitality and tourism research in this area, there is paucity of research on the subject of CSR and sustainability reporting practices within the industry (Peršić et al., 2013). Such research is important, given the growing relevance of CSR and sustainability in the decision-making process of both internal and external stakeholders (Jackson, 2010, 2013; Jackson and Singh, 2015). As such, the purpose of this research is to examine and document the CSR and sustainability reporting practices of hospitality and tourism firms. This is accomplished through content analysis of CSR and sustainability reports of publicly traded hospitality and tourism firms operating in the lodging, food and beverage, cruise line, and airline sectors of the industry. This research is important since it will add to our understanding of the dimensions of CSR and sustainability reported by such firms. It is hoped that the findings of this research will aid stakeholders, especially small hospitality firms in developing CSR practices, guidelines, and benchmarks.

**Literature review**

**Social responsibility and sustainability reporting**

The broad and related disciplines of sustainability and CSR have been the focus of studies in several economic sectors (Crittenden et al., 2011; Graci and Dodds, 2008; Vuontisjärvi, 2006; Waller and Lanis, 2009). In recent years, an area that has generated interest from researchers and the public as a whole is CSR reporting, which is often interrelated with terms such as sustainability reporting, corporate sustainability reporting, and triple bottom line reporting (Ballou et al., 2006; Garz and Volk, 2007; Goel, 2010; Slater and Gilbert, 2004). In fact, the need for sustainability reporting has forced firms to modify corporate practices, incorporate CSR and sustainability initiatives, and report outcomes. Consequently, sustainability reporting has progressed from general economic concepts to more specific determinants in the form of periodic reports and online reporting updates (Romero et al., 2014). These reports typically disclose a company’s performance on economic, social, and environmental initiatives that forces firms to be accountable for externalities associated with their operations (Goel, 2010).

The overarching goal of effective corporate social reporting is to address organization performance and make necessary changes to attain sustainable development (Hess, 2008). Hence, firms’ economic, social, and environmental changes, initiatives, and activities must be linked to core business strategies in order to enhance risk management in the three pillars of triple bottom line, increase company reputation, and attract and retain new stakeholders (MacLean and Rebernak, 2007). At its purest, CSR, generates a positive relationship between corporate social performance and financial performance (May and Khare, 2008). This perspective postulates that firms can simultaneously promote a social agenda while achieving superior financial performance achieved through efficiency gains, which ultimately positively impacts their bottom line (English and Schooley, 2014). However, sustainability reporting should not be perceived as a pursuit for a new bottom line metric but instead, should be a management and performance assessment philosophy that emphasizes the importance and interdependence of economic, environmental, and social performance relevant to firm’s core business strategies (Goel, 2010). In regard to process, sustainability reporting is a cycle that involves the release of information, communication with internal and external stakeholders, and moral development or an organization’s own self-reflection of its social behavior (Hess, 2008). The cycle starts with a dialogue with stakeholders to establish expectations of legitimate goals specific to sustainable development. This should be followed by the firm working to achieve established goals while simultaneously internalizing corporate values through moral development. The cycle is complete when the firm disclosures its performance, and restarts when dialogue continues (Hess, 2008).

For a fact, stakeholders, especially investors typically engage with a firm to maximize their value and return on investments, financially and otherwise, such as social returns. For several of today’s stakeholders, the concept of value not only includes financial returns but also social returns. This revolution in thinking has led to the performance-related concept of the triple bottom line, which relates to firms, performance on financial measures, as well as social and environmental measures. Hence, firms have come to the realization that in order to maximize shareholders’ value and profitability, it is essential that they to meet and exceed expectations of internal and external stakeholders and on financial, social, and environmental or sustainable measures of performance (MacLean and Rebernak, 2007).

Although there is growing interest from stakeholders in CSR and sustainability reporting, in most jurisdictions, including the U.S., sustainability reporting is not mandatory since it is not legislated (MacLean and Rebernak, 2007). Despite this fact, firms are increasingly electing to voluntarily disclose performance of CSR and sustainability initiatives (Goel, 2010). In fact, it is suggested that this type of reporting is now the norm for firms, especially those that are publicly traded (Garz and Volk, 2007). For publicly traded firms, this form of reporting is typically disclosed separately from their annual financial report (e.g., Form 10-K) since it contains information for all stakeholders and not only investors. In addition, currently, the data, facts, and figures reported are typically expressed in nonfinancial qualitative terms (Slater and Gilbert, 2004). However, in the future, it is anticipated that CSR and sustainability reporting will evolve and become a component of firms’ annual reports, which will include both financial and nonfinancial disclosures via a process known as integrated reporting (IR) (Dragu and Tudor-Tiron, 2013; Milne and Gray, 2013; Slater and Gilbert, 2004).

As CSR and sustainability reporting evolves, its format, content, and measurement are also progressing to include detailed information pertinent to specific industries (Smith, 2010). However, in general, sustainability reporting includes three main aspects related to CSR: existing strategies to improve performance; current issues and how to tackle them; and ongoing and future activities/initiatives by the firm (Waller and Lanis, 2009). In essence, CSR reports present a quantitative analysis of the company’s current social, economic, and environmental performance and future goals to improve firm value (MacLean and Rebernak, 2007). Examples of social indicators include: employee health and safety; equal opportunity and nondiscrimination plans; and volunteering activities. Economic indicators include disclosure of investments in human capital, wages and benefits packages, and local community economic development initiatives among others. Environmental performance typically addresses the consumption and preservation of ***energy***, water, and waste management policies (Goel, 2010).

**Nonfinancial disclosure reporting**

Voluntarily nonfinancial disclosures by firms are grounded by at least three closely related theories—*legitimacy*, *stakeholder theory*, and *institutional theory*. Legitimacy theory (Suchman, 1995) is grounded in the idea that firms undertake specific actions that are congruent with prevailing social norms and values and communicate these actions to stakeholders. On the contrary, stakeholder theory (Freedman and Jaggi, 2010; Manetti, 2011; Manetti and Toccafondi, 2012) suggests that firms are motivated to initiate action to satisfy specific stakeholders (e.g., shareholders, customers, suppliers, and citizens). Finally, institutional theory (DiMaggio and Powell, 1983) postulates that firms are forced (typically by legal or shareholder pressures) to provide voluntary disclosure. For hospitality and tourism firms, it can be argued that direct and indirect shareholder pressures have helped to advance nonfinancial disclosures in the industry.

**Sustainability reporting standards**

Sustainability reporting is based on firms’ internal guiding principles or on standards and guidelines from external bodies such as the International Standards Organization (ISO), the World Business Council for Sustainable Development (WBCSD), and the GRI (Adams and Narayanan, 2007). The GRI is a private institution that works in partnership with the United Nations and has become increasingly popular among firms in international jurisdictions (Ballou et al., 2006; Sarfaty, 2013). The GRI is generally accepted as the standard for effective corporate sustainability reporting (Ballou et al., 2006; MacLean and Rebernak, 2007; Slater and Gilbert, 2004). The GRI labels sustainability reporting as an important element for managing change toward a sustainable global economy. This change synthesizes long-term profitability with ethical behavior, social justice, and concern and care for the environmental (Global Reporting Initiative, 2014). The GRI reporting standards are dynamic and evolve to incorporate the best practices. For example, in 2006, the GRI launched the third generation of reporting guidelines, the G3 Guidelines (Global Reporting Initiative, 2014). The G3 Guidelines offer a standard set of disclosures, performance measurements, and analysis, as well as different application levels, self-declared by each company, based on the extent to which the guidelines were adhered to (Legendre and Coderre, 2013; MacLean and Rebernak, 2007). Application levels are graded as A, B, C, or undeclared and can receive a plus sign (+), which indicates the highest level of coverage of the GRI standards (Legendre and Coderre, 2013; Sustainability Reporting Guidelines, 2011).

The G3 Guidelines call for greater transparency of reports, listing of issues, and stakeholder contribution (MacLean and Rebernak, 2007). Sustainability reports under the G3 Guidelines are mainly divided into three categories—economic, environment, and social. The latter is subcategorized into labor, human rights, society, and product responsibility (Global Reporting Initiative, 2014). In 2011, the G3 Guidelines were updated to G3.1 and in 2013, the GRI introduced the G4 Guidelines—Fourth Generation of Guidelines. The fourth generation guidelines will effectively replace the third-generation guidelines, which will not be utilize after 2015 (English and Schooley, 2014; Global Reporting Initiative, 2014). The G4 Guidelines allow reporting organizations to emphasize factors relevant to their operations in order to better evaluate how they influence stakeholders and impact the triple bottom line. Finally, the G4 Guidelines are generally regarded as a step in the process of combining nonfinancial and financial disclosures into one single report (IR) (English and Schooley, 2014).

**Sustainability reporting and practices in the hospitality industry**

Several studies have examined or suggest reasons why hospitality and tourism firms elect to choose to follow sustainable practices and implement CSR activities (Bader, 2005; Chan and Hawkins, 2010; Graci and Dodds, 2008; Jackson, 2010). However, there is paucity of hospitality-related research that specifically examines voluntarily nonfinancial disclosures. Existing research on the issue has generally been sector specific. For example: Bonilla-Priego et al. (2014) focused their study on corporate social reporting in the cruise line industry; Peršić et al. (2013) researched sustainability reporting of hotel companies in Croatia, and; Grosbois (2012) evaluated sustainability reporting practices among the largest lodging firms in the globe.

In general, hospitality firms tend to invest more in environmental initiatives relative to other economic sectors and generate fewer concerns on environmental issues, such as carbon footprint. As such, firms in the hospitality and tourism sector can leverage positive sustainability outcomes (Singal, 2014). Furthermore, the nature of the industry is conducive to the core principles of social responsibility and sustainability. For example, tourism-related activities, especially those in pristine environments, can improve a community’s social and economic profile and well-being, while generating few undesirable social, financial, and environmental impacts such as directly contributing to change in climate temperatures, air and noise pollution, and biodiversity loss among others. Consequently, issues related to not only the execution but also the reporting of sustainability practices, are of great importance to the development of the industry (Grosbois, 2012).

**Methodology**

This research examined the CSR and sustainability reporting practices of publicly traded hospitality and tourism firms. To accomplish this task, firms disclosing CSR and sustainability initiatives via reports were first identified through an exhaustive internet search. To be included in the sample, firms were US domiciled or had a major US corporate office, traded on a US stock market, had reported sustainability initiatives for at least one reporting period, and reports were available as specific documents or information was available on firms’ website. Since this research is a primer, only US domiciled firms or those that had a major corporate office in the US were selected. Selection of these firms ensured that data were available to accomplish the research objectives. The most recent reports and supporting documentation were selected for analysis for firms. It should be noted that not all sampled firms prepared and disclosed full sustainability reports on an annual basis. Instead, some firms reported every few years, but provided annual summary updates. Hence, sampled firms’ disclosure reports ranged from 2009 to 2014. Some companies choose to publish a full sustainability report every few years, but they issue report updates in between those years. In such cases, for the purpose of this study, the latest full report as well as the latest report updates was utilized for this study. Website content on sampled firm’s corporate responsibility webpages was also examined. The final sample comprised 14 firms of which 6 were in the lodging sector, 6 operated in the food and beverage sector, and 2 were in the cruise line segment. Table 1 presents a list of sampled firms. Table 1.Sampled firms.

|  | **Company name** | **U.S. headquarter** | **Market exchange** |
| --- | --- | --- | --- |
|  | Hilton Worldwide | McLean, VA | NYSE |
|  | Hyatt Hotels Corporation | Chicago, IL | NYSE |
| Lodging firms | InterContinental Hotels Group PLCa | Atlanta, GA | NYSE |
|  | Marriott International, Inc. | Washington, DC | NYSE |
|  | Starwood Hotels & Resorts Worldwide | Stamford, CT | NYSE |
|  | Wyndham Worldwide Corporation | Parsippany-Troy Hills, NJ | NYSE |
| Cruise lines | Carnival Corporation & plc | Miami, FL | NYSE |
|  | Royal Caribbean International | Miami, FL | NYSE |
|  | Burger King Worldwide Holdings, Inc. | Miami, FL | NYSE |
|  | Darden Restaurants, Inc. | Orlando, FL | NYSE |
| Food and beverage | Dunkin' Brands Group, Inc. | Canton, MA | NASDAQ |
| firms | McDonald's Corporation | Oak Brook, IL | NYSE |
|  | Starbucks Corporation | Seattle, WA | NASDAQ |
|  | Yum! Brands, Inc. | Louisville, KY | NYSE |

aMajor corporate office. UK domiciled, has major office in Atlanta, USA.

Content analysis was conducted on each firm’s sustainability report and other relevant information found on their website. This methodology was deemed appropriate since content analysis was deemed appropriate since it allows the researchers to a examine documents for content and make replicable and valid inferences from information found in the texts of each document as well as the contexts in which the information was used (Krippendorff, 2013). Furthermore, content analysis was deemed appropriate since it enables researchers to gain greater understanding of a specific phenomenon (Krippendorff, 2013), such as CSR reporting. Prior to conducting the content analysis, a checklist of CSR and sustainability dimensions, or themes were identified. Each dimension was further divided into categories. The checklist was developed after a careful review of extant literature (Sobhani et al., 2012; Vuontisjärvi, 2006) germane to CSR and sustainability application and reporting. A total of 13 dimensions were identified. The 13 categories are: general CSR reporting; community involvement; social responsible products/services; education, training, and staff development; pays and benefits; participation and staff involvement; values and principles; employee health and well-being; measurement of policies; employment policy; security in employment; equal opportunities; and work–life balance. Each firm’s disclosure document was examined for instances of reporting on each dimension and recorded on the checklist under the appropriate category. For the purpose of this research, instance refers to each mention or reference of the dimensions in each firm’s sustainability report.

**Results and discussion**

Findings suggest that in general, hospitality and tourism firms utilized the GRI as the standard guideline for their reporting. In general, the level and detail of information reported by each firm varied greatly especially in regard to the number of issues covered in each report. Overall, firms in the lodging sector had the most complete reports that were centered on the three pillars of the triple bottom line, namely, economic, social, and environmental. These reports also included a greater number of indicators compared to those from the cruise and food and beverage sectors. The majority of the restaurant firms examined focused a significant portion of reporting on their supply and food chain, providing information about sustainable practices along their supply chain. The cruise industry had a higher focus on environmental initiatives than employment disclosure. This could be due to the fact that in recent years, the cruise industry has been heavily scrutinized for its negative environmental impacts (Klein, 2013) and hence, firms in this sector have taken steps to ameliorate environmental impacts.

As noted, this study identified 13 CSR and sustainability dimensions or reporting categories. As such, sampled firms’ were assessed to ascertain reporting on these dimensions. Findings of such reporting are highlighted and discussed below appropriately under each dimension heading.

**General CSR and sustainability reporting**

Under this category, content analysis of sampled reports addressed instances of reporting related to general CSR and sustainability reporting practices. Findings are highlighted in Table 2. It is interesting to note that all sampled firms disclosed information about: use and implementation of innovative products and services conducive to CSR and sustainability; collaboration with stakeholders such as community groups; ***energy*** conservation strategies; waste ***reduction*** strategies; and animal welfare especially those related to their supply chain. However, firms appeared reluctant to disclose information about their carbon footprint as only two firms from the lodging sector included disclosures about carbon in their reports. One plausible explanation is that sampled firms were in the infancy of sustainability adoptions and as such, they were not in a position to accurately disclose their carbon footprint. However, a high majority (86%) disclosed initiatives to ***reduce*** carbon footprint, while 36% (50% lodging, 0% cruise, 33% food and beverage) disclosed their carbon performance. Additionally, only 21% of sampled firms disclosed information about carbon offset programs. More specifically, while 12 firms reported that commitment to ***reduce*** their carbon footprint, only InterContinental Hotels Group and Wyndham Worldwide explicitly revealed their amount of carbon footprint, while five companies (Marriott International, InterContinental Hotels Group, Wyndham Worldwide, Darden Restaurants, and Yum! Brands) participated in the Carbon Disclosure Project (CDP), a nonprofit organization that provides an international system to measure, release, and control environmental information. Furthermore, only Starwood Hotels & Resorts, Marriott International, and Hilton worldwide were found to use carbon offset programs as a way to ***reduce*** carbon ***emissions***. Table 2.General CSR reporting.

| **General CSR reporting** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Innovation (innovative responsible products/services) | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Collaboration (with the local community and other entities) | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Development partnership (e.g., to build new green properties) | 10 | 71 | 4 | 67 | 0 | 0 | 6 | 100 |
| Environment and conservation | 12 | 86 | 6 | 100 | 2 | 100 | 4 | 67 |
| Community (e.g., local sourcing) | 11 | 79 | 5 | 83 | 2 | 100 | 5 | 83 |
| Performance measures | 9 | 64 | 5 | 83 | 2 | 100 | 2 | 33 |
| Benchmarks | 12 | 86 | 6 | 100 | 2 | 100 | 4 | 67 |
| ***Energy*** consumption | 11 | 79 | 6 | 100 | 1 | 50 | 4 | 67 |
| ***Energy*** conservation strategies | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Water consumption | 10 | 71 | 6 | 100 | 2 | 100 | 2 | 33 |
| Water conservation strategies | 13 | 93 | 6 | 100 | 2 | 100 | 5 | 83 |
| Waste ***reduction*** strategies | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Use of alternative ***energy*** sources | 12 | 86 | 6 | 100 | 2 | 100 | 4 | 67 |
| Carbon footprint disclosures | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Efforts to ***reduce*** carbon footprint | 12 | 86 | 6 | 100 | 2 | 100 | 4 | 67 |
| Carbon performance band/carbon disclosure project | 5 | 36 | 3 | 50 | 0 | 0 | 2 | 33 |
| Carbon offset programs | 3 | 21 | 3 | 50 | 0 | 0 | 0 | 0 |
| ***Greenhouse gas*** ***emission*** disclosures | 10 | 71 | 6 | 100 | 2 | 100 | 2 | 33 |
| Disclosure of non-GHG (cruise industry only) | 2 | 14 | 0 | 0 | 2 | 100 | 0 | 0 |
| Animal welfare (sustainable supply chain) | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Preservation of ecosystem initiatives | 6 | 43 | 2 | 33 | 2 | 100 | 2 | 33 |

*Note*: CSR: corporate social responsibility; non-GHG: nongreenhouse gas.

From a sustainability perspective, it is encouraging to note that a high majority (71%) of firms disclosed information about ***greenhouse gas*** ***emissions***. However, only 14% disclosed information about nongreenhouse gas (non-GHG) ***emissions*** (0% lodging, 100% cruise, 0% food and beverage). This finding suggests that disclosure of ***emissions*** of non-GHG could be perceived as relevant and important for the cruise segment, but does not garner such importance in the other two sectors. Furthermore, all firms showed interest toward utilizing and encouraging a sustainable supply chain, including use of a supplier sustainability policy and making efforts to educate suppliers on the benefits of sustainability.

**Community involvement**

This section reports on the extent to which hospitality firms disclosed involvement, support, and promotion of initiatives in the communities in which they operate. All firms reported some level of community involvement (Table 3). All reported involvement in: charitable endeavors; volunteer activities; support of youth and children initiatives; and engagement in community development programs. A high majority (93%) reported engagement in education and training initiatives. They were also found to be strong advocates for local development (79%), social welfare (79%), and environmental conservation (64%), particularly among the cruise sector (100%) and the food and beverage sector (100%). Of note, is the fact that sampled firms did not disclosed involvement in religious activities or supported such endeavors in the communities in which they operate. This could be due to the fact that religion, while valuable to the social fabric of communities, can also be divisive, and as such, firms might chose to support other community initiatives. Furthermore, it also suggests that firms wanted to be unbiased toward groups in the communities in which they operated. In conjunction, community involvement via sponsorship was low (21%), which seemed to support the notion that firms did not want to be perceived as biased toward any organization or groups in the communities in which they operated. Additionally, at the community level, support for arts and culture (14%) as well as ***agriculture*** (14%) was found to be very low. This is interesting since (preservation of) arts and culture often play an important role in the authenticity of the tourism experience at some destinations. Hence, it is plausible to expect that hospitality and tourism organizations would actively support initiatives aimed at such preservations. Findings also indicate that paradoxically, support for ***agricultural*** initiatives at the community level was low (14%), suggesting that sampled firms did not rely heavily on local food supply chains. Regarding community involvement, it is advisable that hospitality and tourism firms pursuing CSR initiatives adopt a collaborative stakeholder-driven approach since it will ensure community buy-in (Jackson, 2006) while simultaneously enable firms to achieve stated CSR objectives. Table 3.Community involvement.

| **Community involvement** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| General | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Charity | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Community development | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Health,disability | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Religious | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Volunteering (employees) | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Sponsorship | 3 | 21 | 1 | 17 | 0 | 0 | 2 | 33 |
| ***Agriculture*** | 2 | 14 | 0 | 0 | 0 | 0 | 2 | 33 |
| Local economic development | 11 | 79 | 4 | 67 | 2 | 100 | 5 | 83 |
| Arts, culture | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Education, training (e.g., scholarship) | 13 | 93 | 5 | 83 | 2 | 100 | 6 | 100 |
| Environment, conservation | 9 | 64 | 5 | 83 | 2 | 100 | 2 | 33 |
| Housing | 3 | 21 | 1 | 17 | 0 | 0 | 2 | 33 |
| Sport (fitness, healthy lifestyle) | 3 | 21 | 1 | 17 | 0 | 0 | 2 | 33 |
| Welfare (including poverty, emergency relief) | 11 | 79 | 6 | 100 | 2 | 100 | 3 | 50 |
| Youth, children | 14 | 100 | 6 | 100 | 2 | 100 | 6 | 100 |
| Other | 3 | 21 | 1 | 17 | 1 | 50 | 1 | 17 |

**Socially responsible products/services**

Socially responsible products and services disclosures (Table 4) addressed instances of firms’ disclosures of use of products that are generally considered to be less harmful to the environment and services that can contribute to a healthier ecosystem. Only a small number of firms (21%) disclosed information about use of chemical products that are less harmful to the environment. Of note is the fact that only 14% disclosed information about initiatives against human trafficking, giving the bourgeoning interest and persistent challenge of this issue to the industry. Table 4.Socially responsible products and services.

| **Socially responsible products/services** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chemicals (e.g., cleaning products) | 3 | 21 | 2 | 33 | 1 | 50 | 0 | 0 |
| Health and safety | 7 | 50 | 1 | 17 | 0 | 0 | 6 | 100 |
| Human resources | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Ethics | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Initiative against human trafficking | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |

**Education, training, and staff development**

This category reported on all instances of employee training and development (Table 5). The majority of companies (85.7%) reported supporting company-sponsored certificate training programs aimed at assisting employees achieve formal qualifications. However, support for formal educational initiatives was low (29%), as indicated by support for employee studies on their own. Reporting of training costs was also low as only one firm reported this initiative. One plausible explanation could be that the sampled firms reported spending on this initiative in their annual reports and as such, negated the need to provide additional disclosure via CSR reports. Sampled firms also did not disclose job enrichment programs as only 7% provided information about job rotation and competence appraisals. One plausible explanation for nondisclosure could be poor internal record keeping on these initiatives. Table 5.Employee relations: education, training, and employee development.

| **Education, training, and staff development** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Training aimed at achieving formal qualifications | 12 | 86 | 6 | 100 | 1 | 50 | 5 | 83 |
| Development discussions | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Initial training | 3 | 21 | 2 | 33 | 0 | 0 | 1 | 17 |
| Survey on training program | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Job rotation | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Competence appraisals | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Personal development plans | 4 | 29 | 2 | 33 | 0 | 0 | 2 | 33 |
| Support for employees’ studies on their own accord | 4 | 29 | 3 | 50 | 0 | 0 | 1 | 17 |
| Measures/steps to integrate low-skilled employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost of training | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Time spent on training | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Number of employees participating in training initiatives | 2 | 14 | 1 | 17 | 1 | 50 | 0 | 0 |

**Pays and benefits**

Disclosures of pay and benefits appeared to be an area that firms could improve on in their CSR and sustainability reporting documents since instances of such disclosures were sparse (Table 6). This category includes all references made to pays and benefits of all levels of employees, including managers. It also included incentive and option schemes, equal pay references, personnel fund, and average wage among other indicators. The lack of disclosures in this category could be due to the fact that firms often disclose such information in their annual reports and as such, do not feel compel to disclose via CSR/sustainability reports. Additionally, firms might be skittish to disclose and make definitive claims regarding wage equivalency, given that salary, wages, and other forms of compensation are in a constant state of flux. Table 6.Employee relations—pay and benefit.

| **Pay and benefits** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Equal pay/Just pay | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Incentive schemes | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Option schemes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares and options owned by individual directors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Personnel fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Average wage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Spread of wage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pay and conditions compared against equivalent averages | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |

**Participation and staff involvement**

Participation and staff involvement refer to reported activities related to employee contribution and participation on all levels of business. As such, this category attempted to identify instances of top-level managers and executives communication with lower level employees to solicit feedback and input toward strategic and operational initiatives and policies. The most common indicator in this category was “anonymous complaint points,” such as a whistle-blower line. In this regard, 42.9% of sampled firms (Table 7) indicated the existence of variations of communication channels for employees express complains, concerns, and comments anonymously. Only four firms (28.6%) disclosed information about work force meetings, while only three organizations (21.4%) reported having a personnel newsletter. Only one firm, InterContinental Hotel Group reported information about trade unions in its sustainability report. Table 7.Employee relations—staff participation and involvement.

| **Participation and staff involvement** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Open two-way communication | 3 | 21 | 1 | 17 | 0 | 0 | 2 | 33 |
| Representation of personnel in the company’s administration | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Teams | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| A cooperative body | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unions or collective agreement | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| A suggestion scheme | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intranet | 4 | 29 | 3 | 50 | 0 | 0 | 1 | 17 |
| Work force meetings | 4 | 29 | 2 | 33 | 0 | 0 | 2 | 33 |
| Personnel newsletter | 3 | 21 | 2 | 33 | 0 | 0 | 1 | 17 |
| Personnel guide | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Informing personnel about corporate strategy | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Immediate supervisor as a communication channel | 3 | 21 | 1 | 17 | 2 | 100 | 0 | 0 |
| Open channels of communication to the CEO/managing director | 2 | 14 | 0 | 0 | 0 | 0 | 2 | 33 |
| Anonymous complaint points | 6 | 43 | 2 | 33 | 2 | 100 | 2 | 33 |
| Informing personnel about financial performance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Perceptions measures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of days or losses related to industrial action | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Values and principles**

This section addressed instances related to firms’ mission, vision, and values statements, as well as ethical principles and training. Half of the sample firms (Table 8) reported either a part or full statement of their ethical principles, suggesting the importance of ethics to these organizations. Mission statements, either in full or a summary, were disclosed by 42.9% of the firms and the vision statement was only made referenced by 14.3% of the sample. This relatively low reporting of firms’ mission on CSR and sustainability reports should be the cause for concern since CSR and sustainability initiatives should be driven by, and incorporated into some aspects of organizations mission and vision statements. Such incorporations would suggest commitment to CSR and sustainability initiatives. Conversely, the omission of the mission and vision from these reports suggests some level of detachment between the firm and its CSR and sustainability initiatives. This notion is further accentuated by the fact that only 29% of sampled firms made reference to their value statements in sampled reports. Table 8.Values and principles.

| **Values and principles** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and Beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Values (full statement or summary) | 4 | 29 | 3 | 50 | 0 | 0 | 1 | 17 |
| A mission (full or summary) | 6 | 43 | 3 | 50 | 1 | 50 | 2 | 33 |
| A vision (full or summary) | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Ethical principles (full or statement summary) | 7 | 50 | 5 | 83 | 0 | 0 | 2 | 33 |
| Ethics training | 4 | 29 | 2 | 33 | 1 | 50 | 1 | 17 |

**Employee health and well-being**

This category included indicators related to employee well-being and personal health. The most common indicator, reported (57.1%) was individual well-being, suggesting that firms have taken steps to improve the well-being of their employees. This was highest in the lodging sector where 83% reported information about programs designed to improve employees’ well-being (Table 9). A total of 42.9% of the firms reported that they provided health and safety training to employees, while 35.7% reported that they provided advice on health issues. Interestingly, 21.4% reported that they provided special doctors and nurses for all staff members, while 21.4% reported that they provided health screening services to employees. Only two firms (14.3%) reported on their work environment conditions. Similar findings were found for disclosures related to health and safety system audited by third parties (14%). Not surprisingly, firms did not reported on working capacity index, workplace ergonomics, and principles of zero defects since these concepts are typically utilized in manufacturing as opposed to the service-related industries. An important finding is that there were no instances for sampled firms related to stress-related surveys. This is especially interesting since firms reported on life balance, and it can be argued that poor life balance results in increased stress. It was also interesting to note that there were no reported instances of programs designed to address drug and alcohol issues among employees as well as violence in the workplace. It was also interesting to note that firms did not disclosed information about measures of employee perceptions about their health and well-being programs. Such feedback is important for firms since it provides information that will aid in continuous improvement. Table 9.Employee health and well-being.

| **Employee health and well-being** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Individual well-being | 8 | 57 | 5 | 83 | 2 | 100 | 1 | 17 |
| Emphasis on preventative activities | 4 | 29 | 2 | 33 | 2 | 100 | 0 | 0 |
| Retaining the personnel working capacity up to retirement age | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Support for sports and recreation | 3 | 21 | 2 | 33 | 1 | 50 | 0 | 0 |
| Support for rehabilitation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Measurements (health and well-being activities) | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Training or advice on health issues | 5 | 36 | 3 | 50 | 1 | 50 | 1 | 17 |
| Support to employees with mental problems | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Health screening, follow-up | 3 | 21 | 2 | 33 | 1 | 50 | 0 | 0 |
| Action against drugs or alcohol | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Special doctor/nurse services | 3 | 21 | 2 | 33 | 1 | 50 | 0 | 0 |
| Special attention paid to aging employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Surveys on stress | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rate of absences | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Working capacity index | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Occupational health costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Perception measures | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Work organization and community | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Improving the leadership skills and procedures | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Improving the cooperative and interactive skills | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Alleviating rush and time pressure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Improving the management of change and crisis | 4 | 29 | 2 | 33 | 1 | 50 | 1 | 17 |
| Improving internal communication | 3 | 21 | 1 | 17 | 0 | 0 | 2 | 33 |
| Work environment and conditions | 2 | 14 | 1 | 17 | 1 | 50 | 0 | 0 |
| Principles of zero accidents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health and safety training | 6 | 43 | 2 | 33 | 2 | 100 | 2 | 33 |
| Occupational health and safety system audited by third parties | 2 | 14 | 0 | 0 | 2 | 100 | 0 | 0 |
| Analysis of the causes of work-related accidents and safety surveys | 2 | 14 | 1 | 17 | 1 | 50 | 0 | 0 |
| Improving the workplace ergonomics | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Improving the hygiene of work | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Improving the management of threat and violence | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Percentage of injuries in the total workforce | 2 | 14 | 1 | 17 | 1 | 50 | 0 | 0 |
| Perception measures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Focus groups | 2 | 14 | 0 | 0 | 0 | 0 | 2 | 33 |

The data also suggest that firms are somewhat reluctant to disclose employee-related information since only two organizations openly disclosed the percentage of injuries in their workforce and while only one disclosed the rate of absences. Management of change and crisis was reported by only 28.6% of the firms. This finding was unexpected since management of change and crisis is often perceived as important factors in improving workplace working conditions. Additionally, only one firm (Starbucks Corporation) explicitly reported support for employees with mental problems, more specifically autism.

**Measurement of policies**

Measurement of policies addressed tools used by the organizations to obtain feedback from employees and external stakeholders on perceptions of the company and its policies. The majority of firms (64.3%) reported having some form of job satisfaction survey in place (Table 10), with the lodging and food and beverage sectors leading in this regard at 67%, respectively. Of interest is the fact that sampled firms (57%) were apt to disclose recognition and awards received for their CSR and sustainability initiatives (lodging sector, 100% disclosure), however, there were no disclosures related to employee contracts or employee retention rates. This suggests that firms are willing to showcase awards to indicate that they are receiving recognition for CSR/sustainability initiatives, however, there appears to be a need for internal improvement especially regarding employees and employee engagement. This is also accentuated by the relatively low instances of internal surveys (36%). Table 10.Measurement of policies.

| **Measurement of policies** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Work atmosphere or job satisfaction surveys | 9 | 64 | 4 | 67 | 1 | 50 | 4 | 67 |
| Other internal surveys (e.g., Starwood associate engagement survey) | 5 | 36 | 2 | 33 | 1 | 50 | 2 | 33 |
| External surveys | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Employee turnover rate | 3 | 21 | 2 | 33 | 1 | 50 | 0 | 0 |
| Breakdown by length of employee contract | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Average length of employee contract | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Standards (qualitative and quantitative) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Awards | 8 | 57 | 6 | 100 | 1 | 50 | 1 | 17 |
| Retention rate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Safety and security audits | 2 | 14 | 0 | 0 | 2 | 100 | 0 | 0 |

**Employment policy**

Employment policy addressed disclosures related to firms’ hiring practices and the hiring of employees from all societal segments. The majority of the firms (57.1%) reported that they had programs in place to train students and recent graduates (Table 11). Half of sampled firms indicated that they offered employment opportunities for ethnic minorities, however, only one firm (Yum! Brand) disclosed the percentage of new recruits from ethnic minority groups. Additionally, half of the sampled firms disclosed information about offering employment to military veterans, while 28.6% reported employing people with identified disabilities. However, they did not disclose the number of new recruits identified as having been disabled. Likewise, only one firm reported the number of recruits from ethnic minority groups. Only three firms (21.4%), explicitly disclosed their support for alternative lifestyle (e.g. lesbian, gay, bisexual, and transgender), and initiatives for support. However, the fact that firms did not report hiring ageing people, suggests room for improvement. Table 11.Employment policy.

| **Employment policy** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and Beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Traineeships for students | 8 | 57 | 5 | 83 | 0 | 0 | 3 | 50 |
| Company has offered training/employment for: |  |  |  |  |  |  |  |  |
| Aging people | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| People with disabilities | 4 | 29 | 3 | 50 | 0 | 0 | 1 | 17 |
| Ethnic minorities | 7 | 50 | 4 | 67 | 0 | 0 | 3 | 50 |
| Low-skilled people | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Military veterans | 7 | 50 | 5 | 83 | 0 | 0 | 2 | 33 |
| Support for alternative lifestyle | 3 | 21 | 3 | 50 | 0 | 0 | 0 | 0 |
| Number of new hires | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Number of traineeships | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of new ageing recruits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of new recruits with disabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Percentage of new recruits from ethnic minorities | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |

**Security in employment**

This category considers all references made to initiatives that lead to employment security. As highlighted in Table 12, several categories within this dimension were not reported by companies (information on redundancies, temporary employees, and internal rotations). Table 12.Security in employment.

| **Security in employment** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| ***Reductions*** in workforce for economic or other reasons | 1 | 7 | 0 | 0 | 0 | 0 | 1 | 17 |
| Proactive measures to avoid redundancies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Professional support for employees that become disable | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Breakdown by part time or full time | 4 | 29 | 3 | 50 | 1 | 50 | 0 | 0 |
| Breakdown by hourly versus salaried | 3 | 21 | 2 | 33 | 0 | 0 | 1 | 17 |
| Number of internal rotations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of redundancies or dismissals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of temporary employees | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Perception measures (qualitative or quantitative) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Four organizations (28.6%) disclosed a breakdown by part-time or full-time employment and three firms (21.5%) disclosed a breakdown of hourly versus salaried employees. A small percentage of companies (14.3%) reported that they provided professional support for employees who become disabled. Only one firm, Dunkin’ Brands Group, disclosed information about initiatives aimed at addressing employees in the event of workforce ***reductions*** for economic or noneconomic reasons.

**Equal opportunities**

This dimension specifically addressed instances of initiatives that specifically addressed equal employment opportunities in the workplace, especially those related to: gender; age; disability; ethnic minorities; and incentives to encourage equal opportunity in the work place. A total of 57.1% (Table 13) reported on the principle of nondiscrimination/equal opportunities, while 50.0% disclosed information about their diversity or equal opportunity training programs. However, only two companies indicated in their reports that they had policies germane to address the practice for harassment while only one company, InterContinental Hotel Group, reported on the code of practice for bullying in the work place. Intercontinental Hotel Group was also the only firm to disclose information about measures to facilitate the adaption of visible minorities. However, the data suggest that there is room for improvement hospitality and tourism firms in regard to equal employment opportunities in the workplace. More specifically, the fact that there were nonreporting on surveys and perceptions of equality, recruiting to balance gender segregation and people with disabilities in management seems to support this notion. Nonetheless, there are some encouraging signs on this dimension since most of the organizations (57.1%) offered a breakdown of employees by gender, while 28.6% offered a breakdown of employees by age. Six companies (42.9%) reported the percentage of women in management positions, 14.3% stated the percentage of employees from ethnic groups, and also 14.3% provided information about employees from ethnic background who hold management positions. Table 13.Equal opportunities.

| **Equal opportunities** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Principle of nondiscrimination/equal opportunities | 8 | 57 | 5 | 83 | 0 | 0 | 3 | 50 |
| Equal opportunity plan | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Diversity or equal opportunity training | 7 | 50 | 4 | 67 | 0 | 0 | 3 | 50 |
| Attention paid to equality is salary and wage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Code of practice for harassment (e.g., sexual) | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Surveys on equality | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Code of practice for bullying | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| ***Targeted*** recruitment in order to balance gender segregation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Measures to facilitate the adaption of visible minorities | 1 | 7 | 1 | 17 | 0 | 0 | 0 | 0 |
| Breakdown by age | 4 | 29 | 3 | 50 | 0 | 0 | 1 | 17 |
| Average age | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Breakdown by gender | 8 | 57 | 5 | 83 | 1 | 50 | 2 | 33 |
| Percentage of women in management positions | 6 | 43 | 3 | 50 | 0 | 0 | 3 | 50 |
| Percentage of employees from ethnic groups | 2 | 14 | 1 | 17 | 0 | 0 | 1 | 17 |
| Percentage of people with disabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Percentage of people with disabilities in management positions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Percentage of people with ethnic background in management positions | 2 | 14 | 0 | 0 | 0 | 0 | 2 | 33 |
| Perception measures (qualitative or quantitative) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Work–life balance**

This dimension (Table 14) addressed issues such as flexible working times and efforts by firms to assist employees in balancing their work and private lives. Interestingly, this concept was only mentioned by two hotel groups (14.3%). There was no reporting by firms on elements of work–life balance including: support for childcare; maternity leave options; and family leave conditions for male or female employees. It is plausible that such elements are present at the sampled firms, however they were not disclosed. Given the growing importance of work–life balance in today’s society, it is imperative that firms support and implement work–life balance initiatives, but also report their performance on each element. Table 14.Work–life balance.

| **Work–life balance** | **Sample instances** | **Segment instances** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Lodging** | **Cruise** | **Food and beverage** |  |  |  |  |  |  |
| **No.** | **%** | **No.** | **%** | **No.** | **%** | **No.** | **%** |  |
| Principles of work–life balance | 2 | 14 | 2 | 33 | 0 | 0 | 0 | 0 |
| Flextime | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Support for childcare | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Better maternity leave than stipulated by law or collective agreements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Encouragement for men to use their family leave options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Complimentary training for those returning from family leave | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Survey on work–life balance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Perception measures (qualitative or quantitative) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Conclusion**

CSR and sustainability implementation and disclosure are undergoing a rapid growth in the hospitality and tourism industry as stakeholders are demanding such actions from firms. In conjunction, hospitality and tourism firms are engaging in such practices to receive actual or ostensible benefits including: corporate reputation enhancement; increased employee and guest loyalty; attracting new investors; and increasing new market share and productivity. However, in recent years, stakeholders have become more concerned and interested not only in firms’ implementation of CSR and sustainability initiatives but also require more transparency via disclosure of information on such initiatives. Like most industries, firms in the hospitality and tourism industry have started to disclose information about their CSR and sustainability initiatives via CSR/sustainability reports. Given that such disclosures by hospitality and tourism firms are currently in their infancy, this research attempts to shed light on what aspects of CSR and sustainability firms within the sector are reporting.

General CSR/sustainability reporting was the dimension having the most instances of reporting. In fact the most reported categories included indicators that are often viewed as the foundation or the pillars of the triple bottom line, namely water, ***energy***, and waste disclosures. This seems to suggest that firms often view sustainability and performance on CSR initiatives as intricately related issues. Community involvement, another pillar of the triple bottom line was the second most frequently reported component. This suggests that hospitality and tourism firms continue to strive to enhance their social reputation by highlighting their social activities in the communities in which they operate. The least reported dimensions were pays and benefits and work–life balance. As previously noted, it is plausible that firms did not perceive a need to disclose information about pays and benefits due to their dynamic and fluid nature. Other plausible reasons for nondisclosures could be: firm might not want to make this information publicly available to competitors; organizations might not see this subject as a potential competitive advantage; and firms might have chosen to focus on other areas of employee relations on their reports. However, given the importance of this dimension in today’s full disclosure and information relevant society, it could be beneficial for firms to disclose such information to inform relevant stakeholders about their fair compensation practices. Work–life balance information should also be disclosed by firms especially to improve their competitiveness for attracting the best and most talented job candidates. Thus, it is not sufficient for firms simple to have work–life policies and practices, instead, they should also disclose this information.

Like most empirical studies, this study had limitations that future studies are encouraged to overcome. First, the sample size utilized for this was small. This was not unexpected since CSR/sustainability reporting by hospitality and tourism limitations is a relatively new practice. It is hoped that future studies will replicate this study using a larger sample size. This study also utilized formal published CSR/sustainability reports and information found on firms’ websites. It is hoped that future studies will expend beyond these sources to include all relevant reports and other means by which companies can communicate with stakeholders such as press releases, publicity, and public relations reports. Moreover, future research could take a step further and investigate how a company can benefit from reporting on each specific indicator and construct a framework for best reporting practices in the industry. Additionally, the sample was drawn from US domiciled firms or those having a major corporate office in the United States. Future studies are encouraged to include firms domiciled in different countries since firms in these countries, such as those domiciled in Europe could have different or additional disclosure information.

Finally, the findings from content analysis of the CSR/sustainability reports of 14 hospitality and tourism firms, suggest that there is a vast difference between the levels of information reported by those firms in the industry’s sectors. Hotel or lodging firms report on a larger scale and on a greater number of issues than firms operating in the food and beverage and cruise line sectors. This suggests CSR/sustainability reporting in the hospitality and tourism industry is in its infancy, and as such, there is room for growth and improvement in the area CSR/sustainability reporting by hospitality and tourism firms.

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**Load-Date:** March 29, 2024

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[***Parties clash over negative gearing as election talk swirls - question time live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G224-00000-00&context=1516831)

The Guardian

February 29, 2016 Monday 4:07 AM GMT

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**Section:** AUSTRALIA NEWS

**Length:** 6861 words

**Byline:** Katharine Murphy

**Body**

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

**Load-Date:** February 29, 2016

**End of Document**



[***Small state plays big role at climate talks; Marshall Islands' push for 'loss and damage' could cost West billions***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HH9-19M1-DYR7-C1WS-00000-00&context=1516831)

International New York Times

December 2, 2015 Wednesday

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**Length:** 1985 words

**Byline:** CORAL DAVENPORT

**Dateline:** EBEYE, Republic of the Marshall Islands

**Body**

**ABSTRACT**

Representatives of the Marshall Islands are trying to convey to more powerful policy makers the peril their country faces -- and to shape a United Nations climate change deal.

**FULL TEXT**

Linber Anej waded out in low tide to haul concrete chunks and metal scraps to shore and rebuild the makeshift sea wall in front of his home. The temporary barrier is no match for the rising seas that regularly flood the shacks and muddy streets with saltwater and raw sewage, but every day except Sunday, Mr. Anej joins a group of men and boys to haul the flotsam back into place.

''It's insane, I know,'' said Mr. Anej, 30, who lives with his family of 13, including his parents, siblings and children, in a four-room house. ''But it's the only option we've got.''

Standing near his house at the edge of a densely packed slum of tin shacks, he said, ''I feel like we're living underwater.''

Worlds away, in plush hotel conference rooms in Paris, London, New York, and Washington, Tony A. deBrum, the foreign minister of the Marshall Islands, tells the stories of men like Mr. Anej to convey to powerful policy makers the peril facing his island nation in the Pacific as sea levels rise - and to shape the legal and financial terms of a major United Nations climate change accord now being negotiated in Paris.

Mr. deBrum's focus is squarely on the West's wallets - recouping ''loss and damage,'' in negotiators' parlance, for the destruction wrought by the rich nations' industrial might on the global environment. Many other low-lying nations are just as threatened by rising seas. In Bangladesh, 17 percent of the land could be inundated by 2050, displacing about 18 million people. But the Marshall Islands hold an important card: Under a 1986 compact, the roughly 70,000 residents of the Marshalls, due to their long military ties to Washington, are free to emigrate to the United States, a pass that will become more enticing as the water rises on the islands' shores.

The debate over loss and damage has been intense because the final language of the Paris accord could require developed countries, first and foremost the United States, to give billions of dollars to vulnerable countries like the Marshalls. Senior Republicans in Congress are already preparing for a fight, they say on behalf of the American taxpayer.

''Our constituents are worried that the pledges you are committing the United States to will strengthen foreign economies at the expense of American workers,'' 37 Republican senators wrote last month. ''They are also skeptical about sending billions of their hard-earned dollars to government officials from developing nations.''

Mr. deBrum is undeterred. ''It does not make sense for us to go to Paris and come back with something that says, 'In a few years' time, your country is going to be underwater,''' he said in an interview at his seaside home in Majuro, the capital of the Marshall Islands. ''We see the damage occurring now. We're trying to beat back the sea.''

In the global fight over climate change, leaders of vulnerable low-lying island nations have long sought to draw attention to their plight. They have staged symbolic events like an underwater cabinet meeting, have gone on hunger strikes and have delivered anguished speeches to the United Nations. Those efforts have had little impact on the substance of the ***energy*** and economic policies that dictate governmental response to climate change.

In the meantime, Mr. Anej and millions like him cope with the fallout while stranded on disappearing shores.

''I'm the oldest,'' he said. ''I can't leave my parents. But I don't want my kids to drown here.''

In the world of high-level climate negotiators, however, Mr. deBrum has made inroads. He managed to get into meetings of the Major Economies Forum, a group of 17 world powers convened by Secretary of State John Kerry to talk ***energy*** policy before the Paris meeting. He is widely credited with either introducing or significantly strengthening crucial points in the draft accord set to emerge from Paris - in particular, putting a price on the destruction caused by climate change. He has pressed to require meetings every five years after the Paris summit meeting to ratchet up the stringency of international carbon-cutting policies. Mr. deBrum notes that the environment minister of Brazil, one of the world's largest carbon polluters, has cited the tiny Marshall Islands' plan to ***reduce*** its carbon footprint as an influence on Brazil's ambitious plan to do the same.

For Mr. deBrum, a warming planet is not abstract. As the burning of fossil fuels increases heat-trapping gases in the atmosphere, the planet warms, and the Greenland and Antarctic ice sheets melt into the oceans. Sea levels are projected to rise one to four feet across the globe by the end of the century, a series of major international scientific reports have concluded.

Most of the 1,000 or so Marshall Islands, spread over 29 narrow coral atolls in the South Pacific, are less than six feet above sea level - and few are more than a mile wide. For the Marshallese, the destructive power of the rising seas is already an inescapable part of daily life. Changing global trade winds have raised sea levels in the South Pacific about a foot over the past 30 years, faster than elsewhere. Scientists are studying whether those changing trade winds have anything to do with climate change.

But add to this problem a future sea-level rise wrought by climate change, and islanders who today experience deluges of tidal flooding once every month or two could see their homes unfit for human habitation within the coming decades.

In neighborhoods like Mr. Anej's, after the sewage-filled tides wash into homes, fever and dysentery soon follow. On other islands, the wash of saltwater has penetrated and salinated the underground freshwater supply. On Majuro, flooding tides damaged hundreds of homes in 2013. The elementary school closed for nearly two weeks to shelter families. That same year, the airport temporarily closed after tides flooded the runway.

Such travails, voiced by Mr. deBrum, have meaning in Washington because what happens on the Marshall Islands affects the United States - on immigration policy, national security and taxpayer dollars. The two countries have a complicated history. During the Cold War, the United States military detonated 67 nuclear bombs on the Bikini and Enewetak atolls - after first relocating the islanders to different locations around the Marshalls.

At age 9, Mr. deBrum was fishing with his grandfather when he saw the flash of one of the tests on the horizon. ''Within seconds,'' he recalled, ''the entire sky had turned red, like a fishbowl had been put over my head, and blood poured over it.''

The deal offered: an open door to the Marshallese. That bargain has already fostered communities of thousands of Marshall Islanders in Springdale, Ark., and Salem, Ore., fleeing a deluged future. That 1986 compact also established a United States government fund to support the Marshallese - as long as they continued to live in the islands. Now they want to use that fund to move to the United States.

In the first decades of his career as a public official, Mr. deBrum, 70, worked as a diplomatic envoy to help his country recover from the impact of the nuclear testing. Now his focus has shifted to recouping the costs of climate change.

''Tony's clearly been a very big player on the issue of loss and damage,'' said Todd Stern, the United States' top climate change negotiator. ''He has a lot of credibility in these negotiations.''

As President Obama seeks a legacy on climate policy, officials in his administration have quietly encouraged Mr. deBrum to put the Marshall Islands forward as a poster child for the perils of climate change. The Obama administration may have bolstered some of Mr. deBrum's efforts, but it has stopped short of backing language that would hold rich countries legally liable for loss and damage.

In March, Mr. deBrum hosted Esther Kia'aina, the Obama administration official who oversees the government's relationship with the islanders, showing her the impacts of sea-level rise on his home country. And last month in Washington, he met with members of Congress, urging them to support the Marshall Islands' request.

The efforts are showing some results. On Oct. 20, Ms. Kia'aina sent a letter to Congress, asking lawmakers to pass a bill that would allow the islanders to restructure the terms of their fund to move to the United States.

On defense matters, the Marshall Islands' strategic value to the United States no longer rests on the Pacific nuclear testing grounds but on Kwajalein, the largest of the Marshall atolls, which is home to the Ronald Reagan Ballistic Missile Defense Test Site. The 1,200 Americans who live on the base launch missiles, operate space weapons programs and track NASA research, supported by an annual budget of $182 million. About 900 Marshallese workers take a ferry to the base every day to support them. The Pentagon, which has a lease on Kwajalein until 2066, has commissioned scientific studies on the impact that rising sea levels will have on the base's mission. In 2008, a tidal wash flooded the base and destroyed all the freshwater supplies on the island. The military responded with expensive desalination machines and heavy-duty sea walls made of riprap, a fortified granite used in hydraulic engineering.

That is the kind of adaptation Mr. deBrum wants to see on the islands where his people live, and it would not be cheap. Among the most contentious terms to be negotiated in Paris will be a pledge, put forth by Hillary Clinton, the Secretary of State at the time, that rich countries would mobilize $100 billion annually by 2020 to help poor countries control their ***greenhouse gas*** ***emissions*** and adapt to the punishing impacts of climate change. Countries have already established a ''Green Climate Fund'' to receive contributions. Mr. Obama has pledged an initial United States donation of $3 billion.

''We'll be among the first 15 countries in line,'' Mr. deBrum said.

He envisions elevating Marshallese cities as much as six feet and building resilient new drainage systems. ''That could buy us at least 20 years,'' he said.

For now, on Majuro, the capital, the adaptation to sea-level rise is lower tech.

In the neighborhood of Jenrok, a seaside cemetery has been eroded by the rising waves - about 10 rows of coffins and headstones have washed out to sea. To adapt, the Marshallese encase their dead in aboveground concrete tombs, but the rising waves have started to lap at those, too.

At the western tip of Majuro, in the lush, verdant community of Laura, farmers like Kakiana Ebot grow breadfruit to sell in the island's central market. But Ms. Ebot's breadfruit tree has rotted away and died, she said, the victim of saltwater soaking into the soil and seawater spray on the leaves, she believes. With the loss of the tree, she said, comes the loss of about $30 a day from selling its fruit.

At a government-run farm, Steve Lipton, a crop production official for the Marshall Islands' Ministry of ***Agriculture***, is experimenting with salt-resistant hybrids of crops like taro and cassava. ''We make the soil saltier and see what will survive, since we know it's getting worse,'' he said.

At international gatherings, from the Major Economies Forum to the United Nations General Assembly, Mr. deBrum frequently speaks of his island's dying breadfruit crop, to convey the surprising but concrete ways that rising sea levels are affecting lives and economic growth.

But for all his diplomatic acumen, Mr. deBrum's advocacy for a small island nation being swallowed by a vast ocean does not always rise above the roar of the surf. At a recent conference convened to draft the Paris accord, Environment Minister Prakash Javadekar of India listened to his pleas, then responded brusquely, ''So what?''

**Load-Date:** December 1, 2015

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[***Big role at talks for vanishing Pacific state; Marshall Islands' push for 'loss and damage' could cost West billions***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HHC-MPN1-JC85-N155-00000-00&context=1516831)

International New York Times

December 3, 2015 Thursday

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**Byline:** CORAL DAVENPORT

**Dateline:** EBEYE, Marshall Islands

**Body**

**ABSTRACT**

The Marshall Islands' push for "loss and damage" from rising seas could cost the West billions.

**FULL TEXT**

Linber Anej waded out in low tide to haul cement chunks and metal scraps to shore and rebuild the makeshift sea wall in front of his home. The temporary barrier is no match for the rising seas that regularly flood the shacks and muddy streets with saltwater and raw sewage, but every day except Sunday, Mr. Anej joins a group of men and boys to haul the flotsam back into place.

''It's insane, I know,'' said Mr. Anej, 30, who lives with his family of 13, including his parents, siblings and children, in a four-room house. ''But it's the only option we've got.''

Standing near his house at the edge of a densely packed slum of tin shacks, he said, ''I feel like we're living underwater.''

Worlds away, in plush hotel conference rooms in Paris, London, New York and Washington, Tony A. deBrum, the foreign minister of the Marshall Islands, tells the stories of men like Mr. Anej to convey to more powerful policy makers the peril facing his island nation in the Pacific as sea levels rise - and to shape the legal and financial terms of a major United Nations climate change accord now being negotiated in Paris.

Mr. deBrum's focus is squarely on the West's wallets - recouping ''loss and damage,'' in negotiators' parlance, for the destruction wrought by the rich nations' industrial might on the global environment. Many other low-lying nations are just as threatened by rising seas. In Bangladesh, some 17 percent of the land could be inundated by 2050, displacing about 18 million people. But the Marshall Islands holds an important card: Under a 1986 compact, the roughly 70,000 residents of the Marshalls, because of their long military ties to Washington, are free to emigrate to the United States, a pass that will become more enticing as the water rises on the islands' shores.

The debate over loss and damage has been intense because the final language of the Paris accord could require developed countries, first and foremost the United States, to give billions of dollars to vulnerable countries like the Marshall Islands. Senior Republicans in Congress are already preparing for a fight, they say on behalf of the American taxpayer.

''Our constituents are worried that the pledges you are committing the United States to will strengthen foreign economies at the expense of American workers,'' 37 Republican senators wrote last month. ''They are also skeptical about sending billions of their hard-earned dollars to government officials from developing nations.''

Mr. deBrum is undeterred.

''It does not make sense for us to go to Paris and come back with something that says, 'In a few years' time, your country is going to be underwater,''' Mr. deBrum said in an interview at his seaside home in Majuro, the capital of the Marshall Islands. ''We see the damage occurring now. We're trying to beat back the sea.''

In the global fight over climate change, leaders of vulnerable low-lying island nations have long sought to draw attention to their plight. They have staged symbolic events like an underwater cabinet meeting, gone on hunger strikes and delivered anguished speeches to the United Nations. Those efforts have had little impact on the substance of the ***energy*** and economic policies that dictate governmental response to climate change.

In the meantime, Mr. Anej and millions like him cope with the fallout while stranded on disappearing shores.

''I'm the oldest - I can't leave my parents,'' he said. ''But I don't want my kids to drown here.''

Within the world of high-level climate negotiators, however, Mr. deBrum has made inroads. He manages to get into meetings of the Major Economies Forum, a group of 17 world powers convened by Secretary of State John Kerry to talk ***energy*** policy ahead of the Paris meeting. He is widely credited with either introducing or significantly strengthening crucial points in the draft accord set to emerge from Paris - in particular, putting a price on the destruction caused by climate change.

He has pressed to require meetings every five years after the Paris summit meeting to ratchet up the stringency of international carbon-cutting policies. Mr. deBrum notes that the environment minister of Brazil, one of the world's largest carbon polluters, has cited the tiny Marshall Islands' plan to ***reduce*** its carbon footprint as an influence on Brazil's ambitious plan to do the same.

For Mr. deBrum, a warming planet is not abstract. As the burning of fossil fuels increases heat-trapping gases in the atmosphere, the planet warms, and the Greenland and Antarctic ice sheets melt into the oceans. Sea levels are projected to rise one to four feet across the globe by the end of the century, a series of major international scientific reports have concluded.

Most of the 1,000 or so Marshall Islands, spread out over 29 narrow coral atolls in the South Pacific, are less than six feet above sea level - and few are more than a mile wide. For the Marshallese, the destructive power of the rising seas is already an inescapable part of daily life. Changing global trade winds have raised sea levels in the South Pacific about a foot over the past 30 years, faster than elsewhere. Scientists are studying whether those changing trade winds have anything to do with climate change.

But add to this problem a future sea-level rise wrought by climate change, and islanders who today experience deluges of tidal flooding once every month or two could see their homes unfit for human habitation within the coming decades.

In neighborhoods like Mr. Anej's, after the sewage-filled tides wash into homes, fever and dysentery soon follow. On other islands, the wash of saltwater has penetrated and salinated the underground supply of freshwater. On Majuro, flooding tides damaged hundreds of homes in 2013. The elementary school closed for nearly two weeks to shelter families. That same year, the airport temporarily closed after tides flooded the runway.

Such travails, voiced by Mr. deBrum, have meaning in Washington because what happens on the Marshall Islands affects the United States - on immigration policy, national security and taxpayer dollars. The two countries have a complicated history. During the Cold War, the United States military detonated 67 nuclear bombs on or close to the nearby Bikini Atoll and Enewetak Atoll - after first relocating the Bikini Islanders to different locations around the Marshalls.

At age 9, Mr. deBrum was fishing with his grandfather when he saw the flash of one of the tests on the horizon. ''Within seconds, the entire sky had turned red, like a fishbowl had been put over my head, and blood poured over it,'' he recalled.

The deal offered: an open door to the Marshallese and Bikini Islanders. That bargain has already fostered communities of thousands of Marshall Islanders in Springdale, Ark., and Salem, Ore., fleeing a deluged future. That 1986 compact also established a United States government fund to support Bikini Islanders - as long as they continued to live in the Marshall Islands. Now the Bikini Islanders want to use that fund to move to the United States.

In the first decades of his career as a public official, Mr. deBrum, 70, worked as a diplomatic envoy to help his country recover from the impact of the nuclear testing. Now his focus has shifted to recouping the costs of climate change.

''Tony's clearly been a very big player on the issue of loss and damage,'' said Todd Stern, the United States' top climate change negotiator. ''He has a lot of credibility in these negotiations.''

As Mr. Obama seeks a legacy on climate policy, officials in his administration have quietly encouraged Mr. deBrum to put the Marshall Islands forward as a symbol of the perils of climate change. The Obama administration may have boosted some of Mr. deBrum's efforts, but it has stopped short of backing language that would hold rich countries legally liable for loss and damage.

In March, Mr. deBrum hosted Esther Kia'aina, the Obama administration official who oversees the government's relationship with the islanders, showing her the impact of sea-level rise on his home country. And last month in Washington, he met with members of Congress, urging them to support the Bikini Islanders' request.

The efforts are showing some results. On Oct. 20, Ms. Kia'aina sent a letter to Congress, asking lawmakers to pass a bill that would allow the Bikini Islanders to restructure the terms of their fund to move to the United States.

On defense matters, the Marshall Islands' strategic value to the United States no longer rests on the Pacific nuclear testing grounds but on Kwajalein, the largest of the Marshall atolls, which is home to the Ronald Reagan Ballistic Missile Defense Test Site. The 1,200 Americans who live on the base launch missiles, operate space weapons programs and track NASA research, supported by an annual budget of $182 million. About 900 Marshallese workers take a ferry to the base every day to support them.

The Pentagon, which has a lease on Kwajalein until 2066, has commissioned scientific studies on the impact that rising sea levels will have on the base's mission. In 2008, a tidal wash flooded the base and destroyed all the freshwater supplies on the island. The military responded with expensive desalination machines and heavy-duty sea walls made of riprap, a fortified granite used in hydraulic engineering.

That is the kind of adaptation Mr. deBrum wants to see on the islands where his people live, and it would not be cheap. Among the most contentious terms to be negotiated in Paris will be a pledge, put forth during the 2009 climate change summit meeting in Copenhagen by Hillary Clinton, the secretary of state at the time, that rich countries would mobilize $100 billion annually by 2020 to help poor countries control their ***greenhouse gas*** ***emissions*** and adapt to the punishing impacts of climate change. Countries have already established a ''Green Climate Fund'' to receive contributions. Mr. Obama has pledged an initial United States donation of $3 billion.

''We'll be among the first 15 countries in line,'' Mr. deBrum said.

He envisions elevating Marshallese cities as much as six feet and building resilient new drainage systems. ''That could buy us at least 20 years,'' he said.

For now, on Majuro, the Marshall Islands' capital, the adaptation to sea-level rise is lower tech. In the neighborhood of Jenrok, a seaside cemetery has been eroded by the rising waves - about 10 rows of coffins and headstones have washed out to sea. To adapt, the Marshallese encase their dead in aboveground concrete tombs, but the rising waves have started to lap at those, too.

At the western tip of Majuro, in the lush, verdant community of Laura, farmers like Kakiana Ebot grow breadfruit to sell in the island's central market. But Ms. Ebot's breadfruit tree recently rotted away and died, she said, the victim of saltwater soaking into the soil and seawater spray on the leaves, she believes. With the loss of the tree, she said, comes the loss of about $30 a day from selling its fruit.

At a government-run farm, Steve Lipton, a crop production official for the Marshall Islands' Ministry of ***Agriculture***, is experimenting with salt-resistant hybrids of crops such as taro and cassava. ''We make the soil saltier and see what will survive, since we know it's getting worse,'' he said.

At international gatherings, from the Major Economies Forum to the United Nations General Assembly, Mr. deBrum frequently speaks of his island's dying breadfruit crop, to convey the surprising but concrete ways that rising sea levels are affecting lives and economic growth.

But for all his diplomatic acumen, Mr. deBrum's advocacy for a small island nation being swallowed by a vast ocean does not always rise above the roar of the surf. At a recent conference convened to draft the Paris accord, Environment Minister Prakash Javadekar of India listened to his pleas, then responded brusquely, ''So what?''

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[***The potential of One Belt, One Road***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HNC-67H1-JD1P-T4D4-00000-00&context=1516831)

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**Section:** CHINA,CHINESE INFRASTRUCTURE,ONE BELT ONE ROAD,OBOR

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**Highlight:** One Belt, One Road "" a simple name for a vastly ambitious and complex project that China hopes will create demand overseas for its excess capacity in areas such as steel, cement and aluminium, and aid the transformation of its economy away from the domestic investment-led model. GlobalCapital explores the potential of this transformational infrastructure investment.

**Body**

There are several reasons why it has become increasingly inappropriate to view infrastructure development through the prism of domestic markets, financial systems or regulatoryregimes.

First, many big ticket infrastructure initiatives are trade-related projects involving two or more countries, most obviously in the transportation sector.

Second, institutional capital looking for longer-dated assets is flowing across borders more fluidly than ever. Witness, for example, the growth in demand for exposure to real assets in general, and infrastructure in particular, among sovereign wealth funds over the lastdecade.

Third, even those infrastructure developments that appear to be purely domestic projects will often have environmental reverberations well beyond national boundaries. After all, ***greenhouse gas*** ***emissions*** don't carry passports or require visas.

The Silk Road trading route

Today, the most striking example of the borderless nature of infrastructure development is China's One Belt, One Road initiative, which aims to foster economic growth and investment along the ancient Silk Road trading route between Europe and the East.

An extensive report on the project published recently by CLSA and CITIC Securities explains that "One Belt" refers to the Silk Road Economic Belt where China plans to invest heavily in infrastructure to underpin its long-term presence in Eurasia. "One Road", meanwhile, is the 21st century maritime Silk Road which will call for the construction of ports and maritime facilities from the Pacific Ocean to the Baltic Sea.

As the CLSA/CITICS guide explains, the initiative serves two key economic objectives for China. First, it creates demand overseas for China's excess capacity in areas such as steel, cement and aluminium. "Difficulty in maintaining rapid investment growth due to heavy local government debt has meant excess capacity cannot be fully used through domestic investment," notes the CLSA/CITICS report.

Second, by expanding and strengthening its trading links with a large block of countries in Asia, the Middle East, Africa and Europe, it supports the transformation of China's economy away from the domestic investment-led model that is no longer as robust as it once was.

Investors agree that this is a significant step in the readjustment of the Chinese economic model. "One Belt, One Road is a smart way for China to develop new markets and secure new investment opportunities, especially for infrastructure-related equipment manufacturers and service providers," says Karine Hirn, a partner at the emerging and frontier markets specialist, East Capital. "Another long-term implication is that as the RMB will be the main currency for One Belt, One Road-related projects, it will support the strategic objective of the Chinese government to internationalise its currency."

The Chinese government says that the principal focus of the One Belt, One Road project is connectivity in areas such as policy, transport, trade and currencies, which will create a number of other benefits across several sectors. As HSBC explains in a recent research note, "the build-up of physical links will have an immediate effect on trade and productivity growth. Other related industries, suchas ***agriculture*** product processing, machinery engineering and tourism, will also develop as the result of better connectivity. Tourism in particular has huge potential given that China is rapidly turning into a nation of holidaymakers."

The HSBC research report puts the geographical scope of the One Belt, One Road project into perspective. This notes that the countries along the land and sea routes on the Silk Road account for 63% of the world's population and 29% of global GDP.

In 2014, trade between these countries and China reached $1tr, which is 26% of China's total trade value, and President Xi Jinping is banking on annual trade between China and its One Belt, One Road partners surpassing $2.5tr within the next decade.

The same report notes that according to estimates by the China Development Bank (CDB), the number of cross-border co-operation projects envisaged by the Silk Road plan already exceeds 900 and involves 64 different countries. The total investment value of these projects "" most of which are concentrated in the infrastructure sector "" is estimated at$890bn.

The role of the financial services sector

Bankers are optimistic about the opportunities for trade, investment and job creation that the project will generate. If the initiative is to deliver on its ambitious objectives, however, it will need the full backing of the financial services sector at two levels.

First, China will need to develop and expand its local financial services industry to provide enhanced support in some of the less-developed areas of the country that are pivotal to the project's longer term success. Second, it will need to provide support for the new supranational agencies that will play anchor roles in financing much of the cross-border projects underpinning the project.

As HSBC comments in its research on the Silk Road, "the way the New Silk Road is financed could be the most important factor in terms of the sustainability of the entire initiative." This is why China is channelling investment into a number of projects designed to develop local financial markets along the Silk Road "" including financial centres in Jinbian and Xi'an to serve inland regions and focus on ***energy*** transactions.

David Gardner, head of project and export finance at HSBC in Hong Kong, says he is encouraged by the financial firepower and expertise that has already been assembled in support of One Belt, One Road.

"In assessing how it can help investors and developers explore opportunities outside China, the government has used the model of other countries that have been successful internationally," says Gardner. "Japan, for example, set very high standards because companies such as Marubeni and Mitsui are among the best developers in the world. But they did not achieve their global success on their own. They needed the support of liquid and competitive commercial bank debt, and the icing on the cake was provided by JBIC [Japan Bank for International Co-operation] and NEXI [Nippon Export and InsuranceCompany]."

Some of the firepower supporting the One Belt, One Road initiative will be provided by seasoned entities such as China's Export-Import Bank and the China Export and Credit Insurance Corp (Sinosure) which have been supporting China's trade for many years. This will be complemented by the newly created BRICS Development Bank, which has a broad mandate to fund infrastructure and sustainable development projects, and by two new organisations established specifically to help finance One Belt, One Road-relatedprojects.

The Silk Road Fund

The first of these is the $40bn Silk Road Fund, which was established in Beijing in December 2014, and is mandated to "seek investment opportunities and provide monetary services throughout the Belt and Road initiatives," according to the People's Bank of China (PBOC). Aside from the government, the Silk Road Fund's backers are China Investment Corp (CIC), the Export-Import Bank of China and the China DevelopmentBank.

"The Silk Road Fund is a very versatile source of funding, which can provide senior and mezzanine debt as well as equity," says HSBC's Gardner. Details about the fund's investment strategy have so far been sketchy, although the governor of PBOC, Zhou Xiaochuan, has been quoted as saying it will operate like a private equity investor, but with a longer time horizon. It has been reported that the Silk Road Fund, which is adamant that it is a profit-making entity rather than an aid agency, will aim to exit from its investments through a combination of stock market listings and government transfers.

To date, the Silk Road Fund has made three very different investments. The first of these was the Karot hydropower plant in Pakistan, which is a strategically important staging-post on the Silk Road. Another arose from an agreement announced in September with Russia's state development bank, Vnesheconombank, to co-invest in infrastructure and other projects, especially in the electricity and ***energy*** sectors. At the same time, the Silk Road Fund signed an agreement with Russia's second largest natural gas producer, Novatek, for the acquisition of a 9.9% stake in a Yamal liquefied natural gas (LNG) project at Sabetta on the Yamal Peninsula in the north of Russia.

Sandwiched between these projects was the announcement of an equity investment in the Italian tyre maker, Pirelli, which at first sight seems to be only very loosely connected with the One Belt, One Road plan.

The role of the Asian Infrastructure Investment Bank

The second newly-established entity designed to support the One Belt, One Road initiative is the Asian Infrastructure Investment Bank (AIIB), which has capital of $100bn and is co-owned by 57 countries, with China holding approximately 30%.

"As well as providing finance, AIIB will add another layer of credibility and bankability which will be important for Chinese developers as they increase their outbound investment," says Gardner. "This will be very valuable in some of the less developed markets on the Silk Road which many of the commercial banks still regard as too risky."

The creation of the AIIB has been controversial from a political as well as an ecological perspective, with some concerns having been expressed that as China is such a large shareholder in the bank, it will effectively enjoy a veto over major issues.

Small wonder, against this backdrop, that the Chinese authorities have emphasised there is no question of the Silk Road initiative being used as an instrument of Chinese regional economic hegemony. When Wang Yang, vice premier of the State Council, spoke about the Silk Road project at the opening ceremony of the China-Eurasia Expo in ÃoerÃ¼mqi inSeptember, he told the audience that it was all about "openness and inclusiveness, [and] joint development based on consultation and mutual benefit".

He added that the Silk Road is, "first and foremost, a trade route" and that China would be scrupulous in ensuring that this would create equal opportunities for all trading partners along it. "China is ready to import more competitive products from other countries along the economic belt, especially non-resource products, so as to promote balanced and sustainable development of trade," hesaid. On a similar note, he promised that China would provide "favourable conditions" for companies in the economic belt to "explore the Chinese market".

Equally significantly, Wang pledged that China would remain committed to a "reasonable division of labour" in Silk Road projects. That may have been a nod to the complaints that have been expressed in some developing countries that Chinese companies often import their own workers for big-ticket infrastructure projects, doing little or nothing to create local jobs.

Ecologically, meanwhile, there have been some suggestions that China may be less meticulous about observing high environmental standards in its overseas investments than it has become within its domestic borders. Some recent press coverage, for example, has reported concerns that the AIIB may take a light touch on some of the environmental and social safeguards that can sometimes slow down projects backed by other multilateral development banks.

Sean Kidney, chief executive of the Climate Bond Initiative (CBI), is prepared to give the AIIB the benefit of the doubt on this score. "We've been encouraged by the statements that have been issued by the AIIB," he says. "The incoming CEO has promised that green finance will be at its core, and we have also heard that AIIB plans to issue green bonds to raise capital, which is fantastic news."

China's green credit guidelines

Kidney says he is also comfortable that the Chinese banks themselves will be as committed to green criteria in their overseas lending activities as they have been in the domestic market, in conformity with the Green Credit Guidelines issued by the China Banking Regulatory Commission (CBRC) in February 2012. According to the IFC, these specified "how to integrate sustainability practices into the lending cycle and [directed] banks to apply them to both domestic and overseas financing".

The WWF, the global conservation organisation, meanwhile, has also acknowledged the significance of the CBRC guidelines for Chinese banks' international activities. It described the publication of the recommendations as "a significant milestone in transforming China's economic development and China's growing overseasinvestments".

The recommendations published by the PBOC's task force on establishing a green financial system should also be reassuring to those who are concerned about environmental best practice in China's international investment and in AIIB's lending policy. The PBOC's report insists that the lending mechanisms supporting OBOR "cannot become channels for Chinese companies to offload outdated and polluting capacities to other Asian developing countries".

In order to safeguard against this risk, the report calls for the AIIB and Silk Road Fund to adopt a "highly transparent environmental disclosure mechanism". Lenders to One Belt, One Road projects, says the PBOC's report, should "not only require the disclosure of environmental and social risks of projects and risk mitigation measures by loan applicants, but also prescribe a minimum value for the percentage of loans to environmental projects and disclose such information in their annual reports."

Strong and well co-ordinated support for One Belt, One Road from the AIIB and the Silk Road Fund will be as critical to its success as the â,¬315bn Juncker Plan is for Europe. "For years, Europe muddled along with no coherent, joined-up strategy to address its infrastructure deficit," says Scott Dickens, global co-head of infrastructure finance at HSBC. "The Juncker Plan creates a co-ordinated strategy for infrastructure investment, and I'd expect One Belt, One Road to do the same for China."

International investors and joint venture partners will also have an important contribution to make to projects developed by Chinese companies along the Silk Road. As HSBC's research explains, this is because the track record of China's overseas investments to date has been unflattering. This points out that between 2005-2014, the value of troubled Chinese investments overseas reached just shy of $200bn, or about 33% of their total international investments over the same period.

"Losing money in developing countries is nothing new for China, international investors or private sector investors in recent history," cautions HSBC. All the more reason why Chinese investors venturing down the Silk Road would be well advised to use as much support as multinational banks and joint venture partners can provide.

Developing the China-Pakistan Economic Corridor

Pivotal to the Silk Road initiative is the development of the western region of China, which has benefited less from the economic boom of the last decade than the heavilypopulated eastern seaboard. "The One Belt, One Road initiative is an important strategic move for China, which has recognised that although the eastern part of China has been an economic success story, there is a lack of development, employment and social infrastructure in the west," saysHSBC's Gardner.

The basic numbers speak for themselves. According to research published recently by HSBC, the central and western provinces cover a third of China's territory and are home to about a fifth of its population. But its railway density is just 6km per 1,000km sq, well below the national average of 10km "" which is why these less-developed regions account for most of China's planned Rmb800bn ($125.22bn) investment in its railway system in 2015.

Infrastructure development in this region will create substantial opportunities for overseas as well as local companies. This explains why, on his recent visit to China, Chancellor of the Exchequer George Osborne became the first British minister to visit the northwestern province of Xinjiang, which has extensive resources of minerals, oil, gas and coal. "I want Britain to be connected to every part of this vast nation," said the chancellor in a speech in Shanghai the day before he headed west to ÃoerÃ¼mqi, capital of Xinjiang.

The development of Xinjiang means the province will play a central role in the ambitious $45bn, 3,000km China-Pakistan Economic Corridor (CPEC) project, which aims to connect Kashgar in Xinjiang with the warm-water port of Gwadar. Located 130km from the Iranian border and 380km north-east of Oman, Gwadar is strategically positioned close to the Strait of Hormuz, giving it easy access to a key shipping route in and out of the Persian Gulf.

Built in 2007 with technical and financial assistance from China, Gwadar's deep-water port is regarded by China as a strategic link to the Middle East, Africa and Europe. Asignal of that commitment was the agreement signed by China Overseas Port Holding Company (COPHC) in 2013 to manage the port at Gwadar for the next 40 years.

China's commitment to the development of Gwadar is bold, given its location in Baluchistan "" Pakistan's poorest and least-developed region, where 46% of the population reportedly living below the poverty line. It is also one of its most restive, and has been vulnerable to sporadic terrorist attacks.

As part of its commitment to the China-Pakistan Corridor, the Chinese government is reported to have agreed to build 18 new power plants, half of which will be coal-powered. China will also support the construction of five wind farms, three hydroelectric projects and one solar plant, all of which will be crucial to Pakistan's economic development. According to CLSA's research, Pakistan's peak power demand is 18,000MW, but the country's total power generation capacity is just 12,000MW. "The power shortage of 6,000MW implies a lot of opportunities for China to co-operate with Pakistan in this field," CLSA advises. Pakistan's government has calculated that the country's ***energy*** shortfall results in a loss to GDP of between 4%-7%.

In order to start addressing the formidable challenge of power shortages, in 2008 Pakistan's Water and Power Development Authority (WAPDA) launched a national water resource and hydropower programme, which is part of Pakistan's broader development agenda known as Vision 2025, aimed at making Pakistan "the next AsianTiger".

In the ***energy*** sector, Vision 2025 calls for a doubling of the country's power generation, to provide "uninterrupted and affordable electricity", and to increase electricity access from 67% to more than 90% of Pakistan's population.

The Karot hydropower blueprint

One of the first projects to benefit from the Silk Road Fund is the 720MW, $1.4bn Karot hydropower plant on the Jhelum River in the northeast of Pakistan, which will be jointly developed by China Three Gorges South Asia Investment Ltd (CSAIL) and Pakistan's Private Power and Infrastructure Committee. The plant, which is due to be built by 2020 and transferred to the government after 30 years of operation, is expected to create about 3,500 local jobs and generate enough power to provide electricity for some seven million homes.

The Silk Road Fund's co-investors in Three Gorges Investment are PBOC and the IFC, with loans provided by China Exim Bank and CDB.

According to the environmental and social impact assessment of the Karot project, there will be negative ecological and social side-effects, with a number of families needing to be rehoused and the habitat of the endangered golden mahseer fish disrupted, but the net impact on ***emissions*** will be beneficial, producing some 1.6m tonnes of CO2 fewer than a fossil-fuelled plant.

More broadly, projects in CEPC's pipeline will be highly supportive of continued economic expansion in Pakistan, which posted GDP growth of more than 4% in fiscal 2014-15. According to the IMF, the lion's share of the total investment envisaged under the CEPC will be accounted for by ***energy***, which calls for $33.8bn, with transportation projects requiring the remaining $10.6bn. The transportation infrastructure developments are due for completion by 2017-18, while priority projects in the ***energy*** sector are scheduled to add 10,000MW of new capacity by 2017-18 (by 2020 for hydro projects). A further set of promoted projects is planned to add another 6,500MW of capacity "in due course", according to the IMF.

The IMF adds that the methods of financing transportation and ***energy*** projects differ. Transport infrastructure developments will be exclusively financed by long-term government-to-government loans on concessional terms. ***Energy***-related projects, meanwhile, will be FDI-based, financed by commercial loans from Chinese financial institutions to Chinese investors, which will undertake construction of all projects in collaboration with local Pakistani partners. ***Energy*** sales by independent power producers (IPPs) will be guaranteed by the government of Pakistan through power purchase agreements (PPAs) at tariffs pre-determined by the National Electric Power Regulatory Authority (NEPRA).

Given that Pakistan is to be one of the earliest beneficiaries of One Belt, One Road, economists will keep a close eye on the broader economic impact of the infrastructure investment and stronger trade links created by the Silk Road initiative.

The IMF is encouraged by what it has seen so far, commenting that CPEC has the potential to raise productivity and growth as long as the projects are well managed and the risks are efficiently mitigated. Imports, says the IMF, will probably rise as Chinese contractors bring in a large share of the required machinery and raw materials. "However," adds the IMF, "supply-side effects facilitated by higher power generation capacity (including through FDI) and better infrastructure, will be beneficial for economic growth in the medium term."

Analysts also appear to be encouraged by the economic impact that One Belt, One Road will have on the less-developed countries located on the Silk Road. Moody's says that it regards the initiative as credit positive for emerging market sovereigns.

The agency commented in a report published in July that the main beneficiaries will be "smaller sovereigns with relatively low per-capita incomes, financing constraints on their current account positions, and low investment rates".

Supporting development in Bangladesh and Myanmar

Aside from Pakistan, the most notable beneficiaries of the One Belt, One Road initiative may be the countries located on the other economic corridors that the project is looking to develop. Foremost among these is the 2,800km Bangladesh-China-India-Myanmar (BCIM) EconomicCorridor.

The East Asian Forum calls this a "win-win arrangement" for the countries involved, which between them account for 9% of the global land mass, but 40% of the world's population. According to the East Asia Forum, intra-regional trade accounted for just 5% of the total in BCIM countries in 2012, compared with 35% in the ASEAN region in southeast Asia.

The development of a more efficient transportation infrastructure connecting BCIM countries is expected to increase this share, especially if China delivers on its plan to construct a high-speed rail link between Kunming and Kolkata in Bengal. It has been reported that this high-speed line, which would pass through Mandalay in Myanmar as well as the strategic port of Chittagong in Bangladesh, is a candidate for funding from the AIIB and the Silk Road Fund. "To date," comments the East Asian Forum, "South Asia has not come close to enjoying the same economic success that East Asia has reaped. BCIM might well be the game changer that South Asia needs."

Bangladesh's infrastructure could certainly use the sort of game-changer that Chinese capital could bring via the One Belt, One Road scheme. The scale of this capital is not to be sniffed at, with Bangladesh reported to be in negotiations with China over a $13bn loan to finance the production of 24,000MW of electricity by 2021.

It is not just Bangladesh's ***energy*** sector that is in desperate need of investment. According to CLSA's research "" which describes the country's traffic as "appalling" "" paved road coverage in Bangladesh is just 9.5%, flooding is common and maintenance costs are high. As CLSA remarks, it takes 24 hours to drive from the capital, Dhaka, to the port of Chittagong, even though the distance between the two cities is only 240km. The result is a woeful under-development of Bangladesh's export potential: "The manufacturing export industry in Asia depends on processing imported parts and transport conditions mean that Bangladesh cannot participate well in this production change," says CLSA.

Closer trade links generated by the BCIM will also be especially appealing for Myanmar, which has set out on apath of reform in 2014 after decades of economic isolation.

A recent analysis by McKinsey describes Myanmar as a "highly unusual, but promising prospect for businesses and investors "" an underdeveloped economy with many advantages in the heart of the world's fastest growing region."

The World Bank recently scaled back its estimate of economic growth in Myanmar in 2016, from 8.2% to 6.5%, but as McKinsey says, if the country can accelerate its labour productivity growth, Myanmar has the potential to grow at 8% a year.

Beyond South Asia, the other economic corridors which are part of the huge One Belt, One Road plan will have important repercussions for economic growth and infrastructure investment in countries ranging from Mongolia and Russia to the five Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan, as well as in the Middle East and parts of Europe. The new Eurasia Land Bridge, for example, proposes to link Lianyungang in China's Jiangsu province with key ports in Europe, while the China-Central Asia-West Asia Economic Corridor, which extends from China in the East to Iran and Turkey in the West, will unlock opportunities throughout the resource-rich countries of CentralAsia.

A transformational impact

Moody's notes that "the new silk roads could have a transformational impact for smaller, infrastructure-impoverished countries in South and Southeast Asia, by spurring investment and boosting economic growth potential". This suggests that the project could kickstart a virtuous circle for infrastructure finance across the region by strengthening credit ratings, supporting the evolution of local capital markets and making projects more bankable.

Although much of the One Belt, One Road project has not yet progressed beyond the drawing board, China's leading banks have already started to mobilise capital in support of the initiative. In June 2015, for example, Bank of China (BoC) became the first of the banks to issue a bond explicitly for Silk Road purposes.

The $3.55bn (equivalent) transaction was a four-currency issue, raising US dollars, euros, Singapore dollars and renminbi, on which Barclays, Citi, DBS and HSBC joined BoC as global co-ordinators across all fourtranches.

A number of heavyweight Chinese investors have also already made a significant commitment to the One Belt, One Road initiative. Citic, for example, has announced plans to invest over CNY400bn in more than 200 Silk Road projects. It has also setup a CNY20bn One Belt, One Roadfund.

Bankers say they are also encouraged by the response of the Chinese corporate sector to the opportunities being opened up to them by the One Belt, One Road scheme. "We've had a number of discussions with many of the Chinese infrastructure developers, and a common theme among them is that 90% or 95% of their revenue still comes from the domestic market," says HSBC's Gardner. "They recognise that they need to grow their overseas business, but they are also very cognizant of the constraints to international growth."

Already, there is evidence that in the renewables sector, Chinese companies are benefiting from the One Belt, One Road initiative. Goldwind is explicit about this in its 2014 annual report, commenting that "China's "~New Silk Road' strategy supported Goldwind's success in the overseas market". Goldwind completed its first project in Pakistan in late 2014, which the company says will "help to relieve a shortage of power, improve the ***energy*** structure and promote economic and social sustainable development in Pakistan".

Elsewhere along the Silk Road, Goldwind has also won orders in countries ranging from Thailand to Serbia and Romania. Further afield, in April 2014 it won its largest overseas order in the form of a 215MW mandate from Panama "" which can hardly be said to be on China's Silk Road. Another of China's largest wind farm companies, Sinovel, has sold wind turbines to Turkey and Sweden.

Exporting China's infrastructural know-how

Global infrastructure investment opportunities for a number of other Chinese companies also extend well beyond those directly created by the One Belt, One Road project.

According to research published recently by HSBC, in 2014 China's outward direct investment (ODI) exceeded the foreign direct investment (FDI) it attracted for the first time.

As this process accelerates, it is probable that Chinese companies will increasingly look to export their know-how in sustainable infrastructure development.

"You only need to visit China and use the high-speed rail system to see that it is starting to lead the world in terms of infrastructure development," says HSBC's Dickens. "China is now focused on starting to export some of that technological and construction experience. Be it in high speed rail, nuclear or renewables, China has a lot of knowledge as well as capital to put to work across the world."

This process is already gathering traction. Look, for example, at the recent creation by China Railway Corp of China Railway International, which is co-ordinating the company's overseas investments and has been chalking up new mandates across the globe. In September, for example, it was announced that the joint venture between China Rail International USA and XpressWest had won a mandate to develop, finance, build and operate the high-speed Southwest Rail Network between Los Angeles and Las Vegas.

China Rail International reports that it is now "executing and implementing" projects in countries ranging from Venezuela and South Africa to Indonesia, Malaysia andNigeria.

Co-operation between China and Europe

While demand for environmentally-sound technology is one area that some Chinese companies are looking to explore as a source of international diversification, others may arise from Europe's huge infrastructure investment requirement. China has already indicated that it stands ready to support the Juncker Plan, with some reports suggesting it is prepared to invest as much as â,¬10bn in Europe's new infrastructure fund.

Speaking at the 10th EU-China Business Summit this summer, EC President Jean-Claude Juncker said that Europe is as eager to play a role in One Belt, One Road as China is to invest in the blueprint for reinvigorating Europe's infrastructure that bears his name. "We see the project as an open hand, an invitation to connect China and Europe better than ever before," he said. "China and the European Union should now bring together know-how, resources and other strengths to make sure we succeed. The ambition of our response should be equal to the scope of the project itself."

For both sides, Chinese support for the Juncker Plan is seen as cementing economic and trading relations which have strengthened significantly in recent years and are expected to grow in importance over the coming decade. In his keynote address to the recent EU-China Summit, the Premier of China's State Council, Li Keqiang, said that he hoped trade between China and Europe would reach at least $1,000bn by 2020, which compares with a little over â,¬500bn in 2014.

China's enthusiasm for the Juncker Plan, say a number of market participants, contrasts with the lukewarm approach to sustainable infrastructure investment of many European politicians. "Governments like China's and India's have been far more aggressive in formulating green infrastructure investment plans than Europe's," says CBI CEO Kidney. "In Europe, governments are saying they can't invest in infrastructure because they're in an austerity phase. But infrastructure investment is precisely how you climb out of recession and create jobs."

This argument appears to be borne out by recent research from Standard &amp; Poor's (S&amp;P) on infrastructure investment's economic impact. "In Europe," this advises, "investment in infrastructure is lower than a decade ago and we believe this low investment has been a major cause [of] the slow recovery in the EU economy "" moreover, chronically weak capital spending endangers future growth."

The numbers are eye-catching. S&amp;P estimates that for each additional â,¬1 allocated to public sector investment in 2015, â,¬1.4 would be added to real GDP between 2015- 2017. "At the same time," says S&amp;P, "such an increase would add around 627,000 jobs in the Eurozone and more than a million in the EU." With the EU's unemployment rate at 9.3% in September 2015, governments should take note.

Implications for the green capital market

Kidney argues that as well as stoking growth and creating employment, the financing of the Juncker Plan should have a decisive role to play in underpinning the expansion of the green capital market. "The ECB's charter says that it is meant to meet the social and political goals of the union," he says. "What better way to do that than to include green bonds in the ECB's asset-purchase programme? If this were to happen it would ignite a rush of green bond issuance.

"I'm a great fan of the Juncker Plan, but policymakers' support for it has been extraordinarily light. By failing to wash it through a green filter, we are missing an unbelievableopportunity."

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| --- | --- | --- |
| - | Looking for investment opportunities on the Silk Road | - |
| - | Meet the man who says he has the best job in the world. As portfolio manager of the London-based Alquity Asian ESG Fund, Mike Sell's job is to trawl emerging markets hunting for companies that combine the best ESG standards with the brightest growth prospects. The two, says Sell, are symbiotic. "If you're ***reducing*** your ***energy*** usage it's not just good for the planet because you're ***reducing*** your ***greenhouse gas*** ***emissions***," he says. "It's also good for your bottom line because you're ***reducing*** your costs."About 40% of the assets in the $20m equity fund managed by Sell are in the frontier markets located along China's Silk Road, with approximately 15% in Vietnam, 5% in Pakistan, 5% in Bangladesh and 4% in Myanmar. These are four of the frontier markets dubbed Asia's "~super seven' by Alquity, with Sri Lanka, the Philippines and India making the others in the septet."The exposure of most investors in Asia is concentrated around China, Korea, Taiwan and Malaysia," says Sell. "While I'm sure there are plenty of good investment stories in those markets, we think the most exciting growth opportunities are to be found in the region's frontier markets."Sell says it is too early to judge how the super seven "" let alone individual stocks within these markets "" have been impacted by China's One Belt, One Road initiative. But he says the longer term spill-over from Chinese investment into infrastructure along the Silk Road will be considerable. He points to Pakistan, which is set to receive close to $50bn in Chinese investment over the next few years, as one of the most compelling examples."For Pakistan, this is a mind-numbingly large amount which will have incredibly powerful implications for growth and development," hesays.The size of the planned Chinese investment in Pakistan is put into graphic perspective in a recent HSBC research bulletin. This notes that the $46bn of investment identified under the Silk Road project compares with a historical annual average total of inbound investment over the last five years of just $2bn. Small wonder that it is not just frontier specialists like Alquity that are weighing up opportunities for equity investment in Pakistan. Having been ejected from the MSCI emerging markets index in 2008, in response to the temporary closure of the Karachi Stock Exchange, Pakistan isexpected to be reinstated in 2016, which should kick start a virtuous circle for investors."We're not benchmarked, so the inclusion of Pakistan in the index won't affect our fund directly," says Sell. "But it will mean that the market attracts plenty of passive money. That will bolster liquidity, which will make me and my investors very happy."Curiously, given that it has uncovered compelling opportunities in markets like Myanmar and Laos, the country where Sell's fund has struggled to find companies that meet Alquity's ESG requirements is China. "Whilst Chinese construction companies are winning a lot of orders as a result of the One Belt programme, very few meet our governance criteria," hesays. "They may be perfectly good companies but they are not sufficiently transparent for us." He says that the only notable exception, China State Construction "" which is in the Alquity portfolio "" is a domestic-oriented group which has not been a beneficiary of the One Belt, One Road initiative.Karine Hirn, partner at the emerging and frontier market specialist, East Capital, agrees that Chinese companies have the most to gain from One Belt, One Road in the short to medium term."The main beneficiaries will be Chinese train manufacturers, nuclear power companies, telecoms equipment manufacturers and banks, because they will be the preferred contractors and financiers for the projects," she says. For stock pickers, however, she says that the challenge will probably be to sift the genuine winners from companies hyped by the broking community. | - |
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**Load-Date:** December 21, 2015

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[***-CF Industries and CHS Commence Strategic Venture***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J15-83P1-JD3Y-Y062-00000-00&context=1516831)

ENP Newswire

February 2, 2016 Tuesday

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**Length:** 2781 words

**Body**

DEERFIELD, Ill. & ST. PAUL, Minn. - CF Industries Holdings, Inc. (NYSE:CF) and CHS Inc. (NASDAQ:CHSCP) announced today that they have commenced their previously announced nitrogen fertilizer strategic venture.

CHS, the nation's leading farmer-owned cooperative, completed its $ 2.8 billion equity investment in CF Industries Nitrogen, LLC, ('CF Nitrogen'), a CF Industries subsidiary, and today begins receiving delivery of urea and urea ammonium nitrate (UAN) from CF Industries under a long-term supply agreement.

'We are pleased today to start our strategic venture with CHS, beginning the next chapter in a mutually beneficial long-term relationship,' said Tony Will, president and chief executive officer, CF Industries. 'The venture will deliver attractive returns to CF shareholders as the equity investment helps support our longstanding capital allocation priorities and the supply agreement connects us to a reliable partner who will take ratable delivery of product across the year.'

'This is an important day for CHS member-owners as we not only complete the single largest investment in our history, but more importantly establish long-term dependable nitrogen fertilizer supply, supply chain efficiency and opportunity for economic value,' said Carl Casale, president and chief executive officer, CHS Inc. 'This is a strategic decision about adding value for our member cooperative- and producer-owners on par with the significant investments made in our ***energy*** and grains businesses over our 85 years of operation.'

CHS has purchased a minority equity interest in CF Nitrogen for $ 2.8 billion effective Feb. 1, 2016. Through the investment, CHS will be entitled to semi-annual profit distributions from CF Nitrogen based generally on the volume of granular urea and UAN purchased by CHS pursuant to the supply agreement.

Starting Feb. 1, 2016, CHS is entitled to purchase up to 1.1 million tons of granular urea and 580,000 tons of UAN annually from CF Nitrogen for ratable delivery. The 1.7 million product tons available under the supply agreement represent approximately 8.9 percent of CF's total production capacity once its capacity expansion projects are completed at Donaldsonville, La., and Port Neal, Iowa, expected in 2016.

The two companies marked the start of the strategic relationship with an event for CHS fertilizer customers at CF's Port Neal Nitrogen Complex.

About CF Industries Holdings, Inc.

CF Industries Holdings, Inc., headquartered in Deerfield, Illinois, through its subsidiaries is a global leader in the manufacturing and distribution of nitrogen products, serving both ***agricultural*** and industrial customers. CF Industries operates world-class nitrogen manufacturing complexes in Canada, the United Kingdom and the United States, and distributes plant nutrients through a system of terminals, warehouses, and associated transportation equipment located primarily in the Midwestern United States.

The company also owns a 50 percent interest in an ammonia facility in The Republic of Trinidad and Tobago. CF Industries routinely posts investor announcements and additional information on the company's website at [*www.cfindustries.com*](http://www.cfindustries.com) and encourages those interested in the company to check there frequently.

About CHS Inc.

CHS Inc. (   [*www.chsinc.com*](http://www.chsinc.com)) is a leading global agribusiness owned by farmers, ranchers and cooperatives across the United States. Diversified in ***energy***, grains and foods, CHS is committed to helping its customers, farmer-owners and other stakeholders grow their businesses through its domestic and global operations. CHS, a Fortune 100 company, supplies ***energy***, crop nutrients, grain marketing services, animal feed, food and food ingredients, along with business solutions including insurance, financial and risk management services. The company operates petroleum refineries/pipelines and manufactures, markets and distributes Cenex brand refined fuels, lubricants, propane and renewable ***energy*** products.

Safe Harbor Statement

All statements in this communication by CF Industries Holdings, Inc. (together with its subsidiaries, 'CF Industries'), other than those relating to historical facts, are forward-looking statements. Forward-looking statements can generally be identified by their use of terms such as 'anticipate,' 'believe,' 'could,' 'estimate,' 'expect,' 'intend,' 'may,' 'plan,' 'predict' 'project' and similar terms and phrases, including references to assumptions.

Forward-looking statements are not guarantees of future performance and are subject to a number of assumptions, risks and uncertainties, many of which are beyond CF Industries' control, which could cause actual results to differ materially from such statements. These statements may include, but are not limited to, statements about the future performance and operation of the strategic venture with CHS Inc. (the 'CHS Strategic Venture'); statements about future strategic plans and statements about future financial and operating results.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include, among others, difficulties associated with the operation or management of the CHS Strategic Venture; risks and uncertainties relating to the market prices of the fertilizer products that are the subject of the supply agreement over the life of the supply agreement and risks that disruptions from the CHS Strategic Venture as contemplated will harm CF Industries' other business relationships; the volatility of natural gas prices in North America and Europe; the cyclical nature of CF Industries' business and the ***agricultural*** sector; the global commodity nature of CF Industries' fertilizer products, the impact of global supply and demand on CF Industries' selling prices, and the intense global competition from other fertilizer producers; conditions in the U.S. and European ***agricultural*** industry; difficulties in securing the supply and delivery of raw materials, increases in their costs or delays or interruptions in their delivery; reliance on third party providers of transportation services and equipment; the significant risks and hazards involved in producing and handling CF Industries' products against which CF Industries may not be fully insured; risks associated with cyber security; weather conditions; CF Industries' ability to complete its production capacity expansion projects on schedule as planned, on budget or at all; risks associated with expansions of CF Industries' business, including unanticipated adverse consequences and the significant resources that could be required; potential liabilities and expenditures related to environmental, health and safety laws and regulations and permitting requirements; future regulatory restrictions and requirements related to ***greenhouse gas*** ***emissions***; the seasonality of the fertilizer business; the impact of changing market conditions on CF Industries' forward sales programs; risks involving derivatives and the effectiveness of CF Industries' risk measurement and hedging activities; CF Industries' reliance on a limited number of key facilities; risks associated with CF Industries' Point Lisas Nitrogen Limited joint venture; acts of terrorism and regulations to combat terrorism; risks associated with international operations; losses on CF Industries' investments in securities; deterioration of global market and economic conditions and CF Industries' ability to manage its indebtedness.

Other important factors, relating to the proposed acquisition (the 'OCI Transaction') by CF Industries from OCI N.V. ('OCI') of OCI's European, North American and global distribution businesses (the 'ENA Business') and the combination of CF Industries and the ENA Business under a new holding company ('New CF'), that could cause actual results to differ materially from those in the forward-looking statements include, among others: the risk that the OCI Transaction is not accorded the tax and accounting treatment anticipated by CF Industries; the effect of future regulatory or legislative actions on the new holding company ('New CF'), CF Industries and the ENA Business; risks and uncertainties relating to the ability to obtain the requisite approvals of stockholders of CF Industries and OCI with respect to the OCI Transaction; the risk that governmental or regulatory actions delay the OCI Transaction or result in the imposition of conditions that could ***reduce*** the anticipated benefits from the OCI Transaction or cause the parties to abandon the OCI Transaction; the risk that a condition to closing of the OCI Transaction may not be satisfied; the length of time necessary to consummate the OCI Transaction; the risk that CF Industries and the ENA Business are subject to business uncertainties and contractual restrictions while the OCI Transaction is pending (including the risk that CF Industries is limited from engaging in alternative transactions and could be required in certain circumstances to pay a termination fee); the risk that the OCI Transaction or the prospect of the OCI Transaction disrupts or makes it more difficult to maintain existing relationships or impedes establishment of new relationships with customers, employees or suppliers; diversion of management time on transaction-related issues; the risk that New CF, CF Industries and the ENA Business are unable to retain and hire key personnel; the risk that closing conditions related to the Natgasoline joint venture may not be satisfied; the risk that CF Industries, New CF and the ENA Business will incur costs related to the OCI Transaction that exceed expectations; the risk that the businesses of CF Industries and the ENA Business will not be integrated successfully; the risk that the cost savings and any other synergies from the OCI Transaction may not be fully realized or may take longer to realize than expected; the risk that access to financing, including for refinancing of indebtedness of the ENA Business or CF Industries, may not be available on a timely basis and on reasonable terms; unanticipated costs or liabilities associated with the OCI Transaction-related financing; the risk that the credit ratings of New CF and CF Industries, including such ratings taking into account the OCI Transaction and related financing, may differ from CF Industries' expectations; risks associated with New CF's management of new operations and geographic markets and the risk that the ENA Business is unable to complete its current production capacity development and improvement projects on schedule as planned, on budget or at all.

More detailed information about factors that may affect CF Industries' performance and could cause actual results to differ materially from those in any forward-looking statements may be found in CF Industries Holdings, Inc.'s filings with the Securities and Exchange Commission (the 'SEC'), including CF Industries Holdings, Inc.'s most recent periodic report filed on Form 10-Q, which is available in the Investor Relations section of CF Industries' web site.

Please refer to the Risk Factors section of the Registration Statement on Form S-4 filed with the SEC by CF B.V. (SEC File No. 333-207847) for a description of additional factors that may affect CF Industries' performance and could cause actual results to differ materially from those in any forward-looking statements. Forward-looking statements are given only as of the date of this communication and CF Industries disclaims any obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

CHS Safe Harbor Statement

This document contains, CHS Inc. ('CHS') publicly available documents may contain, and CHS officers, directors and other representatives may from time to time make, 'forward-looking statements' within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as 'anticipate,' 'intend,' 'plan,' 'goal,' 'seek,' 'believe,' 'project,' 'estimate,' 'expect,' 'strategy,' 'future,' 'likely,' 'may,' 'should,' 'will' and similar references to future periods. Instead, they are based only on CHS's current beliefs, expectations and assumptions regarding the future of its businesses, financial condition and results of operations, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions.

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the control of CHS. CHS's actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance on any of these forward-looking statements. Important factors that could cause CHS's actual results and financial condition to differ materially from those indicated in the forward-looking statements are discussed or identified in CHS's public filings made with the U.S. Securities and Exchange Commission, including in the 'Risk Factors' discussion in Item 1A of the CHS Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

Any forward-looking statements made by CHS or its representatives in this document are based only on information currently available to CHS and speak only as of the date on which the statement is made. CHS undertakes no obligation to publicly update any forward-looking statement, whether written or oral that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by applicable law.

No Offer or Solicitation

This communication is not intended to and does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to or in connection with the proposed transaction or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

Additional Information

CF B.V. ('New CF') has filed with the SEC a registration statement on Form S-4 (SEC File No. 333-207847) that includes a preliminary proxy statement of CF Industries Holdings, Inc. ('CF Industries') and a preliminary shareholders circular of OCI N.V. ('OCI'), each of which also constitutes a preliminary prospectus of New CF. The registration statement has not been declared effective by the SEC. The definitive proxy statement/prospectus will be delivered to CF Industries shareholders and the definitive shareholders circular/prospectus will be delivered to OCI shareholders as required by applicable law after the registration statement becomes effective.

Participants in the Solicitation

CF Industries and New CF and their respective directors and executive officers and OCI and its executive directors and non-executive directors may be deemed to be participants in the solicitation of proxies from the stockholders of CF Industries in connection with the proposed transaction. Information regarding the directors and executive officers of CF Industries is contained in CF Industries' proxy statement for its 2015 annual meeting of stockholders, filed with the SEC on April 2, 2015, and CF Industries' Current Report on Form 8-K filed with the SEC on June 25, 2015. Information about the executive directors and non-executive directors of OCI is contained in OCI's annual report for the year ended December 31, 2014, available on OCI's web site at   [*www.oci.nl*](http://www.oci.nl).

Other information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the stockholders of CF Industries in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, is set forth in the preliminary proxy statement/prospectus filed with the SEC by New CF.

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**End of Document**



[***Parties clash over negative gearing as election talk swirls - question time live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G225-00000-00&context=1516831)

The Guardian

February 29, 2016 Monday 4:31 AM GMT

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**Section:** AUSTRALIA NEWS

**Length:** 7106 words

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**Body**

block-time published-time 4.31am GMT

Magic Mikearoo has some grand chamber shots from today. Give me a minute and I'll be back with a short analysis of that session.

The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 4.23am GMT

Just a quick bit of trivia for politics tragics. Centuries ago, when Tony Smith was press secretary to Peter Costello (before he became an MP and now Speaker) he was famous for furnishing the following formulation to inquisitive journalists.

Off the record.

No comment.

Not a man of loose lips, our Tony.

block-time published-time 4.16am GMT

Turnbull has wound up question time. The shadow attorney general Mark Dreyfus wants to know what's going on with the police.

Speaker Tony Smith tells Dreyfus he doesn't comment on police matters. He says any queries need to be directed to the police. He says in general terms any search warrants would be executed in accordance with the rules governing privilege.

On Sky News (the network that broke the story police were on the trail of an MP), Peter Van Onselen is saying he understands the parliamentary server was accessed last week. He says he believes that was done with presiding officer cooperation.

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

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[***No Headline In Original***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JXS-F3V1-JDGP-843X-00000-00&context=1516831)

Eastern Daily Press

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**Body**

Government proposals to restrict subsidy support for anaerobic digestion (AD) could damage prospects for new farm biogas developments, warned rural business leaders.

The growing AD sector has seen many plants built across East Anglia in recent years to turn feed crops into gas and ***energy***, supported by the Feed-in Tariff (FiT), an incentive scheme to promote the uptake of new renewable technologies, funded through levies on consumer ***energy*** bills.

But as the scheme's uptake has been higher than expected, the Department of ***Energy*** and Climate Change (DECC) has proposed a series of changes from January 2017, to ***reduce*** the impact on bill-payers.

They include ending FiT support for new AD plants over 500kW, and ***reducing*** tariffs for new AD plants under 500kW by nearly a third.

Dr Jonathan Scurlock, chief adviser on renewable ***energy*** for the National Farmers' Union, said: "Yet again, this government seems determined to throttle the life out of the emerging renewable ***energy*** market.

"After slashing support for the growing solar and biomass industries, this seems like the unkindest cut of all.

"The multiple environmental and soil management benefits from widespread deployment of on-farm AD will be lost, including the huge potential for avoiding farmyard methane ***emissions*** from manure and slurry."

Ben Underwood, eastern regional director for the Country Land and Business Association (CLA), said the proposals were potentially bad news for farmers seeking to diversify and find environmentally-friendly ways to manage farm waste.

"On-farm AD can deliver multiple environmental benefits as well as new sources of income to the ***agricultural*** sector and much-needed clean, base load electricity," he said. "These proposals could spell the end of any future biogas development on farms and be a lost opportunity for rural businesses."

In a document outlining its six-week consultation on the plans, the DECC says the government is committed to meeting renewable ***energy*** ***targets***, but FiT support needed to be placed on a "sustainable footing". It says: "Deployment under the FiT scheme has exceeded expectations. While this shows the success of the scheme in attracting investment in small-scale renewable electricity deployment, this has come at a cost to the bill payer, with the scheme projecting to spend beyond its initial projections."

Are you planning an on-farm renewables project? Contact [*chris.hill@archant.co.uk*](mailto:chris.hill@archant.co.uk)

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"After slashing support for the growing solar and biomass industries, this seems like the unkindest cut of all. The multiple environmental and soil management benefits from widespread deployment of on-farm AD will be lost, including the huge potential for avoiding farmyard methane ***emissions*** from manure and slurry - a bit of an own-goal for DECC, given that this is a powerful ***greenhouse gas***."

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In its consultation document, DECC says the aim is to put the subsidy scheme for AD plants on a "sustainable footing". It says: "Government is committed to moving to a low-carbon economy and meeting its carbon ***reduction*** and renewable ***energy*** ***targets***.

"Alongside other measures, the Feed-in Tariffs (FITs) scheme has been part of our progress against these objectives. The scheme is funded through levies placed on consumer ***energy*** bills.

"In order to restrict the impact on (consumer ***energy***) bills, government set a limit on the annual low-carbon ***energy*** subsidy expenditure which could be collected from consumers.

"Deployment under the FITs scheme has exceeded expectations. While this shows the success of the scheme in attracting investment in small-scale renewable electricity deployment, this has come at a cost to the bill payer, with the scheme projecting to spend beyond its initial projections."

The six-week consultation will close on July 7.

Action call on soil health

A cross-party group of MPs has called for an urgent rethink on the subsidy regime which encourages the growth of maize for anaerobic digestion.

The Environmental Audit Committee published a report which warns that neglecting the health of the nation's soil could lead to ***reduced*** food security, increased ***greenhouse gas*** ***emissions*** and greater flood risk.

One of the report's recommendations says: "Maize production can damage soil health when managed incorrectly, and incentives for anaerobic digestion should be structured to reflect this. The double subsidy for maize produced for anaerobic digestion is counter-productive and has contributed to the increase in land used for maize production. This subsidy regime represents a clear case in which better joined-up thinking across government is required in order to ensure that soils are managed sustainably.

"Renewable ***energy*** subsidies for anaerobic digestion should be restructured to avoid harmful unintended consequences. Revisions should either exclude maize from the subsidy altogether or impose strict conditions on subsidised maize production to avoid practices in high-risk locations which lead to soil damage."

A Defra spokesman said: "The health of our soils is vital to the food we eat, the air we breathe and to our precious habitats - and our 25-year plan for action on the environment will set out a comprehensive, long-term vision to protect and enhance our natural environment for generations to come.

"We are protecting our soils through frontline schemes such as Environmental and Countryside Stewardship and providing support for farmers and land mangers through our Farming Advice and Catchment Sensitive Farming Services."

Are you planning an on-farm renewables project? Contact [*chris.hill@archant.co.uk*](mailto:chris.hill@archant.co.uk)

**Load-Date:** June 4, 2016

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[***Namibia Monthly Briefing September 2015***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5T1T-KKW1-DYRW-V0YY-00000-00&context=1516831)

ARC Briefing Namibia

September 2015

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**Body**

**ABSTRACT**

***The government maintains its focus on tackling the urban housing crisis as new revelations of dubious deals by the SWAPO Youth League (SYL) tarnish its credentials to be a champion of the dispossessed. The Namibia Statistics Agency (NSA) substantially revises the 2014 real GDP growth rate upwards to 6.4% and growth should be only slightly less at around 6% in 2015. RMB Namibia has launched the country's first exchange trading system for China's yuan. The government is reviewing the Kudu gas-to-power project, which could lead to development of the Baynes hydropower scheme on the Kunene River instead.***

**FULL TEXT**

**Urban land roll-outs gather pace**

It is too soon to judge whether the agreement that President **Hage Geingob** (2015- present) brokered with the **Affirmative Repositioning (AR)** grass roots protest movement in July will lead to a durable solution to the national crisis of insufficient, affordable serviced urban plots for housing (see *ARC Briefing Namibia August 2015)*. However, government ministers have continued to be proactive, no doubt taking their lead from Geingob, who told representatives of shack dwellers around **Windhoek** in early September that, if necessary, parts of adjoining farms would be expropriated to provide sufficient land for housing. Under the constitution, owners would be due compensation if expropriated, but the reference underscored the governments determination to tackle the housing and homeless problem. It forms part of Geingobs declaration that he aims to eradicate poverty during his presidential term.

The new urban and rural development minister, **Sophia Shaningwa**, has been in the forefront of the housing drive. Speaking at the appointment of a new board for the state-owned **National Housing Enterprise (NHE)**, Shaningwa declared that the government aims to rehouse the several hundred thousand Namibians living in shacks into affordable housing by 2030. The government plans to invest more in housing developments and faster delivery of new houses. **Bank of Namibia (BoN)** director of banking services **Sam Shivute** has taken over as chairman of the NHE board, with the mandate to implement a turnaround strategy to make the state agency financially sound and begin to address an estimated backlog of 100,000 houses.[[1]](#footnote-2)1

Some municipalities appear to be increasing their efforts to address local housing shortages. In the copper-smelting town of **Tsumeb**, mayor **Ndangi Shetekela** acknowledged that while a shortage of housing is a constant problem, most recipients of residential land are from low income groups. These include organisations such as the **Shack Dwellers Federation of Namibia (SDFN)** that cater for low income groups. However, he pointed out that the lack of sufficient funding from central government during the past five years had forced Tsumeb, like other towns, to go into public-private partnerships, in which private developers often benefit the most.

*"Over the past five years the low-income group has benefited the most from the land delivery process, but also the high-income group because they can afford it. It's either you live in a very expensive house or in a shack. This is the situation that has created the large numbers of low-income groups."*[[2]](#footnote-3)2

The credibility of the **SWAPO Youth League (SYL)**, some of whose leaders play a prominent role in the AR leadership, as a credible champion of the dispossessed is unraveling. Local media recently uncovered a one-day land trade at a huge profit by SYL information secretary **Neville Itope**.[[3]](#footnote-4)3 According to **Walvis Bay** municipality records, Itope bought a 1,740 square metre plot situated in the central business district (CBD) for N$1.5 million (US$117,000) and almost immediately resold it for N$4.1 million ($320,000) in late June. This was only a month before AR was due to stage its urban land occupations in protest at the lack of available and/or affordable serviced urban plots.

Itope, who works as assistant to the cabinet secretary, claimed no wrongdoing was involved. However, the deal hardly conforms to the SYLs radical stance on land reform and the rights of low-income Namibians. It also conflicts with Shaningwas recent moratorium on all new land transactions, which in particular aims to prevent the purchase of land by foreign nationals through secretive local entities. Itopes plot was sold to a firm called **Harpies Investments Forty-Two Close Corporation**. A close corporation (CC) is a corporate entity unique to Namibia and **South Africa**. In its registration documents a CC is not required to disclose names of directors or other details. Itope admitted he did not have his own money to purchase the land and had borrowed money from Harpies, but he refused to identify his partners whom he described as *"some white guys"* or his own interest in the firm.[[4]](#footnote-5)4 Itope claimed that he had decided to sell the plot when he realised it was only suitable for commercial and not residential purposes, although it is also alleged that his late mother, a town councillor until last year, was influential in earmarking the plot for him.[[5]](#footnote-6)5 A council spokesperson confirmed that plans had already been lodged for development of the plot and that while there was no law barring an individual from buying and selling a plot in one day it was a highly unusual transaction given the usual time involved in registering a sale at the municipal deeds office.[[6]](#footnote-7)6

**Real GDP growth was substantially stronger in 2014...**

The **Namibia Statistics Agency (NSA)** this month published the final set of national accounts for last year, which revised real GDP growth up from the preliminary estimate of 4.9% to 6.4%.[[7]](#footnote-8)7 The 2013 real growth rate has also been raised, from 5.1% to 5.7%. This has been the pattern in recent years, with GDP data calculated in the preliminary set of national accounts published around March revised upwards later in the year. The main reason seems to be that data for some sectors, mainly for secondary and tertiary industries, is incomplete when the preliminary estimates are calculated.

The main increases were for ***agriculture*** and forestry (from a preliminary 6.5% to 9.6%), construction (from 14.6% to a record 40.5%), wholesale and retail trade (from 8.6% to 15.2%), transport and communications (from 5.6% to 6.6%) and financial intermediation (from 7.7% to 9.9%). These sectors accounted for 3 1% of GDP at current prices. ***Agricultural*** output came in stronger due to increased growth in the livestock farming sub-sector of 13.0% (8.0% previously), due to increased marketing of cattle by commercial farmers, following restocking after the 2012-13 drought. The current drought is likely to result in a further increase in cattle marketing volumes this year as farmers seek to limit herd losses caused by the deterioration in grazing conditions. Construction activity also increased due to large-scale works on the building of new mines.

Mining and manufacturing was a different story. Mining output contracted by 6.3% (-4.6% previously) due to slower growth in diamond mining, the main sub-component, of 6.2% (11.1% previously). As **De Beers** has not ***reduced*** last years figure of 7% diamond output growth by **Namdeb Diamond Corp (Namdeb) -** its 50:50 jointventure with the government which produces all Namibia's mainly gem-quality output - it is not clear why the NSA has revised its preliminary figure downwards. Manufacturing is now shown as contracting by 2.2% compared to 0.5% growth previously; meat processing contracted more sharply (-17.4%) with most sub-sectors recording ***reduced*** output growth or contractions compared to the preliminary estimates. However, output by local diamond processing (cutting and polishing) was revised up to 8.2%.

|  |  |  |
| --- | --- | --- |
| **Namibia GDP 2014 (% change)**[[8]](#footnote-9)8 | | |
|  | **2014 preliminary** | **2014 final** |
| ***Agriculture*** & forestry | 6.5 | 9.6 |
| Fishing & on board processing | -4.4 | -2.5 |
| Mining & quarrying |  |  |
| Diamonds | -4.6 | -6.3 |
| Uranium | 11.1 | 6.2 |
| Other minerals | -9.9 | -9.9 |
| **Primary industries** | **-2.3** | **-2.2** |
| Manufacturing | 0.5 | -2.2 |
| Meat processing | -14.8 | -17.4 |
| Diamond processing | 5.6 | 8.2 |
| Construction | 14.6 | 40.5 |
| Electricity & water | 6 | 4.9 |
| **Secondary industries** | **4.7** | **9.4** |
| Wholesale & retail trade | 8.6 | 15.2 |
| Hotels & restaurants | 9.3 | 5.3 |
| Transport & communications | 5.6 | 6.6 |
| Financial intermediation | 7.7 | 9.9 |
| Real estate & business services | 3.2 | 3.2 |
| Government | 5.6 | 4.8 |
|  |  |  |
| Less FIS indirectly measured[[9]](#footnote-10)9 | 7.5 | 7 |
| **All industries at basic prices** | **4.4** | **6** |
| Taxes less product subsidies | 5.6 | 10.9 |
| **GDP at constant market prices** | **4.5** | **6.4** |

**IJG Namibia** analyst **Rowland Brown** noted that

*"... the revision brings both the overall growth level more in line with levels seen in high-frequency indicators through the year, as well as showing notable improvement in many of the sectors' growth levels, bringing these (also) more in line with growth witnessed on the ground."*[[10]](#footnote-11)10

Another noteworthy feature of the revised national accounts is that gross fixed capital investment (GFCI) growth was much stronger than initially estimated. GFCI increased 47% to a record N$48 billion (US$4.4 billion) in 2014, contributing 34% of GDP at current prices compared to 27% in 2013. Most of the increase will have comprised the vast amount (we estimate US$2.5-3.0 billion) invested in the development of three new mines: the **Otjikoto** gold mine and the **Tschudi** cathode copper mine (both now in production), and the nearly completed **Husab** uranium mine.

The latest **UN Conference on Trade and Development (UNCTAD)** figures for foreign direct investment (FDI) into Namibia show inward FDI almost halved to US$414 million last year, from US$801 million in 2013.[[11]](#footnote-12)11 Outward FDI remained much smaller, but trebled from US$13 million to US$34 million in 2014. The explanation may be that UNCTAD used incomplete or out of date sources in calculating Namibia's inward FDI, and/or **Chinese** investment in the Husab mine (which represents around 80% of total mining sector investment) may not have been included.

We would expect real GDP growth of around 6.0% in 2015; construction growth will slow sharply with the completion of two of the three mines, while diamond output contracted by 5% in the first half of 2015. This may have been a temporary downturn due to lower grades and industrial action at Namdeb's onshore operations. In addition, **Weatherly International**, which is listed on **London (United Kingdom)**s **Alternative Investment Market (AIM)** but has now moved its head office to Namibia, has shut down its two copper concentrate-producing mines, **Matchless** and **Otjihase** near Windhoek, due to the sharp fall in the global copper price. This is expected to result in the loss of 200 jobs. The two mines have been converted to *"project development status" to* prepare them for future production of larger volumes at lower unit costs, when market conditions improve, according to a mid-September update by the firm.[[12]](#footnote-13)12 The lost output - the two mines produced 20,991 tonnes in the 12 months to end-June 2015 - should be partially offset by an ongoing ramp-up in production at the new Tschudi mine, which produces copper of higher value. Things are going better with Tschudi: output was raised by 15%, from 1,000 tonnes (70% of design capacity) to 1,150 tonnes (80% of capacity) of copper metal per month during Q3 2015. By year-end, Weatherly expects that Tschudi will be operating at full capacity of 17,000 tonnes per year.[[13]](#footnote-14)13

**...trading in China's yuan has started**

In a significant development reflecting Namibia's growing commercial links with China, investment bank **Rand Merchant Bank Namibia (RMB Namibia)** has established the countrys first **yuan** exchange platform. This will provide comprehensive payment solutions to enable yuan remittances of both notes and electronic transfers. At a launch in Windhoek earlier this month, Chinese business people converged in number to be informed on how the platform will work. According to RMB, it will provide a currency service to facilitate bilateral trade between China and Namibia. This is currently at a fairly modest level (China supplied 4% of Namibia's imports and purchased 3% of its exports in 2014), but bilateral trade is expanding rapidly. Customers who need to exchange Namibia dollars for yuan and vice versa will be able to do so in cash as well as electronically through the **Swift** payment system used in Namibia.

China's ambassador to Namibia **Xin Shunkan** noted that Namibia-based Chinese companies will benefit from the direct exchange of Namibia dollars to Chinese yuan and easy transfer of Namibia dollars to China without having to change Namibia dollars to **United States (US)** dollars, thus mitigating exchange rate difference losses.[[14]](#footnote-15)14

*"It will encourage more Chinese companies to invest and operate in Namibia. Namibia has become one of the more promising trade partners and investment destination countries of China among the African countries."*[[15]](#footnote-16)15

RMB Namibia is a division of **FNB Namibia**, itself part of one of Africa's largest financial services firms, South Africa's **FirstRand Group**. Its Namibian general manager **Steve Galloway** has been active in arranging project financing packages for both foreign and local investors in Namibia. In July his bank played a key role in the restructuring of Namibia's only cement plant, **Ohorongo Cement**, as lead arranger of a new funding package. The majority shareholder remains **Germany**s **Schwenk Zement**, but as part of the restructuring, the equity interest held by the **Development Bank of Namibia (DBN)** has been increased to 11.7%. The **Otavi**-based plant has a capacity to produce up to 700,000 tonnes annually and has supplied its product for new mining developments and other large projects such as Walvis Bay port expansion. It is price competitive with South African plants, which previously provided most of Namibia's cement requirements.[[16]](#footnote-17)16

Meanwhile, the BoN is considering whether to invest some of its foreign currency reserve assets into yuan-denominated assets once the overall level of reserves is considered to be sufficient (which they are not at present). The size of yuan-denominated loans has increased in recent years, reflecting increased levels of bilateral trade. However, a decision to hold a portion of the central bank's reserve assets in China would have to be in line with strict guidelines. Any investments in Chinese assets would be restricted to high-quality bonds held or issued by the Chinese government, government agencies and state-owned enterprises (SOEs) as these have good credit ratings. Currently, the central bank holds its foreign exchange reserves in the South African rand, US dollar, **euro, British** pound and **Japanese** yen.[[17]](#footnote-18)17

**Baynes would be the alternative to Kudu**

The long-planned development of the **Kudu** gas-to-power project as Namibia's main long-term ***energy*** supply solution may now be in doubt. If so, a second hydropower station on the **Kunene River** in the north at **Baynes** would be the main alternative option. President Geingob has ordered a review to determine Kudu's affordability and finance minister **Calle Schlettwein** is due to make a cabinet submission soon. The government has reportedly been advised by the **African Development Bank (AfDB)**, a potential multilateral financing source for the project, that Kudu, with an estimated N$23 billion ($1.8 billion) cost, is no longer Namibia's best ***energy*** option.[[18]](#footnote-19)18 This is the second time this year the Kudu project has come to cabinet. In March, the cabinet agreed to provide some government funding for the onshore power station, which Schlettwein reportedly opposed.

The much delayed project, first put forward in the late 1990s, has gone through various permutations. The current project involves a floating production platform to extract gas from the offshore Kudu field on the southwestern maritime border with South Africa, and subsea connecting pipelines to a planned 800 MW combined-cycle gas-fired power plant near to **Oranjemund**, the base for the diamond mining industry where a site has already been allocated. **Ireland**-based **Tullow Oil** was Kudu operator and completed a front-end engineering design (FEED) in 2013, while negotiating a gas sales agreement with the Namibian government for the sale of gas to the national grid in parallel. But Tullow discontinued its involvement in Kudu last year to focus on the firm's African production assets and other exploration/development projects with a greater capacity to generate cash flow in the near-to medium-term.[[19]](#footnote-20)19 Tullow handed back its operatorship and 44% licence interest to the **National Petroleum Corporation of Namibia (NAMCOR)**. An early expression of interest from a Chinese state-owned ***energy*** firm in taking over Tullows involvement came to nothing, leaving the government with no private sector equity partner for the upstream component of the project.

It is not known at this stage if the absence of private sector participation is the government's main concern or whether it is a simple issue of affordability. The state-owned **Namibia Power Corporation (Nampower)** would have to cover the estimated U$500m cost of the power station through increased government funding and borrowing and has struggled to conclude an agreement with a private sector investor to share the cost. There appears to be a difference of view between the finance ministry and Nampower over Kudu, which remains strongly backed by the Nampower board and management. Former mines and ***energy*** minister **Isak Katali** was enthusiastic about the scheme, although the view of his successor, **Obeth Kandjoze**, appears to be more ambiguous. Both politicians and technocrats appear divided on the best plan to avoid an ***energy*** supply crisis in coming years, given existing domestic generating capacity is already insufficient and has to be buttressed by regional electricity imports. A pro-Kudu group within the mines and ***energy*** ministry has reportedly accused Schlettwein of trying to block the project at all costs. Despite Kudus potential to supply not just Namibia's power requirements in the next decade but also an exportable surplus, other officials are understood to believe Kudu is being used as a conduit to enrich a few individuals.[[20]](#footnote-21)20

If Kudu was junked the government would have no feasible alternative but to revive the scheme for the Baynes hydropower station, which has taken a backseat in recent years. This would be both cheaper and CO2 free, unlike Kudu, which would raise Namibia's ***greenhouse gas*** ***emissions***. But there are several problems that would have to be overcome. The project is subject to a bilateral agreement with **Angola**. Although Namibia would take the lead, the project requires a more proactive approach by the Angolan government than has hitherto been the case. The second, and major issue, is that the scheme is unpopular with local inhabitants who fear their livelihoods will be adversely affected. The existing **Ruacana** hydrostation, downstream from the Baynes site, has no dam or reservoir (which is why its output fluctuates in line with the river flow as controlling weirs inside Angola have never been fully repaired since the Angolan civil war). But Baynes would have both a dam and a reservoir, which will involve flooding land of value to the local inhabitants, the **Ovahimba**, a sub-group of the large **Ovaherero** community.

Ovahimba chiefs are already expressing strong opposition to a revival of the Baynes scheme, on the grounds that it would not benefit them and would take away land and flood ancestral graves. This provides an awkward political problem for the ruling **South West African People's Organisation (SWAPO Party of Namibia)** as most Ovahimba and the other mainly **Damara** inhabitants of the **Kunene** region traditionally vote for opposition parties. Kunene is the only one of Namibia's 13 regions in which SWAPO does not control the regional authority. As a Damara himself, Geingob would be loath to impose an ***energy*** solution bitterly opposed by the Ovahimba. **Chief Jonas Ngombe** of **Orotjitombo** in **Opuwo** constituency - which voted for the opposition **Democratic Turnhalle Alliance (DTA)** in the November 2014 legislative election - commented: *"We will not allow the construction of the dam because that is where our livelihood is."* In contrast the government-appointed Kunene region governor (these used to be elected by the regional authorities), **Angelika Muharukua**, claimed locals were in favour of the construction of the hydropower station and dam.[[21]](#footnote-22)21

**Implications**

The upward revision in last year's GDP growth, while not unexpected, is a major fillip to the government. At 6.4%, it puts annual GDP growth in the 6% ***target*** range set by the current national development plan (NDP4), covering the 2012/13 to 2016/17 fiscal years, for the first time. Secondly, it indicates Namibia's economy may now be resilient enough to withstand the current downturn in global demand for commodities and resultant decrease in commodity prices. While it is true that the downturn has worsened since the start of 2015, reflecting a further slowing in China's economic growth, there are reasons for optimism in the case of Namibia. We would expect GDP growth to slow only slightly this year, and rebound again next year due to substantially higher mining output, with the start-up of the Husab uranium mine.

Most of the increase to last year's growth rate came not from the mining sector, but from ***agriculture***, construction, domestic trade and financial services. The main boost to construction resulted from large-scale building works for three new mines (two of which are now completed), but construction was set to slow anyway from the latter part of this year with the pending completion of the large Husab uranium project. Some of the slack will be taken up by expanded public infrastructure works, although apart from port expansion at Walvis Bay and the new drive to expand house building, these are proving slow to get off the ground.

However, Namibia is also fortunate in that apart from copper and zinc, its main sources of mineral export receipts, diamonds, gold and uranium, should not be affected by the current turbulence on commodity markets. Prices for rough diamonds, especially for high quality gems which comprise over 90% of Namibian production, are set to remain high, with **India** becoming a major market for diamond jewellery in addition to China and the US. Uranium prices appear to have bottomed and most analysts now expect a gradual recovery although it will be some time before prices rise high enough to warrant the development of further Namibian mines. This should enable the existing **Rössing** mine to increase production once again, while since the latter part of last year the **Langer Heinrich** mine, currently Namibia's biggest producer, is operating at above design capacity of around 5 - 5.4 million pounds (2,268-2,449 tonnes) of uranium oxide per year. This is mainly due to the improved performance resulting from the commissioning of a bicarbonate recovery plant (BRP) in March 2015.

Sustained higher GDP growth will further boost national wealth and provide an opportunity for Geingob and his new government to show they mean business in pushing on with measures to significantly alleviate poverty ('eradicate' seems a tall order) and economic exclusion, increase employment and provide decent housing for all Namibians. Too often in African countries, riches generated by natural resources have merely generated bloated fortunes for a small political and economic elite. Namibians will benefit if Geingob's government can achieve even a modest redistribution of wealth without over-taxing the goose that lays the golden eggs (mining), while rebalancing productive economic activities more towards local value-adding and the manufacture of finished goods, lower-income. Coupled with greater official transparency (although asset declarations by cabinet ministers and senior civil servants are still pending) and better service delivery, that would do much to make Namibia a fairer but still economically successful country.

**FOOTNOTES**

**Load-Date:** August 15, 2018

**End of Document**



[***Coalition says negative gearing changes a tax on investment as opposition targets NBN - politics live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G228-00000-00&context=1516831)

The Guardian

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**Section:** AUSTRALIA NEWS

**Length:** 7878 words

**Byline:** Katharine Murphy

**Body**

block-time published-time 5.47am GMT

Will no-one think of the Estonians?

The member for Longman Wyatt Roy before question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 5.43am GMT

Looking like a complete false alarm downstairs.

enltr @PhillipCoorey mate, I think they are with the Estonia Foreign Minister @MarinaKaljurand. I was just meeting with her, chatting innovation

- Wyatt Roy MP (@Wyatt\_MP) February 29, 2016

block-time published-time 5.38am GMT

enltrCurrently my office is offering sanctuary to the press gallery as they pursue the AFP around Parliament House. pic.twitter.com/YCcaCDDIbW

- Graham Perrett (@GrahamPerrettMP) February 29, 2016

block-time published-time 5.35am GMT

Update from downstairs. Of sorts.

enltrA brilliantly comical situation: Guards banned everyone from corridors. So @GrahamPerrettMP has offered "sanctuary" to a dozen journos.

- Mark Di Stefano (@MarkDiStef) February 29, 2016

block-time published-time 5.30am GMT

We are all hearing the same intelligence, evidently. A press pack has assembled outside the office of Liberal MP Stuart Robert. No police are visible in that corridor. The sergeant's office, I gather, is attempting move them on.

I stress there are no facts at this point. When there are facts, I'll share them.

block-time published-time 5.24am GMT

Folks are reporting to us that police are in the building. We'll check this thoroughly before reporting what we've been told.

block-time published-time 5.09am GMT

Hmmm, yes Tony Abbott during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

The prime minister said on Sunday he'd had a long chat over the weekend with John Howard. Howard will be on Malcolm Turnbull's mind this week because March 2 is the 20th anniversary of the election of the Howard government. Love him, loathe him, feel indifferent about him, John Howard managed to govern for more than a decade - which feels like a beacon of stability in modern political times. Turnbull will want to channel that Howardesque feeling of command and stability as he approaches the election season proper, but on his own terms.

Pure speculation on my part, but the prime minister looks like someone who's had a big think over this past weekend. After verging quite unsuccessfully into Abbott negativity territory last week, Turnbull is back today to those exciting times. He's building a second element to his story now, and that's the threat Labor poses to the exciting times. To cut to the chase here, Turnbull is experimenting with how he can be more negative when his natural reflex as a political character is sunny side up. He's not a soarer and a snarler like Paul Keating, he's not the suburban solicitor made good that Howard crafted to perfection, with his track suited power walks, and his speaking to Neil Mitchell on the wireless every Friday morning, he's not a brawler like Abbott - he's his own thing.

In order to be credibly negative, his own kind of negative, Turnbull is slowing down his delivery. Labor's deficiencies are offered up more in sorrow than in anger. It's just natural and obvious, that he, Turnbull, the innovation man, the entrepreneur, the shape shifter, is the man for the times, the leader who can read the symptoms of the economy sufficiently to see where the traps and trip wires are. He's trying to set up that story with a little gravitas offensive.

Consider what he said earlier today.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

Me, me, me. Successful Malcolm. Winner picking Malcolm.

Bill.. who?

I think this is a stronger pitch than the fear and loathing nonsense last week. But his problems still remain. Until he can sort out his government's core economic story, trying to flesh out just how you are better than your opponent is harder work. And with a campaign in sight, every attempt Turnbull makes to push forward, Labor will push back. Today Labor added the NBN to its toolbox, trying to paint a picture of a person who talks a good game but ultimately delivers very little.

block-time published-time 4.31am GMT

Magic Mikearoo has some grand chamber shots from today. Give me a minute and I'll be back with a short analysis of that session.

The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 4.23am GMT

Just a quick bit of trivia for politics tragics. Centuries ago, when Tony Smith was press secretary to Peter Costello (before he became an MP and now Speaker) he was famous for furnishing the following formulation to inquisitive journalists.

Off the record.

No comment.

Not a man of loose lips, our Tony.

block-time published-time 4.16am GMT

Turnbull has wound up question time. The shadow attorney general Mark Dreyfus wants to know what's going on with the police.

Speaker Tony Smith tells Dreyfus he doesn't comment on police matters. He says any queries need to be directed to the police. He says in general terms any search warrants would be executed in accordance with the rules governing privilege.

On Sky News (the network that broke the story police were on the trail of an MP), Peter Van Onselen is saying he understands the parliamentary server was accessed last week. He says he believes that was done with presiding officer cooperation.

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

**Load-Date:** February 29, 2016

**End of Document**



[***Parties clash over negative gearing as election talk swirls - question time live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G227-00000-00&context=1516831)

The Guardian

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**Section:** AUSTRALIA NEWS

**Length:** 7649 words

**Byline:** Katharine Murphy

**Body**

block-time published-time 5.24am GMT

Folks are reporting to us that police are in the building. We'll check this thoroughly before reporting what we've been told.

block-time published-time 5.09am GMT

Hmmm, yes Tony Abbott during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

The prime minister said on Sunday he'd had a long chat over the weekend with John Howard. Howard will be on Malcolm Turnbull's mind this week because March 2 is the 20th anniversary of the election of the Howard government. Love him, loathe him, feel indifferent about him, John Howard managed to govern for more than a decade - which feels like a beacon of stability in modern political times. Turnbull will want to channel that Howardesque feeling of command and stability as he approaches the election season proper, but on his own terms.

Pure speculation on my part, but the prime minister looks like someone who's had a big think over this past weekend. After verging quite unsuccessfully into Abbott negativity territory last week, Turnbull is back today to those exciting times. He's building a second element to his story now, and that's the threat Labor poses to the exciting times. To cut to the chase here, Turnbull is experimenting with how he can be more negative when his natural reflex as a political character is sunny side up. He's not a soarer and a snarler like Paul Keating, he's not the suburban solicitor made good that Howard crafted to perfection, with his track suited power walks, and his speaking to Neil Mitchell on the wireless every Friday morning, he's not a brawler like Abbott - he's his own thing.

In order to be credibly negative, his own kind of negative, Turnbull is slowing down his delivery. Labor's deficiencies are offered up more in sorrow than in anger. It's just natural and obvious, that he, Turnbull, the innovation man, the entrepreneur, the shape shifter, is the man for the times, the leader who can read the symptoms of the economy sufficiently to see where the traps and trip wires are. He's trying to set up that story with a little gravitas offensive.

Consider what he said earlier today.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

Me, me, me. Successful Malcolm. Winner picking Malcolm.

Bill.. who?

I think this is a stronger pitch than the fear and loathing nonsense last week. But his problems still remain. Until he can sort out his government's core economic story, trying to flesh out just how you are better than your opponent is harder work. And with a campaign in sight, every attempt Turnbull makes to push forward, Labor will push back. Today Labor added the NBN to its toolbox, trying to paint a picture of a person who talks a good game but ultimately delivers very little.

block-time published-time 4.31am GMT

Magic Mikearoo has some grand chamber shots from today. Give me a minute and I'll be back with a short analysis of that session.

The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 4.23am GMT

Just a quick bit of trivia for politics tragics. Centuries ago, when Tony Smith was press secretary to Peter Costello (before he became an MP and now Speaker) he was famous for furnishing the following formulation to inquisitive journalists.

Off the record.

No comment.

Not a man of loose lips, our Tony.

block-time published-time 4.16am GMT

Turnbull has wound up question time. The shadow attorney general Mark Dreyfus wants to know what's going on with the police.

Speaker Tony Smith tells Dreyfus he doesn't comment on police matters. He says any queries need to be directed to the police. He says in general terms any search warrants would be executed in accordance with the rules governing privilege.

On Sky News (the network that broke the story police were on the trail of an MP), Peter Van Onselen is saying he understands the parliamentary server was accessed last week. He says he believes that was done with presiding officer cooperation.

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

**Load-Date:** February 29, 2016

**End of Document**



[***Parties clash over negative gearing as election talk swirls - question time live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G226-00000-00&context=1516831)

The Guardian

February 29, 2016 Monday 5:09 AM GMT

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**Section:** AUSTRALIA NEWS

**Length:** 7622 words

**Byline:** Katharine Murphy

**Body**

block-time published-time 5.09am GMT

Hmmm, yes Tony Abbott during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

The prime minister said on Sunday he'd had a long chat over the weekend with John Howard. Howard will be on Malcolm Turnbull's mind this week because March 2 is the 20th anniversary of the election of the Howard government. Love him, loathe him, feel indifferent about him, John Howard managed to govern for more than a decade - which feels like a beacon of stability in modern political times. Turnbull will want to channel that Howardesque feeling of command and stability as he approaches the election season proper, but on his own terms.

Pure speculation on my part, but the prime minister looks like someone who's had a big think over this past weekend. After verging quite unsuccessfully into Abbott negativity territory last week, Turnbull is back today to those exciting times. He's building a second element to his story now, and that's the threat Labor poses to the exciting times. To cut to the chase here, Turnbull is experimenting with how he can be more negative when his natural reflex as a political character is sunny side up. He's not a soarer and a snarler like Paul Keating, he's not the suburban solicitor made good that Howard crafted to perfection, with his track suited power walks, and his speaking to Neil Mitchell on the wireless every Friday morning, he's not a brawler like Abbott - he's his own thing.

In order to be credibly negative, his own kind of negative, Turnbull is slowing down his delivery. Labor's deficiencies are offered up more in sorrow than in anger. It's just natural and obvious, that he, Turnbull, the innovation man, the entrepreneur, the shape shifter, is the man for the times, the leader who can read the symptoms of the economy sufficiently to see where the traps and trip wires are. He's trying to set up that story with a little gravitas offensive.

Consider what he said earlier today.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

Me, me, me. Successful Malcolm. Winner picking Malcolm.

Bill.. who?

I think this is a stronger pitch than the fear and loathing nonsense last week. But his problems still remain. Until he can sort out his government's core economic story, trying to flesh out just how you are better than your opponent is harder work. And with a campaign in sight, every attempt Turnbull makes to push forward, Labor will push back. Today Labor added the NBN to its toolbox, trying to paint a picture of a person who talks a good game but ultimately delivers very little.

block-time published-time 4.31am GMT

Magic Mikearoo has some grand chamber shots from today. Give me a minute and I'll be back with a short analysis of that session.

The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 4.23am GMT

Just a quick bit of trivia for politics tragics. Centuries ago, when Tony Smith was press secretary to Peter Costello (before he became an MP and now Speaker) he was famous for furnishing the following formulation to inquisitive journalists.

Off the record.

No comment.

Not a man of loose lips, our Tony.

block-time published-time 4.16am GMT

Turnbull has wound up question time. The shadow attorney general Mark Dreyfus wants to know what's going on with the police.

Speaker Tony Smith tells Dreyfus he doesn't comment on police matters. He says any queries need to be directed to the police. He says in general terms any search warrants would be executed in accordance with the rules governing privilege.

On Sky News (the network that broke the story police were on the trail of an MP), Peter Van Onselen is saying he understands the parliamentary server was accessed last week. He says he believes that was done with presiding officer cooperation.

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

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[***The incredible plan to make money grow on trees; One of the most cutting-edge projects to tackle climate change is being pioneered in one of the most remote, undeveloped countries on earth. Does it have any hope of succeeding? By Sam Knight***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HFN-JTV1-F021-60HB-00000-00&context=1516831)

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**Body**

One day about five years ago, Frank Nolwo, a compact, quietly spoken boat skipper from the upper reaches of the Sepik river, in northern Papua New Guinea, woke up and headed into town. Nolwo, who is 42, has nine children. He was adding an extension to his house, and needed to buy some building materials.

You do not just pop to the shops if you live in the upper Sepik. Nolwo left Kagiru, his village, in the early morning. Like other isolated clutches of palm-roofed houses on the river, Kagiru has no electricity, no mobile phone signal, and no road connecting it to anywhere else. Even by Papua New Guinean standards, the region is regarded as hot, poor and difficult to live in. When it rains, the place floods. When there is a drought, the creeks and streams dry up, stranding people and their canoes. It takes days to walk anywhere. For powerful, almost unarguable, geographic reasons, life in the upper Sepik has resisted meaningful economic development for thousands of years. There are lots, and lots, of crocodiles.

After a day on the water, Nolwo reached Ambunti, a large village of around 2,000 people, where he spent the night. The next morning, he motored on. Nolwo was a prosperous and influential local figure. As well as running his boat, he was the chairman of a district of more than 30 small villages that included Kagiru. Even so, the trip was a major undertaking. The fuel alone was going to cost around £200. At around lunchtime on the second day, Nolwo moored his boat and got on a truck bound for Wewak, the provincial capital and his destination, a four-hour drive away on the coast. It was at the market in Wewak, buying hardware, that Nolwo ran into another district chairman from the upper Sepik, named David Salio, who invited him to a meeting in a local hotel about carbon trading.

The In Wewak Boutique hotel is the smartest place in town. Set on a bluff just outside the centre it is a white, two-storey building with a small swimming pool and verandas that look out over the South Pacific. The meeting that night was organised by Stephen Hooper, a former Aussie rules football player and entrepreneur. A huge, broad man with a background in mining, Hooper had been working on and off in Papua New Guinea since 2007, first on a timber project, and then on schemes to sell carbon credits derived from forests.

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Nolwo sat and listened. He had been to high school and remembered the idea of photosynthesis, so what Hooper was saying about leaves and carbon and oxygen was not completely bizarre, but it was pretty far out. The gist was this: because of pollution in countries far away, and something happening to the atmosphere, people along the Sepik river were going to be able to start selling the clean air produced by their trees. And by the sound of things, they might get very rich.

"It was surprising to me," Nolwo told me recently. "It was something I hadn't ever heard before. Like, I can catch fish and sell them for money. But this one was totally different." He was intrigued. Four other local chairmen had already signed up with their communities. Nolwo decided to think about it. He bought what he needed for his house and started the long journey back to Kagiru.

Back on the water, Nolwo looked at the skinny, grey-barked trees set back from the muddy banks, thickening into forests on the hills behind. They framed the powerful and unforgiving landscape that he had known all his life: sources of food and fuel and spiritual ***energy***, where men and women would spend a few days on their own from time to time, to prepare for rituals, and to come of age. Now he found himself considering the trees in a new light. Nolwo's mind filled not only with financial possibilities, but with the chance to contribute to a project of global importance. "This is to save the life of the world," he thought. When he got home, Nolwo explained the whole idea to his wife.

**Beautiful, in theory**

The first time you hear about REDD+, it tends to make a big impression. The acronym stands for ***Reducing*** ***Emissions*** from Deforestation and Degradation. It is the UN's plan to bring forests into the fight against climate change: to measure their contribution to stabilising the atmosphere, and to pay for it.

REDD+ is, among many other things, a beautiful idea. There are three trillion trees on Earth and they are perfectly made to take carbon dioxide out of the atmosphere. Every year, the world's forests and bogs are thought to absorb around 1.6 gigatonnes of our 10 gigatonnes of manmade ***emissions***. Of course we are degrading these ecosystems at a terrible rate. Practices such as cutting down trees, draining swamps and burning brush, all to make way for ***agriculture***, produce anything between 10% and 20% of ***greenhouse gas*** ***emissions*** in their own right. In an era of climate change, destroying forests is one of the most harmful things we can do. It takes one of our best hopes of controlling the damage and sets it against us. It is what is known in the pidgin of Papua New Guinea as a "double buggerup".

There are three trillion trees on earth and they are perfectly made to take carbon dioxide out of the atmosphere

REDD+ promises to turn the situation around. Given how valuable these biological systems are - forests are "carbon capture and storage" technology in a cheap yet wondrous form - the idea is that we should pay for what they do. Where intact wildernesses remain in developing countries, scientists should figure out how much carbon they soak up and store, and governments and communities should be incentivised to preserve them rather than turn them over to asphalt or industrial farming. On our battered, warming planet, a tree should be worth as much standing as felled.

The mechanics of how to do this are complicated, no doubt, but when you think about it, not beyond the capabilities of 21st-century science and bureaucrats: satellites and ground inventories to monitor deforestation, carbon markets, offset payments, and international aid to channel money from richer, polluting countries to poorer, tree-protecting ones. A vision of this future has entranced UN climate change talks since REDD was first proposed in 2005. At a cost of around $6m each, 51 countries, from Ethiopia to Ecuador, have spent the last five years preparing for the programme. Some $7bn has been pledged to get the system up and running, and REDD+ is one of the elements that negotiators are pushing to include in the grand treaty that the world is seeking at the Paris climate change summit, which starts next week.

If the whole thing works as it is supposed to, the benefits would be remarkable. Carbon ***emissions*** would go down and forests would be saved - the same forests that shelter 77% of the world's threatened bird species, supply water to a third of the world's large cities, and are home to 60 million indigenous people, among the most vulnerable communities on Earth. Money would flow from north and south and new kinds of forest economies, based on living things and biodiversity, rather than denuded landscapes, would arise. Sociologists sometimes call climate change a "wicked problem" because of all the noxious, mutually reinforcing elements that go into it. On paper, REDD+ sometimes has the appearance of a wicked solution for all the good that it might do.

And that is its weakness too. Some theories just do not work in practice, and almost from its inception, REDD+ has been criticised as impractical, financially unsound and a diversion from mankind's number-one priority of curbing our consumption of fossil fuels. In some quarters, the scheme represents everything that is wrong about the UN approach to tackling climate change: theoretical, multilateral, unwieldy, rather than something that might actually have a bearing on the nitty-gritty, day-to-day skirmishes over land and resources that are quickly putting the health of the planet beyond reach.

"It is bonkers," Chris Lang, a blogger who has covered the programme since 2008, told me, "on so many levels." The question is whether that is precisely what genuine solutions to climate change are going to look like. No one ever said it was going to be easy.

**The birth of REDD**

One of the most bonkers things about REDD+ has always been that it was dreamed up in Papua New Guinea. In Wewak, in fact. Not on the day that Frank Nolwo came to town, but years earlier, in the spring of 2003. One afternoon, the former prime minister, and father of the country's independence, Grand Chief Sir Michael Somare, was walking along the town's beach with a charismatic business student called Kevin Conrad.

Conrad was in his mid-30s. The son of American missionaries, he had grown up near the village of Hayfield in the Sepik - he was born under a tree, he liked to say - and had known Somare since he was a boy. After graduating from high school, Conrad had gone to study in California, working at Nasa's jet propulsion laboratory in Pasadena and investment banks before taking a job with Angco, Papua New Guinea's largest coffee exporter. Now he was studying for an MBA in London and New York, and working informally as an adviser to Somare.

That day, the grand chief had forests on his mind. The country has the world's third-largest rainforest, after the Congo and the Amazon. It is a kind of pleasure-dome of biological diversity: the haunt of 19,000 known plant species, tree kangaroos and the cassowary, a 6ft-tall flightless bird. But its trees are commercially valuable too, and for decades the country has been home to a notoriously corrupt logging industry. In 1987, a national commission described timber companies "roaming the countryside with the self-assurance of robber barons; bribing politicians and leaders, creating social disharmony and ignoring laws".

Sixteen years later, a follow-up report had concluded that "the robber barons are now as active as they ever were", and Somare was under pressure from the international community to do something. Estimating that 70% of Papua New Guinea's timber exports were produced illegally in some way, the World Bank offered the nation a one-time loan of $17m to suspend its logging industry altogether. But that was nowhere near the royalties that the government received every year - which were closer to $50m - and which Somare viewed as essential to the development of the country.

On the beach in Wewak, Somare put the problem to his young adviser. "Sir Michael said, 'Actually I agree with what the World Bank is offering in principle,'" Conrad recalled. But Papua New Guinea could not afford to give up logging on those terms. The country is poor. People get by on average earnings of about £4 a day. Somare challenged Conrad to come up with an alternative way to make money from its forests.

Conrad spent two years working out his answer. He had no background in deforestation or climate science or economic development, but he was a quick study. He read about "payments for ecosystem services" - an idea that had been trialled in Costa Rica to reward landowners for maintaining healthy waterways, or bird habitats. He learned about carbon markets, in which companies support pollution-preventing schemes on international exchanges in order to offset their ***emissions***. Conrad pondered the astonishing quantity of carbon that must be stored in Papua New Guinea's forests, which cover 370,000 square kilometres, an area comfortably larger than Italy. He pored over the dense, forbidding texts of the UNFCCC, the UN's mammoth climate change negotiating process, and he came up with an idea: could a country such as Papua New Guinea be paid to keep its forests intact? Could it sell, as carbon credits, the millions upon millions of tonnes of ***emissions*** that would be saved if it did not cut down its trees?

Conrad was interested in money. He was determined to upend conventional thinking about aid and conservation. Growing up in the Sepik, he had seen foreign NGOs come with vague ideas about preserving the wilderness and no money for the communities that lived there. "It frustrated me," he said. "It seemed to me they were asking them to continue to be poor, even though they had a world-class asset." In November 2005, with Somare's blessing, and the support of Costa Rica, Conrad submitted an 11-page proposal to the UN's climate change summit, which had gathered in Montreal.

The timing, and the character, of Conrad's idea could not have been more potent. Calculating the financial implications of climate change, and devising market-based mechanisms to address the problem, was precisely where the smart thinking was at. In 2006, the Stern Review on the Economics of Climate Change identified tackling deforestation as a "highly cost-effective way" to curb ***greenhouse gas*** ***emissions***. Soon after, REDD got its acronym, and began to gain traction in the UNFCCC. The World Bank got involved. In 2008, a British government review into the future of the world's forests, conducted by Johan Eliasch, a Swedish businessman and environmentalist, predicted that a well-designed REDD system could cut global deforestation by up to 75% by 2030.

There was a political edge to REDD, as well, that made it stand out in the schismed world of the climate change talks. The main reason why the UNFCCC has been stuck all these years is because the world's developing countries accuse industrialised nations of wrecking the planet, and they want hundreds of billions of dollars in compensation. The rich countries, for their part, observe that almost two-thirds of greenhouse gasses now come from the developing world, and that they are not going to make any deep cuts, and certainly not part with any money, until everyone agrees to ***reduce*** their ***emissions***.

REDD ignored this standoff. From day one, the idea was that poor countries such as Papua New Guinea would be happy to curb their ***emissions*** by preserving their forests in return for money. (Around 70% of Papua New Guinea's carbon ***emissions*** come from logging.) "That was game-changing," Conrad said. The commercial straightforwardness of REDD threatened the deadlock that suited major players at the talks. "The US didn't want it. The US wanted the status quo, which was that they wanted to do nothing."

Conrad himself personified the dynamic, ideologically versatile, nature of what he was proposing. He was hard to pin down, exactly: based in New York, but representing Papua New Guinea; good looking, comfortable in the spotlight, fluent in the language of markets and technology and "paradigm shifts", while able to tell stories of his humble childhood in the Sepik. In 2007, he made news around the world when he shamed the Bush administration for blocking progress at the final plenary session of the Bali climate change summit. "If you're not willing to lead," said Conrad, addressing thousands of delegates, "then get out of the way." The sight of tiny Papua New Guinea facing down the United States made him something of a hero at the negotiations.

I first met Conrad around this time. It was during a week of tense, soporific talks in Bonn in the run-up to the disastrous Copenhagen summit of 2009, and he stuck out a mile. He was like a Hollywood actor playing the part of UN climate change negotiator. He talked about how the sea had risen to submerge a tree in Wewak, where he used to make out with his girlfriend, and boasted about how he and his allies - by this point Conrad was leading a group known as the Coalition for Rainforest Nations - were running circles around their enemies at the talks. "That's because we actually know how to get something done," he said. In the wreckage of Copenhagen, REDD was one of the few elements of the UN process to emerge with its momentum intact. In 2010, Norway and Indonesia signed the world's first major REDD deal. It was worth $1bn.

**The carbon craze**

Back in Papua New Guinea, however, things had not gone exactly to plan. Since the first visits of white traders in the 19th century, and a fevered gold rush in the 1930s, the sheer difficulty of the country - its ravines, jungles, and history of cannibalism - has acted as a magnet to adventurers and unlikely schemes. It is as if the country's somewhat virgin, somewhat violent quality is a guarantee that riches must lie there somewhere, and between 2008 and 2009 as many as 90 foreign "carbon developers" descended, determined to unlock the value waiting in its trees.

The international publicity courted by Somare and Conrad created a demand that Papua New Guinea could not meet. An Office of Climate Change & Carbon Trade was set up and promptly overwhelmed by proposals for REDD schemes that it had no way to administer. The idea existed on paper, that was all. On flights to the capital, Port Moresby, Conrad would find himself surrounded. "I would have six or seven different groups come to me on the plane, pitching me," he said.

Out in the bush, encounters between the carbon developers and forest clans took on an ugly, exploitative aspect. Papua New Guinea's constitution gives communities strong land rights, but around a third of the population is illiterate. Fanciful notions of the carbon craze caught on among many Papua New Guineans, who had no way to conceptualise the trading of a gas said to be stored in their trees. People talked of huge ships, with great bulbous tanks, lining up along the coast to suck the air from the forests inland. Markets started selling plastic bags, to go and collect carbon. Villagers spoke of "sky money" and worried that Papua New Guinea might run out of oxygen. In early 2009, the director of the new climate change department, a schoolfriend of Conrad's named Theo Yasause, was suspended for allegedly printing his own carbon credits. He was later imprisoned for shooting a man outside a nightclub. "The mood got out of control," Conrad admitted.

Papua New Guinea was not the only place where early REDD experiments went wrong. In the Amazon, there were reports of "carbon cowboys" displacing communities from ancestral lands to make way for schemes being paid for by powerful corporations to offset their ***emissions***. In southern Brazil, for example, villagers living next to the Guaraqueçaba Climate Action Project - an $18m scheme funded by General Motors, Chevron and American Electric Power - found themselves blocked from hunting, fishing or tending their forest gardens by local environmental police, known as the Green Force.

NGOs and governments reported these horror stories to the UN climate talks. Forest campaigners accustomed to working with indigenous landowners were not surprised. When money and trees mix, it is normally local people who get screwed. To its critics, the early troubles of REDD illustrated two fundamental problems in its design. The first was that Conrad's central insight was an abstraction. The idea that developing countries should be paid for the ***emissions*** that would have been caused if they had cut down their trees was a hypothetical. How do you measure, and price, something that did not happen? The concept was mind-bending enough in international meetings of forests experts, let alone in parts of the world with weak governments, disputed land tenure and uncertain notions of what is going on in their forests in the first place.

When money and trees mix, it is normally local people who get screwed

Second, and more profoundly, REDD came across as a distraction. It was something that sounded impressive, and would involve a huge amount of time, money and effort but it was, essentially, a glorified carbon offset scheme that would allow rich countries to continue to pollute, as long as they could afford to pay poor people not to cut down their trees. "Through REDD you can give the impression that not only are you solving deforestation, you are addressing climate change, without doing the difficult thing of actually leaving fossil fuels in the ground," said Lang, the blogger. "If we don't stop climate change, the forests are all going to burn down anyway."

In December 2010, REDD was rebranded as "REDD+". It lost its earlier, single-minded focus on ***reducing*** ***emissions*** and carbon markets and was expanded take a more holistic view of the value of forests and the lives of the people who dwell in them. Activities that could now be funded under the programme came to include "non-carbon benefits" such as "opportunities for wealth creation and wellbeing".

Conrad found himself increasingly marginalised on the international stage. His earlier dynamism now read as high-handedness and arrogance. And while REDD+ retains his core idea of paying nations to preserve their trees, he resents its gradual diffusion over the years. "It's all about getting everybody to hold hands in the forest and sing Kumbaya," he told me. "It has been frustrating." The carbon craze in Papua New Guinea damaged him too. In 2012, Conrad was fired as the country's climate change ambassador. Since then, he has been representing Panama in the talks.

At home on the Sepik, Frank Nolwo did not know about any of this. After the meeting in Wewak, he discussed selling carbon with the people of Kagiru, and then more broadly across his district. In 2011, the clans signed up, authorising Hooper, the Australian developer, to sell carbon credits on their behalf. After the chaos of a few years earlier, the government in Papua New Guinea had authorised five official pilot projects in the country, of which Hooper's planned scheme in the Sepik - known as April Salumei - was the most advanced. With the inclusion of Nolwo's district, the project came to cover an area of 6,000 square kilometres, an area larger than Norfolk.

A scientist flew in from New Zealand to calculate the amount of carbon in the trees. At first Nolwo thought someone would arrive with containers and take the stuff away. But he soon learned it would just happen on a market somewhere. "I knew that when carbon was traded we would start to receive the money," he told me. "My understanding was that it would take some time." He began to wait, and hope.

And that is more or less where the rest of the world has got to with REDD+: waiting, hoping, wondering if this bewitching idea can possibly work. Before I travelled to Papua New Guinea last month to see how the programme is unfolding in the land of its birth, David Nussbaum, the chief executive of WWF in the UK, reminded me of the promise that remains, glinting, in Conrad's idea. "The prize is that we preserve an indefinite carbon sink, that we help mitigate climate change, that we help secure livelihoods that are constructive and positive for very large numbers of people," he said. "There is an awful lot of people who stand to win if we can get this right." On the other hand, there are such things as ideas that are impossible to realise, and they do not help anyone at all.

**The appeal of logging**

I landed in Port Moresby at dawn on a Friday morning. There was a drift of smoke curling among the iron rooftops of a small settlement across the highway from the guesthouse where I was staying. There had been a fight the night before. A highlander had been shortchanged at the local market, and someone was stabbed with an umbrella. Things had escalated, and a few houses got burned down.

I listened to this, a little stunned and jet-lagged, and found myself staring at a pair of hills rising in the distance. Port Moresby is a scatter of neighbourhoods, rather than a continuous city. Unfinished apartment blocks stand among bare, brown slopes. These are stripped clean of anything that might possibly resemble a tree. That's because Papua New Guineans consume about 1.8 cubic metres of firewood a year - about the same as Europeans did, before we started burning coal.

One of the easiest things to forget, living in a deforested nation, is that people cut down trees to improve their lives. "To convert millions of acres of wildwood into farmland was unquestionably the greatest achievement of any of our ancestors," wrote Oliver Rackham in his history of the British countryside in 1986. And he was not talking about the Romans, or the Saxons or the Industrial Revolution. More than half of Britain's original woodland, stumps and all, was probably gone by 500BC. Wild forests are magnificent, but they are also incompatible with lots of things that human societies like to do. In the 1990s, a Scottish geographer, Alexander Mather, coined the phrase "forest transition" to describe - roughly speaking - how nations cut down their trees, realise they have cut down their trees, and start, eventually, haltingly, to plant trees again.

One of the easiest things to forget, living in a deforested nation, is that people cut down trees to improve their lives

Papua New Guinea has not gone through its forest transition yet. According to the Center for International Forestry Research, it is probably at stage two, known as "frontier conditions", where things really start to speed up. According to the government, some 15m of its 37m remaining hectares of forest are currently earmarked for timber production. But as of now, all is not lost. Recent satellite data shows that 80% of the country has trees growing on it. From the windows of a plane, the landscape looks, most of the time, as if it has had a chunky, woolly green rug thrown over it.

On a good day, this is what makes the country appear to be the perfect test case for REDD+, and for the UN's broader vision of "green economies", in which developing countries manage to avoid the same fossil-fuel burning, tree-cutting path that the rest of us have followed. "If it is going to work anywhere it has to work in Papua New Guinea," the UN's resident coordinator, Roy Trivedy, told me. "Papua New Guinea is one of a very, very small number of countries in the world that has a really big choice to make about a development model that is different to the normal one."

The rest of us have a stake in that decision too, of course. If Papua New Guinea manages to save the largest rainforest in the Pacific, then the planet will benefit. But what sacrifices will it have to make along the way? Some 85% of Papua New Guineans still live in rural areas. Small-scale farming to feed a growing population is one of the major drivers of deforestation. The place is crying out for modern ***agriculture*** and decent roads. A big conceptual problem with REDD+ and "green economies" in general is imagining how, exactly, a country can ever become prosperous and industrious if it is constrained from clearing and draining its land. Even environmental activists struggle with this. "When I feel nationalistic, any opportunities to develop - [even] if it means chopping some trees down - you have to do it," Thomas Paka, the chairman of the Eco-Forestry Forum, the country's leading umbrella group for forest NGOs, told me.

This historic trade off between deforestation and economic development is REDD+'s biggest obstacle. The international logging industry knows this, and its opposition to the programme has made it an unusual bedfellow - to put it mildly - with forest campaigners who also hate the scheme. Bob Tate, a wiry Australian, runs the Papua New Guinea Forest Industries Association, which represents the country's Malaysian-controlled timber companies. He warned me about defamation when I turned on my tape recorder and then said: "Kevin Conrad is the biggest con spiv merchant this country has ever seen." Tate described REDD+ as a "never ending donor project" that would prevent Papua New Guinea from ever realising its economic potential. "All you natives can get back in the bush and live in poverty and we'll give you a bit of pocket money," he said. "That is how the UN run it."

It is hard to exaggerate just how bad the reputation of the logging industry is in Papua New Guinea, and yet it still exercises the hopes of many isolated communities as the only way to obtain a road, a bridge, a school and a smattering of income from royalty payments. Indeed, a central reason why Stephen Hooper was able to launch his REDD+ project in the Sepik river in the first place - and the source of its avoided ***emissions*** - was that most of the communities had agreed to have the area logged in 1996. Talking to government officials in Papua New Guinea, I often sensed that they saw a hazy, undesirable connection between deforestation and progress. Logging is ugly, but at least it is real. And there are kickbacks all along the way. Late one afternoon, I ended up at the headquarters of Papua New Guinea's forest authority, which has 800 officers, short on vehicles and petrol, to monitor the entire country. "Everyone hates the logging companies," a senior official told me. "But what is the alternative?" He paused. "And besides, our ministers, they like Malaysians."

**The carbon in the trees**

This is the development dilemma, more or less, for which Kevin Conrad dreamed up REDD. A decade later, he remains adamant that the only way it will ever work is if carbon schemes can actually put as much money in people's pockets as raw logs. Well, how much carbon is out there in the trees? And what could it be possibly be worth? Early one morning, I flew to Madang, another town on the country's northern coast, to find out.

George Weiblen, a botanist from the University of Minnesota, met me at the airport. Weiblen, who is 46, has been studying Papua New Guinea's trees since he first visited the country as an amazed and terrified graduate student in the early 1990s. He and his research partner, a Czech entomologist named Vojtech Novotny, were besieged by business offers during the carbon craze just over five years ago. They steered clear, and have largely stayed out of the sensitive politics of REDD+ ever since. But they happen to possess some of the most detailed data ever compiled about Papua New Guinea's trees, including how much carbon they contain.

In 2010, Weiblen and Novotny established a 50-hectare rainforest research plot about 100km west of Madang, as part of a network of international sites administered by the Smithsonian Tropical Research Institute in Panama. Over the next three years, researchers - mostly local villagers - proceeded to count, measure, and record the stem of every tree in the plot more than 1cm wide. They found a total of 288,204 stems and just over 500 tree species inside the 5km x 1km plot - around 10 times the number of tree species native to Britain. "The amount of data was sort of beyond my comprehension," said Weiblen.

Last month, Weiblen was driving out to inspect the site. Operating in Papua New Guinea means spending a lot of time, and money, worrying about life's essential components: food, fuel, water, security. (Earlier this year, three men attacked Weiblen's car with a home-made catapult). We ran errands in Madang for an hour or two, picking up rice, sunscreen and spicy food for camp. At one point we parked up at the town's main betel nut market, the mild stimulant that is ubiquitous in Papua New Guinea, which was the location of a cholera outbreak a few years ago. I asked Weiblen if many students from Minnesota volunteered to come out and work on his projects. "The ones whose eyes light up," he said, "I am particularly suspicious of."

The drive took us out to the west. It wasn't long before we left the tarmac, and were on sand roads cut since the 1970s by logging companies as they have penetrated deeper and deeper into the forest frontier. Weiblen, a tall, bookish figure who has a habit of cackling suddenly, normally about some mishap or another, told me about a Polish graduate student who nearly fell out of a balloon in a crazy scheme to study the tops of trees. As we neared the research site, we entered an active logging concession and saw stacks of trunks of dull red kwila - Papua New Guinea's most valuable tropical hardwood - lined up by the side of the road. "That's the good stuff," said Weiblen. The timber in a single mature kwila tree is worth around $10,000.

We spent the night in Wanang, the nearest village to the research plot, and continued the journey on foot the following day. Dressed in shorts and the green singlet of one of Papua New Guinea's rugby league teams, Weiblen walked fast among the roots and draped vines that hung down from the trees above. Since the summer, Papua New Guinea has been experiencing its worst El Niño drought since 1997, and Weiblen was taken aback by the lack of moisture in the air, and the sunlight piercing through the canopy. Dry leaves fell from the sky. "This is just weird," he said. Every few minutes he would stop to point out one rainforest curiosity or another: the great buttressed trunks of 30-metre high mon trees, or the recent scar of a landslide, covered in a fresh bed of clematis. Huge butterflies floated by. Weiblen stepped over a stream. "We have the oddest leeches," he said. "They basically feed on your eyes."

Huge butterflies floated by. "We have the oddest leeches. They basically feed on your eyes'

George Weiblen

Getting a snapshot of the amount of carbon in the trees, it turns out, is one of the simpler things to measure in a rainforest. All you really need is a respectable sample of tree trunk widths, taken at 130cm from the ground - a measurement known as DBH (diameter at breast height) in the forestry trade. Once you have the DBH, you enter it into an allometric equation, a formula devised by biologists to calculate the size of the rest of a living organism, along with the wood density of each species. In the case of kwila ( Intsia bijuga ), a mature tree with a girth of around 50cm will have what botanists call an "above ground living biomass" of just under two tonnes. Half of that is deemed to be carbon, which works out at one tonne per tree.

Using the data from the research plot, Weiblen's team came up with a figure of 105 tonnes of carbon per hectare in Papua New Guinea's lowland rainforest, closely agreeing - to within 5 tonnes - with other studies. The complicated part, when it comes to REDD+, is extrapolating samples like this over larger areas and time. Research in Wanang has shown that the amount of carbon in the trees can vary from between 50 to 175 tonnes per hectare within the space of a few kilometres - creating an incentive for carbon developers to try and game the figures in their particular stretch of forest. Even less is known about how trees retain and release their carbon over the course of years and decades. Papua New Guinea's rainforests, for example, are unstable. Because of earthquakes, floods and landslides, their trees have mortality rates twice as high as other parts of the world. While this may increase the biodiversity of the forests, it means that they also hold less carbon. Based on biomass studies, Papua New Guinea's lowland rainforests might contain as little as half the carbon per hectare of their equivalents in Africa and Asia.

Does that make them less valuable? Less worth saving? One morning, in the research plot with Weiblen, I got tangled up in these questions. On the one hand, the science of measuring the carbon content of trees appeared not very complicated at all. Laborious, but totally achievable. Around me, the trunk of every tree I could see was looped with aluminium wire, with a numbered dogtag hanging from it. On the other hand, monitoring and monetising the actual carbon cycle over time in these places - the fungi were breathing, the leaves were rotting, the trees were breathing, vines were photosynthesising, every conceivable surface was covered in ants, also breathing - seemed almost beyond reason. Because of the drought, the air tasted subtly of smoke. A thousand fires were burning in the forest, releasing untold tonnes of carbon dioxide into the atmosphere. Would someone pay for that?

I tried to interest Weiblen in these matters, but he looked at me, unblinking. "I don't care," he said. For people who work, live and research day to day in forests, the abstractions and ambitions of REDD+ can seem terribly remote. (Weiblen, for instance, is busy trying to get his research site formally protected by the provincial government and to raise funding for his next tree census). And that is a problem. How many years will it take to figure this stuff out? Trivedy, the UN resident coordinator, admitted that REDD+ was taking too long to bring to fruition in Papua New Guinea. "I think it's fair to say there is growing impatience," he said. Important things are happening: next year the country will begin its first ever national forest inventory. But it will be a decade or more, Trivedy predicted, before the country has a fully working REDD+ system. "The theory is right," he insisted. "But we've got to try and get some quicker benefits to people so they can see, OK, that is the incentive, I'm going to choose to keep my trees."

**The arrival of the lights**

One of the difficulties with REDD+ at the moment is convincing people to be patient, and to show faith. In the long run, the vision is that countries will achieve large, official nationwide ***emissions*** savings, and they will trade these, most likely on a massive government-to-government basis. In the meantime, however, entrepreneurs and communities who have set up REDD+ pilot projects in the last few years want to sell carbon credits now, on voluntary markets, and to wait for a global architecture to emerge.

In Papua New Guinea any talk of individual schemes raises uneasy memories of the carbon craze. But that has not stopped one man, and one project from going ahead anyway. Stephen Hooper, the Australian carbon developer who established the Sepik river REDD+ project, which Frank Nolwo joined, sold his first carbon credits in 2013. The project, known as April Salumei, has been certified to avoid 23m tonnes of carbon ***emissions*** over the next 38 years. At $5 a tonne, the UN's current notional price for REDD+ transactions, that could work out at $115m.

So far, Hooper has sold around 200,000 tonnes to companies voluntarily offsetting their ***emissions*** and received about $300,000 in return. Under his "benefit sharing" agreement with the landowners, Hooper's company receives 30% of that, while 60% goes to the community and 10% to the national government. The first thing the landowners wanted were boats. Hooper bought five. The next thing the district chairmen asked for was 20,000 Papua New Guinea kina each (about £4,500) to spend on health and education projects in their communities. That disappeared without trace. "We're not perfect," Hooper told me.

On a recent Tuesday evening, Hooper was back at the In Wewak Boutique hotel giving out mobile phones. The latest sales of the carbon credits from the Sepik have been to Qantas, Australia National Bank and Rema 1000, a supermarket chain in Norway. Hooper wanted people in the five districts involved in the project to take pictures of their daily lives, which he could then share with their customers. "Maybe someone finds a big snake?" Hooper prompted. The chairmen nodded and looked at their phones. Nolwo was not there. He was out in his district, preparing to welcome Hooper and the rest of the chairmen the following day, when one of his villages was due to receive a shipment of solar lights paid for by the project.

Hooper has been pretty much ever present alongside REDD+ in Papua New Guinea. At first he came for the money. By 2010, he had remortgaged his family house outside Perth, sold his car, boat, and the last stock options in Quest Minerals, the mining company he used to run. "It was probably around that time that I realised there was no pot of gold," he said. Since then, Hooper has become a vaguely controversial figure in Papua New Guinea, simply for refusing to give up. When I was there, Hooper seemed to be everywhere, lobbying ministers, cajoling officials, trying to get a ***target*** of 2m hectares for REDD+ projects into the country's paperwork for the Paris summit. That evening in Wewak, when we sat down for dinner, I asked one of the five chairmen of the April Salumei project, Philip Wablasu, to explain carbon trading to me and he smiled confidentially. "Steve knows," he said.

The next morning, in the dark, we set off for Binomo, Nolwo's district. We reached the river at noon and boarded two of the project's new speedboats. The water in the Sepik was low, because of the drought, and the air - as everywhere - was blurred with the haze of distant fires. "Carbon dioxide," said Nelson Garabi, one of the chairmen. The solar lights were being delivered to Igai, one of the villages in Binomo which, like all the rest, had no electricity. When we arrived, Nolwo was standing in front of a makeshift arch, fashioned from a palm leaf, next to a handwritten sign that said: "Welcome! Welcome! To the land of 'untouchable virgin forest' the land of fresh oxygen (O2) the purifier of green house gases" (sic). A sing-sing - a ceremonial celebration - was under way. The men and women of Igai wore feathers, and had bright turquoise and yellow dots painted on their faces.

Nolwo led the procession up to the centre of Igai, away from the river. According to Papua New Guinean custom, the men gathered in the main village hall, known as a haus, while women, children and teenagers stood or sat on the ground. After five years of hearing about carbon trading, this was the first time that many of them had seen anything arrive as a result. There were speeches. "The forest is your home," exhorted Anton Pakawi, a former schoolteacher who handles the day-to-day administration of the project. "The forest is your sister. The forest is your brother." Nolwo said a few words, but spent most of the time looking quietly amazed. "I just sit where I am and the money comes," he said. "It is kind of like a miracle thing happening."

Then it was time to turn on the lights. The first four went up in the village church, a skeletal structure that was more of a suggestion than a building. The idea was that children would be able to use the lights to do homework by night for the first time in Igai's history. It was still early afternoon, though, and at first there was nothing to see. People drifted away. A man climbed a tree to bring down coconuts. But then darkness came, as it does in Papua New Guinea, with the speed and confidence of something quite permanent. And on the hill, out of the alchemy of the money and the trees, four lights shone, hard against the night.

Photographs: Pacific Forest Alliance; Sam Knight and Maurice Leponce/RBINS

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**Section:** ANALYSIS; Pg. 9

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**Byline:** Stephen Foley and Adam Samson

**Highlight:** Pope Francis has little good to say about capitalism but has championed 'impact' investments, which

generate social as well as financial returns. BlackRock and other asset managers are taking notice.

By Stephen Foley and Adam Samson

**Body**

The finance industry presents a bewildering array of options for anyone looking to increase their savings, from "60-40" portfolios to newfangled concepts like " smart beta ", but rare is the investment strategy that has been blessed by the Pope.

When the Vatican assembles investors, entrepreneurs and academics for its second Impact Investing Conference later this month, it will do so as the mainstream wealth management industry has started to catch on to the term. Impact investments are made with the aim of generating not just a financial return but also a measurable social or environmental one. It is an alluring - if often elusive - proposition: doing good while also making money.

Pope Francis has made it a theme of his papacy that capital markets should be redirected to help the poor , and the conference will explore how the Catholic Church might channel some of its riches to impact investing. Wealth managers are perhaps more concerned with mammon than with God: they have watched as some very rich clients pulled their money from firms who cannot offer impact investing advice.

Across the industry, executives are looking at ways to cater to the millennial generation, which seems far more attuned to the idea of investing as a way of improving society. And while they may not have much in the way of assets yet, millennials will inherit some $30tn - the biggest-ever transfer of wealth.

"Fifty-eight per cent of baby boomers say that social and environmental impact is important" with regards to their investments, says Jackie VanderBrug, investment strategist at US Trust. "Ninety-three per cent of millennials will say that. In fact, millennials are starting to say, why are you even asking me this question?"

**Measurable good**

Until recently, impact investing has been the preserve of rich families, philanthropic foundations and a few, often faith-based, institutional investors. In contrast to wider concepts of socially responsible investing (SRI) or environmental, social and governance (ESG) investing - for instance, attempts to screen out firearms or tobacco companies, or to engage with companies to improve their social policies - impact investing requires explicit work to set ***targets*** for, measure and compare the social effects of one's asset allocation.

The Global Impact Investing Network, set up to track and promote the field, can find only $77.4bn as of the end of last year, specifically in impact investment funds. These are most often channelled to microfinance programmes, like those lending seed capital to female entrepreneurs, and developing infrastructure projects. Other asset classes include affordable housing and sustainable forestry, where the number of "teachers housed" or "hectares planted" can be easily counted. Private equity-style funds also channel money to for-profit companies whose products aim to aid the environment or provide jobs for underserved populations.

Asset management groups have scented an opportunity and are racing to develop products that can be sold under the impact investing umbrella to a wider range of clients, promising market rates of return. In the philanthropic sector - the term impact investing was coined at the Rockefeller Foundation a decade ago to refer to market-based solutions to social problems - there is hope for a wave of new money that could amplify charitable spending.

But on both sides there are voices urging caution. Will investors get the financial returns or make the impact they are promised? How can someone quantify the positive effects of their money? And can impact investing be scaled up to retail investor scale without making a mockery of the original concept?

Rich families believe they are blazing a trail others will follow. Justin Rockefeller, great great grandson of John D Rockefeller, and other wealthy scions have set up The ImPact to share investment ideas and urge wealthy families to consider "all the tools on their tool belt" to tackle the world's problems. Networks of impact investors are springing up in many countries, from Clearly Social Angels in the UK to Silicon Valley entrepreneur Charly Kleissner's Toniic in the US (set up as a counterpoint to GIIN - "pun intended").

The Rockefeller Brothers Fund, which manages money for several descendants of the oil baron, ditched its investment adviser for Perella Weinberg, which will help the fund extricate itself from funds that invest in fossil fuels and move more heavily into impact investing.

Liesel Pritzker Simmons, scion of the Pritzker family, decided after the financial crisis to shift all her assets to impact investing. Wealthy families, she says, are in a position to support new impact investing funds while they establish a track record - essential if they are to catch on with investors. "Previously it had been seen as tree-huggery," she says. "As a millennial woman, I'm a walking example that it's not just marketing."

The G8 nations have promised to encourage impact investing; in the US charitable foundations have been given more clarity on the tax treatment of such investments, and pension funds have been told they can include social and environmental factors without breaching their fiduciary duties.

Asset managers are responding. Goldman Sachs has acquired an impact investment boutique called Imprint Capital. And Bain Capital has tapped the former governor of Massachusetts, Deval Patrick, to launch an impact investing fund, in what could be the biggest move yet by a traditional private equity firm into the sector.

**'Little hardcore experience'**

The key to making good impact investments in private equity is finding ventures where the social return is at the core of their business model, said Brian Trelstad a partner at Bridges Ventures, a £600m impact fund manager co-founded by Sir Ronald Cohen, who started Apax Partners.

"We try to select businesses where, if they are having impact, it drives more commercial returns and if they have more commercial returns it drives more impact," Mr Trelstad said. That way, the pursuit of profit is not going to derail a company from its mission, he said.

Advocates of impact investing point to a study by the Wharton Social Impact Initiative, based on data stretching from 2000-14, to demonstrate that it can work. The study found that the pooled internal rate of return of 170 investments made by 32 impact private equity funds was 12.9 per cent. That matched small-cap benchmarks, though it might seem low compared to the risks associated with private equity. Either way, the sample is small, given the nascent state of the industry.

Julia Balandina-Jaquier, who ran one of the first impact investment funds for AIG before becoming an adviser to the sector, says the arrival of established private equity players is a welcome development. "A lot of funds were started by NGO guys or people with good intentions but little hardcore investment experience," she said.

Other recent work has focused on creating fixed income products, which are broadly known as social impact bonds. Green bonds might finance a solar project, for example, at a guaranteed rate of interest while others might fund services for a government, such as an asthma prevention programme and pay a return based on how successful it is in saving the government money.

In another innovation, the Calvert Foundation, a non-profit organisation, is issuing bonds to fund an impact investment portfolio it is running with the MacArthur Foundation of Chicago, which will itself invest in social ventures aimed at revitalising the city's economy. It is a reminder that, while many of these instruments promise "market rate returns", they might be underwritten by non-profit groups willing to take risks traditional investors would not.

**'I bless your work'**

Fraught debates about what constitutes impact are never far from the surface. The GIIN lists 559 metrics from "***greenhouse gas*** ***emissions*** avoided due to products sold" to the "number of suppliers who were minority/female/low income".

Others say simpler frameworks are needed, a point made by Howard Buffett, grandson of Berkshire Hathaway founder Warren Buffett . Sixty years ago, the elder Mr Buffett developed his value investing approach under the tutelage of Benjamin Graham at Columbia University; today his grandson is lecturing on impact investing there, and developing his own system to predict future impact per dollar invested for similar investments. That system, the younger Mr Buffett says, "is adapting value investing principles to the world of impact investing".

With a co-founder, Mr Buffett has started an impact investing fund of his own, called i(x) Investments, which will put money into companies dealing with water scarcity or sustainable ***agriculture***, among other areas.

"The impact investing field needs to continue deciding on and simplifying some broad definitions, and also needs to continue drawing some boundaries and scope around what is and isn't impact investing," he said.

For wealth managers and asset management firms, the broader the definition the better since, as a marketing term, "impact investing" trumps ESG, SRI and the other acronyms associated with investing with a conscience. However, there is debate about how far the term should be applied to stock market investments, since a purchase of shares in the secondary market from another seller hardly has the same impact as directly funding a start-up.

To Deborah Winshel, poached last year by BlackRock from the metrics-obsessed New York anti-poverty charity Robin Hood Foundation to run its impact division, placing too many restrictions on the investments ultimately limits the possibilities of impact investing. Semantic debates - "splicing words", she says - are also seen as unhelpful.

"I have tremendous respect for the impact sector and the work they have done but it is very hard to scale and mainstream those kinds of investments," she said. "For BlackRock, given our scale and our size, it is about creating those opportunities that are available to all of our investors."

BlackRock says it manages $200bn of assets in impact products, counting equity funds that simply screen out "sin stocks". In the past year, it has launched two public equity funds that pick stocks using an impact scoring system for "green innovation, corporate citizenship, high-impact disease research, ethics controversies and litigation".

As he prepares to address the Vatican conference, Amit Bouri, chief executive of the GIIN, says his goal is for investors to think "about the direct and indirect impacts of the investments they are making".

It was a point Pope Francis made at the Vatican's first impact investing conference two years ago. "It is increasingly intolerable that financial markets are shaping the destiny of peoples rather than serving their needs, or that the few derive immense wealth from financial speculation while the many are deeply burdened by the consequences," he told attendees then. "With great affection I bless you and your work."

*Additional reporting by Mary Childs in New York*

**Case studies**

**Thin line between success and failure**

In the wake of the global financial crisis, UK impact investment fund Bridges Ventures wanted to tackle one of the big barriers to ***reducing*** soaring unemployment: a deep skills gap among the young.

"We hit upon the idea of apprenticeships as a way of getting young people . . . into jobs and training at the same time," says Michele Giddens, Bridges' co-founder.

Its chosen investment was Babington Group, an East Midlands company founded in 1974 that offered apprenticeships and jobs-focused education programmes. By the time the company was sold for £22m in April this year, Babington had supported 32,000 apprenticeships, helped 3,700 previously unemployed people find work and increased annual revenues from under £2m to more than £15m - as well as earning Bridges an internal rate of return of 33 per cent.

The short history of impact investing, however, also contains examples where investors have failed to generate the intended financial or societal returns.

The Murex Investments I Fund - launched in 2003 to help social entrepreneurs - was taken over by the US Small Business Administration last year after breaching the terms of an $8.3m loan guaranteed by the federal government. The loan accounted for most of the $13.8m it had raised to invest in local Philadelphia businesses.

Along with several successful investments, including in money transfer group PayQuik, Murex also took a 44 per cent stake in Advanced Workstations in Education, which sold computing equipment to libraries. When the company went bankrupt in November 2014 it sealed the fund's fate sparking recriminations over the restrictions on investments that come with government loan guarantees. *Adam Samson*

**Speed read**

**Doing good**  Impact investments are designed to generate a measurable social return, not just a financial one

**Family roots**  The phenomenon has traditionally been the preserve of rich families and philanthropic foundations

**New market**  Asset management firms are developing products to be sold under the impact investing umbrella

**Load-Date:** June 16, 2016

**End of Document**



[***The incredible plan to make money grow on trees; One of the most cutting-edge projects to tackle climate change is being pioneered in one of the most remote, undeveloped countries on earth. Does it have any hope of succeeding? By Sam Knight***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HG8-N6C1-F021-60TP-00000-00&context=1516831)

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**Body**

One day about five years ago, Frank Nolwo, a compact, quietly spoken boat skipper from the upper reaches of the Sepik river, in northern Papua New Guinea, woke up and headed into town. Nolwo, who is 42, has nine children. He was adding an extension to his house, and needed to buy some building materials.

You do not just pop to the shops if you live in the upper Sepik. Nolwo left Kagiru, his village, in the early morning. Like other isolated clutches of palm-roofed houses on the river, Kagiru has no electricity, no mobile phone signal, and no road connecting it to anywhere else. Even by Papua New Guinean standards, the region is regarded as hot, poor and difficult to live in. When it rains, the place floods. When there is a drought, the creeks and streams dry up, stranding people and their canoes. It takes days to walk anywhere. For powerful, almost unarguable, geographic reasons, life in the upper Sepik has resisted meaningful economic development for thousands of years. There are lots, and lots, of crocodiles.

Related: The incredible plan to make money grow on trees - Podcast

After a day on the water, Nolwo reached Ambunti, a large village of around 2,000 people, where he spent the night. The next morning, he motored on. Nolwo was a prosperous and influential local figure. As well as running his boat, he was the chairman of a district of more than 30 small villages that included Kagiru. Even so, the trip was a major undertaking. The fuel alone was going to cost around £200. At around lunchtime on the second day, Nolwo moored his boat and got on a truck bound for Wewak, the provincial capital and his destination, a four-hour drive away on the coast. It was at the market in Wewak, buying hardware, that Nolwo ran into another district chairman from the upper Sepik, named David Salio, who invited him to a meeting in a local hotel about carbon trading.

The In Wewak Boutique hotel is the smartest place in town. Set on a bluff just outside the centre it is a white, two-storey building with a small swimming pool and verandas that look out over the South Pacific. The meeting that night was organised by Stephen Hooper, a former Aussie rules football player and entrepreneur. A huge, broad man with a background in mining, Hooper had been working on and off in Papua New Guinea since 2007, first on a timber project, and then on schemes to sell carbon credits derived from forests.

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Nolwo sat and listened. He had been to high school and remembered the idea of photosynthesis, so what Hooper was saying about leaves and carbon and oxygen was not completely bizarre, but it was pretty far out. The gist was this: because of pollution in countries far away, and something happening to the atmosphere, people along the Sepik river were going to be able to start selling the clean air produced by their trees. And by the sound of things, they might get very rich.

"It was surprising to me," Nolwo told me recently. "It was something I hadn't ever heard before. Like, I can catch fish and sell them for money. But this one was totally different." He was intrigued. Four other local chairmen had already signed up with their communities. Nolwo decided to think about it. He bought what he needed for his house and started the long journey back to Kagiru.

Back on the water, Nolwo looked at the skinny, grey-barked trees set back from the muddy banks, thickening into forests on the hills behind. They framed the powerful and unforgiving landscape that he had known all his life: sources of food and fuel and spiritual ***energy***, where men and women would spend a few days on their own from time to time, to prepare for rituals, and to come of age. Now he found himself considering the trees in a new light. Nolwo's mind filled not only with financial possibilities, but with the chance to contribute to a project of global importance. "This is to save the life of the world," he thought. When he got home, Nolwo explained the whole idea to his wife.

**Beautiful, in theory**

The first time you hear about REDD+, it tends to make a big impression. The acronym stands for ***Reducing*** ***Emissions*** from Deforestation and Degradation. It is the UN's plan to bring forests into the fight against climate change: to measure their contribution to stabilising the atmosphere, and to pay for it.

REDD+ is, among many other things, a beautiful idea. There are three trillion trees on Earth and they are perfectly made to take carbon dioxide out of the atmosphere. Every year, the world's forests and bogs are thought to absorb around 1.6 gigatonnes of our 10 gigatonnes of manmade ***emissions***. Of course we are degrading these ecosystems at a terrible rate. Practices such as cutting down trees, draining swamps and burning brush, all to make way for ***agriculture***, produce anything between 10% and 20% of ***greenhouse gas*** ***emissions*** in their own right. In an era of climate change, destroying forests is one of the most harmful things we can do. It takes one of our best hopes of controlling the damage and sets it against us. It is what is known in the pidgin of Papua New Guinea as a "double buggerup".

There are three trillion trees on earth and they are perfectly made to take carbon dioxide out of the atmosphere

REDD+ promises to turn the situation around. Given how valuable these biological systems are - forests are "carbon capture and storage" technology in a cheap yet wondrous form - the idea is that we should pay for what they do. Where intact wildernesses remain in developing countries, scientists should figure out how much carbon they soak up and store, and governments and communities should be incentivised to preserve them rather than turn them over to asphalt or industrial farming. On our battered, warming planet, a tree should be worth as much standing as felled.

The mechanics of how to do this are complicated, no doubt, but when you think about it, not beyond the capabilities of 21st-century science and bureaucrats: satellites and ground inventories to monitor deforestation, carbon markets, offset payments, and international aid to channel money from richer, polluting countries to poorer, tree-protecting ones. A vision of this future has entranced UN climate change talks since REDD was first proposed in 2005. At a cost of around $6m each, 51 countries, from Ethiopia to Ecuador, have spent the last five years preparing for the programme. Some $7bn has been pledged to get the system up and running, and REDD+ is one of the elements that negotiators are pushing to include in the grand treaty that the world is seeking at the Paris climate change summit, which starts next week.

If the whole thing works as it is supposed to, the benefits would be remarkable. Carbon ***emissions*** would go down and forests would be saved - the same forests that shelter 77% of the world's threatened bird species, supply water to a third of the world's large cities, and are home to 60 million indigenous people, among the most vulnerable communities on Earth. Money would flow from north and south and new kinds of forest economies, based on living things and biodiversity, rather than denuded landscapes, would arise. Sociologists sometimes call climate change a "wicked problem" because of all the noxious, mutually reinforcing elements that go into it. On paper, REDD+ sometimes has the appearance of a wicked solution for all the good that it might do.

And that is its weakness too. Some theories just do not work in practice, and almost from its inception, REDD+ has been criticised as impractical, financially unsound and a diversion from mankind's number-one priority of curbing our consumption of fossil fuels. In some quarters, the scheme represents everything that is wrong about the UN approach to tackling climate change: theoretical, multilateral, unwieldy, rather than something that might actually have a bearing on the nitty-gritty, day-to-day skirmishes over land and resources that are quickly putting the health of the planet beyond reach.

"It is bonkers," Chris Lang, a blogger who has covered the programme since 2008, told me, "on so many levels." The question is whether that is precisely what genuine solutions to climate change are going to look like. No one ever said it was going to be easy.

**The birth of REDD**

One of the most bonkers things about REDD+ has always been that it was dreamed up in Papua New Guinea. In Wewak, in fact. Not on the day that Frank Nolwo came to town, but years earlier, in the spring of 2003. One afternoon, the former prime minister, and father of the country's independence, Grand Chief Sir Michael Somare, was walking along the town's beach with a charismatic business student called Kevin Conrad.

Conrad was in his mid-30s. The son of American missionaries, he had grown up near the village of Hayfield in the Sepik - he was born under a tree, he liked to say - and had known Somare since he was a boy. After graduating from high school, Conrad had gone to study in California, working at Nasa's jet propulsion laboratory in Pasadena and investment banks before taking a job with Angco, Papua New Guinea's largest coffee exporter. Now he was studying for an MBA in London and New York, and working informally as an adviser to Somare.

That day, the grand chief had forests on his mind. The country has the world's third-largest rainforest, after the Congo and the Amazon. It is a kind of pleasure-dome of biological diversity: the haunt of 19,000 known plant species, tree kangaroos and the cassowary, a 6ft-tall flightless bird. But its trees are commercially valuable too, and for decades the country has been home to a notoriously corrupt logging industry. In 1987, a national commission described timber companies "roaming the countryside with the self-assurance of robber barons; bribing politicians and leaders, creating social disharmony and ignoring laws".

Sixteen years later, a follow-up report had concluded that "the robber barons are now as active as they ever were", and Somare was under pressure from the international community to do something. Estimating that 70% of Papua New Guinea's timber exports were produced illegally in some way, the World Bank offered the nation a one-time loan of $17m to suspend its logging industry altogether. But that was nowhere near the royalties that the government received every year - which were closer to $50m - and which Somare viewed as essential to the development of the country.

On the beach in Wewak, Somare put the problem to his young adviser. "Sir Michael said, 'Actually I agree with what the World Bank is offering in principle,'" Conrad recalled. But Papua New Guinea could not afford to give up logging on those terms. The country is poor. People get by on average earnings of about £4 a day. Somare challenged Conrad to come up with an alternative way to make money from its forests.

Conrad spent two years working out his answer. He had no background in deforestation or climate science or economic development, but he was a quick study. He read about "payments for ecosystem services" - an idea that had been trialled in Costa Rica to reward landowners for maintaining healthy waterways, or bird habitats. He learned about carbon markets, in which companies support pollution-preventing schemes on international exchanges in order to offset their ***emissions***. Conrad pondered the astonishing quantity of carbon that must be stored in Papua New Guinea's forests, which cover 370,000 square kilometres, an area comfortably larger than Italy. He pored over the dense, forbidding texts of the UNFCCC, the UN's mammoth climate change negotiating process, and he came up with an idea: could a country such as Papua New Guinea be paid to keep its forests intact? Could it sell, as carbon credits, the millions upon millions of tonnes of ***emissions*** that would be saved if it did not cut down its trees?

Conrad was interested in money. He was determined to upend conventional thinking about aid and conservation. Growing up in the Sepik, he had seen foreign NGOs come with vague ideas about preserving the wilderness and no money for the communities that lived there. "It frustrated me," he said. "It seemed to me they were asking them to continue to be poor, even though they had a world-class asset." In November 2005, with Somare's blessing, and the support of Costa Rica, Conrad submitted an 11-page proposal to the UN's climate change summit, which had gathered in Montreal.

The timing, and the character, of Conrad's idea could not have been more potent. Calculating the financial implications of climate change, and devising market-based mechanisms to address the problem, was precisely where the smart thinking was at. In 2006, the Stern Review on the Economics of Climate Change identified tackling deforestation as a "highly cost-effective way" to curb ***greenhouse gas*** ***emissions***. Soon after, REDD got its acronym, and began to gain traction in the UNFCCC. The World Bank got involved. In 2008, a British government review into the future of the world's forests, conducted by Johan Eliasch, a Swedish businessman and environmentalist, predicted that a well-designed REDD system could cut global deforestation by up to 75% by 2030.

There was a political edge to REDD, as well, that made it stand out in the schismed world of the climate change talks. The main reason why the UNFCCC has been stuck all these years is because the world's developing countries accuse industrialised nations of wrecking the planet, and they want hundreds of billions of dollars in compensation. The rich countries, for their part, observe that almost two-thirds of greenhouse gasses now come from the developing world, and that they are not going to make any deep cuts, and certainly not part with any money, until everyone agrees to ***reduce*** their ***emissions***.

REDD ignored this standoff. From day one, the idea was that poor countries such as Papua New Guinea would be happy to curb their ***emissions*** by preserving their forests in return for money. (Around 70% of Papua New Guinea's carbon ***emissions*** come from logging.) "That was game-changing," Conrad said. The commercial straightforwardness of REDD threatened the deadlock that suited major players at the talks. "The US didn't want it. The US wanted the status quo, which was that they wanted to do nothing."

Conrad himself personified the dynamic, ideologically versatile, nature of what he was proposing. He was hard to pin down, exactly: based in New York, but representing Papua New Guinea; good looking, comfortable in the spotlight, fluent in the language of markets and technology and "paradigm shifts", while able to tell stories of his humble childhood in the Sepik. In 2007, he made news around the world when he shamed the Bush administration for blocking progress at the final plenary session of the Bali climate change summit. "If you're not willing to lead," said Conrad, addressing thousands of delegates, "then get out of the way." The sight of tiny Papua New Guinea facing down the United States made him something of a hero at the negotiations.

I first met Conrad around this time. It was during a week of tense, soporific talks in Bonn in the run-up to the disastrous Copenhagen summit of 2009, and he stuck out a mile. He was like a Hollywood actor playing the part of UN climate change negotiator. He talked about how the sea had risen to submerge a tree in Wewak, where he used to make out with his girlfriend, and boasted about how he and his allies - by this point Conrad was leading a group known as the Coalition for Rainforest Nations - were running circles around their enemies at the talks. "That's because we actually know how to get something done," he said. In the wreckage of Copenhagen, REDD was one of the few elements of the UN process to emerge with its momentum intact. In 2010, Norway and Indonesia signed the world's first major REDD deal. It was worth $1bn.

**The carbon craze**

Back in Papua New Guinea, however, things had not gone exactly to plan. Since the first visits of white traders in the 19th century, and a fevered gold rush in the 1930s, the sheer difficulty of the country - its ravines, jungles, and history of cannibalism - has acted as a magnet to adventurers and unlikely schemes. It is as if the country's somewhat virgin, somewhat violent quality is a guarantee that riches must lie there somewhere, and between 2008 and 2009 as many as 90 foreign "carbon developers" descended, determined to unlock the value waiting in its trees.

The international publicity courted by Somare and Conrad created a demand that Papua New Guinea could not meet. An Office of Climate Change & Carbon Trade was set up and promptly overwhelmed by proposals for REDD schemes that it had no way to administer. The idea existed on paper, that was all. On flights to the capital, Port Moresby, Conrad would find himself surrounded. "I would have six or seven different groups come to me on the plane, pitching me," he said.

Out in the bush, encounters between the carbon developers and forest clans took on an ugly, exploitative aspect. Papua New Guinea's constitution gives communities strong land rights, but around a third of the population is illiterate. Fanciful notions of the carbon craze caught on among many Papua New Guineans, who had no way to conceptualise the trading of a gas said to be stored in their trees. People talked of huge ships, with great bulbous tanks, lining up along the coast to suck the air from the forests inland. Markets started selling plastic bags, to go and collect carbon. Villagers spoke of "sky money" and worried that Papua New Guinea might run out of oxygen. In early 2009, the director of the new climate change department, a schoolfriend of Conrad's named Theo Yasause, was suspended for allegedly printing his own carbon credits. He was later imprisoned for shooting a man outside a nightclub. "The mood got out of control," Conrad admitted.

Papua New Guinea was not the only place where early REDD experiments went wrong. In the Amazon, there were reports of "carbon cowboys" displacing communities from ancestral lands to make way for schemes being paid for by powerful corporations to offset their ***emissions***. In southern Brazil, for example, villagers living next to the Guaraqueçaba Climate Action Project - an $18m scheme funded by General Motors, Chevron and American Electric Power - found themselves blocked from hunting, fishing or tending their forest gardens by local environmental police, known as the Green Force.

NGOs and governments reported these horror stories to the UN climate talks. Forest campaigners accustomed to working with indigenous landowners were not surprised. When money and trees mix, it is normally local people who get screwed. To its critics, the early troubles of REDD illustrated two fundamental problems in its design. The first was that Conrad's central insight was an abstraction. The idea that developing countries should be paid for the ***emissions*** that would have been caused if they had cut down their trees was a hypothetical. How do you measure, and price, something that did not happen? The concept was mind-bending enough in international meetings of forests experts, let alone in parts of the world with weak governments, disputed land tenure and uncertain notions of what is going on in their forests in the first place.

When money and trees mix, it is normally local people who get screwed

Second, and more profoundly, REDD came across as a distraction. It was something that sounded impressive, and would involve a huge amount of time, money and effort but it was, essentially, a glorified carbon offset scheme that would allow rich countries to continue to pollute, as long as they could afford to pay poor people not to cut down their trees. "Through REDD you can give the impression that not only are you solving deforestation, you are addressing climate change, without doing the difficult thing of actually leaving fossil fuels in the ground," said Lang, the blogger. "If we don't stop climate change, the forests are all going to burn down anyway."

In December 2010, REDD was rebranded as "REDD+". It lost its earlier, single-minded focus on ***reducing*** ***emissions*** and carbon markets and was expanded take a more holistic view of the value of forests and the lives of the people who dwell in them. Activities that could now be funded under the programme came to include "non-carbon benefits" such as "opportunities for wealth creation and wellbeing".

Conrad found himself increasingly marginalised on the international stage. His earlier dynamism now read as high-handedness and arrogance. And while REDD+ retains his core idea of paying nations to preserve their trees, he resents its gradual diffusion over the years. "It's all about getting everybody to hold hands in the forest and sing Kumbaya," he told me. "It has been frustrating." The carbon craze in Papua New Guinea damaged him too. In 2012, Conrad was fired as the country's climate change ambassador. Since then, he has been representing Panama in the talks.

At home on the Sepik, Frank Nolwo did not know about any of this. After the meeting in Wewak, he discussed selling carbon with the people of Kagiru, and then more broadly across his district. In 2011, the clans signed up, authorising Hooper, the Australian developer, to sell carbon credits on their behalf. After the chaos of a few years earlier, the government in Papua New Guinea had authorised five official pilot projects in the country, of which Hooper's planned scheme in the Sepik - known as April Salumei - was the most advanced. With the inclusion of Nolwo's district, the project came to cover an area of 6,000 square kilometres, an area larger than Norfolk.

A scientist flew in from New Zealand to calculate the amount of carbon in the trees. At first Nolwo thought someone would arrive with containers and take the stuff away. But he soon learned it would just happen on a market somewhere. "I knew that when carbon was traded we would start to receive the money," he told me. "My understanding was that it would take some time." He began to wait, and hope.

And that is more or less where the rest of the world has got to with REDD+: waiting, hoping, wondering if this bewitching idea can possibly work. Before I travelled to Papua New Guinea last month to see how the programme is unfolding in the land of its birth, David Nussbaum, the chief executive of WWF in the UK, reminded me of the promise that remains, glinting, in Conrad's idea. "The prize is that we preserve an indefinite carbon sink, that we help mitigate climate change, that we help secure livelihoods that are constructive and positive for very large numbers of people," he said. "There is an awful lot of people who stand to win if we can get this right." On the other hand, there are such things as ideas that are impossible to realise, and they do not help anyone at all.

**The appeal of logging**

I landed in Port Moresby at dawn on a Friday morning. There was a drift of smoke curling among the iron rooftops of a small settlement across the highway from the guesthouse where I was staying. There had been a fight the night before. A highlander had been shortchanged at the local market, and someone was stabbed with an umbrella. Things had escalated, and a few houses got burned down.

I listened to this, a little stunned and jet-lagged, and found myself staring at a pair of hills rising in the distance. Port Moresby is a scatter of neighbourhoods, rather than a continuous city. Unfinished apartment blocks stand among bare, brown slopes. These are stripped clean of anything that might possibly resemble a tree. That's because Papua New Guineans consume about 1.8 cubic metres of firewood a year - about the same as Europeans did, before we started burning coal.

One of the easiest things to forget, living in a deforested nation, is that people cut down trees to improve their lives. "To convert millions of acres of wildwood into farmland was unquestionably the greatest achievement of any of our ancestors," wrote Oliver Rackham in his history of the British countryside in 1986. And he was not talking about the Romans, or the Saxons or the Industrial Revolution. More than half of Britain's original woodland, stumps and all, was probably gone by 500BC. Wild forests are magnificent, but they are also incompatible with lots of things that human societies like to do. In the 1990s, a Scottish geographer, Alexander Mather, coined the phrase "forest transition" to describe - roughly speaking - how nations cut down their trees, realise they have cut down their trees, and start, eventually, haltingly, to plant trees again.

One of the easiest things to forget, living in a deforested nation, is that people cut down trees to improve their lives

Papua New Guinea has not gone through its forest transition yet. According to the Center for International Forestry Research, it is probably at stage two, known as "frontier conditions", where things really start to speed up. According to the government, some 15m of its 37m remaining hectares of forest are currently earmarked for timber production. But as of now, all is not lost. Recent satellite data shows that 80% of the country has trees growing on it. From the windows of a plane, the landscape looks, most of the time, as if it has had a chunky, woolly green rug thrown over it.

On a good day, this is what makes the country appear to be the perfect test case for REDD+, and for the UN's broader vision of "green economies", in which developing countries manage to avoid the same fossil-fuel burning, tree-cutting path that the rest of us have followed. "If it is going to work anywhere it has to work in Papua New Guinea," the UN's resident coordinator, Roy Trivedy, told me. "Papua New Guinea is one of a very, very small number of countries in the world that has a really big choice to make about a development model that is different to the normal one."

The rest of us have a stake in that decision too, of course. If Papua New Guinea manages to save the largest rainforest in the Pacific, then the planet will benefit. But what sacrifices will it have to make along the way? Some 85% of Papua New Guineans still live in rural areas. Small-scale farming to feed a growing population is one of the major drivers of deforestation. The place is crying out for modern ***agriculture*** and decent roads. A big conceptual problem with REDD+ and "green economies" in general is imagining how, exactly, a country can ever become prosperous and industrious if it is constrained from clearing and draining its land. Even environmental activists struggle with this. "When I feel nationalistic, any opportunities to develop - [even] if it means chopping some trees down - you have to do it," Thomas Paka, the chairman of the Eco-Forestry Forum, the country's leading umbrella group for forest NGOs, told me.

This historic trade off between deforestation and economic development is REDD+'s biggest obstacle. The international logging industry knows this, and its opposition to the programme has made it an unusual bedfellow - to put it mildly - with forest campaigners who also hate the scheme. Bob Tate, a wiry Australian, runs the Papua New Guinea Forest Industries Association, which represents the country's Malaysian-controlled timber companies. He warned me about defamation when I turned on my tape recorder and then said: "Kevin Conrad is the biggest con spiv merchant this country has ever seen." Tate described REDD+ as a "never ending donor project" that would prevent Papua New Guinea from ever realising its economic potential. "All you natives can get back in the bush and live in poverty and we'll give you a bit of pocket money," he said. "That is how the UN run it."

It is hard to exaggerate just how bad the reputation of the logging industry is in Papua New Guinea, and yet it still exercises the hopes of many isolated communities as the only way to obtain a road, a bridge, a school and a smattering of income from royalty payments. Indeed, a central reason why Stephen Hooper was able to launch his REDD+ project in the Sepik river in the first place - and the source of its avoided ***emissions*** - was that most of the communities had agreed to have the area logged in 1996. Talking to government officials in Papua New Guinea, I often sensed that they saw a hazy, undesirable connection between deforestation and progress. Logging is ugly, but at least it is real. And there are kickbacks all along the way. Late one afternoon, I ended up at the headquarters of Papua New Guinea's forest authority, which has 800 officers, short on vehicles and petrol, to monitor the entire country. "Everyone hates the logging companies," a senior official told me. "But what is the alternative?" He paused. "And besides, our ministers, they like Malaysians."

**The carbon in the trees**

This is the development dilemma, more or less, for which Kevin Conrad dreamed up REDD. A decade later, he remains adamant that the only way it will ever work is if carbon schemes can actually put as much money in people's pockets as raw logs. Well, how much carbon is out there in the trees? And what could it be possibly be worth? Early one morning, I flew to Madang, another town on the country's northern coast, to find out.

George Weiblen, a botanist from the University of Minnesota, met me at the airport. Weiblen, who is 46, has been studying Papua New Guinea's trees since he first visited the country as an amazed and terrified graduate student in the early 1990s. He and his research partner, a Czech entomologist named Vojtech Novotny, were besieged by business offers during the carbon craze just over five years ago. They steered clear, and have largely stayed out of the sensitive politics of REDD+ ever since. But they happen to possess some of the most detailed data ever compiled about Papua New Guinea's trees, including how much carbon they contain.

In 2010, Weiblen and Novotny established a 50-hectare rainforest research plot about 100km west of Madang, as part of a network of international sites administered by the Smithsonian Tropical Research Institute in Panama. Over the next three years, researchers - mostly local villagers - proceeded to count, measure, and record the stem of every tree in the plot more than 1cm wide. They found a total of 288,204 stems and just over 500 tree species inside the 5km x 1km plot - around 10 times the number of tree species native to Britain. "The amount of data was sort of beyond my comprehension," said Weiblen.

Last month, Weiblen was driving out to inspect the site. Operating in Papua New Guinea means spending a lot of time, and money, worrying about life's essential components: food, fuel, water, security. (Earlier this year, three men attacked Weiblen's car with a home-made catapult). We ran errands in Madang for an hour or two, picking up rice, sunscreen and spicy food for camp. At one point we parked up at the town's main betel nut market, the mild stimulant that is ubiquitous in Papua New Guinea, which was the location of a cholera outbreak a few years ago. I asked Weiblen if many students from Minnesota volunteered to come out and work on his projects. "The ones whose eyes light up," he said, "I am particularly suspicious of."

The drive took us out to the west. It wasn't long before we left the tarmac, and were on sand roads cut since the 1970s by logging companies as they have penetrated deeper and deeper into the forest frontier. Weiblen, a tall, bookish figure who has a habit of cackling suddenly, normally about some mishap or another, told me about a Polish graduate student who nearly fell out of a balloon in a crazy scheme to study the tops of trees. As we neared the research site, we entered an active logging concession and saw stacks of trunks of dull red kwila - Papua New Guinea's most valuable tropical hardwood - lined up by the side of the road. "That's the good stuff," said Weiblen. The timber in a single mature kwila tree is worth around $10,000.

We spent the night in Wanang, the nearest village to the research plot, and continued the journey on foot the following day. Dressed in shorts and the green singlet of one of Papua New Guinea's rugby league teams, Weiblen walked fast among the roots and draped vines that hung down from the trees above. Since the summer, Papua New Guinea has been experiencing its worst El Niño drought since 1997, and Weiblen was taken aback by the lack of moisture in the air, and the sunlight piercing through the canopy. Dry leaves fell from the sky. "This is just weird," he said. Every few minutes he would stop to point out one rainforest curiosity or another: the great buttressed trunks of 30-metre high mon trees, or the recent scar of a landslide, covered in a fresh bed of clematis. Huge butterflies floated by. Weiblen stepped over a stream. "We have the oddest leeches," he said. "They basically feed on your eyes."

Huge butterflies floated by. "We have the oddest leeches. They basically feed on your eyes'

George Weiblen

Getting a snapshot of the amount of carbon in the trees, it turns out, is one of the simpler things to measure in a rainforest. All you really need is a respectable sample of tree trunk widths, taken at 130cm from the ground - a measurement known as DBH (diameter at breast height) in the forestry trade. Once you have the DBH, you enter it into an allometric equation, a formula devised by biologists to calculate the size of the rest of a living organism, along with the wood density of each species. In the case of kwila ( Intsia bijuga ), a mature tree with a girth of around 50cm will have what botanists call an "above ground living biomass" of just under two tonnes. Half of that is deemed to be carbon, which works out at one tonne per tree.

Using the data from the research plot, Weiblen's team came up with a figure of 105 tonnes of carbon per hectare in Papua New Guinea's lowland rainforest, closely agreeing - to within 5 tonnes - with other studies. The complicated part, when it comes to REDD+, is extrapolating samples like this over larger areas and time. Research in Wanang has shown that the amount of carbon in the trees can vary from between 50 to 175 tonnes per hectare within the space of a few kilometres - creating an incentive for carbon developers to try and game the figures in their particular stretch of forest. Even less is known about how trees retain and release their carbon over the course of years and decades. Papua New Guinea's rainforests, for example, are unstable. Because of earthquakes, floods and landslides, their trees have mortality rates twice as high as other parts of the world. While this may increase the biodiversity of the forests, it means that they also hold less carbon. Based on biomass studies, Papua New Guinea's lowland rainforests might contain as little as half the carbon per hectare of their equivalents in Africa and Asia.

Does that make them less valuable? Less worth saving? One morning, in the research plot with Weiblen, I got tangled up in these questions. On the one hand, the science of measuring the carbon content of trees appeared not very complicated at all. Laborious, but totally achievable. Around me, the trunk of every tree I could see was looped with aluminium wire, with a numbered dogtag hanging from it. On the other hand, monitoring and monetising the actual carbon cycle over time in these places - the fungi were breathing, the leaves were rotting, the trees were breathing, vines were photosynthesising, every conceivable surface was covered in ants, also breathing - seemed almost beyond reason. Because of the drought, the air tasted subtly of smoke. A thousand fires were burning in the forest, releasing untold tonnes of carbon dioxide into the atmosphere. Would someone pay for that?

I tried to interest Weiblen in these matters, but he looked at me, unblinking. "I don't care," he said. For people who work, live and research day to day in forests, the abstractions and ambitions of REDD+ can seem terribly remote. (Weiblen, for instance, is busy trying to get his research site formally protected by the provincial government and to raise funding for his next tree census). And that is a problem. How many years will it take to figure this stuff out? Trivedy, the UN resident coordinator, admitted that REDD+ was taking too long to bring to fruition in Papua New Guinea. "I think it's fair to say there is growing impatience," he said. Important things are happening: next year the country will begin its first ever national forest inventory. But it will be a decade or more, Trivedy predicted, before the country has a fully working REDD+ system. "The theory is right," he insisted. "But we've got to try and get some quicker benefits to people so they can see, OK, that is the incentive, I'm going to choose to keep my trees."

**The arrival of the lights**

One of the difficulties with REDD+ at the moment is convincing people to be patient, and to show faith. In the long run, the vision is that countries will achieve large, official nationwide ***emissions*** savings, and they will trade these, most likely on a massive government-to-government basis. In the meantime, however, entrepreneurs and communities who have set up REDD+ pilot projects in the last few years want to sell carbon credits now, on voluntary markets, and to wait for a global architecture to emerge.

In Papua New Guinea any talk of individual schemes raises uneasy memories of the carbon craze. But that has not stopped one man, and one project from going ahead anyway. Stephen Hooper, the Australian carbon developer who established the Sepik river REDD+ project, which Frank Nolwo joined, sold his first carbon credits in 2013. The project, known as April Salumei, has been certified to avoid 23m tonnes of carbon ***emissions*** over the next 38 years. At $5 a tonne, the UN's current notional price for REDD+ transactions, that could work out at $115m.

So far, Hooper has sold around 200,000 tonnes to companies voluntarily offsetting their ***emissions*** and received about $300,000 in return. Under his "benefit sharing" agreement with the landowners, Hooper's company receives 30% of that, while 60% goes to the community and 10% to the national government. The first thing the landowners wanted were boats. Hooper bought five. The next thing the district chairmen asked for was 20,000 Papua New Guinea kina each (about £4,500) to spend on health and education projects in their communities. That disappeared without trace. "We're not perfect," Hooper told me.

On a recent Tuesday evening, Hooper was back at the In Wewak Boutique hotel giving out mobile phones. The latest sales of the carbon credits from the Sepik have been to Qantas, Australia National Bank and Rema 1000, a supermarket chain in Norway. Hooper wanted people in the five districts involved in the project to take pictures of their daily lives, which he could then share with their customers. "Maybe someone finds a big snake?" Hooper prompted. The chairmen nodded and looked at their phones. Nolwo was not there. He was out in his district, preparing to welcome Hooper and the rest of the chairmen the following day, when one of his villages was due to receive a shipment of solar lights paid for by the project.

Hooper has been pretty much ever present alongside REDD+ in Papua New Guinea. At first he came for the money. By 2010, he had remortgaged his family house outside Perth, sold his car, boat, and the last stock options in Quest Minerals, the mining company he used to run. "It was probably around that time that I realised there was no pot of gold," he said. Since then, Hooper has become a vaguely controversial figure in Papua New Guinea, simply for refusing to give up. When I was there, Hooper seemed to be everywhere, lobbying ministers, cajoling officials, trying to get a ***target*** of 2m hectares for REDD+ projects into the country's paperwork for the Paris summit. That evening in Wewak, when we sat down for dinner, I asked one of the five chairmen of the April Salumei project, Philip Wablasu, to explain carbon trading to me and he smiled confidentially. "Steve knows," he said.

The next morning, in the dark, we set off for Binomo, Nolwo's district. We reached the river at noon and boarded two of the project's new speedboats. The water in the Sepik was low, because of the drought, and the air - as everywhere - was blurred with the haze of distant fires. "Carbon dioxide," said Nelson Garabi, one of the chairmen. The solar lights were being delivered to Igai, one of the villages in Binomo which, like all the rest, had no electricity. When we arrived, Nolwo was standing in front of a makeshift arch, fashioned from a palm leaf, next to a handwritten sign that said: "Welcome! Welcome! To the land of 'untouchable virgin forest' the land of fresh oxygen (O2) the purifier of green house gases" (sic). A sing-sing - a ceremonial celebration - was under way. The men and women of Igai wore feathers, and had bright turquoise and yellow dots painted on their faces.

Nolwo led the procession up to the centre of Igai, away from the river. According to Papua New Guinean custom, the men gathered in the main village hall, known as a haus, while women, children and teenagers stood or sat on the ground. After five years of hearing about carbon trading, this was the first time that many of them had seen anything arrive as a result. There were speeches. "The forest is your home," exhorted Anton Pakawi, a former schoolteacher who handles the day-to-day administration of the project. "The forest is your sister. The forest is your brother." Nolwo said a few words, but spent most of the time looking quietly amazed. "I just sit where I am and the money comes," he said. "It is kind of like a miracle thing happening."

Then it was time to turn on the lights. The first four went up in the village church, a skeletal structure that was more of a suggestion than a building. The idea was that children would be able to use the lights to do homework by night for the first time in Igai's history. It was still early afternoon, though, and at first there was nothing to see. People drifted away. A man climbed a tree to bring down coconuts. But then darkness came, as it does in Papua New Guinea, with the speed and confidence of something quite permanent. And on the hill, out of the alchemy of the money and the trees, four lights shone, hard against the night.

Photographs: Pacific Forest Alliance; Sam Knight and Maurice Leponce/RBINS

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[***Hitler's world may not be so far away; Misunderstanding the Holocaust has made us too certain we are ethically superior to the Europeans of the 1940s. Faced with a new catastrophe - such as devastating climate change - could we become mass killers again?***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GXY-K861-JCJY-G4M3-00000-00&context=1516831)

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**Body**

It was 20 years after I chose to become a historian that I first saw a photograph of the woman who made my career possible. In the small photograph that my doctoral supervisor, her son, showed me in his Warsaw apartment, Wanda J radiates self-possession, a quality that stood her in good stead during the Nazi occupation. She was a Jewish mother who protected herself and her two sons from the German campaign of mass murder that killed almost all of her fellow Warsaw Jews. When her family was summoned to the ghetto, she refused to go. She moved her children from place to place, relying upon the help of friends, acquaintances and strangers. When first the ghetto and then the rest of the city of Warsaw were burned to the ground, what counted, she thought, was the "faultless moral instinct" of the people who chose to help Jews.

Most of us would like to think that we possess a "moral instinct". Perhaps we imagine that we would be rescuers in some future catastrophe. Yet if states were destroyed, local institutions corrupted and economic incentives directed towards murder, few of us would behave well. There is little reason to think that we are ethically superior to the Europeans of the 1930s and 1940s, or for that matter less vulnerable to the kind of ideas that Hitler so successfully promulgated and realised. A historian must be grateful to Wanda J for her courage and for the trace of herself that she left behind. But a historian must also consider why rescuers were so few. It is all too easy to fantasise that we, too, would have aided Wanda J. Separated from National Socialism by time and luck, we can dismiss Nazi ideas without contemplating how they functioned. It is our very forgetfulness of the circumstances of the Holocaust that convinces us that we are different from Nazis and shrouds the ways that we are the same. We share Hitler's planet and some of his preoccupations; we have perhaps changed less than we think.

The Holocaust began with the idea that no human instinct was moral. Hitler described humans as members of races doomed to eternal and bloody struggle among themselves for finite resources. Hitler denied that any idea, be it religious, philosophical or political, justified seeing the other (or loving the other) as oneself. He claimed that conventional forms of ethics were Jewish inventions, and that conventional states would collapse during the racial struggle. Hitler specifically, and quite wrongly, denied that ***agricultural*** technology could alter the relationship between people and nourishment.

Hitler's alternative to science and politics was known as Lebensraum, which meant "habitat" or "ecological niche". Races needed ever more Lebensraum, "room to live", in order to feed themselves and propagate their kind. Nature demanded that the higher races overmaster and starve the lower. Since the innate desire of each race was to reproduce and conquer, the struggle was indefinite and eternal. At the same time, Lebensraum also meant "living room", with the connotations of comfort and plenty in family life. The desire for pleasure and security could never be satisfied, thought Hitler, since Germans "take the circumstances of the American life as the benchmark". Because standards of living were always subjective and relative, the demand for pleasure was insatiable. Lebensraum thus brought together two claims: that human beings were mindless animals who always needed more, and jealous tribes who always wanted more. It confused lifestyle with life itself, generating survivalist emotions in the name of personal comfort.

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Hitler was not simply a nationalist or an authoritarian. For him, German politics were only a means to an end of restoring the state of nature. "One must not be diverted from the borders of Eternal Right," as Hitler put it, "by the existence of political borders." Likewise, to characterise Hitler as an antisemite or an anti-Slavic racist underestimates the potential of Nazi ideas. His ideas about Jews and Slavs were not prejudices that happened to be extreme, but rather emanations of a coherent worldview that contained the potential to change the world. By presenting Jews as an ecological flaw responsible for the disharmony of the planet, Hitler channelled and personalised the inevitable tensions of globalisation. The only sound ecology was to eliminate a political enemy; the only sound politics was to purify the earth; the means to these ends would be the destruction of states.

**\* \* \***

The state stood at the middle of the story of those who wished to kill Jews, and of those who wished to save them. Its mutation within Germany after Hitler's rise to power, and then its destruction in Austria, Czechoslovakia and Poland in 1938 and 1939, transformed Jews from citizens into objects of exploitation. The Final Solution as mass murder began in a zone of double state destruction. Hitler finally got the European war that he wanted by treating his ultimate enemy as his temporary friend. In September 1939, the Soviet Union invaded Poland from the east just after Germany attacked from the west. The German-Soviet Treaty of Borders and Friendship arranged a final division of Poland and endorsed the Soviet occupation and destruction of the three Baltic states. The USSR then proceeded very quickly to deport or murder the social and political elites in its new western territories. When Hitler betrayed Stalin and Germany invaded the Soviet Union in June 1941, German soldiers and then special SS-led task forces known as Einsatzgruppen first encountered populations that had been subject to the Soviet version of state destruction.

It was this double assault upon state institutions in the Baltic states and eastern Poland, at first by the Soviet Union and then by Nazi Germany, that created the special field of experimentation where ideas of a Final Solution became the practice of mass murder. The Germans found political allies among antisemites and people who wished to restore statehood or undo the humiliation of national defeat. They found pragmatic allies, and these were likely more numerous, among people who wished to shift the burden of their own prior collaboration with the Soviets upon the Jewish minority. The Germans also found that they themselves, far more than their leaders expected, were capable of shooting Jews in cold blood. Not only the Einsatzgruppen but German police and soldiers killed Jews in huge mass shootings over pits.

In the encounter of German with Soviet power, the Nazi idea that Jews were responsible for all evil took on powerful resonance: for local Slavs and Balts seeking revenge for the loss of statehood or an alibi for their own Soviet collaboration or an excuse for stealing from Jews, for Germans themselves who associated Jews with all real or imagined resistance, and then for Hitler after the tide of war turned against him. In December 1941, when the Red Army counterattacked at Moscow and the United States joined the war, Hitler blamed the global alliance on global Jewry and called for their total eradication. By this time, the Holocaust as mass shooting had extended through Soviet Belarus, Soviet Ukraine, and into Soviet Russia. In 1942 the German policy of total killing then spread back west into territories that the Germans controlled before 1941: the subject nations of western Europe, the allies of central and southern Europe and indeed to Germany itself. German Jews were not murdered inside prewar Germany, but deported instead to zones of statelessness in the east, where they could be killed.

The Holocaust spread insofar as states were weakened, but no further. Where political structures held, they provided support and means to people who wished to help Jews. Throughout Europe, but to different degrees in different places, German occupation destroyed the institutions that made ideas of reciprocity seem plausible. Where Germans obliterated conventional states, or annihilated Soviet institutions that had just destroyed conventional states, they created the abyss where racism and politics pulled together towards nothingness. In this black hole, Jews were murdered. When Jews were saved, it was often thanks to people who could act on behalf of a state or by institutions that could function like a state. When none of the moral illumination of institutions was present, kindness was all that remained, and the pale light of the individual rescuers shone.

**\* \* \***

As Hitler himself knew, there was a political alternative to ecological panic and state destruction: the pursuit of ***agricultural*** technology at home rather than Lebensraum abroad. The scientific approach to dwindling resources, which Hitler insisted was a Jewish lie, in fact held much more promise for Germans (and for everyone else) than an endless race war. Scientists, many of them Germans, were already preparing the way for the improvements in ***agriculture*** known as the "green revolution". Had Hitler not begun a world war that led to his suicide, he would have lived to see the day when Europe's problem was not food shortage but surpluses. Science provided food so quickly and bountifully that Hitlerian ideas of struggle lost a good deal of their resonance - which has helped us to forget what the second world war was actually about. In 1989, 100 years after Hitler's birth, world food prices were about half of what they had been in 1939 - despite a huge increase in world population and thus demand.

The compression of politics and science into Lebensraum empowered a Führer to define the good of the race, mutate German institutions and oversee the destruction of neighbouring states. His worldview also compressed time. There was no history for Hitler: only a timeless pattern of Jewish deception and the useful models of British and American imperialism. There was also no future as such: just the unending prospect of the double insatiability of need and want. By combining what seemed like the pattern of the past (racial empire) with what seemed like an urgent summons from the future (ecological panic), Nazi thinking closed the safety valves of contemplation and foresight. If past and future contained nothing but struggle and scarcity, all attention fell upon the present. A psychic resolve for relief from a sense of crisis overwhelmed the practical resolve to think about the future. Rather than seeing the ecosystem as open to research and rescue, Hitler imagined that a supernatural factor - the Jews - had perverted it. Once defined as an eternal and immutable threat to the human species and the whole natural order, Jews could be ***targeted*** for urgent and extraordinary measures.

If we think that we are victims of some planetary conspiracy, we edge towards Hitler

The test that was supposed to confirm Hitler's idea of nature, the campaign that was to rescue Germans from the intolerably claustrophobic present, was the colonial war against the Soviet Union. The 1941 invasion of the USSR threw millions of Germans into a war of extermination on lands inhabited by millions of Jews. This was the war that Hitler wanted; the actions of 1938, 1939 and 1940 were preparation and improvisation, generating experience in the destruction of states. The course of the war on the eastern front created two fundamental political opportunities. At first, the zoological portrayal of Slavs justified the elimination of their polities, creating the zones where the Holocaust could become possible. Then, with time, Germany's uncertain fortune revealed the deep political logic of Hitler's thinking - the practical relationship between Lebensraum and planetary antisemitism. It was when these two ideas could be brought together - territorially, politically, and conceptually - that a Holocaust could proceed.

In the Nazi mind, war was both colonial (to seize territory from the Slavs) and decolonial (to weaken the global domination of Jews). As the colonial war for Lebensraum faltered, Nazis emphasised instead the struggle to save the planet from Jewish domination. Since Jews were held responsible for the ideas that had supposedly suppressed the stronger races, only their extermination could ensure victory. The SS men who had begun as state destroyers, murdering members of groups thought to be the bastions of enemy polities, became the mass murderers of Jews. Wherever German power undid Soviet power, significant numbers of local people joined in the killing. In occupied Poland in 1942, most Jews were deported from their ghettos and murdered by gassing, as at Treblinka. Yet even at this extreme the colonial, material element never entirely vanished. In Warsaw, hungry Jews were drawn to the deportation point by promises of bread and marmalade. Himmler issued the order to kill them at the moment he decided that the labour they provided was less valuable than the calories they consumed.

Ecological panic and state destruction might seem exotic. Most people in Europe and North America live in functional states, taking for granted the sovereignty that preserved the lives of Jews and others during the war. After two generations, the green revolution has removed the fear of hunger from the emotions of electorates and the vocabulary of politicians. The open expression of antisemitic ideas is a taboo in much of the west, if perhaps a receding one.

Yet we like our living space, we fantasise about destroying governments, we denigrate science, we dream of catastrophe. If we think that we are victims of some planetary conspiracy, we edge towards Hitler. If we believe that the Holocaust was a result of the inherent characteristics of Jews, Germans, Poles, Lithuanians, Ukrainians, or anyone else, then we are moving in Hitler's world.

**\* \* \***

Hitler's programme confused biology with desire. Lebensraum unified need with want, murder with convenience. It implied a plan to restore the planet by mass murder and a promise of a better life for German families. Since 1945, one of the two senses of Lebensraum has spread across most of the world: a living room, the dream of household comfort. The other sense of Lebensraum is habitat, the realm that must be controlled for survival, inhabited perhaps temporarily by people characterised as not quite fully human. Once standard of living is confused with living, a rich society can make war upon those who are poorer in the name of survival. Tens of millions of people died in Hitler's war not so that Germans could live, but so that Germans could pursue the American dream.

Hitler was right to believe that, in an age of global communication, notions of prosperity had become relative and fluid. After his pursuit of Lebensraum failed with the final German defeat in 1945, the green revolution satisfied demand in Europe and much of the world, providing not just the food needed for bare physical survival, but a sense of security and an anticipation of plenitude. Yet no scientific solution is eternal; the political choice to support science buys time, but does not guarantee that future choices will be good ones. Another moment of choice, a bit like the one Germans faced in the 1930s, could be on the way.

The green revolution, perhaps the one development that most distinguishes our world from Hitler's, might be reaching its limits. This is not so much because there are too many people on earth, but because more of the people on earth demand ever larger and more secure supplies of food. World grain production per capita peaked in the 1980s. In 2003, China, the world's most populous country, became a net importer of grain. In the 21st century, world grain stocks have never exceeded more than a few months' supply. During the hot summer of 2008, fires in fields led major food suppliers to cease exports altogether, and food riots broke out in Bolivia, Cameroon, Egypt, Haiti, Indonesia, Ivory Coast, Mauritania, Mozambique, Senegal, Uzbekistan and Yemen. During the drought of 2010, the prices of ***agricultural*** commodities spiked again, leading to protests, revolution, ethnic cleansing and revolution in the Middle East. The civil war in Syria began after four consecutive years of drought drove farmers to overcrowded cities.

Though the world is not likely to run out of food as such, richer societies may again become concerned about future supplies. Their elites could find themselves once again facing choices about how to define the relationship between politics and science. As Hitler demonstrated, merging the two opens the way to ideology that can seem to both explain and resolve the sense of panic. In a scenario of mass killing that resembled the Holocaust, leaders of a developed country might follow or induce panic about future shortages and act preemptively, specifying a human group as the source of an ecological problem, destroying other states by design or by accident. There need not be any compelling reason for concern about life and death, as the Nazi example shows, only a momentary conviction that dramatic action is needed to preserve a way of life.

It seems reasonable to worry that the second sense of the term Lebensraum, seeing other people's land as habitat, is latent. In much of the world, the dominant sense of time is coming to resemble, in some respects, the catastrophism of Hitler's era. During the second half of the 20th century, the future appeared as a gift that was on the way. The duelling ideologies of capitalism and communism accepted the future as their realm of competition and promised a coming bounty. In the plans of government agencies, the plotlines of novels, and the drawings of children, the future was resplendent in anticipation. This sensibility seems to have disappeared. In high culture the future now clings to us, heavy with complications and crises, dense with dilemmas and disappointments. In vernacular media - films, video games and graphic novels - the future is presented as post-catastrophic. Nature has taken some revenge that makes conventional politics seem irrelevant, ***reducing*** society to struggle and rescue. The earth's surface grows wild, humans go feral and anything is possible.

Hitler the politician was right that a rapturous sense of catastrophic time creates the potential for radical action

Hitler the politician was right that a rapturous sense of catastrophic time creates the potential for radical action. When an apocalypse is on the horizon, waiting for scientific solutions seems senseless, struggle seems natural and demagogues of blood and soil come to the fore.

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The planet is changing in ways that might make Hitlerian descriptions of life, space and time more plausible. The expected increase of average global temperatures by 4C this century would transform human life on much of the globe. Climate change is unpredictable, which exacerbates the problem. Present trends mislead, since feedback effects await. If ice sheets collapse, heat from the sun will be absorbed by seawater rather than reflected back into space. If the Siberian tundra melts, methane will rise from the earth, trapping heat in the atmosphere. If the Amazon basin is stripped of jungle, it will release a massive pulse of carbon dioxide. Global processes are always experienced locally, and local factors can either restrain or amplify them.

Perhaps the experience of unprecedented storms, relentless droughts and the associated wars and south-to-north migrations will jar expectations about the security of resources and make Hitlerian politics more resonant. As Hitler demonstrated, humans are able to portray a looming crisis in such a way as to justify drastic measures in the present. Under enough stress, or with enough skill, politicians can effect the conflations Hitler pioneered: between nature and politics, between ecosystem and household, between need and desire. A global problem that seems otherwise insoluble can be blamed upon a specific group of human beings.

Hitler was a child of the first globalisation, which arose under imperial auspices at the end of the 19th century. We are the children of the second, that of the late 20th century. Globalisation is neither a problem nor a solution; it is a condition with a history. It brings a specific intellectual danger. Since the world is more complex than a country or a city, the temptation is to seek some master key to understanding everything. When a global order collapses, as was the experience of many Europeans in the second, third and fourth decades of the 20th century, a simplistic diagnosis such as Hitler's can seem to clarify the global by referring to the ecological, the supernatural or the conspiratorial. When the normal rules seem to have been broken and expectations have been shattered, a suspicion can be burnished that someone (the Jews, for example) has somehow diverted nature from its proper course. A problem that is truly planetary in scale, such as climate change, obviously demands global solutions - and one apparent solution is to define a global enemy.

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Americans, when they think about the Holocaust at all, take for granted that they could never commit such a crime. The US army, after all, was on the right side of the second world war. The reality is somewhat more complicated. Franklin D Roosevelt sent racially segregated armed forces to liberate Europe. Antisemitism was prominent in the US at the time. The Holocaust was largely over by the time American soldiers landed in Normandy. Although they liberated some concentration camps, American troops reached none of the major killing sites of the Holocaust and saw none of the hundreds of death pits of the east. The American trial of guards at the Mauthausen concentration camp, like the British trial at Bergen-Belsen, reattributed prewar citizenship to the Jewish victims. This helped later generations to overlook the basic fact that denial of citizenship, usually by the destruction of states, permitted the mass murder of Jews.

A misunderstanding about the relationship between state authority and mass killing underlay an American myth of the Holocaust that prevailed in the early 21st century: that the US was a country that intentionally rescued people from the genocides caused by overweening states. Following this reasoning, the destruction of a state could be associated with rescue rather than risk. One of the errors of the 2003 invasion of Iraq was the belief that regime change must be creative. The theory was that the destruction of a state and its ruling elite would bring freedom and justice. In fact, the succession of events precipitated by the illegal invasion of a sovereign state confirmed one of the unlearned lessons of the history of the second world war.

Mass killings generally take place during civil wars or regime changes. It was the deliberate policy of Nazi Germany to artificially create conditions of state destruction and then steer the consequences towards Jews. Destroying states without such malign intentions produces more conventional disasters.

The invasion of Iraq killed at least as many people as did the prior Iraqi regime. It exposed the members of the Iraqi ruling party to religious cleansing and prepared the way for chaos throughout the country. The American invaders eventually sided with the political clan they had initially defeated, so desperate were they to restore order. This permitted a troop withdrawal, which was then followed by Islamist uprisings. The destruction of the Iraqi state in 2003 and the political disturbances brought by the hot summer of 2010 created the space for the terrorists of Islamic State in 2014. A common American error is to believe that freedom is the absence of state authority.

The dominant stereotype of Nazi Germany is of an all-powerful state that catalogued, repressed and then exterminated an entire class of its own citizens. This was not how the Nazis achieved the Holocaust, nor how they even thought about it. The enormous majority of the victims of the Holocaust were not German citizens; Jews who were German citizens were in fact far more likely to survive than Jews who were citizens of states that the Germans destroyed. The Nazis knew that they had to go abroad and lay waste to neighbouring societies before they could hope to bring their revolution to their own. Not only the Holocaust, but all major German crimes took place in areas where state institutions had been destroyed, dismantled or seriously compromised. The German murder of five and a half million Jews, more than three million Soviet prisoners of war, and about a million civilians in so-called anti-partisan operations all took place in stateless zones.

Since the Holocaust is an axial event of modern history, its misunderstanding turns our minds in the wrong direction. When the Holocaust is blamed on the modern state, the weakening of state authority appears salutary. On the political right, the erosion of state power by international capitalism seems natural; on the political left, rudderless revolutions portray themselves as virtuous. In the 21st century, anarchical protest movements join in a friendly tussle with global oligarchy, in which neither side can be hurt since both see the real enemy as the state. Both the left and the right tend to fear order rather than its destruction or absence.

In an era of climate change, the rightwing version of anarchy, economic libertarianism, may pose the more pertinent danger. As all economists know, markets do not function perfectly at either the macro or the micro level. At the macro level, unregulated capitalism is subject to the extremes of the business cycle. In theory, markets always recover from depression; in practice, the human suffering induced by economic collapse can have profound political consequences, including the end of capitalism itself, before any recovery takes place. At the micro level, firms in theory provide goods that are desired and affordable. In practice, companies seeking profits can generate external costs that they do not themselves remediate. The classical example of such an externality is pollution, which costs its producers nothing but harms other people.

A government can assign a cost to pollution, which internalises the externality and thus ***reduces*** the undesired consequence. It would be simple to internalise the costs of the carbon pollution that causes climate change. It requires a dogma to oppose such an operation - which depends upon markets and in the long run will preserve them - as anticapitalist. Supporters of the unrestrained free market have found that dogma: the claim that science is nothing more than politics. Since the science of climate change is clear, some Americans deny the validity of science itself by presenting its findings as a cover for conniving politicians.

In the case of climate change, the denial of science legitimates military action rather than investment in technology

Though no American would deny that tanks work in the desert, some Americans do deny that deserts are growing larger. Though no American would deny ballistics, some Americans do deny climate science. Hitler denied that science could solve the basic problem of nutrition, but assumed that technology could win territory. It seemed to follow that waiting for research was pointless and that immediate military action was necessary. In the case of climate change, the denial of science likewise legitimates military action rather than investment in technology. If people do not take responsibility for the climate themselves, they will shift responsibility for the associated calamities to other people. Insofar as climate denial hinders technical progress, it might hasten real disasters, which in their turn can make catastrophic thinking still more credible. A vicious circle can begin in which politics collapses into ecological panic. The direct consequences of climate change will reach America long after Africa, the Near East and China have been transformed. By then, it will be too late to act.

The market is not nature; it depends upon nature. The climate is not a commodity that can be traded but rather a precondition to economic activity as such. The claim of a right to destroy the world in the name of profits for a few people reveals an important conceptual problem. Rights mean restraint. Each person is an end in himself or herself; the significance of a person is not exhausted by what someone else wants from him or her. Individuals have the right not to be defined as parts of a planetary conspiracy or a doomed race. They have the right not to have their homelands defined as habitat. They have the right not to have their polities destroyed.

**\* \* \***

The state is for the recognition, endorsement and protection of rights, which means creating the conditions under which rights can be recognised, endorsed, and protected. When states are absent, rights - by any definition - are impossible to sustain. States are not structures to be taken for granted, exploited or discarded, but are fruits of long and quiet effort. It is tempting but dangerous to gleefully fragment the state from the right or knowingly gaze at the shards from the left. Political thought is neither destruction nor critique, but rather the historically informed imagination of plural structures - a labour of the present that can preserve life and decency in the future.

One plurality is between politics and science. A recognition of their distinct purposes makes possible thinking about rights and states; their conflation is a step toward a total ideology such as National Socialism. Another plurality is between order and freedom: each depends upon the other, although each is different from the other. The claim that order is freedom or that freedom is order ends in tyranny. The claim that freedom is the lack of order must end in anarchy - which is nothing more than tyranny of a special kind.

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A final plurality has to do with time. The state endures to create a sense of durability. When we lack a sense of past and future, the present feels like a shaky platform, an uncertain basis for action. The defence of states and rights is impossible to undertake if no one learns from the past or believes in the future. Awareness of history permits recognition of ideological traps and generates scepticism about demands for immediate action because everything has suddenly changed. Confidence in the future can make the world seem like something more than, in Hitler's words, "the surface area of a precisely measured space". Time, the fourth dimension, can make the three dimensions of space seem less claustrophobic. Confidence in duration is the antidote to panic and the tonic of demagogy. A sense of the future has to be created in the present from what we know of the past, the fourth dimension built out from the three of daily life.

In the case of climate change, we know what the state can do to tame panic. We know that it is easier and less costly to draw nourishment from plants than animals. We know that improvements in ***agricultural*** productivity continue and that the desalination of seawater is possible. We know that efficiency of ***energy*** use is the simplest way to ***reduce*** the ***emission*** of ***greenhouse gases***. We know that governments can assign prices to carbon pollution and can pledge ***reductions*** of future ***emissions*** to one another and review one another's pledges. We also know that governments can stimulate the development of appropriate ***energy*** technologies. Solar and wind ***energy*** are ever cheaper. Fusion, advanced fission, tidal stream power and non-crop-based biofuels offer real hope for a new ***energy*** economy. In the long run, we will need techniques to capture and store carbon dioxide from the atmosphere. All of this is not only thinkable but attainable.

States should invest in science so that the future can be calmly contemplated. The study of the past suggests why this would be a wise course. Time supports thought, thought supports time; structure supports plurality, and plurality, structure. This line of reasoning is less glamorous than waiting for general disaster and dreaming of personal redemption. Effective prevention of mass killings is incremental and its heroes are invisible. No conception of a durable state can compete with visions of totality. No green politics will ever be as exciting as red blood on black earth.

But opposing evil requires inspiration by what is sound rather than by what is resonant. The pluralities of nature and politics, order and freedom, past and future, are not as intoxicating as the totalitarian utopias of the last century. Every unity is beautiful as image but circular as logic and tyrannical as politics. The answer to those who seek totality is not anarchy, which is not totality's enemy but its handmaiden. The answer is thoughtful, plural institutions: an unending labour of differentiated creation. This is a matter of imagination, maturity and survival.

· Timothy Snyder is the Housum professor of history at Yale University and the author of Black Earth: The Holocaust as History and Warning, published this week by Bodley Head, from which this essay is adapted. To order a copy for £20, go tobookshop.theguardian.comor call 0330 333 6846. Free UK p&p over £10, online orders only. Phone orders min. p&p of £1.99

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[***Coalition says negative gearing changes a tax on investment as opposition targets NBN - politics live; Prime minister says the biggest issue is who is best able to lead Australia in the transition from the mining and construction boom to the 'new economy'. All the developments from Canberra, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5J69-3BF1-JCJY-G229-00000-00&context=1516831)

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**Body**

block-time published-time 6.12am GMT

So long and all power to the Estonians

I think that's enough for this evening. We need to fold the Politics Live tent before the afternoon degenerates into silly walks. Thanks for your company. We'll be back again tomorrow from around 8am.

Let's consider the embarrassment of riches that was Monday in Canberra.

* The government's tax policy remained something of a mystery. The treasurer Scott Morrison thought the government would be careful when it came to doing anything on negative gearing. Various backbenchers aren't all that interested in careful and would prefer nothing was done with negative gearing. The prime minister continued to avoid questions about his own policy by criticising Labor's policy, and Labor added the NBN to its mix of daily agenda items portraying the prime minister as all fizz no pop.

1. The prime minister went to Fyshwick in order to declare the next election would be about who was best placed to lead the Australian economy through its current transition. He meant himself, in case the inference of the pre-campaign counterpoint was unclear. As to election timings, the prime minister thought later in the year, while noting that all constitutional options remained open. That means what it always means: I'll go when I think I can win.
2. Harsh words continued to be said about Senate voting reform but nothing much happened beyond some experts saying the government should amend the package again to ensure it wasn't just a new system benefitting the major parties dressed up as a new system benefitting the voters.
3. There was much mystery and very few facts concerning some police inquiries in the building - a development that prompted a brief journalistic sprint around the parliament late in the day and the Labor MP Graham Perrett offering the newshounds sanctuary in his parliamentary office when security moved in to clear the circus.

You can see why enough is enough now, right?

See you all again on the morrow.

block-time published-time 5.47am GMT

Will no-one think of the Estonians?

The member for Longman Wyatt Roy before question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 5.43am GMT

Looking like a complete false alarm downstairs.

enltr @PhillipCoorey mate, I think they are with the Estonia Foreign Minister @MarinaKaljurand. I was just meeting with her, chatting innovation

- Wyatt Roy MP (@Wyatt\_MP) February 29, 2016

block-time published-time 5.38am GMT

enltrCurrently my office is offering sanctuary to the press gallery as they pursue the AFP around Parliament House. pic.twitter.com/YCcaCDDIbW

- Graham Perrett (@GrahamPerrettMP) February 29, 2016

block-time published-time 5.35am GMT

Update from downstairs. Of sorts.

enltrA brilliantly comical situation: Guards banned everyone from corridors. So @GrahamPerrettMP has offered "sanctuary" to a dozen journos.

- Mark Di Stefano (@MarkDiStef) February 29, 2016

block-time published-time 5.30am GMT

We are all hearing the same intelligence, evidently. A press pack has assembled outside the office of Liberal MP Stuart Robert. No police are visible in that corridor. The sergeant's office, I gather, is attempting move them on.

I stress there are no facts at this point. When there are facts, I'll share them.

block-time published-time 5.24am GMT

Folks are reporting to us that police are in the building. We'll check this thoroughly before reporting what we've been told.

block-time published-time 5.09am GMT

Hmmm, yes Tony Abbott during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

The prime minister said on Sunday he'd had a long chat over the weekend with John Howard. Howard will be on Malcolm Turnbull's mind this week because March 2 is the 20th anniversary of the election of the Howard government. Love him, loathe him, feel indifferent about him, John Howard managed to govern for more than a decade - which feels like a beacon of stability in modern political times. Turnbull will want to channel that Howardesque feeling of command and stability as he approaches the election season proper, but on his own terms.

Pure speculation on my part, but the prime minister looks like someone who's had a big think over this past weekend. After verging quite unsuccessfully into Abbott negativity territory last week, Turnbull is back today to those exciting times. He's building a second element to his story now, and that's the threat Labor poses to the exciting times. To cut to the chase here, Turnbull is experimenting with how he can be more negative when his natural reflex as a political character is sunny side up. He's not a soarer and a snarler like Paul Keating, he's not the suburban solicitor made good that Howard crafted to perfection, with his track suited power walks, and his speaking to Neil Mitchell on the wireless every Friday morning, he's not a brawler like Abbott - he's his own thing.

In order to be credibly negative, his own kind of negative, Turnbull is slowing down his delivery. Labor's deficiencies are offered up more in sorrow than in anger. It's just natural and obvious, that he, Turnbull, the innovation man, the entrepreneur, the shape shifter, is the man for the times, the leader who can read the symptoms of the economy sufficiently to see where the traps and trip wires are. He's trying to set up that story with a little gravitas offensive.

Consider what he said earlier today.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

Me, me, me. Successful Malcolm. Winner picking Malcolm.

Bill.. who?

I think this is a stronger pitch than the fear and loathing nonsense last week. But his problems still remain. Until he can sort out his government's core economic story, trying to flesh out just how you are better than your opponent is harder work. And with a campaign in sight, every attempt Turnbull makes to push forward, Labor will push back. Today Labor added the NBN to its toolbox, trying to paint a picture of a person who talks a good game but ultimately delivers very little.

block-time published-time 4.31am GMT

Magic Mikearoo has some grand chamber shots from today. Give me a minute and I'll be back with a short analysis of that session.

The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 4.23am GMT

Just a quick bit of trivia for politics tragics. Centuries ago, when Tony Smith was press secretary to Peter Costello (before he became an MP and now Speaker) he was famous for furnishing the following formulation to inquisitive journalists.

Off the record.

No comment.

Not a man of loose lips, our Tony.

block-time published-time 4.16am GMT

Turnbull has wound up question time. The shadow attorney general Mark Dreyfus wants to know what's going on with the police.

Speaker Tony Smith tells Dreyfus he doesn't comment on police matters. He says any queries need to be directed to the police. He says in general terms any search warrants would be executed in accordance with the rules governing privilege.

On Sky News (the network that broke the story police were on the trail of an MP), Peter Van Onselen is saying he understands the parliamentary server was accessed last week. He says he believes that was done with presiding officer cooperation.

block-time published-time 4.07am GMT

The Member for Bowman, Andrew Laming, has a question for the minister for finance about ice. Finance? Wut? Sorry no, this question is for the justice minister, Michael Keenan.

Keenan keeps calm and carries on.

block-time published-time 4.05am GMT

Bill Shorten is back with responsibility and the NBN. Does the prime minister accept the government's NBN is slow, more costly than Labor's, and late?

Turnbull repeats the ten-fold rollout figure.

The prime minister:

The approach we are taking will see [the NBN] completed sooner, at much less cost. The facts speak for themselves. The leader of the opposition can fool himself. We're living in the real world - and the NBN is getting on with the job.

block-time published-time 4.00am GMT

We are back to the prime minister's failure on the NBN.

Q: Will the prime minister finally accept responsibility for the mess and the chaos he has caused?

No, he will not as it turns out. Turnbull throws the question to the minister for special projects, Paul Fletcher.

Manager of opposition business, Tony Burke, wonders how Fletcher can possibly answer that question, whether or not Turnbull takes responsibility. Surely that is a question that only Turnbull can answer?

Speaker Smith doesn't object to Fletcher taking the question.

Fletcher answers.

We stand by [the NBN] and are proud of it.

block-time published-time 3.53am GMT

Shadow Treasurer Chris Bowen during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian Opposition leader Bill Shorten during question time in the House of Representatives in Canberra this afternoon, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 3.51am GMT

Now we are onto the risks Labor poses for small businesses at the most exciting time in human history.

block-time published-time 3.50am GMT

Shadow communications minister Jason Clare wants to know why the NBN is a mess. The prime minister thinks the NBN isn't a mess. Turnbull thinks since the election the number of premises that are serviceable by the NBN has increased by ten-fold.

Labor cracks up at ten-fold.

block-time published-time 3.47am GMT

***Agriculture*** minister Barnaby Joyce thinks Labor is full of mad ideas.

You really do have to have a government that has its head screwed on and that's why the Australian people will stick with the one they've got.

block-time published-time 3.43am GMT

Labor leader Bill Shorten has moved onto retrospective changes and negative gearing. Shorten says he's twice asked the prime minister to rule out making changes that would impact existing investments. The prime minister has not ruled that out, Shorten notes.

Enough about me, more about you, Bill, says Malcolm Turnbull.

What Labor is proposing is absolutely calculated to undermine our transition to the new economy.

Mr Speaker, there is a way to the future opportunities that we deserve in this, the most exciting time in human history.

Labor is standing in the way, Labor is standing in the way imposing taxes which will discourage, which will discourage the investment, the entrepreneurship, the technology, the innovation that Australians need to succeed in these times.

block-time published-time 3.35am GMT

Malcolm Turnbull, continuing on Labor being the problem:

What Labor says is we are going to increase the tax on new investments by 50% just when the nation needs investment.

They are standing in the way of our success.

block-time published-time 3.32am GMT

Shadow treasurer Chris Bowen is back with the excesses in negative gearing. You've flagged them prime minister. What are they?

The prime minister for his part would like to lay out coolly and clearly the challenges facing Australia.

Bowen would like the prime minister to answer the question.

Malcolm Turnbull:

And so we also need the best infrastructure.

block-time published-time 3.28am GMT

Independent Cathy McGowan wants guarantees of hospital funding for Wangaratta, given there is a stoush between the Commonwealth and the Victorian government. Health minister Sussan Ley delivers a tongue lashing about the Victorian government fiddling the national health agreement.

Now a Dorothy Dixer about last week's defence white paper for the foreign minister, Julie Bishop. (Defence minister Marise Payne is in the other chamber.)

block-time published-time 3.23am GMT

Shadow treasurer, Chris Bowen, to Malcolm Turnbull.

Q: The treasurer has expressed willingness to address excesses in negative gearing. Prime minister, what are the excesses in negative gearing?

Turnbull waves that one to Scott Morrison, who says he's delighted to have the opportunity to critique Labor's policy. Labor's capital gains policy is one big fat tax on investment, Morrison says. A punishing tax on investment. On negative gearing, the treasurer doesn't think it's excessive that police or nurses claim rental losses.

They [Labor] think the mum and dad investors of this country are the problem. On this side of the house we know they're the answer.

block-time published-time 3.15am GMT

The Dorothy Dixers today are, broadly, the risks Labor poses to Australia during this time of economic transition. The Labor questions are why does the prime minister hate the treasurer and why does he say contradictory things on tax reform?

block-time published-time 3.11am GMT

Malcolm Turnbull:

I thank the member for Sydney for her question. And I note that she is a diligent reader of The Australian Financial Review. What a pity she hasn't been a diligent reader of her own government's tax policy.

(Brief pause.)

Her own alternative government tax policy, I should say.

(Oopsie.)

block-time published-time 3.10am GMT

This reminds me of prank calls my brother used to make after school when we were kids. He'd ring someone and ask them, "hey, do you live on White Street?" The person would reply "yes" (given he'd checked in the phone book the person lived in White Street). He'd then yell: "Well you'd better get off cos there's a car coming." This was hilarious when were in primary school.

block-time published-time 3.06am GMT

Question time

Ho, ho, here we go. Labor's Bill Shorten opens today on tax. It's a question about contracting out the tax policy to his departmental head, Martin Parkinson, bypassing the treasurer.

Q: So when the prime minister of Australia doesn't trust the treasurer of Australia to do his day job, doesn't this prove his government has no economic plan and his economic team has no clue?

Malcolm Turnbull, who is elaborating on the pitch he unveiled in Fyshwick this morning:

The road to the new economy is an exciting one. But we have to make sure we take the right decisions to stay on track.

And Labor won't ensure we stay on the road to the new economy with their negative gearing policy and the capital gains tax policy and their opposition to the building and construction commission, the prime minister contends.

There is a road to the new economy, Mr Speaker. Labor stands in the way.

block-time published-time 2.59am GMT

One issue I've not had time to cover yet: a cross party group has given notice that they will bring forward a co-sponsored bill overturning the two decades old private member's bill by the Liberal MP Kevin Andrews that banned the Northern Territory and ACT from legalising euthanasia. The cross party bill will go the Senate tomorrow. It's being advanced by Greens and Labor MPs. Not sure whether there are any government MPs involved but will check, time permitting.

block-time published-time 2.49am GMT

enltrLatest from AFP on its parliamentary investigation pic.twitter.com/oCwGtgHX9H

- Andrew Greene (@AndrewBGreene) February 29, 2016

block-time published-time 2.47am GMT

Bit more non-specific intelligence on police.

enltr. @AFPhq confirms "it has been conducting inquiries with the Department of Parliamentary Services in relation to an ongoing investigation"

- Stephen Dziedzic (@stephendziedzic) February 29, 2016

block-time published-time 2.46am GMT

I confess I took a brief break to look at Oscars frocks. Sorry. I could have lied to you but I make a point of never doing that. Looks like Fury Road is bagging a number of the smaller Oscars. Question time coming up. Concentrating now. Full throttle.

block-time published-time 2.19am GMT

Not a side eye in sight.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.18am GMT

I know nothing about police. Nothing.

The minister for innovation and science, Christopher Pyne, in the press gallery of Parliament House in Canberra on Monday afternoon. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 2.44am GMT

block-time published-time 2.14am GMT

Then a question on election timing. Which got a prime ministerial answer ruling nothing in or out.

Q: Sounds like a very sharp election pitch there. The question about the ABCC, you said it's vital to Australia. The question is, is it so vital that if it's not passed by the Senate you'll dissolve both Houses of Parliament and go to the election?

(The issue of the Australian Building and Construction Commission was raised in a earlier question. If the Senate fails to pass that bill, it will be a potential double-dissolution trigger.)

Malcolm Turnbull:

I understand the perennial fascination with election dates. I'm urging the senators to pass the legislation naturally and I just say to you that while all constitutional options remain open, my expectation is, and my assumption is that the election will be held in the normal way at the normal time, which is August, September, October this year.

block-time updated-timeUpdated at 2.39am GMT

block-time published-time 2.11am GMT

The ABC is now running some of Malcolm Turnbull's press conference from earlier today. We didn't get vision of this earlier because of the Pell testimony in Rome.

The prime minister told reporters he made no apology for taking his time with tax policy. Then he launched his first re-election pitch (to my ear anyway, as in a campaign-style pitch).

Tax first.

I think the Labor party's latest tax announcement is a good reminder of the dangers of making policy on the run and setting out changes to, for example, tax without full and proper consideration and analysis. We make no apology for taking the economic security of Australians seriously. We make no apology for considering tax and changes to the tax system very carefully and analysing it carefully and we are doing that.

We're undertaking that work and when it is concluded we will then present the policy to the public for their approval.

Now the election pitch.

Let me say to you, the central issue this year, this election year, is going to be who is best able to lead Australia in this transition from the mining construction boom to the new economy?

Who is best able to ensure that we promote investment, secure jobs, encourage technology, promote innovation? Who is best able to ensure that the success of this company, CEA, will be followed by the success of many others? Who is best able to open up the markets for our exporters in every industry?

block-time updated-timeUpdated at 2.37am GMT

block-time published-time 1.55am GMT

Here is the AFP statement.

enltrStatement from AFP on reported office raid. #auspolpic.twitter.com/XmGCi9ZOfm

- David Sharaz (@DavidSharaz) February 29, 2016

block-time published-time 1.54am GMT

The innovation minister, Christopher Pyne, has told Sky he has no information about the AFP's activities. He also thinks, if the government holds an election in July, that would not constitute an early election.

block-time updated-timeUpdated at 2.09am GMT

block-time published-time 1.51am GMT

Sky is now quoting from an AFP statement (which we haven't seen yet), which says the police have not executed a search warrant on any member of parliament. That formulation doesn't rule out police obtaining material cooperatively with an MP. As developments come to hand, I'll share them.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.44am GMT

My colleagues have ruled out a bunch of other MP's from being the object of police interest, but I don't see much merit in sharing who isn't the object of police interest, unless they make a public statement, a la Brough.

We expect police to comment soonish.

block-time published-time 1.41am GMT

Mal Brough: stand down people, it ain't me

Given that Sky hint, various parliamentarians are now ruling themselves out of being the object of police inquiries.

Mal Brough:

Rumours are circulating through Parliament House that the AFP have raided my Parliament House office. These rumours are completely false. The AFP have not sought any additional assistance in any way from me since my interview on 7 January 2016.

block-time published-time 1.38am GMT

Politics, this lunchtime

A quick summary while I have a chance. Today, Monday.

* Government MPs remain restive about the government's tax reform plans - or lack of them - before the government's regular party room meeting on Tuesday.

1. The government, Greens, crossbenchers and Labor remain at loggerheads about last week's proposal to reform Senate voting procedures. Two legal experts have called on the government to revise the package (which has already been revised once.)
2. The treasurer, Scott "I'm a very busy man" Morrison, has made up with the radio broadcaster Ray Hadley. Let the angels rejoice.
3. The prime minister, Malcolm Turnbull, has been looking at things offsite (generally a sure sign an election lurks just around the corner) - while two colleagues feel a double dissolution is a big real deal and not a idle tactical threat.
4. And LNP backbencher George Christensen thinks it would be a good idea to ban the burning of the Australian flag, because that would make Australians more free (from the scourge of the chattering classes).

And so it goes.

block-time updated-timeUpdated at 2.08am GMT

block-time published-time 1.15am GMT

Sky News is reporting AFP officers have seized material from the parliamentary office of a federal politician. Sky have not named the MP. My colleagues are making calls. When there's something to know, you'll know it too.

block-time published-time 1.01am GMT

The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian The Prime Minister Malcolm Turnbull and Defence Marise Payne during a visit to CEA Technologies in the Canberra suburb of Fyshwick this morning, Monday 29th February 2016. Photograph: Mike Bowers for the Guardian

block-time published-time 12.55am GMT

My, look at that doohickey.

The prime minister, Malcolm Turnbull, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

block-time updated-timeUpdated at 1.58am GMT

block-time published-time 12.54am GMT

Hmm, what can this be?

The prime minister, Malcolm Turnbull, and the defence minister, Marise Payne, during a visit to CEA Technologies in the Canberra suburb of Fyshwick on Monday. Photograph: Mike Bowers for the Guardian

The prime minister is currently looking at things: specifically, high tech defence equipment.

block-time updated-timeUpdated at 1.14am GMT

block-time published-time 12.44am GMT

Will not be diverted by Oscar frocks, or Oscars jokes. Will. Not.

Ok, just one.

nlltrOMG HAHAHAHA pic.twitter.com/JNclhpkHvx

- Aaron (@aarxns) February 28, 2016

block-time published-time 12.32am GMT

It looks like the prime minister has become emotional. Sadly this teaser gives me absolutely no context for his emotion, but I can tell you this much: Turnbull has been interviewed for NITV by Guardian Australia's indigenous editor, Stan Grant.

The interview airs tonight.

I'd say mind the conservatives Malcolm but this would be 1. Silly when there is no context for these tears, and 2. Depressing and reductionist. There's enough of that in politics without me defaulting there with scant encouragement.

enltrWhat made PM @TurnbullMalcolm cry? Watch Stan Grant's interview on #ThePointNITV 9pm pic.twitter.com/2dAxqEqJIH

- NITV (@NITV) February 28, 2016

block-time published-time 12.27am GMT

Reasons to love Politics Live readers, part two.

enltr. @murpharoo sham and ram might be assonance where similar vowel sounds are used to connect words

- Peter Kelley (@yellekau) February 29, 2016

#Assonance

block-time published-time 12.26am GMT

More musings. I never understand when the freedom warriors want to ban things. Rather undercuts the freedom narrative: banning things.

I should note that Christensen's "let's be free by banning burning of the flag" contribution did include a shout out to Donald Trump. People like Trump rise when the majority find they've become a minority in their own country.

Christensen for president. You read it here, first.

block-time updated-timeUpdated at 12.54am GMT

block-time published-time 12.19am GMT

Reasons to love Politics Live readers. Was sham and ram onomatopoeia, I wondered to myself (and you) an hour or so ago.

enltr @murpharoo Just in case nobody has replied to you, onomatopoeia is words that are pronounced or constructed to mimick a noise like meow bang

- PMall (@PallMall24) February 29, 2016

block-time published-time 12.16am GMT

In case you are interested in the substance of that Christensen bill, here's the explanatory memorandum.

The intent of this bill is to enshrine in law protection for the Australian national flag, following recent cases of flag burning in public places. It seeks to provide this protection by making it a criminal offence to wilfully destroy or otherwise mutilate the flag in circumstances where a reasonable person would infer that the dishonouring and defiling of the flag by burning or other actions is intended publicly to express contempt or disrespect for the flag or the Australian nation.

On recent occasions the flag-burning acts were undertaken to dishonour the flag in front of Australians and many present at the time, and thousands of others who witnessed the acts via media channels, found such desecration of their foremost national symbol highly offensive. In Australia we have enormous public support for protecting the flag. It is the paramount symbol of our nation. Thousands of Australian men and women have fought and died under this flag in the defence of the nation. Their sacrifice to defend our nation requires this Parliament to defend the flag for which they have fought.

And from the statement of compatibility with human rights:

The intent of this bill is to enshrine in law protection for the Australian flag, following two recent cases of flag burning in public places by counter protestors at reclaim Australia rallies.

On both occasions it must reasonably be assumed that the acts were undertaken to dishonour the flag in front of Australians who consider such desecration of their foremost national symbol as highly offensive.

block-time published-time 12.10am GMT

Looking to the lower House now, and private member's business. LNP backbencher George Christensen is currently trying to protect the integrity of the Australian flag.

Chattering classes, compliant and self serving media, ill winds, cultural relativism - it's all thundering out of Christensen's mouth right now as he makes his tabling speech.

I believe this bill is about stopping flag burnings. But we've segued into the racial discrimination legislation and section 18C and convenient omissions by the human rights commission.

I think Christensen's point here is burning flags is a racist act. Patriotic Australians of European origin have as much right to be in Australia as Aborigines and other people the MP notes.

Racism is racism, you don't have to have brown skin in order to be offended.

block-time published-time 11.54pm GMT

So, in the double dissolution corner this Monday morning: Pyne, C and Morrison, S.

My own view is once you roll the Senate voting reform dice, you are basically locking in behind a double dissolution strategy. The alternative is the government (assuming a Turnbull victory in this case study) comes back after an election to face most of the same cross benchers who are in the chamber now, except these cross benchers now know the government has taken concrete steps to get them out of the chamber and limit future representation from micro party candidates.

Doesn't sound very tenable to me.

block-time published-time 11.49pm GMT

To another variety of door slamming, to double dissolutions. The leader of the House, Christopher Pyne, has been on Channel 7 earlier today and gave his strongest indication yet that the government would go to a double dissolution election if the Senate doesn't pass the government's industrial relations legislation.

We would prefer the Senate to pass the Australian building and commission bill, for example, to clean up building and construction in Australia, which is important for productivity and growth and jobs.

If they refuse to pass the legislation it makes us very difficult not to go to the polls - how else do we do the things we are elected for? We had a mandate for change before the last election, it was our policy. The crossbenchers, Labor and Greens are blocking it. Only a couple of options left available to a government in those situations.

block-time updated-timeUpdated at 11.52pm GMT

block-time published-time 11.37pm GMT

Stephen Conroy apparently left the meeting of the electoral matters committee when members declined to allow him to hear an answer to a question. I don't know if he slammed the door.

block-time published-time 11.32pm GMT

Sham and ram.

This is Labor's Sam Dastyari, sledging the Greens.

Is this onomatopoeia? Sham and ram. Someone will jog my memory.

block-time published-time 11.26pm GMT

I didn't catch the beginning of this debate, but I gather, reading between the lines, that Labor's Stephen Conroy has been ejected from a meeting of the joint committee on electoral matters. I'll chase particulars when there's a moment. Labor's Doug Cameron is now engaging on the subject of Richard Di Natale's glass jaw. Cameron says at this rate the Greens will go the way of the Democrats - dealing their way to disappearing.

block-time updated-timeUpdated at 11.53pm GMT

block-time published-time 11.20pm GMT

Di Natale says Labor is objecting to a short inquiry into a proposal it has no intention of supporting anyway. The Greens leader suggests Labor is hiding behind the process rather than debating the substance.

Senate Bob Day of Family First has the call now.

This is third world stuff, wiping out independents is what they do in third world countries!

block-time published-time 11.17pm GMT

Greens leader Richard Di Natale, in response to Penny Wong.

There is something that is always in short supply in this chamber, and it's logic.

block-time published-time 11.15pm GMT

The chambers have begun their daily duties. The finance minister and special minister of state Mathias Cormann has been telling the red chamber he wants the Senate voting reform package on for debate in the middle of this week.

There's much finger pointing down there right now. Green Lee Rhiannon is talking about Labor's Stephen Conroy slamming a door at a meeting of the joint standing committee on electoral matters. Now Labor's Senate leader Penny Wong is talking about strange bedfellows in politics, and ramming legislation through the Senate.

Penny Wong:

The biggest changes [to the voting system] in thirty years with half a day's hearing!

block-time published-time 11.05pm GMT

A statement from the shadow climate minister Mark Butler, on Lenore's story this morning about land clearing in Queensland threatening Australia's international ***emissions*** ***reduction*** commitments.

Mark Butler:

The ***Emissions*** ***Reduction*** Fund (ERF) is the centrepiece of Direct Action, which has spent the majority of its funds in land use, land-use change and forestry (LULUCF) ***emissions*** abatement. In 2015, two ERF auctions were held, with $1.2bn spent to purchase ***greenhouse gas*** abatement of 92 Mt CO2e. Of this, more than half (51 Mt CO2e) was in the LULUCF sector.

In 2013-14, ***emissions*** from tree clearing in Queensland were 36 Mt CO2e. If clearing continues at this speed, in 18 months, tree clearing in Queensland alone will negate the entire LULUCF abatement achieved by the ERF in 2015. This government has proven to be incapable of ***reducing*** ***emissions*** and taking any meaningful action on climate change.

block-time published-time 11.01pm GMT

Trying to find anyone in the government to defend the safe schools program is hard work at the moment. Readers here last week will know the government has launched a review into the program because of concerns from conservative MPs that it preaches rainbow ideology to our innocents.

Talking to a bunch of government people yesterday in preparation for another sitting week, it was clear that the prime minister really hadn't intended to launch a full tilt review into this program. His intention was to get the education minister to focus on the complaints and report back. Be that as it may, there's a review on now, and government defenders of the program (which aims to prevent bullying of LGBTI kids in schools) are not exactly thick on the ground.

AAP tells me Ewen Jones, a government backbencher from Queensland, is prepared to trust teachers to implement this program sensibly. Jones told reporters in Canberra on Monday that two kids at his son's school took their own lives. Jones said his wife and younger brother were both teachers.

What we must do is make sure we are backing our professionals.

He said the program was important because if teachers were asked questions about gender and sexuality they needed the appropriate resources to be able respond.

block-time published-time 10.50pm GMT

Communications minister Mitch Fifield, on this morning's NBN story.

The NBN is on track to meet its ***targets*** for the financial year, within the budget set out in the company's corporate plan. Any suggestion to the contrary is just wrong. The company has met its ***targets*** for the past six quarters in a row. This is in stark contrast to management under Labor, when the company had barely managed to connect 50,000 users after four years.

block-time published-time 10.44pm GMT

Ray has had Antony Green on. Green is the ABC election analyst. Dates and double dissolutions. Those dates are critical. May 11 is the cut off date, Ray says.

Morrison agrees that's an accurate assessment of the situation. For added drama, the treasurer notes that when it comes to double dissolutions, it is clear the prime minister isn't bluffing. But the treasurer notes it will be Turnbull's call whether or not we go to a double dissolution election. What would the treasurer's counsel be, Morrison wonders? Oh come on, mate, Morrison says. Haw haw haw.

block-time published-time 10.39pm GMT

Now we are in a segment of the interview where Ray notes that the government didn't actually own that dairy company in Tasmania (which has been a controversial recent foreign investment transaction). Not sure anyone did think the government owned the company but let's not digress. Ray's a bit distracted by a golf tournament.

Scott Morrison:

I knew people would be upset about [the sale] but I have to make decisions in the interest of jobs and growth in Australia.

block-time published-time 10.35pm GMT

Ray wants to know why the GST was on the table then off the table. The GST is off the table because the bill for the compensation went up and up and up, Morrison says.

How about negative gearing, Ray wonders? He references a Daily Telegraph story this morning which has some options for capping losses, including some modelling indicating what revenue could be collected.

Morrison doesn't sound that chuffed with the modelling.

I hope the Daily Telegraph didn't pay too much for that advice.

Ray persists. What's going to happen on negative gearing?

We've made it clear the government is continuing to consider all the options.

Morrison says government's need to be cautious when it comes to negative gearing.

Q: So you agree with John Howard then?

I think you've got to be very careful. We aren't going to rush to the crazy idea Labor has put up.

block-time published-time 10.30pm GMT

Ray opens with inquiring whether the treasurer is out of witness protection.

Scott Morrison:

G'day Ray I'm glad you missed me.

Ray would like to know where he was last Monday. Morrison says last Monday I was meeting treasury officials and there was a special meeting about Senate voting reform.

Scott Morrison:

It may comes as a surprise but I have a very busy job. I'll continue to do this where the schedule permits.

Ray thinks Scott wasn't very good at the National Press Club the week before last.

It was a tough week.

block-time published-time 10.22pm GMT

Good news of great joy. The treasurer Scott Morrison will rejoin Ray Hadley on the wireless this morning. Readers with me last week will know that Morrison skipped his weekly Hadley spot and Ray was sad because he had wanted to berate the treasurer for coming on his show and having nothing to say. Ray will get his chance in a few minutes. Right now on 2GB, it's apparently Tim Flannery's fault that Australia has desalination plants.

#YouKnowItMakesSense

block-time published-time 10.12pm GMT

Before the hoo ha about tax inevitably cranks up once politics breaks clear of the early morning cover imposed by Pell's testimony - it might be useful for some readers to have a look at this piece Tim Colebatch has written for Inside Story about the tax debate. I very much recommend it.

Colebatch (a former Age colleague of mine and that paper's long time economic editor, now commentator-at-large) gets into the detail of Labor's negative gearing policy and considers its potential consequences for the housing market, as well as examining the political dynamic on the government side.

Colebatch says looking at negative gearing is necessary "because the negative gearing tax break alone is now so widespread that it costs revenue - that is, other taxpayers - between $3bn and $6bn a year, depending on the level of interest rates. In effect, other taxpayers are subsidising the beneficiaries in their aspiration to become landlords."

Tim Colebatch:

Second, unless rental investment is used to supply new housing - which only 7 per cent is - rental housing can expand only by shrinking owner-occupied housing.

Lower- and middle-income people who want to buy their own home are outbid at the auctions, and forced to remain renters. Sydney housing economist Judith Yates told the recent House of Representatives inquiry into home ownership, under Liberal MP John Alexander, that since 1981 - which was roughly when negative gearing started to spread as a tax avoidance strategy - home ownership rates among households headed by people aged twenty-five to thirty-four have fallen from 61% to 47%.

Among those aged thirty-five to forty-four, they have plunged from 75 to 64%, and among those aged forty-five to fifty-four, from 79 to 73%.

This is a cost of the tax break that's always ignored by its supporters.

block-time published-time 9.57pm GMT

I did hear an NBN spokesman on the radio a short while ago hosing down that Fairfax story on the delays in the rollout. I'll chase a direct quote when I get a moment. Out of the corner of my eye, I can see Cardinal Pell giving his evidence via video link.

block-time published-time 9.52pm GMT

The great thing about the Politics Live community is you have eyes, everywhere.

enltr @murpharoo Hello! No confirmation yet that the bidding on this old badge comes primarily from certain govt offices. pic.twitter.com/L54vBVkc9S

- The Matt Hatter (@MattGlassDarkly) February 28, 2016

block-time published-time 9.50pm GMT

Speaking of cross benchers, in the parallel universe that is the #BrickParliament, Jacqui Lambie has some choice words for Nick Xenophon, while friends look on. The sounds of saxophones and clarinets can be heard trilling in the background.

#BrickParliament Brick Xenophon and Jacqui in the senate this morning, Monday 29th February 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 9.41pm GMT

The other big issue of last week, reforms to the Senate voting system, is still bubbling away in the background.

The voting reform legislation, brought forward last week, abolishes group voting tickets, the party-submitted mechanism determining how preferences flow when people vote "above the line" rather than filling in all the candidate squares "below the line". The package would also enshrine an optional preferential system above the line. Instead of just voting 1, people would be advised to fill in at least six boxes in their order of preference. The ballots would still be valid if people just voted 1: if their preferred choice did not win, the ballot would "exhaust" and not be reallocated to others.

The government, the Greens and Nick Xenophon support the proposal. Labor has been internally divided on it, but has now resolved to oppose the legislation. The cross benchers who aren't Nick Xenophon are ropable about the proposal, viewing it as end times for micro parties.

The legislation is being examined by a super fast inquiry by the joint committee on electoral matters. I reported yesterday a submission from constitutional law expert George Williams, who thinks the package an improvement on the status quo - but he's highlighted problems. He thinks the package as it currently stands is still weighted towards the interests of the major parties rather than the interests of voters. "In particular, introducing optional preferential above-the-line voting, while retaining full preferential voting for below the line, creates an obvious and unfortunate disparity," Williams says in his submission to the inquiry. "The result will be a system in which below-the-line voting is significantly more onerous, thereby privileging the party-selected voting tickets applied in the case of an above-the-line vote."

Michelle Grattan has reported a submission from a former official of the Australian Electoral Commission (AEC), Michael Maley, who, like Williams, attacks the package as internally inconsistent. "Maley says the scheme proposed will create an anomaly never previously seen at Senate elections - identical preferences for candidates may produce a formal vote if the elector expresses them "above the line", but an informal one if they are expressed "below the line" because the ballot paper would be insufficiently completed."

The government has already had to bring forward a bunch of technical amendments when the proposal was put through the House last week - will it have to revisit the package again?

Act in haste, repent at leisure?

block-time published-time 9.23pm GMT

Looking more closely at the leaked NBN documents, the NBN Co has managed to meet only one-third of its construction ***targets*** and less than half of its design ***targets*** for fibre to the node rollout of its ambitious national broadband network. The document shows that the fibre to the node (FTTN) roll out is "significantly delayed". By 12 February, the organisation tasked with the telecommunications infrastructure project, NBC Co, had expected 94,200 construction completions of its FTTN network, but had only managed to complete 29,000 - or one-third - of its ***targets***. Final designs for FTTN rollouts are also behind schedule. Of the nearly 1,403,000 ***target***, just under 663,000 homes had had their final designs completed.

block-time updated-timeUpdated at 9.24pm GMT

block-time published-time 9.21pm GMT

To some other interesting political stories in the news cycle this morning.

* Land clearing threatens Australia's climate ***targets***

My colleague Lenore Taylor reports that a land-clearing surge in Queensland is set to create additional carbon dioxide ***emissions*** in just three years that are equivalent to those the federal government claims it is avoiding by paying other farmers over $670m to stop cutting down trees, according to a new analysis. "The Queensland land clearing along with weakening land clearing laws in several other states are threatening Australia's chances of meeting the climate change ***targets*** it pledged in Paris last year and raising questions about the coalition's "Direct Action" climate policy," she says.

* NBN dramas

Mark Kenny from Fairfax Media reports (via leaked internal documents) that the NBN is being plagued by delays and rising costs. "By the company's own assessment, the giant infrastructure project has fallen two-thirds short of its benchmark construction timetable. Connection costs to each house or business are also blowing out."

* Boilover in New England?

My colleague Gabrielle Chan has obtained a poll that suggests the former independent, Tony Windsor, could potentially beat the deputy prime minister Barnaby Joyce in his seat of New England. "A Reachtel poll of 712 residents in the seat of New England conducted on 11 January found 32.2% would vote for Windsor as their first preference if he returned - compared with 39.5% for Joyce. The poll found 11.2% would vote for Labor and 4.6% would vote for the Greens with 6.2% nominating others including other independents with 5.1% undecided. The Palmer United Party attracted just 1.3%. The polling results suggest if the majority of Labor and Greens preferences flowed towards Windsor, Joyce - who has been Nationals leader for less than three weeks - could lose New England."

block-time published-time 9.09pm GMT

West Australian Liberal, Chris Back, on the ABC.

I don't see any reason at all to change the negative gearing processes.

block-time published-time 9.04pm GMT

Welcome to Monday

Hello delightful people and welcome to Monday in Canberra, where the sky is glowering and the humidity is rising and your live blogger is relentlessly stimulant free, just high on politics. And why not? Another parliamentary week looms full of mayhem, mystery and misadventure.

Monday morning thus far has been an orderly business. The early morning news is dominated by Cardinal George Pell and the evidence he will shortly give in Rome to the royal commission into child abuse - and by various pundits who have very strong feelings that this will be Leo's year at the Oscars.

When we roll round to federal politics, the main theme, as it was last week, is tax, and specifically what the government will or won't do when it comes to tax reform.

It was beginning to be known late last week, but the prime minister took steps on the weekend to make it officially known that the government would produce a tax policy in advance of the May budget. No-one I spoke to yesterday was prepared to venture a concrete timing for said policy, but Laura Tingle in the Financial Review this morning says April, which is as good a punt as any given April sits neatly between the March parliamentary sittings and the May budget.

Some necessary context to explain this decision. Readers with me last week will know the government decided to go hell for leather slamming Labor's policy on negative gearing. But the government learned last week that it is very hard to go hell for leather on an alternative policy if: 1. You don't have a policy yourself; and 2. You are leaving open the option of doing something yourself to wind back negative gearing concessions. Hence the judgment from the Turnbull brains trust that the tax policy release could not wait until the budget.

The other factor looming broodingly in the background is the strong possibility that the government will bring down a budget and sprint off immediately into an election campaign. A pre-budget release of the tax policy would have an added benefit: it would allow a certain amount of dust to settle when it comes to tax, it would give voters five minutes to think about the alternative proposals on offer before being herded into their nearest polling place.

In any case, various backbenchers aren't waiting for April to make their views known. I've quoted two in a story I wrote yesterday: Victorian Liberal Russell Broadbent is relaxed about the prime minister looking at negative gearing, while South Australian Cory Bernardi is in 'over my dead body' territory. On ABC radio this morning, West Australian Chris Back is also with Bernardi as president of the 'not on your negative gearing nelly' chapter of the Coalition party room. The restiveness points to an interesting Coalition party room meeting on Tuesday, or perhaps an interesting meeting before. The government's backbench economics committee meets Monday morning, and the treasurer Scott Morrison suggested over the weekend that interested parliamentarians could just show up.

Enough about me, and them. More about you. Today's comments thread is wide open for your business. Mikearoo and I are also limbering up our hamstrings on the twits. He's @mpbowers and I'm @murpharoo You can find us there.

Hold onto your losses folks, here comes Monday.

**Load-Date:** February 29, 2016

**End of Document**



[***-Deere Announces Second-Quarter Earnings of $ 495 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JV8-66R1-JD3Y-Y24X-00000-00&context=1516831)

ENP Newswire

May 23, 2016 Monday

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**Length:** 3091 words

**Body**

MOLINE, Illinois - Net income attributable to Deere & Company was $ 495.4 million, or $ 1.56 per share, for the second quarter ended April 30, compared with $ 690.5 million, or $ 2.03 per share, for the same period last year.

For the first six months of the year, net income attributable to Deere & Company was $ 749.8 million, or $ 2.36 per share, compared with $ 1.077 billion, or $ 3.14 per share, last year.

Worldwide net sales and revenues decreased 4 percent, to $ 7.875 billion, for the second quarter and declined 8 percent, to $ 13.400 billion, for six months. Net sales of the equipment operations were $ 7.107 billion for the quarter and $ 11.876 billion for the first six months, compared with $ 7.399 billion and $ 13.004 billion for the periods last year.

'John Deere's second-quarter performance reflected the continuing impact of the downturn in the global farm economy and further weakness in the construction equipment sector,' said Samuel R. Allen, chairman and chief executive officer. 'In the face of challenging market conditions, Deere's businesses benefited from the sound execution of operating plans, the strength of a broad product portfolio and our success creating a more flexible cost structure.'

Summary of Operations

Net sales of the worldwide equipment operations declined 4 percent for the quarter and 9 percent for the first six months compared with the same periods a year ago. Sales included price realization of 1 percent for both periods and an unfavorable currency-translation effect of 2 percent for the quarter and 3 percent for six months. Equipment net sales in the United States and Canada decreased 6 percent for the quarter and 11 percent year to date. Outside the U.S. and Canada, net sales decreased 1 percent for the quarter and 4 percent for the first six months, with unfavorable currency-translation effects of 4 percent and 7 percent for the periods.

Deere's equipment operations reported operating profit of $ 688 million for the quarter and $ 902 million for six months, compared with $ 828 million and $ 1.242 billion last year. The declines for both periods were primarily due to lower shipment volumes, the unfavorable effects of foreign-currency exchange and the impact of a less favorable product mix. These factors were partially offset by price realization, lower production costs and lower selling, administrative and general expenses.

Net income of the company's equipment operations was $ 393 million for the second quarter and $ 520 million for the first six months, compared with $ 524 million and $ 764 million for the corresponding periods of 2015.

Financial services reported net income attributable to Deere & Company of $ 102.6 million for the quarter and $ 232.0 million for six months compared with $ 169.8 million and $ 326.6 million last year. Lower results for both periods were primarily due to higher losses on lease residual values, less-favorable financing spreads and a higher provision for credit losses. Results for the first six months were also affected by the unfavorable effects of foreign-currency exchange translation. Prior-year results benefited from a gain on the sale of the crop insurance business.

Company Outlook & Summary

Company equipment sales are projected to decrease about 9 percent for fiscal 2016 and to be about 12 percent lower for the third quarter compared with year-ago periods. Included in the forecast is a negative foreign-currency translation effect of about 2 percent for the full year and 1 percent in the third quarter. For fiscal 2016, net income attributable to Deere & Company is anticipated to be about $ 1.2 billion.

'Although our forecast calls for lower results this year in light of ongoing market pressures, Deere is continuing to perform at a much higher level than in previous downturns,' Allen said. 'Deere's financial condition remains strong and we believe the company is well-positioned to capitalize on attractive growth opportunities that will deliver value to our customers and investors in the future. At the same time, we are continuing to focus on ways to streamline our operations and make them more efficient and profitable.'

Equipment Division Performance

***Agriculture*** & Turf. Sales were approximately the same for the quarter and down 5 percent for six months. The decline year-to-date was due largely to lower shipment volumes. Results for both periods were impacted by the unfavorable effects of foreign- currency translation, partially offset by price realization.

Operating profit was $ 614 million for the quarter and $ 759 million year to date, compared with $ 639 million and $ 907 million, respectively, last year. Lower results for both periods were driven primarily by the unfavorable effects of foreign-currency exchange, lower shipment volumes and a less favorable product mix, partially offset by price realization, lower production costs and lower selling, administrative and general expenses.

Construction & Forestry. Construction and forestry sales decreased 16 percent for the quarter and 20 percent for six months mainly as a result of lower shipment volumes and higher sales-incentive costs.

Operating profit was $ 74 million for the quarter and $ 143 million for six months, compared with $ 189 million and $ 335 million for the periods last year. Operating profit decreased for the quarter mainly due to lower shipment volumes, higher sales-incentive costs and a less favorable product mix, partially offset by lower production costs and lower selling, administrative and general expenses. Six-month results decreased primarily due to lower shipment volumes and higher sales-incentive costs, partially offset by lower selling, administrative and general expenses and lower production costs.

Market Conditions & Outlook

***Agriculture*** & Turf. Deere's worldwide sales of ***agriculture*** and turf equipment are forecast to decrease by about 8 percent for fiscal-year 2016, including a negative currency-translation effect of about 2 percent.

Industry sales for ***agricultural*** equipment in the U.S. and Canada are forecast to be down 15 to 20 percent for 2016. The decline, reflecting the impact of low commodity prices and stagnant farm incomes, is expected to be most pronounced in the sale of higher-horsepower models.

Full-year 2016 industry sales in the EU28 are forecast to be flat to down 5 percent, with the decline attributable to low commodity prices and farm incomes, including continued pressure on the dairy sector. In South America, industry sales of tractors and combines are projected to be down 15 to 20 percent mainly as a result of economic and political concerns in Brazil. Asian sales are projected to be flat to down slightly, due in part to weakness in China.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to be flat to up 5 percent for 2016. Deere sales are expected to benefit from new products and general economic growth.

Construction & Forestry. Deere's worldwide sales of construction and forestry equipment are forecast to be down about 13 percent for 2016, including a negative currency-translation effect of about 1 percent. The forecast decline in sales largely reflects the impact of weak conditions in North America. In forestry, global industry sales are expected to be down 5 to 10 percent from last year's strong levels.

Financial Services. Fiscal-year 2016 net income attributable to Deere & Company for the financial services operations is expected to be approximately $ 480 million. The outlook reflects less-favorable financing spreads, higher losses on lease residual values and an increased provision for credit losses. Additionally, 2015 results benefited from a gain on the sale of the crop insurance business.

John Deere Capital Corporation

The following is disclosed on behalf of the company's financial services subsidiary, John Deere Capital Corporation (JDCC), in connection with the disclosure requirements applicable to its periodic issuance of debt securities in the public market.

Net income attributable to John Deere Capital Corporation was $ 69.6 million for the second quarter and $ 169.4 million year to date, compared with $ 115.9 million and $ 249.5 million for the respective periods last year. The decline for both periods was primarily due to higher losses on lease residual values, less-favorable financing spreads and a higher provision for credit losses.

Net receivables and leases financed by JDCC were $ 33.208 billion at April 30, 2016, compared with $ 32.877 billion last year.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under 'Company Outlook & Summary,' 'Market Conditions & Outlook,' and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company's businesses.

The company's ***agricultural*** equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers' confidence and financial condition.

These factors include demand for ***agricultural*** products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.), international reaction to such programs, changes in environmental regulations and their impact on farming practices; changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results.

Customer and company operations and results could be affected by changes in weather patterns; the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates.

Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results.

Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers to comply with laws, regulations and company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; events that damage the company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; changes in demand and pricing for used equipment; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; security breaches and other disruptions to the company's and suppliers' information technology infrastructure and changes in company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, to fund operations and costs associated with engaging in diversified funding activities, and to fund purchases of the company's products. If general economic conditions deteriorate or capital markets become more volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included in the company's other filings with the SEC.

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[Editorial queries for this story should be sent to [*newswire@enpublishing.co.uk*](mailto:newswire@enpublishing.co.uk) ]

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**End of Document**



[***-Deere Announces Second-Quarter Earnings of $ 495 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JV8-66R1-JD3Y-Y1VK-00000-00&context=1516831)

ENP Newswire

May 23, 2016 Monday

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**Length:** 3123 words

**Body**

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Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs. Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment. All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results. Customer and company operations and results could be affected by changes in weather patterns; the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics. Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings. Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses. Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers to comply with laws, regulations and company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; events that damage the company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; changes in demand and pricing for used equipment; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; security breaches and other disruptions to the company's and suppliers' information technology infrastructure; and changes in company declared dividends and common stock issuances and repurchases. Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action. The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, to fund operations and costs associated with engaging in diversified funding activities, and to fund purchases of the company's products. If general economic conditions deteriorate or capital markets become more volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses. The company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included in the company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q). [Editorial queries for this story should be sent to [*newswire@enpublishing.co.uk*](mailto:newswire@enpublishing.co.uk) ]

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[***Letters to the editor***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5HRH-G8W1-F0JC-M4RG-00000-00&context=1516831)

Craven Herald

December 31, 2015 Thursday

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**Section:** READERS' LETTERS

**Length:** 2888 words

**Body**

AT the Brightenber Hill wind turbines planning meeting on September 3, 2012, I expressed the view that recent flooding events in Craven resulting, among other things in the unprecedented cancellation of the Great Yorkshire Show, was due in part to the effects of climate change.

This view was loudly derided at the meeting by the so-called Friends of Craven Landscape (FoCL), and also by one of the councillors on the planning committee who, referring to me as "the Scottish gentleman", condescendingly pointed out that I may not be aware that it rains in Yorkshire as well as in Scotland. My views were later also derided by Peter Rigby in your letters column as being "unsustainable green hogwash".

I can't help but wonder whether seeing large tracts of Craven's landscape submerged under muddy sewage infested water in recent weeks has in any way awoken these parties to the harm being done to our environment by the burning of fossil fuels.

It would appear not if Julian Smith's response to criticism of his support for fracking, reported in the article in last week's Herald 'Outrageous MP votes to frack', is anything to go by. Mr Smith's response that the focus is on lowering bills for consumers is counter to the argument that ***reducing*** ***energy*** usage should be at the forefront of cutting ***greenhouse gas*** ***emissions***.

If the full costs of the consequences of the climate change we are seeing today were applied to ***energy*** prices from burning fossil fuels in ever-increasing quantities, including shale gas, there would be a marked increase in the uptake of measures to insulate homes and save electricity.

Instead government support of such measures has been withdrawn.

To quote David Cameron in his speech to delegates from 195 nations at the opening of the climate change summit meeting in Paris this month: "Instead of making excuses tomorrow to our children and grandchildren, we should be taking action against climate change today."

Exactly what party line is it that Mr Smith is toe-ing?

SANDY TOD

Malham

BACK in the 1970s while a student at ***agricultural*** college, I wrote a thesis on upland drainage. How I eulogised about the benefits of draining the moors (moorland gripping), the upland pastures and the lowland water meadows. It would be great for ***agriculture***, increasing yield per hectare and profit for the farmer.

What I didn't see back then is that the moorland grips would become eroded into ditches which are now taking surface water straight down the valley into the streams and eventually into the rivers. The water meadows that used to hold water and release it gradually now spew the water straight down river into our towns and cities. This is clearly demonstrated each winter when the river levels quickly rise and fall back down just as fast.

Back in the days before upland drainage, the river levels remained high throughout the winter months as the water from the moors and water meadows was gradually released back into the river systems irrespective of rainfall.

A few years ago I listened to the then head of the Environment Agency stating: "It is my job to get the water off the land and into the sea as quickly as possible". How shortsighted this has turned out to be. They have built bigger flood defences and dredged deeper channels but, faced with the inundations of the last couple of decades, it can never be enough. As for the misguided decisions to build on old flood plains - enough said.

It seems we are faced with ever increasing deluge but hopefully the new flood relief scheme Skipton is embarking on will save the town from flooding once completed. This is intended to work by holding back upland streams with the use of dams and then releasing the water slowly over a period of time - acting like the old undrained moors and water meadows!

NICK SANDS

Gargrave

ON behalf of Yorkshire Dales Millennium Trust, I'd like to thank the many individuals, businesses and partner organisations that provided expertise, enthusiasm and financial support to help make our work possible over the last 12 months.

The landscape, environment and communities of the Yorkshire Dales are at the heart of our work, and I am delighted to say that we'll be launching a new community grant fund in 2016 to support local people, organisations and initiatives, as well as continuing our existing work.

2015 saw the tenth anniversary of our 'People and the DALES' project, which provides life-changing opportunities for disadvantaged community groups. Over the last decade we have brought more than 7,600 people to the Yorkshire Dales to experience the health and well-being benefits of spending time in the countryside, often for the first time.

More than 7,400 people took part in our annual Flowers of the Dales Festival, which this year brought together 100-plus events led by experts and enthusiasts across the region. More than 30,000 people have now taken part in fun and educational events inspired by nature and wildflowers since the first festival in 2009, and I'd like to say a big thank you to players of People's Postcode Lottery for supporting this project, and many others.

Environmental conservation has been another key focus, and with support from landowners and partners including the Yorkshire Dales National Park Authority, Forestry Commission and the Fuelcard Company, we have continued to restore native broadleaf woodlands across the region. More than 1.2 million new trees have been planted to date, and we are looking forward to supporting other like-minded landowners with grants for tree planting in the coming year.

And 2016 looks set to be another exciting year here at the trust, with the tenth anniversary of wildflower hay meadow restoration through the 'Hay Time' project on the horizon, and several ambitious new projects in the pipeline - we'll look forward to sharing details in due course.

DAVID SHARROD

Director, Yorkshire Dales Millennium Trust, Clapham

ARE local residents aware of what is about to happen under their very feet? Licences have now been issued by central government which will allow private companies to extract shale gas by means of hydraulic fracturing (fracking) in areas of northern England. North Yorkshire contains a number of these proposed sites.

Fracking involves drilling vertically to reach the gas bearing strata and then the drill is turned laterally so that bores are sent out horizontally. High pressure liquid (predominately water and sand but also containing chemicals known to be toxic) is then pumped into these bores to crack open or 'frack' the rock and release the trapped gas.

In already fracked regions of the world such as Australia and the US there is now compelling evidence that this practice can lead to a number of environmental and social issues including contamination of the water table; noise pollution from pumping stations; air pollution from flaring; sickness clusters around fracking sites; significant increases in heavy vehicle traffic; and triggering of localised earthquakes.

Furthermore, as already evidenced in Lancashire, fracking or even the threat of fracking can seriously damage property values. The government clearly want to press ahead with fracking but seem to be leery of disturbing the Home Counties Tory heartland. So they appear to have taken the advice of Lord Howell (a former ***energy*** secretary and father-in-law to George Osborne) and are trying their luck in the 'desolate north'.

Which raises the question of where do the loyalties of our local parliamentary representative rest? Will he do the bidding of Tory central office and risk defiling this area of outstanding beauty - or will he stand up for us?

MIKE KNOX

Water Street, Skipton

WHILE North Yorkshire County Council, like all other authorities, faces another difficult year financially, it remains determined to continue to provide the best possible service to our 700,000 residents.

Through its Stronger Communities programme, councillors and officers have worked hard to ensure that our older residents as well as those in the community of all ages who are vulnerable are well supported.

Our highways are, in the main, much improved after an additional multi-million pound investment and concerted efforts by the council and its contractors to repair the extensive damage caused by severe weather over recent winters.

By working with our population, the town and parish councils, North Yorkshire is in many fields proving to be an exemplar authority nationally, showing what can be achieved in the face of financial adversity. We have an education service of which we can be truly proud and our children and young people's service and social work practice has been applauded by government.

The response from our residents who have volunteered to help the council deliver such services as libraries and youth clubs, and who give tremendous support to vulnerable neighbours, shows what a caring community we live in.

At the start of my term of office last May, I launched a new award scheme to celebrate the work, very often unrecognised, which goes on in our communities - people who give many hours of their time to run projects, voluntary organisations, and initiatives all aimed at improving the quality of life for our residents. Their dedication has in so many cases, matched that of the county council's own staff who have been able to offer their skills and expertise to the volunteers.

The award scheme attracted nearly 120 applications and the judging teams spent many hours, initially to draw up short lists, and then to visit the finalists and decide the winners. It proved, if proof was needed, what a caring community we have. It was humbling to hear of the many activities which are carried out by people who are using a great wealth of skills and expertise to help the council ensure our residents are supported and cared for and can enjoy this wonderful county in which we are all privileged to live and work in.

One behalf of the county council, I sincerely thank all our staff and our many hundreds of volunteer helpers, for their wonderful work and wish everyone a happy, peaceful and healthy 2016.

CLLR DAVID JEFFELS

Chairman, North Yorkshire County Council

County Hall, Northallerton

I WOULD very much like to take the opportunity to thank the retailers and people of Skipton for their kind hospitality during the past few years.

I have regularly visited the town with my mother, usually on a Friday morning, and we have always felt so welcome.

My mother had a stroke a few years ago and is restricted in mobility. I am saddened to read in your paper - (Disabled parking rule-change row, December 10) - Craven District Council is going to charge blue badge holders for parking in the town car parks from the new year. Quite frankly, the excuse it has cited for making the change is disgraceful.

It would be impossible for my mother to access a car without using one of the widened disabled bays, so other bays are just not feasible.

It is always stressful finding a suitable parking space and transferring from car to wheelchair in all weathers and then ensuring the badge is properly displayed. The fact I don't have to fumble about for change or leave my mother unattended while looking for a parking meter does help a little.

Skipton is a charming town with some lovely independent shops and cafes, as well as a great market, but it is not the easiest of towns to navigate with a wheelchair.

In this season of goodwill, I would hope Mr Ellis and his team might reconsider this proposed action.

As far as I am concerned, we will be making future trips to other towns where their councils are much more welcoming.

CLIVE SMITH

Park Avenue, Otley

I REFER to the item in the recent issue of your paper relating to local bus routes, particularly when this relates to here in Barnoldswick (Councillors want later evening bus service from Skipton, October 1).

Four months ago I gave up driving having held a licence for around 65 years. Initially I found this very difficult as, any driver will know, it is so easy to take out the car even for quite short distances.

However I have come to terms with this and now make good use of the town bus service where the driver will pick up or set down a passenger at any point on the route. Additionally around 90 per cent of those who use the service are, like myself, senior citizens and it is surprising how many more folks I am getting to know.

Often when the weather is good I will manage to walk into the town centre, but with heavy shopping invariably catch the return bus to the end of the avenue on which I live. Without this local bus service many of the elderly who probably live alone would perhaps rarely leave their home.

Then, looking further afield, we have a good bus service on the Burnley to Skipton route and another, although less frequent, between Skipton, Clitheroe and Preston.

I fully appreciate that at this present time local authorities are having to make substantial financial savings and I suspect that most elderly people will have a bus pass allowing free transport. All I can say here is that as such a person I would gladly pay a small sum towards my journey if that would help towards maintaining the town's local bus service.

DENNIS CAIRNS

Pen-y-Ghent Way, Barnoldswick

WHAT has happened to the Craven Herald? I read with despair the negative slant that seems to be prevalent in recent issues, in particular the comments on the Tour de Yorkshire 2016 finishing in Settle ('Deadly bridge is too dangerous for Tour cyclists', Craven Herald, December 17).

Settle should be showcased. It is a great place to finish the race, both to celebrate the long history the area has with cycling and to introduce new people to the delights of the area. Yes it will need attention to detail and planning. That's why it is being organised with a wealth of professional expertise, marketed by our regional tourism organisation and supported by our local councils, all of who have experience organising such events. Plus the fact that ASO, the company who run the race, are experienced world leaders in cycle racing.

This prestigious event is likely to give a real boost to local businesses through extensive media coverage. Settle and the route the race takes through Craven has spectacular scenery that provides a wonderful backdrop for this race, not to mention the 'feel good factor' as residents and visitors enjoy a fun family day.

Let us all get behind this event, get the bunting out, decorate our bikes, bake buns and make sure everyone knows what a fantastic, warm welcome the cyclists and spectators can expect from 'a reet good day out in Settle'.

And hope it doesn't rain!

JEANNE CARR

Castle Hill, Settle

RECENTLY the letter pages of the Craven Herald have clearly demonstrated the deep sense of injustice with regards to Craven Council's policies towards parking facilities for our disabled and disadvantaged drivers.

A nation is judged by how it treats and responds to the needs of the disadvantaged and disabled - so must Craven District Council be judged. Both Parliament and councils are elected by the people and subject to the will of the people.

Within these principles bound by statute of law everyday decisions within our cherished democracy are taken by our local district council. It appears that Craven's leadership and their officer policy advisers consider adhering to the government's financial requests greater than the decent moral protection of those disadvantaged by this uncaring approach.

Principles of decency are above political party diktats. I shall continue to champion the cause of justice and challenge injustice where and when ever it arises.

The drivers with blue badges should be aware that a planning application has been lodged to replace the disabled parking bays on the High Street setts, outside the unused Town Hall Offices - to be used as a seating area for a further cafe/restaurant.

Of course this will be to the significant financial benefit of the owner of these setts, Craven District Council. Surely is it not time for theCraven District council to reconsider these issues?

COUNTY CLLR ROBERT G HESELTINE

Newmarket Street, Skipton

MANY people will be considering giving things up for the new year, like unhealthy food or alcohol. But you can change your life by choosing to give.

Giving blood is amazing - you can save or improve the lives of up to three people each time you donate.

We always need new donors to ensure we have the right mix of blood groups among our donors to meet patient needs in future and to replace those people who can no longer donate.

We need more than 6,000 people to donate blood every day to meet the needs of desperately ill hospital patients.

Blood and platelets are not just used after accidents. They are used for patients with cancer, anaemia, childbirth complications, and in a wide variety of life-saving procedures.

Less than three per cent of people aged 17-70 donated blood last year. Thank you to everybody who donated and helped save lives - we look forward to seeing you again in 2016.

If you've never given blood before, register to donate blood and book an appointment to donate at [*www.blood.co.uk*](http://www.blood.co.uk). Donating only takes an hour of your time.

So please start this year by changing not just your life, but someone else's life too, by giving blood.

JON LATHAM

Assistant Director, Marketing and Donor Contact Service, NHS Blood and Transplant

**Load-Date:** December 31, 2015

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[***Chinese president hopeful of enhanced strategic ties with UK***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5H5Y-7KT1-JC8S-C3W5-00000-00&context=1516831)

BBC Monitoring Asia Pacific - Political

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**Length:** 5041 words

**Body**

Text of report in English by official Chinese news agency Xinhua (New China News Agency)

Beijing, 18 Oct: Chinese President Xi Jinping conducted a written interview with Reuters on Sunday [18 October], in advance of his state visit to Britain. Following is the full text:

1. You will soon pay a state visit to the UK. It is learned that both the royal family and the government of the UK attach great importance to your visit and are making meticulous preparations for it. You visited the UK in the 1990s and what was your impression then? What do you expect from your coming visit to the UK after more than 20 years? What will be its impact on China-UK relations and China-EU relations? Some Britons fear China's intentions and believe that the British government is too eager to please China. How do you ensure that China-UK relationship is mutually beneficial?

A: I visited London, Oxford, Glasgow and Edinburgh in 1994. I was deeply impressed by the visit, particularly Britain's long history, unique culture, friendly people and its beautiful environment.

During my upcoming state visit to the UK at the invitation of Her Majesty Queen Elizabeth II, I look forward to having discussions with British leaders and engaging the British public on our bilateral ties. I hope this will chart the course for the future growth of China-UK relations, inject new impetus in practical cooperation between our two countries in all fields and enable us to jointly usher in a "golden time" for China-UK comprehensive strategic partnership.

Public opinion surveys conducted in Britain show that views of China are largely favourable among the British people. Our two peoples appreciate each other's time-honoured and unique cultures. This is an important foundation and favourable condition for growing bilateral ties. It is true that some people have some misgivings about China-UK cooperation. What I want to stress is that in today's world, no country can afford to pursue development with its door closed. One should open the door, warmly welcome friends and be hospitable to them. This is recognized international practice. The UK has stated that it will be the Western country that is most open to China. This is a visionary and strategic choice that fully meets Britain's own long-term interest. China looks forward to engaging with the UK in a wider range, at a higher level and in greater depth.

In recent years, while global growth has slowed down, China-UK investment and business cooperation has kept growing. The UK has become the EU's second largest investor in China as well as China's second largest trading partner and investment destination in the EU. China has been the UK's second largest non-EU trading partner. In 2014, China-UK trade volume for the first time exceeded 80 billion U.S. dollars, and China's import from the UK has doubled in five years. Two-way investment between China and the UK has grown rapidly. China's investment in the UK has risen at an annual rate of 71.7 per cent over the past three years. Last year, the UK investment in China increased by 87.6 per cent year-on-year, the fastest among major EU countries.

The British government has introduced ambitious plans on upgrading infrastructure, building the Northern Powerhouse in the north of England and implementing the strategy of UK Industry 2050. These plans and the "Road and Belt Initiative" and the initiatives of "Made in China 2025" and "Internet Plus" undertaken by China complement each other in many ways. China is ready to partner with the UK in the spirit of inclusiveness, opening up and seeking win-win progress through cooperation to upgrade and expand cooperation to deliver more benefits to our two peoples.

This year marks the beginning of the second decade of the China-UK comprehensive strategic partnership and the 40th anniversary of China-EU diplomatic ties. Both China-UK relationship and China-EU relationship face important opportunities to build on past success for new progress. Since the UK is an important member of the EU, China-UK relationship and China-EU relationship reinforce each other. During my visit to the EU Headquarters last year, EU leaders and I agreed to build China-EU partnership of peace, growth, reform and civilization. I believe new progress in China-UK relationship will inject new momentum into the growth of China-EU relationship across the board and make new contribution to the building of China-EU partnership as a whole.

2. London is one of the world's financial centres, and is keen to play an important role in China's financial development, whether by serving as an offshore trading hub for the renminbi or by possibly one day having a trading link between London and Shanghai stock exchanges. What role do you envision London playing in the modernization and globalization of the Chinese currency and stock markets?

A: The reform and opening up of China's financial sector has made remarkable progress since China embarked on the path of reform and opening up 37 years ago. This has been especially obvious in the past several years. China will continue to adopt multiple measures to advance the reform and opening up of its financial sector so that its financial market can better adapt to financial modernization and globalization.

As one of the global financial centers, London is an important pump station in the world economic lifeline, so to speak. Strengthened financial cooperation with London is definitely a win-win choice for both countries. China-UK financial cooperation started early. It has enjoyed rapid growth, has tremendous potential and leads China-UK cooperation in various areas. We have accomplished much in recent years. Our two countries signed the bilateral currency swap agreement. China set up an RMB clearing bank in London. The UK became the first country outside Asia to obtain the RQFII initial investment quota, the first Western country to issue RMB-denominated sovereign bond and the first major developed country to include RMB into its foreign exchange reserves. This is a highlight in our bilateral cooperation.

Back in 2012, London officially launched the plan of Centre of RMB Business. London has since then become one of the most dynamic and most important RMB trading centres and offshore RMB markets. In 2014, RMB trading in London grew by 143 percent year-on-year and its RMB deposits reached 20 billion yuan, a year-on-year increase of 37 percent.

When conditions are in place, China is ready to consider strengthening the connectivity of the financial markets of the two countries. London can leverage its unique strengths in the financial field to get actively involved in the modernization and globalization of China' s financial market.

3. Chinese companies are expected to take a stake in the nuclear power plant in southwest England. This is in line with plans announced by your government earlier this year to help Chinese firms in areas such as high-speed rail and nuclear power to expand overseas. What role do you hope to see Chinese companies playing in the global markets over the next decade? Do you think that opposition could derail China's participation in such projects overseas? Will such opposition lead to fresh trade frictions? Is such state-subsidized, state-directed expansion of Chinese industry abroad fair to other market players and in line with China's professed desire for a more market-driven economy?

A: China is intensifying its reform and opening-up drive, which means both opening up its economy further to attract foreign investment and encourage Chinese firms to make overseas investment. This is natural when a country reaches a particular stage of development and when a company grows bigger, and this is what all big companies in the world are doing.

Having benefited from the world economy, Chinese companies should contribute their share to world economic development. China has grown into a global manufacturing power, with particular strengths at the middle rung of the global industrial chain. Many Chinese industrial sectors and equipment making capacity, including the building of high-speed railway and nuclear power stations as well as automobiles making, are advanced and competitive internationally, and meet the demand and absorbing capacity of many countries. China is ready to pursue cooperation of various forms with the UK and other countries in international production capacity and equipment manufacturing to synergize our respective strengths and promote each other's development. The Hinkley Point is the product of tripartite cooperation among China, the UK and France. I hope that the companies of the three countries will fully leverage their respective strengths to ensure the successful launch of this project and deliver benefits to the British people.

It is normal for a company to encounter various problems when making investment, whether domestically or overseas. When doing business, one should focus on business. Problems that occur in business operations should not be politicized, and Chinese companies should not be viewed with bias. Competition is necessary for a business to grow, and no one will give away a market to its rivals. We hope that such competition is benign and market-based. There should be no swing doors or glass doors which are placed as non-economic or non-market-based barriers. Unlike established multinational companies, Chinese companies still lack experience in making investment overseas. They need to better adapt to local laws and regulations, technological standards, marketing, human resources management rules, local cultures, etc. Chinese companies will learn a lot and emerge successful in fierce international competition.

The Chinese government supports Chinese companies in going global. But we believe that this process should be market-oriented with companies being the main driver. The role of the Chinese government is to secure and create a favorable political environment and a fair legal framework for Chinese companies. This is what all governments are doing, and I think the Western countries are doing better than us. Even under market conditions, countries support the growth of their companies in various ways, and such measures should not be all labelled as government subsidy. China's system is different from that of Western countries. Due to historical reasons, Chinese companies perform many social functions, which are hard to measure with a simple arithmetic formula.

In the coming decade, China's overseas investment will continue to grow and is forecast to reach 1.25 trillion U.S. dollars. This will provide more opportunities for China-UK cooperation. The Chinese and British companies may also engage in tripartite cooperation in developing countries to integrate the upper stream, middle stream and lower stream of the global value chain and share development opportunities.

4. Britain was the first European country to sign up for membership of the new Asian Infrastructure Investment Bank (AIIB). China has promised that the new bank will be transparent and have high governance standards. How will China ensure that the AIIB really will be transparent and have world-class governance?

A: China's initiative to establish the Asian Infrastructure Investment Bank aims to promote infrastructure development and connectivity in Asia and boost regional cooperation.

The AIIB is an international financial institution whose rules of operation are decided by its members through consultation, not by China alone. We agree that the AIIB should fully draw on the experience and practices of other multilateral development banks, observe high international standards in terms of governance structure, operation guidelines, and human resources management, and ensure its professional and efficient operation as well as transparency and integrity. During the negotiation over the AIIB agreement, 57 prospective founding members acted on the principle of openness, inclusion, professionalism and transparency, and concluded a high-quality agreement text. A total of 53 prospective founding members have signed the agreement.

I know that this agreement has drawn on the practices of existing multilateral development banks in many ways. It has also made some breakthroughs and explored new ways of operation. For example, in terms of governance structure, AIIB has, with reference to the common practice of multilateral development banks, set up a three-tiered structure, consisting of a board of governors, a board of directors and a management team. It has also put in place an oversight mechanism in line with the principle of transparency, openness, independence and accountability. It is specified in the agreement that the management team will be selected through an open, transparent and merit-based process. This is a new principle not included in the constitution of existing major multilateral development banks. Another example is that the AIIB places no restriction on the procurement of goods and services from any country, and again this is not the case in the other regional multilateral development banks.

The AIIB prospective founding members are working on the specific operation guidelines in accordance with the agreement. The relationship between the AIIB and existing multilateral development banks is a cooperative and complementary one. The AIIB will engage in cooperation with them in terms of sharing expertise, capacity building and joint financing.

. We are ready to work with the UK and all other prospective founding members to build China commends and welcomes the UK joining into the AIIB the AIIB into a professional and efficient infrastructure financing platform to contribute to the development of Asia and beyond.

5. China is playing an increasingly active role as a member of the international community, whether by helping bring peace to South Sudan or evacuating foreigners, including Britons, from the civil war in Yemen. As China's economic strength and world influence continue to grow, it needs to make more efforts to protect its rights and interests across the world. How do you see China's role in global affairs changing in the coming decade? Will it play a greater role in mediating conflicts? Will China one day replace the United States as the world's policeman and protect its interests by establishing military bases around the world?

A: China was, is and will continue to be a force for world peace, common development and international cooperation. With the increase of its overall strength, China will be able to play a more active role in international and regional affairs.

At the summits commemorating the 70th anniversary of the UN this September, I announced on behalf the Chinese government a series of initiatives, which include:

The establishment of an assistance fund for South-South cooperation with an initial pledge of 2 billion U.S. dollars;

A ten-year, 1-billion-U.S. dollar China-UN peace and development fund;

China joining the newly-established UN Peacekeeping Capability Readiness System and setting up a permanent peacekeeping police squad and a peacekeeping standby force of 8,000 troops;

The provision of 100 million U.S. dollars in military aid to the African Union in the coming five years to support the building of African Standby Force and the African Capacity for Immediate Response to Crisis.

China has been stepping up efforts for world peace and development not because it wants to become a "world cop", even less to take anyone' s place. We are always of the view that a country's affairs should be decided by its own people and the world's affairs should be managed through consultation among the peoples of all countries. China upholds the purposes and principles of the UN Charter. It pursues common, comprehensive, cooperative and sustainable security. China follows the principle of non-interference in other country's internal affairs and believes that international and regional hot spots should be resolved by peaceful means. China has declared many times that it pursues a defence policy defensive in nature and will never seek hegemony, engage in expansion or impose its own will on others.

6. China, the world's biggest ***greenhouse gas*** emitter, has pledged to bring its ***emissions*** to a peak by "around 2030" and has also said it would cut carbon intensity - the amount emitted per unit of economic output - by 60 to 65 percent below the 2005 level. As a developing country, China has stuck firmly to the principle that industrialized nations should bear most of the burden when it comes to cutting carbon ***emissions***. Is China prepared to change any of its negotiating positions or offer further compromises in order to make sure that a new global climate change deal is secured in Paris later this year?

A: Climate change is a global challenge at which no country can stand on their own. Developed and developing countries have different historical responsibilities for climate change, and different development needs and capabilities. Just like in a car race: it would be neither reasonable nor fair to apply the same speed requirements to cars which have run far ahead and those which have only just left the starting point. Developed countries should do more and lead the way in addressing climate change. This is in keeping with the important principles laid down in the UNFCCC, such as "common but differentiated responsibilities", equity and respective capabilities. This is also the hope of all developing countries.

Having said that, the principle of "common but differentiated responsibilities" does not exempt developing countries from contributing their share to global response to climate change. It is only that such contribution should be in line with their capabilities and needs. China is now the world's biggest country in ***energy*** conservation and utilization of new and renewable ***energy***. In 2014, China's per unit GDP ***energy*** consumption and CO2 ***emission*** were cut by 29.9 percent and 33.8 percent respectively from the 2005 level. China's submission to the UN of its nationally intended contributions is aimed at facilitating global climate governance, and also for the sake of China's own development. It represents China's very best effort to help achieve the goals set in the UNFCCC. China has announced the setting up of an 20-billion-RMB yuan South-South cooperation fund on climate change to help other developing countries.

The Paris Conference coming up at the end of this year is a significant milestone in the multilateral process on climate change, as it will set up post-2020 international regimes to tackle this challenge. Progress in negotiations requires flexibility of all parties, yet the basic principles of the UNFCCC need to be observed. Parties should demonstrate sincerity as much as they can, build up consensus and work toward the same goal. China is ready to play a constructive role and work for the timely conclusion of a comprehensive, balanced and strong agreement at the Paris conference.

7. China is being increasingly assertive in pushing its territorial claims in the South China Sea, which has worried many of its neighbors. China also says it will not pursue hegemony and will unswervingly stick to the path of peaceful development. Do you understand why so many of China's neighbors doubt these claims? How do you respond to accusations that China's activities in the South China Sea could be worsening the security situation in the region? What is China's ultimate aim with its current activities in the South China Sea?

A: To follow the path of peaceful development serves China's fundamental interests, and is also what regional countries and peoples expect from us. It is a strategic choice made by China that has not changed and will not change. For many years, China's active efforts for win-win cooperation with its neighbors have brought real benefits to countries and peoples in the region. Under the new circumstances, China will strive to deliver more benefits of its development to neighbouring countries and peoples. China will continue to pursue friendship and partnership with its neighbours, build a harmonious, secure and prosperous neighbourhood and follow through on its policy of amity, sincerity, mutual-benefit and inclusiveness towards its neighbours.

The islands and reefs in the South China Sea are Chinese territory since ancient times. They are left to us by our ancestors. The Chinese people will not allow anyone to infringe on China's sovereignty and related rights and interests in the South China Sea. The actions China has taken in the South China Sea are legitimate reactions to safeguard its territorial sovereignty. Expansionism refers to laying claims to land outside one's own territory. China has never done anything like that, so such doubts or accusations are unwarranted.

With the joint efforts of all parties, the situation in the South China Sea has on the whole been stable. The South China Sea provides important waterways for China's international commercial exchanges. China needs peace, security and stability in the South China Sea more than any other country. China would not want any turbulence there, still less would it be the party to stir up chaos. It is working hard to take forward consultations on a code of conduct in the South China Sea within the framework of fully and effectively implementing the Declaration on the Conduct of Parties in the South China Sea. China will continue to work with its neighbours in the South China Sea to manage disputes through institutionalized dialogue, peacefully resolve disputes through negotiation and consultation, actively explore win-win results through cooperation and joint development, and safeguard the freedom of navigation and overflight enjoyed by countries in accordance with international law. We will together endeavour to make the South China Sea a sea of peace, friendship and cooperation. And the efforts of countries in the region to maintain peace and stability there deserve more respect.

8. China has asked for international help from countries including Britain to return corruption suspects who have fled overseas. Some of these countries have complained that China is reluctant to hand over the evidence needed for them to be able to process deportation orders in court. How will China improve its cooperation with foreign countries to get these suspects back?

A: China's judicial departments would readily provide solid evidence on specific cases in international anti-corruption cooperation. China is a country with rule of law. It acts according to law and on the basis of facts both in fighting corruption within the country and carrying out international anti-corruption cooperation.

In any country, corruption is most detested by the people. International cooperation in this area is aimed at bringing criminal suspects who have committed acts of corruption and absconded overseas back to China to face justice. China and the UK have maintained sound cooperation in jointly fighting corruption and concluded the treaty for mutual legal assistance in criminal matters, which has laid the legal foundation for jointly fighting corruption.

In today's world, no country or place should provide shelter or even safe haven for corrupt elements and their proceeds of crime. What baffles the Chinese people the most is that some corrupt elements for whose crimes there are solid evidence should be able to stay at large in some countries and escape the punishment of the law by citing all kinds of excuses. Due to differences in legal systems between countries, some technical legal matters need to be worked through in international cooperation against corruption. This requires various parties to explore solutions together. In particular, anti-corruption and law enforcement agencies need to strengthen cooperation in investigation and information sharing on individual cases. I am convinced that as long as we have the political will to fight corruption, international cooperation in this field will surely yield more results.

9. China's economy and its global impact are growing bigger and bigger. Policy-makers around the world all need to know about China's economic situation more than ever before. Your government has set a ***target*** of growing the economy by around 7 percent this year. However, the economic situation appears to have deteriorated in the last several months, and many investors and economists now see this ***target*** as highly unlikely to be reached, creating great concern in global financial and commodity markets. Do you expect to meet this ***target***? What further measures do you stand ready to take in order to keep growth from slowing too much? How to maintain stability of China's financial market?

A: The Chinese economy grew by 7 percent in the first half of this year, which is consistent with the growth ***target*** of the whole year and is the fastest growth rate among major economies around the world. It is normal that an economy may grow at different speeds in different periods. It would be against the law of economics to aim for ever higher growth without any slowing down. The 7 percent growth in the first half of this year was achieved on the basis of an economy of over 10 trillion U.S. dollars. The increment is already equivalent to the annual GDP of a medium-sized country and still exceeds what was generated by double-digit growth several years ago.

As an economy closely linked to international markets, China cannot stay immune to the lackluster performance of the global economy. We do have concerns about the Chinese economy, and we are working hard to address them. We also worry about the sluggish world economy, which affects all countries, especially developing ones.

Historian Dr. Arnold Toynbee believes that "challenge and response" is an important factor underpinning the development of human civilization. China's economic development is adjusting to the new normal and experiencing growing pains of shifting from old drivers of growth to new ones. Yet the fundamentals of a steadily growing economy have remained unchanged. The new type of industrialization, IT application, urbanization and ***agricultural*** modernization that is in full swing has generated strong domestic demand and great potential for future growth. It has also made the economy more resilient and adaptable. All this, coupled with deepening structural reforms, means that China will have very promising economic prospects.

We are making coordinated efforts to promote steady growth, continued reform, structural adjustments, and higher living standards, and forestall economic risks. We will enhance macro regulation in creative ways to improve the quality and efficiency of economic development and address the lack of balance, coordination and sustainability in the economy. We will put more emphasis on innovation and consumption-driven growth. The policy on utilizing foreign investment remains unchanged. We will improve the rule of law in the commercial field, protect intellectual property rights, and promote fair competition. We will continue to promote the development of the Silk Road Economic Belt and the 21st Century Maritime Silk Road and carry out international cooperation on production capacity. Both the Chinese economy and the world economy stand to benefit in this process.

In the face of changes in the domestic and international financial markets, we have taken a number of steps including lowering the required reserve ratio and interest rates and improving the RMB exchange rate regime. These measures have helped to largely defuse risks and restore stability in the markets. Going forward, we will deepen market-oriented financial reforms according to law to cultivate an open and transparent capital market that enjoys long-term, stable and sound development. We will improve risk management, stabilize market expectations and make it easier for private capital to operate in the financial sector to better support the real economy.

10. You have said that you hope one day China will be able to host the World Cup, and that one day China could win it. You care about the sport enough that you announced big reform plans for Chinese football earlier this year. Britain is the birthplace of modern football. Is there anything China can learn from Britain in raising the level of Chinese football, and making the Chinese football industry as successful as Britain's? What is your biggest hope for Chinese football?

A: Football is the most popular sport in the world and there are over 100 million football fans in China alone. My greatest expectation on Chinese football is for the Chinese team to be one of the best in the world and for football to play an important role in making people stronger in body and mind. We will find a new way forward for the sport to flourish in China that is both consistent with the general pattern of football development and fits well with Chinese conditions. We will pursue the goals of strengthening football training for the youth, reforming the professional football system, enhancing international cooperation and boosting the football industry.

The UK has a long and proud history of football and a wealth of experience in this sport. The Premier League is one of the most influential and successful professional football leagues in the world. China and the UK have had good cooperation on football in recent years. In 2012, a cooperation program was launched to promote football in schools and the UK started to train Chinese football coaches at the grassroots level. In 2013, the Premier League and the Chinese Super League signed a letter of intent on cooperation, and David Beckham was named "ambassador for the youth football program in China and the Chinese Super League". Last month, the two countries signed an MOU to produce future stars in football. In the next five years, football training will be introduced to 20,000 Chinese schools, which means huge potential of cooperation between China and the UK in the training of players, coaches and referees.

I am confident that Chinese football will do better and make its own contribution to world football.

Source: Xinhua news agency, Beijing, in Chinese 1336gmt 18 Oct 15

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**End of Document**



[***-Deere Announces Third-Quarter Earnings of $ 512 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GS2-54G1-F0K1-N01C-00000-00&context=1516831)

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**Body**

MOLINE, Illinois - Net income attributable to Deere & Company was $ 511.6 million, or $ 1.53 per share, for the third quarter ended July 31, compared with $ 850.7 million, or $ 2.33 per share, for the same period last year.

For the first nine months of the year, net income attributable to Deere & Company was $ 1.589 billion, or $ 4.67 per share, compared with $ 2.513 billion, or $ 6.79 per share, last year.

Worldwide net sales and revenues decreased 20 percent, to $ 7.594 billion, for the third quarter and were down 18 percent, to $ 22.147 billion, for nine months. Net sales of the equipment operations were $ 6.840 billion for the quarter and $ 19.843 billion for nine months, compared with $ 8.723 billion and $ 24.918 billion for the periods last year.

'John Deere's third-quarter results reflected the continuing impact of the downturn in the farm economy as well as lower demand for construction equipment,' said Samuel R. Allen, chairman and chief executive officer. 'Nevertheless, all of Deere's businesses remained solidly profitable, benefiting from the sound execution of our business plans and the success of our efforts to develop a more agile cost structure. As a result, the company continues to be well-positioned to provide customers with technologically advanced products and services, while funding its growth plans and returning cash to stockholders.'

Summary of Operations

Net sales of the worldwide equipment operations declined 22 percent for the quarter and 20 percent for nine months compared with the same periods a year ago. Sales included price realization of 2 percent for the quarter and nine months. Additionally, sales included an unfavorable currency-translation effect of 6 percent for the quarter and 4 percent for nine months. Equipment net sales in the United States and Canada decreased 21 percent for the quarter and 17 percent year to date. Outside the U.S. and Canada, net sales fell 23 percent for the quarter and 26 percent for nine months, with unfavorable currency-translation effects of 12 percent and 9 percent for the periods.

Deere's equipment operations reported operating profit of $ 601 million for the quarter and $ 1.842 billion for nine months, compared with $ 1.135 billion and $ 3.387 billion last year. For both periods, the decline was due primarily to lower shipment volumes, the impact of a less favorable product mix, and the unfavorable effects of foreign-currency exchange. These factors were partially offset by price realization and lower production costs for the quarter and by price realization, lower selling, administrative and general expenses, and lower production costs for the year to date.

Net income of the company's equipment operations was $ 344 million for the third quarter and $ 1.109 billion for the first nine months, compared with $ 680 million and $ 2.061 billion in 2014. In addition to the operating factors mentioned above, a lower effective tax rate benefited both quarterly and year-to-date results.

Financial services reported net income attributable to Deere & Company of $ 153.4 million for the quarter and $ 480.0 million for nine months compared with $ 162.3 million and $ 452.2 million last year. Lower results for the quarter were primarily due to less favorable financing spreads, partially offset by lower selling, administrative and general expenses. Year-to-date results improved as a result of the previously announced crop insurance sale and higher crop insurance margins experienced prior to divestiture, growth in the average credit portfolio, and lower selling, administrative and general expenses, partially offset by less favorable financing spreads. Year-to-date results in 2014 also benefited from a more favorable effective tax rate.

Company Outlook & Summary

Company equipment sales are projected to decrease about 21 percent for fiscal 2015 and to be down about 24 percent for the fourth quarter compared with year-ago periods. Included in the forecast is a negative foreign-currency translation effect of about 4 percent for the full year and 5 percent for the fourth quarter. For fiscal 2015, net income attributable to Deere & Company is anticipated to be about $ 1.8 billion.

According to Allen, Deere's performance in 2015 underscores its success establishing a wider range of revenue sources and more durable business model. 'By continuing to report solid profits in a difficult environment, the company is showing great resilience and performing much better than in previous ***agricultural*** downturns.'

Longer term, Allen said he remained quite confident about the company's prospects. 'We believe our steady investment in new products and geographies will make Deere the provider of choice for a growing global customer base and that the impact of these actions will become increasingly clear when our end markets recover,' said Allen. 'In our view, favorable trends based on a growing, more affluent, and increasingly mobile population, have ample staying power. For all these reasons, we have confidence in the company's present course and its ability to deliver significant value to customers and investors in the years ahead.'

Equipment Division Performance

***Agriculture*** & Turf. Sales fell 24 percent for the quarter and 25 percent for nine months due largely to lower shipment volumes and the unfavorable effects of currency translation. These factors were partially offset by price realization.

Operating profit was $ 472 million for the quarter and $ 1.378 billion year to date, compared with $ 941 million and $ 2.967 billion, respectively, last year. Lower results for both periods were driven primarily by the impact of lower shipment volumes, a less favorable product mix, and the unfavorable effects of foreign-currency exchange. Partially offsetting these factors were price realization and lower production costs in the third quarter and price realization, lower selling, administrative and general expenses, and lower production costs for the first nine months.

Construction & Forestry. Construction and forestry sales decreased 13 percent for the quarter and were flat for the first nine months. Sales for the quarter were lower mainly as a result of lower shipment volumes and the unfavorable effects of currency translation, partially offset by price realization. On a year-to-date basis, higher shipment volumes and price realization were offset by the unfavorable effects of currency translation.

Operating profit was $ 129 million for the quarter and $ 464 million for nine months, compared with $ 194 million and $ 420 million for the corresponding periods last year. Operating profit decreased for the quarter mainly due to lower shipment volumes and the unfavorable effects of foreign-currency exchange, partially offset by price realization. Year-to-date results improved due to price realization, lower selling, administrative and general expenses, and higher shipment volumes, partially offset by unfavorable foreign-currency effects.

Market Conditions & Outlook

***Agriculture*** & Turf. Deere's worldwide sales of ***agriculture*** and turf equipment are forecast to decrease by about 25 percent for fiscal-year 2015, including a negative currency-translation effect of about 5 percent.

Lower commodity prices and falling farm incomes are continuing to pressure demand for ***agricultural*** machinery, with the declines most pronounced in higher-horsepower models. Conditions are more positive in the U.S. livestock sector, supporting some improvement in the sales of smaller sizes of equipment. Based on these factors, industry sales for ***agricultural*** equipment in the U.S. and Canada are forecast to be down about 25 percent for 2015.

Full-year 2015 industry sales in the EU28 are forecast to be down about 10 percent, with the decline attributable to lower crop prices and farm incomes as well as pressure on the dairy sector. In South America, industry sales of tractors and combines are projected to be down 20 to 25 percent mainly as a result of economic uncertainty in Brazil and higher interest rates on government-sponsored financing. Asian sales are projected to be down moderately, with most of the decline in India and China. Industry sales in the Commonwealth of Independent States are expected to be down significantly due to economic pressures and tight credit conditions.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to be flat to up 5 percent for 2015, benefiting from general economic growth.

Construction & Forestry. Deere's worldwide sales of construction and forestry equipment are forecast to be down about 5 percent for 2015, including a negative currency-translation effect of about 3 percent.

The forecast decline in sales reflects the impact of weakening conditions in the North American ***energy*** sector, as well as lower sales outside the U.S. and Canada. In forestry, global sales are expected to be flat to up 5 percent in comparison with last year's attractive levels, as gains in the U.S. and Europe are offset by declines elsewhere.

Financial Services. Fiscal-year 2015 net income attributable to Deere & Company for the financial services operations is expected to be approximately $ 630 million. The forecast improvement over last year is primarily due to the divestiture of the crop insurance business and growth in the average credit portfolio. These factors are being partially offset by less favorable financing spreads, a less favorable tax rate, and an increased provision for credit losses.

John Deere Capital Corporation

The following is disclosed on behalf of the company's financial services subsidiary, John Deere Capital Corporation (JDCC), in connection with the disclosure requirements applicable to its periodic issuance of debt securities in the public market.

Net income attributable to John Deere Capital Corporation was $ 126.9 million for the third quarter and $ 376.4 million year to date, compared with $ 129.2 million and $ 390.0 million for the respective periods last year. The decline for the quarter was primarily due to less favorable financing spreads, partially offset by lower selling, administrative and general expenses. The decline in year-to-date results was primarily due to less favorable financing spreads, partially offset by growth in the credit portfolio and lower selling, administrative and general expenses. Last year's year-to-date results also benefited from a favorable effective tax rate.

Net receivables and leases financed by JDCC were $ 33.400 billion at July 31, 2015, compared with $ 33.534 billion last year.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under 'Company Outlook & Summary,' 'Market Conditions & Outlook,' and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company's businesses.

The company's ***agricultural*** equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers' confidence. These factors include demand for ***agricultural*** products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.), international reaction to such programs, changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results.

Customer and company operations and results could be affected by changes in weather patterns (including the effects of drought and drier than normal conditions in certain markets); the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions; borrowing and repayment practices; and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***,

carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers to comply with laws, regulations and company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; events that damage the company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products;

changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs;

security breaches and other disruptions to the company's information technology infrastructure; and changes in company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, to fund operations and costs associated with engaging in diversified funding activities, and to fund purchases of the company's products. If general economic conditions deteriorate or capital markets become volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included in the company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q).

[Editorial queries for this story should be sent to [*newswire@enpublishing.co.uk*](mailto:newswire@enpublishing.co.uk) ]

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[***-Deere Announces Second-Quarter Earnings of $ 495 Million***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JV8-66R1-JD3Y-Y1RS-00000-00&context=1516831)

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**Body**

Deere Announces Second-Quarter Earnings of $ 495 Million.

Global farm recession, weak construction-equipment markets lead to lower sales and earnings for quarter and six months.

All company businesses remain profitable for both periods, aided by sound execution and disciplined cost management.

Full-year forecast calls for 9% sales decline and earnings of $ 1.2 billion.

MOLINE, Illinois - Net income attributable to Deere & Company was $ 495.4 million, or $ 1.56 per share, for the second quarter ended April 30, compared with $ 690.5 million, or $ 2.03 per share, for the same period last year.

For the first six months of the year, net income attributable to Deere & Company was $ 749.8 million, or $ 2.36 per share, compared with $ 1.077 billion, or $ 3.14 per share, last year.

Worldwide net sales and revenues decreased 4 percent, to $ 7.875 billion, for the second quarter and declined 8 percent, to $ 13.400 billion, for six months. Net sales of the equipment operations were $ 7.107 billion for the quarter and $ 11.876 billion for the first six months, compared with $ 7.399 billion and $ 13.004 billion for the periods last year.

'John Deere's second-quarter performance reflected the continuing impact of the downturn in the global farm economy and further weakness in the construction equipment sector,' said Samuel R. Allen, chairman and chief executive officer. 'In the face of challenging market conditions, Deere's businesses benefited from the sound execution of operating plans, the strength of a broad product portfolio and our success creating a more flexible cost structure.'

Summary of Operations

Net sales of the worldwide equipment operations declined 4 percent for the quarter and 9 percent for the first six months compared with the same periods a year ago. Sales included price realization of 1 percent for both periods and an unfavorable currency-translation effect of 2 percent for the quarter and 3 percent for six months. Equipment net sales in the United States and Canada decreased 6 percent for the quarter and 11 percent year to date. Outside the U.S. and Canada, net sales decreased 1 percent for the quarter and 4 percent for the first six months, with unfavorable currency-translation effects of 4 percent and 7 percent for the periods.

Deere's equipment operations reported operating profit of $ 688 million for the quarter and $ 902 million for six months, compared with $ 828 million and $ 1.242 billion last year. The declines for both periods were primarily due to lower shipment volumes, the unfavorable effects of foreign-currency exchange and the impact of a less favorable product mix. These factors were partially offset by price realization, lower production costs and lower selling, administrative and general expenses.

Net income of the company's equipment operations was $ 393 million for the second quarter and $ 520 million for the first six months, compared with $ 524 million and $ 764 million for the corresponding periods of 2015.

Financial services reported net income attributable to Deere & Company of $ 102.6 million for the quarter and $ 232.0 million for six months compared with $ 169.8 million and $ 326.6 million last year. Lower results for both periods were primarily due to higher losses on lease residual values, less-favorable financing spreads and a higher provision for credit losses. Results for the first six months were also affected by the unfavorable effects of foreign-currency exchange translation. Prior-year results benefited from a gain on the sale of the crop insurance business.

Company Outlook & Summary

Company equipment sales are projected to decrease about 9 percent for fiscal 2016 and to be about 12 percent lower for the third quarter compared with year-ago periods. Included in the forecast is a negative foreign-currency translation effect of about 2 percent for the full year and 1 percent in the third quarter. For fiscal 2016, net income attributable to Deere & Company is anticipated to be about $ 1.2 billion.

'Although our forecast calls for lower results this year in light of ongoing market pressures, Deere is continuing to perform at a much higher level than in previous downturns,' Allen said. 'Deere's financial condition remains strong and we believe the company is well-positioned to capitalize on attractive growth opportunities that will deliver value to our customers and investors in the future. At the same time, we are continuing to focus on ways to streamline our operations and make them more efficient and profitable.'

Equipment Division Performance

***Agriculture*** & Turf. Sales were approximately the same for the quarter and down 5 percent for six months. The decline year-to-date was due largely to lower shipment volumes. Results for both periods were impacted by the unfavorable effects of foreign- currency translation, partially offset by price realization.

Operating profit was $ 614 million for the quarter and $ 759 million year to date, compared with $ 639 million and $ 907 million, respectively, last year. Lower results for both periods were driven primarily by the unfavorable effects of foreign-currency exchange, lower shipment volumes and a less favorable product mix, partially offset by price realization, lower production costs and lower selling, administrative and general expenses.

Construction & Forestry. Construction and forestry sales decreased 16 percent for the quarter and 20 percent for six months mainly as a result of lower shipment volumes and higher sales-incentive costs.

Operating profit was $ 74 million for the quarter and $ 143 million for six months, compared with $ 189 million and $ 335 million for the periods last year. Operating profit decreased for the quarter mainly due to lower shipment volumes, higher sales-incentive costs and a less favorable product mix, partially offset by lower production costs and lower selling, administrative and general expenses. Six-month results decreased primarily due to lower shipment volumes and higher sales-incentive costs, partially offset by lower selling, administrative and general expenses and lower production costs.

Market Conditions & Outlook

***Agriculture*** & Turf. Deere's worldwide sales of ***agriculture*** and turf equipment are forecast to decrease by about 8 percent for fiscal-year 2016, including a negative currency-translation effect of about 2 percent.

Industry sales for ***agricultural*** equipment in the U.S. and Canada are forecast to be down 15 to 20 percent for 2016. The decline, reflecting the impact of low commodity prices and stagnant farm incomes, is expected to be most pronounced in the sale of higher-horsepower models.

Full-year 2016 industry sales in the EU28 are forecast to be flat to down 5 percent, with the decline attributable to low commodity prices and farm incomes, including continued pressure on the dairy sector. In South America, industry sales of tractors and combines are projected to be down 15 to 20 percent mainly as a result of economic and political concerns in Brazil. Asian sales are projected to be flat to down slightly, due in part to weakness in China.

Industry sales of turf and utility equipment in the U.S. and Canada are expected to be flat to up 5 percent for 2016. Deere sales are expected to benefit from new products and general economic growth.

Construction & Forestry. Deere's worldwide sales of construction and forestry equipment are forecast to be down about 13 percent for 2016, including a negative currency-translation effect of about 1 percent. The forecast decline in sales largely reflects the impact of weak conditions in North America. In forestry, global industry sales are expected to be down 5 to 10 percent from last year's strong levels.

Financial Services. Fiscal-year 2016 net income attributable to Deere & Company for the financial services operations is expected to be approximately $ 480 million. The outlook reflects less-favorable financing spreads, higher losses on lease residual values and an increased provision for credit losses. Additionally, 2015 results benefited from a gain on the sale of the crop insurance business.

John Deere Capital Corporation

The following is disclosed on behalf of the company's financial services subsidiary, John Deere Capital Corporation (JDCC), in connection with the disclosure requirements applicable to its periodic issuance of debt securities in the public market.

Net income attributable to John Deere Capital Corporation was $ 69.6 million for the second quarter and $ 169.4 million year to date, compared with $ 115.9 million and $ 249.5 million for the respective periods last year. The decline for both periods was primarily due to higher losses on lease residual values, less-favorable financing spreads and a higher provision for credit losses.

Net receivables and leases financed by JDCC were $ 33.208 billion at April 30, 2016, compared with $ 32.877 billion last year.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under 'Company Outlook & Summary,' 'Market Conditions & Outlook,' and other forward-looking statements herein that relate to future events, expectations, trends and operating periods involve certain factors that are subject to change, and important risks and uncertainties that could cause actual results to differ materially. Some of these risks and uncertainties could affect particular lines of business, while others could affect all of the company's businesses.

The company's ***agricultural*** equipment business is subject to a number of uncertainties including the many interrelated factors that affect farmers' confidence and financial condition. These factors include demand for ***agricultural*** products, world grain stocks, weather conditions (including its effects on timely planting and harvesting), soil conditions (including low subsoil moisture), harvest yields, prices for commodities and livestock, crop and livestock production expenses, availability of transport for crops, the growth and sustainability of non-food uses for some crops (including ethanol and biodiesel production), real estate values, available acreage for farming, the land ownership policies of various governments, changes in government farm programs and policies (including those in Argentina, Brazil, China, the European Union, India, Russia and the U.S.), international reaction to such programs, changes in environmental regulations and their impact on farming practices; changes in and effects of crop insurance programs, global trade agreements, animal diseases and their effects on poultry, beef and pork consumption and prices, crop pests and diseases, and the level of farm product exports (including concerns about genetically modified organisms).

Factors affecting the outlook for the company's turf and utility equipment include consumer confidence, weather conditions, customer profitability, consumer borrowing patterns, consumer purchasing preferences, housing starts, infrastructure investment, spending by municipalities and golf courses, and consumable input costs.

Consumer spending patterns, real estate and housing prices, the number of housing starts and interest rates are especially important to sales of the company's construction and forestry equipment. The levels of public and non-residential construction also impact the results of the company's construction and forestry segment. Prices for pulp, paper, lumber and structural panels are important to sales of forestry equipment.

All of the company's businesses and its reported results are affected by general economic conditions in the global markets and industries in which the company operates, especially material changes in economic activity in these markets and industries; customer confidence in general economic conditions; foreign currency exchange rates and their volatility, especially fluctuations in the value of the U.S. dollar; interest rates; and inflation and deflation rates. Government spending and taxing could adversely affect the economy, employment, consumer and corporate spending, and company results.

Customer and company operations and results could be affected by changes in weather patterns; the political and social stability of the global markets in which the company operates; the effects of, or response to, terrorism and security threats; wars and other conflicts and the threat thereof and the response thereto; natural disasters; and the spread of major epidemics.

Significant changes in market liquidity conditions and any failure to comply with financial covenants in credit agreements could impact access to funding and funding costs, which could ***reduce*** the company's earnings and cash flows. Financial market conditions could also negatively impact customer access to capital for purchases of the company's products and customer confidence and purchase decisions, borrowing and repayment practices, and the number and size of customer loan delinquencies and defaults. A debt crisis, in Europe or elsewhere, could negatively impact currencies, global financial markets, social and political stability, funding sources and costs, asset and obligation values, customers, suppliers, demand for equipment, and company operations and results. The company's investment management activities could be impaired by changes in the equity, bond and other financial markets, which would negatively affect earnings.

Additional factors that could materially affect the company's operations, access to capital, expenses and results include changes in and the impact of governmental trade, banking, monetary and fiscal policies, including financial regulatory reform and its effects on the consumer finance industry, derivatives, funding costs and other areas, and governmental programs, policies, tariffs and sanctions in particular jurisdictions or for the benefit of certain industries or sectors (including protectionist, economic, punitive and expropriation policies and trade and licensing restrictions that could disrupt international commerce); actions by the U.S. Federal Reserve Board and other central banks; actions by the U.S. Securities and Exchange Commission (SEC), the U.S. Commodity Futures Trading Commission and other financial regulators; actions by environmental, health and safety regulatory agencies, including those related to engine ***emissions***, carbon and other ***greenhouse gas*** ***emissions***, noise and the effects of climate change; changes in labor regulations; changes to accounting standards; changes in tax rates, estimates, and regulations and company actions related thereto; compliance with U.S. and foreign laws when expanding to new markets and otherwise; and actions by other regulatory bodies including changes in laws and regulations affecting the sectors in which the company operates. Trade, financial and other sanctions imposed by the U.S., the European Union, Russia and other countries could negatively impact company assets, operations, sales, forecasts and results. Customer and company operations and results also could be affected by changes to GPS radio frequency bands or their permitted uses.

Other factors that could materially affect results include production, design and technological innovations and difficulties, including capacity and supply constraints and prices; the availability and prices of strategically sourced materials, components and whole goods; delays or disruptions in the company's supply chain or the loss of liquidity by suppliers; disruptions of infrastructures that support communications, operations or distribution; the failure of suppliers to comply with laws, regulations and company policy pertaining to employment, human rights, health, safety, the environment and other ethical business practices; events that damage the company's reputation or brand; significant investigations, claims, lawsuits or other legal proceedings; start-up of new plants and new products; the success of new product initiatives and customer acceptance of new products; changes in customer product preferences and sales mix whether as a result of changes in equipment design to meet government regulations or for other reasons; gaps or limitations in rural broadband coverage, capacity and speed needed to support technology solutions; oil and ***energy*** prices, supplies and volatility; the availability and cost of freight; actions of competitors in the various industries in which the company competes, particularly price discounting; dealer practices especially as to levels of new and used field inventories; changes in demand and pricing for used equipment; labor relations and contracts; acquisitions and divestitures of businesses; the integration of new businesses; the implementation of organizational changes; difficulties related to the conversion and implementation of enterprise resource planning systems that disrupt business, negatively impact supply or distribution relationships or create higher than expected costs; security breaches and other disruptions to the company's and suppliers' information technology infrastructure; and changes in company declared dividends and common stock issuances and repurchases.

Company results are also affected by changes in the level and funding of employee retirement benefits, changes in market values of investment assets, the level of interest and discount rates, and compensation, retirement and mortality rates which impact retirement benefit costs, and significant changes in health care costs including those which may result from governmental action.

The liquidity and ongoing profitability of John Deere Capital Corporation and other credit subsidiaries depend largely on timely access to capital in order to meet future cash flow requirements, to fund operations and costs associated with engaging in diversified funding activities, and to fund purchases of the company's products. If general economic conditions deteriorate or capital markets become more volatile, funding could be unavailable or insufficient. Additionally, customer confidence levels may result in declines in credit applications and increases in delinquencies and default rates, which could materially impact write-offs and provisions for credit losses.

The company's outlook is based upon assumptions relating to the factors described above, which are sometimes based upon estimates and data prepared by government agencies. Such estimates and data are often revised. The company, except as required by law, undertakes no obligation to update or revise its outlook, whether as a result of new developments or otherwise. Further information concerning the company and its businesses, including factors that potentially could materially affect the company's financial results, is included in the company's other filings with the SEC (including, but not limited to, the factors discussed in Item 1A. Risk Factors of the company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q).

This media release, financial highlights, and more financial data are available in PDF format.

[*https://www.deere.com/en\_US/docs/Corporate/investor\_relations/pdf/financialdata/reports/2016/2016\_secondquarter.pdf*](https://www.deere.com/en_US/docs/Corporate/investor_relations/pdf/financialdata/reports/2016/2016_secondquarter.pdf)

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**End of Document**



[***How palm oil demand has left orang-utans on the brink of extinction; As an ever-increasing global trade in palm oil fuels mass deforestation in Indonesia, conservationists are fighting to save Sumatran orang-utans from near-extinction***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GGJ-8K21-F021-63WW-00000-00&context=1516831)

telegraph.co.uk

July 20, 2015 Monday 8:00 AM GMT

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**Length:** 2788 words

**Byline:** By David Higgs

**Body**

A Hollywood special-effects artist could not have created a more extraordinary, alien face. It almost appears to have been fashioned from a rusting satellite dish, cheeks broad and flattened into flanges. In the centre, formidable jaws are edged with fearsome yellow teeth, including canines that would make a lion proud. This could be a nightmare vision but for a wispy, bright, golden beard and a tousled mop of ginger hair crowning his head.

This dominant, male orang-utan lies unconscious, a cocktail of ketamine and medetomidine coursing through his veins, delivered by a tranquillising dart. He has slipped from his defiant perch in the crown of a tall tree into a catch net held taut by rescuers from HOCRU ( Human Orangutan Conflict Response Unit ), a project run by the Sumatra-based Orangutan Information Centre (OIC). It is vital the orang-utan is sedated for the minimum time, so, wrapped in the net, he has been bundled unceremoniously 300 yards through scrubby remnants of jungle, across peat swamp and muddy ditches. Now his massive head is cradled in his hand, which is the size of a tennis racket, his body lying limp on a gravel path surrounded by blue-gloved hands and surgical-masked faces. These precautions are necessary because orang-utans share 97 per cent of their DNA with humans. Being so closely related, they are susceptible to most human diseases. Of particular concern are tuberculosis, hepatitis and the herpes virus, against which they have little resistance.

The four members of HOCRU methodically check the orang-utan for signs of injury or illness. He is painfully thin and scrawny. Instead of a glorious coat of long red hair, he has large patches of bald skin. His teeth are photographed for dental records, blood samples are taken, cuts stitched and wounds sprayed with antiseptic. 'In the past three years we've rescued at least 60 and, so far, zero mortality,' the HOCRU vet, Dr Ricko Lainojaya, tells me as he injects a microchip under the orang-utan's skin. 'This one's very malnourished, maybe 40kg. An orang-utan of his age and sex should weigh 80 to 100kg.'

· Is our appetite for Nutella destroying the environment?

The organisation is dedicated to rescuing orang-utans, and this is one of the lucky ones: he will survive - for now. Ethnically cleansed from his rainforest habitat by those seeking to create an ever-greater monoculture of oil-palm trees, he is now a refugee. Like so many of his kind, with the forest and native fruit trees gone, he - along with a couple of other hapless orangs - invaded village farmland. Unfortunately for them, the penalty for crop raiding is death. In the past year irate villagers have killed two orangs in this vicinity, even though it is illegal in Indonesia to harm them. So, this is progress. Rather than exact retribution, the village elders have informed the authorities of the troublesome ape and the Forestry Department has contacted HOCRU, whose team has endured 12 hours of twisting, broken roads and frenetic traffic to drive 300 miles to the west coast of the Aceh province from Medan, the capital of North Sumatra.

The ape is lifted into a reinforced-steel transport cage that is loaded on to the back of the team's pickup. On the way to the release site back in Gunung Leuser national park, we stop briefly on the village's main street in front of the mosque. Soon a crowd of curious children, adults and elders gather around to chat with the team and peer at the cage. 'This is not only about saving an orang-utan. This is about public relations. People need to be educated,' Lainojaya says afterwards, as we head down the road, now escorted by a Forestry Department vehicle with flashing blue lights. 'We offer a win-win solution for the orang-utan and the human. In future they don't have to break the law and the orang-utan doesn't have to be killed.'

Instead of a nose, a scar crosses his face. He was struck with a machete as he clung to his mother's fur when she was killed.Dr Ian Singleton

Early the next morning, the HOCRU team arrives at the release site. The 220lb and more of cage and restless, shifting orang-utan are shouldered by the four rescuers across chest-deep swamp. They slither, slide and gasp with effort until safely inside the national park. The cage is placed next to a large tree, and immediately the door is lifted, the ape is out and up the trunk, crashing through foliage, a blur of brown skin loping up into the green canopy above, grunting a baritone of indignation.

HOCRU's dedication and professionalism is extraordinary, all the more impressive when one considers it is a small organisation yet its potential range of operation covers almost 51,000 square miles. It is a responsibility that it shares with the Sumatran Orangutan Conservation Programme (SOCP), one of several projects founded by the Swiss conservation and environmental organisation PanEco. The two latter bodies liaise closely, relying on a mix of tip-offs, intelligence and requests from the authorities to rescue wild orang-utans and confiscate those kept illegally as pets. Unless an animal can be relocated almost immediately to open forest, it is taken to the SOCP's quarantine centre and veterinary clinic, half an hour's drive from Medan, for assessment and health checks. 'Since opening in 2001 the centre has accepted around 300 apes,' Dr Ian Singleton, a world authority on orang-utans and the director of SOCP, tells me as he and the vets, Dr Yenny Saraswati and Dr Winny Pramesywari, prepare to treat 11-year-old Joey, the latest arrival.

· Pangolins: why this cute prehistoric animal is facing extinction

Singleton, a British expat and one-time Jersey zookeeper, has lived in Sumatra and worked in orang-utan conservation for more than 20 years. Fluent in Bahasa Indonesia, the official language, he knows the problems facing the orangs' advocates only too well. 'There are more orang-utans needing to be confiscated or rescued than ever before: 20, 30 plus every year in Sumatra. If you add up all the orang-utans that have gone into rescue centres in Indonesia since 1970, there must be at least 2,800 confiscations. I know of only three successful prosecutions. There is a total lack of law enforcement. And it's not poor people taking these orphans; more than three quarters are middle class, well educated. These people know they are breaking the law and should be prosecuted.'

Every orang-utan that passes through the centre has a heart-rending case history, some too appalling to relate. On the white-tiled porch of the veterinary clinic, three baby orangs are playing gleefully on a red climbing frame. Beyond is luxurious, billowing forest, resplendent in every shade of green. Bird song and insect chatter are almost deafening. One-year-old Bina Wana, a tiny mite, begins to wail. It translates easily in any language: 'I'm hungry.' His face is wrinkled with emotion but strangely lop-sided, nostrils barely visible. 'No Nose, No Nose.' The babies' 24/7 carer and surrogate mother, 20-year-old Elvi Larosa, calls his nickname affectionately as she prepares to bottle-feed. Instead of a nose, a scar crosses his face. He was struck with a machete as he clung to his mother's fur when she was killed by men clearing the forest.

The centre currently houses about 50 orang-utans, ranging from babies to fully mature adults (they reach maturity at about 15). Most are released back into the wild but a few, owing to chronic illness, major injury or other issues that compromise their chances of success, can never return. Leuser, a 20-year-old, is a case in point. With the arm strength of several men, he is in his prime, a magnificent, mature male, weighing about 220lb. Ten years ago he was brought to the centre, critically wounded. X-rays revealed he had been shot 62 times. Three slugs lodged in his eyes, leaving him permanently blind. Singleton hopes apes in predicaments such as this can be transferred to the SOCP's newest project, the Orangutan Haven. 'We want to give these guys a much better quality of life,' he says. 'They can live 40 or 50 years in captivity. We had this idea to develop an island environment where they could have grass and rocks and breeze.' So they started looking around for land and found a 120-acre site close to the quarantine centre, among rolling hills, babbling streams and mixed jungle forest, orange groves, durians and rubber trees. If funding can be found, SOCP plans to create a moated island complex - with facilities for visitors, education, research and training - that can become a centre of excellence for conservation and sustainable ***agriculture*** in Indonesia. He has a clear vision of his clientele. 'The people who live in Medan, most have never seen an orang-utan in the flesh; the decision-makers, the owners of the palm oil and mining companies, school groups, university students, tourists - these are our ***target*** audience.'

The toll on orang-utans and other denizens of the rainforest is fuelled by the alarming pace of clear-felling throughout much of northern Sumatra. 'After they've cleared the forest I go into some of these places, looking for signs of life. Every living thing, everything that crawls or slithers, even mosses and insects, are obliterated in this process. Everything that lived and breathed is dead!' Singleton pauses, exasperation etched on his face. 'These orphans are the by-product of forest loss. These are the lucky ones, the survivors of this whole process. We don't see the mothers and fathers that are killed. And even if you're not killed, or attacked by villagers in plantations, you'll still die of malnutrition and starvation.' Scientists estimate that more than 95 per cent of orang-utans living in affected forests are either killed or displaced by the process of converting forest to industrial palm-oil plantations. 'And this is not small scale,' Singleton continues. 'It's not a little plantation here and a little plantation there. It's the whole side of the island.'

· In pictures: rescuing Sumatra's endangered orang-utans

Even greater threats to orang-utans loom on the horizon. Eighty per cent of their little remaining habitat lies within the Leuser Ecosystem, situated mostly in Aceh province. Its forests are among the most biodiverse in the world, home not only to flagship species such as the Sumatran orang-utan, Sumatran tiger, Sumatran elephant and the extremely rare Sumatran rhino, but hundreds of other unique mammal, bird, reptile, amphibian, insect and plant species. Designated a 'national strategic area for environmental protection' in 2008 under Indonesian law, with four million people dependent on its forests to regulate essential water services, the area officially has a conservation status beyond even that of a national park. In 2013 the International Union for Conservation of Nature (IUCN) declared Leuser one of the 'world's most irreplaceable protected areas'.

After the devastating 2004 tsunami and the cessation of the bloody 30-year civil war between Acehnese separatists and the Indonesian government, the security of Leuser might have been assured. Instead, following the election of the new Aceh governor, Zaini Abdullah, there was consternation when in December 2013 he announced a 'new spatial plan' for Aceh that breached Indonesian law. The plan ignored the existence of the Leuser Ecosystem, opening up huge tracts of its lowland forests for new oil-palm and pulp plantations, mining and logging concessions, and it legalised numerous illegal roads already cut through its forests. Apart from the increased risk of flash floods, landslides, ***reduced*** water quality and significant local temperature increases, the plan presents myriad perils to the integrity of the rainforest. And, if that wasn't bad enough, it puts oil-palm cultivation in direct conflict with orang-utans, as both favour the same forest elevations in order to flourish. Unless the spatial plan is revoked or significantly amended, prospects for the forest, water, local people and their livelihoods, orang-utans and all the other rare, threatened species look bleak.

"These orphans are the by-product of forest loss. These are the lucky ones, the survivors"Dr Ian Singleton

During a flight from Medan, on the approach to Meulaboh airport on the west coast of Aceh, I see for the first time vast expanses of oil-palm plantations, stretching to the horizon. They form a curiously uniform landscape, a chequerboard of green rectangles, intersected by brown ditches and canals designed to drain the swampy terrain. The pattern is only broken occasionally by small, disconnected, irregular scraps of remaining forest. I'm here to visit Tripa peat swamp forest, or what little remains. Tripa is one of three such forests within the Leuser Ecosystem; the others are Kluet and Singkil, further to the south. All are unique areas of prime orang-utan habitat and home to many other rare and threatened species not found anywhere else. These peat swamp forests are peculiar to the steaming flatlands of the south-west coast of Aceh province, extending 20 miles inland, just a few yards above sea level. With rich volcanic soil, they were some of the most productive forests in Sumatra. Orang-utans thrive in lowland forests, below 3,300ft (1,000m), where native fruit trees and other food species are most abundant. Twenty-five years ago Tripa's peat swamp comprised 232 square miles of the most biodiverse rainforest in south-east Asia. In this swamp forest the unusually plentiful food supply supported at least 3,000 orangs living in densities of about 20-25 per square mile, the highest anywhere in Indonesia. Based mainly on observations in Borneo, orang-utans were traditionally thought of as solitary apes. Here, in the late 1990s, scientists such as Dr Carel van Schaik discovered Sumatran orang-utans inventing tools, passing on their learnt skills to fellow orangs and exhibiting complex social interaction not observed elsewhere in Indonesia.

Today oil palms march from the seashore to the foothills of the distant Leuser range. No more than 200 of Tripa's remarkable orangs survive in only 20-30 square miles or so of remnant forest. Most scientists consider 500 individuals to be a minimum group size of sufficient genetic variability to ensure a viable long-term population. This is typical of conventional oil-palm cultivation. It fragments forests, creating genetically isolated communities with little future. Furthermore, due to unrelenting deforestation, uncontrolled forest fires, and the combustion and oxidation of billions of tons of drying, ancient peat-swamp carbon stores, Indonesia has become the world's third largest producer of ***greenhouse gas*** ***emissions***, behind only China and the United States. In June of 2014 it was announced that Indonesia had overtaken Brazil in having the highest rate of deforestation in the world.

But we're not in Tripa to mope; we're here to celebrate. After a three-year legal challenge mounted by local community and environmental groups, the most recent permit granted to the oil-palm company PT Kallista Alam has been cancelled, so 23 square miles of what was prime peat swamp can now be restored to forest, using funding from fines for environmental damage that total around £22 million. The soft peat beneath our feet, up to 25ft deep in places, heaves and vibrates like a drum skin as a massive excavator moves in, not to rip down more trees but to pile-drive baulks of timber into the old drainage canals and clog them with freshly dredged peat. Soon the swamp will recharge with freshwater and teams will arrive with native saplings so that reforesting can begin. To the east, in Aceh's Tamiang district, chainsaw gangs are moving in. They have 12 square miles to fell, but this time - with funding from both the Leuser Conservation Forum and Forest Nature and Environment of Aceh - it's 360,000 illegal palm trees to be cut down, in preparation for reforestation. In Tripa, in the meantime, there are seven more cases due before the courts, and hundreds of illegal oil-palm concessions in need of redress. Welcome to the jungle.

You can support Sumatran orang-utan conservation in a number of ways. To donate in the UK, visit [*www.orangutans-sos.org*](http://www.orangutans-sos.org) Learn more about the SOCP at sumatranorangutan.org. Sales of Orang Utan Coffee at Waitrose help fund the SOCP; orang-utan-coffee.com. Venture Force and PanEco jointly offer groups the opportunity to take an active part in conservation; ventureforce.co.uk/wildlife-conservation

**Load-Date:** July 20, 2015

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[***Hopes high for future of Asian SRI***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5H5X-T3K1-F0GS-H2SB-00000-00&context=1516831)

Global Capital Euroweek

September 29, 2015

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**Section:** GREEN BOND,GREEN BOND MARKET,ROUNDTABLE,SRI

**Length:** 9390 words

**Byline:** Mark Baker

**Highlight:** The year 2015 has seen important progress in the field of green bond investment in Asia, with the emergence of two big new markets "" China and India. For its Tokyo roundtable, GlobalCapital invited a panel of issuers, investors, analysts and bankers to discuss the trends in the sector and the potential for development as new markets open up for the asset class across the region.

**Body**

Participants in the roundtable were:

Yoshiyuki Arima, lead financial officer, Japan, World Bank

Masanori Azuma, managing director, Nomura

Brian Cahill, managing director, head of APAC corporates and financial institutions, Moody's

Mushtaq Kapasi, head of International Capital Market Association, Asia Pacific

Mariko Kawaguchi, managing director, chief researcher, Daiwa Institute of Research

Ryohei Morita, managing director, head of debt syndicate and MTNs Japan, Barclays

Hiroyuki Nakashima, director, capital markets and funding division, Japan Bank for International Cooperation

Stefan Reiner, head of sustainable capital markets, DeutscheBank

Kenichiro Shiozawa, senior financial officer, IR Tokyo, treasury department, International Finance Corporation

Yasutoyo Takada, general manager, credit investment department, Nippon Life Insurance

Kazuyuki Takigawa, foreign fixed income chief fund manager, asset management division, Resona Bank

Takeshi Tokuda, director, international debt origination, Daiwa Securities

Pierre Van Peteghem, treasurer, Asian Development Bank

Masanori Yoshikawa, director, capital markets division, treasury department, Japan International Cooperation Agency

Mark Baker, moderator, GlobalCapital

:The green bond sector is an increasingly important sector within capital markets and although green bond issuance is down a little from last year, 2015 is still expected to be a strong year for the asset class. We've seen it spread into a number of new Asian markets, in particular India and China.

Last year we started our discussion with the issue of standards, and it seems an appropriate place to start again, not least given the proliferation in the last 12 months of entities looking to design their own standards and others providing accreditation for standards that others have designed. So I'd like to start the discussion with Mushtaq, our representative from ICMA, to outline the objectives of the best-known set of standards, the Green Bond Principles.

Mushtaq Kapasi, International Capital Market Association (ICMA): The Green Bond Principles are co-ordinated by ICMA, and they have been developed from the bottom-up, from the market itself. The effort was intended to create a set of voluntary guidelines to encourage further investment in environmentally friendly projects and to combat the effects of climate change on environmental degradation.

The goal is to increase the pool of green investments, and the idea is that if we promote a set of voluntary guidelines for the industry to follow that can evolve over time, this will act as a seal of approval to give investors high level guidance and confidence on what is green.

In my opinion the strength of the Green Bond Principles is that they involve the co-operation of a very wide section of the finance world through the inputs of issuers, investors and intermediaries represented by an executive committee. We at ICMA don't sit in a room or in a black box: we work with the GBP Executive Committee to take the practices that have already been developed within the banks and issuers and the demands of investors and build a consensus as to what the principles should be.

The Green Bond Principles are not excessively stringent. As many of you know, the principles governing green bonds within some of the development banks and some of the environmental NGOs are in many cases stricter than the principles put forth by the Green Bond Principles. This is not a problem and in some ways it is an advantage that the Green Bond Principles are easier to follow, as this encourages new entrants into the market. Although of course the criticism could be made that they are not strict enough. We believe that the principles strive to get the balance right.

There are four main principles under the voluntary guidelines of the Green Bond Principles. First is use of proceeds: a green bond should state very clearly what types of investments the proceeds will be used for and why they are beneficial for the environment. There are a number of different categories that can be considered green, such as renewable ***energy***, renewable ***agriculture***, clean water, and biodiversity, but the list is not exhaustive.

Second is a clear method and criteria for choosing projects. Again this is a matter of disclosure and having an internal procedure for deciding where that money goes. Third is segregation of proceeds: there has to be some way for investors to know how the money that has been raised through the green bond is being managed, what projects it is being put into, and what are the environmental benefits of those projects. There has to be a system in place to give investors transparency about the use of proceeds and the impact of the environmental projects.

The fourth is reporting. Many of the development banks have led the charge on this, but the basic idea on this is that there should be periodic reporting on the impact of the investments. But the basic principle here is that you should be able to measure the impact, whether it be, for example, CO2 ***reduction*** or ***energy*** saved.

As you can tell, it's very common sense-based and aims to promote the green bond market while providing as much transparency as possible.

: How important do people think the principle of having a standard set of high level guidelines is? Does that standardisation matter? And how feasible is it when you are talking about a very broad range of industries?

Yoshiyuki Arima, World Bank: Of course different issuers have varying definitions of "green" that they apply to select the kinds of projects they consider as green bond-eligible. Based on their business model and governance, they may have different policies they follow.

In the case of World Bank "" which is owned by 188 countries and lends to developing countries for poverty ***reduction*** and economic development "" our shareholders support the expansion of renewable ***energy***, for example, but prefer to exclude nuclear power plants. This is a conservative approach considering the associated environmental issues and possible risks.

Every institution considering issuing green bonds should establish guidelines that are compatible with its business model and governance. As long as they disclose the use of proceeds and expected results with transparency, it is up to investors to decide. For example, Toyota issued a green bond to finance auto loans for hybrid car buyers.

With sufficient information, investors can choose to accept bonds that support these specific activities, considering financial aspects like looking at the spread over Treasuries and other aspects to each green bond. Ithink that's fine. The market will decide.

Pierre Van Peteghem, Asian Development Bank (ADB): I'm putting myself in the shoes of investors and my view is that investors would like to see some kind of harmonisation here because they are buying a product and they want to make sure that the proceeds are going towards financing comparable activities. So I think some standardisation is definitely good for the expansion of the market, because at the end of the day the objective is to attract more private sector financing into financing green projects or climate friendly operations.

Does that mean that we have to be extremely strict? Maybe not. The whole point is to try to harmonise the way we are reporting on the impact of our operations. But in a nutshell, yes, we think standardisation is important to clarify the asset class.

Kenichiro Shiozawa, International Finance Corporation (IFC): I agree with the views shared by Arima-san and Pierre-san. IFC has also been very active from the dawn of the green bond market and in the broader SRI space. We have a lot of experience from issuance of green bonds, and we are now providing our input into global standards and best practices.

We have co-operated with ICMA on this year's second version of the Green Bond Principles. I think that there may exist possible differences between sectors and industries, but our effort is still at the starting point. There is some competition between several guidelines, but in the medium term there may be convergence between them or some commonality in the core parts, and depending on sectors there may be some additional things that can be added.

: The conclusion is perhaps that this convergence is going to be driven more by investor requirements than anything else. I'd like to bring in one of our investor representatives. Takigawa-san, when you are considering a green investment how much does it matter to you whether there are common standards? How do you compare one green bond to another green bond?

Kazuyuki Takigawa, Resona Bank: There is no difference between greens for us, except nuclear power projects. With other projects we don't see any difference.

: Is it still helpful to have a set of common standards?

Takigawa, Resona Bank: Sooner or later a general definition will be needed. We don't need a strict one, but just rough rules for the public sector and the private sector to work from.

: Mariko, we spoke about this topic when you were on the panel last year. What is your current view, not just on the development of green bonds but on the broader question of SRI standards?

Mariko Kawaguchi, Daiwa Institute of Research (DIR): This morning I was attending a committee meeting held by the consumer agency about ethical consumption, and the theme was what do you define as "ethically good"? The result was that everybody wants transparency. People can say, "~yes we're green, we're fair trade', but lots of people don't trust that easily. This may apply more to consumer goods with long and complicated supply chains, but I think it also applies to financial products. In order for consumers and investors to believe that you are really green you need some kind of clear-cut rules.

This is very important when it comes to retail investors. If it's just institutional investors like these here today, it is perhaps easier to understand because you can talk to each other and to the issuers. But when it comes to the individual investors who are buying products from them, it's more remote, so they need more criteria, a more concrete set of ideas.

: What are the panel's views on what are sometimes called pure-play green bonds, where bonds are issued by an entity that considers itself by definition green and therefore not requiring any independent labelling, or perhaps deals done where the proceeds were not specifically ***targeting*** a green project? Perhaps this is one for our banking representatives here: when you are talking to potential issuers, how much does that topic come upin discussion?

Stefan Reiner, Deutsche Bank: We have had two issuers in the market who used the proceeds for general financing purposes: Vestas and Goldwind, which was the first green bond out of China. I think it's important to have standards, but in my experience it's more important to be transparent. Whether the issuance is for general refi purposes or for a specific project, it doesn't really matter as long as the issuer is very transparent with investors about what it is doing with the money.

I think the more standards we set, the more difficult it is for new entrants to join the market. The whole purpose of green bonds is to finance climate change initiatives. At their conference in June this year in Germany, the G7 leaders committed to ensure that global warming stays below two degrees Celsius. That needs something like $21tr of green financing by 2040. In order to achieve this I think it's important to get as many issuers to the market and to fund new projects. And therefore it's important to be transparent.

Arima, World Bank: I think investors are now asking for more information than they used to, which is a good development. I have a very interesting example related to this topic. When we distributed the first Uridashi green bond in 2008, through Daiwa Securities, we just briefly explained the concept of green bonds and didn't get project-specific questions. But recently we distributed a green bond to retail investors through Nomura Securities and Azuma-san here kindly asked me to provide many project examples in Japanese and I spent all night translating so many slides!

We have to show actual examples of how we use the proceeds. Right now we have about 80 eligible projects and I am translating all the project descriptions in order to be prepared for future requests. That's a recent change.

: Azuma-san, is it your impression that this is the main new demand from investors, for transparency and disclosure on the use of proceeds?

Masanori Azuma, Nomura: Transparency and disclosure are important and I totally agree with that, but it can be very difficult to evaluate a project. For instance, you mentioned the example of nuclear earlier, and how some people see nuclear as no good. But today nuclear is the only way that clearly ***reduces*** CO2 ***emissions***. On the other hand hydropower generation is said to be good, but it is well known that you can damage the environment by building a dam. So standard setting is very difficult. Nevertheless what we need is to be able to disclose to investors what are the specific projects that are happening and then allow investors to make their own evaluation of whether a project is really good or not.

Shiozawa, IFC: Standardisation also refers to how we provide the information properly, and how to satisfy people's transparency needs. This March, IFC and World Bank, in collaboration with other MDFIs [multilateral development finance institutions], issued basic guidelines on how to publish impact reporting and this is also a long term project. Based on this, we also enhanced our impact reporting from this year and expect to receive comments from the market which we can use to improve our impact reporting in the future. This will take time but it is a healthy and interactive process.

Van Peteghem, ADB: We are all saying the same thing. I think that this transparency is the only way to go and obviously ADB subscribes wholly to that process and especially to the impact reporting, which is still at a nascent stage. We are talking about many things "" how many ***greenhouse gases*** have been avoided, the capacity in megawatts in a renewable ***energy*** power plant. But the main issue, and I agree with Stefan on this, is transparency and that's going to be asked for more and more by investors.

If we want to be able to mobilise the many trillions ofdollars needed in the upcoming years in order to face the challenges of climate change, transparency from issuers in terms of not only what they do with the funds they are raising from green bonds but also the impact they have on the environment is completely necessary for this asset class.

: What do you think is holding back that transparency at the moment, if anything? Are there problems in getting hold of that data, or is it that issuers don't see enough of an incentive to provide that level of disclosure and take the costs and time that's involved in doing that?

Van Peteghem, ADB: It's more the former than the latter, and actually if you look at all the MDBs [multilateral development banks] around this table and those who are not, they are doing this. At ADB, for example, in two clicks on our website you get to the whole green bond programme and its reporting. I am sure it is the same with the others. In terms of the use of proceeds I don't think it is an issue. But impact reporting is much more complex and that's why once again the process is still under discussion. Full standardisation there is just not possible.

One example: evaluating the amount of ***greenhouse gases*** that you do not release into the atmosphere because of one green bond "" what is it? Is it during the full use of proceeds of that green bond for a specific operation that the green bond financed? But let's remember that disbursement "" especially in project finance "" does not happen in one shot, and a green bond as we all know is one use of proceeds payment and then one bullet payment at the end.

How do you look at this? What if the project has a 35year life? Are you going to look at this 35 year life or just the amount of gases that have been avoided during the life of the bond? I'm only talking about the most straightforward example.

: I'd like to bring in JICA and JBIC here to give a bit more information specifically on the demands of the Japanese investor base. What is your perception of the kind of standardisation or disclosure requirements that exist there?

Masanori Yoshikawa, Japan International Cooperation Agency (JICA): In terms of the domestic market, we always present ourselves as an SRI-type issuer because we were established to support socio-economic development in developing countries. All our borrowing proceeds will be used for this purpose and this is defined by law. We feel it is reasonable to call ourselves an SRI-type issuer. This has been explained to domestic investors and we feel we have some understanding from them.

Hiroyuki Nakashima, Japan Bank for International Cooperation (JBIC): JBIC has not issued a green bond yet but we have so many projects that are green "" including renewable ***energy*** and also highly efficient coal-fired power plants. So our definition will be a little different from the MDBs. We haven't decided whether we will issue a green bond, but as everybody has said, transparency and accountability are the two issues which are the most important. So if we will issue in the future, we will need to prepare information on how we are using the funds to finance which projects.

Having said that, one thing that came to my mind is that with the current guidelines as prepared by ICMA and the leading MDBs, I want to know whether you had a dialogue with NGOs. Based upon our experience when we introduced environmental guidelines, at that time we involved not only lenders and borrowers but also NGOs. What happened in the current situation when you were making these guidelines? Were the thoughts of NGOs also reflected?

Kapasi, ICMA: We do have a number of NGOs involved in the Green Bond Principles, and they are certainly involved in the dialogue. But of course the Green Bond Principles themselves are the product of a consensus. To be honest there is discussion within the industry and the different players about how strict the Green Bond Principles should be, and some of the NGOs would argue, for example, that third party certification should be a requirement.

But there are other voices involved in the principles who might say, as Stefan said, that if you have guidelines that are too strict then that might discourage new entrants into the market, and therefore we would want to keep them at a level that supports the credibility of green bonds without discouraging non-MDB issuers. So the green bond principles reflect a compromise, but there is close dialogue with all the stakeholders because they have to be involved.

What we don't want as an association is to have a perception that a set of guidelines promoted by ICMA is merely the product of the financial industry. The NGOs must have a voice in developing these principles. They have in many cases better expertise and better experience in measuring environmental impact, and ways of mitigating climate change. And they have more insight sometimes into the attitudes and requirements of the retail investor base than many of the members of ICMA.

Kawaguchi, DIR: The standardisational labelling should include transparency in that process. Listening to the discussion here, you can see that it is transparent, but if you are going to sell it to other people out there you need labelling because those people are not involved in these discussions. Being able to say it is labelled this way and the label is decided by this kind of discussion with atransparent process, that will make it credible to peopleoutside.

Another thing is that you can look at other labelling markets, like sustainable forestry management, where there are several different types of labelling, such as FSC [Forest Stewardship Council]. Some issuers for example might want to use very strict criteria but others may prefer looser ones. I think you don't have to stick to just one label, but a transparent process is very important.

: There is also a role there for some of the experienced multilateral issuers who have in-house expertise at analysing and reporting to support new issuers as well, and we will come on to that later. But before we do I'd like to bring in Moody's, because in some ways the whole question of certification has parallels with the credit rating process. Brian, what scope do you think there is for traditional credit ratings agencies to contribute to green accreditation and how you are approaching that subject?

Brian Cahill, Moody's: What I've heard today is consistent with a lot of the dialogue we have heard in the last year or two, which is that there is some debate about whether there is a need for a standards-based and/or an informational product in respect of green bonds. Given our position in the fixed income markets we are obviously interested in whether there is a role we can play in respect of green bonds and that serves the needs of core customers such as issuers and institutional investors.

We have been in pretty active dialogue globally with a number of players to understand how we might meet that need. I think there are probably two or three challenges we continue to think about and they are echoed throughout this conversation today. One is, what exactly is the standard that people want, is it around the definition of "~green'? Is it around governance, accounting and reporting practices, disclosure or some combination? And then there's once you've defined it, what else do you want out of an agency, do you want them to track the proceeds and comment on how the proceeds have been used, or comment on the impact on the environment?

One thing I would emphasise is that we can't play a role unless there is transparency. We're not auditors, we can't create the transparency, all we can ultimately do is comment on what is out there in the public domain and what issuers are willing to share with us, either by providing commentary relating to some standard that we define, or in some other way. But I would say definitely that the credit rating industry has the potential to be an active participant in this business. We already rate many of the bonds as to credit, we are global and we are used to talking about standards.

: Are you having those discussions mostly with entities on the sellside or the buyside?

Cahill, Moody's: Both, but ultimately we need to understand what the buyside wants. Our product is one that is used by the buyside. I don't think the buyside necessarily understands what they need yet "" it may be that someone needs to provide a product and they say, "~yes, that's what we want'. But we are at an early stage.

Having said that, with reference to what has changed since last year, I think there is a lot of momentum. Things have certainly changed from our side, we are internally much more engaged in thinking about ESG and SRI issues than we were 12 months ago, we are open to having those dialogues, particularly so in terms of trying to understand and meet the needs of investors as they increasingly focus on ESG in fixed income.

Van Peteghem, ADB: I'd like to ask a question here. Ratings agencies are known for their main output, which is basically probability of default. That's your main output to the buyside. The whole green bond market "" where do you put the notion of credit into that, because I haven't heard that from what you have said so far. Does it have an effect on the issuer when they come out with a green bond? Where's the probability of default impacted here?

Cahill, Moody's: Well, I think it isn't, right now. If you look at the universe of green bonds that have been issued "" take whatever definition you wish "" we will have rated most of them and we will have rated them according to our usual methodologies and without reference to whether they are green or not as their structures and repayment obligations are not differentiated from ordinary bonds.

There is a broader discussion about whether ESG criteria have some role in helping identify higher or lower credit risk and that's certainly something we are actively looking at. And we want to play a role in that because the institutional market is becoming more interested in that right now. But the mere fact you have issued a green bond per se I don't think has any impact on your credit rating. It may over time, if the pool of liquidity moved away from vanilla corporate bonds and you had a much more liquid pool of capital in the green sector, then yes that could be credit-relevant.

From a credit rating perspective, we are used to providing informational products that are of interest to fixed income participants but which don't necessarily give much incremental insight into credit default risk "" we have some products we have provided in that space because we see the fixed income market is interested. That may be where we go with green bonds.

: We are moving into the area of actual issuance, and as I mentioned earlier, issuance is a little down this year although there is more diversity. So I'd like to get some thoughts from the panel on where they think activity will be coming from in the future "" which areas show the most opportunity?

Takeshi Tokuda, Daiwa Securities: I think Japan has the potential to issue more green bonds or SRI-type bonds. The Japanese market has been driven by retail investors for a long time so in order to expand the market further we need institutional investors. If Japan has those, then the SRI-type bond market in Japan will rocket, I believe. But right now on the issuer side it's going to be difficult to enter the market because of the lack of convincing reasons to come in.

Japan could also perhaps have a different type of SRI bonds. For example, there was the earthquake in 2011, and at the time everyone noticed the importance of business continuity. So maybe Japan can have business continuity as a new theme, and more themes might bring more investors in the future.

: What needs to happen to promote that development of more institutional investors?

Tokuda, Daiwa: In the global market the demand for green bonds at the early stage was from public institutions, like the Swedish public sector pension fund.

In Japan it lacks the public institutions, but for example if the Government Pension Investment Fund (GPIF) were to allocate funds to SRI products and bonds, many other pension funds would follow that standard, and so the institutional investor base would go up. That type of investor would be necessary as the model case.

I think a good example right now is insurance companies. Many are going into this market as a growth strategy right now, so maybe insurance companies can be the model case for Japanese institutional investors.

: Takada-san, maybe I can bring you in on that point. Could you outline what sort of green investments you are looking at and what you are interested in?

Yasutoyo Takada, Nippon Life Insurance: Before answering, let me explain a little about our investment philosophy. I am now in the credit investment department, which was established last year to expand our business investment opportunities in the overseas market. In Japan we are still suffering from a low interest rate environment so we have to go abroad to seek higher investment returns.

SRI is very important for us because we invest money from policyholders and they always watch how we use their money. They are often very environmentally conscious. As for green bonds, we just started to invest last year and we see some opportunities in international institutions as issuers but we see only limited corporate issuers across the world.

Last year I went to Europe to see some potential issuers, and some of them asked me what the benefit of a green bond was. They said it would cost them more and they would have to transfer the cost to investors, and so that does not make sense. I think from those conversations it will take time for many private issuers to issue green bonds.

We invested in last year's City of Paris green bond, which was the first time for them and the money was being used to construct ***energy***-efficient public housing and build a low carbon transportation system. Also this year we invested in Transport for London's first private placement issue in the green bond market. In Japan there are companies being environmentally conscious and issuing SRI statements, but we don't see any issuance activity. It will take time.

: As you mentioned before, the question for issuers is: will investors reward us for taking this step? I sense from what you are saying that you are not prepared to do that. What would have to happen do you think for you to be happy to pay a premium to buy a green bond from an issuer instead of a non-green bond?

Takada, Nippon Life: Yes, they thought that economically it doesn't make sense for them, but they also noticed that this kind of activity is good for their public image, so even though it might cost a little bit more they might still do it.

Arima, World Bank: From an issuer's viewpoint, we see it as an opportunity to engage at a different level with investors. And another important point is that we can interest a new investor base by issuing green bonds, so it can be worthwhile for issuers to make further efforts to issue green bonds.

Kapasi, ICMA: What exactly is that incremental investor base, do you think?

Arima, World Bank: I am a Japan specialist and I don't know full details on other regions. But as far as I see it, Nordic investors, for example, seem to be very keen "" like the original Swedish investors who bought the first World Bank green bond. Buying World Bank bonds wasn't on their radar in the past as much as it has been after we developed our first green bond with SEB.

We have also been able to benefit from demand from other accounts in that region, as well as from US public pension funds, who didn't previously buy World Bank bonds. Although the US is our largest shareholder, US investors aren't as familiar with the World Bank as an issuer compared to Japan. In Japan, the World Bank is very famous because we financed many Japanese corporations, but we don't finance projects in the US, so they don't know us as well.

Van Peteghem, ADB: The specifically dedicated type of investors you mentioned "" the Norwegians, the Swedish and the US as well "" will grow more in the future, and you can imagine a growth in asset managers with green dedicated funds, where only green bonds or those type of investments will be eligible.

I would like to add one thing: investor diversification is one thing but another is the cost of funds, and I think we are already there. I make one example from ADB. Weissued a $500m green bond earlier this year. It was a 10 year issue and it priced at mid-swaps plus 1bp. You have to go back to the conditions of earlier this year, but if we had issued a standard 10 year bond I think it would have cost us one or two basis points more, although probably we would have raised more money as well. The product is different so it's not surprising that at the end of the day the clearing price is not going to be the same. And it's probably going to be lower.

: We hear that many investors in Asian issuance are looking at deals from a credit perspective in the normal way, and it doesn't much matter to them whether a deal is green or not"¦

Ryohei Morita, Barclays: At Barclays, we acknowledge that there is a high level of interest from institutional investors in green bonds, but we also note the demand we have seen for private placements from issuers like the World Bank. From these private transactions, we are seeing flexibility of issuers and the development of a market not only through benchmarks. Secondly, in addition to being a lead manager, Barclays Treasury has made a commitment to invest £1bn into green bonds for its own liquidity pool, by November 2015.

Reiner, Deutsche Bank: I just wanted to make the point on pricing. As Pierre mentioned before, if you compare green bond transactions in the primary market with non-green bonds, the biggest difference is size. Usually the transactions in the green bond market are smaller, so you can't really compare the pricing, but if you watch the secondary market, you see today that green bonds tend to trade tighter than non-green bonds. You have outstanding curves from big issuers like EIB and KfW, and we can see their green bonds are trading below their non-green bonds, so there is already a differentiation between the two markets.

: Have you seen any progression at all in liquidity in the secondary market for green bonds?

Reiner, Deutsche Bank: That is certainly a point. There is some liquidity, but you can't compare it to the bigger non-green transactions. That is probably the counter-argument when you look at the secondary markets. Those green bonds trade technically tighter than non-green bonds, but that could be explained with the outstanding issue size.

Shiozawa, IFC: Let me add one comment, and it goes back to comments by Takada-san and Morita-san. Initially IFC issued green bonds to provide initial product pipeline and liquidity as well as to engage investors and to educate them about green bonds. Now our strategy is to demonstrate issuance in local currency and in more innovative formats.

In the case of private placement format, we can tailor issues to match investor needs. Also to expand the investor base we issued a renminbi-denominated green bond and subsequently a Peruvian soles green bond. Recently we also issued our first green Masala bond. Many domestic investors generally have their assets mainly in domestic currency, so if we can expand the product line "" not only in major currencies but also in private placements and in EM currencies "" we can expand our investor base. That is what IFC is also trying to do.

: Thank you for raising that, as it's a point I wanted to come on to, which is the role you can play for other issuers who are perhaps less familiar to investors. So you mentioned the Masala bond, which was where you issued your own bond to finance an investment in a bond issued by Yes Bank. ADB I know is supporting some potential issuers like Aboitiz Power "" more along the lines of a guarantee. How are you viewing that role?

Van Peteghem, ADB: There is a general role of knowledge sharing and development that organisations like ADB and colleagues from organisations around the table are supposed to play, going across a region and helping potential issuers to structure in the most cost-efficient way or perhaps in the best environmental way.

The example you mention here is part of our local currency guarantee programme where we partially guarantee bond issuers, and what is important here is that these are issues denominated in local currency because they are using the proceeds to fund operations in their countries, which generate revenues in local currency, and therefore they are not exposed to any Forex risk.

So that's the type of product we offer to them and obviously we also share our experience in the green bond market so that in the not too distant future they could bring issues into the local market themselves. And yes, IFC has just done that deal with Yes Bank in India, which we found very interesting.

: Is that structure something you would look at?

Van Peteghem, ADB: Yes. What we are talking about here is another type of product "" instead of coming up with a typical loan product that an MDB offers, coming up with an investment in a bond issue by the client. In the case of IFC they backed up with a bond issued in the offshore rupee market.

The MDBs over the years have developed a whole toolkit of financial products that addresses their client needs better because also their clients are more sophisticated.

: Can I bring in JBIC into that same point? How does that apply to your work?

Nakashima, JBIC: We have the same kinds of guarantee programmes for foreign issuers doing Samurai bonds, for example, and we can provide a guarantee and possibly we can acquire the bonds issued by borrowers. We have done this for conventional bonds, but in the future if a client wants to issue a green bond in the Samurai market maybe we can consider providing a guarantee there.

: I want to go back to a point that was alluded to earlier and which, Brian, you also raised, which is that almost all green bonds that have beenrated have been investment grade. Do you think that reflects investor preference or is it just that all markets tend to start out with the highest quality issuers?

Cahill, Moody's: Highly rated supranational banks were in the vanguard of issuing green bonds, and more recently a lot of the larger and financially stronger corporates and financial institutions, along with investment grade US municipals have been dominating as new issuers and they are helping to develop the market.

At the same time, the bonds are being sold to managers ***targeting*** their largely investment grade mandates. I would also add that spec-grade companies would tend to be private companies.

Kapasi, ICMA: From ICMA's experience the answer is fairly simple, in that in the development of the green bond market itself and the Green Bond Principles, the issuers with the most expertise and the ones leading this effort have been the MDBs who are all triple-A, and the investors who have led the effort tend to be the biginstitutional investors that are the main buyers of MDB paper.

: Is there scope for that to change over time? Are bankers increasingly having those conversations with lower rated potential issuers?

Reiner, Deutsche Bank: We did a green bond for the Brazilian food company BRF. They are triple-B rated, and those green bonds are quite interesting for the investors. We were able to broaden the typical green bond investor base from traditional triple-A buyers down the credit curve to triple-B buyers. We have a couple of issuers that are single-A or triple-B rated that are looking into green bond issuance "" this is a market which continues to broaden in terms of credit ratings.

: Let's turn to China. The scale of the environmental challenge is huge, but this also means that the country has the scope to reshape the green bond and SRI space, not least because of the potential volumes. We've seen the first issue, from Goldwind, which had third-party accreditation. And China is formulating its own green bond regulations. What does the panel think the potential might be?

Arima, World Bank: I have some interesting details here. I mentioned we have 80 projects supporting green bonds at the moment, and every day we look at our portfolio and we choose new eligible projects. As of now we have about 80 and how many do you think we financed in China? We are supporting about 30 green bond-eligible projects in China.

I think this suggests that there's great potential for a green bond market in China. Right now, triple-A issuers like us are developing the green bond market globally but I have started hearing that investors would like to seehigher potential returns and are prepared to take more risk.

Perhaps this could develop so that more investors would take on risk of particular projects in the form of project bonds, for example.

: What are the biggest challenges to developing that market, do you think? I know World Bank has had discussions around doing issuance locally in the Panda bond market, which started many years ago but has seen little issuance"¦

Arima, World Bank: Of course the liberalisation of the capital markets in China will make it easier for many issuers to access the market. Things are moving in the right direction.

: Our understanding is that there is a possibility that the planned changes to Panda bond regulations may allow proceeds to be raised onshore and taken offshore"¦

Shiozawa, IFC: We are actively issuing offshore RMB bonds, but onshore we are facing similar issues with the World Bank and other MDBs. We expect that if some deregulation happens in the future, we could be more active in the onshore market.

: Mushtaq, what's your view on the potential for China?

Kapasi, ICMA: The potential is huge. Just looking high level there are a couple of factors. One is the policy at the very highest levels, state council level, to tackle the environmental problems in China through a number of directions. One of those happens to be through the financial industry and they've made it clear from the top down that the industry has a role to play in solving the environmental problems of China.

China's government seeks stability, sustained growth and harmony. The environmental problems are threatening that social cohesion, which means it's at the very top of the priorities.

So what happens when that gets filtered down? The financial regulators are directed to develop ways to encourage investment in environmentally friendly projects, so it goes down to regulators such as the banking regulator, the securities regulator, and they will then come up with more specific solutions and more specific initiatives to encourage a greening of the financial industry.

Even though there have been some efforts by the banking regulator over the past couple of years to develop more green finance, these have applied more to the state-owned banks and haven't had a wider impact. But in the last year we've seen a big push by the People's Bank of China (PBoC) to draw from research not only onshore but across the world. ICMA is involved in this as well, but PBoC has done a monumental job in bring expertise from across the industry.

Exactly what is going to happen to encourage this development is not entirely clear, but it's clear something is going to happen. My sense right now is that PBoC is going to encourage green bond issuance by state-owned banks and corporations, in soft and more direct ways. They are making efforts to expand the investor base for onshore bonds in general and I think that will have an impact on the green bond investor base, and there may be some regulatory incentives or pushes to increase investment quotas in green bonds or to make it more economically sensible to invest in them.

Those discussions are ongoing and we expect some major moves in the market later this year.

Van Peteghem, ADB: We all know that China has by far the largest renewable ***energy*** programme in the world"" it dwarfs everything else. So the need for financing is definitely there, and yes we can talk about incentives, perhaps tax, and also the perception of the regulatory background probably needs to be improved a bit. That's probably the third element that is being worked on to see the local green bond market pick up, which I don't doubt it will.

Reiner, Deutsche Bank: For me, China is the most exciting growth story in green bonds. It's not only about international issuers tapping the market and getting the funds out, it's more that the local issuers need to raise funds.

I read that $1.6tr is needed in terms of investment in the next five years to tackle this environmental challenge"" these are not only corporates like Goldwind, but also the banks, the onshore development banks, the government banks and government-owned companies.

The only reason they haven't yet tapped the market is due to the regulatory environment. We expect the PBoC to come up with the regulations as early as Q4 this year, and then issuance will come into the market. Our forecast is for something like $5bn-$6bn for the rest of the year of Chinese issuance.

: There is going to be a challenge in disclosure and transparency, in the same way that there is in analysing any Chinese onshore credit. Brian, from your perspective would that be an obvious challenge to development? Whether investors can feel secure in terms of disclosure?

Cahill, Moody's: We now rate well over 200 Chinese entities, and many have subsidiaries listed in Hong Kong. I think the global financial markets are used to dealing with informational transparency concerns regarding China and other emerging markets. I'm not sure that is as big a barrier as you would think. Partly it depends on what is led by the market itself or what is encouraged by the regulator. If the latter, you would hope it would come with some focus on reporting needs.

There are clearly pockets in China where there is limited transparency of information, and it's very hard then to develop a standards-based product, but there's quite a bit that is transparent enough.

: On the investor side, Takada-san, could you outline what you think are the opportunities for you in China as the asset class develops?

Takada, Nippon Life: China is a big country and the size of its corporate bond market is second only to the US market. But if we see the currencies being issued, only 15% is US dollar bonds and over 80% is Chinese yuan. Our liabilities are denominated in Japanese yen, so it is difficult for us to invest in yuan.

We have to swap back into yen but the swap cost is very expensive now.

But in the future China has the potential to be an attractive market. Although it is currently facing an economic slowdown, it has a chance to grow compared to other countries and we are expecting corporates to issue US denominated bonds. On top of that China has a lot of environmental issues. They need investment to fix these, and maybe there will be a chance to invest in those areas in the future.

: Aside from China, where else in the region do you see the most opportunity from an investor perspective when looking at green?

Takada, Nippon Life: A few weeks ago I visited several Asian countries to see potential issuers and we saw some interest in issuing green bonds, including from private companies. We have seen some symbolic issues in the green bond market "" India Eximbank issued a green bond for the first time, for instance, and other countries have interest too. Next to Europe we see Asia as an important market.

: I'd like to ask everyone to sum up their thoughts from today. Is there one single development that you think will take the market forward, or perhaps something you would like to see happen? Stefan, I'd like to start with you.

Reiner, Deutsche Bank: I'd like to reiterate the point about China: I hope the regulation is announced by the end of the year and the basis is laid for new issuance of China's domestic issuers.

Kawaguchi, DIR: The discussions this year have been at a high level, which means that there are more investors and issuers concerned about the green bond market. Iwanted to point out one thing. You said that issuers are often not being rewarded when it comes to pricing. Iusually watch the equities side and regarding ESG investment in equity, investors are now expecting a win-win situation. As an investor you don't have to sacrifice your performance, and you may be able to raise your performance by integrating ESG.

So when it comes to bonds, why should you have to sacrifice? The discussion is different from the equity side. "~If you want to beat the market on a long-term basis, then consider ESG,' is what we are telling equity investors. But you can't ask bond investors to sacrifice something, so probably you have to do something in order to change the situation. You should build a framework which justifies a green bond win-win situation.

Nakashima, JBIC: This is my first time attending this meeting and I found it very interesting to hear the MDBs' experiences. I was also interested to hear the price of the green bond being a little bit tighter than conventional bonds"¦

Van Peteghem, ADB: So you're interested?

Nakashima, JBIC: I was interested, yes! And also with the diversification of the investor base, maybe we want to follow this. JBIC wants to be always a green kind of a bank, as we have done in the past in providing loans to green projects. On the funding side we haven't issued green bonds yet, but we want to study this.

Takada, Nippon Life: Last year, when we attended this meeting, at that time we had just invested in a green bond for the first time. Since last year our investments in green bonds are growing. As a company we have the ***target*** to invest about $1bn in green bonds in three years.

We are keeping in contact with potential issuers and we hope we can help improve this market.

Takigawa, Resona Bank: As a portfolio manager who manages public pension funds, my job is not only to generate excess return but also to invest in good issues.

So investing in good issuers and good projects that would lead to healthier world economic growth, I think would thereafter lead to a good return for our clients, so I would like to continue investing in SRI bonds in the years ahead.

Yoshikawa, JICA: We are very much new to the global market as an issuer and it seems that there are some differences in terms of the standards. We are not yet at the stage to consider a green bond at this moment, but it seems it will be a challenge if we have to meet all investor requirements.

: What do you think will be the biggest challenge?

Yoshikawa, JICA: To us I think it will be segregation of proceeds. Because the disbursement will be made according to the progress of the project "" it's not a one-shot disbursement "" so managing the proceeds according to the actual cash requirement for certain project groups will be the biggest challenge.

: Do you think you are now less likely or more likely to issue a green bond than you were before this discussion?

Yoshikawa, JICA: I would say it will take time"¦

Van Peteghem, ADB: That's why the pricing will remaintight!

Tokuda, Daiwa: In order for the SRI bond market to grow, as Nakashima-san said, the balance between issuer and investor perceptions towards SRI bonds is important, I think.

In the European market there are many new types of SRI bonds, like the ESG bond by Lloyds Bank, or the Sustainability bond by NRW. Although there are a lot of themes right now in the global market, I think that any overall guidelines should be mainly based on ICMA's guidelines, which, I believe, could be used for all types of SRI bonds, not just green bonds.

In the current growing trend of the SRI bond market, our role as an underwriter is to balance the issuers' needs and the investors' needs by promoting a variety of types of SRI bonds, not only green bonds, with the credibility based on ICMA's guidelines. In this way, the SRI market will develop further.

Cahill, Moody's: The one thing that we have observed is that there is a real momentum around global investors' focus on SRI and ESG. And that inevitably is going to play out in terms of portfolio mandates and the demand for green bonds.

So it seems to me this is growing and we can hear from around the table that there is a lot of thought going into this. I was very interested to hear about pricing differentials "" if the economic incentive starts building then this momentum might gain real traction quickly.

Kapasi, ICMA: I don't believe there is one silver bullet that is necessary to make the market take off. In our experience the market is the product of a constellation of different market participants promoting it. I am looking forward to more input from all the market participants and stakeholders on how the GBP should further evolve.

I think particularly in India and China you'll see more involvement from the regulatory side as well.

And I also think that you will see some more innovation in terms of structuring "" IFC's bond in India is an interesting example.

There are ideas out there for different kinds of credit structures, different kinds of securitization in the green bond space, and I think we will see some experimentation there.

Shiozawa, IFC: This year our discussion was very broad and sophisticated. We have already participated in the second version of the Green Bond Principles with the support of ICMA, so in general we are moving in a healthy and right direction. We hope that we continue our efforts to make things happen and improve.

The second thing is that if you look at the second version of the Green Bond Principles you will find four types of green bond in Appendix One: (1) a Green Use of Proceeds Bond, (2) a Green use of Proceeds Revenue Bond, (3) a Green Project Bond, and (4) a Green Securitized Bond.

Even today our discussion was mainly focused on the first type, the Green Use of Proceeds Bond. It is still in an early stage for us and it would be a future subject to discuss the other three categories. In the medium term we hope we can discuss these kinds of diversified products more actively.

: Perhaps by the time of next year's discussion?

Shiozawa, IFC: Hopefully. Finally, I remember that last year we had an earthquake here just before the discussion started, and this year we have a shaky market situation. So I wonder what kind of a shake may happen for the next discussion!

Arima, World Bank: A few months ago I had the opportunity to join a green bond panel in Beijing, hosted by HSBC. At the time, I had the impression that the basic demand from Asian investors for green bonds was very strong, but I realised that they also seem to be looking for higher risk and higher potential return types of greenbond.

The World Bank and other highly-rated issuers developed the market so far, but I have the impression that in the near future, there may be more demand from investors for more complicated structures or bonds issued by lower-rated issuers.

At the World Bank, we have always been demand driven, so of course we would like to continue issuing plain vanilla green bonds based on demand from Japanese and other investors.

But at the same time we are of course happy to work together with investors to create new types of green bonds.

For example, some investors might want to take the risk of a particular project in a particular country, with a reasonable risk/return profile. We have a "Capital at Risk" Notes programme that we could use for those types of structures, if there is interest from investors.

Van Peteghem, ADB: We at ADB remain committed and very optimistic about this asset class. As I mentioned before, this type of financing is part of our climate change financing activity, including mitigation and adaptation.

If you look at the annual programme of ADB, taking together the sovereign and non-sovereign sectors, it's about 20% of the type of operations we fund, so there is ample room on the ADB side to issue further green bonds going forward.

In 2014 we financed $2.4bn of projects that are eligible for green bond purposes.

We remain committed to the market, and we will become a regular issuer of green bonds. But I would also like to add that we are also committed qualitatively as well.

We might see at the end of the day green project bonds, but I think there is still a long way to go because the amount of regular project bonds that are issued in the world is not that many. And we also continue the collaboration with other MDBs, especially in the field of impact reporting.

Azuma, Nomura: As an investment bank we would like to make a contribution to this market. As was discussed today, there is difficulty in tying the proceeds of a bond to individual projects and although we would like to encourage the use of green bonds in private sector companies, as underwriters we would also like to be disciplined in approaching this so it will not be used merely as a means of easy financing.

Morita, Barclays: International investors are increasingly focused on ethical issues. From a lead manager's perspective on the primary side, we want to bring together the demands of issuers and investors, encouraging new issuers and especially focusing on the corporate and bank side, where we hope to see furthergrowth.

In the secondary market, Barclays has dedicated SSA Green Bond trading screens whilst Barclays and MSCI have partnered to set up a Green Bond index of green bonds, which provides an additional foundation for the development of the market.

Thirdly, as an investor too, Barclays Treasury have already shown its commitment to green bonds in its liquidity pool.

: Thank you very much everyone, that wraps up our discussion. I'm grateful to all of you for attending and contributing your insights and I hope many of you will be able to participate in similar discussions in the future.

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**Section:** 15 LAW

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**Byline:** Martin Edwards

**Body**

It is ironic that, while there is almost universal acknowledgment that, in general, renewable ***energy*** is a good thing, when it comes to specific projects, they tend to generate heated debate, both positive and negative. Recent planning case law amply demonstrates this dichotomy. For example, in one recent case in Wiltshire, a planning permission for a solar farm was quashed by the High Court, with the developer left to bear substantial costs in dismantling the part-completed farm: see Gerber v Wiltshire County Council [2015] EWHC 524 (Admin); [2015] PLSCS 78.

One reason is that making renewable ***energy*** generation cost-effective requires projects of such a scale that, inevitably, they give rise to substantial local opposition and sometimes set environmentalist against environmentalist. Whatever the rights and wrongs of any particular project, there are very few, if any, renewable ***energy*** options that come with no environmental cost.

However, in common with global initiatives to tackle the threat from climate change, the planning system in England and Wales has been subtly changed to facilitate the growth in renewable ***energy*** generation. The National Planning Policy Framework (“NPPF”) includes a whole section – section 10 – on “Meeting the challenge of climate change and coastal change”. Paragraph 93 of the NPPF states: “Planning plays a key role in helping shape places to secure radical ***reductions*** in ***greenhouse gas*** ***emissions***, minimising vulnerability and providing resilience to the impacts of climate change, and supporting the delivery of renewable and low-carbon ***energy*** and associated infrastructure.” Pretty powerful stuff, but for the developer of renewable ***energy***, it is not a case of pushing at the proverbial open door. Many obstacles may lie in the way.

Political climate

When it comes to solar PV (photovoltaic) renewable ***energy***, local government has two important roles to play. First, it plays the central role in regulating such developments through the planning system. Second, in this age of austerity, the local government sector itself can be substantial generators of renewable ***energy***, particularly solar. Writing in The Guardian on 26 September 2014, Marie Reynolds from Friends of the Earth observed that by investing in solar power on their large estates, schools can save money: 50kW solar panels make about £8,000 a year through payments from ***energy*** suppliers, exporting power to the grid and savings on in-house electricity bills. Multiply this by the 30,000 schools across the UK and the total income is in the region of £240m, which equates to the salaries of more than 6,000 teachers each year, simply from having panels sitting there on schools quietly generating ***energy*** and income.

The logic of this argument was not lost on the coalition government. On 4 November 2014, Amber Rudd, then parliamentary under secretary of state at the Department of ***Energy*** and Climate Change, wrote to all local authorities about the benefits to be had from solar ***energy***. Her letter noted that the annual cost of providing electricity to the nation’s schools was £500m, “representing a significant proportion of the education budget”.

Her letter went on to state that every school has the potential to generate its own renewable ***energy*** and identified benefits including ***reduced*** electricity bills, revenue generation (solar PV will generate a steady income stream for schools over a 20-year period – most schools can accommodate a 25kWp solar PV system, which could generate an annual income of £3,435), ***reducing*** carbon dioxide ***emissions*** and educating pupils on the benefits of sustainability by providing them with a working example of renewable technology in their own school.

But it is not just schools and local authorities that can benefit. If the income-generating potential of solar PV ***energy*** is seen by government as a clear benefit, then the same must be true for the private sector, especially as the costs of installation have dropped significantly recently.

The solar farm

Much of the current controversy surrounding solar PVs is associated with the growth in solar farms, particularly in the southern half of the country due to the relatively high solar radiation levels. Large-scale solar farms began to be developed in 2010, partly because of the feed-in tariffs that were then available, the Renewables Obligation scheme and EU Common ***Agricultural*** Policy funding.

Solar farms (sometimes called solar parks) are large-scale solar PV installations and they often cover large areas of land, sometimes more than 100 acres (bearing in mind that a typical football pitch is roughly 1.5 acres), containing around 90,000 solar panels generating upwards of 24MW. Each panel measures 1.65m by 0.99m and is 400mm thick. Over a year, it can generate enough electricity to supply 6,300 homes (based on the DECC figure of 4,192kWh used) and with an expected 30-year lifetime.

The solar panels are attached to static frames and arranged in rows (or “arrays”). The tops of the panels are typically 2.5-3m above ground level and the rows set about 3-5m apart, facing south. The angle of the panels is 20-30 degrees. The panels are blue/black in appearance and are designed to absorb, not reflect, sunlight. Nevertheless, they can be hard to miss.

One of the reasons for the controversy surrounding solar farms is that they bring drawbacks as well as benefits. The balance that has to be struck between the benefits and disadvantages of a particular solar PV farm proposal lies at the heart of the planning system. Planning policy is beginning to emerge to better enable local authorities to determine these applications and to provide both industry and the public with a clearer picture.

Legislative provision

Any proposal must be determined in accordance with section 38(6) of the Planning and Compulsory Purchase Act 2004, so it must be made in accordance with the provisions of the development plan unless material considerations indicate otherwise. The NPPF does not – indeed, cannot – change this but it is, of course, dependent on the local planning authority having an adopted development plan that contains relevant policies. If the plan is out of date, then the NPPF becomes a, if not the, major material consideration.

Paragraph 14 states that at the heart of the NPPF is a presumption in favour of sustainable development, which should be seen as a golden thread running through both plan-making and decision-taking. Chapter 10 of the NPPF also contains more specific advice. Paragraph 98 provides that local planning authorities should not require applicants for ***energy*** development to demonstrate the overall need for renewable or low-carbon ***energy*** and should recognise that even small-scale projects provide a valuable contribution to cutting ***greenhouse gas*** ***emissions***; they should approve the application if its impacts are (or can be made) acceptable. Once suitable areas for renewable and low-carbon ***energy*** have been identified in plans, local planning authorities should also expect subsequent applications for commercial-scale projects outside these areas to demonstrate that the proposed location meets the criteria used in identifying suitable areas.

As is often the case, however, there are other parts of the NPPF that may pull in a different direction. For example, the chapters dealing with the preservation of the setting of heritage assets and with the natural environment can exert an influence on the application that may lessen or negate the sustainability benefits that naturally flow from solar PV farm electricity generation. Furthermore, on occasions there may be other legal considerations that can be determinative.

For example, section 66(1) of the Planning (Listed Buildings and Conservation Areas) Act 1990 requires local planning authorities to give considerable weight and importance to the desirability of preserving the setting of heritage assets. An example of what can go wrong was seen in Gerber. However, it is necessary to sound a note of caution. It is understood that this decision is under appeal to the Court of Appeal. This is not surprising given the potential cost to the developer. Whatever the outcome, the facts of the case illustrate some of the issues present in solar PV farm applications and the tensions they can create.

In recognition of the difficult decisions that local planning authorities have to make regarding solar PV farms, on 25 March 2015 the then secretary of state for communities and local government, Eric Pickles, delivered a written statement to the House of Commons that included a section on “Solar ***energy***: protecting the local and global environment”. While broadly positive, he also said: “Protecting the global environment is not an excuse to trash the local environment. When we published our new planning guidance in support of the framework, we set out the particular factors relating to large-scale ground-mounted solar photovoltaic farms that a local council will need to consider. These include making effective use of previously developed land and, where a proposal involves ***agricultural*** land, being quite clear this is necessary and that poorer-quality land is to be used in preference to land of a higher quality.”

More specific guidance, ***targeted*** at active solar technology, can now be found in the online planning practice guidance.

Permitted development rights

The Town and Country Planning (General Permitted Development) (England) Order 2015 consolidates, for England, the Town and Country Planning (General Permitted Development) Order 1995 and the 22 instruments that have amended the 1995 Order. In addition to the consolidation, the Order also includes, in Part 14 of Schedule 2, a number of policy changes in England. These included a new permitted development right that applies to the installation, alteration or replacement of solar PV on the roofs of non-domestic buildings, up to a capacity of 1MW, subject to certain limitations. This should enable greater use of non-domestic properties to provide renewable ***energy***.

Prior approval is required to consider the design of the solar panels and, particularly, any effects from glare on occupiers of neighbouring land. The right does not apply in relation to any roof slope that fronts a highway in conservation areas, national parks, areas of outstanding natural beauty, the Broads and World Heritage sites. Nor do they apply to listed buildings or to a building within the curtilage of a listed building or scheduled monument.

This new right – effectively increasing the threshold from 50kW to 1MW – was widely welcomed, making it much easier for commercial buildings across the UK to generate their own electricity. Consequently, many warehouses, factories and offices could save money by having solar PV panels on their roofs. Before considering using these rights, it is always necessary to determine whether or not the site in question is located within one of the more sensitive areas, such as Article 2(3), 2(4) or 2(5) land – conservation areas, national parks, and so on.

Other points

Writing in Estates Gazette on 30 May 2015, Chhavie Kapoor and Mark Reading highlighted the absence of case law on the issue of whether solar panels, which receive light over neighbouring or adjoining land, can acquire a prescriptive right to receive light through 20 years’ use. The Law Commission’s view is that solar panels almost certainly cannot acquire rights to receive light and that, given the increased popularity and commercial imperative of solar PV panels, legislation may be needed to plug the gap.

At the end of March 2015, DECC rubber-stamped the “lift and shift” proposals allowing businesses to take rooftop solar panels with them when they move. From 2019, medium and large installations can be moved without losing the feed-in tariffs. Previously, those tariffs would be lost if the business moved.

This requires a legislative change and there is a four-year wait before businesses can utilise this new freedom as DECC said it would need time to “achieve the desired policy intention”. It is intended that this will only apply to other-than-standalone installations.

Martin Edwards is a barrister at Cornerstone Barristers

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Uttoxeter Advertiser

November 17, 2015 Tuesday

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**Section:** NEWS:LETTERS; Pg. 20-21

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**Body**

WE already have applications for 201 new houses, representing a 33 per cent increase in the size of this small rural village, and now we have yet another developer who would like to create something none of us want.

Gladman has initiated a public consultation to gauge the feeling of the existing residents with regard to a huge development of 185 houses off Babbs Lane.

Once again prime ***agricultural*** land which should be preserved for farming.

This would make a total of 386 new homes and it would increase the size of our village by 64 per cent.

A 64 per cent increase in cars, children, people and sewage.

Mr Albert Catt, our borough councillor, has given his support to every proposal so far against the very strong feelings of this community which is completely against the numbers of houses which are now being considered.

They are clearly not proportional to the size of our village nor to the facilities it has to offer.

All we are asking for is a reasonable number of new houses to be built in our village in proportion to the number of houses already here.

A 64 per cent increase is not reasonable - it is ridiculous, harmful to our community, and none of us want it.

How about a 25 per cent increase? A total of 150 new homes would be reasonable.

This fiasco is the result of our Derbyshire Dales District Council proposing 4,400 new homes for their total area in response to the Government inspector's stated requirement of 6,600 new homes.

They knew when they did that, that if the inspector insisted on the already stated 6,600 new homes, which of course he did, then that would open the way for anybody and everybody to apply to build houses on any field which could be bought, and because the council has failed to provide an acceptable local plan,

It is now a free for all. That is what is happening.

Land owners and developers are making themselves lots of money, at the same time as our beautiful village is being ruined.

Does everybody know how the Government came up with the figure of 6,600 new homes?

They decided that the country needed 500,000 new homes.

I do not know exactly how this number was distributed among all of the local authorities, but what I do know is that the required 6,600 new homes were calculated on the basis of the Derbyshire Dales District Council total area.

Except that they are not allowed to build these houses anywhere in the Peak National Park which represents approximately 33 per cent of the total area.

This means that 6,600 new homes have to be crammed in to only 67 per cent of the total area.

We are now looking for Mr Albert Catt to make his presence felt and to challenge this nonsense before it gets any worse.

Michael Pickering

Hawthorn Close, Doveridge

***ENERGY*** giants are now using more coal than they were 10 years ago.

The current estimate is that 300 tonnes per second are being burnt worldwide.

Two years ago industry released 30 billion tonnes of CO2 into the atmosphere from burning fossil fuels and currently forest fires in Indonesia are responsible for emitting more CO2 than the whole of the United States, making for the greatest environmental disaster of the 21st century so far.

All this comes at the most crucial time in the history of mankind, the point where average global warming is looking to exceed two degrees Celsius, resulting in more extreme weather conditions and continuing ocean acidification, which is why the UN summit meeting in Paris next month is of top priority, even with so many pressing worldly issues.

The goal of ***reducing*** ***emissions*** on its own will not be enough to avert hardship or even catastrophe for many species without a master plan, and we may yet face the prospect of having to rely on science for geo-engineering and bio-mimicry solutions, or what Professor James Lovelock describes as 'sustainable retreat'.

Getting all countries to agree on common ***targets*** has been difficult in the past, but cannot wait any longer, which is why CAT (Wales's Centre for Alternative Technology) has helped draw up such a plan towards a zero-carbon planet, including a legally binding end to ***greenhouse gas*** ***emissions*** by 2050, and, more importantly, an end to fossil fuel subsidies that presently amount to $5.3 trillion per year, at the expense of not only the taxpayer but the whole of the world's eco-system. Their website is at [*www.cat.org.uk*](http://www.cat.org.uk)

We have all taken part in and enjoyed this merry dance, that started with the agrarian and industrial revolutions, but must now hang up our dancing shoes and face the consequences, unless we wish to consign ourselves to oblivion.

Please sign for action now at [*www.350.org*](http://www.350.org)

Fred Hopwood

Transition Uttoxeter

DID you buy tickets to watch the Uttoxeter Lions bonfire and fireworks on Saturday?

What a lovely sight to see lots of people and children at play.

Then the bonfire was lit and what a lovely sight,

Flames leapt and curled to a great big light.

The excitement grew as we all counted down from 10.

All of a sudden, the rockets shot up with a 'woosh' again and again.

Big bright sparkles in the sky as the fireworkers went bang.

You could see bright colours and noises as they sang.

I say well done Uttoxeter Lions - what a fantastic display, let's give them three cheers.

Now we can look forward to another exciting and wonderful display next year.

Glenda Jackson

Hawthornden Gardens, Uttoxeter

WE'RE all set to support Beating Bowel Cancer's Decembeard campaign next month and hope some of your readers will join us in supporting this great cause and grow a beard for Christmas.

All you need to do is ditch your razor and get sponsored for not shaving.

What could be easier than not shaving?

Decembeard is a fun campaign in aid of a serious cause.

It asks men to raise sponsorship by growing a beard throughout the month of December, in order to break down the stigma of talking about bowel cancer and raise funds for Beating Bowel Cancer.

This will help the charity to support bowel cancer patients and their families and to raise awareness of the disease, its symptoms and the need for early diagnosis.

Like tens of thousands of people across the country we have been affected by bowel cancer.

Both of us lost our fathers to this terrible disease, which is the deadliest form of cancer.

Around 110 people are diagnosed with bowel cancer every day.

That's someone being given that truly terrible news every 15 minutes.

But the good news is that 90 per cent of these cases can be treated successfully - if they are caught early.

The charity hopes to raise £500,000 through the campaign; which they can reach if 5,000 men raise just £100 each.

If you're interested in being one of the 5,000, you can check out the fantastic campaign at [*www.decembeard.org*](http://www.decembeard.org) or on twitter @decembeard\_uk.

Matthew Wright and Christopher Biggins

TV presenters

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[***Malcolm Turnbull pressed on Nationals deal and marriage equality - as it happened; Turnbull declares that his elevation to Liberal leader was not expected but his government is strong, while former Abbott ministers jostle before a cabinet reshuffleTurnbull holds the line on climate policy and marriage equality plebisciteLiberal party stands back to watch the 'Malcolm experiment'***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GXM-VD01-JCJY-G0S9-00000-00&context=1516831)

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**Byline:** Katharine Murphy and Gabrielle Chan

**Body**

block-time published-time 8.46am BST

So long good people

Well that's day one in the new age of liberalised disruption characterised by policies that either cost a bomb or are quite stupid but let's not get hung up on things like a mob of pedants.

Given the epic nature of that viewing experience, I think that's about as much politics as any sensible person can take for Tuesday.

Let's take stock of events today, and ponder their meaning.

Malcolm Turnbull

* The member for Wentworth bounded out of his Canberra house early, noted that there was a big job to do, a job he hadn't expected, but he indicated he was more than up to it just in case there were any doubts. Turnbull's first challenge involved locating Tony Abbott, who no longer led the Liberal party but had not, at that point, resigned his commission as prime minister. The measured departure pace of the man he vanquished as party leader on Monday night meant Turnbull had to be sworn in at Government House at warp speed, get back to question time, hammer down a coalition deal with the Nationals, reassure every conservative member of the Coalition that he would not break out on day one on climate change, same sex marriage, or anything else remotely progressive sounding; while reassuring the voters that (unlike some) he was not in any shape of form afraid of the future. In other words, Malcolm Turnbull tried very hard not to frighten anyone at all. That's Tuesday. Tomorrow is Wednesday, and that's a whole new ball game.

Tony Abbott

* As we've noted, Abbott took some time to surface. In the time he lingered, he would have watched the spectacle of his Praetorian Guard making peace with the new regime. "I've always like Malcolm Turnbull," Kevin Andrews ventured generously shortly after dawn, before the Abbott personal effects were safely stowed in their boxes. At least Alan Jones mourned with appropriate devotion. When Abbott surfaced, it was to list his achievements, tell colleagues he would not be doing unto others what had been wrongfully done unto him, tell the media they were in the gratuitous assassination business, tell no-one in particular that his chief of staff Peta Credlin had been much maligned by people who should have known better. Then he left. He skipped question time, a gesture of respect to the new king, or a sensible act of self preservation for a human being who would have been to hell and back in the space of 24 hours.

Bill Shorten

* The Labor leader pretended everything was ok, and business as usual, even though this is absolutely his worst case scenario. Shorten attempted to reframe the contest as one of ideas rather than a contest between two political characters. He paid brief tribute to Abbott, sure he's fierce but he can be nice sometimes. He also paid tribute to Turnbull, telling him perhaps overly generously that he had the opportunity to change the country. Colleagues sitting behind him fear precisely that. It's a brave man that so willingly articulates their colleague's worst fears.

That's today. Much more ahead. Ministerial reshuffles. Cabinet. Christopher Pyne as defence minister. You would not be dead for quids. Thanks for your company. Gabrielle Chan will be back with you and the sparrows for Wednesday.

Have a great evening.

block-time published-time 8.15am BST

Bridie Jabour on Lucy Turnbull, the prime ministerial spouse.

Malcolm's match intellectually, business-wise and in wit, Lucy has a long history of public service and commercial success, independent of her husband and also as half of a hyper-successful partnership which has at times extended beyond the personal and into business.

block-time published-time 8.09am BST

Stephen Koukoulas is looking ahead. When the ministerial reshuffle comes, and when the economic debate restarts once again, it's a very big task waiting for Malcolm Turnbull and the likely new treasurer, Scott Morrison.

You can read that blog post in full here.

Here's a taste.

The prime minister, and his likely new treasurer, Scott Morrison, take over the economic levers at a time when economic growth is sluggish, unemployment is high, real wages are falling and consumer and business confidence are weak. Add to that a still-hefty budget deficit and escalating government debt and the picture of the economic challenge for Turnbull and his new team is stark. This is especially the case when the next election is just a year away where the economy will almost certainly be the dominant issue for voters.

block-time published-time 7.59am BST

Mike Bowers has been as frantic as ever. Little sequence here for you this afternoon.

Am I pulling this off? Malcolm Turnbull's first day in the big chair.

The Prime Minister Malcolm Turnbull during question time in the house of representatives this afternoon. Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

We've got the water! Warren Truss, the king is dead, long live the king.

Nationals leader Warren Truss and his party members in the Nats party room of Parliament House, Canberra this afternoon, Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

Ancestors, keeping a close eye on the hijinks.

Former Nationals leader Tim Fischer keeps an eye on current leader Warren Truss and his party members in the Nats party room of Parliament House, Canberra this afternoon during a press conference, Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

block-time published-time 7.51am BST

enltrGazette Notice for the swearing in of @TurnbullMalcolm as Prime Minister of Australia #libspill#auspolpic.twitter.com/s33BmhrMUs

- Political Alert (@political\_alert) September 15, 2015

block-time published-time 7.33am BST

Speers points Christopher Pyne to reports hat he could be defence minister after the reshuffle. Is he into defence?

I've always had a keen interest in history and military matters. You only have to read my book, A Letter to My Children, published by Melbourne University Press.

He never gives up, this man.

block-time published-time 7.28am BST

Speers puts it to Pyne that Cory Bernardi has remarked that the leadership change is treachery.

Christopher Pyne:

I think Cory is a boutique senator in many respects.

block-time published-time 7.26am BST

When asked by David Speers if he is willing to say who he voted for, Christopher Pyne replied:

Well I'm not, actually. I'm a very close friend of Tony Abbott, and very loyally served him... and I also served Malcolm Turnbull when he was leader... I don't see a great deal of benefit from hauling over the coals of who voted for who.

block-time published-time 7.23am BST

The manager of government business, Christopher Pyne is on Sky News. He's declining to say who he voted for in last night's leadership ballot. He thinks he's too senior to answer pesky questions like that.

block-time published-time 7.21am BST

Splits between the Nationals and the Liberals on the effects test

Speaking as we were of the Nationals, and effects tests - spies in the red chamber inform me that the Nationals just crossed the floor in the Senate to support a Greens motion.

Just for the record, the Liberals voted against.

Senator Whish-Wilson: To move that the Senate-

(a) notes that

(i) the Harper Review into competition policy called for the introduction of an effects test in relation to the misuse of market power,

(ii) supporters for the introduction of an effects test include the National Farmers' Federation, and the newly-formed Independent Business Alliance for Competition made up of the Council of Small Business Australia, the Australian Retailers Association, Fresh Markets Australia,the Australian Newsagents' Federation, the Australasian Convenience and Petroleum Marketers Association and the Master Grocers Association, and

(iii) the National Party unanimously passed a motion at its National Conference calling for the introduction of an effects test; and

(b) calls on the government to bring forward legislation that amends Section 46 of the Competition and Consumer Act 2010 to introduce aneffects test so as to better protect farmers and small business owners from anti-competitive conduct.

block-time published-time 7.16am BST

Some reader feedback on the 'sure it's a boondoggle' shtick.

Acute, this observation.

enltr @murpharoo Hmm, this formulation offended him when it applied to the establishment of a broadband network.

- Matthew Wood (@mattlwood) September 15, 2015

block-time published-time 7.12am BST

Leadership with conditions attached: now for the hard yards

If Labor set out in that question time to make the point that this was the same old government with a more friendly figurehead, it made some progress.

Malcolm Turnbull showed the perimeters of his cage. He had to back in direct action (a policy he's said publicly is a dog), he had to back in the plebiscite on same sex marriage and the timing (currently post election, and of course Turnbull would like that to happen sooner), and he had to take questions on precisely what he'd given to the Nationals in order to secure a new coalition agreement (water has gone to the Nationals and that's a very big deal.)

The only territory where Turnbull expressed personal freedom was on his Dorothy Dixer on national security. Australia's new prime minister was of course very vigilant when it came to national security, but for the first time sentiments were expressed in low key language. We know, courtesy of a speech he gave the Sydney Institute earlier this year, Turnbull thinks this debate needs to be toned right down.

Some of the 'back-in-the-inherited-nonsense' formulations were funny if you happen to speak Canberra. Sure, that direct action costs a bomb and is hideously complex but it works, so why worry? (The jury is still out on whether the expensive and complex policy does work in fact, but marks for trying.) Same with the plebiscite. The Turnbull wink was sure this is expensive but the party room is already locked in. What can a poor same sex marriage supporter do?

Let's be very clear.

The real test of the new era is whether Turnbull can navigate the ship of state back gradually in the direction of the sensible centre. The government does need to shift on some issues, otherwise why change the leader? If it truly is same old same old, the public won't buy it, just as they didn't buy it under Tony Abbott.

Charm, considerable though it is, can only get you so far.

block-time published-time 6.44am BST

Further questions have been placed on the notice paper. Give me a few minutes and I'll give you some thoughts on that session.

block-time published-time 6.43am BST

Labor is now after dirty deals made with the National party. Has the prime minister made a deal with the National party to give them responsibility for water policy?

Speaker Smith thinks that needs a rephrase. Again. Third time lucky perhaps?

Labor is now citing a report on ABC Rural in an effort to get the question in.

Turnbull says any decision on an effects test will be one of the cabinet. (One of the earlier iterations of the question from Labor inquired whether Turnbull had agreed to implement an effects test which helps small business defend itself against the misue of market power by big business.) He says ministerial arrangements will be unveiled in coming days. That covers the location of portfolio responsibility for water management. My colleague Gabi Chan says the Nats have water.

block-time published-time 6.35am BST

One of these chaps is happy. One slightly less happy.

Prime minister Malcolm Turnbull and Opposition leader Bill Shorten during question time in the house of representatives this afternoon. Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

block-time published-time 6.33am BST

Labor's Jason Clare.

Q: The prime minister has previously said: "Few are so publicly humiliated as a poleaxed prime minister.' Prime minister, why did you poleaxe the member for Warringah?

Speaker Smith:

The leader of the House will resume his seat. I am calling the next question.

block-time published-time 6.28am BST

Tanya Plibersek:

Q: A private member's bill on marriage equality moved by the member for Leichhardt is currently before the House. It would take half an hour of parliamentary time to allow this bill to be voted on. It could be done tomorrow. Will the prime minister allow a vote on this bill and allow members of his party a free vote as he's publicly called for previously?

Malcolm Turnbull:

Historically this issue has been resolved, issues of this type has been resolved, in parliament by free vote and the honourable member is correct in referring to that. Another way of dealing with this - another way of dealing with this is by a vote of the people. And the Coalition, our government, has decided that the resolution of this matter will be determined by a vote of the people, all the people, via a plebiscite, to be held after the next election.

There is no greater virtue in a free vote here or a plebiscite. They are each means of resolving the matter - one, I grant you is more expensive but, nonetheless, it is a very legitimate and democratic way of dealing with it.

(Sure this is a silly expensive frolic that I've inherited, but what can I do?)

Some wag suggests Turnbull is a sellout.

block-time published-time 6.22am BST

Oh hai Warren.

The Prime Minister Malcolm Turnbull during question time in the house of representatives this afternoon. Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

block-time published-time 6.18am BST

Here we go, on the third attempt.

Q: Does the treasurer stand by his statement of yesterday in relation to the now prime minister: "He has never said to me or the Cabinet we are heading in the wrong economic direction". Does the treasurer agree with the prime minister?

Joe Hockey:

They are verballing again. Australia is heading in the right economic direction but we've still got work to do. There's no suggestion of Mission Accomplished.

block-time published-time 6.14am BST

Labor has been given the cover of a monologue by serial enthusiast Bruce Billson to reframe a gotcha question to the treasurer Joe Hockey.

block-time published-time 6.10am BST

Listening. The ReturnBull.

The Prime Minister Malcolm Turnbull listens to Treasurer Joe Hockey during question time in the house of representatives this afternoon. Photograph: Mike Bowers for the Guardian

block-time published-time 6.06am BST

The funnies continue. Labor reminds Turnbull of his previous savage criticism of the direct action policy.

Malcolm Turnbull:

You can't take people's remarks about different proposals years ago!

(Much laughter from the opposition benches.)

Turnbull, continuing:

If it cuts ***emissions***, it does the job. The objective is not the means. The objective is not the means. The objective is the goal. It doesn't matter how you cut ***emissions***, as long as they are cut. The minister for environment and this government is cutting ***emissions***, our goal is reasonable and comparable to other countries similarly situated.

block-time published-time 6.02am BST

Funny little sequence then. Green Adam Bandt asked Turnbull whether he'd roll over to the right on climate action.

Turnbull stands by the government's post 2020 ***targets*** for Paris, and by direct action, which he says is working.

Sure some policies are stupidly designed but why quibble if they work?

Malcolm Turnbull:

There are many means of cutting ***emissions***, some more complex than others, some more expensive than others. There is no inherent virtue in any particular method of cutting ***emissions***. There is no ideology there. The only thing that matters is the outcome.

block-time published-time 5.58am BST

More content than we can poke a stick at today. Labor is persisting with its style versus substance theme. Malcolm Turnbull has just used a Dorothy Dixer to reassure everybody that he's tough on national security. But I'm pretty confident the words death cult were not uttered once.

Labor has bowled up the smart alec question to Joe Hockey, who remains in treasury for now.

Q: My question is to the treasurer. Does the treasurer agree with the statement by the now prime minister yesterday: "It is clear enough that the government is not successful in providing the economic leadership we need".

Joe Hockey:

I thank the Honourable Member for McMahon for the question. Entirely unpredictable, of course. Entirely unpredictable. The Honourable Member for Wentworth is perfectly entitled to make a statement, as he did yesterday, about how we can do better and you know what, we can always do better. We can always do better. But I tell you what, we're doing a lot better than the Labor party.

block-time published-time 5.51am BST

Coalition, at a price

The National party has negotiated a tougher coalition agreement with Malcolm Turnbull which includes financial concessions for stay at home parents, moving responsibility for water from environment to ***agriculture*** and maintaining a plebiscite for same sex marriage. The agreement, negotiated between Turnbull and his deputy prime minister Warren Truss, will also include new money for regional mobile blackspots.

The Nationals partyroom resolved at a meeting in Albury earlier this year to take a tougher approach to the coalition agreement "at the next available opportunity". While many in the junior coalition partner were unhappy with the switch to the more progressive Turnbull, the document is renegotiated every time there is a change of leader because it is an agreement between the two leaders.

Both Truss and Joyce had been sending warnings to the Liberals last night and on Tuesday morning, even though there was little prospect of breaking the agreement under the circumstances. Earlier in the day, deputy National leader Barnaby Joyce said the Nationals had had discussions with Turnbull in the morning.

It is understood the Nationals met with Turnbull after their partyroom later in the morning, before Turnbull was sworn in as prime minister. "What Australia wants is good government and good government starts with strong Coalition agreement and I'm sure Warren will be right up to the task there to make sure we get the best possible deal for regional Australia," said Joyce.

"Let the Australian people decide on that. I obviously don't think it's preferable. I believe that elections should be the determinant of who the government is and the only other person away from that should be the leader themselves, who if they of their own volition decide to retire, they retire.

"But of course the PM is almost a sacred role and I think people see it as such but that's why you have to make sure you take the Australian people very, very seriously and with the deepest respect."

block-time published-time 5.48am BST

The opening Dorothy Dixer can be titled, "Hi, I'm Malcolm, and I love the future."

block-time published-time 5.47am BST

Labor opens by reminding Turnbull that he said he supported the Abbott government's first budget. Is this leadership change one of style of substance? Turnbull says in Australia, we have cabinet government. The government supports all its decisions.

Malcolm Turnbull:

I will lead a traditional Cabinet government and policies will change in the light of changed conditions, of course they will. They will change all the time, they have to. They have to under any government.

But he ends thus:

The Honourable Member is inviting me to make a unilateral decision and he should not be surprised to be disappointed.

block-time published-time 5.44am BST

Shorten also pays tribute to Turnbull, who he says can offer the public something different.

It may be a genuine chance for this nation, and this chance isn't defined by yourself or myself, but in fact by the policies, your policies, Labor's policies, what we can do for this country. That's the real test. For us it will be about the ideas you put forward and the ideas we put forward. A genuine choice, a genuine chance for this country and it will be up to this country between now and the next election to select who has the best ideas to advance Australia. Thank you.

(If it's a head to head between Shorten and Turnbull, best to stick to issues. You could play the man with Abbott given his unpopularity. Harder to to this with Turnbull.)

block-time published-time 5.39am BST

Malcolm Turnbull, on indulgence:

I want to make some remarks on the former prime minister Tony Abbott. Our nation, our parliament, our government, our party, our parties, the Coalition, owe Tony Abbott an enormous debt of gratitude for his leadership and his service over many, many years. He led us out of opposition back into government. The challenges of leadership are very considerable. The pressures are enormous and as Tony Abbott has often said himself, very, very profoundly, that all of us here are volunteers. It is our families that are conscripts and so we should acknowledge today, of course, the debt we also owe to his wife Margie and their daughters. Tony has discharged his role as prime minister, be it as leader of the opposition, with enormous distinct and achievement. We thank him for his leadership, we thank him for his service. He is a great Australian and our country has been better, has been improved, better led under his time as PM.

Bill Shorten, on indulgence:

From his first victory in 2009 to become the leader of the Liberal party, right through to last night, he (Abbott) is a fighter, a formidable fighter. I have exchanged harsh words with him in my time as opposition leader, I've disagreed with his politics and decisions on many occasions but I also wish to record that he had this frustrating ability on occasion, just when you were really frustrated with a particular decision he might have made to do something unexpected and generous and personal. From the time when my mother passed, he was very sensitive to that. I said this to him and he also said, and I explained the conundrum of his frustrating behaviour and he said: "I'm sure I'll frustrate you again" and he did.

block-time published-time 5.32am BST

Question time

Malcolm Turnbull opens question time by confirming that he is, in fact, the prime minister. He also confirms that the Nationals leader Warren Truss has confirmed the National party's support for the coalition to continue.

The king is dead, long live the king.

block-time published-time 5.26am BST

Back to Senate question time, Labor has directed its second round of questions to the finance minister, Mathias Cormann, in light of Malcolm Turnbull's criticism of the government's performance in selling its economic messages. Cormann, an Abbott backer, insists he won't be quitting. In fact, he is "looking forward to working with the prime minister in building Australia's stronger economic and fiscal foundations for the future". Labor's Senate leader, Penny Wong, asks whether he agrees with Turnbull's comments about the government's economic team "or does he think that the prime minister was only talking about the treasurer". Mathias Cormann : "What another juvenile question from the worst finance minister in the history of the commonwealth. I look forward to working with the prime minister in putting Australia on a stronger foundation for the future." Cormann declines Wong's request to reveal whether Turnbull had ever raised the concerns with him. "This [question] from a former failed finance minister who was there at the scene of the crime stabling a Labor prime minister twice. On this side of the parliament it is a matter of public record that we as a party made a decision yesterday."

block-time published-time 5.24am BST

Murph has given you a chunk of this live but here's a little wrap of John Howard's press conference just a little earlier. "The king is dead, long live the king," pronounced Howard a press conference in Sydney. "And I'm going to support the new king - if I'm permitted to call him that - with my full support." (Perhaps Abbott and Eric Abetz compared notes ahead of question time).

Apologising for a late start ("I wanted to watch the swearing in of the new prime minister on TV"), Howard was effusive in his praise for Tony Abbott, the man once described as his political lovechild. "He achieved along with Scott Morrison a turnaround in relation to border protection policy that I didn't really think would be possible," he said.

Budget repair also got a mention, the removal of the mining and carbon taxes one of "the very significant legacies of his period as prime minister", Howard said. "The fact that he and Peter Dutton were able to convert the dividend of stopping the boats into the opportunity available for Australia to take 12,000 additional refugees from the war-torn areas of the Middle East is something of which his government can be particularly proud."

He offered some advice to Turnbull, "a person of great intelligence [who] has the capacity to explain economic concepts very clearly and very lucidly".

"[He] will understand, as I did, and as Tony Abbott did, that the Liberal party is a broad church ... it is the custodian of both conservative values and small-L liberal values and it does best when it keeps a sensible balance between the two," he said.

Howard declined to say whether the party had made the right decision, offering that "the Australian people will decide that, but the important thing is they made a decision with a clear margin".

"In the end though the voters have a say in their judgment at the next election and I hope it is very favourable to the government," he said.

"I will do everything I can to help Malcolm Turnbull, he will have all the support and advice that he may care to seek from me," Howard said.

"My operating principle is to keep the Labor party from government."

block-time updated-timeUpdated at 5.27am BST

block-time published-time 5.14am BST

The king is dead, long live the king

Senate question time begins with a bang with Labor questions about leadership. Abbott backer Eric Abetz said Turnbull "has my support as the elected Liberal leader always has".

Abetz, who remains the leader of the government in the Senate, tells the ALP: "Unlike those on the other side I can show my hands and they are clean. Can I also indicate that at all times I have supported the parliamentary leader as elected by my colleagues and as colleague would know my motto is when you win you don't gloat, when you lose you don't moan ... you get on with the task of delivering good government for the people of Australia."

Abetz also finds things that unite the Liberal party: "We are absolutely united on getting rid of the red and green tape that has strangled this country for so long."

Labor's deputy leader in the Senate, Stephen Conroy, tries to embarrass Abetz by asking if the prime minister (Turnbull) has confidence in him, along with other ministers who backed Abbott. "The answer to all of those questions is yes," Abetz asserts. "Can I indicate that we serve at the pleasure of the leader and we do so on a daily basis irrespective of who might be leader."

Abetz also quips: "The king is dead, long live the king, and the prime minister has our support."

block-time updated-timeUpdated at 5.15am BST

block-time published-time 5.08am BST

John Howard:

I feel for Mr Abbott, it's difficult. He'll be in my thoughts for some time.

He adds, however, that the Liberal party has been through a democratic process. He says he'll do everything he can to help Malcolm Turnbull keep the prime ministership.

block-time published-time 5.03am BST

The voice of experience

Lets look west briefly to Canning now. Labor frontbencher Anthony Albanese is in town, having missed the drama in parliament last night.

Albanese:

Having been through these sort of things in the past, and I opposed the change that we did when Labor unseated a first term elected prime minister, one of the reasons I did that, in 2010, was I knew what it would lead to in terms of instability. The idea that it's business as usual today in the Coalition government is just farcical. The fact is, this is a government that is at war with itself. This is a government where many of the senior members of that government can't stand the person that has been elected to lead that political party, where it's very clear that a number of senior members in the government promised both Malcolm Turnbull and Tony Abbott that they would vote for them in last night's ballot, which is why Tony Abbott was confident going into that ballot.

Now those things don't just wash through the system. What that leads to is dysfunctional government. They will be a dysfunctional government until the next election when they will be put out of their misery.

Asked if he was speaking from experience:

There is no doubt, I am not talking in retrospect here. In 2010, when we changed government, it caused ongoing issues. It doesn't just stop.

block-time published-time 4.57am BST

Mercies of the day. Question time has been delayed until 2.30pm.

block-time published-time 4.56am BST

Q: Mr Howard, do you think the party room got it right in electing Malcolm Turnbull leader?

John Howard:

Well, ultimately the Australian people will decide that.

block-time published-time 4.54am BST

John Howard.

Of course, if you look at the broader political picture, Tony Abbott is also somebody who should be remembered in the Liberal Party pantheon as having achieved in 2010 a quite remarkable thing. He effectively, at the 2010 election, killed off a first-term Labor government.

It may have taken another three years for it to be buried and cremated but it was killed off at the 2010 election. Nobody else leading the Liberal Party, nobody else leading the Liberal Party, in my judgment, could have achieved that.

Inevitably with the pain of disappointment and loss that undoubtedly my friend Tony Abbott feels at this particular time, I say to him as a friend and as a former Liberal Party leader, that he has an enormous amount to be proud of and there is much in his record, both as opposition leader and prime minister, of which the Liberal party should be profoundly grateful and indebted.

To Malcolm Turnbull, I offer my congratulations. I have known Malcolm for a longtime. He was, of course, a Howard era minister and he was a very good minister. He's a person of great intelligence.

He has the capacity to explain economic concepts very clearly and very lucidly and that, as he indicated yesterday, will be an important part of the skill set that he brings to his new responsibilities. I have little doubt that he will, as I did and Tony Abbott did, understand that the Liberal party is a broad church. It's a centre right party, it brings together two streams of the Australian polity, it is the custodian of small liberal values. It does best when it keeps a balance of those two.

block-time published-time 4.49am BST

The former prime minister John Howard is paying tribute now to Tony Abbott. I'll give you a bit of that in a minute.

Meanwhile Daniel Hurst keeps us up to speed with the opposition.

Labor MPs have put on a brave face and begun seeking to tarnish Malcolm Turnbull's trustworthiness as prime minister after the Liberal leadership change threatened to revive the Coalition's popularity in the leadup to the next election.

Labor, which has led the Coalition in major opinion polls since last year, had been hoping to face Tony Abbott at the general election due in 2016 because of his entrenched negative approval ratings and his association with broken promises.

But the elevation of the far more popular Turnbull poses a serious test for the Labor leader, Bill Shorten, who has also been struggling with low personal approval ratings and until now focused his attacks on Abbott and the treasurer, Joe Hockey.

block-time published-time 4.40am BST

enltrTURNBULL'S GRANDSON ALERT x 2 pic.twitter.com/VxlVhMYchK

- BuzzFeedOz Politics (@BuzzFeedOzPol) September 15, 2015

block-time published-time 4.35am BST

Australia has a new prime minister

Boom, Malcolm Turnbull is sworn in in two seconds flat. Question time is breathing down everyone's necks.

block-time published-time 4.34am BST

I think the Turnbull grandchild is intent on upstaging grandpa.

block-time published-time 4.33am BST

All eyes now to Government House. The new regime is about to be sworn in. Let the era of disruption commence!

block-time published-time 4.28am BST

enltrLast media appearance for PM Tony Abbott @murpharoo@GuardianAus#politicslive[*http://t.co/qrhlGSLX7pic.twitter.com/PekXAR1pd5*](http://t.co/qrhlGSLX7pic.twitter.com/PekXAR1pd5)

- Mikearoo (@mpbowers) September 15, 2015

block-time published-time 4.27am BST

Tony Nutt, back to help

My colleague Lenore Taylor is just back from the Coalition partyroom debrief. She says Abbott did not attend this morning's discussion, but Joe Hockey was there (as we've pictured earlier on today.) Malcolm Turnbull thanked colleagues for their discipline and team spirit and observed that no-one was more committed to the broad church of the Liberal party than him. He said Tony Nutt - the former Howard backroom adviser - would be the director of transition, and Drew Clarke from the department of communications would be chief of staff. Turnbull said he intended to restore the open consultative model of the prime minister's office that existed under Nutt and Sinodinos in the Howard years. Christopher Pyne urged colleagues just to get back on stage, and keep on singing. Every government needs a Pyne.

block-time published-time 4.19am BST

The fatigue is all in the eyes. Gruelling business, politics.

Prime Minister Tony Abbott addresses the media one last time as PM in his courtyard of Parliament House, Canberra this afternoon, Tuesday 15th September 2015. Photograph: Mike Bowers for the Guardian

block-time published-time 4.14am BST

Some thoughts from me on that sign off

Well the first thing to note is it doesn't look like Tony Abbott is leaving politics.

Now to the substance of the sign off. Of course he wants to characterise himself and the government he led as purposeful in the face of undermining, but unfortunately for Abbott that is not the government we all saw. We saw centralised control, poor decision making, brittle aggression, pointless playing of favourites, a political tin ear, a litany of broken promises, a first budget that invited a national referendum on the question of fairness. That's what we saw. It cannot be unseen even as a gesture of respect to a man who has endured a really tough 48 hours.

Abbott genuinely did try to change the media cycle. It was an important experiment, but it failed, because the old clubbish ways between politics and the good gentleman of the Canberra parliamentary press gallery is over. It's never coming back. Abbott kept trying to recreate 'we good chaps running the country all together' in ways that only served to isolate him and drag his government off into a fringe agenda. This has been a critical mistake. It's made him look like King Canute.

He does have a point about the febrile nature of the modern media cycle, and the coup culture. It is a problem, and a serious one. Asking journalists not to write crap is a worthy endeavour. Julia Gillard tried it before him. It's a reasonable request. But one best not made if you benefit from the crap on the way up. That tends to look churlish. You like it if its works for you, you don't like it if it doesn't. It's also bizarre to style yourself as a victim of a hostile media cycle when you've had rolling praise, by and large, from the largest print media company in the country right up until the last, frenetic few weeks.

I hope for his own sake that Abbott can put down the cudgels and not seek to avenge his honour. The country could really use a rest from the titanic egos of politicians. We've seen entirely too much of that over the past decade or so. It chews the country up, and it chews up the protagonists as well.

Fundamentally Tony Abbott is a decent man. It would be good to remind the country of his innate human decency, and let that enhance his legacy.

block-time updated-timeUpdated at 4.16am BST

block-time published-time 3.57am BST

A few thoughts on that farewell shortly.

block-time published-time 3.56am BST

There were no questions.

block-time published-time 3.55am BST

In between the sharper quotes I've shared, Abbott listed his government's achievements.

I've held true to what I've believed and I'm proud of what we've achieved over the past two years. 300,000 more people are in jobs. Labor's bad taxes are gone. We've signed Free Trade Agreements with our largest trading partners, with Japan, with Korea and with China. The biggest infrastructure program in our country's history is under way.

A spotlight is being shone into the dark and corrupt corners of the union movement and Labor's party union business model. We've responded to the threats of terror and we've deployed to the other side of the world to bring our loved ones home.

The boats have stopped and with the boats stopped, we've been better able to display our compassion to refugees. And the budget.

Of course, there's much that I had still wanted to do. Constitutional recognition of Indigenous people. Getting the kids to school, the adults to work and communities safe. I was the first Prime Minister to spend a week a year in remote Indigenous Australia. And I hope I'm not the last.

Then there's the challenge of ice and domestic violence, yet to be addressed.

Australia has a role to play in the struggles of the wider world. The cauldron of the Middle East. And security in the South China Sea and elsewhere.

I fear that none of this will be helped if the leadership instability that's plagued other countries continues to taint us.

But yes, I am proud of what the Abbott government has achieved.

block-time published-time 3.50am BST

I thank my family for allowing me to be the absentee spouse and parent that politics entails. I thank Margie for her grace and dignity throughout my public life.

I thank my party for the privilege of leading it. I thank the armed forces who are serving our country and defending our values, even as we speak. I think my staff, who have been absolutely unceasing in their devotion to our party and our country, especially my chief of staff, who has been unfairly maligned by people who should've known better

Finally, I thank my country for the privilege of service. It is humbling to lose, but that does not compare to the honour of being asked to lead.

In my maiden speech here in this Parliament, I quoted from the first Christian service ever preached here in Australia.

The Reverend Richard Johnson took as his text "what shall I render unto the Lord for all his blessings to me?"

At this, my final statement as Prime Minister, I say: I have rendered all and I am proud of my service.

My love for this country is as strong as ever, and may God bless this great Commonwealth.

block-time published-time 3.47am BST

None of us are Gods, and PS: don't write crap

I am proud of what the Abbott government has achieved. We stayed focused despite the white-anting.

Of course, the government wasn't perfect. We have been a government of men and women, not a government of Gods walking upon the earth.

Few of us, after all, entirely measure up to expectations.

The nature of politics has changed in the past decade. We have more polls and more commentary than ever before. Mostly sour, bitter, character assassination. Poll driven politics has produced a revolving door prime ministership which can't be good for our country. And a febrile media culture has developed that rewards treachery.

And if there's one piece of advice I can give to the media, it's this: refuse to print self-serving claims that the person making them won't put his or her name to.

Refuse to connive with dishonour by acting as the assassin's knife.

block-time published-time 3.43am BST

Abbott says he's consistently said in opposition and in government that being the prime minister is not an end in itself, it's about the people you serve.

Yes, this is a tough day, but when you join the game, you accept the rules.

block-time published-time 3.41am BST

Tony Abbott makes his statement to reporters

Abbott says it's a tough day, tough for many in the building, tough for the country.

But he says he intends to take this on the chin.

There will be no wrecking, no undermining, and no sniping.

I've never leaked or backgrounded against anyone. And I certainly won't start now.

block-time published-time 3.34am BST

enltrPress pack waiting for @TonyAbbottMHRpic.twitter.com/1MS3O22CiN

- Emma Alberici (@albericie) September 15, 2015

block-time published-time 3.33am BST

Malcolm Turnbull's son Alex, via Facebook.

Pretty good week in politics. Corbyn implosion triggered, Dad became PM, hoping for Donald J. Trump to pull off the rubber mask and expose Al Gore to round it out.

(We are all hoping for that on Trump, just quietly).

block-time published-time 3.30am BST

Greens leader Richard Di Natale on the new regime. Malcolm needs to get serious about climate change, refugees, equal marriage.

Richard Di Natale:

Well, I won't judge Malcolm Turnbull on the basis of a short press conference after assuming the leadership. I will be very keen to talk to him about... issues and of course, front and centre will be the issue of global warming and to discuss taking serious action to address this challenge.

I understand that he's already indicated a reluctance to move here, but that's what leadership's about.

block-time published-time 3.25am BST

There's a new seating chart for the House of Representatives.

enltrNew seating plan. Abbott on the bbench next to @AndrewLamingMP. Hockey remains on the front bench for now. #qtpic.twitter.com/iBaNkTjQSH

- Laura Jayes (@ljayes) September 15, 2015

block-time published-time 3.23am BST

The Labor current motion is the suspension of standing orders to enable the condemning of the government. The division on the substantive motion has now been deferred until later in the day. Michael Keenan is now up telling the parliament about the Civil Law and Justice (Omnibus Amendments) Bill 2015. The justice minister says the legislation will "improve the efficiency and operation of the justice system".

block-time published-time 3.19am BST

My colleague Daniel Hurst tells me that Labor has moved a motion in the House condemning disunity in the Coalition. "Who is the prime minister?" shouted Labor's Jenny Macklin as she sought to support the motion condemning the government for disunity. The government quickly moved to gag her.

block-time published-time 3.11am BST

Tuesday morning, if you are just tuning in

A very quick summary in the event you are just tuning in to the morning after the night before.

* New government starts today. Except there's been a lengthy delay, because thus far Tony Abbott has not resigned as prime minister. Details, details.

1. Abbott will make a statement to the media at 12.30pm.
2. Malcolm Turnbull, the prime minister designate, has told reporters he didn't expect to be in this position (which I suppose is distinct from dreaming about being in this position.) He's acknowledged a big task ahead, but he says he's absolutely up to it. You bet you are. You bet he is.
3. The shock jocks are shocked. Turnbull's colleagues, by and large, are doing their level best to move forward. More about the voters, less about us. A ministerial reshuffle looms.

Onwards. Upwards.

block-time published-time 3.04am BST

While I have a moment a few links to share.

* Lenore Taylorexplains how Malcolm Turnbull could dial direct action up to a baseline and credit scheme. (Sometimes I wonder if we are the same person but then I know I'm not nearly as bright and I have more bum jokes.) Take it away Lenore.

The solution to his dilemma is hidden in the details of the Direct Action policy, details which allow the policy to be "dialled up" into a baseline and credit ***emissions*** trading scheme that has a better chance of actually ***reducing*** Australia's output of ***greenhouse gases***. The key lies in the "safeguards" the government is finalising to make sure businesses that are not seeking money from the "Direct Action" fund don't increase their ***emissions*** and undo all the ***reductions*** the government is buying.

* A data chart from Nick Evershed. Tony Abbott was prime minister for fewer days than Gillard or Rudd.

1. Paul Farrell - with his penchant for hardship posts - has ventured out to Bondi in the kingdom of ReturnBull.

In the heartland of Malcolm Turnbull's electorate in the eastern suburbs of Sydney, the sun seems to be shining just a little brighter than usual. It's not divine intervention. It's probably just because spring has arrived. But for Turnbull's supporters in Wentworth it's a sign that their chosen candidate is where he belongs.

* Columnist Stan Grant on whether Abbott was a prime minister for Indigenous Australians.

Abbott has never fully appreciated the essence of Aboriginal culture, not if we take him at his word. This is the man who in 2014 said white settlement was Australia's "defining moment", the moment "this continent became part of the modern world".

block-time published-time 2.53am BST

Ah no, here we go.

enltrTony Abbott will deliver his last statement in PM's courtyard at 12.30 @SkyNewsAust

- David Lipson (@davidlipson) September 15, 2015

Same location as Kevin Rudd's farewell.

block-time published-time 2.51am BST

You people are very rude.

undltr #WheresTonypic.twitter.com/CfFJLYB6fY

- Nic Halley (@NicHalley) September 15, 2015

block-time published-time 2.43am BST

Where are you Tony?

block-time published-time 2.38am BST

Another thought.

frltr @murpharoo 'Turnbullé' French for a soufflé that \*can\* rise twice.

- wonk\_arama (@wonk\_arama) September 15, 2015

An excellent one.

block-time published-time 2.37am BST

This morning, Sydney broadcaster Alan Jones had a grim task. He had to note he had been, in fact, wrong to say Malcolm Turnbull would never return as leader of the Liberal party. Time was out of joint.

As with all seismic events, it was bumpy. Alan declared he had known Turnbull "backwards." Perhaps he would have been better placed popping himself in front to witness the approaching freight train.

Just a thought.

block-time published-time 2.26am BST

Turnbulle?

enltrUnhappy camper waiting for Turnbull to arrive at Government House @SkyNewsAustpic.twitter.com/UpooN2YAB6

- David Lipson (@davidlipson) September 15, 2015

Et u indeed.

block-time published-time 2.23am BST

Leadership spills can be a brutal business. I assume frontbencher Jamie Briggs earned this injury elsewhere.. but who knows? Man's inhumanity to man. I gather there's been a SNAFU downstairs about photographers not respecting Briggs' privacy.

A injured Jamie Briggs leaves the Liberal party room in Parliament House this morning, Tuesday 15th September 2015 Photograph: Mike Bowers for the Guardian

Bit hard to respect privacy in public places.

block-time published-time 2.18am BST

On Sky News, one of Malcolm Turnbull's key numbers men, Victorian senator Mitch Fifield, says he helped tear Turnbull down in opposition because he couldn't in all good conscience support an ***emissions*** trading scheme - but things change.

Malcolm is no longer supporting an ***emissions*** trading scheme. (Well at least not until there's a move on to switch direct action into a baseline and credit scheme. But there's enough going on now, let's not scamper too far ahead.)

Mitch Fifield:

We are determined to ensure Bill Shorten doesn't win the next election. We don't want to see Bill Shorten bring back a carbon tax.

block-time published-time 2.14am BST

Further to those announcements in the caucus, I gather Jim Chalmers has confirmed to colleagues he's nominating for the shadow ministry vacancy created by Ripoll's announcement/retirement.

For readers who don't know Chalmers, he's currently parliamentary secretary to the opposition leader and for trade and investment. He's a member of the House Economics Committee; Deputy Chair of HoR Tax and Revenue Committee; Deputy Chair of Select Committee on Trade and Investment Growth.

Chalmers worked for the former treasurer Wayne Swan before entering politics himself. He's one of the new batch of bright young things.

block-time published-time 2.10am BST

Meanwhile, in other quarters of the building. Bill Shorten let the cameras in to film his opening address to the Labor caucus meeting, during which he began to build the case against Malcolm Turnbull and also praised the opposition for blocking Tony Abbott's unpopular budget measures.

But after the cameras left he had some other business to discuss. He advised the meeting that Queensland senator Jan McLucas and MP Bernie Ripoll intended to stand down from the Labor frontbench. It had already been announced months ago that both would bow out of parliament at the next election. At today's meeting, Shorten thanked the pair for loyal and capable service. Ripoll served as the shadow minister for financial services, superannuation and sport, while McLucas held the mental health, housing and homelessness portfolios. Their replacements are expected to be appointed after the next parliamentary break.

Shorten also flagged an imminent announcement on Labor's higher education policy. Close watchers in this space will know the party has been firmly opposed to the Coalition's twice-thwarted policy to deregulate university fees but it has revealed few details of an alternative policy.

There were two questions to the Labor executive, including one to Penny Wong asking for more information to refute the government's claims about the China-Australia free trade agreement. Wong committed to distribute more details. The other question was about the digital transformation office. Labor also offered its condolences to Kim Beazley on the death of his mother.

But the political focus today remains firmly on the upheaval in the Coalition.

block-time published-time 2.07am BST

Paradise lost for Joe Hockey ?

Joe Hockey enters the Liberal party room in Parliament House this morning, Tuesday 15th September 2015 Photograph: Mike Bowers for the Guardian

block-time published-time 2.05am BST

Another day in paradise.

Christopher Pyne enters the Liberal party room in Parliament House this morning, Tuesday 15th September 2015 Photograph by Mike Bowers Photograph: Mike Bowers for the Guardian

That's Christopher Pyne's word to reporters on his way into the party room meeting this morning.

block-time published-time 2.01am BST

Well hello good people and welcome to another day in circus training paradise. Ms Chan and I are juggling various projects so once again we are both holding our precious live blog baby today.

I'd love to be able to tell you when the new regime will be sworn in, but I can't until the prime minister Tony Abbott resigns.

We are yet to see anything at all from Abbott.

Where are you, Tony?

block-time published-time 1.56am BST

OK people, the good lady Katharine Murphy is taking over now. I am off to other projects which you shall see later in the day.

Over to you @murpharoo

block-time published-time 1.38am BST

enltrBest wishes to Malcolm Turnbull becoming Australia's 29th Prime Minister Huge job with huge challenges.Therese and I wish he and Lucy well.

- Kevin Rudd (@MrKRudd) September 14, 2015

block-time published-time 1.21am BST

Bernardi: Turnbull coup is treachery of the highest order

Liberal senator Cory Bernardi is about as happy as well, Ray Hadley.

This is treachery of the highest order.

Plotters will be rewarded on the frontbench. But those unhappy Liberal MPs will give more loyalty to Malcolm than Malcolm gave to Tony.

With the coup that took place, we showed there is not much difference between the Liberal party and the Labor party.

He could not tell whether a Turnbull government would win the next election.

block-time published-time 1.16am BST

Some people are cruel.

A bag of onions in keeping with the Twitter hashtag #putoutyourunions. Photograph: Sam Mooy/AAP

block-time published-time 1.08am BST

I'm happy.

Opposition leader Bill Shorten, deputy Tanya Plibersek, Penny Wong and Stephen Conroy at a caucus meeting in parliament. Photograph: Mike Bowers for the Guardian

I really am.

Bill Shorten and deputy Tanya Plibersek at a caucus meeting in parliament, with Andrew Leigh and Alannah McTiernan. Photograph: Mike Bowers for the Guardian

block-time published-time 12.58am BST

Smarmy walks part 2: shock jocks shocked

Macquarie Radio shock jock Ray Hadley is incensed at the Liberal party room's decision to knife Tony Abbott.

He took to the airwaves this morning lamenting the fact that Australia has a "Labor-lite" prime minister in Malcom Turnbull, who he describes as an "unelectable toff".

"We've now got two Labor leaders in Canberra," Hadley said. "The opposition has a Labor leader, and now the government has a Labor leader. [It is] the ides of September."

He pointed out that Turnbull had dismal opinion poll ratings when he was opposition leader.

"He was on the nose then, and he's on the nose now."

"Turnbull and the Liberal party don't deserve to lead," Hadley continued. "I can't support any party that mirrors the lemming-like practices of the Labor party in sacking a first term prime minister."

The radio announcer then turned his ire on the 53 "numbskulls" or "palukas" who voted for Turnbull.

"They should be identified so that the voters who voted them in at the last election, led by Tony Abbott, can simply say to them - next time, go chew in your boot, I'm going somewhere else," Hadley said.

"The 53 MPs who voted for Malcolm Turnbull have short memories."

Particular attention was given to Scott Morrison, a regular on Hadley's morning show, warning him that if he takes a job as treasurer in the Turnbull government, as he's tipped to do, that his standing in the electorate will fall drastically.

Now Hadley is doing a name and shame exercise - calling out anyone who voted for Turnbull and urging listeners to ring their errant MPs and give them a bollocking.

block-time published-time 12.46am BST

Bill Shorten tells his partyroom they can hold their heads high. They picked Turnbull not because they "worked out they're out of touch" but because they panicked.

They panicked because they know that their sterile philosophy of dividing the community has gone down very poorly.

block-time published-time 12.39am BST

Bill Shorten is speaking now for the first time since the leadership coup.

A new leader of the Liberal party. There's no new direction. It may not be the same leader but it is in fact the same message from the Liberal Party. This country has been going nowhere for the last two years. You know the story, we see it everyday in the suburbs and the streets. Unemployment has gone up, debt and deficit has gone up. Even the NBN's doubled incost since before the last election. We've seen growth down, real wage income growth down, we've seen confidence down. And yet Malcolm Turnbull has said that the problem is only in the style not the substance. This country needs no more showmen, it actually just needs substance.

block-time published-time 12.32am BST

NSW premier, fellow northern Sydney MP and surfing buddy Mike Baird has taken to Facebook to offer his thoughts to Tony Abbott.

Politics can be brutal.

What can be lost in the rough and tumble is the people, and the relationships.

I've known Tony Abbott for close to 15 years and I am proud to call him a mate. He will be hurting. So will his wonderful wife Margie and his girls. As their friend, I hurt with them.

Many of those throwing stones don't see the heart behind the man who has spent decades volunteering at the local surf club or working a shift with the Rural Fire Service... not for political gain, but for the simple reason that he loves his community.

This desire to serve, mixed with a deep love of Australia, took him into politics, and ultimately to the highest elected office in the land. Not once have I sensed it was due to a thirst for power. Rather, he has an unquenchable desire to give back. This has always been grounded in a deep humility.

I do look forward to working closely with Malcolm. He will lead with distinction and I anticipate great things for Australia.

But right now, I say to Tony... thanks for always putting your hand up to serve. Thanks for loving your country. And thanks for being a good mate.

block-time published-time 12.29am BST

We have just been digging into the history books to work out the protocol for the resignation and swearing in. Usually, the vanquished goes out to the governor general to resign before the new PM is sworn in.

In the case of Julia Gillard in 2013 for example, while she gave her famous press conference on the night of the coup, a staffer went out to tell the governor general Quentin Bryce of the events. Straight after that press conference, Gillard went to see Bryce. Job done, she had a glass of red.

Prior to Gillard, Kevin Rudd also went straight to the GG after his press conference on the day of the change.

We are still unclear when or if Tony Abbott will go out to see the current incumbent, Sir Peter Cosgrove. Presumably that job needs to be done before Turnbull can lead question time.

block-time updated-timeUpdated at 12.33am BST

block-time published-time 12.12am BST

Let's just recap what we expect of this Tuesday:

* The Coalition party room meeting has been postponed until 10.30am.

1. Malcolm Turnbull has to be sworn in as prime minister. Time unknown.
2. Question time will still happen at 2pm.

block-time published-time 12.08am BST

Mike Bowers was up early ready to catch Tony Abbott for his morning ride. There was no sign. You have seen Julie Bishop's comments on his state of mind. Here is Kevin Andrews on his former boss:

Tony was in a reflective mood. He's been around for a long time. He's seen the ups and downs of politics as we all have. He said that he believed that we had been a good government in difficult circumstances and I think there was a wide deal of respect for him.

block-time published-time 11.51pm BST

Carpe diem.

Malcolm Turnbull gives his first doorstop on Day 1.

block-time published-time 11.50pm BST

What do you really think?

Guardian Australia would love to know what you think about the leadership change through the open thread.

Is it justified? Is it the same as Labor's leadership woes?

Related: Open thread: how will Malcolm Turnbull's ousting of Tony Abbott change politics?

block-time published-time 11.35pm BST

There were tears shed. I'm not enjoying this Karl.

Shalailah Medhora has been keeping ears and eyes across many platforms.

Here is an exchange between Julie Bishop and Karl Stefanovic on Nine about Tony Abbott's state of mind after losing the leadership.

He was calm. He was obviously very hurt. Emotionally, this is a very draining time for people and I feel for Tony and I feel for Margie and his daughters. I knew them well, and I know what stresses and strains that the leadership are under. And so it was a very difficult time for him. Of course it was very emotional for everybody involved

Karl: Were there tears?

I think there were tears shed.

Karl: From you?

I'm not enjoying this Karl. It is a very difficult time.

block-time published-time 11.29pm BST

Jockeying part 2.

Small business minister Bruce Billson on Sky wants to keep his portfolio. Please Malcolm. By the way, I really like the deputy leader too.

If you're looking for a bit zip zip and perpetual optimism, that's my role... I'd love to keep doing my work for small business...I think [Bishop] handled herself with great dignity and grace.

block-time published-time 11.22pm BST

Thanks to Northern Territory News and Cameron Clare.

enltrthe front page of today's NT News #auspolpic.twitter.com/je3ypjU6nT

- Cameron Clare (@camclare) September 14, 2015

block-time published-time 11.15pm BST

And so the jockeying begins: another Kevin who is here to help.

Loyal Abbott lieutenant defence minister Kevin Andrews has been in many different media outlets, saying "pick me". Some might call it shameless.

Now is not the time for instability in the defence portfolio.

I am prepared to work with him and be this broad church that he talks about ... In reaching out to Malcolm, I'm saying, let's embrace these traditions ... I would be happy to continue in this role.

block-time updated-timeUpdated at 11.25pm BST

block-time published-time 11.05pm BST

Bishop: "This is the toughest thing I've had to do in political life."

The deputy Liberal leader, Julie Bishop, has spoken to a number of TV shows this morning.

Julie Bishop on morning TV on the front lawn. Photograph: Mike Bowers for the Guardian

She is laying out the reasons for the need for a change from Tony Abbott, who has yet to be sighted this morning after what was obviously a difficult night. Everyone wants to know how the Coalition can attack Labor for leadership instability when the Liberals have replaced a first-term prime minister.

Bishop says this is different because Abbott was told in February that the party was unhappy and was given six months to turn the government around.

The party took a rather dramatic act over seven months ago when there was a spill motion in the party room that didn't succeed and no one challenged him for the job at the time. And he asked for six months to turn things around. Well, seven months later, the majority of the party room felt that he hadn't done that and there are a whole range of matters that made them lose confidence in him and they wanted a change of leader and they were given the opportunity to have their say and that's what they did yesterday.

Jason Clare, who has shadowed Turnbull, tells RN's Fran Kelly that Labor has learned that it is no good to knife a sitting prime minister.

We've seen this movie before, Fran.

block-time updated-timeUpdated at 11.24pm BST

block-time published-time 10.50pm BST

It's a sign! #MarriageEquality

A rainbow over Parliament House this morning as Australia gets a new prime minister. Photograph: Mike Bowers for the Guardian

block-time published-time 10.44pm BST

Good morning my friends,

It's only Tuesday and we have a new prime minister. It was a brutal day, as they always are when an incumbent is toppled. It turns out, Canberra games were not media fiction, as Tony Abbott had suggested. In the end, it was swift. As we watched Abbott in question time, very few knew that Julie Bishop had told him beforehand that he no longer had the confidence of the party. She laid out his options. After QT, Turnbull followed Abbott out of the chamber to give him the news.

Mike Bowers' prescient shot of the two men leaving question time signalled the end was nigh for Abbott.

Malcolm Turnbull and Prime Minister Tony Abbott leave question time. Photograph: Mike Bowers for the Guardian

Turnbull quickly declared his intention to challenge after question time. His pitch was to provide economic leadership, a true liberal government and traditional consultative cabinet. In the end, he won 54-44.

This morning, Turnbull gave a brief doorstop. He repeated his expectation that the Coalition government would see out its term.

He was asked, is this a dream come true for you?

This is a turn of events that I did not expect I have to tell you but it's one that I'm privileged to undertake and one that I am certainly up to.

Turnbull was asked to explain to the Australian people exactly what happened (given the Coalition had eviscerated Labor for ousting a first-term prime minister).

There has been a change of prime minister but we are a very very strong government a very strong country with a great potential and we will realise that potential working very hard together.

Turnbull (and Abbott's) deputy leader, Julie Bishop is explaining her actions.

This is the toughest thing I've had to do in political life ... it's a very emotional time for us all, its very difficult.

There are many outings this morning. The front lawn of parliament is a sea of morning television programs and politicians, justifying, promoting, excusing. Mike Bowers is out there and we are both on Twitter @gabriellechan and @mpbowers.

Beverages are needed after the night before. Stick to us like glue. Who knows what could happen?

block-time updated-timeUpdated at 11.23pm BST

**Load-Date:** September 15, 2015

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Kent and Sussex Courier

December 11, 2015 Friday

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**Section:** NEWS:PEOPLE; Pg. 32-33

**Length:** 1959 words

**Body**

IT DID make me smile to read Mr Moorhouse's reply to my letter last month about low flying planes blighting life for people in Tunbridge Wells and the surrounding area.

The picture of him and his family stubbornly enjoying lunch in their garden whilst the jets constantly scream overhead points to the Moorhouse family having Zen-like levels of detachment from their local environment.

I am delighted they are also heavy sleepers who don't find the planes an intrusion, but hope they will accept that tens of thousands of other people in the Tunbridge Wells area feel a little differently about things, and have every right to do so.

I would also like to correct a couple of misleadingly personal comments in his letter:

1) I am not a nimby - merely wanting the planes to be sent elsewhere to the detriment of other people. My earlier letter clearly states my objection does not relate purely to Tunbridge Wells. I mention the surrounding area is just as badly affected and I would never advocate a 'solution' that makes life even worse for people in Penshurst or Chiddingstone, for example. All I'd like to see is a return to the situation that existed pre the 2013 changes, when noise from low flying aircraft wasn't really a problem for anyone in this part of west Kent.

2) The implication that I am a hypocrite for wanting a solution to this problem because I have no thought for other people when I fly abroad myself is also misguided.

For Mr Moorhouse's information I don't fly, and don't intend to start now, so his rather glib and somewhat pompous assertion isn't valid on a personal level.

At the same time, I'm very happy for other people to fly whenever they want. I merely ask the powers that be organise who the flight paths associated with air travel to minimise the impact they have on the communities below.

So, Mr Moorhouse, next time you sleep soundly with all your bedroom windows open in early February, spare a thought for those who sadly don't have the same ability to zone out from their environment as you do and as a result are suffering the horror of sleep-deprivation.

Trevor Houghton-Berry

Manor Park

Tunbridge Wells

AT FIRST it may look like Mr Osborne cares about people's concerns on Tax Credits and Universal Tax Credit.

But here's the truth - anyone who receives Tax Credits will eventually be moved onto Universal Credit in a few years.

The result will be that 2.3 million families now stand to lose £1.6k a year when they are forced on to universal credit.

Christopher Stevenson

Western Road

Tunbridge Wells

WITH reference to your article on the solar park being built in Five Oak Green: There is nothing wrong with renewable ***energy***, but it is a shame that a solar park has to be built on green belt land when there is plenty of other land available elsewhere.

The green belt is there to protect the openness of the countryside, and in the case of Five Oak Green to protect the integrity of the village from neighbouring developments, thus it is not a choice between solar panels and housing as your interviewee suggests, but between development and openness. Had it not been for the determined opposition of local residents and a minority of the parish council, a much larger scheme would have been built.

They campaigned against the original larger scheme proposed. Tunbridge Wells Borough Council's planning committee listened to their case, and rejected the larger scheme by just one vote, against the officers' recommendation.

The refusal was subsequently supported not only by the planning inspector but also by the Secretary of State when the application was called in. What were the main grounds for refusal?

Alongside the loss of best and most versatile ***agricultural*** land, the "Secretary of State agreed with the inspector that the proposal would be contrary to Green Belt Policy because it would not preserve the openness of the metropolitan green belt and would conflict with the purpose of including land within it". This is a small victory for local democracy without which a 23-hectare site would have been inflicted on the green belt and the openness of the countryside around the village.

But this was also a test case of whether solar parks should be allowed on green belt land. It is a pity the Secretary of State's verdict came after TWBC had agreed to the smaller scheme now being built.

Cllr Hugh Patterson

(TWBC councillor, Capel Ward and vice-chairman Capel PC)

Sychem Place

Five Oak Green

I AM surprised by the rush to deny Lancashire residents of their rights to oppose two fracking schemes in their county by the Secretary of State for Communities and Local Government.

Fracking firm Cuadrilla has appealed against a planning decision made by Lancashire County Council to turn down an application to frack and test the flow of gas from up to four exploration wells. This ironically coincides with the start of the UN Climate Summit to fight global warming attended by 195 countries to try to reach a legally binding agreement to curb ***emissions*** to below 2ÂºC.

Greg Clark's decision to call in this planning decision is in stark contrast to his stance on onshore wind farms, where he says local people have to be given a final say in their own areas.

China, the biggest polluter in the world, knows it has to stop building coal-fired power stations because of the extreme levels of air pollution, and is now investing in solar ***energy*** on a large scale. The UK was once the leader in renewables, but in the last six months, it has decided to invest in new gas and oil drilling, boost fracking, has pledged to build new gas-fired power stations and made more cuts to renewable ***energy*** projects. I think the UK should be leading the fight against global warming and not let it slip because of the powerful voices of the oil and gas industry.

Marguerita Morton

St John's Road

Tunbridge Wells

YOUR correspondent Mr Bullen (Courier, December 4) claims climate change caused by human activity is a myth.

In fact, the scientific consensus on this issue is overwhelmingly clear and the consequences of melting sea ice and more extreme weather conditions are already apparent.

It is time for the debate to move on from whether we are causing dangerous levels of global warming, to what we are going to do about it.

We have been making pledges about cutting ***greenhouse gas*** ***emissions*** since 1992, but actions speak louder than words.

Governments continue to build more roads, airports and coal-fired power stations, the population continues to rise, meat consumption rises even faster, more rainforest trees are cut down and we continue our drive for economic growth.

It is blatantly clear we are not going to cut ***emissions*** by enough to prevent runaway climate change - if we are even going to cut them at all.

Therefore, effective action has to include removing ***emissions*** from the atmosphere, using carbon-scrubbing and reforestation, and include geo-engineering, in order to artificially cool the planet.

A financial transactions tax of just 0.05 per cent, agreed by the world's main economic nations including the UK, could raise the tens of billions of pounds per year that would be needed to implement these measures on a big enough scale. This is the only politically feasible option left.

Richard Mountford

Greenview Crescent

Hildenborough

IN REPLY to Colin Bullen's utterly irrelevant article on climatic forecasts in the 1920s.

The comprehension of global warming or explaining the principles of climate change to crusty, old idiots (who are far, far worse than the proverbial 'old fool') is akin to explaining the colour blue to a blind man - it is an impossibility.

They appear as illiterate on the subject as the 'flat Earth' society was on the subject of astronomy.

We can play with statistics, computer modelling, even drag up articles from nearly a hundred years ago, but sooner than later, the realisation comes there is something askew with our environment and our climate, to which even the overly optimistic deniers must give credence.

Thousands of eminent scientist and world leaders are acutely aware of this, hence the climate summit in Paris.

Colin Bullen can bark at the moon all he likes with his denial, alternative theories, postulations etc.

But one thing is inevitable, it is getting warmer, it is not going to stop getting warmer, and this will have consequences for everyone on the planet.

And to remind Colin Bullen that "quoting" soothsayers and prophets is not an accurate way of proving or disproving anything, so please, please refrain from paraphrasing 'Old Mother Shipton' or such like, in an attempt prove a point in your next letter. It is not an exact science.

Bruce Grant

Neville Street

Tunbridge Wells

I WOULD like to congratulate chief inspector Dave Pate and his dedicated officers for ***reducing*** the scourge of drug criminals, firearms and drug related crime from Tunbridge Wells.

I appeal to all citizens to support our hard pressed police officers to help rid our town of those who prey upon the vulnerable and who seek to profit from crime in any way.

Let the criminals know that we will support the police and the harshest penalties against those who are violent - the burglars and thieves and shoplifters and con-artists male and female, and our migrant criminal fraternity.

Victor Webb

Ashdown Close

Tunbridge Wells

GREG Clark's PR people are trying hard to improve his dented image after his serious callous planning mistake, regarding the puppy farm in Yorkshire. He has done himself considerable damage with that one. Mud sticks, Mr Clark.

Well over 16,000 signatures have been collected, so far, against the puppy farm - the higher they go, the heavier they fall. Our MP needs to remember that.

Mary McNulty

Palmers Green Lane

Brenchly

IT WAS interesting to read comments the other week from your reader Barbara Boorman on the reaction (or lack of) from Greg Clark MP on his decision to allow permission for a puppy farm.

Even though my views were gratefully printed in the Courier, I too received no response from Greg Clark, Communities Secretary, to whom I had written directly. However, I did receive a personal response from my own MP, Huw Merriman. So perhaps Barbara Boorman and others of a like mind should also petition Huw - as one local MP seems to listen, the other not.

Don't let this issue go cold as Greg Clark hopes it will, it's a very cowardly approach to a decision for which he alone is responsible.

Furthermore, may I also add comment, as another of your readers did in last week's Courier, on the words of Greg Clark when he said "as someone who has championed local decision-making".

Well, the fact is a local decision on the approval of this puppy farm had been given twice and that was to refuse permission, and local opinion remains very strongly opposed - also to refuse permission.

Yet Greg Clark overruled all of this and granted planning permission to allow the experiments to go ahead.

Paul Warren

High Street

Etchingham

AS HAS been John Byrne's experience of charity letters (Courier, November 20): At ninety-two I am in receipt of 218 letters, including birthday and Christmas cards, plus requests ranging from £5 to several hundred. It is not a pleasant sight. One positive: it keeps postmen in work.

PF Webb

Hadlow Road

Tonbridge

MANY aid charities are, once again, pleading for funds to buy animals to be raised as livestock in some of the most deprived nations on Earth.

But raising animals for food requires more land, water, plant food and ***energy***, and it generates more ***greenhouse gas*** ***emissions*** than when food is produced directly for human consumption.

Equally, the charities that run these schemes rarely mention the animal welfare implications.

There are effective alternatives. Contact Animal Aid on 01732 364546.

Tod Bradbury

Animal Aid

Bradford Street

Tonbridge

**Load-Date:** December 10, 2015

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[***No Headline In Original***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5H7F-97Y1-JCF2-H3BV-00000-00&context=1516831)

ICIS Chemical Business

October 26, 2015

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**Section:** WEEK IN BRIEF

**Length:** 2250 words

**Byline:** X x

**Body**

Americas

Schulman to close three Illinois plants

US-based compounder A. Schulman plans to close three facilities in Evansville, Illinois, as part of an integration plan following its $800m acquisition of Citadel Plastics earlier this year. Schulman said it plans to move production of its engineered plastics products from its plant in Akron, Ohio, to one of the Evansville facilities. The consolidation plan should save it $9.5m/year, with $4m of that to be achieved in fiscal 2016 and the remainder in fiscal 2017. The company expects pre-tax employee-related charges of $2m-3m.

US specialty chemicals end Q3 stable

The American Chemistry Council (ACC) announced that its specialty chemicals market volume index inched up to end the third quarter “on a steady note”. The index of 28 chemical applications – from adhesives to water management – increased 0.2% on a three-month moving average (3MMA) basis in September, the ACC said. That followed a 0.2% gain in August that had been revised down, and after a weak first half of the year that focused on oilfield chemicals. The ACC said 20 of the chemical segments in its list expanded in September, six declined and two were flat.

Cabot to cut 300 positions worldwide

US-based carbon black producer Cabot plans to cut about 300 positions worldwide as part of a plan to ***reduce*** costs. The company expects to save $50m during fiscal year 2016 compared with 2015. The savings should start in fiscal Q2 2016. Cabot is cutting costs because of low oil prices, falling demand in Asia and South America and unfavourable currency exchange rates, said CEO Patrick Prevost. The cost-cutting plan should result in a pre-tax charge of $35m, mainly made up of severance and employee benefits.

DuPont to open R&D centre in Singapore

US-based DuPont announced plans for a new headquarters for southeast Asia along with an R&D centre in Singapore in 2016. The new facility will have 200 employees, who will work toward producing products for the “unique needs” of countries belonging to the Association of South East Asian Nations (ASEAN). “The region is home to a rapidly expanding knowledge base,” the company said.

KDG to become Azelis Americas post deal

US-based KODA Distribution Group (KDG) will be renamed Azelis Americas after its acquisition by Belgium’s Azelis Group, which seeks to expand into the specialty chemicals distribution channels in the US and Canada. KDG CEO Frank Bergonzi will become head of Azelis Americas. Financial terms of the transaction, which is expected to be finalised by the end of 2015, were not disclosed. Azelis CEO Hans Joachim Muller said the company aims to double in size and have an initial public offering (IPO) by 2020.

Sherwin-Williams names Morikis new CEO

Directors at US-based paints and coatings company Sherwin-Williams elected John Morikis as CEO, effective 1 January. Morikis, 52, has served as the company’s president and chief operating officer since October 2006. He began working for Sherwin-Williams in 1984, as a management trainee in the company’s paint stores group. He will replace Christopher Connor, who has been the company’s CEO for the past 16 years.

ethylene turnarounds to exceed those in 2015

Next year’s ethylene turnaround season should be busier than this year’s, said Hassan Ahmed, head of research at Alembic Global Advisors. In 2016, an average of 5.8% of North America’s ethylene capacity will be off line for maintenance, versus 4.4% in 2015 and the five-year average of 5.1%, Ahmed said. In Asia, 2016 outages should reach an average of 11.5% of installed capacity, up from 2015’s level of 10.7%, he said. Europe’s average should be 9.0%, up from this year’s 8.5%.

Celanese Q3 net income drops 36.4% from 2014

US-based Celanese reported net income for Q3 was 36.4% lower than the same period in 2014, as it touted the start-up of the largest methanol facility in the US. Net income fell to $161m, from $253m in the same quarter of 2014, as net sales fell by 20.1%, to $1.413bn. The earnings report came as the company started up its 1.3m tonne/year Clear Lake methanol plant in Texas under a joint venture with Japan-based Mitsui.

US homebuilder confidence rises in Oct

Builder confidence in the single-family homes market was up 3 percentage points in October, to a level of 64 on the Housing Market Index (HMI). On the 1-100 scale, a National Association of Home Builders/Wells Fargo HMI score of 50 or above indicates that homebuilders are confident about their prospects over the next six months. “The fact that builder confidence has held in the 60s since June is proof that the single-family housing market is making lasting gains as more serious buyers come forward,” said NAHB chairman Tom Woods.

europe

CEPSA to cut Europe CX capacity in 2016

Spain’s CEPSA is to ***reduce*** its cyclohexane (CX) operating capacity at its plant in Huelva, Spain, a source from the company confirmed. The source said output at the plant will be cut from its current nameplate capacity of 180,000 tonnes/year to 130,000 tonnes/year in 2016. The source said the decision has been made given the current market length; adding it would prefer to produce olefins instead of its current volumes of CX.

Total selects Tech for biorefinery project

Total has selected technology by Axens for its biorefinery project at La Mede in southern France. The French group will provide its Vegan technology for the plant which will produce 500,000 tonnes/year of paraffinic biodiesel from used oils and other renewable feedstocks. Vegan technology hydroprocesses renewable lipids into ultra-clean iso-paraffins. The biorefinery project is part of Total’s plan, announced in April, to overhaul the loss-making La Mede refining site.

LPG firm Petredec launches olefins desk

Liquefied petroleum gas (LPG) trading and shipping firm Petredec has moved into the olefins business, a senior executive at Centrotrade announced. “Petredec has secured the Centrotrade olefins trading team - the whole team is joining Petredec from 1 January 2016,” said Centrotrade’s managing director commercial, Stuart Goldsmith. “Initially we will be trading olefins on a global basis and we are looking to expand our presence in this market into other petrochemical commodities in the future,” Goldsmith said.

Tereos Czech ethanol plant to part restart

The restart of alcohol production at a Czech Republic ethanol plant hit by an explosion is delayed by at least a week, a spokesperson for the operator Tereos TTD said on 21 October. A spokesperson for Tereos TTD, which is owned by the French ***agricultural*** co-operative Tereos, said in an email: “The expected start of raw alcohol production is in the end of November/beginning of December.”

***Emissions*** pledges need $840bn/year investment

The ***emissions*** ***reduction*** pledges made by governments across the world in the run-up to the UN climate change summit would require the ***energy*** sector to invest $840bn/year from 2015 to 2030 in ***energy*** efficiency and innovation, the International ***Energy*** Agency (IEA) said. Over 150 countries representing almost 90% of total ***greenhouse gas*** ***emissions*** pledged to curb future CO2 output ahead of the 21st Conference of Parties (COP 21) summit in Paris, starting 30 November.

BASF to invest 6bn at Ludwigshafen

Germany-based chemicals major BASF said it has committed to spend a total of at least 6bn on investments, upgrading and maintenance measures between 2016 and 2020 at its Ludwigshafen site. The announcement is part of a new site agreement the company signed with employee representatives in Ludwigshafen. The agreement will also see BASF continue to forgo forced redundancies until 31 December 2020. This applies to the approximately 36,000 employees of BASF at the site.

German Sep basic chemical prices down

Producer prices for basic chemicals in Germany fell 1.5% in September, from August, according to the country’s federal statistics agency. Compared with September 2014, prices were down 5.4% year on year, Wiesbaden-based Statistisches Bundesamt said in a data release. Prices for ethylene-based polymers were down 1.1% from August, but up 0.8% year on year from September 2014. Prices of vinyl chloride-based polymers were down 2.3% from August and down 3.1% year on year from September 2014.

Mike Mack to step down as Syngenta CEO

Syngenta’s CEO Mike Mack will step down from his current post at the end of the month after 14 years with the company, the Swiss agribusiness firm said. The company’s chief financial officer John Ramsay was appointed as CEO ad interim. The announcement came amid talks of imminent changes in Syngenta’s board of directors and management amid its weakening financial performance and investors’ alleged disappointment over the company’s rejection of a takeover bid by US fertilizer firm Monsanto.

Borealis’ Stenungsund turnaround ongoing

Borealis expects its Stenungsund cracker in Sweden to be back on line and producing on-spec volumes by the end of the month, a company spokesperson said. “The turnaround in Stenungsund is ongoing and that we aim for on-spec production towards the end of the month,” the spokesperson said in an email. This signifies a restart delay of about five to seven days, according to market sources.

asia

Shell Singapore lifts FM on base chems

Shell has lifted on 19 October the force majeure declared on base chemicals supply from its Bukom production site in Singapore, a company spokesperson said. “We can confirm that the force majeure declared on base chemical products has been lifted as of 19 October 2015,” the spokesperson said. The Bukom site has a 960,000 tonne/year cracker that had an “operational upset” on 14 October, prompting Shell to declare the force majeure. “The ethylene cracker complex has been restarted and is running normally,” the company spokesperson added.

Wanhua Chem runs Yantai MDI at 50%

China’s Wanhua Chemical is running its 600,000/tonne methylene di-phenylene isocyanate (MDI) unit in Yantai, Shandong province, at 50% of capacity after it was restarted on 19 October from a turnaround, a company source said. The unit was taken off line on 1 September for maintenance, the source said. Wanhua Chemical’s two other MDI plants – a 400,000 tonne/year unit and a 800,000 tonne/year unit – at Ningbo in Zhejiang province, are scheduled to be shut for maintenance in first-half November for around one to one and a half months, market sources said.

Guangxi Xintiande plans October etac restart

Chinese producer Guangxi Xintiande ***Energy*** plans to restart its ethyl acetate (etac) plant around 30-31 October, after completing upgrade works at its boiler, a company source said. The producer on 25 September shut down its 200,000 tonne/year etac plant at Qinzhou in China’s Guangxi province to carry out the overhaul. It plans to cap its output at around 50% capacity when it resumes etac production, the source added. China, with about 3.5m tonnes/year of capacity, is the world’s largest etac producer in terms of volume.

Jiangmen Handsome commissions etac plant

China’s Jiangmen Handsome Chemical Development has commissioned its new 200,000 tonne/year ethyl acetate (etac) plant at Taixing in Jiangsu province, after achieving stable operations during a trial run, a company source said. The producer has also closed its older, 120,000 tonne/year etac plant at Taixing, as planned. This means a net etac capacity increase by 80,000 tonnes/year. Meanwhile, Jiangmen is continuing to run its 60,000 tonne/year butyl acetate (butac) plant at Taixing.

Technip to supply hydrogen reformers

Technip has won a contract by Spanish-based general contractor Tecnicas Reunidas to supply three hydrogen reformers as part of the hydrogen production facility at PETRONAS’ Refinery and Petrochemical Integrated Development (RAPID) project in the state of Johor, Malaysia, the French firm said. The reformers will produce 344,500 Nm3/h(2) of hydrogen and syngas products and are expected to come on stream in 2018, Technip said in a statement. The supply of the reformers is based on Technip’s proprietary top-fired steam methane reforming technology, it said. Prior to the supply of the hydrogen reformers, Technip was involved in the front-end engineering design for the RAPID project.

middle east & africa

Firmenich appoints Orkila as distributor

Switzerland-based flavours and fragrances company Firmenich has appointed Orkila as an exclusive distributor for its collection of liquid and powder flavors in Algeria, Egypt, Ghana and Nigeria. “Firmenich is an important partner to Orkila’s expansion strategy in Africa strengthening our portfolio products in the life science sector, which is a core activity of the group,” said Christophe Sacy, chief operating officer at Orkila.

Sahara trials new butanol plant

Sahara Petrochemicals has begun the trial operating phase of its new butanol plant, the Saudi-based producer said. Based in Jubail industrial park, Saudi Arabia, the 330,000 tonne/year unit missed its forecast third-quarter start-up date due to “changes in ***energy*** prices”, the producer said at the time. Performance and production efficiency tests are expected to last three to six months, with commercial production expected to begin in the first half of 2016, according to a filing on the Tadawul exchange.

clarification

Beirut, Lebanon-based distributor Orkila appeared in the 2015 ICIS Top 100 Chemical Distributors list at number 47 in the global list. However we omitted the company from the table of Middle East leaders where it would have appeared at number six. The company achieved sales of $332m in 2014.

**Load-Date:** October 26, 2015

**End of Document**



[***STANDARD LIFE INVESTMENTS PROPERTY INCOME TRUST LTD - Annual Report and Accounts***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JK4-F6P1-DXP3-R4MM-00000-00&context=1516831)

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**Body**

STANDARD LIFE INVESTMENTS PROPERTY INCOME TRUST

ANNUAL FINANCIAL REPORT IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2015

Strategic Report: Financial Highlights

-   The company has grown by over 70% in the year with NAV now standing at £312.8m (2014: £184.4m) driven by portfolio capital growth, NAV accretive share issuance and successful asset management initiatives;

-   NAV total return of 15.5% and share price total return of 15.5% in the year, both outperforming the FTSE REIT Index total return of 10.6% and FTSE All Share Index of 1.0%;

-   NAV accretive share issuance of £110m in the year the proceeds of which have been timeously invested;

-   In order to help finance the purchase of the portfolio of assets described below, the Company increased its borrowing facilities from £84.4million to £139.4million in the form of an additional term loan of £40.6million and a revolving credit facility of £14.4million. As at 31 December 2015 this resulted in a loan to value of 28.1% (31 Dec 2014 - 29.2%) and a weighted average interest rate on loan facilities as at 31 December 2015 of 2.7% (31 Dec 2014 - 3.66%);

-   In the absence of unforeseen circumstances it is the intention of the Company to increase the annual dividend in 2016 to 4.76p, an increase of 2.5%. This equates to a yield of 5.5% based on the share price as at 31 March 2016 compared to the FTSE All-Share REIT Index of 3.3% and the FTSE All-Share Index of 3.8% at the same date;

-   Ongoing charges of 1.1% as at 31 December 2015 (2014: 1.6%) underlining the benefits of the significant rise in the Company's NAV in the year and strong cost control.

Property Highlights

-   As at 31 December 2015, the portfolio was valued at £452m;

-   Portfolio total return for the year of 13.1%, just ahead of the IPD Quarterly version of Monthly Index total return of 13.0% .The standing portfolio (assets held throughout the period) had a total return of 14.7% against a benchmark return of 13.3%;

-   Acquired £217m of assets in the year, including a portfolio of 22 assets for £165m in December 2015 which complemented the existing portfolio, will strengthen dividend cover and provide a number of asset management opportunities;

-   Sales totalling £55m in the year undertaken to realise profits as well as remove future underperformance risk from the portfolio;

-   A  number of successful asset management initiatives, contributing to income and capital values, completed during the year including:

                -  five new lettings completed during the year securing £0.8m pa of new rent

                -  nine lease extensions agreed with existing tenants securing £2.2m pa

-  Successful lease renewals and lettings at White Bear Yard, an office investment in London which is the Company's largest asset, to drive performance

-  Multi let industrial estate in Aberdeen fully let at year end with two large lettings for ten years to the Scottish Ministers and CCF adding to income security.

-   Void rate of 1.1% at 31 December 2015 (1.4% in 2014), significantly below the benchmark figure of 8.4%;

-   Continuing strong rent collection rates of 100% within 28 days highlighting the continued strength of tenant covenants and the Investment Manager's credit management process for rent collection.

|  |  |  |  |
| --- | --- | --- | --- |
| **Capital Values & Gearing** | **31 December 2015** | **31 December 2014** | **% Change** |
| Total assets (£m) | 467.3 | 278.7 | 67.7 |
| Net asset value per share (p) | 82.2 | 75.5 | 8.9 |
| Ordinary Share Price (p) | 84.5 | 78.3 | 7.9 |
| Premium/(Discount) to net asset value (%) | 2.8 | 3.7 |  |
| Loan to Value\* | 28.1 | 29.2 |  |
|  |  |  |  |
|  |  |  |  |
| **Total Return** | **1 year % return** | **3 year % return** | **5 year % return** |
| NAV\*\* | 15.5 | 78.1 | 84.8 |
| Share Price\*\* | 15.5 | 77.3 | 84.3 |
| FTSE Real Estate Investment Trusts Index | 10.6 | 63.6 | 94.8 |
| FTSE All-Share Index | 1.0 | 23.4 | 33.8 |
| **Property Returns & Statistics (%)** |  | **Year ended**  **31 December**  **2015** | **Year ended**  **31 December**  **2014** |
| Property income return |  | 6.1 | 7.5 |
| IPD property income monthly index |  | 4.9 | 5.6 |
| Property total return |  | 13.1 | 18.0 |
| IPD property total return monthly index |  | 13.0 | 17.9 |
| Void rate |  | 1.1 | 1.4 |
|  |  |  |  |
| **Earnings & Dividends** |  | **31 December**  **2015** | **31 December**  **2014** |
| Dividends declared per ordinary share (p) |  | 4.644 | 4.616 |
| Dividend Yield (%)\*\*\* |  | 5.5 | 5.9 |
| FTSE Real Estate Investment Trusts Index Yield (%) |  | 3.0 | 3.0 |
| FTSE All-Share Index Yield (%) |  | 3.7 | 3.4 |
| **Ongoing Charges\*\*\*\*** |  |  |  |
| As a % of average net assets including direct property cost |  | 1.5 | 2.3 |
| As a % of average net assets excluding direct property cost |  | 1.1 | 1.6 |

\* Calculated as bank borrowings less all cash as a percentage of the open market value of the property portfolio as at the end of each year.

\*\* Assumes re-investment of dividends excluding transaction costs.

\*\*\* Based on an annual dividend of 4.644p and the share price at 31 December.

\*\*\*\* Calculated as investment manager fees, auditor's fees, directors' fees and other administrative expenses divided by the average NAV for the year.

Sources: Standard Life Investments, Investment Property Databank ("IPD").

Strategic Report: Chairman's Statement

In what has been a transformational year, I have much pleasure in reporting that the net asset value of your Company grew by 70% in its first full year as a REIT. This growth was achieved through the issue of over £110million of shares in the year to fund acquisitions combined with continued growth in the property portfolio, which comfortably beat its benchmark over the 12 month period. The Company has also announced an increase in its dividend for 2016.

Property Portfolio

In December 2015, the Company announced that it had acquired a portfolio of 22 assets for £165 million funded through a mixture of equity issuance, debt and existing cash resources. The successful acquisition of this portfolio further diversifies the sector, tenant and regional exposure of the Company, offers significant asset management opportunities to create further value and will enhance dividend cover going forward. In addition to this, the Company acquired a further 9 properties in the year for £49.5million and disposed of 10 properties for a total of £58.7million. As a result of this activity the portfolio is now valued at £452million, an increase of £182million in the year. Further details on the portfolio can be found in the Investment Manager's report.

Share Issuance

As part of the portfolio acquisition above, the Company issued shares to the value of £75.7million at a premium to NAV. In addition, in the first half of the year, the Company issued shares to the value of £34.8million at a minimum premium to NAV of 5%, all of which was efficiently invested into the portfolio to help generate positive returns and minimise cash drag. The share issuance programme the Company has undertaken has helped the Company grow significantly in the year, boosting the liquidity of the Company's shares and resulting in the ongoing charges of the Company falling from 1.6% at the end of December 2014 to 1.1% at the end of 2015 with a further fall expected in 2016.

Performance

The Company has delivered both strong NAV and share price performance over the year. The NAV total return for the year was 15.5%, driven by strong capital growth in the property portfolio. The share price total return was 15.5% and the Company's shares continued to trade at a premium to NAV of 2.8% as at 31 December 2015. Both the NAV and share price total return outperformed the FTSE All-Share REIT index total return of 10.6% and the FTSE All-Share Index of 1.0%.

Debt

In order to help fund the acquisition of the portfolio mentioned above the Company restructured its borrowings with RBS in December 2015. The Company increased its borrowing facilities from £84.4million to £139.4million. The additional borrowing was in the form of an additional term loan of £40.6million and a revolving credit facility ("RCF") of £14.4million (with the potential to draw a further £15.6million of the RCF) all of which is due to expire in June 2017. As at 31 December the loan to value ratio (assuming all cash is placed with RBS as an offset to the loan balance) was 28.1%. The bank covenant level is 65 %.

The Company is in advanced negotiations to refinance all its existing loan facilities on favourable terms and expects to make a further announcement on this shortly.

Dividends

The Company paid dividends totalling 4.644p relating to the 2015 financial year. Subsequent to the acquisition of the portfolio described above, which should boost dividend cover going forward in the absence of unforeseen circumstances, the Board announced their intention to increase the dividend by 2.5% in 2016 to four quarterly payments of 1.19p. Based on the share price as at 31 March 2016 this equates to a yield of 5.5% which compares favourably to the yield on both the FTSE All Share REIT Index of 3.3% and the FTSE All-Share Index of 3.8% at the same date.

Board Changes

As announced in the Interim Report it is my intention to stand down from the Board at the AGM in June 2016, to be replaced by Robert Peto. I am also pleased to report that, subsequent to the year end, the Company has appointed Mike Balfour as a new director. He was previously Chief Executive Officer of Thomas Miller Investment Management and has a wealth of experience in investment management and closed ended funds.

Base Erosion and Profit Shifting

In early October 2015, the OECD published guidance relating to base erosion and profit shifting ("BEPS"). In light of this guidance, the recent budget introduced changes to the rules on interest deductibility for tax purposes which will come into force in 2017. It is too early to be definitive as to the impact, if any, that this change will have on the Company given its REIT status. However, the Company and its advisers will continue to closely monitor the situation.

Outlook

The UK economy is expected to continue to grow, although at below trend levels, despite elevated risks both at home and abroad. Occupier markets remain relatively strong which should maintain rental growth momentum over the next few years, although there are signs of some occupiers putting decisions on hold pending greater certainty on the outcome of the EU referendum. However, given the fall in yields for real estate in recent years, which is not expected to continue, and the recent 1% stamp duty rise in the budget, it is anticipated that commercial property returns will moderate with total returns being driven by income.

Against this background, the Company's portfolio is well positioned to continue to grow. The portfolio acquisition in December 2015 increased the scale and diversity of the portfolio and will give rise to further asset management opportunities which will be crucial in an environment where yield compression is limited. Importantly, the new portfolio should also boost income generation at a time when income is becoming the main driver of performance. Combined with the upcoming refinancing of the Company's debt facilities, which should generate significant interest savings, your Company is in a strong position for the future.

Richard Barfield

Chairman

18 April 2016

Strategic Report: Strategic Overview

Objective

The objective of the Company is to provide shareholders with an attractive level of income together with the prospect of income and capital growth.

Investment Policy and Business Model

The Board intends to achieve the investment objective by investing in a diversified portfolio of UK commercial properties. The majority of the portfolio will be invested in direct holdings within the three main commercial property sectors of retail, office and industrial although the Company may also invest in other commercial property such as hotels, nursing homes and student housing. Investment in property development and investment in co-investment vehicles, where there is more than one investor, is permitted up to a maximum of 10% of the property portfolio.

In order to manage risk, without compromising flexibility, the Board applies the following restrictions to the property portfolio, in normal market conditions:

-   No property will be greater by value than 15% of total assets.

-   No tenant (excluding the Government) will be responsible for more than 20% of the Company's rent roll.

-   Gearing, calculated as borrowings as a percentage of gross assets, will not exceed 65%. The Board's current intention is that the Company's loan to value ratio (calculated as borrowings less all cash as a proportion of property portfolio valuation) will not exceed 45%.

As part of its strategy, the Board has contractually delegated the management of the property portfolio, and other services, to Standard Life Investments (Corporate Funds) Limited ('Investment Manager').

Strategy

During the year, the Board reassessed its strategy, with the help of its Investment Manager and other advisers.

The overall intention is to continue to distribute an attractive income return alongside growth in the NAV and a good overall total return.

At property level, it is intended that the Company remains primarily invested in the commercial sector, while keeping a watching brief on other classes such as student accommodation and care homes. The Company is principally invested in office, industrial and retail properties and intends to remain so. In all sectors, poor secondary and tertiary locations are regarded as high risk and will be avoided.

The Board's preference is to buy into good but not necessarily prime locations, where it perceives there will be good continuing tenant demand, and to seek out properties where the asset management skills within the Investment Manager can be used to beneficial effect. The Board will continue to have very careful regard to tenant profiles.

The Board continues to seek out opportunities for further growth in the Company and achieved this during 2015 by raising an additional £110m of capital through new share issues, as detailed in the Chairman's Statement.

The maintenance of a tax efficient structure was achieved by converting the Company to a UK REIT on 1 January 2015.

The Board

The Board currently consists of a non-executive Chairman and four non-executive Directors. There is a commitment to achieve the proper levels of diversity. At the date of this report, the Board consisted of one female and four male Directors. The Company does not have any employees.

Key Performance Indicators

The Board meets quarterly and at each meeting reviews performance against a number of key measures:

-   Property income and total return against the Quarterly Version of the Investment Property Databank Balanced Monthly Funds Index ('the Index').

The Index provides a benchmark for the performance of the Company's property portfolio and enables the Board to assess how the portfolio is performing relative to the market. A comparison is made of the Company's property returns against the Index over a variety of time periods (quarter, annual, three years and five years)

-   Property voids

Property voids are unlet properties. The Board reviews the level of property voids within the Company's portfolio on a quarterly basis and compares the level to the market average, as measured by the Investment Property Databank. The Board seeks to ensure that proper priority is being given by the Investment Manager to replacing the Company's income.

-   Rent collection dates

The Board assesses rent collection by reviewing the percentage of rents collected within 21 days of each quarter end.

-   Net asset value total return

The net asset value total return reflects both the net asset value growth of the Company and also the dividends paid to shareholders. The Board regards this as the best overall measure of value delivered to shareholders. The Board assesses the net asset value total return of the Company over various time periods (quarter, annual, three years, five years) and compares the Company's returns to those of its peer group of listed, closed-ended property investment companies.

-   Premium or discount of the share price to net asset value

The Board closely monitors the premium or discount of the share price to the net asset value and believes that a key driver to the level of the premium or discount is the Company's long term investment performance. However, there can be short term volatility in the premium or discount and the Board takes powers at each AGM to enable it to issue or buy back shares with a view to limiting this volatility.

-   Dividend per share and dividend yield

A key objective of the Company is to provide an attractive, sustainable level of income to shareholders and the Board reviews, at each Board meeting, the level of dividend per share and the dividend yield, in conjunction with detailed financial forecasts, to ensure that this objective is being met and is sustainable.

The Board considers the performance measures both over various time periods and against similar funds.

A record of these measures are disclosed in the Financial Highlights, Chairman's Statement and Investment Manager's Report.

Principal Risks and Uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also the particular circumstances of the properties in which it is invested, and their tenants. The Board and Investment Manager seek to mitigate these risks through a strong initial due diligence process, continual review of the portfolio and active asset management initiatives. All of the properties in the portfolio are insured, providing protection against risks to the properties and also protection in case of injury to third parties in relation to the properties.

The Board has also identified a number of other specific risks that are reviewed at each Board meeting. These are as follows:

-   The Company and its objectives become unattractive to investors. This is mitigated through regular contact with shareholders, a regular review of share price performance and the level of the discount or premium at which the shares trade to net asset value and regular meetings with the Company's broker to discuss these points and address any issues that arise.

-   Poor selection of new properties for investment. A comprehensive and documented initial due diligence process, which will filter out properties that do not fit required criteria, is carried out by the Investment Manager. Where appropriate, this is followed by detailed review and challenge by the Board prior to a decision being made to proceed with a purchase. This process is designed to mitigate the risk of poor property selection.

-   Tenant failure or inability to let property. Due diligence work on potential tenants is undertaken before entering into new lease arrangements. In addition, tenants are kept under constant review through regular contact and various reports both from the managing agents and the Investment Manager's own reporting process. Contingency plans are put in place at units that have tenants that are believed to be in financial trouble. The Company subscribes to the Investment Property Databank Iris Report which updates the credit and risk ranking of the tenants and income stream, and compares it to the rest of the UK real estate market.

-   Breach of loan covenants. The Investment Manager monitors the loan covenants on a regular basis and provides a monthly certificate to the bank confirming compliance with the covenants. Compliance is also reviewed by the Board each quarter and there is regular dialogue between the Investment Manager and the bank on Company activity and performance.

-   Loss on financial instruments. The Company has entered into a number of interest rate swap arrangements. These swap instruments are valued and monitored on a monthly basis by the counterparty bank. The Investment Manager checks the valuations of the swap instruments internally to ensure they are accurate. In addition, the credit rating of the bank that the swaps are taken out with is assessed regularly.

Other risks faced by the Company include the following:

-   Strategic - incorrect strategy, including sector and property allocation and use of gearing, could all lead to poor return for shareholders.

-   Tax efficiency - the structure of the Company or changes to legislation could result in the Company no longer being a tax efficient investment vehicle for shareholders.

-   Regulatory - breach of regulatory rules could lead to the suspension of the Company's Stock Exchange Listing, financial penalties or a qualified audit report.

-   Financial - inadequate controls by the Investment Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.

-   Operational - failure of the Investment Manager's accounting systems or disruption to the Investment Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to loss of shareholder confidence.

-   Economic - inflation or deflation, economic recessions and movements in interest rates could affect property valuations and also bank borrowings.

-   Geopolitical - geopolitical instability or change could have an adverse affect on UK real estate and stock markets.

The implementation of AIFMD during 2014 and the conversion of the Company to a UK REIT on 1 January 2015 have introduced additional regulatory risks to the Company in the form of ensuring compliance with the respective regulations. In relation to AIFMD, the Board receives regular reporting from the AIFM and the depositary to ensure both are meeting their regulatory responsibilities in respect of the Company. In relation to UK REIT status, the Board has put in place a system of regular reporting to ensure that the requirements of the UK REIT regime are being adequately monitored and fully complied with.

The Board seeks to mitigate and manage all risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's property portfolio, levels of gearing and the overall structure of the Company.

Social, Community and Employee Responsibilities

The Company has no direct social, community or employee responsibilities. The Company has no employees and accordingly no requirement to separately report in this area as the management of the portfolio has been delegated to the Investment Manager. In light of the nature of the Company's business there are no relevant human rights issues and there is thus no requirement for a human rights policy. The Board does, however, closely monitor the policies of its suppliers to ensure that proper provision is in place.

Environmental Policy

The Investment Manager acquires and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts.

The Board has endorsed the Investment Manager's own environmental policy which is to work in partnership with contractors, suppliers, tenants and consultants to minimise those impacts, seeking continuous improvements in environmental performance and conducting regular reviews.

The Investment Manager's policy focuses on ***energy*** conservation, mitigating ***greenhouse gas*** ('GHG') ***emissions***, maximising waste recycling and water conservation.

As an investment company, the Company's own direct environmental impact is minimal and GHG ***emissions*** are therefore negligible. Information on the GHG ***emissions*** in relation to the Company's real estate portfolio is disclosed in the Standard Life Investments annual Sustainable Real Estate Investment report, a copy of which can be obtained on request from the Investment Manager. The Company was awarded Green Star ranking from the Global Real Estate Sustainability Benchmark for 2015.

Viability Statement

The Board considers viability as part of its ongoing programme of monitoring risk. The Board considers five years to be a reasonable time horizon over which to review the continuing viability of the Company, although it does have regard to viability over the longer term, in particular to key points outside this time frame, such as the due dates for the repayment of long-term debt.

The Board has considered the nature of the Company's assets and liabilities and associated cash flows and has determined that five years is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to consider the Company's viability.

In assessing the Company's viability, the Board has carried out thorough reviews of the following:

-   Detailed NAV, cash resources and income forecasts, prepared by the Investment Manager, for a five year period under both normal and stressed conditions;

-   The Company's ability to pay its operational expenses, bank interest and dividends over a five year period;

-   Future debt repayment dates and debt covenants, in particular those relating to LTV and interest cover; and

-  The valuation and liquidity of the Company's property portfolio, Investment Manager's portfolio strategy for the future and the market outlook.

The Board has also carried out a robust assessment of the principal risks faced by the Company. The Board takes any potential risks to the ongoing success of the Company and its ability to perform, including the refinancing of its current debt facility, very seriously and works hard to ensure that risks are kept to a minimum at all times.

Based on the results of the analysis outlined above, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Approval of Strategic Report

The Strategic Report comprises the Financial Highlights, Chairman's Statement, Strategic Overview and Investment Manager's Report. The Strategic Report was approved by the Board on 18 April 2016 and signed on its behalf by:

Richard Barfield

Chairman

18 April 2016

Strategic Report: Investment Manager's Report

UK Real Estate Market

Despite recent market volatility the UK economic fundamentals remain intact, providing a solid base for real estate occupier demand. A key risk to the outlook remains weak global growth particularly among emerging markets and an appreciating currency could weigh on the UK recovery further out. The uncertainty surrounding a vote on Brexit also has scope to disrupt both the economy and investment markets. Returns for the real estate asset class continue to moderate but remain compelling relative to other asset classes. Over the twelve months to 31 December 2015, all Property recorded a total return of 13.0% p.a. according to the quarterly version of the IPD Monthly Index whilst rental growth continued to improve at 4.2% p.a. in the twelve months period.

UK listed real estate equities total returns were 10.6% over the year to 31 December 2015, outperforming the FTSE100 which fell by 1.3% in total return terms and the FTSE All Share which rose by 1.0%.

In the year to end December, the office sector continued to generate the highest returns. The sector recorded a total return of 17.2% whilst the industrial sector recorded the next strongest returns at 16.6%. Retail remains the laggard sector with a total return of 8.1% in the year. As in 2014 capital growth was fuelled by falling yields, driven mainly by the weight of money, and the relatively attractive yield on real estate. Over the last three months of 2015 (and continuing into 2016) the rate of capital growth slowed and yield compression appears to have stopped.

Investment Outlook

Total returns for UK real estate look to have peaked for this cycle and income is likely to be the main component of returns going forward as opposed to capital growth which has been a key element of returns over the past few years. During the last three months of 2015 yield compression slowed as investors expectations of interest rate rises grew. That sentiment moderated in the first two months of 2016, to be replaced by a concern over global growth, and the impact that will have on occupier demand. Despite heightened global uncertainty, projections for UK economic growth are likely to remain in positive territory and provide a reasonable backdrop for the domestic real estate outlook. Relative to longer term government bonds, the yield gap remains significant by historic standards, and that should lead to continued investor demand for real estate as investors search for attractive, stable and predictable sources of income. Indeed, the sector remains attractive from a fundamental point of view, with reasonable economic drivers and a limited pipeline of future new developments expected to maintain rental growth. We anticipate reasonable positive total returns for investors on a three year hold period due to the elevated yield and income growth prospects.

The great unknown at the time of writing is what the outcome, and impact, of the referendum on EU membership will be. At the very least one can expect a slowdown in occupier demand in the lead up to it, especially in central London. In the short term at least the rest of the UK is likely to be insulated to some degree. If the vote is to remain in the EU then this slowdown in demand is likely to be temporary. If the vote is to leave, then the impact is not possible to predict currently due to the range of possible outcomes, but will be negative on pricing for the short to medium term at least.

Investment Management Strategy

The investment strategy remains focused on achieving the Company's objective of producing an attractive income return with the prospect of income and capital growth. During the year the Company's NAV per share grew by 8.9%. At the year end share price of 84.5p the dividend yield was 5.5%. The Company's Board continues to ***target*** a covered dividend.

2015 was another year of growth for the Company. An important part of the growth strategy was to protect and enhance existing shareholders interests. This was done by issuing shares at a reasonable premium to the then NAV (normally 5%), and minimising cash drag by only raising funds when we were confident the money could be deployed in a reasonable time period on attractive investments.

At the end of the reporting period the Company undertook a large transaction whereby it bought a fund of 22 assets ('the new portfolio') for £165m using a combination of new equity, debt, and existing cash. No stamp duty was payable on the purchase and the new equity was raised at a premium of 2.8%.

Even during times of growth it is important to manage existing assets, and we remained focussed on regearing leases and disposing of assets that have specific risk to the fund; more details of which can be found below.

Performance

The Company's aim is to provide investors with an attractive income return, with potential for growth in income and capital.

The income yield on the portfolio has to be sufficient to maintain the covered dividend. The income yield from the Company's portfolio has been consistently higher than the more general market as recorded by the IPD monthly index.

Although income is a key focus for us, the NAV total return to investors is also important, as is raising new equity at a reasonable premium to the then NAV so that purchase costs do not negatively impact existing shareholders. It is also important, when raising equity in a rising market to try and avoid cash drag by not raising too much at one time and being unable to invest it. The cash drag impacts both capital returns and also the ability to maintain a covered dividend.

Portfolio Valuation

The Company's investment portfolio was valued by Jones Lang La Salle on a quarterly basis throughout 2015. For the December valuation (and ongoing valuations) the new portfolio was valued by Knight Frank. At the year end the total portfolio was valued at £452.0m, and the Company held £12.4m of cash. This compares to £270.1m (this is the open market value adjusted for anticipated sales costs on properties held for sale) and £5.4m respectively as at end 2014.

Lease Expiry Profile

The Company has an average unexpired lease term to the earliest of lease end or tenant break of 5.8 years. This compares to the IPD average of 7.5 years (excluding leases over 35 years). The portfolio before the purchase of the new portfolio had an unexpired lease term of 7.2 years, and one of the attractions of buying the new portfolio was the opportunity for asset management. Approximately 10% of the Company's income is subject to a lease expiry or break in 2016, and 9% in 2017.

Purchases

The philosophy of the Company is to acquire assets that offer an attractive income return and have good medium/long term prospects. We like to be able to add value through asset management, and seek to buy in lot sizes where there is less competition. We focus on good quality assets, in good locations, let to good tenants. We are less concerned about lease length, as past experience has shown tenant retention is high where the assets are of good quality and meet occupier needs.

During the first nine months of the year the Company acquired 9 assets for a total of £49.5m excluding costs.

In the final quarter the Company completed the purchase of the new portfolio - 22 assets for £165m excluding costs. The portfolio was a very good fit for the Company as it had a similar structure with over exposure to office and industrial, and an underweight position to retail. The geographical split was also beneficial with nothing in central London but 28% in Greater London and a further 27% in the South East. The new portfolio has plenty of opportunity for asset management, with a number of shorter leases, and with an initial yield of 5.9% there is scope to increase rents in the short term.

Sales

The Company undertook several sales to ***reduce*** specific expiry risk, exiting some smaller assets that we felt would not perform in line with expectations, and taking profit from others. We completed on the sale of 10 assets for a total of £58.7m

Asset Management

Asset management is central to how we run the portfolio. We like to meet with our tenants and make sure that the property we own meets occupiers needs. During the course of 2015 we completed 6 new lettings and 8 lease regears. As a result we ended the year with voids of just 1.1%, well below the IPD benchmark level of 8.4%.

It is noticeable that in many parts of the UK the supply of good quality accommodation is limited, with increasing tenant demand. This is leading to rental growth from competition between tenants. In this environment it is important to understand tenant needs to maintain income security, and to add value through lease regears and taking surrenders to refurbish space and upgrade it.

Jason Baggaley

Fund Manager

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group financial statements for each year which give a true and fair view, in accordance with the applicable Guernsey law and those International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the financial performance and cash flows of the Group for that period. In preparing those Financial Statements, the Directors are required to:

-   select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

-   make judgement and estimates that are reasonable and prudent;

-   present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

-   provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

-   state that the Group has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements; and

-   prepare the Group Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping adequate accounting records, that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud, error and non compliance with law and regulations.

The maintenance and integrity of the Company's website is the responsibility of the Directors; the work carried out by the auditors does not involve considerations of these matters and, accordingly, the auditors accept no responsibility for any change that may have occurred to the Financial Statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors' in respect of the Consolidated Annual Report

Statement under the Disclosure and Transparency Rules

The Directors each confirm to the best of their knowledge that:

-   the Consolidated Financial Statements, prepared in accordance with IFRSs as adopted by European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

-   the management report, which is incorporated into the Strategic Report, Directors' Report and Investment Manager's Report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

Statement under the UK Corporate Governance Code

The Directors each confirm to the best of their knowledge and belief that:

-   the Annual Report and Consolidated Financial Statements taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Group's performance, business model and strategy.

Approved by the Board on 18 April 2016

Richard Barfield

Chairman

All enquiries to:

The Company Secretary

Northern Trust International Fund Administration Services (Guernsey) Limited

Trafalgar Court

Les Banques

St Peter Port

Guernsey

GY1 3Ql

Tel: 01481 745001

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Jason Baggaley

Standard Life Investments Limited

Tel: 0131 245 2833

Graeme McDonald

Standard Life Investments Limited

Tel: 0131 245 3151

AUDITED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Notes** | **2015** | **2014** |
|  |  | **£** | **£** |
| Rental income |  | 20,142,180 | 16,145,930 |
| Surrender premium income |  | 120,000 | 38,469 |
| Valuation gain from investment properties | 7 | 17,636,973 | 21,197,869 |
| Costs on business acquisition | 10 | (1,942,498) | - |
| (Loss) / gain on asset acquisition | 9 | (75,181) | 136,938 |
| (Profit) / (loss) on disposal of investment properties |  | 3,024,748 | (1,840,412) |
| Investment management fees | 4 | (2,105,104) | (1,690,233) |
| Other direct property operating expenses |  | (929,165) | (1,000,785) |
| Directors' fees and expenses | 23 | (124,296) | (145,997) |
| Valuer's fee | 4 | (92,324) | (56,542) |
| Auditor's fee | 4 | (82,308) | (46,513) |
| Other administration expenses |  | (376,776) | (358,161) |
| **Operating profit** |  | **35,196,249** | **32,380,563** |
|  |  |  |  |
| Finance income | 5 | 68,186 | 72,326 |
| Finance costs | 5 | (3,324,782) | (3,282,172) |
| **Profit for the year before taxation** |  | **31,939,653** | **29,170,717** |
|  |  |  |  |
| **Taxation** |  |  |  |
| Tax charge | 6 | - | (587,315) |
| **Profit for the year, net of tax** |  | **31,939,653** | **28,583,402** |
|  |  |  |  |
| **Other comprehensive income**  Valuation gain/(loss) on cash flow hedges | 15 | 589,647 | (2,643,942) |
|  |  |  |  |
| **Total comprehensive income for the year,**  **net of tax** |  | **32,529,300** | **25,939,460** |
|  |  |  |  |
| **Earnings per share:** |  | pence | pence |
| Basic and diluted earnings per share | 19 | 11.39 | 15.40 |
| Adjusted (EPRA) earnings per share | 19 | 4.05 | 4.90 |

All items in the above Consolidated Statement of Comprehensive Income derive from continuing operations.

Consolidated Balance Sheet

as at 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Notes** | **2015** | **2014** |
|  |  | **£** | **£** |
| **ASSETS** |  |  |  |
| **Non-current assets** |  |  |  |
| Investment properties | 7 | 448,616,754 | 261,672,121 |
| Lease incentives | 7 | 3,457,588 | 2,436,976 |
|  |  | **452,074,342** | **264,109,097** |
| **Current assets**  Investment properties held for sale | 8 | - | 6,550,100 |
| Trade and other receivables | 11 | 2,858,851 | 2,660,440 |
| Cash and cash equivalents | 12 | 12,395,516 | 5,399,095 |
|  |  | **15,254,367** | **14,609,635** |
|  |  |  |  |
| **Total assets** |  | **467,328,709** | **278,718,732** |
| **LIABILITIES** |  |  |  |
| **Current liabilities** |  |  |  |
| Trade and other payables | 13 | 12,788,999 | 7,205,415 |
| Interest rate swaps | 15 | 908,751 | 1,386,451 |
| Other liabilities |  | - | 500 |
|  |  | **13,697,750** | **8,592,366** |
| **Non-current liabilities** |  |  |  |
| Bank borrowings | 14 | 139,048,848 | 83,980,382 |
| Interest rate swaps | 15 | 1,176,541 | 1,288,488 |
| Other liabilities |  | - | 6,094 |
| Rental deposits due to tenants |  | 622,283 | 483,880 |
|  |  | **140,847,672** | **85,758,844** |
|  |  |  |  |
| **Total liabilities** |  | **154,545,422** | **94,351,210** |
|  |  |  |  |
| **Net assets** |  | **312,783,287** | **184,367,522** |
|  |  |  |  |
| **EQUITY** |  |  |  |
| **Capital and reserves attributable** |  |  |  |
| **to Company's equity holders** |  |  |  |
| Share capital | 17 | 204,820,219 | 96,188,648 |
| Retained earnings | 18 | 6,167,329 | 7,634,503 |
| Capital reserves | 18 | 3,957,367 | (17,294,001) |
| Other distributable reserves | 18 | 97,838,372 | 97,838,372 |
| **Total equity** |  | **312,783,287** | **184,367,522** |
|  |  |  |  |
| **Net Asset Value (NAV) per share** |  |  |  |
| **NAV** | 21 | **82.2p** | **75.5p** |
| **EPRA NAV** | 21 | **82.7p** | **76.6p** |

Approved by the Board of Directors on 18 April 2016 and signed on its behalf by:

Richard Barfield

Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Other** |  |
|  |  | **Share** | **Retained** | **Capital** | **distributable** |  |
|  | **Notes** | **Capital** | **earnings** | **reserves** | **reserves** | **Total equity** |
|  |  | **£** | **£** | **£** | **£** | **£** |
| **Opening balance 1 January 2015** |  | 96,188,648 | 7,634,503 | (17,294,001) | 97,838,372 | 184,367,522 |
|  |  |  |  |  |  |  |
| Profit for the year |  | - | 31,939,653 | - | - | 31,939,653 |
| Valuation gain on cash |  |  |  |  |  |  |
| flow hedges | 15 | - | - | 589,647 | - | 589,647 |
| Total comprehensive gain for the year |  | - | 31,939,653 | 589,647 | - | 32,529,300 |
|  |  |  |  |  |  |  |
| Ordinary shares issued |  |  |  |  |  |  |
| net of issue costs | 17 | 108,631,571 | - | - | - | 108,631,571 |
| Dividends Paid | 20 | - | (12,745,106) | - | - | (12,745,106) |
| Valuation gain of |  |  |  |  |  |  |
| investment properties | 7 | - | (17,636,973) | 17,636,973 | - | - |
| Profit on disposal of investment properties |  | - | (3,024,748) | 3,024,748 | - | - |
| **Balance at 31 December 2015** |  | **204,820,219** | **6,167,329** | **3,957,367** | **97,838,372** | **312,783,287** |

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Other** |  |
|  |  | **Share** | **Retained** | **Capital** | **distributable** |  |
|  | **Notes** | **Capital** | **earnings** | **reserves** | **reserves** | **Total equity** |
|  |  | **£** | **£** | **£** | **£** | **£** |
| **Opening balance 1 January 2014** |  | 31,337,024 | 6,560,853 | (34,144,454) | 97,838,372 | 101,591,795 |
|  |  |  |  |  |  |  |
| Profit for the year |  | - | 28,583,402 | - | - | 28,583,402 |
| Valuation loss on cash |  |  |  |  |  |  |
| flow hedges | 15 | - | - | (2,643,942) | - | (2,643,942) |
| Total comprehensive gain for the year |  | - | 28,583,402 | (2,643,942) | - | 25,939,460 |
|  |  |  |  |  |  |  |
| Ordinary shares issued |  |  |  |  |  |  |
| net of issue costs | 17 | 64,851,624 | - | - | - | 64,851,624 |
| Dividends Paid | 20 | - | (8,015,357) | - | - | (8,015,357) |
| Valuation gain of |  |  |  |  |  |  |
| investment properties | 7 | - | (21,197,869) | 21,197,869 | - | - |
| Gain on asset acquisition |  | - | (136,938) | 136,938 | - | - |
| Loss on disposal of investment properties |  | - | 1,840,412 | (1,840,412) | - | - |
| **Balance at 31 December 2014** |  | **96,188,648** | **7,634,503** | **(17,294,001)** | **97,838,372** | **184,367,522** |

Consolidated Cash Flow Statement

for the year ended 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Notes** | **2015** | **2014** |
|  |  | **£** | **£** |
| **Cash flows from operating activities** |  |  |  |
| Profit for the year before taxation |  | 31,939,653 | 29,170,717 |
| Movement in non-current lease incentives |  | 270,464 | (1,290,976) |
| Movement in trade and other receivables |  | 1,230,084 | (1,354,916) |
| Movement in trade and other payables |  | 3,735,996 | 2,917,533 |
| Finance costs | 5 | 3,324,782 | 3,282,172 |
| Finance income | 5 | (68,186) | (72,326) |
| Valuation gain from investment properties | 7 | (17,636,973) | (21,197,869) |
| Loss / (gain) on asset acquisition | 9 | 75,181 | (136,938) |
| (Profit) / loss on disposal of investment properties |  | (3,024,748) | 1,840,412 |
| **Net cash inflow from operating activities** |  | **19,846,253** | **13,157,809** |
|  |  |  |  |
| **Cash flows from investing activities** |  |  |  |
| Interest received | 5 | 68,186 | 72,326 |
| Purchase of investment properties | 7 | (52,198,123) | (97,853,799) |
| Business acquisition net of cash acquired | 10 | (165,060,458) | - |
| Capital expenditure on investment properties | 7 | (1,144,434) | (2,708,022) |
| Net proceeds from disposal of investment  properties | 7 | 57,854,848 | 26,759,588 |
| **Net cash outflow from investing activities** |  | **(160,479,981)** | **(73,729,907)** |
|  |  |  |  |
| **Cash flows from financing activities** |  |  |  |
| Proceeds on issue of ordinary shares | 17 | 110,462,680 | 65,868,956 |
| Transaction costs of issue of shares | 17 | (1,831,109) | (1,017,332) |
| Bank borrowing | 14 | 55,000,000 | - |
| Bank borrowing arrangement costs | 14 | (173,450) | - |
| Interest paid on bank borrowings | 5 | (1,869,338) | (1,931,665) |
| Payment on interest rate swaps | 5 | (1,213,528) | (1,236,719) |
| Dividends paid to the Company's shareholders | 20 | (12,745,106) | (8,015,357) |
| **Net cash inflow from financing activities** |  | **147,630,149** | **53,667,883** |
|  |  |  |  |
| **Net increase/(decrease) in cash and cash**  **equivalents in the year** |  | **6,996,421** | **(6,904,215)** |
|  |  |  |  |
| Cash and cash equivalents at beginning of the year |  | 5,399,095 | 12,303,310 |
| **Cash and cash equivalents at end of year** | 12 | **12,395,516** | **5,399,095** |

Standard Life Investments Property Income Trust Limited

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

1 GENERAL INFORMATION

Standard Life Investments Property Income Trust Limited ("the Company") and its subsidiaries (together the "Group") carries on the business of property investment through a portfolio of freehold and leasehold investment properties located in the United Kingdom. The Company is a limited liability company incorporated in Guernsey, Channel Islands. The Company has its listing on the London Stock Exchange.

The address of the registered office is Trafalgar Court, Les Banques, St Peter Port, Guernsey.

These audited Consolidated Financial Statements were approved for issue by the Board of Directors on 18 April 2016.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The audited Consolidated Financial Statements of the Group have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by the European Union ("IFRS"), and all applicable requirements of The Companies (Guernsey) Law, 2008. The audited Consolidated Financial Statements of the Group have been prepared under the historical cost convention as modified by the measurement of investment property and derivative financial instruments at fair value. The consolidated financial statements are presented in pounds sterling and all values are not rounded except when otherwise indicated.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to existing standards and interpretations were effective for the year, but either they were not applicable to or did not have a material impact on the group:

-   Annual Improvements to IFRSs 2011-2013 Cycle

-   IFRIC 21 Levies

New and amended standards and interpretations not applied

The following new and amended standards and interpretations in issue are adopted by the EU but are not yet effective and have not been applied by the Group:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **Effective date** |
| IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments) |  |  | 1 February 2015 |
| Annual Improvements to IFRSs 2010-2012 Cycle |  |  | 1 February 2015 |
| Amendments to IFRS 11:  Accounting for Acquisitions of Interests in Joint Operations |  |  | 1 January 2016 |
| Amendments to IAS 16 and IAS 41: ***Agriculture***: Bearer Plants |  |  | 1 January 2016 |
| Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation |  |  | 1 January 2016 |
| Amendments to IAS 27: Equity Method in Separate Financial Statements |  |  | 1 January 2016 |
| Amendments to IAS 1: Disclosure Initiative |  |  | 1 January 2016 |
| Annual Improvements to IFRSs 2012-2014 Cycle |  |  | 1 January 2016 |

The directors do not expect the adoption of these standards and interpretations to have a material impact on the consolidated or company financial statements in the period of initial application.

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. The most significant estimates and judgements are set out below.

Fair value of investment properties

Investment properties are stated at fair value as at the Balance Sheet date. Gains or losses arising from changes in fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation techniques. The fair values are determined based on recent real estate transactions with similar characteristics and locations to those of the Group's assets.

The determination of the fair value of investment properties requires the use of valuation models which use a number of judgements and assumptions. The only model used was the income capitalisation method. Under the income capitalisation method, a property's fair value is judged based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (discounted by the investor's rate of return). Under the income capitalisation method, over (above market rent) and under-rent situations are separately capitalised (discounted).

The sensitivity analysis in note 7 details the decrease in the valuation of investment properties if equivalent yield increases by 25 basis points or rental rates (ERV) decreases by 5%.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the Consolidated Balance Sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair value. The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

The valuation of interest rate swaps used in the Balance Sheet is provided by The Royal Bank of Scotland. These values are validated by comparison to internally generated valuations prepared using the fair value principles outlined above.

The sensitivity analysis in note 3 details the increase and decrease in the valuation of interest rate swaps if market rate interest rates had been 100 basis points higher and 100 basis points lower.

Business Combinations

During the year the Group acquired subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of services provided by the subsidiaries. The Group assessed the acquisition of Aviva Investors UK Real Estate Recovery II Unit Trust (the "Unit Trust" or "UT"), a Jersey Property Unit Trust "JPUT", as detailed in note 10, in the current year as a purchase of a business because the strategic management function and associated processes were purchased along with the investment properties.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

2.3 Summary of significant accounting policies

A Basis of consolidation

The audited consolidated financial statements comprise the financial statements of Standard Life Investments Property Income Trust Limited and its material wholly owned subsidiary undertakings.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with subsidiaries and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has:

-   Power over the subsidiary (i.e., existing rights that give it the current ability to direct the relevant activities of the subsidiary)

-   Exposure, or rights, to variable returns from its involvement with the subsidiary

-   The ability to use its power over the subsidiary to affect its returns

The Group assesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

B Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pounds sterling, which is also the Company's functional currency.

C Revenue recognition

Revenue is recognised as follows;

i) Bank interest

Bank interest income is recognised on an accruals basis.

ii) Rental income

Rental income from operating leases is net of sales taxes and value added tax ("VAT") recognised on a straight line basis over the lease term including lease agreements with stepped rent increases. The initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income. The cost of any lease incentives provided are recognised over the lease term, on a straight line basis as a ***reduction*** of rental income. The resulting asset is reflected as a receivable in the Consolidated Balance Sheet. The valuation of investment properties is ***reduced*** by the total of the unamortised lease incentive balances. Any remaining lease incentive balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

Contingent rents, being those payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as income in periods when they are earned. Rent reviews which remain outstanding at the year end are recognised as income, based on estimates, when it is reasonable to assume that they will be received.

The surrender premiums received for the year ended 2015 were £120,000 (2014: £38,469) as detailed in the Statement of Comprehensive Income and related to a tenant break during the year.

iii) Property disposals

Where revenue is obtained by the sale of properties, it is recognised when the significant risks and returns have been transferred to the buyer. This will normally take place on exchange of contracts unless there are significant conditions attached. For conditional exchanges, sales are recognised when these conditions are satisfied.

D Expenditure

All expenses are accounted for on an accruals basis. The investment management and administration fees, finance and all other revenue expenses are charged through the Consolidated Statement of Comprehensive Income as and when incurred. The Group also incurs capital expenditure which can result in movements in the capital value of the investment properties. The movements in capital expenditure are reflected in the Statement of Comprehensive Income as a valuation gain/(loss). Portrack Interchange in Stockton On Tees did not earn any income until it was sold on 2 September 2015 (2014: no non-income producing properties).

E Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation are reviewed periodically and provisions are established where appropriate.

The Group recognises liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

Deferred tax assets and liabilities are recognised on a net basis to the extent they relate to the same fiscal unity and fall due in approximately the same period.

F Investment property

Investment properties comprise completed property and property under construction or re-development that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based upon the market valuation of the properties as provided by the independent valuers as described in note 2.2. Gains or losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income in the year in which they arise. For the purposes of these financial statements, in order to avoid double counting, the assessed fair value is:

i) ***Reduced*** by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.

ii) Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the Balance Sheet as a finance lease obligation.

Acquisitions of investment properties are considered to have taken place on exchange of contracts unless there are significant conditions attached. For conditional exchanges acquisitions are recognised when these conditions are satisfied.

Investment properties are derecognised when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from the disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the Consolidated Statement of Comprehensive Income in the year of retirement or disposal.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

G Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

H Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is ***reduced*** through use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Consolidated Statement of Comprehensive Income.

I Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and other short-term highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value.

J Borrowings and interest expense

All loans and borrowings are initially recognised at the fair value of the consideration received, less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement. Borrowing costs are recognised within finance costs in the Consolidated Statement of Comprehensive Income as incurred.

K Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income in the Consolidated Statement of Comprehensive Income. The gains or losses relating to the ineffective portion are recognised in operating profit in the Consolidated Statement of Comprehensive Income.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current consistent with the classification of the underlying item. A derivative instrument that is a designated and effective hedged instrument is classified consistent with the classification of the underlying hedged item.

L Service charge

The Company has appointed a managing agent to deal with the service charge at the investment properties and the Company is acting as an agent for the service charge and not a principal. As a result the Group recognises void expenses in the Consolidated Statement of Comprehensive Income. The table in note 22 is a summary of the service charge during the year. It shows the amount the service charge has cost the tenants for the 12 months to 31 December 2015, the amount the tenants have been billed based on the service charge budget and the amount the Group has paid in relation to void units over the year. The table also shows the balancing service charge that is due back to the tenants as at the Balance Sheet date.

M Other financial liabilities

Trade and other payables are recognised and carried at invoiced value as they are considered to have payment terms of 30 days or less and are not interest bearing. The balance of trade and other payables are considered to meet the definition of an accrual and have been expensed through the income statement or Balance Sheet depending on classification. VAT payable at the Balance Sheet date will be settled within 31 days of the Balance Sheet date with Her Majesty's Revenue and Customs ("HMRC") and deferred rental income is rent that has been billed to tenants but relates to the period after the Balance Sheet date. Rent deposits recognised in note 13 are those that are due within one year as a result of upcoming tenant expiries.

3 FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition and development of the Group's property portfolio. The Group has rent and other receivables, trade and other payables and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk (including interest rate risk and real estate risk), credit risk, capital risk and liquidity risk. The Group is not exposed to currency risk or price risk. The Group is engaged in a single segment of business, being property investment in one geographical area, the United Kingdom. Therefore the Group only engages in one form of currency being pounds sterling. The Group currently invests in direct non-listed property and is therefore not exposed to price risk.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the derivative financial instruments.

i) Interest Rate risk

The Group invests cash balances with RBS and Citibank. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest. There is considered to be no fair value interest rate risk in regard to these balances.

The bank borrowings as described in note 14 also expose the Group to cash flow interest rate risk. The Group's policy is to manage its cash flow interest rate risk using interest rate swaps, in which the Group has agreed to exchange the difference between fixed and floating interest amounts based on a notional principal amount (see note 15). The Group has floating rate borrowings of £72,000,000 and £12,432,692, all of which has been fixed via interest rate swaps. The Group increased borrowings by £55,000,000 on 22 December 2015 to fund the purchase of the units in Aviva Investors UK Real Estate Recovery II Unit Trust. As a result of this the margin interest rate on borrowings decreased from 1.65% to 1.25% from 22 December 2015. The terms of the interest rate swap were unchanged from the existing agreement and resulted in an ineffective hedge from 22 December 2015.

The bank borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value. The fair value of the bank borrowings is affected by changes in the market interest rate. The fair value of the interest rate swaps is exposed to changes in the market interest rate as their fair value is calculated as the present value of the estimated future cash flows under the agreements. The accounting policy for recognising the fair value movements in the interest rate swaps is described in note 2.3.

Trade and other receivables and trade and other payables are interest free and have settlement dates within one year and therefore are not considered to present a fair value interest rate risk.

The following tables set out the carrying amount of the Group's financial instruments excluding the amortisation of borrowing costs as outlined in note 5. Bank borrowings have been fixed due to interest rate swaps and are detailed further in note 15:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 December 2015:** |  |  |  |  |
|  | Fixed Rate  £ | Variable rate  £ | Weighted average  interest rate  £ |  |
| Cash and cash equivalents | - | 12,395,516 | 0.402% |  |
| Bank borrowings | 72,000,000 | - | 3.302% |  |
| Bank borrowings | 12,432,692 | - | 3.021% |  |
| Bank borrowings | - | 55,000,000 | 1.753% |  |
|  |  |  |  |  |
|  |  |  |  |  |
| **As at 31 December 2014:** |  |  |  |  |
|  | Fixed Rate  £ | Variable rate  £ | Weighted average  interest rate  £ |  |
| Cash and cash equivalents | - | 5,399,095 | 0.645% |  |
| Bank borrowings | 72,000,000 | - | 3.802% |  |
| Bank borrowings | 12,432,692 | - | 3.521% |  |
|  |  |  |  |  |

At 31 December 2015, if market rate interest rates had been 100 basis points higher with all other variables held constant, the profit for the year would have been £183,654 higher (2014: £182,269 higher profit) as a result of the higher interest income on cash and cash equivalents. Other Comprehensive Income and the Capital Reserve would have been £2,266,614 higher (2014: £2,313,008 higher) as a result of an increase in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

At 31 December 2015, if market rate interest rates had been 100 basis points lower with all other variables held constant, the profit for the year would have been £183,654 lower (2014: £127,268 lower profit) as a result of the lower interest income on cash and cash equivalents. Other Comprehensive Income and the Capital Reserve would have been £2,350,900 lower (2014: £3,254,898 lower) as a result of a decrease in the fair value of the derivative designated as a cash flow hedge of floating rate borrowings.

ii)  Real estate risk

The Group has identified the following risks associated with the real estate portfolio:

a)  The cost of the development schemes may increase if there are delays in the planning process. The Group uses advisers who are experts in the specific planning requirements in the scheme's location in order to ***reduce*** the risks that may arise in the planning process.

b)  A major tenant may become insolvent causing a significant loss of rental income and a ***reduction*** in the value of the associated property (see also credit risk below). To ***reduce*** this risk, the Group reviews the financial status of all prospective tenants and decides on the appropriate level of security required via rental deposits or guarantees.

c)  The exposure of the fair values of the portfolio to market and occupier fundamentals. The Group aims to manage such risks by taking an active approach to asset management (working with tenants to extend leases and minimise voids), capturing profit (selling when the property has delivered a return to the Group that the Group believes has been maximised and the proceeds can be reinvested into more attractive opportunities) and identifying new investments (generally at yields that are accretive to the revenue account and where the Group believes there will be greater investment demand in the medium term).

Credit risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the Group. In the event of default by an occupational tenant, the Group will suffer a rental income shortfall and incur additional related costs. The Investment Manager regularly reviews reports produced by Dun and Bradstreet and other sources, including the IPD IRIS report, to be able to assess the credit worthiness of the Group's tenants and aims to ensure that there are no excessive concentrations of credit risk and that the impact of default by a tenant is minimised. In addition to this, the terms of the Group's bank borrowings require that the largest tenant accounts for less than 20% of the Group's total rental income, that the five largest tenants account for less than 50% of the Group's total rental income and that the ten largest tenants account for less than 75% of the Group's total rental income. The maximum credit risk from the tenant arrears of the Group at the financial year end was £1,696,704 (2014: £1,738,063) as detailed in note 11.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty bank with a maximum exposure equal to the carrying value of these instruments. As at 31 December 2015 £7,821,163 (2014:£4,634,184) was placed on deposit with The Royal Bank of Scotland plc ("RBS"), £1,193,437 (2014: £764,911) was held with Citibank and £3,380,916 was held with RBS on behalf of Standard Life Investments Unit Trust and Standard Life Investment Limited Partnership, two subsidiaries as mentioned in note 9. The credit risk associated with the cash deposits placed with RBS is mitigated by virtue of the Group having a right to off-set the balance deposited against the amount borrowed from RBS should RBS be unable to return the deposits for any reason. Citibank is rated   A-2 Stable by Standard & Poor's and P-2 Stable by Moody's. RBS is rated A-3 Positive by Standard & Poor's and NP Positive by Moody's.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The investment properties in which the Group invests are not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate its investments in these properties quickly at an amount close to their fair value in order to meet its liquidity requirements. The following table summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2015

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | On demand | 12 months | 1 to 5 years | &gt;5 years | Total |
|  | £ | £ | £ | £ | £ |
| Interest-bearing loans | - | 2,565,213 | 140,715,298 | - | 143,280,511 |
| Interest rate swaps | - | 1,201,368 | 2,398,705 | - | 3,600,073 |
| Trade and other payables | 5,309,803 | - | - | - | 5,309,803 |
| Rental deposits due  to tenants | - | 173,072 | 611,458 | 10,825 | 795,355 |
|  | **5,309,803** | **3,939,653** | **143,725,461** | **10,825** | **152,985,742** |

Year ended 31 December 2014

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | On demand | 12 months | 1 to 5 years | &gt;5 years | Total |
|  | £ | £ | £ | £ | £ |
| Interest-bearing loans | - | 1,868,495 | 90,038,178 | - | 91,906,673 |
| Interest rate swaps | - | 1,223,953 | 3,665,814 | - | 4,889,767 |
| Leasehold obligations | - | 500 | 2,000 | 52,500 | 55,000 |
| Trade and other payables | 2,066,393 | - | - | - | 2,066,393 |
| Rental deposits due  to tenants | - | 155,728 | 386,380 | 97,500 | 639,608 |
|  | **2,066,393** | **3,248,676** | **94,092,372** | **150,000** | **99,557,441** |

The disclosed amount for interest rate swaps in the above table are the estimated net undiscounted cash flows.

The Group's liquidity position is regularly monitored by management and is reviewed quarterly by the Board of Directors.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to ***reduce*** the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, increase or decrease borrowings or sell assets to ***reduce*** debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by gross assets. Net debt is calculated as total borrowings less cash and cash equivalents. Gross assets are calculated as non-current assets and current assets as shown in the Consolidated Balance Sheet.

The gearing ratios at 31 December 2015 and at 31 December 2014 were as follows:

|  |  |  |
| --- | --- | --- |
|  | 2015  £ | 2014  £ |
| Total Borrowings (excluding amortisation of arrangement fees) | 139,432,692 | 84,432,692 |
| Less: cash and cash equivalents | (12,395,516) | (5,399,095) |
| Net debt | **127,037,176** | **79,033,597** |
|  |  |  |
| Gross Assets | 467,328,709 | 278,718,732 |
|  |  |  |
| Gearing ratio | 27% | 28% |

Gearing, calculated as net debt as a percentage of gross assets at 31 December 2015 was 27% and must not exceed 65%. The Board's current intention is that the Company's loan to value ratio (calculated as borrowings less all cash as a proportion of the property portfolio valuation) will not exceed 45%.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Carrying Amount | Fair Value |  |  |  |  |  |
|  |  | 2015 | 2014 | 2015 | 2014 |  |  |  |
| Financial Assets |  | £ | £ | £ | £ |  |  |  |
| Cash and cash equivalents |  | 12,395,516 | 5,399,095 | 12,395,516 | 5,399,095 |  |  |  |
| Trade and other receivables |  | 2,858,851 | 2,660,440 | 2,858,851 | 2,660,440 |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Financial Liabilities |  |  |  |  |  |  |  |  |
| Bank borrowings |  | 139,048,848 | 83,980,382 | 139,415,524 | 84,202,020 |  |  |  |
| Interest rate swaps |  | 2,085,292 | 2,674,939 | 2,085,292 | 2,674,939 |  |  |  |
| Trade and other payables |  | 6,105,159 | 2,706,001 | 6,105,159 | 2,706,001 |  |  |  |
|  |  |  |  |  |  |  |  |  |

The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

-   Cash and cash equivalents, trade and other receivables are the same as fair value due to the short-term maturities of these instruments.

-   The fair value of bank borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortised transaction costs. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2014.

-   The fair value of the interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. This is considered as being valued at level 2 of the fair value hierarchy and has not changed level since 31 December 2014. The definition of the valuation techniques are explained in the significant accounting judgements, estimates and assumptions.

The following table shows an analysis of the fair values of financial instruments recognised in the Balance Sheet by the level of the fair value hierarchy\*:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | Level 1 | Level 2 | Level 3 | Total fair value |
| 31 December 2015 |  |  |  |  |  |
| Interest rate swaps |  | - | 2,085,292 | - | 2,085,292 |
|  |  |  |  |  |  |
| 31 December 2014 |  |  |  |  |  |
| Interest rate swaps |  | - | 2,674,939 | - | 2,674,939 |

\*Explanation of the fair value hierarchy:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

4 FEES

Investment management fees

On 19 December 2003 Standard Life Investments (Corporate Funds) Limited ("the Investment Manager") was appointed as Investment Manager to manage the property assets of the Group. A new Investment Management Agreement ("IMA") was entered into on 7 July 2014, appointing the Investment Manager as the AIFM ("Alternative Investment Fund Manager").

Under the terms of the IMA dated 19 December 2003, the Investment Manager was entitled to receive a fee at the annual rate of 0.85% of the total assets, payable quarterly in arrears except where cash balances exceed 10% of the total assets. The fee applicable to the amount of cash exceeding 10% of total assets was altered to be 0.20% per annum, payable quarterly in arrears. The Investment Manager also agreed to ***reduce*** its charge to 0.75% of the total assets of the Group until such time as the net asset value per share returns to the launch level of 97p. This was applicable from the quarter ending 31 December 2008 onwards and did not affect the ***reduced*** fee of 0.20% on cash holdings above 10% of total assets.

Under the terms of the IMA dated 7 July 2014, the above fee arrangements apply up to 31 July 2014. From 1 August 2014, the fee was changed to 0.75% of total assets up to £200 million; 0.70% of total assets between £200 million and £300 million; and 0.65% of total assets in excess of £300 million. The total fees charged for the year ended 31 December 2015 amounted to £2,105,104 (year ended 31 December 2014: £1,690,233). The amount due and payable at the year end amounted to £400,767 excluding VAT (year ended 31 December 2014: £500,165 excluding VAT).

In respect of the annual management fee for the year ended 31 December 2015, the Investment Manager agreed to rebate £400,000 of the fee following the successful completion of the fund raising and new property portfolio acquisition in December 2015.

Administration, secretarial and registrar fees

On 19 December 2003 Northern Trust International Fund Administration Services (Guernsey) Limited ("Northern Trust") was appointed administrator, secretary and registrar to the Group. Northern Trust is entitled to an annual fee, payable quarterly in arrears, of £65,000. Northern Trust is also entitled to reimbursement of reasonable out of pocket expenses. Total fees and expenses charged for the year ended 31 December 2015 amounted to £82,046 (2014: £82,927). The amount due and payable at the year end amounted to £18,331 (2014:£nil).

Valuer's fee

Jones Lang LaSalle and Knight Frank ("the Valuers"), independent international real estate consultants, were appointed as valuers in respect of the assets comprising the property portfolio. The total valuation fees charged for the year ended 31 December 2015 amounted to £92,324 (2014: £56,542) of which minimum fees of £2,500 per property (2014: £2,500) were incurred for new properties added to the portfolio. The amount due and payable at the year end amounted to £12,727 excluding VAT (2014: £10,590 excluding VAT).

Auditor's fee

At the year end date Ernst & Young LLP continued as independent auditor of the Group. The auditor's fees for the year ended 31 December 2015 amounted to £82,308 (2014: £46,513) and relate to audit services provided for the 2015 financial year. Ernst & Young LLP also provided non-audit services in 2015 in respect of advice relating to the social security position of the Group's directors of £1,100 (2014; £nil) and advice in relation to the UK REIT distribution rules of £950 (2014; £nil). Ernst & Young LLP also provided non- audit services in respect of due diligence costs for asset acquisitions and tax accounting advice for the prospectus in 2015 amounting to £110,000 (2014: £32,000) and £47,000 (2014: £nil) respectively. Total non-audit fees incurred up to the Balance Sheet date amounted to £159,050 (2014: £126,000).

5 FINANCE INCOME AND COSTS

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  | 2015 | 2014 |
|  | £ | £ |
| Interest income on cash and cash equivalents | 68,186 | 72,326 |
| Finance income | **68,186** | **72,326** |
|  |  |  |
| Interest expense on bank borrowings | 1,869,338 | 1,931,665 |
| Payments on interest rate swaps | 1,213,528 | 1,236,719 |
| Amortisation of arrangement costs (See Note 14) | 241,916 | 113,788 |
| **Finance costs** | **3,324,782** | **3,282,172** |

6 TAXATION

Current income tax

The major components of income tax expense for the years ended 31 December are:

|  |  |  |
| --- | --- | --- |
|  | 2015 | 2014 |
|  | £ | £ |
| **Consolidated Income Statement**  **Current Income Tax** |  |  |
| Current Income Tax Charge | - | - |
| **Deferred Income Tax** |  |  |
| Utilisation of deferred tax asset | - | 587,315 |
| **Income Tax charge/(credit) reported in the income statement** | - | **587,315** |

A reconciliation between the tax charge / (credit) and the product of accounting profit multiplied by the applicable tax rate for the year ended 31 December 2015 and 2014 is, as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2015 | 2014 |  |
|  | £ | £ |  |
| Profit before tax | 31,939,653 | 29,170,717 |  |
|  |  |  |  |
| Tax calculated at UK statutory income tax/corporation  tax rate of 20.25% (2014: 20%) | 6,467,780 | 5,834,143 |  |
| UK REIT exemption on net income and gains | (3,304,893) | - |  |
| Valuation gain in respect of investment properties  not subject to tax | (3,571,487) | (4,266,961) |  |
| Profit / (loss) on disposal of investment properties  not subject to tax | 15,244 | 368,082 |  |
| Income not subject to tax | - | (716,760) |  |
| Expenditure not allowed for corporation tax/income  tax purposes | 393,356 | 86,711 |  |
| Tax loss utilised | - | (1,305,215) |  |
| Utilisation of Deferred Tax Asset | - | 587,315 |  |
| **Current income tax charge** | - | **587,315** |  |
|  |  |  |  |
|  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Consolidated Balance Sheet | Consolidated Income  Statement |  |  |
|  | 2015 | 2014 | 2015 | 2014 |
|  |  | £ | £ | £ |
| **Deferred income tax assets** |  |  |  |  |
| Losses available for offset against future taxable income | - | - | - | 587,315 |
| **Deferred income tax asset/**  **(credit)** | **-** | **-** | **-** | **587,315** |

Unrecognised deferred tax

As at 31 December 2015, the Group had an unrecognised deferred tax asset of £nil (2014: £2,075,946). Tax losses of the Group generated prior to entry to the UK REIT regime can no longer be utilised and are lost. If a UK REIT sells a property within 3 years of completion of development, the REIT tax exemption does not apply. There were no such properties at 31 December 2014 or 31 December 2015.

UK REIT status

The Group migrated tax residence to the UK and elected to be treated as a UK REIT with effect from 1 January 2015. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading or sold within three years of completion of development. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the period and the Board intends to conduct the Group's affairs such that these conditions continue to be met.

The Company and its material Guernsey subsidiaries have obtained exempt company status in Guernsey so that they are exempt from Guernsey taxation on income arising outside Guernsey and bank interest receivable in Guernsey.

7 INVESTMENT PROPERTIES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | UK | UK | UK | UK |
| Class | Industrial | Office | Retail | Total |
|  | 2015  £ | 2015  £ | 2015  £ | 2015  £ |
| Market value as at 1 January | 108,660,000 | 114,265,100 | 47,125,000 | 270,050,100 |
| Purchase of investment properties | 11,217,775 | 19,005,390 | 21,974,958 | 52,198,123 |
| Acquired through business combination (note 10) | 69,050,000 | 59,850,000 | 36,100,000 | 165,000,000 |
| Capital expenditure on investment properties | 1,034,205 | 72,989 | 37,240 | 1,144,434 |
| Carrying value of disposed investment properties | (11,405,000) | (38,325,100) | (5,100,000) | (54,830,100) |
| Valuation gain from investment properties | 8,404,316 | 8,529,645 | 703,012 | 17,636,973 |
| Movement in lease incentives receivable | 108,704 | 666,976 | 9,790 | 785,470 |
| **Market value at 31 December** | **187,070,000** | **164,065,000** | **100,850,000** | **451,985,000** |
| Adjustment for lease incentives\* | (353,854) | (2,383,140) | (631,252) | (3,368,246) |
| **Carrying value at 31 December** | **186,716,146** | **161,681,860** | **100,218,748** | **448,616,754** |

\*Lease incentives are split between non current assets of £3,457,588 and current liabilities of £89,342 (note 13).

The valuations were performed by Jones Lang Lasalle and Knight Frank, accredited independent valuers with a recognised and relevant professional qualification and recent experience of the location and category of the investment properties being valued. The valuation model in accordance with Royal Institute of Chartered Surveyors ('RICS') requirements on disclosure for Regulated Purpose Valuations has been applied (RICS Valuation - Professional Standards January 2014 published by the Royal Institution of Chartered Surveyors). These valuation models are consistent with the principles in IFRS 13. The market value provided by Jones Lang Lasalle and Knight Frank at the year end was £451,985,000 (2014: £270,225,000) however an adjustment has been made for lease incentives of £3,368,246\* (2014: £1,834,473) that are already accounted for as an asset. In accordance with the accounting policy in note 2.3, in order to arrive at fair value the market values of leasehold investment properties have been adjusted to reflect the fair value of finance lease obligations. Valuation gains and losses from investment properties are recognised in the Consolidated Statement of Comprehensive Income for the period and are attributable to changes in unrealised gains or losses relating to investment properties (completed and under construction) held at the end of the reporting period.

At 31 December 2014 the Group disclosed a number of post balance sheet events including the sale and purchase of investment properties. During the year the Group completed the purchase of DSG in Preston for £15.8m excluding costs and the sale of De Ville Court in Weybridge for £3.15m excluding costs.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country | UK | UK | UK | UK |
| Class | Industrial | Office | Retail | Total |
|  | 2014   £ | 2014  £ | 2014  £ | 2014  £ |
| Market value as at 1 January | 48,175,000 | 79,945,000 | 48,295,000 | 176,415,000 |
| Purchase of investment properties | 72,084,707 | 15,097,439 | 10,671,653 | 97,853,799 |
| Capital expenditure on investment properties | 29,971 | 2,779,559 | (101,508) | 2,708,022 |
| Carrying value of disposed investment properties | (14,550,000) | - | (14,050,000) | (28,600,000) |
| Valuation gain from investment properties | 2,961,019 | 16,132,344 | 2,104,506 | 21,197,869 |
| Movement in lease incentives receivable | (40,697) | 310,758 | 205,349 | 475,410 |
| Investment properties recategorised as held for sale | - | (6,550,100) | - | (6,550,100) |
| **Market value at 31 December** | **108,660,000** | **107,715,000** | **47,125,000** | **263,500,000** |
|  |  |  |  |  |
| Adjustment for lease incentives | (462,673) | (800,767) | (571,033) | (1,834,473) |
| Adjustment for finance lease obligations | - | 6,594 | - | 6,594 |
| **Carrying value at 31 December** | **108,197,327** | **106,920,827** | **46,553,967** | **261,672,121** |

In the Consolidated Cash Flow Statement, proceeds from disposal of investment properties comprise:

|  |  |  |
| --- | --- | --- |
|  | 2015 | 2014 |
|  | £ | £ |
| Carrying value of disposed investment properties | 54,830,100 | 28,600,000 |
| Profit / (loss) on disposal of investment properties | 3,024,748 | (1,840,412) |
| **Net proceeds from disposal of investment properties** | **57,854,848** | **26,759,588** |

|  |  |
| --- | --- |
| **Valuation Methodology** |  |
| The fair value of completed investment properties are determined using the income capitalisation method.  The income capitalisation method is based on capitalising the net income stream at an appropriate yield. In establishing the net income stream the valuer has reflected the current rent (the gross rent) payable to lease expiry, at which point the valuer has assumed that each unit will be re-let at their opinion of ERV. The valuer has made allowances for voids and rent free periods where appropriate, as well as deducting non recoverable costs where applicable. The appropriate yield is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.  No properties have changed the valuation technique during the year. At the Balance Sheet date the income capitalisation method is appropriate for valuing all assets.  The Group appoints suitable valuers (such appointment is reviewed on a periodic basis) to undertake a valuation of all the direct real estate investments on a quarterly basis. The valuation is undertaken in accordance with the then current RICS guidelines and requirements as mentioned above. |  |
| The Investment Manager meets with the valuer on a quarterly basis to ensure the valuer is aware of all relevant information for the valuation and any change in the investment over the quarter. The Investment Manager then reviews and discusses the draft valuations with the valuer to ensure correct factual assumptions are made. The valuer reports a final valuation that is then reported to the Board.  The management group that determines the Company's valuation policies and procedures for property valuations is the Property Valuation Committee. The Committee reviews the quarterly property valuation report produced by the Valuer (or such other person as may from time to time provide such property valuation services to the Company) before its submission to the Board, focussing in particular on:  -  significant adjustments from the previous property valuation report  -  reviewing the individual valuations of each property  -  compliance with applicable standards and guidelines including those issued by RICS and the UKLA Listing Rules  -  reviewing the findings and any recommendations or statements made by the valuer  -  considering any further matters relating to the valuation of the properties  The Chairman of the Committee makes a brief report of the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of the Committee meetings are circulated to the Board. The Chairman submits an annual report to the Board summarising the Committee's activities during the year and the related significant results and findings.  All investment properties are classified as Level 3 in the fair value hierarchy. There were no movements between levels during the year.  There are currently no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal.  The table below outlines the valuation techniques used to derive Level 3 fair values for each class of investment properties:  -  The fair value measurements at the end of the reporting period.  -  The level of the fair value hierarchy (e.g. Level 3) within which the fair value measurements are categorised in their entirety.  -  A description of the valuation techniques applied.  -  Fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.  -  The inputs used in the fair value measurement, including the ranges of rent charged to different units within the same building. |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Country & Class | Fair value (£) | Valuation technique | Key unobservable input | Range (weighted average) |
| UK Industrial  Level 3 | 186,716,146 | · Income Capitalisation | · Initial Yield  · Reversionary Yield  · Equivalent Yield  · Estimated rental value                per Sq.m | ·0% to 15.84% (5.88%)  ·5.53% to 10.65% (6.91%)  ·5.65% to 9.09% (6.60%)  ·£19.15 to £132.76 (£58.45) |
|  |  |  |  |  |
| UK Office  Level 3 | 161,681,860 | · Income Capitalisation | · Initial Yield  · Reversionary Yield  · Equivalent Yield  · Estimated rental value per Sq.m | ·0% to 12.04% (5.87%)  ·5.62% to 10.78% (6.81%)  ·4.74% to 9.01% (6.25%)  ·£137.47 to £669.67 (£276.85) |
| UK Retail  Level 3 | 100,218,748 | · Income Capitalisation | · Initial Yield  · Reversionary Yield  · Equivalent Yield  · Estimated rental value per Sq.m | ·2.79% to 9.47% (6.31%)  ·3.85% to 8.23% (5.85%)  ·5.55% to 7.92% (6.50%)  ·£95.24 to £834.77 (£173.14) |
|  | **448,616,754** |  |  |  |

|  |
| --- |
| **Descriptions and definitions**  The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values.  **Estimated rental value (ERV)**  The rent at which space could be let in the market conditions prevailing at the date of valuation.  **Equivalent yield**  The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.  **Initial yield**  Initial yield is the annualised rents of a property expressed as a percentage of the property value.  **Reversionary yield**  Reversionary yield is the anticipated yield to which the initial yield will rise (or fall) once the rent reaches the ERV.  The table below shows the ERV per annum, area per square foot, average ERV per square foot, initial yield and reversionary yield as at the Balance Sheet date. |

|  |  |  |
| --- | --- | --- |
|  | 2015 | 2014 |
|  | £ | £ |
| ERV p.a. | 32,111,174 | 20,460,185 |
| Area sq. ft. | 3,933,195 | 2,736,927 |
| Average ERV per sq. ft. | £8.16 | £7.48 |
| Initial Yield | 5.97% | 6.59% |
| Reversionary Yield | 4.97% | 5.13% |

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of completed investment properties.

|  |  |  |
| --- | --- | --- |
|  | 2015 | 2014 |
|  | £ | £ |
| Increase in equivalent yield of 25 bps | (18,600,000) | (10,100,000) |
| Decrease in rental rates of 5% (ERV) | (17,700,000) | (10,100,000) |

Below is a list of how the interrelationships in the sensitivity analysis above can be explained.

In both cases outlined in the sensitivity table the estimated Fair Value would increase (decrease) if:

· The ERV is higher (lower)

· Void periods were shorter (longer)

· The occupancy rate was higher (lower)

· Rent free periods were shorter (longer)

· The capitalisation rates were lower (higher)

8 INVESTMENT PROPERTIES HELD FOR SALE

|  |
| --- |
| As at 31 December 2015 the Group had no investment properties classified as held for sale.  As at 31 December 2014 the Group had exchanged contracts with third parties for the sale of De Ville Court, Weybridge for a price of £3,150,000 and Chancellors Place, Chelmsford for £3,525,000. The sale of De Ville Court completed on 20 January 2015 and the sale of Chancellors Place completed on 30 June 2015. The independently assessed market value of De Ville Court as at 31 December 2014 was £3,150,000 and the independently assessed market value of Chancellors Place as at 31 December 2014 was £3,575,000. As at 31 December 2014 the carrying value of De Ville Court was £3,038,250 (net of transaction costs of £111,750) and the carrying value of Chancellors Place was £3,511,850 (net of transaction costs of £63,150).  Reconciliation of investment properties held for sale to independent valuers report: |
|  |

|  |  |  |
| --- | --- | --- |
|  | 2015 | 2014 |
|  | £ | £ |
| De Ville Court | - | 3,150,000 |
| Chancellors Place | - | 3,575,000 |
| Less: transaction costs | - | (174,900) |
| **Adjusted Market Value at 31 December** | **-** | **6,550,100** |

9 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company owns 100 per cent of the issued ordinary share capital of Standard Life Investments Property Holdings Limited, a company with limited liability incorporated and domiciled in Guernsey, Channel Islands, whose principal business is property investment.

The Group, through its subsidiary, owns 100 per cent of the issued ordinary share capital of Huris (Farnborough) Limited, a company incorporated in the Cayman Islands whose principal business is property investment.

The Group, through its subsidiary, owns 100 per cent of the issued ordinary share capital of HEREF Eden Main Limited, a company incorporated in Jersey whose principal business is property investment.

The acquisitions of Huris (Farnborough) Limited and HEREF Eden Main Limited were accounted for as acquisitions of assets in 2014 which generated a loss of £75,181 (2014: £136,938 gain) in the year ended 31 December 2015 as detailed in the Consolidated Statement of Comprehensive Income. The directors believe that such treatment is appropriate as it better reflects the substance of the transactions i.e. the acquired companies are shell companies which hold investment properties and had immaterial other net assets. The investment properties owned by Huris (Farnborough) Limited and HEREF Eden Main Limited were transferred to Standard Life Investments Property Holdings Limited in 2014. The remaining assets of both companies total £59,727 (2014: £44,273 liability) at the Balance Sheet date and have been included in trade and other receivables.

During the year the Group acquired 100% of the units in Aviva Investors UK Real Estate Recovery II Unit Trust (the "Unit Trust" or "UT"), a Jersey Property Unit Trust "JPUT". The acquisition included the entire issued share capital of a General Partner which holds, through a Limited Partnership, the new portfolio of 22 UK real estate assets. The transaction completed on 23 December 2015 and the Group has treated the acquisition as a Business Combination in accordance with IFRS 3. The Group Undertakings consist of the following entities at the Balance Sheet date:

-  Standard Life Investments Property Holdings Limited, a company with limited liability incorporated in Guernsey, Channel Islands.

-  Standard Life Investments SLIPIT Unit Trust, a Jersey Property Unit Trust domiciled in Jersey, Channel Islands (formerly Aviva Investors UK Real Estate Recovery II Unit Trust).

-  Standard Life Investments (SLIPIT) Limited Partnership, a limited partnership established in England (formerly Aviva Investors UK Real Estate Recovery II Limited Partnership).

-  Standard Life Investments SLIPIT (General Partner) Limited, a company with limited liability incorporated in the United Kingdom (formerly Aviva Investors UK Real Estate Recovery II (General Partner) Limited).

- Standard Life Investments SLIPIT (Nominee) Limited, a company with limited liability incorporated and domiciled in the United Kingdom (formerly Aviva Investors UK Real Estate Recovery II (Nominee) Limited).

-  Ceres Court Properties Limited , a company with limited liability incorporated and domiciled in the United Kingdom.

10 BUSINESS COMBINATIONS

On 23 December 2015, the Group acquired 100% of the shares of Aviva Investors UK Real Estate Recovery II Unit Trust (the "Unit Trust" or "UT"), a Jersey Property Unit Trust "JPUT". The acquisition included the entire issued share capital of Standard Life Investments SLIPIT (General Partner) Limited which holds, through Standard Life Investments (SLIPIT) Limited Partnership, the new portfolio of 22 UK real estate assets. Standard Life Investments Limited Partnership (previously Aviva Investors UK Real Estate Recovery II Limited Partnership) holds a portfolio of retail, office and industrial buildings let under operating leases and the acquisition was made to give the Group access to those assets. The existing strategic management function and associated processes were acquired with the property and, as such, the Directors consider this transaction the acquisition of a business, rather than an asset acquisition.

The fair value of the identifiable assets and liabilities of Aviva Investors UK Real Estate Recovery II Unit Trust (now re-named Standard Life Investments SLIPIT Unit Trust) as at the date of acquisition were:

|  |  |  |
| --- | --- | --- |
|  |  | Fair value recognised  on acquisition |
|  |  | £ |
| Investment property |  | 165,000,000 |
| Trade receivables |  | 1,428,495 |
| Cash and cash equivalents |  | 132,045  **166,560,540** |
|  |  |  |
| Trade payables |  | (1,368,037) |
|  |  | **165,192,503** |

The purchase consideration of £165,192,503 for the 100% interest acquired consists of £75,027,974 raised from issuing new shares net of costs, borrowings of £54,826,550 net of loan arrangement costs and £35,337,979 from existing cash reserves. The due diligence costs of £1,942,498 incurred in connection with the acquisition have been expensed and are included in the Consolidated Statement of Comprehensive Income. From the date of acquisition, Standard Life Investments Unit Trust has contributed £582,685 to the profit after tax of the Group and revenues of £350,212 in the form of property rental income. If the acquisition had occurred on 1 January 2015 the Standard Life Investments SLIPIT Unit Trust would have contributed £29,053,934 to the profit after tax of the Group and £11,013,373 revenues in the form of property rental income.

11 TRADE AND OTHER RECEIVABLES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Trade receivables | 1,710,199 | 1,745,004 |  |  |
| Less: provision for impairment of trade receivables | (13,495) | (6,941) |  |  |
| **Trade receivables (net)** | **1,696,704** | **1,738,063** |  |  |
|  |  |  |  |  |
| Rental deposits held on behalf of tenants | 795,355 | 639,608 |  |  |
| Other receivables | 366,792 | 282,769 |  |  |
| **Total trade and other receivables** | **2,858,851** | **2,660,440** |  |  |
|  |  |  |  |  |

Reconciliation for changes in the provision for impairment of trade receivables:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Opening balance | (6,941) | (114,622) |  |  |
| Charge for the year | (13,495) | (6,941) |  |  |
| Reversal of provision | 6,941 | 114,622 |  |  |
| **Closing balance** | **(13,495)** | **(6,941)** |  |  |
|  |  |  |  |  |

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and approximate their carrying amounts.

The trade receivables above relate to rental income receivable from tenants of the investment properties. When a new lease is agreed with a tenant the Investment Manager performs various money laundering checks and makes a financial assessment to determine the tenant's ability to fulfil its obligations under the lease agreement for the foreseeable future. The majority of tenants are invoiced for rental income quarterly in advance and are issued with invoices at least 21 days before the relevant quarter starts. Invoices become due on the first day of the quarter and are considered past due if payment is not received by this date. Other receivables are considered past due when the given terms of credit expire.

Amounts are considered impaired when it becomes unlikely that the full value of a receivable will be recovered. Movement in the balance considered to be impaired has been included in other direct property costs in the Consolidated Statement of Comprehensive Income. As of 31 December 2015, trade receivables of £13,495 (2014: £6,941) were considered impaired and provided for.

The ageing of these receivables is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| 0 to 3 months | 12,905 | 1,562 |  |  |
| 3 to 6 months | 352 | 5,379 |  |  |
| Over 6 months | 238 | - |  |  |
|  | **13,495** | **6,941** |  |  |
|  |  |  |  |  |

As of 31 December 2015, trade receivables of £1,696,704 (2014: £1,738,063) were less than 3 months past due but considered not impaired.

12 CASH AND CASH EQUIVALENTS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Cash held at bank | 4,574,353 | 764,911 |  |  |
| Cash held on deposit with RBS (see note 14) | 7,821,163 | 4,634,184 |  |  |
|  | **12,395,516** | **5,399,095** |  |  |
|  |  |  |  |  |

Cash held at banks earns interest at floating rates based on daily bank deposit rates. Deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the applicable short-term deposit rates.

13 TRADE AND OTHER PAYABLES

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Trade payables | 541,091 | 553,969 |  |  |
| Other payables | 4,768,713 | 1,512,424 |  |  |
| VAT payable | 680,674 | 473,469 |  |  |
| Deferred rental income | 6,536,107 | 3,907,322 |  |  |
| Rental deposits due to tenants | 173,072 | 155,728 |  |  |
| Lease incentives due within one year | 89,342 | 602,503 |  |  |
|  | **12,788,999** | **7,205,415** |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Trade payables are non-interest bearing and are normally settled on 30-day terms.

14 BANK BORROWINGS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Loan facility and drawn down outstanding balance | 139,432,692 | 84,432,692 |  |  |
|  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
| Opening carrying value | 83,980,382 | 83,866,594 |
| Borrowings during the year | 55,000,000 | - |
| Arrangement costs of additional facility | (173,450) | - |
| Amortisation of arrangement costs | 241,916 | 113,788 |
| **Closing carrying value** | **139,048,848** | **83,980,382** |

On 20 January 2012 the Company completed the drawdown of £84,432,692 loan with The Royal Bank of Scotland plc ("RBS"). The facility was repayable on 16 December 2018, however this date was re-negotiated during the year as detailed below. Interest is payable at a rate equal to the aggregate of 3 month Libor, a margin of 1.65% (below 40% LTV) or 1.75% (40% to 60% LTV inclusive) or 1.95% (above 60% LTV) until 21 December 2015.

On 22 December 2015 the Company increased its borrowing facilities from £84,432,692 to £139,432,692. The additional borrowing was in the form of an additional term loan of £40,567,308 and a revolving credit facility ("RCF") of £14,432,692 (with the potential to draw a further £15,567,308 of the RCF) all of which is due to expire in June 2017. Interest from 22 December 2015 is payable at a rate equal to the aggregate of 3 month Libor, a margin of 1.25%.

Under the terms of the loan facility there are certain events which would entitle RBS to terminate the loan facility and demand repayment of all sums due. Included in these events of default is the financial undertaking relating to the loan to value percentage. The loan agreement notes that the loan to value percentage is calculated as the loan amount less the amount of any sterling cash deposited within the security of RBS divided by the gross secured property value, and that this percentage should not exceed 65% for the period to and including 22 December 2016 and should not exceed 60% after 22 December 2016 to maturity.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Loan amount | 139,432,692 | 84,432,692 |  |  |
| Cash deposited within the security of RBS | (7,821,163) | (4,634,184) |  |  |
|  | **131,611,529** | **79,798,508** |  |  |
|  |  |  |  |  |
| Investment properties valuation | 451,985,000 | 270,225,000 |  |  |
|  |  |  |  |  |
| Loan to value percentage | 29.1% | 29.5% |  |  |
|  |  |  |  |  |
| Loan to value percentage covenant | 65.0% | 65.0% |  |  |
|  |  |  |  |  |
| Loan to value percentage if all cash is deposited within the security of RBS | 28.1% | 29.2% |  |  |
|  |  |  |  |  |

Other loan covenants that the Group is obliged to meet include the following:

-  that the net rental income is not less than 150% of the finance costs for any three month period

-  that the largest single asset accounts for less than 15% of the Gross Secured Asset Value

-  that the largest ten assets accounts for less than 75% of the Gross Secured Asset Value

-  that sector weightings are restricted to 55%, 45% and 45% for the Office, Retail and Industrial sectors respectively

-  that the largest tenant accounts for less than 20% of the Group's annual net rental income

-  that the five largest tenants account for less than 50% of the Group's annual net rental income

-  that the ten largest tenants account for less than 75% of the Group's annual net rental income

During the year the Group did not default on any of its obligations under its loan agreement.

The loan facility is secured by fixed and floating charges over the assets of the Company and its wholly owned subsidiary, Standard Life Investments Property Holdings Limited.

15 INTEREST RATE SWAPS

The Company has 2 interest rate swap agreements with RBS which both have a maturity date of 16 December 2018.

On 20 January 2012 the Company completed an interest rate swap of a notional amount of £12,432,692 with RBS. This interest rate swap has a maturity of 16 December 2018. Under the swap the Company has agreed to receive a floating interest rate linked to 3 month Libor and pay a fixed interest rate of 1.77125%.

On 20 January 2012 the Company completed an interest rate swap of a notional amount of £72,000,000 with RBS which replaces the interest rate swap entered into on 29 December 2003. This interest rate swap effective date is 29 December 2013 and has a maturity date of 16 December 2018. Under the swap the Company has agreed to receive a floating interest rate linked to 3 month Libor and pay a fixed interest rate of 2.0515%.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Opening fair value of interest rate swaps at 1 January | (2,674,939) | (30,997) |  |  |
| Valuation gain/(loss) on interest rate swaps | 589,647 | (2,643,942) |  |  |
| **Closing fair value of interest rate swaps at 31 December**  Interest rate swaps due: | **(2,085,292)** | **(2,674,939)** |  |  |
| Less than one year | (908,751) | (1,386,451) |  |  |
| Between one and five years | (1,176,541) | (1,288,488) |  |  |
| **Closing fair value of interest rate swaps at 31 December** | **(2,085,292)** | **(2,674,939)** |  |  |
|  |  |  |  |  |

The individual swap assets and liabilities are listed below:

|  |  |  |
| --- | --- | --- |
| Interest rate swap with a start date of 20 January 2012 maturing on 16 December 2018 | (220,107) | (278,270) |
| Interest rate swap with a start date of 29 December 2013 maturing on 16 December 2018 | (1,865,185) | (2,396,669) |
|  | **(2,085,292)** | **(2,674,939)** |

16 LEASE ANALYSIS

Lessor length

The Group has entered into leases on its property portfolio. This property portfolio as at 31 December 2015 had an average lease expiry of 5 years and 10 months. Leases include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Within one year | 26,596,634 | 17,200,407 |  |  |
| After one year, but not more than five years | 85,580,067 | 54,964,023 |  |  |
| More than five years | 52,490,484 | 48,214,243 |  |  |
| **Total** | **164,667,185** | **120,378,673** |  |  |
|  |  |  |  |  |

The largest single tenant at the year end accounts for 4.6% (2014: 6.7%) of the current annual passing rent.

17 SHARE CAPITAL

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of ordinary shares of 1 pence each. As at 31 December 2015 there were 380,690,419 ordinary shares of 1 pence each in issue. All ordinary shares rank equally for dividends and distributions and carry one vote each. There are no restrictions concerning the transfer of ordinary shares in the Company, no special rights with regard to control attached to the ordinary shares, no agreements between holders of ordinary shares regarding their transfer known to the Company and no agreement which the Company is party to that affects its control following a takeover bid.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Allotted, called up and fully paid: | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Opening balance | 96,188,648 | 31,337,024 |  |  |
| Shares issued between 25 February 2015 and  21 December 2015 at a price of between  78.1p and 82.0p per share | 110,462,680 | - |  |  |
| Shares issued between 7 March 2014 and 19 November 2014 at a price of between 71.5p and 76.0p per share | - | 65,868,956 |  |  |
| Issue costs associated with new ordinary shares | (1,831,109) | (1,017,332) |  |  |
| **Closing balance** | **204,820,219** | **96,188,648** |  |  |
|  |  |  |  |  |
|  | 2015 | 2014 |  |  |
|  | Number of shares | Number of shares |  |  |
| Opening balance | 244,216,165 | 154,994,237 |  |  |
| Issued during the year | 136,474,254 | 89,221,928 |  |  |
| **Closing balance** | **380,690,419** | **244,216,165** |  |  |
|  |  |  |  |  |

18 RESERVES

Retained earnings

This is a distributable reserve and represents the cumulative revenue earnings of the Group less dividends declared as payable to the Company's shareholders.

Capital reserves

This reserve represents realised gains and losses on disposed investment properties and unrealised valuation gains and losses on investment properties and cash flow hedges since the Company's launch. This reserve also represents the realised gain on the acquisition of two subsidiaries during the year to 31 December 2014 as detailed in note 9.

Other distributable reserves

This reserve represents the share premium raised on launch of the Company which was subsequently converted to a distributable reserve by special resolution dated 4 December 2003. This balance has been ***reduced*** by the allocation of preference share finance costs.

The detailed movement of the above reserves for the years to 31 December 2015 and 31 December 2014 can be found in the Consolidated Statement of Changes in Equity.

19 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year net of tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Profit for the year net of tax | 31,939,653 | 28,583,402 |  |  |
|  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | Number of shares | Number of shares |  |  |
| Weighted average number of ordinary shares outstanding during the year | 280,330,039 | 185,548,062 |  |  |
| **Profit per ordinary share** | **11.39p** | **15.40p** |  |  |
|  |  |  |  |  |

EPRA publishes guidelines for calculating adjusted earnings that represent earnings from the core operational activities. Therefore, it excludes the effect of movements in the fair value of, and results from sales of, investment properties together with the effect of movements in the fair value of financial instruments.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Profit for the year net of tax | 31,939,653 | 28,583,402 |  |  |
| Less: revaluation movements on investment properties | (17,636,973) | (21,197,869) |  |  |
| Less: loss / (gain) on asset acquisition | 75,181 | (136,938) |  |  |
| Less: (profit) / loss on disposal of investment properties | (3,024,748) | 1,840,412 |  |  |
| **Adjusted (EPRA) profit for the year** | **11,353,113** | **9,089,007** |  |  |
|  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | Number of shares | Number of shares |  |  |
| Weighted average number of ordinary shares outstanding during the year | 280,330,039 | 185,548,062 |  |  |
| **Adjusted (EPRA) profit per share** | **4.05p** | **4.90p** |  |  |
|  |  |  |  |  |

20 DIVIDENDS AND PROPERTY INCOME DISTRIBUTION GROSS OF INCOME TAX

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| **Non Property Income Distributions** |  |  |  |  |
| 1.161p per ordinary share paid in February relating to the quarter ending 31 December (2014: 1.133p) | 2,835,350 | 1,756,085 |  |  |
| 1.161p per ordinary share paid in May relating to the quarter ending 31 March (2014: 1.161p) | - | 1,865,834 |  |  |
| 1.161p per ordinary share paid in August relating to the quarter ending 30 June (2014: 1.161p) | - | 1,865,834 |  |  |
| 1.161p per ordinary share paid in November relating to the quarter ending 30 September (2014: 1.161p) | 2,220,581 | 2,527,604 |  |  |
|  |  |  |  |  |
| **Property Income Distributions** |  |  |  |  |
| 1.161p per ordinary share paid in May relating to the quarter ending 31 March | 3,213,406 | - |  |  |
| 1.161p per ordinary share paid in August relating to the quarter ending 30 June | 3,348,175 | - |  |  |
| 1.161p per ordinary share paid in November relating to the quarter ending 30 September | 1,127,594 | - |  |  |
|  | **12,745,106** | **8,015,357** |  |  |
|  |  |  |  |  |

On 1 January 2015 the Company converted to a UK REIT from a Guernsey Investment Company (GIC). The payment in February 2015 is the dividend relating to the period prior to REIT conversion for the quarter ended 31 December 2014 and relates to when the Company was a GIC. The payment in May 2015 is the first property income distribution (gross of income tax) following REIT conversion for the quarter ended 31 March 2015.

21 RECONCILIATION OF CONSOLIDATED NET ASSET VALUE TO PUBLISHED NET ASSET VALUE

The net asset value attributable to ordinary shares is published quarterly and is based on the most recent valuation of the investment properties.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | Number of shares | Number of shares |  |  |
| Number of ordinary shares at the reporting date | 380,690,419 | 244,216,165 |  |  |
|  |  |  |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Total equity per audited consolidated financial  statements | 312,783,287 | 184,367,522 |  |  |
| **Net asset value per share** | **82.2p** | **75.5p** |  |  |
|  |  |  |  |  |

The EPRA publishes guidelines for calculating adjusted NAV. EPRA NAV represents the fair value of an entity's equity on a long-term basis. Items that EPRA considers will have no impact on the long term, such as fair value of derivatives, are therefore excluded.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |
|  | £ | £ |  |  |
| Total equity per audited consolidated financial  statements | 312,783,287 | 184,367,522 |  |  |
| Adjustments: |  |  |  |  |
| Add: fair value of derivatives | 2,085,292 | 2,674,939 |  |  |
| **EPRA net asset value** | **314,868,579** | **187,042,461** |  |  |
|  |  |  |  |  |
| **EPRA net asset value per share** | **82.7p** | **76.6p** |  |  |
|  |  |  |  |  |

22 SERVICE CHARGE

The Company has appointed an agent to manage the service charge at the investment properties. The table below is a summary of the service charge during the year. The table shows the service charge cost to the tenants, the amount the tenants have been billed based on the service charge budget and the amount the Company has paid in relation to void units over the year. The table also shows the balancing service charge that is due to/from the tenants as at the Balance Sheet date.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |  |
|  | £ | £ |  |  |  |
| Total service charge expenditure incurred | 1,685,569 | 1,557,269 |  |  |  |
|  |  |  |  |  |  |
| Total service charge billed to tenants excluding void units and service charge caps | 1,492,339 | 1,663,864 |  |  |  |
| Service charge billed to the Group in respect of void units and service charge caps | 74,448 | 120,164 |  |  |  |
| Service charge due from/(to) tenants as at 31 December | 118,782 | (226,759) |  |  |  |
|  | **1,685,569** | **1,557,269** |  |  |  |
|  |  |  |  |  |  |

23 RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Ordinary share capital

Standard Life Assurance Limited held 34,439,001 (2014: 19,644,001) of the issued ordinary shares at the Balance Sheet date on behalf of its Unit Linked Property Funds. This equates to 9.0% (2014: 8.0%) of the ordinary share capital in issue at the Balance Sheet date.

|  |
| --- |
| **Directors remuneration** |
| The remuneration of the key management personnel is detailed below which includes pay as you earn tax and national insurance contributions. Further details on the key management personnel can be found in the Director's Remuneration Report and The Corporate Governance Report. |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015 | 2014 |  |  |  |
|  | £ | £ |  |  |  |
| Richard Barfield (appointed chairman 29 May 2014) | 33,000 | 31,223 |  |  |  |
| Sally-Ann Farnon (appointed 16 July 2010) | 28,500 | 29,500 |  |  |  |
| Shelagh Mason (retired 31 December 2014) | - | 26,500 |  |  |  |
| Huw Evans (appointed 11 April 2013) | 26,000 | 26,500 |  |  |  |
| Robert Peto (appointed 28 May 2014) | 26,000 | 16,736 |  |  |  |
| Paul Orchard-Lisle (retired 28 May 2014) | - | 13,107 |  |  |  |
| Employers national insurance contributions | 5,872 | - |  |  |  |
|  | **119,372** | **143,566** |  |  |  |
| Directors expenses | 4,924 | 2,431 |  |  |  |
|  | **124,296** | **145,997** |  |  |  |
|  |  |  |  |  |  |

Investment Manager

Management of the property portfolio is contractually delegated to Standard Life Investments (Corporate Funds) Limited as Investment Manager and the contract with the Investment Manager can be terminated by the Company. Transactions with the Investment Manager in the year are detailed in note 4.

24 SEGMENTAL INFORMATION

The Board has considered the requirements of IFRS 8 'operating segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom.

25 EVENTS AFTER THE BALANCE SHEET DATE

On 29 February 2016 the Group started the process of liquidating Standard Life Investments SLIPIT Unit Trust. As part of the liquidation process the trustees of the Standard Life Investments SLIPIT Unit Trust distributed the interests in the Standard Life Investments (SLIPIT) Limited Partnership to Standard Life Investments Property Holdings Limited (99%) and Standard Life Investments Property Income Trust Limited (1%).

On 31 March 2016 a fourth interim dividend for the period 1 October 2015 to 20 December 2015 of 1.022 pence per share was paid. The dividend was split as a property income dividend of 0.528 pence per share and an ordinary dividend of 0.494 pence per share.

On 31 March 2016 a fifth interim dividend for the period 21 December 2015 to 31 December 2015 of 0.139 pence per share was paid. The dividend was split as a property income dividend of 0.072 pence per share and an ordinary dividend 0.067 pence per share.

Additional Notes to the Annual Financial Report

This Annual Financial Report announcement is not the Company's statutory accounts for the year ended 31 December 2015. The statutory accounts for the year ended 31 December 2015 received an audit report which was unqualified and did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

The statutory accounts for the financial year ended 31 December 2015 were approved by the Directors on 18 April 2016. The Company's AGM is to be held on 2 June 2016. The Annual Report and Notice of AGM will be posted to shareholders in April 2016 and will be available for download from the Company's website hosted by the Investment Manager ([*http://www.standardlifeinvestments.com/its*](http://www.standardlifeinvestments.com/its)).

Please note that past performance is not necessarily a guide to the future and that the value of investments and the income from them may fall as well as rise. Investors may not get back the amount they originally invested.

END

**Load-Date:** April 19, 2016

**End of Document**



[***FIDELITY JAPANESE VALUES PLC - Final Results***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JF8-YVW1-DXP3-R3DG-00000-00&context=1516831)

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**Body**

Fidelity Japanese Values PLC

Final Results

For the year ended 31 December 2015

Investment Objective and Performance

The investment objective of the Company is to achieve long term capital growth from an actively managed portfolio of securities primarily of small and medium sized Japanese companies listed or traded on Japanese stockmarkets.

|  |  |
| --- | --- |
| Performance (year ended 31 December 2015) |  |
| Net Asset Value ("NAV") per Ordinary Share Total Return - undiluted | +24.6% |
| Ordinary Share Price Total Return | +20.5% |
| Russell Nomura Mid/Small Cap Index Total Return (in sterling terms)\* | +19.4% |
| \* The Company's Reference Index |  |
| As at 31 December 2015 |  |
| Equity Shareholders' Funds | £116.0m |
| Market Capitalisation | £99.8m |
| Capital Structure: |  |
| Ordinary shares of 25 pence each | 114,218,356 |
| Subscription shares of 0.001 pence each | 22,527,339 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Standardised Performance - Total Return (%) |  |  |  |  |  |
|  | 01/01/2015  to  31/12/2015 | 01/01/2014  to  31/12/2014 | 01/01/2013  to  31/12/2013 | 01/01/2012  to  31/12/2012 | 01/01/2011  to  31/12/2011 |
| NAV per ordinary share - undiluted | +24.6 | +3.1 | +31.8 | -6.6 | -6.2 |
| Ordinary share price | +20.5 | ?0.0 | +39.5 | -1.7 | -8.3 |
| Russell Nomura Mid/Small Cap Index (in sterling terms) | +19.4 | +5.1 | +21.7 | -3.1 | -9.3 |
| Sources: Fidelity and Datastream  Past performance is not a guide to future returns |  |  |  |  |  |

Financial Summary

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | 2015 | 2014 |
| Assets at 31 December |  |  |  |
| Total portfolio exposure1 |  | £135.3m | £113.5m |
| Shareholders' funds |  | £116.0m | £92.9m |
| Total portfolio exposure in excess of shareholders' funds |  | 16.6% | 22.2% |
| NAV per ordinary share - undiluted |  | 101.56p | 81.48p |
| NAV per ordinary share - diluted2 |  | 99.08p | n/a |
| Stockmarket data at 31 December |  |  |  |
| Russell Nomura Mid/Small Cap Index (in sterling terms) |  | 2.7042 | 2.2654 |
| Yen/£ exchange rate |  | 177.303 | 186.946 |
| Ordinary share price at the year end |  | 86.75p | 72.00p |
| year high |  | 88.00p | 75.75p |
| year low |  | 71.00p | 64.75p |
| Discount - undiluted at the year end |  | 14.6% | 11.6% |
| year high |  | 17.7% | 17.8% |
| year low |  | 6.7% | 2.8% |
| Subscription share price at the year end |  | 3.13p | 4.25p |
| year high |  | 7.25p | 4.25p |
| year low |  | 1.50p | 3.75p |
| Total returns for the year to 31 December |  |  |  |
| NAV per ordinary share - undiluted |  | +24.6% | +3.1% |
| Ordinary share price |  | +20.5% | +0.0% |
| Russell Nomura Mid/Small Cap Index (in sterling terms) |  | +19.4% | +5.1% |
| Results for the year to 31 December |  |  |  |
| Revenue loss per ordinary share |  | (0.14p) | (0.45p) |
| Capital return per ordinary share |  | 20.24p | 2.91p |
| Total return per ordinary share |  | 20.10p | 2.46p |
| Ongoing charges for the year to 31 December3 |  | 1.52% | 1.62% |

1   The total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs

2   There was no diluted net asset value per ordinary share at 31 December 2014 as the net asset value per ordinary share was below the 86.50 pence exercise price of a subscription share

3   Ongoing charges (excluding finance costs and taxation) as a percentage of average net asset values for the reporting year (prepared in accordance with methodology recommended by the Association of Investment Companies)

Chairman's Statement

I have pleasure in presenting the Annual Report of Fidelity Japanese Values PLC for the year ended 31 December 2015.

PERFORMANCE REVIEW

Despite the major setback suffered by the Japanese market in the second half of 2015, arising from concerns over the slowdown in China and the likelihood of a rise in US interest rates, I am pleased to be able to report that over the year to 31 December 2015, the Company's net asset value rose by 24.6% to 101.56p per share, substantially beating the Russell Nomura Mid/Small Cap Index, which rose by 19.4% in sterling terms. The share price also went up, but only by 20.5% per share to 86.75p, as the Company's share discount to NAV widened to 14.6%. This was in line with a widening of discounts for Asian investment trusts and emerging market funds generally.

PORTFOLIO MANAGER

At the end of July 2015 we announced that the Company's Portfolio Manager would change from Shinji Higaki to Nicholas Price, effective from 1 September 2015. The Board took this decision as it felt that the long term performance of the Company versus its peer group had not been satisfactory despite the Company's outperformance of the Reference Index. We are grateful for Shinji's eight years of service to the Company and the undoubted hard work that he put into the management of the Company's portfolio. The Board also wishes him well in his new role as Finance Director of a small Japanese company.

In his successor, Nicholas Price, we believe we have managed to find a Portfolio Manager who will be a great fit for the Company. Nicholas is a highly experienced Japanese equities manager and has an excellent track record on the funds he has run to date. He is a "growth at a reasonable price" manager with a natural bias towards mid and small cap companies.

RESULTS AND DIVIDENDS

The revenue column of the Income Statement shows a net loss on ordinary activities after taxation for the year of £160,000 (2014: £509,000). As the revenue reserve remained substantially in deficit at 31 December 2015, the Directors do not recommend the payment of a dividend. However, as Japanese companies are beginning to raise their dividend pay-out ratios generally, this is an issue which the Board will continue to monitor closely.

GEARING

The Company is permitted to gear through the use of long Contracts for Difference ("CFDs"). Total portfolio exposure at the end of the year was £135.3m, equating to gearing of 16.6% compared with 22.2% at the end of 2014. Further information can be found in the Strategic Report.

With the change of Portfolio Manager, the Board concluded that a revision to the Company's gearing guidelines would be appropriate. Whilst the previous Manager tended to remain fairly fully geared on the Board's instruction, Nicholas Price has agreed with the Board that he is likely to want to use gearing more dynamically. The Board has therefore given him discretion to move between being 25% geared to holding 5% net cash.

The Board continues to be of the view that using CFDs provides more flexibility for the Company's needs at a much lower cost than traditional bank debt, despite the low level of interest rates.

MANAGEMENT FEE ARRANGEMENTS AND ONGOING CHARGES

Shareholders may recall that the management fee was ***reduced*** on 1 January 2014 from 1.00% to 0.85% of gross assets. As a result ongoing charges were 1.62%. During 2015, Fidelity, on behalf of the Board, negotiated a ***reduction*** in fees paid to third party providers. These efforts resulted in a further decline in the Company's ongoing charges to 1.52% in 2015. This places the Company below the average of the peer group (at 1.65%), but the Board will continue to monitor costs very closely and will keep the management fee under review.

THE BOARD

Following the recruitment of two new Board Directors in 2014, the Board has operated with six members since last year's Annual General Meeting ("AGM"). At the conclusion of this year's AGM, David Miller will be stepping down from the Board, bringing the number back down to five. I would like to take this opportunity to thank him on behalf of the Board and shareholders for his invaluable contribution over the last eleven years, and for his support as Senior Independent Director. Philip Kay has kindly agreed to take over from David Miller as the Company's Senior Independent Director following the AGM.

SUBSCRIPTION SHARES

On 26 August 2014, the Company undertook a bonus issue of subscription shares to ordinary shareholders on the basis of one subscription share for every five ordinary shares held. The subscription shares were allotted to qualifying ordinary shareholders at no cost. The exercise price was set at 86.50 pence.

The rights attaching to a total of 215,981 subscription shares were exercised in respect of the year ended 31 December 2015, at which point the total number of subscription shares in issue was 22,527,339. The final date for exercising the rights to subscription shares will be 29 April 2016. As at 29 March 2016, the diluted net asset value per ordinary share (including income) was 103.24p. Further details of the subscription shares may be found in the Directors' Report and in Note 13 of the Report and Accounts.

SHARE REPURCHASES

Purchases of ordinary and subscription shares for cancellation are made at the discretion of the Company and within guidelines set from time to time by the Board. Share repurchases are made in the light of prevailing market conditions, together with their impact on liquidity and gearing. Shares will only be repurchased when the result is an enhancement to the net asset value of the ordinary shares for the remaining shareholders. No shares were repurchased during the year (2014: nil) for cancellation. Since 1 January 2016 and as at the date of this report, the Company has repurchased 420,000 ordinary shares.

TREASURY SHARES

In order to assist in managing the discount, the Board has decided to seek shareholder approval to hold in Treasury any ordinary shares repurchased by the Company, rather than cancelling them. The Treasury shares would carry no voting rights or rights to receive a dividend and would have no entitlement in a winding up of the Company. No more than 5% of the issued ordinary share capital of the Company would be held in Treasury. Any shares held in Treasury would only be re-issued at NAV per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per share. The Board is seeking shareholder approval to implement these recommendations at the forthcoming AGM.

VIABILITY STATEMENT

In accordance with the 2014 UK Corporate Governance Code, the Directors are now required to report on the viability of the Company over a longer period than the twelve month period required by the Going Concern statement. This new statement can be found in the Strategic Report.

CONTINUATION VOTE

In accordance with the Articles of Association of the Company, an ordinary resolution that the Company continue as an investment trust for a further three years was passed at the 2013 AGM. A further continuation vote will be proposed at this year's AGM.

The Company's NAV total return over the last three years was 69.4% compared to the Reference Index return of 52.6%, whilst the share price rose by 68.0%. The Company's share price has been at a discount to NAV in the past three years as follows: 8.9% (at 31.12.2013); 11.6% (at 31.12.2014); and 14.6% (at 31.12.2015).

As mentioned earlier in this report the Board took steps last year to change the Portfolio Manager in order to address the unsatisfactory long term performance of the Company against its peer group. Further, since the start of this year, the Board has worked closely with its broker on establishing a buyback programme in order to manage the Company's discount, to the extent possible, having regard to recent market volatility and the size of the Company.

Therefore your Board recommends that shareholders vote in favour of the continuation vote. If the vote is passed, a further continuation vote will take place at the Annual General Meeting in 2019.

AGM

The AGM will be held at 12:00pm on 24 May 2016 at the offices of Fidelity at 25 Cannon Street, London EC2M 5TA (St Paul's or Mansion House tube station) and all investors are encouraged to attend. The Board looks forward to the opportunity to speak to shareholders of the Company. The Portfolio Manager will attend and will give a presentation on the past year and the prospects for the coming year.

OUTLOOK

It appears that the Japanese market continues to offer exciting opportunities. With the potential shift from deflation to inflation and from contraction to growth, Japan is arguably on the cusp of a sustained recovery.

Unemployment has declined and is approaching 3%, which means that more households are earning an income, and the prospects for further wage increases are improving. While the core CPI number is still running below the Bank of Japan's 2% ***target***, it has been substantially affected by the drop in the oil price over the past year. However, this ***energy*** price decline is actually a huge boost for Japan as a country which imports all required fossil fuels. So-called "core-core" inflation, which strips out the effects of falling oil prices, is around 1%. This means that as individuals and companies make decisions about consumption and investment, they are more likely to make positive choices.

The key challenge for Japan is to remain focused on the reform agenda. Japan has had loose monetary policy for a sustained period of time and what is really needed is a fundamental pick up in end demand. The employment picture is improving, inflation is gradually picking up and what really matters now is the continuation of the government's reform agenda. In this respect, Upper House elections in the summer, and possibly a general election, will be crucial for Prime Minister Abe in retaining the level of support required to push his reform agenda through.

The improvements in corporate governance that we are seeing are very important for equity investors. Japanese companies are actively taking steps to improve capital efficiency and return on equity ("RoE"), and are delivering record levels of cash to shareholders. Fidelity believes that the Japanese market's RoE should average around 11% over the next 2-3 years.

The world's third biggest economy may be on the verge of returning to economic relevance for capital markets. This is not factored into share prices and it is certainly not reflected in investors' portfolios. Japan has an improving fundamental story, micro-level reforms are progressing well and valuations are reasonable.

David Robins

Chairman

31 March 2016

Portfolio Manager's Review

PORTFOLIO MANAGER AND INVESTMENT APPROACH

Nicholas began his investment career over 20 years ago as a research analyst at Fidelity's Tokyo office and has been running Japanese equity portfolios for both domestic and overseas clients for 15 years. Through more than two decades of experience, he has developed a rigorous, bottom-up investment approach based on in-depth fundamental research of individual companies, underpinned by a strong sell discipline.

Nicholas follows a 'growth at a reasonable price' approach, utilising Fidelity's local research capability as well as its broader global network. In addition, he also conducts his own research, looking for undercovered names by joining the dots between multiple information sources in order to get ahead of the market. In this way, he uses input from a number of perspectives, including venture capital companies, regulators, academic research, non-listed companies etc. Nicholas typically attends more than 300 company and related meetings per year and looks closely at a company's business model, particularly in terms of sustainability and barriers to entry, valuations, liquidity and potential upside versus downside.

Detecting signs of change is also a key pillar of his investment approach:

·   Changes in fundamentals- internally driven, such as market share growth stemming from the introduction of highly competitive new products or a company going global.

·   Changes in environment- such as a change in consumer mindset and greater willingness to buy online, fuelling strong growth in internet sales.

·   Changes in sentiment- such as the gap between mid term growth opportunities and overly pessimistic short term market sentiment.

·   Changes in valuations- such as valuation criteria changing from price-to-book (liquidation value) to price-to-earnings (going-concern value).

Overall, Nicholas tends to invest more in mid cap growth companies where he believes he can find better business models and RoE, and where management is more incentivised in terms of shareholder returns. Being relatively young and dynamic, small companies are often able to create their own niche market and may therefore be capable of expanding their business regardless of the external economic environment. Over time, areas such as internet services, Asian consumption, finance and environmental themes have yielded rewarding investment ideas.

TRANSITION OF THE PORTFOLIO

Following the transition of Portfolio Manager, the Company has shifted slightly up the market cap scale, with a weighted median market cap of £2.7 billion. This compares with £1.2 billion under the previous Portfolio Manager and £3.4 billion for the Reference Index. The Company continues to show a clear tilt towards mid and small cap growth stocks. Since the transition, the Company has looked to invest in stocks and sectors which are showing signs of improving corporate governance resulting from the Abenomics programme, and has also taken advantage of the theme of Chinese tourist spending in Japan. Since the transition, there has been a significant increase in the Company's weighting in the Machinery, Chemicals and Other Finance sectors. In Machinery, the Company has taken a positive view of companies which benefit from automation, such as the mechanisation of ***agriculture*** across emerging Asia. In the Chemicals sector, attractive opportunities have been identified in fields such as veterinary drugs for animals, whilst in the Other Financials area, the Company has initiated positions in non-bank financial services companies, which have tended to offer better opportunities for growth, as well as higher shareholder returns. On the other hand, since the transition the Company has ***reduced*** weightings in the Precision Instruments and Insurance sectors as better opportunities were identified elsewhere.

MARKET REVIEW

The year under review was a tale of two halves for the Japanese equity market. The market performed strongly in the first half as economic conditions continued to recover from the recession of 2014 triggered by the hike in consumption tax. There was a notable pickup in buying by overseas investors as signs of improving corporate governance and expectations for further growth in corporate earnings bolstered sentiment. Large cap stocks generally performed well, as the yen continued to gently depreciate against the backdrop of the Bank of Japan's quantitative easing programme.

However, Japanese stocks corrected sharply in August as shares and commodity prices fell globally amid intensifying concerns about a slowdown in China and problems in emerging markets more generally. In the third quarter, the broad-based TOPIX index suffered its worst quarterly decline since June 2010. Overseas investors were aggressive net sellers of Japanese stocks as the sell-off in global equity markets continued into September. Prime Minister Shinzo Abe laid out three new policy arrows (a strong economy, parenting support and social security reform), but the announcement was light on details and the market impact was muted. After a slight recovery in October and November, the market ended the year on a weak note, with a further big sell-off in December.

Against this backdrop, the performance gap between domestic and external demand-oriented stocks widened significantly. Defensive stocks and beneficiaries of lower oil prices outperformed, whereas the ***energy***, materials and industrials sectors were conspicuous laggards.

PERFORMANCE REVIEW

As noted in the Chairman's Statement, the Company's NAV increased from 81.48p to 101.56p during the year under review, and outperformed the Reference Index.

As demonstrated by the attribution analysis below, the market's movement contributed 13.2% to the increase in the NAV per share, whilst stock selection and gearing both added 2.5%, respectively. The appreciation of the yen against the pound, particularly during the second half of the year, produced a positive exchange rate effect, which contributed 6.3% to the increase in the Company's NAV.

The attribution analysis below shows how the increase in NAV has been achieved.

|  |  |
| --- | --- |
| Analysis of change in NAV during the year (%) |  |
| Impact of: |  |
| Reference Index (in yen terms) | +13.2 |
| Reference Index income (in yen terms) | +1.9 |
| Stock selection (relative to the Index) | +2.5 |
| Gearing (yen) | +2.5 |
| Exchange rate | +6.3 |
| Charges | -1.8 |
| Total return for the year ended 31 December 2015 | +24.6 |

Over the year, stock selection in the services sector was the principal driver of the Company's outperformance relative to the Reference Index. Three of the top ten contributors to performance over the year were online businesses, namely Kakaku.com, Septeni Holdings and M3. In addition, hotel and resort operator Fujita Kanko, a recent addition to the portfolio, performed well on an increase in hotel room rates and a recovery at its hot spring resort business.

Among financials, notable performers included Anicom Holdings, a pet insurance company, and Financial Products Group, a provider of financial services for small companies seeking tax-efficient investments. These stocks have added value over a number of years, but as their valuations started to look stretched, these positions were sold.

In the retail sector, MonotaRO, an online supplier of factory-use consumables, and Seria, an operator of discount stores, made material contributions to returns. However, this was tempered by the disappointing performance of some inbound tourism-based stocks towards the end of the year. Both positions were sold.

Elsewhere, holdings in Asahi Intecc, a maker of specialised medical tools, and Ono Pharmaceutical, a mid-sized drug company renowned for its anti-cancer treatments, were notable outperformers. Some profits were taken following their share price gains, but overweight positions in both companies were retained.

Conversely, stock selection in the information and communication sector detracted from performance. One of the largest detractors in 2014, WirelessGate (a provider of Wi-Fi services in public spaces) continued to struggle and the position was sold. Mobile Create Company, a provider of mobile management systems to transportation operators, lost ground as rising development costs resulted in disappointing earnings results. This stock was also sold. A new position in mobile carrier SoftBank also hurt performance, but looks attractive from a mid to long term perspective.

The tables below show the principal five contributors to, and principal five detractors from, the Company's performance relative to the Reference Index. Conversely, holdings in the retail trade sector performed poorly,

|  |  |  |  |
| --- | --- | --- | --- |
| Principal  contributors  to relative return | Sector | Relative  average  weight  (%) | Contribution  to  relative  returns  (%) |
| Anicom Holdings | Insurance | 1.6 | 1.3 |
| Asahi Intecc | Precision   Instruments | 1.8 | 1.3 |
| MonotaRO | Retail Trade | 0.9 | 1.3 |
| Kakaku.com | Services | 1.6 | 0.9 |
| Seria | Retail | 2.0 | 0.9 |

|  |  |  |  |
| --- | --- | --- | --- |
| Principal  detractors  to relative return | Sector | Relative  average  weight  (%) | Contribution  to  relative  returns  (%) |
| Mobile Create Company | Information &  Communications | 1.2 | -1.3 |
| WirelessGate | Information &  Communications | 1.9 | -1.3 |
| Rohm | Electrical  Appliances | 2.4 | -1.2 |
| SoftBank | Information &  Communications | 1.3 | -0.7 |
| Nihon Nohyaku | Chemicals | 0.8 | -0.7 |

Principal Contributors

Anicom Holdings is a niche insurance company that specialises in policies for pets, commanding 60% of Japan's pet insurance market. The company reported solid results for the financial year to 31 March 2015 and the first half of the financial year to 31 March 2016. In addition to an increase in insurance premiums, growth in new policies and measures to hold down the loss ratio contributed to a clear improvement in profitability. Although these measures are expected to continue to contribute to margin expansion in the near term, they have been fully discounted in the price and valuations appeared expensive. Therefore, the stock was sold in September 2015.

Asahi Intecc manufactures medical tools, as well as industrial-use stainless wire rope. The company continued to generate strong profit momentum as it increased its market share for mainstay products (both in Japan and overseas) and enhanced its product line-up. Demand for Asahi Intecc's niche guide wires (used to navigate medical devices) and micro catheters remains strong. We expect the company to continue to achieve high growth owing to its expanding market share.

MonotaRO is an online supplier of factory-use consumables to small businesses. It has gained significant market share in the maintenance, repair, and operations market for small factories through its e-commerce model. The company maintained robust levels of sales growth, supported by its superior products and aggressive promotion strategy. Its margins also improved because of higher royalty income and operational streamlining. Although MonotaRO continues to generate strong earnings momentum, the positive story is already priced in and its valuation appears expensive. The stock was therefore sold in September 2015.

Kakaku.com operates online price comparison and restaurant services websites. The company announced favourable interim results, supported by firm growth in sales at Tabelog (an extensive online directory of information about restaurants and eating places in Japan) and new media. It also reasserted its commitment to increase shareholder returns and to maintain a 40% RoE over the medium term. Kakaku.com remains a top pick as a structural winner in the expanding e-commerce market.

Seria operates a nationwide chain of 100-yen shops in Japan, the equivalent of a pound store in the UK. It has the second largest share of the domestic market and a strong track record in generating same-store sales. The company's competitive advantage lies in its precise control of inventory, which has contributed to top-line growth and improved profit quality. On the expectation that margins would falter as a weaker yen inflated its costs, the stock was sold in September 2015.

Principal detractors

Mobile Create Company provides information technology (IT) services (including vehicle tracking, wireless communication and electronic payment systems) predominantly to the taxi and bus industries in Japan. It reported lower-than-expected earnings results and issued weak forecasts due to rising development costs for its main product - integrated circuit cards (also known as smart rechargeable cards) used on trains and buses. As a result, the stock was sold in October 2015.

WirelessGate a provider of Wi-Fi services in public spaces in Japan, continued to struggle. Its profit margins came under pressure owing to the start-up costs of a new high-speed connection service. Its share of large Wi-Fi infrastructure projects for corporate customers remained limited. Increased competition in the personal SIM card segment represented an additional headwind. In light of these factors, the position was sold in October 2015.

Rohm is a leading manufacturer of custom integrated circuits and semiconductor devices with a high in-house production ratio. Concerns about a correction in the semiconductor market continued to weigh on the company's share price. However, Rohm remains well placed to capitalise on the structural growth in automotive and industrial semiconductors. Its commitment to enhancing shareholder returns by returning 100% of free cashflow is also appealing, so the position remains in the portfolio.

SoftBank is a leading provider of communication and internet services, and ranks among Japan's top three mobile carriers. The stock was added to the portfolio in September and whilst performance has improved, the stock has continued to lag the Reference Index primarily due to significant uncertainty surrounding potential regulatory changes. The lack of near term momentum at its overseas businesses, particularly its US wireless unit Sprint, has also weighed on its shares. However, SoftBank's domestic telecommunications business remains a stable source of income. Furthermore, the turnaround at Sprint is also on track and therefore SoftBank's share price appears to be fundamentally undervalued.

Nihon Nohyaku is a leading producer of insecticides and fungicides. Its weak share price performance reflected concerns about a short term slowdown in earnings, as an increased inventory of insecticides in Brazil appeared likely to decrease royalty income from Bayer Corp Science for the use of Nihon Nohyaku's products. In addition to the near term downside in earnings, the likely impact of a patent expiry in 2019 for Nihon Nohyaku's main product, Belt, could be more severe than initially expected. As a result, the position was sold in May 2015.

OUTLOOK

The external economic environment, centred on China and other emerging markets, is generating a high level of uncertainty. However, conditions in developed countries are relatively firm and the recent market correction in Japan appears excessive relative to the change in external fundamentals. Monetary conditions in Japan should remain highly accommodative throughout 2016, contrasting with the onset of a moderate tightening cycle in the US. The Japanese market should continue to recover, supported by gradual wage hikes. This being the case, corporate Japan can be expected to deliver another year of positive earnings growth in 2016.

The three arrows of Abenomics (Prime Minister Shinzo Abe's economic policies) have produced mixed results, with success in monetary policies and micro-level reforms contrasting with the lack of progress on deregulation and other complex structural issues. Abenomics 2.0 aims to boost the momentum of the initial policy agenda and to tackle Japan's longer term challenges. The coming year will therefore mark the start of a medium term initiative, which should form the basis for sustainable growth in the domestic economy. Measures to lift productivity and deal with Japan's declining population will be key.

We are also likely to see progress in the introduction of new technologies, (including self-driving vehicles, robotics and artificial intelligence), as well as support for both working seniors and families.

The desire for reform in Japan remains firm and the corporate sector is changing for the better. Japanese companies are committed to improving capital efficiency and RoE, and many are actively using free cash flow to improve shareholder returns. Established companies are refocusing on core competencies, and cash-rich corporates are starting to deploy more of their surplus funds towards investment. As pressure mounts on companies to explain the economic rationale for cross shareholdings between companies, the pace of share buybacks is likely to accelerate. While the rate of change varies on a company-by-company basis, this commitment to broad-based reforms is clearly good news for investors and should contribute to the performance of your Company.

Nicholas Price

Portfolio Manager

31 March 2016

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. It provides a review of the Company's business and describes the principal risks and uncertainties it faces. An analysis of the performance of the Company during the financial year and the position at the year end is included taking into account its objective, strategy and risks and how these are measured using key performance indicators. The Chairman's Statement and Portfolio Manager's Review form part of the Strategic Report.

BUSINESS AND STATUS

The Company carries on business as an investment trust and has been accepted as an approved investment trust by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010, subject to the Company continuing to meet eligibility conditions. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and operates as such. It is not a close company and has no employees.

OBJECTIVE

The Company's objective is to achieve long term capital growth from an actively managed portfolio of securities primarily of small and medium sized Japanese companies listed or traded on Japanese stockmarkets.

STRATEGY

In order to achieve this objective, the Company operates as an investment company which has an actively managed portfolio of investments, consisting of Japanese listed companies.

As part of the strategy, the Board has delegated the management of the portfolio and other services. The Portfolio Manager aims to achieve a total return on the Company's total assets over the longer term in excess of the Reference Index, the Russell Nomura Mid/Small Cap Index, as expressed in sterling. The stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving the objective. The Board takes the view that investing in equities is a long term process, and that the Company's returns to shareholders will vary from year to year. The Board takes the view that long term returns for shareholders can be enhanced by the use of gearing in a carefully considered and monitored way. The level of gearing is reviewed by the Board and the Portfolio Manager on a regular basis.

The Board has reviewed the summary of the year's activities and is in agreement with the indications of likely future developments and the factors likely to affect these which are given in the Chairman's Statement and in the Portfolio Manager's Review.

INVESTMENT POLICY

The markets in which the Company may invest will comprise primarily the Tokyo Stock Exchange, the Jasdaq and the regional stockmarkets of Fukuoka, Nagoya, Osaka and Sapporo.

No material change will be made to the investment policy without shareholder approval.

INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

The Portfolio Manager's investment approach is focused on 'growth at a reasonable price', utilising Fidelity's extensive research capability. His investment approach and bias towards mid and small cap growth stocks fits well with the Company's investment philosophy and style.

INVESTMENT RESTRICTIONS

In order to diversify the Company's portfolio, the Board has set the following investment guidelines for the Portfolio Manager:

·   A maximum of 7.5% in the aggregate of all securities of any one company or other investment entity (10% for any group of companies) at the time of purchase, which is further limited to 12% of the Company's equity portfolio based on the latest market value.

·   A maximum of 5% of its assets (at the time of acquisition) in securities which are not listed on any stock exchange or traded on the Jasdaq market (the Company would not normally make any such investment except where the Manager expects that the securities would shortly become registered for trading on the OTC market or become listed on a Japanese stockmarket).

·   A maximum of 30% of its assets (at the time of acquisition) in equity-related and debt instruments. The Company may also invest in derivatives for e?cient portfolio management to protect the portfolio against market risk. Any such investment would normally be at a low level as the Company invests primarily in shares.

·   A maximum of 15% of the Company's total assets may be invested in the securities of other investment trust companies.

·   The maximum that the Company can hold in cash would be 25% of the total value of the Company's assets. This limit will not include any cash or cash equivalent paid as collateral for unrealised losses on CFDs. In practice the cash position will normally be much lower. Currently the Portfolio Manager has discretion to hold 5% net cash.

GEARING

The Company's policy is to be geared in the belief that long term investment returns will exceed the cost of gearing. This gearing is obtained through the use of CFDs to obtain exposure to Japanese equities selected by the Manager. The e?ect of gearing is to magnify the consequence of market movements on the portfolio and if the portfolio value rises the NAV will be positively impacted, but if it falls the NAV will be adversely impacted.

The aggregate exposure of the Company to Japanese equities, whether held directly or through CFDs, will not exceed shareholders' funds by more than 30% at the time any CFD is entered into or a security acquired. The Board also intends that the exposure will not exceed shareholders' funds by more than 40% at any other time unless exceptional circumstances exist. Currently the Portfolio Manager has discretion to be 25% geared.

At the year end the Company was 16.6% geared (2014: 22.2%).

PERFORMANCE

The Company's performance for the year ended 31 December 2015 and details on trends and factors that may impact the future performance of the Company are included in the Chairman's Statement and the Portfolio Manager's Review. The Portfolio Listing, Gearing, Distribution of the Portfolio, Ten Year Record and Summary of Performance Charts can be found in the Annual Report and Accounts.

RESULTS

The Company's results for the year ended 31 December 2015 are set out in the Income Statement of the Report and Accounts. The total return per ordinary share was 20.10 pence of which the revenue return was a loss of 0.14 pence.

KEY PERFORMANCE INDICATORS

The key performance indicators ("KPIs") used to determine the performance of the Company and which are comparable to those reported by other investment trusts are set out below.

|  |  |  |
| --- | --- | --- |
|  | Year  ended  31  December  2015  % | Year  ended  31  December  2014  % |
| NAV per share1 (undiluted) | +24.6 | +3.1 |
| Share Price1 | +20.5 | +0.0 |
| Russell Nomura Mid/Small Cap Index1 | +19.4 | +5.1 |
| Discount to NAV (undiluted) | 14.6 | 11.6 |
| Ongoing Charges2 | 1.52 | 1.62 |

1   Total returns (includes reinvested income)

2      The Board regularly considers the costs of running the Company to ensure they are reasonable and competitive

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

As well as the KPIs above, the Board regularly reviews the Company's performance against its peer group of investment trusts. Long term performance is also monitored and the Ten Year Record and the Summary of Performance Charts in the Report and Accounts show this information.

PRINCIPAL RISKS AND UNCERTAINTIES

As required by provision C.2.1 of the UK Corporate Governance Code 2014, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is reviewed on a regular basis.

The Board is responsible for the Company's system of risk management and of internal controls and for reviewing its effectiveness. It determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. An internal controls report providing an assessment of risks, together with controls to mitigate these risks, is prepared by the Manager and considered by the Audit Committee at each of its meetings.

The Alternative Investment Fund Manager, FIL Investment Services (UK) Limited, also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company:

Market Risk

The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and exchange rate movements. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background is core to the Company's continued success.

Risks to which the Company is exposed and which form part of the market risk category are included in Note 16 to the Financial Statements together with summaries of the policies for managing these risks. These comprise: market price risk (comprising interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instruments risk.

Performance Risk

The Board reviews risk at each Board meeting, considers the asset allocation of the portfolio and the risk associated with Japan and industry sectors within the parameters of the investment objective and strategy. The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long term results as the Company risks volatility of performance in the shorter term.

The Board appointed a new Portfolio Manager from 1 September 2015. This change incurred a degree of transition risk as the new Portfolio Manager made changes to the portfolio and gearing levels.

Discount Control Risk

The Board cannot fully control the discount at which the Company's ordinary share price trades in relation to net asset value. However, it can have a modest influence in the market by maintaining the profile of the Company through a marketing campaign and, under certain circumstances, through repurchasing shares. The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.

Gearing Risk

The Company has the option to make use of loan facilities or to use CFDs to invest in equities. The principal risk is that, while in a rising market the Company will benefit from gearing, in a falling market the impact would be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions. The Company currently has no bank loans and gears through the use of long CFDs. Utilising long CFDs for gearing purposes provides greater flexibility and has been significantly cheaper than traditional bank loans. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.

Currency Risk

The functional currency of the Company in which it reports its results is UK sterling; however, most of its assets and its income are denominated in yen. Consequently, it is subject to currency risk on exchange rate movements between UK sterling and yen. It is the Company's policy not to hedge against currency risks. Further details can be found in Note 16 to the Financial Statements.

Tax and Regulatory Risks

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains. A breach of other legal and regulatory rules may lead to suspension from listing on the London Stock Exchange or a qualified audit report. The Board receives regular reports from the Manager confirming regulatory compliance during the year.

Operational Risks

The Company has no employees and relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. The Company is dependent on the Manager's control systems and those of its Registrar and Custodian both of whom are monitored and managed by the Manager in the context of the Company's assets and interests on behalf of the Board. The Depositary, under a tri-partite agreement, oversees the custody of investments and cash. The security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements, among other things, rely on the effective operation of such systems.

The Manager, Registrar and Custodian are subject to a risk-based programme which is monitored by the Manager. In addition, service providers' own internal controls reports are received by the Board and any concerns investigated.

Although the likelihood of poor governance, compliance and operational administration by third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company.

Other Risks

A continuation vote takes place every three years. There is a risk that shareholders may not vote in favour of continuation during periods when performance is poor. The next continuation vote will take place at this year's AGM on 24 May 2016.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, issued by the Financial Reporting Council in September 2014, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" provision. The Company is an investment trust with an objective of achieving long term capital growth and the Board consider three years is an appropriate investment horizon to assess the viability of the Company. This time period is also consistent with the Company's continuation vote which takes place every three years, the next one taking place at this year's AGM.

The Board has taken account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the Japanese economy and equity market. The Directors, therefore, confirm that they have a reasonable expectation that, subject to shareholders voting in favour of continuation at this year's AGM, the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

BOARD DIVERSITY

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender. As at 31 December 2015, there were five male Directors and one female Director on the Board.

EMPLOYEE, SOCIAL, COMMUNITY, HUMAN RIGHTS AND ENVIRONMENTAL ISSUES

The Company has no employees and all of its Directors are non-executive and it therefore has no disclosures to make in respect of employees and human rights.

The Company's financial reports are printed by a company which has won awards for its environmental awareness and further details of this may be found on the back cover of this report.

Details about Fidelity's own community involvement may be found on its website at[*http://www.fidelity.co.uk*](http://www.fidelity.co.uk).

SOCIALLY RESPONSIBLE INVESTMENT

The Manager believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in its view, these have a material impact on either investment risk or return.

***GREENHOUSE GAS*** ***EMISSIONS***

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. FIL Investments International is registered with the Carbon ***Reduction*** Commitment ***Energy*** Efficiency Scheme administered by the Environment Agency.

CORPORATE ENGAGEMENT

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate engagement and shareholder voting to the Manager. These activities are reviewed annually.

FUTURE DEVELOPMENTS

Some trends likely to affect the Company in the future are common to many investment companies together with the impact of regulatory change. The factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Portfolio Manager's Review.

By order of the Board

FIL Investments International

Secretary

31 March 2016

Portfolio Listing as at 31 December 2015

The Portfolio Exposures shown below measure exposure to market price movements as a result of owning shares and long CFDs. The Fair Values shown measure the actual value on the Balance Sheet.

|  |  |  |  |
| --- | --- | --- | --- |
| Shares and long CFDs | Portfolio  Exposure  £'000 | %1 | Fair  Value  £'000 |
| Kubota  Manufacturer of tractors and heavy equipment | 7,611 | 6.6 | 7,611 |
| AEON Financial Service  Provider of loans, credit cards and customer instalment credits | 7,324 | 6.3 | 7,324 |
| Nissan Chemical Industries  Producer of chemicals, agrochemicals and pharmaceutical products | 7,173 | 6.2 | 7,173 |
| Kakaku.com  Provider of price comparison services, product information and internet advertising services | 5,602 | 4.8 | 5,602 |
| Orix (long CFD)2  Provider of leasing, real estate loans, life insurance, banking and consumer finance | 4,673 | 4.0 | (35) |
| SoftBank (long CFD)2  Provider of telecommunication services including ADSL and fibre optic Internet connection | 4,584 | 4.0 | (107) |
| Rohm (long CFD)2  Manufacturer and distributor of electronic components | 4,036 | 3.5 | (975) |
| Zojirushi  Manufacturer of kitchen appliances, heat-insulating containers and environmental equipment | 3,747 | 3.2 | 3,747 |
| Makita  Manufacturer of electric power tools | 3,634 | 3.1 | 3,634 |
| Mazda Motor (shares and long CFD)2  Manufacturer of cars, trucks and auto parts | 3,506 | 3.0 | 2,183 |
| Ten largest exposures (2014: 26.0%) | 51,890 | 44.7 | 36,157 |
| Keyence | 3,215 | 2.8 | 3,215 |
| Rinnai | 3,021 | 2.6 | 3,021 |
| J Front Retailing | 2,965 | 2.6 | 2,965 |
| M3 (long CFD)2 | 2,890 | 2.5 | 152 |
| Nippon Shinyaku | 2,842 | 2.5 | 2,842 |
| Shionogi | 2,805 | 2.4 | 2,805 |
| Kao | 2,345 | 2.0 | 2,345 |
| Ferrotec | 2,282 | 2.0 | 2,282 |
| Ono Pharmaceutical (long CFD)2 | 2,202 | 1.9 | 892 |
| Fujita Kanko | 2,181 | 1.9 | 2,181 |
| Ryohin Keikaku | 2,168 | 1.9 | 2,168 |
| Ai Holdings | 2,161 | 1.9 | 2,161 |
| H.I.S. | 2,040 | 1.8 | 2,040 |
| Aska Pharmaceutical | 2,030 | 1.8 | 2,030 |
| NITTA Corporation | 1,949 | 1.7 | 1,949 |
| ASICS Corporation | 1,948 | 1.7 | 1,948 |
| Septeni Holdings | 1,927 | 1.7 | 1,927 |
| Shinoken Group | 1,912 | 1.6 | 1,912 |
| Hoshizaki Electric | 1,816 | 1.6 | 1,816 |
| Sakata INX Corporation | 1,781 | 1.5 | 1,781 |
| Okamoto Industries | 1,755 | 1.5 | 1,755 |
| THK Co | 1,725 | 1.5 | 1,725 |
| Tasaki Shinju | 1,507 | 1.3 | 1,507 |
| Eiken Chemical | 1,444 | 1.2 | 1,444 |
| Asahi Intecc | 1,431 | 1.2 | 1,431 |
| Kotobuki Seika | 1,268 | 1.1 | 1,268 |
| Kyoritsu Maintenance | 1,203 | 1.0 | 1,203 |
| Descente | 1,164 | 1.0 | 1,164 |
| Start Today | 1,150 | 1.0 | 1,150 |
| Open House | 1,136 | 1.0 | 1,136 |
| Piolax | 1,078 | 0.9 | 1,078 |
| Nichias | 1,025 | 0.9 | 1,025 |
| PC Depot | 1,024 | 0.9 | 1,024 |
| Nihon Flush | 1,016 | 0.9 | 1,016 |
| Optex | 1,007 | 0.9 | 1,007 |
| Nakamura Choukou | 971 | 0.8 | 971 |
| Juki | 913 | 0.8 | 913 |
| Mitsubishi Pencil | 913 | 0.8 | 913 |
| Sinko Industries | 895 | 0.8 | 895 |
| Yamabiko | 830 | 0.7 | 830 |
| Daikin Industries | 823 | 0.7 | 823 |
| Gurunavi | 788 | 0.7 | 788 |
| Apamanshop Holdings | 786 | 0.7 | 786 |
| Yamaha Motor | 777 | 0.7 | 777 |
| Nifco | 672 | 0.6 | 672 |
| Fuji Corporation | 625 | 0.5 | 625 |
| Ride On Express | 609 | 0.5 | 609 |
| NEXT Co | 548 | 0.5 | 548 |
| Jamco | 544 | 0.5 | 544 |
| Yonex | 519 | 0.4 | 519 |
| Nojima | 485 | 0.4 | 485 |
| Sagami Rubber Industries | 485 | 0.4 | 485 |
| Takuma | 476 | 0.4 | 476 |
| CAC | 443 | 0.4 | 443 |
| PAL Co | 427 | 0.4 | 427 |
| Komehyo | 350 | 0.3 | 350 |
| Chugai Pharmaceutical | 344 | 0.3 | 344 |
| Freund | 328 | 0.3 | 328 |
| Taikisha | 327 | 0.3 | 327 |
| VT Holdings | 308 | 0.3 | 308 |
| Eizo Corporation | 280 | 0.2 | 280 |
| Iino Kaiun Kaisha | 276 | 0.2 | 276 |
| Universal Entertainment | 269 | 0.2 | 269 |
| Bengo4.com | 264 | 0.2 | 264 |
| Creek & River | 235 | 0.2 | 235 |
| Pressance | 233 | 0.2 | 233 |
| Kusuri No Aoki | 227 | 0.2 | 227 |
| N Field | 201 | 0.2 | 201 |
| Yamaya | 193 | 0.2 | 193 |
| Sawada Holdings | 188 | 0.1 | 188 |
| Information Services International-Dentsu | 181 | 0.1 | 181 |
| Nitori Holdings | 63 | - | 63 |
| Samantha Thavasa Japan | 39 | - | 39 |
| Kuriyama Holdings | 28 | - | 28 |
| Sysmex | 26 | - | 26 |
| Suzuki Motor | 23 | - | 23 |
| Ezaki Glico | 15 | - | 15 |
| Shinsei Bank | 13 | - | 13 |
| Hokkaido Chuo Bus | 9 | - | 9 |
| Total Portfolio Exposure | 135,252 | 116.6 |  |
| Total Portfolio Fair Value3 |  |  | 115,471 |
| Net current assets excluding derivatives |  |  | 529 |
| Shareholders' Funds (per the Balance Sheet) |  |  | 116,000 |
| 1          Portfolio Exposure is expressed as a percentage of Shareholders' Funds  2          Investment via long contracts for difference ("CFDs") provides exposure to the underlying share price in excess of the fair value  3          Total Portfolio Fair Value comprises (per the Balance Sheet) investments £115,532,000 plus derivative assets £1,056,000 less derivative liabilities £1,117,000 |  |  |  |

Gearing as at 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | PPPortfolio  Exposure |  |  |
| Shares and long CFDs | 2015  £'000 |  | 2014  £'000 |
| Investments - shares | 115,532 |  | 82,486 |
| Derivative instruments - long CFDs | 19,720 |  | 31,063 |
| Total Portfolio Exposure | 135,252 |  | 113,549 |
| Shareholders' Funds | 116,000 |  | 92,886 |
| Gearing - Total Portfolio Exposure in excess of Shareholders' Funds | 16.6% |  | 22.2% |

Distribution of the Portfolio as at 31 December 2015

|  |  |  |
| --- | --- | --- |
|  | Portfolio Exposure |  |
| Sector | 2015  %1 | 2014  %1 |
| Machinery | 17.5 | 4.9 |
| Services | 15.9 | 20.9 |
| Electrical Appliances | 12.6 | 18.1 |
| Chemicals | 10.3 | 11.0 |
| Other Financing Business | 10.3 | 1.5 |
| Pharmaceuticals | 10.1 | 4.8 |
| Retail Trade | 8.6 | 9.4 |
| Other Products | 5.1 | 0.6 |
| Information & Communications | 4.5 | 9.5 |
| Transport Equipment | 4.2 | 5.6 |
| Rubber Products | 3.6 | - |
| Metal Products | 3.5 | 0.4 |
| Real Estate | 3.5 | 4.5 |
| Wholesale Trade | 1.9 | 4.8 |
| Precision Instruments | 1.2 | 5.5 |
| Foods | 1.1 | - |
| Textiles & Apparel | 1.0 | 3.2 |
| Glass & Ceramics | 0.9 | 0.6 |
| Construction | 0.3 | 3.8 |
| Marine Transportation | 0.3 | - |
| Securities & Commodity Futures | 0.2 | 1.1 |
| Insurance | - | 3.3 |
| Banks | - | 2.4 |
| Non-ferrous Metals | - | 2.3 |
| Land Transportation | - | 2.2 |
| Iron & Steel | - | 1.3 |
| Electric Power & Gas | - | 0.5 |
| Total Portfolio Exposure | 116.6 | 122.2 |
| 1          Portfolio Exposure is expressed as a percentage of Shareholders' Funds |  |  |

Ten Year Record

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Historical Record  as at 31 December | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Total portfolio exposure (£m)1 | 135 | 114 | 105 | 70 | 77 | 79 | 68 | 75 | 79 | 92 | 137 |
| Shareholders' funds (£m) | 116 | 93 | 902 | 58 | 63 | 65 | 53 | 51 | 65 | 78 | 121 |
| NAV per ordinary share (p) - undiluted | 101.56 | 81.48 | 79.02 | 59.94 | 64.17 | 68.44 | 55.56 | 53.58 | 66.67 | 79.59 | 123.56 |
| NAV per ordinary share (p) - diluted | 99.08 | n/a | n/a | 59.91 | 62.79 | 66.21 | 55.47 | n/a | n/a | n/a | n/a |
| Ordinary share price (p) | 86.75 | 72.00 | 72.00 | 51.63 | 52.50 | 57.25 | 48.50 | 41.75 | 58.50 | 73.50 | 130.25 |
| Subscription share price (p) | 3.13 | 4.25 | n/a | 0.80 | 5.70 | 11.75 | 8.28 | n/a | n/a | n/a | n/a |
| Discount/(premium) to NAV % - undiluted | 14.6 | 11.6 | 8.9 | 13.9 | 18.2 | 16.4 | 12.7 | 22.1 | 12.3 | 7.7 | (5.4) |
| Discount to NAV % - diluted | 12.4 | n/a | n/a | 12.8 | 16.4 | 13.5 | 12.6 | n/a | n/a | n/a | n/a |
| Revenue (loss)/return per ordinary share (p) | (0.14) | (0.45) | (0.30) | (0.06) | 0.02 | (0.30) | (0.73) | (0.12) | (0.49) | (0.68) | (1.02) |
| Ongoing charges (%) (cost of running the Company) | 1.52 | 1.62 | 1.80 | 2.00 | 1.98 | 2.08 | 2.17 | 1.98 | 1.65 | 1.46 | 1.83 |
| Gearing (%)3 | 16.6 | 22.2 | 16.8 | 21.0 | 23.2 | 20.9 | 3.8 | 28.5 | 20.7 | 16.9 | 11.5 |
| NAV per ordinary share total return performance - undiluted (%) | +24.6 | +3.1 | +31.8 | -6.6 | -6.2 | +23.2 | +3.7 | -19.6 | -16.2 | -35.6 | +73.4 |
| NAV per ordinary share total return performance - diluted (%) | +21.6 | n/a | n/a | -5.7 | -5.2 | +19.4 | n/a | n/a | n/a | n/a | n/a |
| Ordinary share price total return performance (%) | +20.5 | 0.0 | +39.5 | -1.7 | -8.3 | +18.0 | +16.2 | -28.6 | -20.4 | -43.6 | +110.9 |
| Russell Nomura Mid/Small Cap Index total return (in sterling terms) (%) | +19.4 | +5.1 | +21.7 | -3.1 | -9.3 | +18.6 | -6.3 | +4.4 | -8.5 | -18.5 | +44.5 |

1   The total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs. The amounts prior to 2009 represent total assets less creditors, excluding bank loans

2   The issue of 17,232,149 ordinary shares, on the exercise of subscription share rights, contributed £9.4 million to the increase in shareholders' funds

3   Total portfolio exposure in excess of shareholders' funds. The amounts prior to 2009 represent total assets, less bank loans plus cash at bank, in excess of shareholders' funds

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

Directors' Report

GOING CONCERN

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt a going concern basis in preparing these Financial Statements.

The Board has also taken into consideration the fact that a continuation vote is proposed at this year's AGM and the likelihood of shareholders voting in favour of continuation.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements, the Directors are required to:

·   select suitable accounting policies and then apply them consistently;

·   make judgements and estimates that are reasonable and prudent;

·   state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;

·   prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and

·   confirm, to the extent possible, that the Financial Statements are fair, balanced and understandable.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report that comply with that law and those regulations.

The Directors have delegated responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at[*http://www.fidelity.co.uk/its*](http://www.fidelity.co.uk/its). Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in their own jurisdictions.

We confirm that to the best of our knowledge the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties it faces. We confirm that we consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board on 31 March 2016 and signed on its behalf by:

David Robins

Chairman

Income Statement for the year ended 31 December 2015

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | 2015 |  |  |  |  |  | 2014 |  |  |
|  |  |  | revenue |  | capital |  | total |  | revenue |  | capital |  | total |
|  | Notes |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
| Gains on investments at fair value through profit or loss | 9 |  | - |  | 21,132 |  | 21,132 |  | - |  | 1,053 |  | 1,053 |
| Gains on derivative instruments at fair value through profit or loss | 10 |  | - |  | 2,717 |  | 2,717 |  | - |  | 2,848 |  | 2,848 |
| Income | 3 |  | 1,728 |  | - |  | 1,728 |  | 1,366 |  | - |  | 1,366 |
| Investment management fee | 4 |  | (1,130) |  | - |  | (1,130) |  | (954) |  | - |  | (954) |
| Other expenses | 5 |  | (508) |  | - |  | (508) |  | (711) |  | - |  | (711) |
| Exchange losses on other net assets |  |  | (22) |  | (762) |  | (784) |  | (26) |  | (589) |  | (615) |
|  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
| Net return/(loss) before finance costs and taxation |  |  | 68 |  | 23,087 |  | 23,155 |  | (325) |  | 3,312 |  | 2,987 |
| Finance costs | 6 |  | (88) |  | - |  | (88) |  | (77) |  | - |  | (77) |
|  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
| Net (loss)/return on ordinary activities before taxation |  |  | (20) |  | 23,087 |  | 23,067 |  | (402) |  | 3,312 |  | 2,910 |
| Taxation on (loss)/return on ordinary activities | 7 |  | (140) |  | - |  | (140) |  | (107) |  | - |  | (107) |
|  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
| Net (loss)/return on ordinary activities after taxation for the year |  |  | (160) |  | 23,087 |  | 22,927 |  | (509) |  | 3,312 |  | 2,803 |
|  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |
| (Loss)/return per ordinary share - undiluted and diluted | 8 |  | (0.14p) |  | 20.24p |  | 20.10p |  | (0.45p) |  | 2.91p |  | 2.46p |
|  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |

There are no gains and losses other than those reported in this Income Statement.

The total column of the Income Statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations and no operations were acquired or discontinued in the year.

Statement of Changes in Equity

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | share | capital |  |  |  |  |  |  |  |  |
|  |  |  | share | premium | redemption |  | other |  | capital |  | revenue |  | total |
|  |  |  | capital | account | reserve |  | reserve |  | reserve |  | reserve |  | equity |
|  | Note |  | £'000 | £'000 | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
| Year ended 31 December 2015 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| As at 1 January 2015 |  |  | 28,501 | 6,741 | 2,621 |  | 57,568 |  | 11,766 |  | (14,311) |  | 92,886 |
| Issue of ordinary shares on exercise of rights attached to subscription shares | 13 |  | 54 | 133 | - |  | - |  | - |  | - |  | 187 |
| Net return/(loss) on ordinary activities after taxation for the year |  |  | - | - | - |  | - |  | 23,087 |  | (160) |  | 22,927 |
|  |  |  | ---------- | ---------- | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
| As at 31 December 2015 |  |  | 28,555 | 6,874 | 2,621 |  | 57,568 |  | 34,853 |  | (14,471) |  | 116,000 |
|  |  |  | ========== | ========== | ========== |  | ========== |  | ========== |  | ========== |  | ========== |
| Year ended 31 December 2014 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| As at 1 January 2014 |  |  | 28,489 | 6,712 | 2,621 |  | 57,568 |  | 8,454 |  | (13,802) |  | 90,042 |
| Issue of ordinary shares on exercise of rights attached to subscription shares | 13 |  | 12 | 29 | - |  | - |  | - |  | - |  | 41 |
| Net return/(loss) on ordinary activities after taxation for the year |  |  | - | - | - |  | - |  | 3,312 |  | (509) |  | 2,803 |
|  |  |  | ---------- | ---------- | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
| As at 31 December 2014 |  |  | 28,501 | 6,741 | 2,621 |  | 57,568 |  | 11,766 |  | (14,311) |  | 92,886 |
|  |  |  | ========== | ========== | ========== |  | ========== |  | ========== |  | ========== |  | ========== |

The Notes form an integral part of these Financial Statements.

Balance Sheet as at 31 December 2015

Company number 2885584

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | 2015 |  | 2014 |
|  | Notes |  | £'000 |  | £'000 |
| Fixed assets |  |  |  |  |  |
| Investments at fair value through profit or loss | 9 |  | 115,532 |  | 82,486 |
|  |  |  | ---------- |  | ---------- |
| Current assets |  |  |  |  |  |
| Derivative assets at fair value through profit or loss | 10 |  | 1,056 |  | 7,296 |
| Debtors | 11 |  | 1,063 |  | 930 |
| Cash at bank |  |  | 220 |  | 3,176 |
|  |  |  | ---------- |  | ---------- |
|  |  |  | 2,339 |  | 11,402 |
|  |  |  | ---------- |  | ---------- |
| Creditors |  |  |  |  |  |
| Derivative liabilities at fair value through profit or loss | 10 |  | (1,117) |  | (139) |
| Creditors | 12 |  | (754) |  | (863) |
|  |  |  | ---------- |  | ---------- |
|  |  |  | (1,871) |  | (1,002) |
|  |  |  | ---------- |  | ---------- |
| Net current assets |  |  | 468 |  | 10,400 |
|  |  |  | ---------- |  | ---------- |
| Net assets |  |  | 116,000 |  | 92,886 |
|  |  |  | ========== |  | ========== |
| Capital and reserves |  |  |  |  |  |
| Share capital | 13 |  | 28,555 |  | 28,501 |
| Share premium account | 14 |  | 6,874 |  | 6,741 |
| Capital redemption reserve | 14 |  | 2,621 |  | 2,621 |
| Other reserve | 14 |  | 57,568 |  | 57,568 |
| Capital reserve | 14 |  | 34,853 |  | 11,766 |
| Revenue reserve | 14 |  | (14,471) |  | (14,311) |
|  |  |  | ---------- |  | ---------- |
| Total equity shareholders' funds |  |  | 116,000 |  | 92,886 |
|  |  |  | ========== |  | ========== |
| Net asset value per ordinary share |  |  |  |  |  |
| Undiluted | 15 |  | 101.56p |  | 81.48p |
| Diluted | 15 |  | 99.08p |  | n/a |
|  |  |  | ========== |  | ========== |

The Financial Statements were approved by the Board of Directors on 31 March 2016 and were signed on its behalf by:

David Robins

Chairman

Notes to the Financial Statements

1   PRINCIPAL ACTIVITY

Fidelity Japanese Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2885584, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act, 2010 and intends to conduct its affairs so as to continue to be approved.

2   ACCOUNTING POLICIES

The Company has for the first time applied the revised UK Generally Accepted Accounting Practice ("UK GAAP"), issued by the Financial Reporting Council ("FRC") and these Financial Statements have been prepared in accordance with FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, effective for accounting periods beginning on or after 1 January 2015. The Company has early adopted the amendments to FRS 102: Fair value hierarchy disclosures, issued by the FRC in March 2016. The Financial Statements have also been prepared in accordance with the revised Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in November 2014.

As a result of the adoption of the revised UK GAAP and SORP, presentation formats have been amended where appropriate. The Reconciliation of Movements in Shareholders' Funds has been renamed the Statement of Changes in Equity. A Cash Flow Statement has not been presented. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value. The net return on ordinary activities after taxation for the year and total shareholders' funds remain unchanged from what was reported under the former UK GAAP basis applied in the 2014 Annual Report and the 2014 figures have not required restatement.

a) Basis of accounting - The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of fixed asset investments and derivative assets and liabilities.

A resolution proposing the continuation of the Company as an investment trust will be put to shareholders at the AGM on 24 May 2016. The Directors are recommending that shareholders vote in favour of this resolution. In accordance with this recommendation and given that the Company's assets consist mainly of securities which are readily realisable and that the Directors have a reasonable expectation that the Company has adequate resources to continue for the foreseeable future, the Directors believe that it is appropriate to prepare the Financial Statements on a going concern basis. Accordingly the Financial Statements do not include any adjustments that may arise from a reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the portfolio.

b) Segmental reporting - The Directors are of the opinion that the Company is engaged in a single segment of business being investment business.

c) Income- Income from equity investments is credited to the Income Statement on the date on which the right to receive the payment is established. Overseas dividend income includes withholding tax deducted at source. Interest receivable on short term deposits is dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital column of the Income Statement. Derivative income from dividends on long contracts for difference ("CFDs") is credited to the revenue column of the Income Statement on the date on which the right to receive the payment is established.

d) Special dividends- Special dividends are treated as a capital receipt or a revenue receipt depending on the facts and circumstances of each particular case.

e) Expenses- Expenses, including investment management fees, are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement.

f) Finance costs- Finance costs represent interest paid on long CFDs and are accounted for on an accruals basis using the effective interest method. They are charged in full to the revenue column of the Income Statement.

g) Taxation- Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the Balance Sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred. A deferred taxation asset is only recognised when it is more likely than not that the asset will be recoverable.

h) Foreign currency - The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be UK sterling. Transactions denominated in foreign currencies are translated into UK sterling at the rate of exchange ruling as at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. All capital gains and losses, including exchange movements on the translation of foreign currency assets and liabilities, are dealt with in the capital column of the Income Statement.

i) Investments - The portfolio of investments and derivative instruments is managed and its performance is evaluated on a fair value basis in accordance with a documented investment strategy. Information about the portfolio is provided on this basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

·   Investments listed overseas are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise, at fair value based on published price quotations.

In accordance with the AIC SORP, the Company charges transaction costs incidental to the purchase or sale of investments to 'Gains on investments at fair value through profit or loss' in the capital column of the Income Statement. These costs are disclosed in Note 9 below.

j) Derivative instruments - Some of the Company's portfolio exposure to Japanese equities is achieved by investment in long CFDs. Long CFDs are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of long CFDs is measured as follows:

·   Long CFDs are valued at the difference between the price of the shares underlying the contract when the contract was opened and their closing price at the valuation date (calculated in accordance with policy 2(i) above).

k) Capital reserve- The following are accounted for in capital reserve:

·    Gains and losses on the disposal of investments and derivative instruments;

·    Changes in fair value of the investments and derivative instruments held at the year end;

·    Foreign exchange gains and losses of a capital nature; and

·    Dividends receivable which are capital in nature.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/10: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as 'capital reserve' in the Statement of Changes in Equity and on the Balance Sheet. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | Year ended  31.12.2015 |  | Year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
| 3 | INCOME |  |  |  |  |  |
|  | Income from investments at fair value through profit or loss |  |  |  |  |  |
|  | Overseas dividends |  |  | 1,404 |  | 1,071 |
|  | Income from derivative instruments at fair value through profit or loss |  |  |  |  |  |
|  | Dividends on long CFDs |  |  | 324 |  | 295 |
|  |  |  |  | ---------- |  | ---------- |
|  | Total income |  |  | 1,728 |  | 1,366 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
| 4 | INVESTMENT MANAGEMENT FEE |  |  |  |  |  |
|  | Investment management fee |  |  | 1,130 |  | 954 |
|  |  |  |  | ========== |  | ========== |

A summary of the terms of the Management Agreement is given in the Directors' Report in the Annual Report and Accounts.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year  ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
| 5 | OTHER EXPENSES |  |  |  |  |  |
|  | AIC fees |  |  | 7 |  | 6 |
|  | Custody fees |  |  | 12 |  | 11 |
|  | Depositary fees1 |  |  | 14 |  | 4 |
|  | Directors' expenses |  |  | 41 |  | 38 |
|  | Directors' fees2 |  |  | 142 |  | 118 |
|  | Legal and professional fees |  |  | 48 |  | 103 |
|  | Marketing expenses |  |  | 77 |  | 84 |
|  | Printing and publication expenses |  |  | 51 |  | 48 |
|  | Registrars' fees |  |  | 33 |  | 26 |
|  | Subscription share issue costs |  |  | - |  | 193 |
|  | Sundry other expenses |  |  | 59 |  | 57 |
|  | Fees payable to the Company's Independent Auditor for the audit of the annual financial statements |  |  | 24 |  | 23 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 508 |  | 711 |
|  |  |  |  | ========== |  | ========== |
|  | 1          The Depository was appointed with effect from 17 July 2014  2          Details of the breakdown of Directors' fees are provided in the Directors' Remuneration Report in the Annual Report and Accounts. |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year  ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
| 6 | FINANCE COSTS |  |  |  |  |  |
|  | Interest paid on long CFDs |  |  | 88 |  | 77 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | year ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  | £'000 |  | £'000 |
| 7 | TAXATION ON RETURN ON ORDINARY ACTIVITIES |  |  |  |  |  |  |
|  | a) Analysis of taxation charge for the year |  |  |  |  |  |  |
|  | Overseas taxation suffered (Note 7b) |  |  |  | 140 |  | 107 |
|  |  |  |  |  | ========== |  | ========== |

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax of 20.25% (2014: 21.49%). A reconciliation of the taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  |  |  |  |
|  |  |  |  | £'000 |  | £'000 |
|  | Net return on ordinary activities before taxation |  |  | 23,067 |  | 2,910 |
|  |  |  |  | ========== |  | ========== |
|  | Net return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 20.25% (2014: 21.49%) |  |  | 4,671 |  | 626 |
|  | Effects of: |  |  |  |  |  |
|  | Gains on investments not taxable1 |  |  | (4,675) |  | (712) |
|  | Income not included for taxation purposes |  |  | (285) |  | (230) |
|  | Increase in excess expenses for the year |  |  | 289 |  | 316 |
|  | Overseas taxation |  |  | 140 |  | 107 |
|  |  |  |  | ---------- |  | ---------- |
|  | Taxation charge for the year (Note 7a) |  |  | 140 |  | 107 |
|  |  |  |  | ========== |  | ========== |
|  | 1          Investment trust companies are exempt from UK corporation tax on capital gains if they meet the HM Revenue & Customs criteria set out in Section 1159 of the Corporation Tax Act 2010 |  |  |  |  |  |

c) Deferred taxation

A deferred taxation asset of £3,601,000 (2014: £3,901,000), in respect of excess expenses of £20,005,000 (2014: £18,578,000), has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | year  ended  31.12.2015 |  |  |  |  |  | year  ended  31.12.2014 |  |  |
|  |  |  |  | revenue |  | capital |  | total |  | revenue |  | capital |  | total |
| 8 | (LOSS)/RETURN PER ORDINARY SHARE - UNDILUTED AND DILUTED |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net (loss)/return per ordinary share - pence |  |  | (0.14) |  | 20.24 |  | 20.10 |  | (0.45) |  | 2.91 |  | 2.46 |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |
|  | Net (loss)/return on ordinary activities after taxation for the year - £'000 |  |  | (160) |  | 23,087 |  | 22,927 |  | (509) |  | 3,312 |  | 2,803 |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |

The (loss)/return per ordinary share is based on 114,076,562 ordinary shares (2014: 113,966,379) being the weighted average number of ordinary shares in issue during the year. There are no diluted (losses)/returns for the year (2014: none) as in both years the average ordinary share price was below the exercise price of the subscription shares in issue.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  | 2014 |
|  |  |  |  | £'000 |  | £'000 |
| 9 | INVESTMENTS |  |  |  |  |  |
|  | Investments at fair value through profit or loss |  |  |  |  |  |
|  | Listed overseas investments |  |  | 115,532 |  | 82,486 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Opening fair value of investments |  |  |  |  |  |
|  | Opening book cost |  |  | 75,964 |  | 80,293 |
|  | Opening investment holding gains |  |  | 6,522 |  | 3,738 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 82,486 |  | 84,031 |
|  | Movements in the year |  |  |  |  |  |
|  | Purchases at cost |  |  | 165,380 |  | 64,119 |
|  | Sales - proceeds |  |  | (153,466) |  | (66,717) |
|  | Sales - realised gains/(losses) on sales |  |  | 12,378 |  | (1,731) |
|  | Movement in investment holding gains in the year |  |  | 8,754 |  | 2,784 |
|  |  |  |  | ---------- |  | ---------- |
|  | Closing fair value of investments |  |  | 115,532 |  | 82,486 |
|  |  |  |  | ========== |  | ========== |
|  | Closing book cost |  |  | 100,256 |  | 75,964 |
|  | Closing investment holding gains |  |  | 15,276 |  | 6,522 |
|  |  |  |  | ---------- |  | ---------- |
|  | Closing fair value of investments |  |  | 115,532 |  | 82,486 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year  ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
|  | Gains on investments at fair value through profit or loss for the year |  |  |  |  |  |
|  | Realised gains/(losses) on sales of investments |  |  | 12,378 |  | (1,731) |
|  | Investment holding gains |  |  | 8,754 |  | 2,784 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 21,132 |  | 1,053 |
|  |  |  |  | ========== |  | ========== |
|  | Costs of investment transactions for the year |  |  |  |  |  |
|  | Transaction costs incurred on the acquisition and disposal of investments, which are included within gains on investments above, were as follows: |  |  |  |  |  |
|  | Purchase transaction costs |  |  | 97 |  | 61 |
|  | Sales transaction costs |  |  | 93 |  | 52 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 190 |  | 113 |
|  |  |  |  | ========== |  | ========== |

The portfolio turnover rate for the year ended 31 December 2015 was 128.7% (2014: 56.7%).

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  |  |  | 2014 |  |  |
|  |  |  |  | fair  value |  | portfolio  exposure |  | fair  value |  | portfolio  exposure |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
| 10 | DERIVATIVE INSTRUMENTS |  |  |  |  |  |  |  |  |  |
|  | Derivative instruments at fair value through profit or loss |  |  |  |  |  |  |  |  |  |
|  | Long CFDs - assets |  |  | 1,056 |  | 6,426 |  | 7,296 |  | 28,109 |
|  | Long CFDs - liabilities |  |  | (1,117) |  | 13,294 |  | (139) |  | 2,954 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
|  |  |  |  | (61) |  | 19,720 |  | 7,157 |  | 31,063 |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | year  ended  31.12.2015 |  | year  ended  31.12.2014 |
|  |  |  |  | £'000 |  | £'000 |
|  | Gains on derivative instruments at fair value through profit or loss |  |  |  |  |  |
|  | Gains on long CFD positions closed |  |  | 9,935 |  | 1,533 |
|  | Movement in investment holding (losses)/gains on long CFDs |  |  | (7,218) |  | 1,315 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 2,717 |  | 2,848 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  | 2014 |
|  |  |  |  | £'000 |  | £'000 |
| 11 | DEBTORS |  |  |  |  |  |
|  | Securities sold for future settlement |  |  | 752 |  | 375 |
|  | Amount receivable on ordinary shares issued |  |  | - |  | 1 |
|  | Accrued income |  |  | 243 |  | 187 |
|  | Other debtors |  |  | 68 |  | 367 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 1,063 |  | 930 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  | 2014 |
|  |  |  |  | £'000 |  | £'000 |
| 12 | CREDITORS |  |  |  |  |  |
|  | Securities purchased for future settlement |  |  | 255 |  | 404 |
|  | Other creditors |  |  | 499 |  | 459 |
|  |  |  |  | ---------- |  | ---------- |
|  |  |  |  | 754 |  | 863 |
|  |  |  |  | ========== |  | ========== |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  |  |  | 2014 |  |  |
|  |  |  |  | number  of  shares |  | £'000 |  | number  of  shares |  | £'000 |
| 13 | SHARE CAPITAL |  |  |  |  |  |  |  |  |  |
|  | Issued, allotted and fully paid: |  |  |  |  |  |  |  |  |  |
|  | Ordinary shares of 25 pence each |  |  |  |  |  |  |  |  |  |
|  | Beginning of the year |  |  | 114,002,375 |  | 28,501 |  | 113,954,834 |  | 28,489 |
|  | Issue of ordinary shares on the conversion of rights attached to subscription shares |  |  | 215,981 |  | 54 |  | 47,541 |  | 12 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
|  | End of the year |  |  | 114,218,356 |  | 28,555 |  | 114,002,375 |  | 28,501 |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |
|  | Subscription shares of 0.001 pence each |  |  |  |  |  |  |  |  |  |
|  | Beginning of the year |  |  | 22,743,320 |  | - |  | - |  | - |
|  | Bonus issue of subscription shares |  |  | - |  | - |  | 22,790,861 |  | - |
|  | Exercise of rights attached to subscription shares and conversion into ordinary shares |  |  | (215,981) |  | - |  | (47,541) |  | - |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |
|  | End of the year |  |  | 22,527,339 |  | - |  | 22,743,320 |  | - |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |
|  | Total share capital |  |  |  |  | 28,555 |  |  |  | 28,501 |
|  |  |  |  |  |  | ========== |  |  |  | ========== |

A bonus issue of subscription shares to ordinary shareholders took place on 27 August 2014 and was on the basis of one subscription share for every five ordinary shares held. Each subscription share gives the holder the right, but not the obligation, on the last business day of each month to subscribe for one ordinary share upon payment of the subscription price of 86.50 pence.

The final date to exercise these rights is 29 April 2016. After 29 April 2016, the Company will appoint a trustee who will exercise any rights remaining that have not been exercised by shareholders, providing that by doing so a profit can be realised. To realise a profit, the sale proceeds from selling the resulting ordinary shares in the market would need to be in excess of the 86.50 pence per share cost of exercising the rights, plus any related expenses and fees. Any resulting profit will be paid to the holders of those outstanding subscription shares.

14 RESERVES

The share premium account represents the amount by which the proceeds from the issue of ordinary shares, on the exercise of rights attached to subscription shares, exceeds the nominal value of those ordinary shares. It cannot be used to fund share repurchases and it is not distributable by way of dividend.

The capital redemption reserve maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It cannot be used to fund share repurchases and it is not distributable by way of dividend.

The other reserve was created in 1999 when the share premium account at that time was cancelled. It can be used to fund share repurchases.

The capital reserve reflects realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend. The Board has no current intention to pay dividends out of this reserve.

The revenue reserve represents the retained revenue losses recognised in the revenue column of the Income Statement. It could be distributed by way of dividend if it were not in deficit.

15 NET ASSET VALUE PER SHARE

The undiluted net asset value per ordinary share is based on net assets of £116,000,000 (2014: £92,886,000) and on 114,218,356 (2014: 114,002,375) ordinary shares, being the number of ordinary shares in issue at the year end.

The diluted net asset value per ordinary share is calculated on the basis of what the financial position would have been if all the rights attaching to the 22,527,339 outstanding subscription shares at 31 December 2015 had been exercised on that date. This basis of calculation is in accordance with guidelines laid down by the Association of Investment Companies. Undiluted and diluted net asset values per ordinary share are provided to the London Stock Exchange on a daily basis. There was no dilution of the net asset value per ordinary share at 31 December 2014 because the net asset value per ordinary share was below the 86.50 pence per share exercise price of the subscription shares in issue.

16 FINANCIAL INSTRUMENTS

MANAGEMENT OF RISK

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report. This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

·    Equity shares held in accordance with the Company's investment objective and policies;

·    Derivative instruments which comprise of long CFDs; and

·    Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instruments risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

Market price risk

Interest rate risk

The Company finances its operations through share capital and its retained reserves. In addition, the Company has a geared exposure to Japanese equities through the use of long CFDs which incur funding costs and provide collateral in yen. The Company is, therefore, exposed to financial risk as a result of increases in yen interest rates.

Interest rate risk profile

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  | 2014 |
|  |  |  |  | £'000 |  | £'000 |
|  | Exposure to financial instruments that bear interest |  |  |  |  |  |
|  | Long CFDs - portfolio exposure less fair value |  |  | 19,781 |  | 23,906 |
|  | Less: exposure to financial instruments that earn interest |  |  |  |  |  |
|  | Cash at bank |  |  | (220) |  | (3,176) |
|  |  |  |  | ---------- |  | ---------- |
|  | Net exposure to financial instruments that bear interest |  |  | 19,561 |  | 20,730 |
|  |  |  |  | ========== |  | ========== |

Foreign currency risk

The Company's net return on ordinary activities after taxation for the year and net assets are affected by foreign exchange movements because the Company has income, assets and liabilities which are denominated in yen, whereas, the Company's base currency is UK sterling. The Company may also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is bought or sold and the date when settlement of the transaction occurs.

The Company does not hedge the UK sterling value of investments or other assets priced in yen by the use of derivative instruments. Long CFDs are held for gearing purposes.

Three principal areas have been identified where foreign currency risk could impact the Company:

·    Movements in exchange rates affecting the value of investments and long CFDs;

·    Movements in exchange rates affecting short term timing differences; and

·    Movements in exchange rates affecting income received.

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2015 |  |  |  |  |  |  |  |  |  |  |  |
|  | investments at fair value through profit or loss |  |  |  |  | portfolio  exposure  through  long  CFDs |  | short  term  debtors |  | cash |  | total |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
|  | Financial assets held in yen |  |  | 115,532 |  | 19,720 |  | 995 |  | 218 |  | 136,465 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ========== |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2014 |  |  |  |  |  |  |  |  |  |  |  |
|  | investments at fair value through profit or loss |  |  |  |  | portfolio  exposure  through  long  CFDs |  | short  term  debtors |  | cash |  | total |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
|  | Financial assets held in yen |  |  | 82,486 |  | 31,063 |  | 844 |  | 3,169 |  | 117,562 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |  | ---------- |  | ========== |

Currency exposure of financial liabilities

The Company's financial liabilities comprise the gearing effect of the long CFDs held, which is the portfolio exposure to the investments underlying the long CFDs less the fair value of those long CFDs, and other short term creditors. The currency profile of these financial liabilities is shown below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2015 |  |  |  |  |
|  |  |  |  | gearing  effect  of  exposure  to  long  CFDs |  | short  term  creditors |  | total |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |
|  | Financial liabilities held in yen |  |  | 19,781 |  | 255 |  | 20,036 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | 2014 |  |  |  |  |
|  |  |  |  | gearing  effect  of  exposure  to  long  CFDs |  | short  term  creditors |  | total |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |
|  | Financial liabilities held in yen |  |  | 23,906 |  | 405 |  | 24.311 |
|  |  |  |  | ---------- |  | ---------- |  | ---------- |

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments owned by the Company. It represents the potential loss the Company may suffer through holding market positions in the face of price movements. The Manager is responsible for actively monitoring the existing portfolio, which is selected in accordance with the overall asset allocation parameters described above, and the Manager seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of overdraft facilities as required.

Counterparty risk

All securities and derivative instruments are transacted with brokers and carry the risk that the counterparty to a transaction may not meet its financial obligations. In accordance with the risk management process which the Manager employs, the Manager will seek to minimise such risk by only entering into transactions with counterparties which it believes have an adequate credit rating, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk through the use of internal and external credit agency ratings and evaluates derivative instrument credit risk exposure.

For Over The Counter ("OTC") derivative transactions, in accordance with the terms of International Swap Dealers Association ("ISDA") market standard derivative contracts, collateral is used to ***reduce*** the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 December 2015, £92,000 (2014: £7,916,000) was held in government bonds on behalf of the Company, in a segregated collateral account, to ***reduce*** the exposure to counterparty risk of the Company.

Credit risk

Investments may be adversely affected if any of the institutions with which money is deposited suffers insolvency or other financial difficulties. All transactions are carried out with a large number of brokers and are settled on a delivery versus payment basis and limits are set by the Manager on the amount that may be due from any one broker. All security transactions are through brokers which have been approved as an acceptable counterparty. This approval is reviewed on an ongoing basis. At the year end, the exposure to credit risk includes outstanding securities transactions, the fair value of long CFDs and cash at bank.

Derivative instruments risk

The risks and risk management processes which result from the use of derivative instruments are included within the other risk categories disclosed previously. Derivative instruments are used by the Manager to gain unfunded long exposure to equity markets, sectors or single stocks. "Unfunded" exposure is exposure gained without an initial outflow of capital. The risk and performance contribution of these instruments to the Company's portfolio is overseen by the Manager's specialist derivative instruments team which draws on over forty years of specialist experience in derivative risk management. This team uses portfolio risk assessment tools to advise on portfolio construction.

RISK SENSITIVITY ANALYSIS

Risk sensitivity analysis is used by the Manager to measure the Company's exposure to risks.

Interest rate risk sensitivity analysis

If interest rates had increased by 0.25% and the Company's net exposure to financial instruments that bear interest at 31 December 2015 had been held throughout the year, with all other variables remaining constant, net return on ordinary activities after taxation for the year and net assets would have decreased by £49,000 (2014: £52,000). A decrease in interest rates by 0.25% would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

If the UK sterling exchange rate had strengthened against the yen by 10% at 31 December 2015, with all other variables remaining constant, net return on ordinary activities after taxation for the year and net assets would have decreased by £10,584,000 (2014: £8,477,000). A 10% weakening of the UK sterling exchange rate against the yen would have increased net return on ordinary activities after taxation for the year and net assets by £12,936,000 (2014: £10,361,000).

Other price risk sensitivity analysis

Changes in market prices other than those arising from interest rate risk or foreign currency risk may also affect the value of the Company's net assets and its total return on ordinary activities. Details of how the Board sets risk parameters and performance objectives can be found in the Strategic Report.

Investments exposure sensitivity analysis

An increase of 10% in the price of shares held as investments at 31 December 2015 would have increased net return on ordinary activities after taxation for the year and net assets by £11,553,000 (2014: £8,249,000). A decrease of 10% would have had an equal but opposite effect.

Derivatives instruments exposure sensitivity analysis

The Company also invests in long CFDs to gain exposure to the equity markets. An increase of 10% in the price of shares underlying the long CFDs at 31 December 2015 would have increased net return on ordinary activities after taxation for the year and net assets by £1,972,000 (2014: £3,106,000). A decrease of 10% would have had an equal but opposite effect.

FAIR VALUE HIERARCHY

The Financial Reporting Council defines a fair value hierarchy that classifies financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to measure their fair value.

Classification                          Valued by reference to

     Level 1                                     The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

     Level 2                                     Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

     Level 3                                     Inputs are unobservable (i.e. for which market data in unavailable) for the asset or liability.

The table below sets out the fair value hierarchy of the Company's financial instruments held at fair value on the Balance Sheet.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | 2015 |  |  |  |  |  | 2014 |  |  |
|  |  |  |  | Level  1 |  | Level  2 |  | Total |  | Level  1 |  | Level  2 |  | Total |
|  |  |  |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |  | £'000 |
|  | Financial instruments held  at fair value |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Fixed assets - investments in listed equities |  |  | 115,532 |  | - |  | 115,532 |  | 82,486 |  | - |  | 82,486 |
|  | Derivative assets - long CFDs |  |  | - |  | 1,056 |  | 1,056 |  | - |  | 7,296 |  | 7,296 |
|  | Derivative liabilities - long CFDs |  |  | - |  | (1,117) |  | (1,117) |  | - |  | (139) |  | (139) |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |
|  |  |  |  | 115,532 |  | (61) |  | 115,471 |  | 82,486 |  | 7,157 |  | 89,643 |
|  |  |  |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |  | ========== |

17 CAPITAL MANAGEMENT

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed by the use of long CFDs, and its issued share capital and reserves, as disclosed on the Balance Sheet above. Capital is managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report. The principal risks facing the Company and their management are disclosed in the Strategic Report and in Note 16 above.

18 RELATED PARTY TRANSACTIONS

The Company has identified the Directors as related parties. Key management compensation paid was £155,000 (2014: £130,000). This includes fees and travel expenses paid to the Directors and £13,000 (2014: £12,000) of Employer's National Insurance contributions. Details of Directors' remuneration and their interests in the shares of the Company are disclosed in the Directors' Remuneration Report in the Report and Accounts.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement

For further information, please contact:

Natalia de Sousa - Company Secretary

01737 837846

FIL Investments International

31 March 2016

ENDS

A copy of the Annual Report and Accounts will shortly be submitted to the National Storage Mechanism and will be available for inspection at[*http://www.morningstar.co.uk/uk/NSM*](http://www.morningstar.co.uk/uk/NSM)

The Annual Report and Accounts will also be available on the Company's website at[*http://www.fidelity.co.uk/itswhere*](http://www.fidelity.co.uk/itswhere) up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found

**Load-Date:** April 1, 2016

**End of Document**



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Kent and Sussex Courier

November 13, 2015 Friday

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**Section:** NEWS:LETTERS; Pg. 28-29

**Length:** 3367 words

**Body**

RE: LONGFIELD Road costing £7.35million - the planners were told not to do it but still went ahead. Who is being held to account and given the bill for this folly? Heads must roll if only to stop more like this and so that something is done about Pembury Road, now.

Mr Jukes, it may be too late for you to learn that if "we had worked together" years ago, none of this would have been necessary.

Even when the stupid lights have been removed, the whole thing has been gold-plated and over £7million (which we are continually being told we do not have) has been wasted. And all with no mention of the eight-month delay. As for the layout, I presume this was the worst option available?

Why was it not pointed out that two mini-roundabouts would suffice as a quick and cheap job done over a few evenings? A mini-roundabout works very well by the Pantiles, and it was originally just a fixed dustbin lid.

Richard Forth

Chiltern Walk

Tunbridge Wells

I WRITE in relation to the article published in the Tonbridge Courier on October 30 regarding Morrisons selling their plot on Vale Rise.

In particular, a quote by Town Team spokesman Howard Porter who states: "That site is away from the High Street and I think we need to try as best as we can to keep them in the High Street."

I think Mr Porter has his priorities wrong. As a Tonbridge resident for most of my life, I have witnessed the High Street declining and various big name stores leaving the town. So much so that I have to visit other towns such as Tunbridge Wells and Maidstone to shop, due to the lack of options in Tonbridge High Street.

Surely if big name stores want to move to the town, it has got to be better them going to the industrial estate and keeping shoppers in Tonbridge, instead of the shoppers going to other towns completely?

Matt Butcher

Batchelors

Pembury

(formerly of Tonbridge)

RE: THE current Tonbridge High Street blunder. Is it too late to cancel the whole mess, restore the High Street to how it was, and instead spend the remaining monies on filling in potholes and resurfacing as many of the roads and pavements as possible in the residential areas?

John Downing

Higham Gardens

Tonbridge

I WOULD like to say thank you so much for the tickets that I won in your competition for Thriller Live.

My daughter and I really enjoyed the show, it was excellent.

Maureen Bradley

Arundel Close

Tonbridge

A FURTHER review of Gatwick air traffic and flight paths has been announced. Noise pollution could get much worse if Gatwick expands, with more flights day and night regardless of any positive outcome from the planned review.

Tunbridge Wells residents need to continue to make their feelings felt. One way they can do this is to sign the petition to ban night-flights: petition.parliament.uk/petitions/106462

About 1,800 people have already signed it.

Tunbridge Wells residents should also actively engage and support the Tunbridge Wells Action Group - TW No to Gatwick - email address [*twaang@yahoo.co.uk*](mailto:twaang@yahoo.co.uk)

This has only recently been set up. They have also just set up a website: [*www.twaang.org.uk*](http://www.twaang.org.uk)

Consultation on flight paths closes in January 2016. The voice of Tunbridge Wells needs to be heard.

MP Greg Clark twice requested that Tunbridge Wells Borough Council be represented on GATCOM (the consultation committee). On both occasions his request was refused.

The number of aircraft flying low above Tunbridge Wells has significantly increased, although Gatwick insisted no changes to flight paths had been made. It was only after a Freedom of Information Act request did they admit that flight paths had shifted eastwards, to help air traffic controllers ***reduce*** the number of aircraft that cannot safely land and have to repeat their attempted landing.

There is an understandable lack of trust.

David Fenwick

Calverley Park

Tunbridge Wells

THE latest attempt by Targetfollow to extract money from their ownership of the Tunbridge Wells and Rusthall commons flies directly in the face of their chief executive's claim, at a public meeting at the Town Hall in February, that it was unnecessary to increase income in order to maximise asset value.

Surely the fundamental aim of property management and development companies is to maximise income and asset value? That's their raison d'etre. Nothing wrong with that, but contentious issues as reported by the Courier, where residents are to be charged for access or for car parking, will continue to arise. The solution is for the commons to be owned by the community, an aspiration that was supported by 98 per cent of people at the February meeting.

Last year the council helped by designating the commons as an Asset of Community Value, enabling a bid to be made by the Friends of the Commons. Unfortunately this bid was turned down by Targetfollow, and any council interest in the matter seems to have fallen away like autumn leaves. That is why I have started a petition requesting the council to use all its endeavours to bring the commons into permanent public ownership. Readers can find details on the TWBC website.

Terry Cload

Herons Way

Pembury

HAVING read the planning inspector's 25-page report and decision to allow the plans for 62 dwellings on Highgate Hill, Hawkhurst, the main reason has now been made clear.

The inspector accepts the development will have a material impact on the outstanding landscape, and that Hawkhurst will meet its ***target*** of new plans set by the borough by 2026, without this gross intrusion into the countryside, but Tunbridge Wells as a borough is not meeting its allocation.

The net effect of this is that villages within the borough are having to make up the shortfall with these totally unsuitable developments.

So much for localism vaunted by the present Government, where not a single person or organisation was in favour of this development.

John Hunt

Theobalds

Hawkhurst

GREG Clark chooses his public appearances carefully - he knows when to duck and when to dive, he knows when to stay under the radar and when to step into the limelight.

He's always available, for example, to open the Greg Clark road improvement scheme at North Farm, a cycle shop, the Royal Opera House costume centre at Thames Gateway, a new primary school classroom in Broadwater, to plant a tree in a cemetery, new athletics fields in Paddock Wood and, who knows, the Greg Clark A21 dualling extension.

Strangely he's in short supply when asked questions about the new housing development in Hawkhurst, which is in his political bailiwick and, as minister responsible, is the person to challenge, so not short-listed for that particular opening I warrant. He's changed his tune too from when, in October 2010, he expressed his opposition to a proposed housebuilding plan for 198 houses in the village, setting his face against the plan to re-schedule Hawkhurst as a "town".

He remains mute on the subject of Europe too, nobody knows whether he's for it or against it - like Hawkhurst, he'll do his master's bidding on that one too.

Sam Goodenough

Broadwater Down

Tunbridge Wells

IT'S REPORTED that local authorities will be given the power to access people's internet browsing history, so I'd better come clean.

A few years ago we were going to St Petersburg for ten days and my wife wanted the "Lara" look: boots, fur hat, full-skirted military style coat with frogging - the "Doctor Zhivago" look - it was winter after all.

So, on the internet I typed in "Russian style military coats"and up came a video of three lovely Russian blondes accoutered in genuine military greatcoats. I pressed the "go" symbol to start, whereupon they peeled the coats off, leaving them as naked as babies.

If Tunbridge Wells Borough Council can get anything out of that - good luck. For me, in my eighth decade, it was a first: my first experience of porn.

Is confession good for the soul?

John Ward Moorhouse

Carlton Road

Tunbridge Wells

I READ with interest in the Courier (October 30) the vision of Tunbridge Wells council of quitting the Town Hall and creating a theatre to replace the Assembly Hall and retail outlets on that site.

Given the previous "visions", I feel that they should endeavour to get them resolved before embarking on new ones. By the previous I refer to the former cinema site, which after 17 years (at least) is still to be sorted out. Then we have the Fiveways fiasco, which is still being resolved. All of these cost money, yet they have been badly managed or not at all.

In any great town, it is essential the town hall be at its epicentre. To consider moving out is a disgrace, considering its all us council tax payers that help keep it going, and so need access to it when required. To update and upgrade the existing facilities are in order, but just moving out and creating yet more retail outlets is ridiculous, given that parking will become yet more difficult.

If an ambitious theatre is being considered, then how about across the way at the former cinema site. There is plenty of space and it will give Tunbridge Wells that added kudos. We would then have two iconic buildings diagonally opposite each other. Also, one long-standing blot would be removed in one hit.

I shall follow developments with interest.

John Pearce

Oak End Close

Tunbridge Wells

THE Garden of England land is under management depending on its usage - homes, industry, farming, forestry, etc.

In the case of farming, the controls come from Brussels and the Common ***Agricultural*** Policy. Kent farmers have to cooperate with to this, and have to display an EU logo if they wish to be in receipt of European money. The point that is being made by Europe is that Europe is more important than the individual areas it consists of.

Europe is taking the opportunity of insisting "brand Europe" is displayed wherever possible. Kent farmers have never had to fly the Union flag to be in receipt of Government money, however, they will get "no pay without display" from Europe. Be prepared, rural signs will soon to be growing in our hedgerows.

Edward La Coste

The Down

Lamberhurst

HAS the fiction section of the Tunbridge Wells library been taken over by feminists?

From my observation, there would appear to be a large preponderance of books by female authors obsessed with tales of broken hearts and tangled human relations.

Us chaps would like something a little more stirring for winter nights, please.

Digby Augustus Tidd

Culverden Park Road

Tunbridge Wells

A SATELLITE grammar school is to be opened in Sevenoaks and comprehensive school zealots are enraged.

The "one size fits all" mantra is being threatened and the high priests and priestesses of misguided egalitarian educational dogma fear a dam has been breached.

What's not to like about accepting the clearly-expressed wishes of a local community? What's not to like about democracy? What's not to like about challenging a school system that fails most children? For failing most children is certainly built into the current system, as our performance on the OECD international league table of educational performance at age 15 makes clear.

The argument against grammar schools on the grounds of selection is a non-starter. Selection is ubiquitous in the state school sector. It is based on a parent's ability to buy a house in the catchment area of a good school and, if necessary, to hire tutors.

The argument for grammar schools is that children should be educated in line with their ability and aptitude. We need grammar schools for academic children, just as much as we need gold standard vocational schools for youngsters, whose aptitude is practical rather than academic. These are the youngsters who should go on to earn lots more money than many of those who are more academically inclined. Bricklayers in London, for example, are currently earning between £50,000 and £100,000 pa, and there is a severe shortage.

It is remarkable that, according to the OECD, Britain is the only country in the developed world in which grandparents, educated under the old tripartite system of the 1950s and 1960s, outperform their grandchildren in terms of educational attainment.

Less remarkable, perhaps, is the fact that Northern Ireland, which has kept its grammar schools, consistently outperforms the rest of the UK in terms of public examination results. So let's quit denigrating the 11-plus and our grammar schools, and start championing raising academic standards and extending parental choice in education.

Christopher Luke

Kirkdale Road

Tunbridge Wells

NOT ONLY has the Neighbourhood Plan divided communities and caused no end of financial stress on local, district and county councils, but also caused turmoil within the national construction industry.

How does the Government expect public representatives, mostly without any planning, engineering or construction experience, to choose or understand the correct sites for sustainable housing and infrastructure for the generations to come?

These matters are best addressed by professionals who understand soil dynamics, drainage requirements, traffic management and social mobility, alongside employment opportunities and public sector requirements, ie, medical and community centres, schools and care homes. It is ludicrous to continue appealing for the "public" to come forward to perform important planning decisions in which they have no knowledge.

Why are professional bodies and construction companies, along with the attendant engineers and soil management agencies, not standing up for their professions?

University graduates and the construction industry as a whole face a tough future, which is continually being undermined by fierce competition undercutting fees, and with general lack of respect for professional qualifications and years of combined practical experience.

Great Britain was built by engineers and architects, not the "man on the street". We are quickly, and expensively, sending our local communities down the wrong path towards total chaos. It is not too late to rethink this strategy and bring in the experts at last.

The next headline will be "Immigrants taking all the construction work" in what should be a boom time for the construction industry. Come on "Great Britain", encourage good practice, stop chasing your tail and look to the future. Provide for the future generation in a considered sustainable way - this costly exercise is wasting good money after bad.

Fail to plan, plan to fail.

Caroline Tully

High Street

Hartfield

ON THE horizon approaches the Paris climate summit and, like the Olympic Games, it intends to outdo its former host countries both in importance and grandeur.

But just as its predecessors did, it will go on in strange paradox, deciding only to be undecided, resolved only to be irresolute, adamant for drift, solid for fluidity, all-powerful to be impotent.

The accords which have emanated from previous summits such as Kyoto, Copenhagen, Durban, Rio, etc, are meaningless. They are and always will be accords to "agree to disagree" with a sprinkle of fine semantics over a bubbling cauldron of pointless rhetoric.

Article 2 of the Convention states its ultimate objective, which is to stabilise the concentration of ***greenhouse gases*** in the atmosphere "at a level that would prevent dangerous anthropogenic (i.e human) interference with the climate system".

Well, from the first climate summit to date, man-made ***greenhouse gas*** ***emissions*** have steadily increased at such a rate that, if you drew a graph with a 45 degree line, you would have the rate of increase of ***emissions*** over the last twenty summits.

There is now no chance of maintaining the rise in global mean surface temperature at below 2C.

Given the view that ***reductions*** in ***emissions*** are not compatible with economic growth we are, in effect, conceding that avoiding dangerous (and even extremely dangerous) climate change is no longer compatible with economic prosperity. But common sense dictated we knew this all along, as what government would insist on economic suicide?

The obvious question is: Are these climate summits an exercise in complacency, denial or utter futility?

Or, are these climate summits taking the meaning of the word "sustainability" literally?

Bruce Grant

Neville Street

Tunbridge Wells

WHEN I was a youngster one of the most important benefits of a university education was that it encouraged an independence of mind and allowed students to be exposed to a range of opinions, which was as wide as possible.

Recently we have learnt censorship by the politically correct is succeeding in banning those speakers from campuses who espouse views which these so-called liberals regard as unacceptable.

This would be understandable in the case of those who advocate violence, or the persecution of minorities, but has come to include erstwhile heroines of the left such as Germaine Greer for her comments on transgender people, Muslims who dare to question whether Islam is compatible with democracy, anyone who defends Israel, or any Christian speaker who questions the morality of such things as abortion.

Of course one can disagree with what they say, but to refuse to allow them to express their views at our seats of learning is nothing less than a disgrace.

At a time when the nation needs to cut its coat according to its cloth there are clearly great savings to be made in tertiary education. We need engineers, scientists, doctors, architects, lawyers, etc. But we do not need vast numbers of arts graduates, studying pointless subjects, who have been brainwashed by the liberal left into accepting that any opinion other than that of the latter should be suppressed.

What must concern us all is that, given the adulation reserved for graduates of Oxbridge, some of these students will eventually achieve positions of power and influence, and will perceive nothing wrong in destroying free speech in order to pander to those who are nothing more than pseudo fascists.

Colin Bullen

Douglas Road

Tonbridge

HOW disappointing to read of a low rating of premises at Osborn's Southborough store.

I am sure Glenn need not worry about losing customers - most will recognise and appreciate the fact the store offers a wide range of goods, always served with friendliness and civility and saves many a trip into town for local residents.

Several elderly customers never shop elsewhere and Glenn and his staff go to any lengths to oblige. Local farm produce is an added bonus. What a shame the facilities which actually matter to customers cannot be reflected in "ratings" - Glenn would get full marks.

Jan Millington

Park Rd

Southborough

THE letter from a Green Party member last week about ***energy*** policy and how it is sourced/produced conveniently draws a veil over some disturbing facts about the position in the UK.

1) It was announced last week the regulatory authorities had to step in recently to pay high ***energy*** users to cut their consumption because "renewables" had fallen short of ***target*** production - light winds had cut wind power, and dark skies the solar element.

2) Also last week it was announced South East Asia's consumption of coal would rise by 40 per cent by 2040 resulting in an increase of 30 per cent in CO2 ***emissions***.

3) Germany, the birthplace of the Green movement, is increasing its consumption of coal - especially lignite, brown coal, because it has shut down its nuclear capacity due to pressure from, and you're ahead of me here I'm sure, the German Green Party. Brown coal is probably the filthiest source of ***energy*** on the planet, unlike natural gas from fracking, for example, one of the cleanest.

4) Yet another very recent report identified that here in the UK there is no buffer between ***energy*** production and its consumption: we are living on the very margins, there is no reserve capacity. That's like taking one breath of air without knowing where the next's coming from.

The problem with the Green Party is its zealotry, there's no halfway house, no evolution towards an ideal state. They want to drag us all kicking and screaming back to the Stone Age. They oppose nuclear, they oppose coal and oil, they oppose natural gas in all its forms, but especially from fracking here in the UK

How very Orwellian. "Idealism is fine, but as it approaches reality the cost becomes prohibitive" - William F Buckley.

Edward Baker

Hilbert Road

Tunbridge Wells

**Load-Date:** November 12, 2015

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[***China and Australia sign historic free trade agreement - politics live; With the G20 now done and dusted, MPs are gathered in Canberra for a special sitting of the parliament. China's president Xi Jinping has addressed the parliament, and inked a new free trade deal with Canberra. All the developments, live***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5GTY-NMC1-JCJY-G00T-00000-00&context=1516831)

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**Byline:** Katharine Murphy

**Body**

block-time published-time 7.13pm AEST

Zaijian

Zaijian blogans.

The President of the Peoples Republic of China Mr Xi Jinping with Prime Minister Tony Abbott at a joint statement in the main committee room of Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

Well, that will do for this evening. Thank you very much for your fine company throughout the day. I'll be back early tomorrow with Politics Live - another special sitting beckons on the morrow for Narendra Modi, the Indian prime minister. And that FTA will continue to bounce bounce bounce through the news cycle. Bounce. Yes, enough.

Today, Monday:

* Brisbane folded its tent and Canberra relocated back to Canberra after all that G20 business.

1. Sydney broadcaster Alan Jones shouted at the prime minister for fifteen minutes for failing to meet the pub test and for producing an agreement that Alan didn't like because it didn't allow the prime minister to buy a coal mine in China. Whether the prime minister wanted to buy a coal mine in China was a question that Alan didn't linger on. The fact that the agreement had not yet been produced at that point was also moved past rather quickly.
2. The pomp and circumstance began in Canberra to mark t he "historic" visit of Xi Jinping. Wildlife was inspected. A wombat was cuddled. The sun shone.
3. President Xi made his way to parliament and spoke of China being the big guy in Asia, but the big non threatening peacenik guy in Asia, so long as everyone understood China was the actual Asia superpower and not some other country that wasn't actually mentioned. (Hint: the other country wasn't Australia.)
4. The FTA, dubbed the virtual agreement by China's Xinhua news agency, was duly produced. It was a virtual agreement in the strict sense (there was no text, and much of the controversial stuff was actually not in the text-that-wasn't-a-text but perhaps merely an indicative form of words); but it did have a number of specific commitments that were welcomed by business happy to get whatever could be gained from Beijing.
5. President Xi told us to look into the sun because then you don't see shadows. (Do not try that at home, children.) He also told us that it was very hard to sharpen a sword but it was all good as long at the sword got sharpened in the end. This wisdom was imparted at a press conference that journalists were cordially not invited to attend.

That's today, at least all the important bits.

Have a lovely evening. See you on the morrows.

block-time updated-timeUpdated at 7.14pm AEST

block-time published-time 6.49pm AEST

Before we wrap for tonight - just a bit more lovely Bowers from officialdom versus dissent down the front today.

Superb shot.

Protestors for and against the visit of The President of China Xi Jinping out the front of Parliament House this afternoon, Monday 17th November 2014 Photograph: Mike Bowers/Guardian Australia

block-time published-time 6.46pm AEST

Just a couple of other points for context:

* China's FTA with New Zealand imposed labour market testing for contractural service suppliers.

1. The Abbott government removed labour market testing from the recent Korean FTA for contractural service suppliers. Labor supported the Korean FTA, but there was a fight about that in the caucus.

block-time published-time 6.37pm AEST

Just on that broad labour mobility point, a short statement just now from the immigration minister Scott Morrison.

The Investment Facilitation Arrangement will allow Chinese owned companies registered in Australia to negotiate project-based labour agreements for large infrastructure development projects.

Sponsors seeking to enter into a labour agreement under the Investment Facilitation Arrangement would need to demonstrate a labour market need, pay the Australian market salary rate and comply with all Australian laws, including those relating to employment and licensing.

block-time published-time 6.30pm AEST

Devil in (no) detail: watch this space folks

I'm interested in the FTA's labour mobility provisions because Labor has already flagged that it may not support this trade pact if it allows Chinese workers to take jobs that would otherwise be done by Australians.

The wording in this not-yet-finished text is very non-specific about when labour market testing would apply. The words "labour market testing" do not actually appear in the reference to Chinese contractual service suppliers in this text. The omission may be deliberate, or it may not. It looks like one of those situations where the devil is in the detail which we don't have yet.

The President of the Peoples Republic of China Mr Xi Jinping after addressing a special joint sitting of the Reps chamber of Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

There's also no specifics about the investor state dispute settlement mechanism - another potential flashpoint in the Labor caucus. Well it will be a flashpoint. It's just hard to say whether it will be a deal breaking flashpoint or a noisy but not terribly consequential flashpoint.

It's these two issues that are most problematic for Labor. One unsettles the traditional industrial left, the other the progressive inner city left.

block-time updated-timeUpdated at 6.34pm AEST

block-time published-time 6.03pm AEST

Just while I digest the labour and people movement provisions - quick flashback. The look that Jacqui Lambie has on her face here..

PUP senator Jacqui Lambie at a special joint sitting of the house to hear an address from the President of the Peoples Republic of China Mr Xi Jinping Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

.. is intended for this chap. Her boss.

Finance Minister Mathias Corrman and PUP leader Clive Palmer at a special joint sitting of the house to hear an address from the President of the Peoples Republic of China Mr Xi Jinping Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

block-time published-time 5.59pm AEST

Back to the detail now. The Coalition says this new FTA provides significant breakthroughs in services : better market access for banks, insurers, law firms, education services providers, construction and manufacturing. This includes an agreement by China to allow Australian owned hospitals and aged care facilities to operate in China. I doubt this includes media companies. (Sorry, couldn't resist.)

Investment I've already flagged, at least in part. The new agreement will give Chinese investors (private investors) the same rules as the US, Japan and Korea - so the screening threshold goes from $248m to just over $1bn. All state owned investment will be screened. There will be special caps for farmland and agri-businesses.

block-time published-time 5.48pm AEST

Ah yes, off they go.

No questions.

block-time published-time 5.48pm AEST

As far as I know this is one of those absolutely ideal press conferences where journalists are not permitted to ask any questions.

Mr Bowers tells me images are also pooled for this event - highly unusual. He can't remember a comparable example in thirty years.

President Xi.

As the Chinese saying goes..

(Yes, here it comes)

.. it takes 10 years to sharpen a sword so we are so glad to see that after nearly 10 years of negotiation our two sides have announced the conclusion to the bilateral FTA negotiation.

As a Chinese saying goes, even a thoroughbred cannot cover ten paces in a single stride but even a worn out horse can.

(That last one is in the staring at the sun category.)

block-time published-time 5.41pm AEST

Now..

(You can't always get what you wah-nt.)

Abbott:

Now, in life you don't have one-way relationships, because one-way relationships are not sustainable - and in trade, which is an expression of two countries working together, you always have two-way relationships.

I should stress that negotiations are negotiations and you don't always get everything that you want in a negotiation but, as I said, there will be the chance to review the agreement and review it within three years.

block-time published-time 5.38pm AEST

Bit rude about New Zealand.

Abbott:

This agreement is the first that China has concluded with a substantial economy, with a major economy; and it's the most comprehensive agreement that China has concluded with anyone.

It opens the doors to Australia and it opens the doors to China. It's a reflection on both our countries' ability to be reliable partners and obviously what this agreement means is more jobs.

block-time published-time 5.36pm AEST

I'll come back to detailing outcomes, but I need to digress briefly to cover the formal remarks on the proposed FTA from Tony Abbott and Xi Jinping.

History, the prime minister says. History.

Tony Abbott:

I think we've heard from the president of speech of historical significance so this is not just a historical day for Australia with the signing of our free trade agreement, it is a historical day for China with some of the statements that the president has chosen to make to the Australian parliament about the democratisation of China and the fundamentally ethical approach that China intends to take with its partners, with its neighbours in its region and in the wider world.

History.

block-time published-time 5.30pm AEST

To the gains.

***Agriculture***:

* Tariffs on dairy to go within four to eleven years.

1. The beef tariff (between 12 and 25%) to go within nine years.
2. Tariffs on live animal exports (10%) to go within four years.
3. Removal of sheep meat tariffs (12 to 23%) over eight years.
4. Wine tariffs gone in four years (14 to 20%).
5. Horticulture tariffs "mostly" gone in four years (up to 30%).
6. Barley tariff (3%) gone.
7. Seafood tariffs gone in four years.

Resources and manufacturing:

* Tariffs on coking coal gone immediately on the agreement taking effect.

1. Tariffs on thermal coal (currently 6%) gone in two years.
2. A bunch of nuisance tariffs on copper and alloys, alumnium oxide, nickel, aluminium waste and other ***energy*** products - gone.
3. Four year phase out on 10% tariffs on pharmaceuticals - including vitamins.
4. Four year phase out on tariffs on manufactures, like car engines, plastics and centrifuges.

block-time published-time 5.07pm AEST

Free trade agreement - three key issues at a glance

The embargo on details of the China FTA has just been lifted.

I'll walk this through step by step for the remainder of the afternoon, but in this first post I'll cut very quickly to the chase.

This deal is a two stage process : there are concrete agreements now, and then there's a mechanism to pursue the issues that could not be resolved now.

In the too hard basket:

* The screening thresholds for investment by Chinese state owned enterprises. As I flagged on the live blog earlier today, the Chinese wanted a better deal. Australia rebuffed that request for now. All investment by Chinese state owned enterprises will be screened by the Foreign Investment Review Board. So the current arrangements remain in place.

1. Also left out of the FTA: wool, oil seeds, cotton, sugar and rice. No progress in this free trade agreement. It will be interesting to get play back from the Nationals and the farmers federation about that.

Not in the too hard basket, but likely to be a serious flash point:

* There is an investor state dispute clause. A safe prediction: this will be very controversial.

block-time published-time 4.54pm AEST

Decoding the Xi address

Just before we get into the virtual FTA - a couple of very quick thoughts on that Xi speech. It was a very interesting outing.

If we cut through all the proverbs and the people-to-people links (Lord the Chinese love that phrase), Xi wanted to send a few clear messages.

Here are the messages.

* We are the big guy in Asia. You need not be afraid of us, because our intentions are peaceful. We have known war, and we don't want to visit that horror on others.

1. But take note: we are the big guy in Asia. We are the Asia-Pacific power. We will assert our rise in the region, and we will do it on our own terms.
2. It's a message of course for America and for the world - and an interesting follow on from the climate agreement Xi struck with America last week, and president Obama's contributions over the past few days.
3. The grown ups, the great contemporary powers, are speaking in Australia, and over the heads of Australia.

block-time published-time 4.44pm AEST

This falls in the category of deep Bowers dreaming.

Interesting PUP/Labor/Greens/LNP seating arrangements in the House of Reps for Xi's speech. (Apologies to @mpbowers ). pic.twitter.com/5HsfBFCic5

- Alice Workman (@workmanalice) November 17, 2014

But I like it.

block-time published-time 4.40pm AEST

Twitter is telling me that Xi's look at the sun quote is from Helen Keller.

A well known Austrian. Sorry, that's the Arnie joke.

block-time published-time 4.39pm AEST

Here's the chamber, from Mike Bowers.

The President of the Peoples Republic of China Mr Xi Jinping addresses a special joint sitting of the House of Representatives in Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia Prime Minister Tony Abbott addresses a special joint sitting of the house for the President of the Peoples Republic of China Mr Xi Jinping Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia Opposition Leader Bill Shorten addresses a special joint sitting of the house to hear an address for the President of the Peoples Republic of China Mr Xi Jinping Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

block-time published-time 4.34pm AEST

The parliamentarians like the rock and the wall.

Warmer applause marks the conclusion of the Xi address. I swear looking at the sun makes you go blind. I'm digging in behind that.

block-time published-time 4.30pm AEST

Now we are deep cross over dreaming.

We are the rock. China is the wall.

Xi:

As the Chinese saying goes, true friendship exists only when there is an a binding commitment to pursue common goals. I am confident that with our joint efforts, the friendship between Chinese and Australian people will span over mountains and oceans, such friendship will withstand rain and storm and be a strong and everlasting as the majestic Uluru rock in central Australia, and the Great Wall in northern China.

The Australians often say that those who lose dreaming are lost. As Chinese and Australian people strive to fulfil our respective dreams, let us join hands and work shoulder to shoulder to create a brighter future for China/Australia comprehensive strategic partnership. And enhance peace, stability, and prosperity in the Asia Pacific.

block-time published-time 4.28pm AEST

Xi says China supports Australia's development in our north and China supports Australia's interests in China's development of its frontier west.

Xi:

We should also increase two-way investment and create a fairer and more enabling environment for it.

(I suspect that's code for more beneficial investment rules covering Chinese state owned enterprises. Remember we expect investment by Chinese SOEs to be in the too hard basket when this FTA is unveiled later on.)

block-time published-time 4.22pm AEST

I have never heard of this saying.

Xi:

There is an Australian saying: keep your eyes on the sun and you will not see the shadows.

(I thought if you looked at the sun, you might go blind. I must have been poorly educated.)

Xi:

China and Australia differ in history, culture, social system and stage of development. So it is natural for us to have disagreements on some issues. What is important is that we should keep to the right direction of bilateral relations, talk to each other candidly, seek common ground despite our differences and meet each other halfway. We should respect each other's core interests and major concerns and properly handle our differences.

block-time published-time 4.20pm AEST

This segment of the speech allows Xi to assert its presence in the Asia Pacific. China is an Asian power. China's development allows China to spread the benefits of its progress to neighbours. It's a virtuous cycle, the president says.

The Chinese government is ready to enhance dialogue and cooperation with relevant countries to jointly maintain freedom of navigation and safety of maritime rules, and ensure a maritime order of pies, tranquility and a win/win cooperation. At the same time, the Chinese people will firmly uphold the core interests of China's sovereignty, security and territorial integrity.

He references territorial disputes. Xi contends China doesn't want confrontation.

It is China's long-standing position to address peacefully its disputes with countries determined on territorial sovereignty, through dialogue and consultation. China has settled land boundary issues with 12 out of its 14 neighbours through friendly consultation; and will continue to work in this direction. China sincerely hopes to work with other countries in the region to build a harmonious and a prosperous Asia Pacific.

block-time published-time 4.15pm AEST

Xi invokes an oceans metaphor to describe the goodwill between Beijing and Canberra. He then invokes his governing slogan which I referenced on the live blog this morning - the Chinese dream.

Xi:

We Chinese are striving to achieve the Chinese dream, which is the renewal of the Chinese nation.

Xi says the dream means Beijing will stay committed to socialism with Chinese features.

The Chinese president says some people (he means foreign observers) applaud China's modernisation, some people are apprehensive about China, and others find fault with everything that China does. China is the big guy, Xi says - and invites a big guy response. People aren't sure what the big guy will do.

Xi says he intends to provide some particulars.

First of all China is a peaceful country. China has been through many ordeals, Xi says, and doesn't intend to inflict ordeals on others.

China needs peace. Neither turbulence nor war serves the needs of the Chinese people.

He says all war-like states eventually fall. He says China is on the alert against challenges to peace.

Xi says China's rise presents opportunities to the world.

block-time published-time 4.05pm AEST

Given the flashpoints of the day - just a quick flashback - here were the PUPs arriving for the Xi address.

PUP senators assemble for a special joint sitting of the house to hear an address from the President of the Peoples Republic of China Mr Xi Jinping Parliament House Canberra this afternoon, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

Cute shot, now back to Xi and people to people exchanges.

block-time published-time 4.03pm AEST

President Xi now rises for his address. He is delighted to be meeting on a sunny day in the southern hemisphere. Through parliament, he extends the good wishes of China to the people of Australia. He congratulates Australia on the success of the G20 summit.

Xi says his first visit was in 1988. The visits have left a great impression. Koalas, fluffy white sheep, the opera house - the expanse of the outback. But Xi says Australia is not all fluffy sheep and resources - it is a country of dynamism and innovation. It is a country that has made many contributions to human progress.

block-time published-time 3.57pm AEST

There was a proverb, but sadly, I've already forgotten it. The Labor leader, fortunately, is deploying his ordinary voice for this address.

Shorten in his welcome for Xi is traversing similar human history ground to Abbott, and also asserting Labor's contribution to the FTA that will be announced this afternoon. He's acknowledging China's rise. Shorten also raises human rights directly but not specifically - he says trade liberalisation and economic propserity has meant progress in this regard. The Labor leader praises China on its ebola response, and he says Labor looks forward to building a clean ***energy*** future with China. A bit of none too subtle troling of Abbott.

Shorten:

You are most welcome here, you always will be.

block-time published-time 3.51pm AEST

Abbott rounds out his introduction to Xi by saying humanity has a long journey to make and only one planet to share.

Now it's the Labor leader, Bill Shorten's turn, with the proverbs.

block-time published-time 3.48pm AEST

Abbott is outlining previous trips to Australia by Xi - not as leader, this is his first, but the Australian prime minister notes he is well travelled in this country.

The prime minister also gives a shout out to Gough Whitlam for opening relations with the Peoples Republic. Abbott prods Labor MPs to acknowledge with hear hear. They oblige.

Now we are in to the history of the Chinese in Australia. The human history of Chinese migrants in this country is a human arch to our near north. (That's a Menzies-ism.) Abbott speaks of trade and investment - two way trade is because we have to, investment is because we want to. It's a trust thing. The current level of investment indicates trust and confidence between Canberra and Beijing.

block-time published-time 3.40pm AEST

President Xi Jinping addresses the Australian parliament

With Australian parliamentarians duly gathered, the special guest is making his way into the House of Representatives. The applause is warm, not rapturous.

The prime minister makes the introduction.

Tony Abbott:

It is a joy to have friends come from afar.

(I might be imagining it, but the prime minister has adopted a slightly sing song voice.)

block-time published-time 3.34pm AEST

Here are the division bells, the address from Xi Jinping is coming up very shortly.

block-time updated-timeUpdated at 3.34pm AEST

block-time published-time 3.23pm AEST

Relax.

Australian Governor General Peter Cosgrove (R) stands with China's President Xi Jinping and his wife Peng Liyuan, as she holds a wombat in the grounds of Government House on November 17, 2014 in Canberra, Australia. Photograph: Pool/Getty Images

The wombat has landed.

block-time published-time 3.18pm AEST

Let's take stock quickly before we enter the serious, business end of the afternoon.

* Right now, reporters are down in a background briefing about the declaration of intent, or as Xinhua would have it, the virtual free trade agreement. (I'm not, obviously. I'm here, talking to all of you. When I'm permitted to talk to you about the agreement that dare not speak its name, I will.)

1. The chamber is gearing up for the special address very shortly by Xi Jinping. That's in about fifteen minutes. Refresh your beverage of choice. I'm very interested to hear the pitch from the Chinese leader.

block-time published-time 3.06pm AEST

To the relief of most everyone, further questions have been placed on the notice paper.

Look at this glorious image. Some segue back to China day, Mr Bowers. Blessings.

Chinese flag out the front of Parliament House this afternoon, Monday 17th November 2014 Photograph: Mike Bowers/Guardian Australia

block-time published-time 3.00pm AEST

Palmer on Lambie: you've got to try to sort out problems, not throw them to the wolves

The defence minister David Johnston is telling the senate that the ADF pay offer in no way represents the value the government places on the defence forces. A tough line to sell, that, but he's doing his darndest.

Meanwhile, regular Politics Live folks know my colleague Daniel Hurst generally leaves no stone unturned. He's just back from collaring Clive Palmer in the corridor. Things, as we know, are tense in the PUP kennel - courtesy of that ADF pay issue and other tetchy micro party stuff.

Here's Daniel:

Clive Palmer has signalled he is not about to ask Jacqui Lambie to quit the Palmer United Party. Asked if PUP had an irreconcilable difference with Lambie, Palmer told Guardian Australia:

She hasn't resigned from the party ... she's indicated she doesn't want to resign ... I think when you've got people that work with you or anywhere having problems you've got to try to sort out their problems not throw them to the wolves ... We'll try to help anyone who needs assistance. I think she needs some assistance from us and we're prepared to help.

Palmer said Lambie was "right" in raising concerns over the inadequate defence pay deal, but "of course there are a lot of other things important for Australia too" so a blanket vote against all legislation was the wrong approach.

We vote for things on their merits; Senator Lazarus does and so does Dio Wang.

block-time updated-timeUpdated at 3.23pm AEST

block-time published-time 2.51pm AEST

The context for the great lady doing great things in Europe was a question from Labor about the Coalition cutting funds to NICTA - that research centre Merkel visted this morning.

Labor's Kim Carr thought this eventuality somewhat unfortunate. Abetz thought the unfortunateness Carr's fault.

block-time published-time 2.48pm AEST

A great lady doing great things, in Europe.

German Chancellor, Angela Merkel is the 2014 guest speaker for the Lowy Institute for International Policy on November 17, 2014 in Sydney, Australia. Photograph: Lisa Maree Williams/Getty Images

block-time published-time 2.44pm AEST

A great lady, who is doing great things, especially in Europe.

Eric Abetz, on German chancellor Angela Merkel.

(Here's your hat, Angela, what's your hurry?)

block-time published-time 2.37pm AEST

The once Democratic Labour Party senator John Madigan (now independent) - if I'm not mistaken - would like more tariffs, not less. Madigan wants to know what percentage of Chinese exports to Australia have zero tariffs. The question is to the finance minister, Mathias Cormann, who clearly has no idea. He says all will be revealed in good time.

Madigan:

It's a pretty simple question. Surely to God the government knows that.

Cormann:

I'm only the minister representing the minister for trade.

I'd pay Cormann that - he is the minister representing, not the man with the brief.

But a bit more worrying that he can't answer the next question, which is what percentage of investment in Australia comes from private Chinese companies as opposed to state owned enterprises.

Cormann doesn't know that either. He's taking it on notice.

block-time published-time 2.28pm AEST

Greens leader Christine Milne would like to know whether the Coalition still intends to abolish the Clean ***Energy*** Finance Corporation, given the CEFC was being held up as a clean green virtue by Tony Abbott during the G20-stravaganza. Is it facing the axe, or was the prime minister lying to world leaders?

Senate president Parry wants lying off the table. Milne takes lying off the table but stands by the question.

A bad fumble from Abetz. He initially tells the senate that the Coalition will not axe the CEFC. That's news to everyone.

Abetz corrects.

Mr president, our policy remains.

block-time published-time 2.18pm AEST

Abetz gets a question on the US/China deal to curb ***emissions***. Oh, that old thing, Abetz says. Australia is doing. Others are talking.

Will we make a contribution to the green climate fund? No, Abetz says. Well not now, anyway, is the rationale.

block-time published-time 2.13pm AEST

Eric Abetz thinks there's another question today - not what's in the deal, but will Labor remain slaves to their perverse protectionist philosophy?

block-time published-time 2.08pm AEST

Question time

It being 2pm, the senate is rolling over now to Question Time.

Labor wants detail on the FTA. The Coalition is not intending to humour that request.

Labor's senate leader and trade spokeswoman, Penny Wong is wanting to poke the Nationals. Are the ***agricultural*** commodities wheat, sugar and cotton out - and if that's right, when were the Nationals informed?

Government senate leader Eric Abetz:

Is everything we wanted in the agreement? No, it's not.

He says trade pacts are about give and take.

Wong wants to know why the media can be backgrounded about the deal but the senate can't be informed about the deal before it is inked. What's up with that?

Abetz:

Will we release it beforehand? Of course not. There's an established practice here.

block-time published-time 1.51pm AEST

It's official.

We have virtual agreement.

#BREAKING : China, Australia announce virtual conclusion of FTA negotiations

- China Xinhua News (@XHNews) November 17, 2014

block-time published-time 1.51pm AEST

The Greens meanwhile are on a rare unity ticket with Alan Jones. This deal (which we haven't yet seen) doesn't pass the pub test - the assessment of Peter Whish Wilson, Greens trade spokesman.

block-time published-time 1.47pm AEST

Meanwhile, back at the pomp.

Chinese President Xi Jinping (C) receives a ceremonial welcome on the lawns of Government House in Canberra, Australia, 17 November 2014. Xi Jinping, who attended the G20 Leaders Summit in Brisbane, will be delivering an address to the Australian parliament on 17 November. Photograph: LUKAS COCH/EPA Chinese President Xi Jinping receives a ceremonial welcome on the lawns of Government House Photograph: LUKAS COCH/AAPIMAGE

block-time published-time 1.44pm AEST

How many officials does it take to get a declaration of intent?

Chinese President Xi Jinping during a bilateral meeting with Prime Minister Tony Abbott in Parliament House, Canberra, Monday, Nov. 17, 2014. Photograph: Mike Bowers/Guardian Australia

block-time published-time 1.37pm AEST

Given we will shortly know what we know regarding the China free trade deal - it's pointless to speculate this late in the game. It will be odd, however, if this looming declaration of intent shifts many of the most contentious issues off for further work. There have been various speculative reports pointing to this eventuality over the past week or so, that this trade pact will be work in progress.

What, then, are we welcoming?

block-time published-time 1.18pm AEST

I have noted it but I'll note it again, lest it get lost in the zinger wash.

Senator Lambie is emotional today. She's obviously under considerable pressure.

block-time published-time 1.08pm AEST

Gold stamp to Shane Bazzi.

Signs, symbols and portents.

She's not wearing her @PalmerUtdParty yellow scarf today RT @mpbowers Senator Lambie [*#senate@GuardianAus@murpharoopic.twitter.com*](mailto:#senate@GuardianAus@murpharoopic.twitter.com)/gD21MEUmuL

- Shane Bazzi (@shanebazzi) November 17, 2014

Lambie right now is engaged in a stand-off with Cory Bernardi. Bernardi is in the chair in the senate, presiding. Lambie is persisting in today's tactic, which is give the same speech about ADF pay in every legislative debate.

Given the subject to hand is actually sports doping, Bernardi would like Lambie to address her remarks to the substance of the issue. Lambie ignores him, persisting in her moving monologue. Green Richard di Natale steps in to help Bernardi, because that's how we are rolling, today. Sensing the growing absurdity of this sit com casting, Lambie gives way.

Senator Richard Di Natale takes a point of order on relevance to the bill being debated which resulted in senator Lambie giving up trying to read emails from serving defence members to the senate chamber this afternoon in Parliament House, Canberra, Monday 17th November 2014 Photograph: Mike Bowers/Guardian Australia

block-time updated-timeUpdated at 1.20pm AEST

block-time published-time 12.55pm AEST

Politics, this lunchtime

Here's our crusader, Jacqui Lambie. In the back of Mike's shot, you'll see her chief of staff, Rob Messenger - the chap booted from the PUP by Clive Palmer last week. All rather unseemly - the PUP wars.

Senator Jacqui Lambie speaks in the senate chamber this morning, in Parliament House, Canberra, Monday 17th November 2014 Photograph: Mike Bowers/Guardian Australia

But let's keep the blogue bus rolling by stopping to make sure that we are all fully on top of the morning in politics. Canberra, this Monday.

Thus far:

* The G20 read out was either shocker or salvation for Tony Abbott, or possibly both, depending on which version of events you consumed.

1. After a challenging weekend, the prime minister sought a more orderly start to the morning by seeking a fireside chat with Alan Jones - or perhaps Alan sought to dial up an otherwise dull Monday by hyperventilating at the prime minister - in any case, regardless of who sought out whom, it was character forming fifteen minutes for Tony Abbott, who in no particular order, failed the pub test; could not buy a coal mine in China; had not spruiked coal and other suitably carbon intensive ***energy*** options enough; had not managed to hold off the awful French in Brisvegas; had not banned wind farms; had not king hit Barack Obama ; had not produced a register of foreign investment in farmland.
2. Chinese president Xi Jinping arrived, with cheersquad, and pen, to sign a declaration of intent on a free trade agreement.
3. In Sydney, the German chancellor Angela Merkel spoke about post war European diplomacy; about Russia's departure from the norms of post war European diplomacy - and she urged American security forces to try another line when it came to understanding the political class in Berlin. Don't tap the phone, take us to dinner.
4. PUP renegade Jacqui Lambie did everything possible to be noticed. Breaking.

block-time updated-timeUpdated at 1.40pm AEST

block-time published-time 12.31pm AEST

I should have mentioned this before but got caught in my various wave jumping(s) - NICTA (visited this morning by Chancellor Merkel ) got its funding cut in the May budget.

Awks.

block-time published-time 12.24pm AEST

If you want to know what we think, don't tap our phone, take us to dinner: Merkel

Q: I'm going to ask a final question. You may remember candidate Barack Obama visiting Berlin in 2008 and one of the things he said then was "true partnership and true progress requires allies who will listen to each other." It turns out in the case of Germany, the National Security Agency took his comment literally as you found out. How should western countries strike a balance between on the one hand collecting the intelligence that guarantees our security and on the other hand not engaging in overzealousness that damages important relationships with friends?

Merkel says different countries approach this issue differently.

However.

There's one view I don't share and this is a disagreement with the United States.

The political class in Berlin doesn't need to be supervised and monitored by security services to know what they're thinking. Go for dinner or lunch with them or read the papers and you know 99.9% of what they actually think.

block-time published-time 12.19pm AEST

No FTA text today - just a declaration of intent

One of those cross currents that are inevitable on a day like today.

* FTA: an update

Tony Abbott has just issued a statement that indicates the FTA negotiations are now complete. But it seems clear that there won't be a finalised text today. The Abbott statement says today, the two governments will sign a declaration of intent - a precursor to a legal text. So no settled text in other words. The same thing happened with Japan and Korea - the broad parameters, fine print to follow. (Shh, don't tell Alan.)

* Back now to Merkel.

The questions have been firing away. Is the German chancellor concerned about the UK drifting away from Europe?

(Yes.)

Merkel:

I'm doing everything I can in order for the UK to remain a member of the European Union for very good German reasons. What the British decide to do is something they have to decide for themselves and they certainly will not listen to what others have to say on this, but it is most important for us to have the United Kingdom in the union.

How about the rise of China? Merkel says China is intent on entering a new and glorious period in history. How the rise of China squares with American strategic interests is the key to the thing.

Step-by-step they want to become an international, global player. The Chinese-American relationship also is of tremendous importance in this respect.

block-time updated-timeUpdated at 12.33pm AEST

block-time published-time 12.00pm AEST

Merkel is moving now to questions at the Lowy Institute. Before the lecture this morning, the chancellor made a visit to NICTA - Australia's Information and Communications Technology Research Centre of Excellence. Thanks to Annie O'Rourke for this picture.

@murpharoo Angela Merkel enjoying a tour of @NICTA earlier this morning pic.twitter.com/tRmUeqo6d4

- Annie O'Rourke (@89oEast) November 17, 2014

First question to the chancellor is how do we influence Vladimir Putin, given that the sanctions seem only to have driven up his popularity?

Q: What is the best combination of carrots and sticks to influence Mr Putin?

Merkel:

We need to have the necessary patience for an uphill battle.

We have to prove that we've learned something from the past. And since you cannot make any safe predictions as to the future, it's not all that easy to find the right course of action. We know that you cannot and should not be too peaceful. You should take it seriously when somebody sort of threatens you, or keep a very close eye on the actions of others, and we know that even small conflicts may very well turn into bigger complications very quickly.

She says the EU needs to stand together and stand with the US.

The biggest danger is that we allow ourselves to be separate, to be divided, that a wedge will be driven between us. So it was in Europe and in the world, so it was so important for the US and Europe to pursue the same course, for a very long time.

block-time published-time 11.52am AEST

Merkel moves from diplomacy to economic consolidation after the global financial crisis, and to geopolitical security. The German chancellor says Europe needs structural reform and Europe needs to go for growth. In terms of security, Europe has an interest in seeing the states of Asia rise peacefully and without any sort of sharp ruptures. Merkel lists the current challenges before the world: Ukraine, the Middle Eastern conflagration, ebola. She says economic integration imposes broader obligations - and like minded countries need to work together.

Merkel:

Globalisation is no longer merely an economic phenomenon. It has turned all of us into neighbours. More and more countries see themselves facing the same kind of challenges and for Europe and Germany, it's most important to have a partner in Australia here in this Asia Pacific region that shares the same values that we have.

Climate change too. (Here's looking at you, Tony.)

If we do not put a brake on climate change, it will have devastating consequences for all of us, there will be more storms, there will be more heat and catastrophes more doubts, there will be a rising sea levels an increasing floods. Climate change knows no borders. It will not stop before the Pacific Islands and the whole of the international community here has to shoulder a responsibility to bring about a sustainable development.

Our ambition is to come for - to - an agreement that is binding for all states. Only in this way can global warming be actually limited to 2 degrees celsius. So all countries are called upon to announce their national contributions for this world climate agreement until the first quarter of 2015 at the very latest. Only in this way will we be able to prepare the conference in Paris in an appropriate way and be able to achieve a substantial result there.

block-time published-time 11.38am AEST

The German chancellor Angela Merkel has stepped up at the Lowy Institute in Sydney. The audience have their translation head sets on. Merkel's address this morning is about European diplomacy - the structures imposed after two world wars to promote consensus. Shifting power struggles and alliances, she says, have been replaced by the rule of law. There are, sadly, exceptions. The chancellor is looking at you, Vladimir.

Merkel:

And yet we have to see that in Europe too there are still forces that refuse to accept the concept of mutual respect and of settling conflicts with democratic and legal means. Those that put the right of the stronger before the right of the strength of the law. And this is exactly what happened with the annexation of the Crimea, it is a clear violation of international law and that was carried out by Russia at the beginning of this year. Russia in this way violates territorial integrity and the sovereignty of Ukraine as a state, a neighbouring state is labelled and seen as part of a sphere of influence. After the horror of two world wars and the end of the Cold War, this caused the whole of the European peaceful order into question.

block-time published-time 11.30am AEST

Mike Bowers has been down shooting pool pictures for the Xi visit. Here's a sample.

Might be just me but I did a small recoil at the grip and grin. More like a grimace from the prime minister.

The President of the Peoples Republic of China Mr Xi Jinping arrives at a bi-lateral meeting with Prime Minister Tony Abbott in Parliament House Canberra this morning, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

Well, hello there.

The President of the Peoples Republic of China Mr Xi Jinping arrives at a bi-lateral meeting with Prime Minister Tony Abbott in Parliament House Canberra this morning, Monday 17th November 2014. Photograph: Mike Bowers/Guardian Australia

block-time published-time 11.24am AEST

Some pictures now. Earlier I mentioned there were duelling protesters down the front waiting for president Xi.

Let's call this officialdom versus dissent, a case study.

Protesters gather outside Parliament House in Canberra, Monday, Nov. 17, 2014. The Chinese President Xi Jinping, who attended the G20 Leaders Summit in Brisbane, will be delivering an address to the Australian parliament today. Photograph: ALAN PORRITT/AAPIMAGE

block-time published-time 11.18am AEST

Meanwhile, over in the senate, the sometime/kinda/sorta PUP senator Jacqui Lambie is wedged deep in struggle street. She's voting against everything until the diggers get a better pay rise. I think. The sharp end is a bit lost on the various evils inflicted on the populace by everyone apart from Lambie.

Ah, yes, that is the point. She's calling for a cross bench revolution - don't vote for anything until the Coalition revokes its disgusting pay offer. (Suck on that Cliev.)

Lambie is trembling with rage. She either has the flu or she's about to burst into tears.

block-time published-time 11.11am AEST

Aren't we all, Intern.

I'm excited. #LowyLecture#Lowypic.twitter.com/CL63cx5Svh

- ABC News Intern (@ABCnewsIntern) November 17, 2014

block-time published-time 11.09am AEST

Meanwhile, in another venue, in another city, with considerably less contention.

Appropriately orderly and efficient queue for #AngelaMerkel@murpharoo She speaking in 45 mins pic.twitter.com/B1mluNBJy6

- Michael Safi (@safimichael) November 16, 2014

block-time published-time 11.08am AEST

Looking past Alan's faux pub test to the practical sensitivities

To organising principles.

Whether you buy Alan's pub test or not, the broadcaster's encounter with the prime minister this morning does underscore the point there are political sensitivities around free trade deals in general, and this free trade deal in particular.

Jones spent time on Chinese investment in his interview today with Abbott. We of course don't yet have the detail associated with this trade pact, but the non-official official word for some time has been that China will get the same deal as the United States, Korea and Japan. That means the investment threshold attracting scrutiny by the Foreign Investment Review Board (Firb) will be increased from $248m to $1bn. That's for private investment. Folks who follow these debates closely will know that the bulk of in-bound investment from China is from state owned enterprises (SOEs), not from private firms. The early word from Camp Abbott had been that SOEs would get a better deal in this FTA, essentially because Beijing wanted a better deal. But more recent reports suggest that's not the case. Currently all SOE investment is screened by Firb.

In no particular order, these are some of the political sensitivities related to an FTA with China:

* Foreign investment regulations, particularly in farmland and agri-businesses (because the National party gets very antsy about this issue)

1. People movement and temporary migration provisions (because the ALP and the union movement are very antsy about this issue)
2. Copyright and predatory pricing (because business is very antsy about the propsect of China dumping goods in Australia below cost)
3. Investor-state dispute settlement (ISDS) provisions (because these are the new battlefront in the age old trade liberalisation versus sovereignty argument)

block-time updated-timeUpdated at 11.13am AEST

block-time published-time 10.46am AEST

As Alan performances go, that one was only four stars. He did leave some headroom there. It is helpful though, as an organising principle. More of that shortly.

Live pictures coming through now of president Xi coming in to the prime minister's office. The senate is also sitting, taking care of business. One of the social services bills is being debated.

block-time published-time 10.30am AEST

Alan is refusing to desist from the fast breathing.

This is a dog, this China deal. A dawg.

Abbott:

Alan, look, many voters disagree with many things governments do.

Alan has achieved his objective and is now bored. He dismisses the prime minister who he's sure is very busy and has things to do. Alan always has things to do, obviously. Let the record show, that so dismissed, the prime minister moved on.

block-time published-time 10.25am AEST

Jones:

I've had this out with Andrew Robb, he thinks I'm a nutter.

The prime minister :

Well I'm not sure he does.

He can respectfully disagree without thinking people are nutters.

block-time published-time 10.23am AEST

Jones points out that Abbott can't buy a coal mine in China either. Another aspiration dashed.

Abbott points out to Alan that in a communist regime, ownership is actually complex business.

Alan doesn't want reason cluttering up this conversation.

Jones:

PM you don't have a mandate for this!

Actually, it was [sharp intake of breath] PM, YOU DON'T HAVE A MANDATE FOR THIS.

block-time published-time 10.16am AEST

Back now to the pub test, because Alan hasn't finished with that.

This FTA with China, that's failed the pub test. They aren't swallowing this in the pubs, Alan says.

Jones:

Q: To win an election, you have to pass the pub test. Now I can tell you the board here this morning is in meltdown on the open line. Why can't we see this free trade agreement?

Abbott, (periodically):

Uh huh.

Jones:

Q: China is giving us nothing. The dairy farms are owned by China. By this time next week who is going to own little Tasmania?

Abbott:

Well, Alan..

Jones:

Q: Can Tony Abbott buy a farm in China?

Abbott:

Err..

Jones:

Q: The answer is no.

block-time published-time 10.09am AEST

Alan never lets incoherence blunt his natural vehemence. Jones tells the prime minister global warming is a hoax and wind turbines are a fake.

Jones:

Q: Doesn't economic growth start at home?

Abbott:

Well, it does Alan.

(After a suitable interval.)

Abbott:

I can't work miracles Alan.

Jones wants to know why a wind turbine manufacturer from Qatar gets a subsidy and the working stiff doesn't get a subsidy. He wants to know why there isn't more coal worship. The prime minister points out he has been engaged in coal worship. Yes, but why isn't that taking off, Alan wonders. The left and the Abbott haters, that's why. And that meaningless climate agreement Barack Obama signed with President Xi. That's why. The eternal why.

block-time published-time 9.59am AEST

Alan Jones to Tony Abbott: you don't pass the pub test

Alan is evidently unhappy that we spent a whole lot of money on a summit in Brisbane that achieved nothing.

The prime minister is unhappy that he chose Jones for this morning's fireside chat because this interview is not going to plan and we are only five minutes in.

Jones declares that Abbott - a person he's known for thousands of years - does not pass the pub test.

Neither does anything that comes out of his mouth.

Jones:

People listening to you, because my real concern here is a lot of this does not pass the pub test. And I suppose as someone who has known you for thousands of years - you don't pass the pub test on some of these things too.

block-time updated-timeUpdated at 10.00am AEST

block-time published-time 9.51am AEST

I'll come back to specific FTA issues, but first, back to Alan. I've only just hit the opening editorial set up from Jones, but it's clear already this one's a keeper. This will be full frontal populism.

Jones suggests that the G20 meeting in Brisbane is the only time in history where a coherent agenda has been presented. Only time in history, because let's face it, the rest of the world is completely incompetent.

Jones:

France - no leadership at all.

Hopeless.

Gems to follow, very shortly.

block-time published-time 9.42am AEST

One useful thing to wrap our mind around before things get brisk today is - who is our visitor? Where does he sit on the spectrum of Chinese leadership?

The Xi slogan in China has been "Chinese dream." Analysts are still coming to terms with what that means in a practical sense, but much of the reporting about China's leader suggests he's a nationalist.

Here are some helpful readings.

* From the New York Times : Xi as conservative, leftist, nationalist.

Mr. Xi's hard line has disappointed Chinese liberals, some of whom once hailed his rise to power as an opportunity to push for political change after a long period of stagnation. Instead, Mr. Xi has signaled a shift to a more conservative, traditional leftist stance with his "rectification" campaign to ensure discipline and conspicuous attempts to defend the legacy of Mao Zedong.

* From The Economist: on Xi's "Chinese dream" - a creatively ambiguous marker of generational change

Flanked by six dour-looking, dark-clad colleagues from the Politburo's standing committee, Mr Xi told a gaggle of press and museum workers that the "greatest Chinese dream" was the "great revival of the Chinese nation". Nationalists see their own dreams validated. To them the tall and portly Mr Xi represents a new vigour in Chinese politics after Mr Hu's studied greyness. His talk of China's revival plays to their sense that China has a rightful place at the top of the global pecking-order.

block-time published-time 9.29am AEST

There is much pomp planned of course for Xi Jinping's visit to Canberra today.

For folks who like to plan, and have a low tolerance for pomp - the business end of today is this afternoon rather than this morning. The Chinese president's address to parliament is mid afternoon, 3.35pm; as is the press conference with Tony Abbott, which is expected at 4.30pm. I'm glad of the slow burn - it means more time to set up the substance of the day properly - a rare luxury in this format.

block-time published-time 9.15am AEST

Speaking of unhappy, as I mentioned to you earlier, Sydney broadcaster Alan Jones sounded distinctly unhappy about the China FTA in the tail end of the interview with the prime minister that I referenced first up on Politics Live this morning. Frequent listeners to Jones would not be shocked by that development.

I'll chase up more of that when I can.

Down the front of parliament house right now the official Chinese welcoming party - those folks who turned up 'spontaneously' at the airport to welcome president Xi last night - are facing off against a bunch of Falun Gong folks.

The sanctioned welcomers have a talent for placing themselves in the live TV pictures.

block-time published-time 8.52am AEST

Back to hosing out the venue after the G20.

Oh dear. Safe to conclude either:

1. The prime minister is unhappy that the US president Barack Obama brought climate change to Brisbane when he was meant to be fascinated by jobs and growth; or

2. The Australian's Greg Sheridan is unhappy on the prime minister's behalf.

Greg Sheridan:

It's a strange way to treat a friend but it is all of a piece, sadly, with Obama's presidential style, especially as the power ebbs from him in the dying days of his reign. The damage may not be long-lasting because the US president's remarks bore little relation to anything he can deliver or will do. Instead, they reprise the most ineffably capricious and inconsequential moments in the Obama presidency: grand gestures, soaring visions, which never actually get implemented in the real world. Obama went out of his way to imply, in the most politically damaging fashion he could, that Australia's efforts on climate change were negligible and compared poorly with America's. In fact, Australia's efforts on ***greenhouse gas*** ***reduction*** are almost identical with those of the US.

block-time published-time 8.40am AEST

Poor old Barnaby can't share a word, but here's the FTA lowdown courtesy of the toplines various secret squirrels have shared with various scribes.

* The Australian tells usTony Abbott has won a "dramatic increase in market access for ­Australian farmers, services and manufacturers in a trade deal worth at least $18 billion over a decade that maintains full scrutiny of investments by Chinese state-owned ­enterprises."

1. The Australian Financial Review tells us service providers "have won unprecedented access to Chinese markets under the Australia-China free trade agreement, which will liberate more than 90% of Australian exports from tariffs over the next four years."

We'll tease out various FTA issues here - policy issues, and political implications and consequences - throughout the day.

block-time published-time 8.17am AEST

The ***agriculture*** minister Barnaby Joyce is on the ABC's AM program, speaking about the looming free trade agreement that will be unveiled this afternoon.

Joyce informs his host Chris Uhlmann he has the FTA text in front of him, but he can't possibly tell us what it says. Joyce invokes a folksy but not terribly conprehensible Christmas tree analogy. Then he tells the truth. He says if he spills the beans, it's back to the backbench for Barnaby. Or perhaps he'll be quarantined at the airport as an ebola risk. Happy days. There's no B in team.

block-time published-time 8.09am AEST

Good morning to Mr Bowers, who was at RAAF Fairbairn last night to welcome president Xi Jinping to the Australian capital.

With a few folks who just spontaneously turned up with very big flags.

Supporters outnumbered the protestors for arrival of the President of the Peoples Republic of China Mr Xi Jinping and his wife Madam Peng Liyuan at RAAF Fairbairn in Canberra this evening, Sunday 16th November 2014. Photograph by Mike Bowers Photograph: Mike Bowers/Guardian Australia The President of the Peoples Republic of China Mr Xi Jinping arrives with his wife Mada, Peng Liyuan at RAAF Fairfairn in Canberra. Sunday 16th November 2014. Photograph by Mike Bowers Photograph: Mike Bowers/Guardian Australia

block-time published-time 7.57am AEST

Good morning and welcome to the Monday after the Friday, Saturday and Sunday before. In Brisbane they are packing up the party pies and the cameo koalas and the shirtfronts. Australian politics and the G20 folks who just don't want to go home yet are currently making their way to Canberra because too much summiting is barely enough.

It's one of those mornings where the events of the past few days are in the eye of the beholder.

If you glance at The Courier Mail, Tony Abbott wasn't shirtfronted by the US president over climate change (which was the weekend consensus elsewhere) - Tony was actually the shirtfronter of the US president.

Bad Barack. Bad, bad Barack.

" @wrongdorey : @couriermailpic.twitter.com/BICmfxjPMd " Am I reading this right? Abbott didn't shirtfront Putin, but he did yell at Obama?

- George Megalogenis (@GMegalogenis) November 16, 2014

But if you read the LA Times, the prime minister's performance at the G20 was more Clearasil than shirtfont.

Occasionally, there's an awkward, pimply youth moment so embarrassing that it does sting. Like when 19 of the world's most important leaders visit for a global summit and prime minister Tony Abbott opens their retreat Saturday with a whinge (Aussie for whine) about his doomed efforts to get his fellow Australians to pay $7 to see a doctor.

Moving forward.

The prime minister has stopped by 2GB this morning to wrap up the G20 weekend and point triumphantly forward (I've just caught the tail end of this conversation, so sadly I've missed the advertorial for digestion aids that normally sets up a prime ministerial interview) - Alan Jones seems in a terrible tizz about the free trade deal with China.

Alan's voice has climbed several octaves.

Jones:

It's going to be signed before we see it!

(Well, yes, Alan. That's how things tends to go: secret until public. Fortunately the government has 'helped' by leaking much of the bits and pieces.) The prime minister sounds like you sound when you've clenched your jaw in order to prevent unseemly words escaping from your lips.

It's combat everywhere, actually. The environment minister Greg Hunt is on ABC Radio National Breakfast dressing down host Fran Kelly for climate change related thought crimes. Very touchy.

Anyway, strap on your bike helmets. It's going to be a lively day. We will wind, elegantly, out of Brisbane, and leap forward with Beijing. The lawn mowers are whirring downstairs in preparation for today's visit to Canberra by president Xi Jinping. Various pomps and circumstances will be followed by signatures on a premable to a bilateral free trade pact. I'll be covering all that live.

The Politics Live thread is open for your business. I'll fire up the Twits in a moment, and you can reach me there @murpharoo and the man with the lens @mpbowers

**Load-Date:** September 2, 2015

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[***BISICHI MINING - Final Results***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5JKS-BSP1-DXP3-R527-00000-00&context=1516831)

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**Length:** 29636 words

**Dateline:** London, April 21

**Body**

BISICHI MINING PLC

Results for the year ended 31 December 2015

Summary:

\* ADJUSTED EBITDA:                    £1,700,000 (2014: £4,300,000)

\* Challenging second half at Black Wattle Colliery

\* Physical demand for Black Wattle coal remains strong

\* UK property portfolio continues to perform well

\* Final Dividend proposed of 3p per share, taking full year dividend to 4p per share

\* Dividend yield of 5.2% at year end share price

Chairman, Sir Michael Heller, comments:

"Although the resources sector is going through a very difficult time at the moment we believe that there is still substantial value for our shareholders in our South African coal assets and I look forward to the coming year with confidence."

For further information, please call:

Andrew Heller or Garrett Casey, Bisichi Mining PLC 020 7415 5030

STRATEGIC REPORT

Chairman's Statement

The second half of 2015 has been a challenging period for your company and in particular for Black Wattle, our direct coal mining subsidiary in South Africa. Overall for the year ended 31 December 2015, your company achieved operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) of £1.7 million (2014: £4.3 million).

Although Black Wattle was profitable for the first half of the year, the mine operated at a loss in the second half. This was largely because of issues over which we have no control, namely the continued weakness in the coal price and delays associated with the granting of blasting permissions. A fuller explanation of these issues and the way that your management have addressed the delays in the permissions is detailed in the Mining Review. On a related issue, your company has been both a beneficiary and a victim of the weakness of the South African Rand. On the upside we have benefitted from the fact that our export coal is priced in US Dollars, but the weakness of the Rand against Sterling, particularly in the second half of the year, has meant that we have taken a substantial exchange rate loss of £1.2million (2014: £0.1million) on consolidation of our South African Rand denominated net assets into the group balance sheet and a £0.5million loss (2014: £0.1million) through the Income Statement related to the retranslation of intercompany trading balances.

Black Wattle continues to perform well under the Quattro Programme, which allows junior black-economic empowerment coal producers direct access to the coal export market via Richards Bay Coal Terminal. We would like to thank Vunani Limited, our black economic empowered shareholders at Black Wattle, for managing and developing this opportunity.

Obviously the resources sector is going through a very difficult time at the moment. Nevertheless we believe that there is still substantial value for our shareholders to be added from our South African coal assets.

The company's UK retail property portfolio, which underpins the group and which is managed actively by London & Associated properties plc, continues to perform well, with average rental yields for the portfolio remaining stable during the year. We are pleased to report that in October 2015, the group acquired a new retail property in Northampton for a total cost of £960,000 in cash. In a separate transaction, in March 2016, the group disposed of its investment in Langney Shopping Centre in Eastbourne for £1.14million. A fuller explanation of the portfolio's valuation results and financial position are discussed in the Directors report.

Looking forward, management will continue to look for opportunities to strengthen and develop the company's UK retail property portfolio.

Finally, your directors have decided to hold the dividend at the 2014 level and will recommend to you, our shareholders, a final dividend of 3p (2014: 3p) payable on Friday 29 July 2016 to shareholders registered at the close of business on 8 July 2016 making the total for the year 4p (2014: 4p). Based on the 2015 year end share price, this represents a 5.2% yield, which is at the high end of the mining sector.

On behalf of the Board and shareholders, I would like to thank all of our staff for their hard work during the course of the year.

Sir Michael Heller

Chairman

18 April 2016

STRATEGIC REPORT

Mining Review

As noted in the Chairman's statement, the challenging environment experienced in the second half at Black Wattle, our South African coal mining operation, had a material effect on the mine's overall performance for the year.

Although we continue to operate in an environment of historically low coal prices, many of the mining challenges experienced in the second half of 2015 have now been overcome. Looking forward, management will continue to focus on keeping cost of production low and ensuring adequate levels of production are achieved.

Production and operations

Although overall Run of Mine production from Black Wattle improved in 2015, with total production for the year of 1.58million metric tonnes (2014: 1.53million metric tonnes), production was severely hampered in the last four months of the year. Average monthly Run of Mine production decreased from 143,000 metric tonnes in the first eight months of the year to 105,000 metric tonnes in the last four months. As noted in the Chairman's Statement, this decrease in production can mainly be attributable to the delays in obtaining the necessary regulatory blasting permissions.

These approvals have now been received and as we continue into 2016, we will look to combine production from new opencast areas opened at Black Wattle with coal received from the opencast reserve already being mined at Blue Nightingale. As previously reported, the coal delivered from Blue Nightingale is part of an agreement to purchase Run of Mine coal from an opencast reserve nearby to Black Wattle. Blue Nightingale is a South African black owned and managed mining company and we are very pleased to be continuing our successful relationship.

Main trends/markets

Along with the general downturn in commodity and ***energy*** prices in 2015, international coal prices continued to weaken. At the beginning of 2015, the average weekly price of Free on Board (FOB) Coal from Richards Bay Coal Terminal (API4) was $64. By the end of the year the price had weakened to under $50, less than half the $120 achieved in 2011. A strong depreciation in the South African Rand against the US Dollar in the last quarter of 2015 has helped to partially offset this decline together with a stable domestic market. Total mining costs increased from £18.2 million in 2014 to £19.2 million in 2015, inclusive of the impact of the depreciation in the South African Rand against the US Dollar.

Looking forward, we continue to see strong demand for our coal in both the domestic and export markets and we will continue to focus on keeping our cost of production low in order to offset the impact of lower international coal prices.

Health, Safety & Environment (HSE)

Black Wattle is committed to creating a safe and healthy working environment for its employees and the health and safety of our employees is of the utmost importance.

HSE performance in 2015:

·     No cases of Occupational Diseases were recorded.

·     Zero claims for the Compensation for Occupational Diseases were submitted.

·     No machines operating at Black Wattle exceeded the regulatory noise level.

·     Black Wattle Colliery recorded two Lost time Injuries during 2015.

In addition to the required personnel appointments and assignment of direct health and safety responsibilities on the mine, a system of Hazard Identification and Risk Assessments has been designed, implemented and maintained at Black Wattle.

Health and Safety training is conducted on an ongoing basis. We are pleased to report all employees to date have received training in hazard identification and risk assessment in their work areas.

A medical surveillance system is also in place which provides management with information used in determining measures to eliminate, control and minimise employee health risks and hazards and all Occupational Health hazards are monitored on an ongoing basis.

Various systems to enhance the current HSE strategy have been introduced as follows:

·     In order to improve hazard identification before the commencing of tasks, mini risk assessment booklets have been distributed to all mine employees and long term contractors on the mine.

·     Dover testing for all operators was introduced in the last quarter of 2015.

·     All of the plant personnel have undergone basic rigging training in 2015

·     Black Wattle Colliery has extensively revised all the SOP's related to machinery and refresher training was done with all the machine operators.

·     A Job Safety Analysis form has been introduced to ensure effective identification of hazards in the workplace.

·     In order to improve the current reporting practice of incidents on the mine, initial reporting of incidents booklets were handed out to all employees and contractors.

·     In order to capture and record investigation findings from incidents, an incident recording sheet was introduced to line management and contractors.

·     Black Wattle Colliery utilises ICAM (Incident cause analysis method).

·     Hazard Identification and Risk Assessment training was given to all levels of employees, line management, Heads of Departments, contractor representatives and contractor employees.

·     Ongoing training on conveyor belt operation is being conducted with all employees involved with this discipline.

Environment Management Programme

Under the terms of the mine's Environmental Management Programme approved by the Department of Mineral Resource ("DMR"), Black Wattle undertakes a host of environmental protection activities to ensure that the approved Environmental Management Plan is fully implemented. In addition to these routine activities, Black Wattle regularly carries out environmental monitoring activities on and around the mine, including evaluation of ground water quality, air quality, noise and lighting levels, ground vibrations, air blast monitoring, and assessment of visual impacts.

Black Wattle is fully compliant with the regulatory requirements of the Department of Water Affairs and Forestry and has an approved water use licence.

Black Wattle Colliery has substantially improved its water management by erecting and upgrading all its pollution control dams in consultation with the Department of Water Affairs and Forestry.

A performance assessment audit was conducted to verify compliance to our Environmental Management Programme and no significant deviations were found.

BLACK WATTLE COLLIERY SOCIAL AND LABOUR PLAN (SLP) PROGRESS

Black Wattle Colliery is committed to true transformation and empowerment as well as poverty eradication within the surrounding and labour providing communities.

Black Wattle is committed to providing opportunities for the sustainable socio-economic development of its stakeholders, such as:

·     Employees and their families, through Skills Development, Education Development, Human Resource Development, Empowerment and Progression Programmes.

·     Surrounding and labour sending communities, through Local Economic Development, Rural and Community Development, Housing and Living Condition, Enterprise Development and Procurement Programmes; and

·     Empowerment partners, through Broad-Based Black Economic Empowerment (BBBEE) and Joint Ventures with Historically Disadvantaged South African (HDSA) new mining entrants and enterprises.

·     The company engages in ongoing consultation with its stakeholders to develop strong company-employee relationships, strong company-community relationships and strong company-HDSA enterprise relationships.

The key focus areas in terms of the detailed SLP programmes were updated as follows:

·     New implementation action plans, projects, ***targets*** and budgets were established through regular workshops with all stakeholders.

·     A comprehensive desktop socio-economic assessment was undertaken on baseline data of the Steve Tshwete Local Municipality (STLM) and Nkangala District Municipality (NDM).

·     The current Black Wattle Colliery Local Economic Development (LED) programmes were upgraded, and new LED projects were selected in consultation with the key stakeholders from the STLM.

·     An appropriate forum was established on the mine and a process initiated for the consultation, empowerment and participation of the employee representatives in the Black Wattle Colliery SLP process.

·     Black Wattle Colliery has concluded extensive work on various ***Agricultural*** projects as well as the E-Bag Recycling projects. The E-Bag Recycling project aims to minimize the environmental impact of post-consumer Polyethylene Terephthalate plastic (PET) on the South African landscape. The project was awarded the PET Entrepreneur award for 2013 and the project was awarded a new bailing machine as part of the award. An additional piece of ground has been identified to extend the project to a different area within the Mhluzi Township nearby to Black Wattle. During 2014 the project self-funded the purchase of an additional bailing machine, an important milestone in bringing the project to a position of self-sustainability. To date in 2016, the E-Bag recycling project has initiated up to 70 local community jobs in the region.

Black Wattle Colliery has entered into a joint venture project with Enviroserve Waste Management to further develop and ensure the future sustainability of this project.

·     Various upgrades were initiated at the Evergreen School nearby to Black Wattle including upgrades to the roof, classrooms and outer areas. Further upgrades to this school will commence in 2016 whereby proper toilet facilities will be erected for the boys and girls, this will form part of the mines skills development program for our employees.

Procurement

In compliance with the Mining Charter and the Mineral and Petroleum Resource Development Act, Black Wattle has implemented a BBBEE-focussed procurement policy which strongly encourages our suppliers to establish and maintain BBBEE credentials. At present, BBBEE companies provide approximately 80 percent of Black Wattle's equipment and services. We closely monitor our monthly expenditure and welcome potential BBBEE suppliers to compete for equipment and service contracts at Black Wattle. Black Wattle also sells much of its coal products to empowered companies.

Employment in South Africa

As part of Black Wattle's commitment to the South African government Mining Charter, the company seeks to:

·     Expand opportunities for historically disadvantaged South Africans (HDSAs), including women, to enter the mining and minerals industry and benefit from the extraction and processing of the country's resources;

·     Utilise the existing skills base for the empowerment of HDSAs; and

·     Expand the skills base of HDSAs in order to serve the community.

In addition Black Wattle is committed to achieving the goals of the South African Employment Equity Act and is pleased to report the following:

·     Black Wattle Colliery has exceeded the 10 percent women in management and core mining ***target***.

·     Black Wattle Colliery has achieved 18.4 percent women in core mining.

·     94 percent of the women at Black Wattle Colliery are HDSA females.

Black Wattle Colliery has successfully submitted their annual Employment Equity Report to the Department of Labour.

In terms of staff training some highlights for 2015 were:

·     17 employees were trained in ABET (Adult Basic Educational Training) on various levels;

·     An additional 5 disabled women continue their training on ABET level one and two.

·     4 HDSA Females have commenced apprenticeship at the mine.

·     78 Plant personnel were trained in Basic Rigging skills.

·     One HDSA male is currently undergoing an intensive one year safety training course on the mine.

Prospects

Management continue to focus on providing consistent production from its own existing reserves as well as reserves developed in partnership with our BEE partners. Although international coal prices remain depressed, management continue to remain confident in the ability to achieve significant value from our existing South African mining operations.

As a result, I look forward to the coming year with confidence.

Andrew Heller

Managing Director

18 April 2016

STRATEGIC REPORT

Risk & Performance

The directors present the Strategic Report of the company for the year ending 31 December 2015. The aim

of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the company for the collective benefit of shareholders.

Business review

The Chairman's Statement and the Mining Review which form part of the Strategic Report on the preceding pages 2 to 7 give a comprehensive and fair review of the group's activities during the past year and prospects for the forthcoming year.

Principal activity, strategy & business model

The company carries on business as a mining company and its principal activity is coal mining in South Africa. The company's strategy is to create and deliver long terms sustainable value to our stakeholders through our business model which can be broken down into four key areas:

·     acquiring and securing additional coal reserves in South Africa

·     coal mining

·     coal washing

·     coal transportation and marketing

In addition to the four key areas outlined above, we seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations. The company invests in retail property across the UK. The UK property portfolio is managed by London & Associated Properties PLC whose responsibility is to actively manage the portfolio to improve rental income and thus enhance the value of the portfolio over time.

Risk & uncertainties

Coal price risk:The group's South African mining operational earnings are largely dependent on movements in both the export and domestic coal price.

Coal washing:The group's mining operation's earnings are highly sensitive to coal washing, therefore a stoppage or disruption to the process could significantly impact earnings. However, there is scope to raise earnings substantially if the yield from the washing process is improved even marginally.

Mining risk:Attached to mining there are inherent health and safety risks. Any such safety incidents disrupt operations, and can slow or even stop production. The group has a comprehensive Health and Safety programme in place to mitigate this. As with many mining operations, the reserve that is mined has the risk of not having the qualities and accessibility expected from geological and environmental analysis.

Currency risk:The group's South African operations are sensitive to currency movements, especially those between the South African Rand, US Dollar and British Pound.

New reserves and mining permissions:The life of the mine, acquisition of additional reserves, permissions to mine and new mining opportunities in South Africa generally are contingent on a number of factors outside of the group's control, e.g. approval by the Department of Mineral Resources and the Department of Water Affairs and Forestry.

Regulatory risk:The group's South African operations are subject to the government Mining Charter and scorecard which primarily seeks to:

·     Promote equitable access to South Africa's mineral resources for all people in South Africa;

·     Expand opportunities for historically disadvantaged South Africans (HDSAs), including women, to enter the mining and minerals industry and benefit from the extraction and processing of the country's resources;

·     Utilise the existing skills base for the empowerment of HDSAs;

·     Expand the skills base of HDSAs in order to serve the community;

·     Promote employment and the social and economic welfare of mining communities and areas supplying mining labour; and

·     Promote beneficiation of South Africa's mineral commodities beyond mining and processing, including the production of consumer goods.

The group continues to make good progress towards meeting the Charter requirements. However any regulatory changes to these, or failure to meet existing ***targets***, could adversely affect the mine's ability to retain its mining rights in South Africa.

Transport risk:At present the government owned Transnet Freight Rail (TFR) is the sole rail freight provider for coal in South Africa. The group's South African operations are therefore reliant on TFR for delivery of its export quality coal directly or indirectly via the Southern African ports to its end customers.

Power supply risk:The current utility provider for power supply in South Africa is the government run Eskom. Eskom continues to undergo capacity problems resulting in power cuts and lack of provision of power supply to new projects. The group's mining operations have to date not been affected by power cuts.

Flooding risk:The group's mining operations are susceptible to seasonal flooding which could disrupt production. Management monitors water levels on an ongoing basis and various projects have been completed, including the construction of additional dams, to mitigate this risk.

Environmental risk: The group's South African mining operations are required to adhere to local environmental regulations. Details of the groups Environment Management Programme are disclosed in the Mining Review on page 6.

Health & Safety risk: The group's South African mining operations are required to adhere to local Health and Safety regulations. Details of the group's Health and Safety Programme are disclosed in the Mining Review on page 5.

Labour risk: The group's mining operations and coal washing plant facility are labour intensive and unionised. Any labour disputes, strikes or wage negotiations may disrupt production and impact earnings.

Cashflow risk and property: We seek to balance the high risk of our mining operations with a dependable cash flow from our UK property investment operations. Fluctuations in property values, which are reflected in the Consolidated Income Statement and Balance Sheet, are dependent on an annual valuation of commercial properties. A fall in UK commercial property can have a marked effect on the profitability and the net asset value of the group. However, due to the long term nature of the leases, the effect on cash flows from property investment activities are expected to remain stable as long as tenants remain in operation.

Financial position

In South Africa, an increase in the structured trade finance facility from R60million (South African Rand) to R80million was signed by Black Wattle Colliery (Pty) Limited ("Black Wattle") in October 2013 with Absa Bank Limited, a South African subsidiary of Barclays Bank PLC. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. This facility comprises of a R60million revolving loan to cover the fluctuating working capital requirements of the group's South African operations, and a fully drawn R20million loan facility to cover guarantee requirements related to the group's South African mining operations.

In December 2014, the group signed a £6 million term loan facility with Santander. The Loan is secured against the group's UK retail property portfolio. The facility has a five year term, is fully drawn and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR. The property portfolio was externally valued at 31 December 2015 and the value of UK investment properties attributable to the group at year end was £12.8 million (2014: £11.6million).

In October 2015, the group acquired a new retail property in Northampton for a total cost of £960,000 in cash. The group's portfolio is managed actively by London & Associated properties plc and continues to perform well with voids across the portfolio at the low level of 1.12%.

In a separate transaction, in March 2016 the group disposed of its joint venture investment in Langney Shopping Centre in Eastbourne for £1.14million in cash. The investment is classified as a non-current asset held for sale within the group's consolidated balance sheet.

The open market value of the company's share of investment properties included within its joint venture investment in Dragon Retail Properties is £1.3million (2014: £4million) and within non-current assets held for sale is £2.3million (2014: £nil). Overall, the group achieved net property revenue of £1.3million (2014: £1.2million) for the year which includes the company's share of net property revenue from its investment in joint ventures of £86,000 (2014: £236,000) and non-current assets held for sale of £172,000 (2014: £nil).

The Group holds £1,225,000 (2014: £1,722,000) of loans and joint venture investment in Ezimbokedwini Mining (Pty) Limited the carrying value of which is dependent upon the completion of the acquisition of the Pegasus coal project in South Africa.  The carrying value of the underlying project is supported by its coal reserves and Life of Mine plan and is considered appropriate given the underlying economic value of the project. Further details on the financial positions of the Groups joint ventures can be found in note 13 to the financial statements.

The group's cash and cash equivalents (excluding bank overdrafts) at year end were £1.6million (2014: £2.8million). The net assets of the group at the year end were £15.6million (2014: £17.7million). The group has considerable financial resources available at short notice including cash, investments available for sale and its £2m loan to Dragon Retail Properties Limited which accrues annual interest at 6.875 per cent.

Further details on the group's overall financial position are stated in the Consolidated Balance Sheet on page 42.

Cashflow

The company at year end had a net balance owing of cash and cash equivalents (including bank overdrafts) of £0.6 million (2014: net positive balance of £0.7 million). For the year, the group had a net cash generated from operating activities of £1.7million (2014: £3.4million) and an overall net decrease in cash and cash equivalents of £1.7million (2014: Increase of £2.0million) after taking into account financing and investing activities. Details on the group's cashflow position are stated in the Consolidated Cashflow Statement on page 45. Cash and cash equivalents as per the Cashflow Statement comprise Cash and cash equivalents as presented in the balance sheet and bank overdrafts (secured).

Key Performance Indicators

The Key Performance Indicators for the group are:

|  | **2015**  **£'000** | **2014**  **£'000** |
| --- | --- | --- |
| **For our UK property investment operations:** |  |  |
| **Net property valuation** | **12,800** | **11,575** |
|  | **2015**  **£'000** | **2014**  **£'000** |
| For South African mining activities: |  |  |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **625** | 3,161 |
|  | **Tonnes** | Tonnes |
| Mining production | **1,580** | 1,530 |
|  |  |  |
| For the group: |  |  |
| (Loss)\Profit before tax | **(147)** | 1,568 |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **1,717** | 4,276 |

Environment

The group's UK activities are principally property investment whereby we provide premises which are rented to retail businesses. We seek to provide those tenants with good quality premises from which they can operate in an efficient and environmentally sound manner.

Further information relating to the company's position on the Environment and Environmental Management issues related to our South African operations can be found in The Mining Review which forms part of the Strategic Report on the preceding pages 5 to 7.

Employment

Employment terms and conditions for our employees based at our UK office and at our South African mining operations are regulated by and are operated in compliance with all relevant prevailing national and local legislation. Employment terms and conditions provided to mining staff meet or exceed the national average.

Further information relating to the company's position on Employment issues can be found in The Mining Review which forms part of the Strategic Report on the preceding pages 5 to 7.

Green House Gas reporting

We have reported on all of the ***emission*** sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations.

The group has employed the Operational Control boundary definition to outline our carbon footprint boundary. Included within that boundary are Scope 1 & 2 ***emissions*** from coal extraction and onsite mining processes for Black Wattle Colliery. We have not measured and reported on our Scope 3 ***emissions*** sources. Excluded from the footprint boundary are ***emission*** sources considered non material by the group, including refrigerant use onsite.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and a methodology adapted from the Intergovernmental Panel on Climate Change (2006) to calculate fugitive ***emissions*** from surface coal mining activities. Further ***emission***

factors were used from UK Government's GHG Conversion Factors for company Reporting 2015.

The group's carbon footprint:

|  | **2015**  **CO2e**  **Tonnes** | **2014**  **CO2e**  **Tonnes** |
| --- | --- | --- |
| ***Emissions*** source: |  |  |
| Scope 1 Combustion of fuel & operation of facilities | **10,571** | 14,867 |
| Scope 1 ***Emissions*** from coal mining activities | **27,789** | 26,872 |
| Scope 2 Electricity, heat, steam and cooling purchased for own use | **7,571** | 8,300 |
| Total | **45,931** | 50,039 |
| Intensity: |  |  |
| Intensity 1 Tonnes of CO2 per pound sterling of revenue | **0.00179** | 0.00189 |
| Intensity 2 Tonnes of CO2 per tonne of coal produced | **0.0291** | 0.0327 |

Social, community and human rights issues

The company believes that it is in the shareholders' interests to consider social and human rights issues when conducting business activities both in the UK and South Africa. Further information relating to the company's position on social and community issues can be found in the Mining Review which forms part of the Strategic Report on the preceding pages 5 to 7.

Directors, employees and gender representation

At the year end the group had 6 directors (6 male, 0 female), 7 senior managers (6 male, 1 female) and 205 employees (154 male,

51 female).

Future prospects

The group seeks to expand its operations in South Africa through the acquisition of additional coal reserves. Further information on the outlook of the company can be found in both the Chairman's Statement on page 2 and the Mining Review on page 5 which form part of the Strategic Report.

Signed on behalf of the Board of Directors

Garrett Casey

Finance Director

18 April 2016

Management team

1   Sir Michael Heller

      Chairman

      Bisichi Mining PLC

2   Andrew Heller

      Managing Director

      Bisichi Mining PLC,

      Managing Director

      Black Wattle Colliery

3   Christopher Joll

      Senior Independent Director,

      Chairman Audit

      and Remuneration

      Committees

4   Garrett Casey

      Finance Director

      Bisichi Mining PLC,

      Director

      Black Wattle Colliery

5   Robert Grobler

      Director of Mining

      Bisichi Mining PLC,

      Director

      Black Wattle Colliery

6   Ethan Dube

      Director

      Black Wattle Colliery

7   Nico Serfontein

      Mine Manager

      Black Wattle Colliery

GOVERNANCE

Directors & advisors

\*     Sir Michael Heller

      MA, FCA (Chairman)

      Andrew R Heller

      MA, ACA

      (Managing Director)

      Garrett Casey

      CA (SA)

      (Finance Director)

      Robert Grobler

      Pr Cert Eng

      (Director of mining)

O+ Christopher A Joll

MA (Non-executive)

Christopher Joll was appointed a Director on 1 February 2001. He has held a number of non-executive directorships of quoted and un-quoted companies and is currently senior partner of MJ2 Events LLP an event management business.

O\*  John A Sibbald

BL (Non-executive)

John Sibbald has been a Director since 1988. After qualifying as a Chartered Accountant he spent over 20 years in stockbroking, specialising in mining and international investment.

Secretary & Registered office

Garrett Casey CA (SA)

24 Bruton Place

London W1J 6NE

Black Wattle Colliery Directors

Andrew Heller (Managing Director)

Ethan Dube

Robert Grobler

Garrett Casey

Property portfolio asset manager

James Charlton BSc MRICS

Company Registration

Company registration No. 112155 (Incorporated in England and Wales)

Website

[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk)

E-mail

[*admin@bisichi.co.uk*](mailto:admin@bisichi.co.uk)

\*     Member of the nomination committee

+    Senior independent director

O   Member of the audit, nomination and remuneration committees.

Auditor

BDO LLP

Principal bankers

United Kingdom

Santander UK PLC

National Westminster Bank PLC

Investec PLC

South Africa

ABSA Bank (SA)

First National Bank (SA)

Standard Bank (SA)

Corporate solicitors

United Kingdom

Olswang LLP, London

Memery Crystal, London

Fladgate LLP, London

South Africa

Tugendhaft Wapnick Banchetti and Partners, Johannesburg

Hogan Lovells, Johannesburg

Brandmullers Attorneys, Middelburg

Stockbrokers

Shore Capital & Corporate Ltd

REGISTRARS AND TRANSFER OFFICE

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The Registry

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Beckenham

Kent, BR3 4TU

Telephone 0871 664 0300

(Calls cost 12p per minute + network extras) or

+44 (0) 208 639 3399 for overseas callers

[*http://www.capitaassetservices.com*](http://www.capitaassetservices.com)

[*Email:ssd@capitaregistrars.com*](mailto:Email:ssd@capitaregistrars.com)

Five year summary

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 | 2013  £'000 | 2012  £'000 | 2011  £'000 |
| Consolidated income statement items |  |  |  |  |  |
| Revenue | **25,655** | 26,500 | 35,105 | 35,962 | 29,909 |
| Operating profit/(loss) | **150** | 1,364 | 123 | 2,568 | (1,328) |
| Profit/(loss) before tax | **(147)** | 1,568 | 102 | 2,190 | (1,450) |
| Trading profit/(loss) before tax | **(188)** | 1,157 | 17 | 2,808 | (1,210) |
| Revaluation and impairment profit /(loss) before tax | **41** | 411 | 85 | (618) | (240) |
| Operating profit before depreciation, fair value adjustments and exchange movements (adjusted EBITDA) | **1,717** | 4,276 | 3,834 | 5,484 | (144) |
| Consolidated balance sheet items |  |  |  |  |  |
| Investment properties | **12,800** | 11,575 | 11,559 | 11,612 | 12,068 |
| Fixed asset investments | **2,112** | 4,090 | 4,370 | 4,309 | 2,727 |
|  | **14,912** | 15,665 | 15,929 | 15,921 | 14,795 |
| Available for sale investments | **594** | 796 | 822 | 787 | 2,515 |
|  | **15,506** | 16,461 | 16,751 | 16,708 | 17,310 |
| Other assets less liabilities less non-controlling interests | **(196)** | 854 | (123) | 607 | (537) |
| Total equity attributable to equity shareholders | **15,310** | 17,315 | 16,628 | 17,315 | 16,773 |
| Net assets per ordinary share (attributable) | **143.4p** | 162.2p | 156.3p | 164.0p | 158.9p |
| Dividend per share | **4.00p** | 4.00p | 4.00p | 4.00p | 4.00p |

Financial calendar

|  |  |
| --- | --- |
| 10 June 2016 | Annual General Meeting |
| 29 July 2016 | Payment of final dividend for 2015  (if approved) |
| Late August 2016 | Announcement of half-year results to 30 June 2016 |
| Late April 2017 | Announcement of results for year ending 31 December 2016 |

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2015.

Activities and review of business

The group continues its mining activities. Income for the year was derived from sales of coal from its South African operations. The group also has a property investment portfolio for which it receives rental income.

The results for the year and state of affairs of the group and the company at 31 December 2015 are shown on pages 39 to 80 and in the Strategic Report on pages 2 to 15. Future developments and prospects are also covered in the Strategic Report. Over 99 per cent. of staff are employed in the South African coal mining industry - employment matters and health and safety are dealt with in the Strategic Report.

The management report referred to in the Director's responsibilities statement encompasses this Directors' Report and Strategic Report on pages 2 to 15.

Corporate responsibility

Environment

The environmental issues of the group's South African coal mining operations are covered in the Strategic Report on pages 2 to 15.

The group's UK activities are principally property investment whereby premises are provided for rent to retail businesses. The group seeks to provide those tenants with good quality premises from which they can operate in an efficient and environmentally friendly manner. Wherever possible, improvements, repairs and replacements are made in an environmentally efficient manner and waste re-cycling arrangements are in place at all the company's locations.

***Greenhouse Gas*** ***Emissions***

Details of the group's ***greenhouse gas*** ***emissions*** for the year ended 31 December 2015 can be found on page 13 of the Strategic Report.

Employment

The group's policy is to attract staff and motivate employees by offering competitive terms of employment. The group provides equal opportunities to all employees and prospective employees including those who are disabled. The Strategic Report gives details of the group's activities and policies concerning the employment, training, health and safety and community support and social development concerning the group's employees in South Africa.

Dividend policy

An interim dividend for 2015 of 1p was paid on 5 February 2016 (Interim 2014: 1p). The directors recommend the payment of a final dividend for 2015 of 3p per ordinary share (2014: 3p) making a total dividend for 2015 of 4p (2014: 4p).

Subject to shareholder approval, the total dividend per ordinary share for 2015 will be 4p per ordinary share.

The final dividend will be payable on Friday 29 July 2016 to shareholders registered at the close of business on 8 July 2016.

Investment properties

The investment property portfolio is stated at its open market value of £12,800,000 at 31 December 2015 (2014: £11,575,000) as valued by professional external valuers. The open market value of the company's share of investment properties included within its investments in joint ventures is £1,334,000 (2014: £4,021,000) and within non-current assets held for sale is £2,286,000.

Financial instruments

Note 22 to the financial statements sets out the risks in respect of financial instruments. The Board reviews and agrees overall treasury policies, delegating appropriate authority to the managing director. Financial instruments are used to manage the financial risks facing the group - speculative transactions are not permitted. Treasury operations are reported at each Board meeting and are subject to weekly internal reporting.

Directors

The directors of the company for the whole year were Sir Michael Heller, A R Heller, G J Casey, C A Joll, R J Grobler (a South African citizen), and J A Sibbald.

The directors retiring by rotation are Sir M A Heller , Mr C A Joll and Mr J A Sibbald who offer themselves for re-election.

Sir Michael Heller has been an executive Director since 1972 and Chairman since 1981. He is a Chartered Accountant and has a contract of employment determinable at six months' notice.

Christopher Joll has been a Director since 1 February 2001 and has a contract of service determinable at three months' notice. He has held a number of non-executive directorships of quoted and un-quoted companies and is currently a senior partner of MJ2 Events LLP an event management business.

John Sibbald has been a non-executive Director since 1988. He is a retired Chartered Accountant. For most of his career he was employed in stockbroking in the City of London where he specialised in mining and international investment. He has a contract of service determinable at three months notice.

No director had any material interest in any contract or arrangement with the company during the year other than as shown in this report.

Directors' shareholdings

The interests of the directors in the shares of the company, including family and trustee holdings where appropriate, are shown on page 30 of the Annual Remuneration Report.

Substantial interests

The following have advised that they have an interest in 3 per cent. or more of the issued share capital of the company as at 18 April 2016:

London & Associated Properties PLC - 4,432,618 shares representing 41.52 per cent. of the issued capital. (Sir Michael Heller is a director and shareholder of London & Associated Properties PLC).

|  |  |
| --- | --- |
| Sir Michael Heller - | 330,117 shares representing 3.09 per cent. of the issued capital. |
| A R Heller - | 785,012 shares representing 7.35 per cent. of the issued capital. |
| Cavendish Asset Management Limited - | 1,848,110 shares representing 17.31per cent. of the issued share capital. |
| James Hyslop - | 341,126 shares representing 3.20 per cent. of the issued share capital. |

Disclosure of information to auditor

The directors in office at 31 December 2015 have confirmed that as far as they are aware that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all reasonable steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Corporate governance

The Board acknowledges the importance of the guidelines set out in the Quoted Companies Alliance (QCA) published Corporate Governance Code and complies with these so far as is appropriate having regard to the size and nature of the Company. The paragraphs below set out how the company has applied this guidance during the year.

Principles of corporate governance

The group's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management, but also as a positive contribution to business prosperity. The Board endeavours to apply corporate governance principles in a sensible and pragmatic fashion having regard to the circumstances of the group's business. The key objective is to enhance and protect shareholder value.

Board structure

During the year the Board comprised the executive chairman, the managing director, two other executive directors and two non-executive directors. Their details appear on page 19. The Board is responsible to shareholders for the proper management of the group. The Directors' responsibilities statement in respect of the accounts is set out on page 37. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the group. The Board has a formal schedule of matters reserved to it and meets bi-monthly.

The Board is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following Board committees, which have written terms of reference, deal with specific aspects of the group's affairs:

·     The nomination committee is chaired by Christopher Joll and comprises the non-executive directors and the executive chairman. The committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases recruitment consultants are used to assist the process. Each director is subject to re-election at least every three years.

·     The remuneration committee is responsible for making recommendations to the Board on the company's framework of executive remuneration and its cost. The committee determines the contractual terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The committee comprises the non-executive directors. It is chaired by Christopher Joll. The company's executive chairman is normally invited to attend meetings. The report on directors' remuneration is set out on pages 28 to 34.

·     The audit committee comprises the two non-executive directors and is chaired by Christopher Joll. Its prime tasks are to review the scope of external audit, to receive regular reports from the company's auditor and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the group's internal control and risk management systems and processes. The committee also considers annually the need for an internal audit function. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The committee, which meets formally at least twice a year, provides a forum for reporting by the group's external auditors.

Meetings are also attended, by invitation, by the company chairman, managing director and finance director.

The audit committee also undertakes a formal assessment of the auditors' independence each year which includes:

·     a review of non-audit services provided to the group and related fees;

·     discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence;

·     a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and

·     obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

The audit committee report is set out on page 35.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 4 to the financial statements.

Performance evaluation - board, board committees and directors

The performance of the board as a whole and of its committees and the non-executive directors is assessed by the chairman and the managing director and is discussed with the senior independent director. Their recommendations are discussed at the nomination committee prior to proposals for re-election being recommended to the Board. The performance of executive directors is discussed and assessed by the remuneration committee. The senior independent director meets regularly with the chairman and both the executive and non-executive directors individually outside of formal meetings. The directors will take outside advice in reviewing performance but have not found this necessary to date.

Independent directors

The senior independent non-executive director is Christopher Joll. The other independent non-executive director is John Sibbald.

Christopher Joll has been a non-executive director for over ten years and John Sibbald has been a non-executive director for over twenty years. The Board encourages Christopher Joll and John Sibbald to act independently. The board considers that their length of service and connection with the company's public relations advisers, does not, and has not, resulted in their inability or failure to act independently. In the opinion of the Board, Christopher Joll and John Sibbald continue to fulfil their role as independent non-executive directors.

The independent directors regularly meet prior to Board meetings to discuss corporate governance issues.

Board and board committee meetings

The number of meetings during 2015 and attendance at regular Board meetings and Board committees was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | Meetings held | Meetings Attended |
| Sir Michael Heller | Board  Nomination committee | 5  1 | 5  1 |
| A R Heller | Board  Audit committee | 5  2 | 5  2 |
| G J Casey | Board  Audit committee | 5  2 | 5  2 |
| R J Grobler | Board | 5 | 1 |
| C A Joll | Board  Audit committee  Nomination committee  Remuneration committee | 5  2  1  1 | 5  2  1  1 |
| J A Sibbald | Board  Audit committee  Nomination committee  Remuneration committee | 5  2  1  1 | 5  2  1  1 |

Internal control

The directors are responsible for the group's system of internal control and review of its effectiveness annually. The Board has designed the group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

·     the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clearly defined lines of responsibility and with appropriate delegation of authority;

·     there are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the group's financial performance against approved budgets and forecasts;

·     UK property and financial operations are closely monitored by members of the Board and senior managers to enable them to assess risk and address the adequacy of measures in place for its monitoring and control. The South African operations are closely supervised by the UK based executives through daily, weekly and monthly reports from the directors and senior officers in South Africa. This is supplemented by monthly visits by the UK based finance director to the South African operations which include checking the integrity of information supplied to the UK. The directors are guided by the internal control guidance for directors issued by the Institute of Chartered Accountants in England and Wales.

During the period, the audit committee has reviewed the effectiveness of internal control as described above. The Board receives periodic reports from its committees.

There are no significant issues disclosed in the Annual Report for the year ended 31 December 2015 (and up to the date of approval of the report) concerning material internal control issues. The directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period.

Communication with shareholders

Communication with shareholders is a matter of priority. Extensive information about the group and its activities is given in the Annual Report, which is made available to shareholders. Further information is available on the company's website,[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk). There is a regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the group are dealt with informatively and promptly.

Takeover directive

The company has one class of share capital, ordinary shares. Each ordinary share carries one vote. All the ordinary shares rank pari passu. There are no securities issued in the company which carry special rights with regard to control of the company. The identity of all substantial direct or indirect holders of securities in the company and the size and nature of their holdings is shown under the "Substantial interests" section of this report above.

A relationship agreement dated 15 September 2005 (the "Relationship Agreement") was entered into between the company and London & Associated Properties PLC ("LAP") in regard to the arrangements between them whilst LAP is a controlling shareholder of the company. The Relationship Agreement includes a provision under which LAP has agreed to exercise the voting rights attached to the ordinary shares in the company owned by LAP to ensure the independence of the Board of directors of the company.

Other than the restrictions contained in the Relationship Agreement, there are no restrictions on voting rights or on the transfer of ordinary shares in the company. The rules governing the appointment and replacement of directors, alteration of the articles of association of the company and the powers of the company's directors accord with usual English company law provisions. Each director is re-elected at least every three years. The company is not party to any significant agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid. The company is not aware of any agreements between holders of its ordinary shares that may result in restrictions on the transfer of its ordinary shares or on voting rights.

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Bribery Act 2010

The Bribery Act 2010 came into force on 1 July 2011, and the Board took the opportunity to implement a new Anti-Bribery Policy. All directors and staff continue to complete an e-learning training course on a bi-annual basis. The company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance of the code is closely monitored.

Annual General Meeting

The annual general meeting of the company ("Annual General Meeting") will be held at 24 Bruton Place, London W1J 6NE on Friday, 10 June 2016 at 11.00 a.m. Resolutions 1 to 9 will be proposed as ordinary resolutions. More than 50 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed. Resolutions 10 to 12 will be proposed as special resolutions. At least 75 per cent. of shareholders' votes cast must be in favour for those resolutions to be passed.

The directors consider that all of the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole. The Board recommends that shareholders vote in favour of all resolutions.

Please note that the following paragraphs are only summaries of certain resolutions to be proposed at the Annual General Meeting and not the full text of the resolutions. You should therefore read this section in conjunction with the full text of the resolutions contained in the notice of Annual General Meeting.

Directors' authority to allot shares (Resolution 9)

In certain circumstances it is important for the company to be able to allot shares up to a maximum amount without needing to seek shareholder approval every time an allotment is required. Paragraph 9.1.1 of Resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to an aggregate nominal value of £355,894. This represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 18 April 2016 (being the last practicable date prior to the publication of this Directors' Report). Paragraph 9.1.2 of Resolution 9 would give the directors the authority to allot shares in the company and grant rights to subscribe for, or convert any security into, shares in the company up to a further aggregate nominal value of £355,894, in connection with a pre-emptive rights issue. This amount represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) at 18 April 2016 (being the last practicable date prior to the publication of this Directors' Report).

Therefore, the maximum nominal value of shares or rights to subscribe for, or convert any security into, shares which may be allotted or granted under resolution 9 is £711,788.

Resolution 9 complies with guidance issued by the Investment Management Association (IMA).

The authority granted by resolution 9 will expire on 31 August 2017 or, if earlier, the conclusion of the next annual general meeting of the company. The directors have no present intention to make use of this authority. However, if they do exercise the authority, the directors intend to follow emerging best practice as regards its use as recommended by the IMA.

Disapplication of pre-emption rights (Resolution 10)

A special resolution will be proposed at the Annual General Meeting in respect of the disapplication of pre-emption rights.

Shares allotted for cash must normally first be offered to shareholders in proportion to their existing shareholdings. The directors will, at the forthcoming Annual General Meeting seek power to allot equity securities (as defined by section 560 of the Companies Act 2006) or sell treasury shares for cash as if the pre-emption rights contained in Section 561 of the Companies Act 2006 did not apply:

(a)  in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of £355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares) and, in relation to rights issues only, up to a maximum additional amount of £355,894 which represents approximately 1/3 (one third) of the ordinary share capital of the company in issue (excluding treasury shares), in each case as at 18 April 2016 (being the last practicable date prior to the publication of this Directors' Report); and

(b)  in any other case, up to a maximum nominal amount of £53,384 which represents approximately 5 per cent. of the ordinary share capital of the company in issue (excluding treasury shares) as at 18 April 2016  (being the last practicable date prior to the publication of this Directors' Report).

In compliance with the guidelines issued by the Pre-emption group, the directors will ensure that, other than in relation to a rights issue, no more than 7.5 per cent. of the issued ordinary shares (excluding treasury shares) will be allotted for cash on a non pre-emptive basis over a rolling three year period unless shareholders have been notified and consulted in advance.

The power in resolution 10 will expire when the authority given by resolution 9 is revoked or expires.

The directors have no present intention to make use of this authority.

Notice of General Meetings (Resolution 11)

Resolution 11 will be proposed to allow the company to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. A resolution in the same terms was passed at the Annual General Meeting in 2015. The notice period required by the Companies Act 2006 for general meetings of the company is 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. Annual General Meetings must always be held on at least 21 clear days' notice. It is intended that the flexibility offered by this resolution will only be used for time-sensitive, non-routine business and where merited in the interests of shareholders as a whole. The approval will be effective until the company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the company must make a means of electronic voting available to all shareholders for that meeting.

Purchase of own Ordinary Shares (Resolution 12)

The effect of resolution 12 would be to renew the directors' current authority to make limited market purchases of the company's ordinary shares of 10 pence each. The power is limited to a maximum aggregate number of 1,067,683 ordinary shares (representing approximately 10 per cent. of the company's issued share capital as at 18 April 2016 (being the last practicable date prior to publication of this Directors' Report)). The minimum price (exclusive of expenses) which the company would be authorised to pay for each ordinary share would be 10 pence (the nominal value of each ordinary share). The maximum price (again exclusive of expenses) which the company would be authorised to pay for an ordinary share is an amount equal to 105 per cent. of the average market price for an ordinary share for the five business days preceding any such purchase.

The authority conferred by resolution 12 will expire at the conclusion of the company's next annual general meeting or 15 months from the passing of the resolution, whichever is the earlier. Any purchases of ordinary shares would be made by means of market purchase through the London Stock Exchange. If granted, the authority would only be exercised if, in the opinion of the directors, to do so would result in an increase in earnings per share or net asset value per share and would be in the best interests of shareholders generally. In exercising the authority to purchase ordinary shares, the directors may treat the shares that have been bought back as either cancelled or held as treasury shares (shares held by the company itself). No dividends may be paid on shares which are held as treasury shares and no voting rights are attached to them.

As at 18 April 2016 (being the last practicable date prior to the publication of this Directors' Report) the total number of options to subscribe for new ordinary shares in the company was 598,000 shares representing 5.60 per cent. of the company's issued share capital (excluding treasury shares) as at that date. Such number of options to subscribe for new ordinary shares would represent approximately 6.22 per cent. of the ***reduced*** issued share capital of the company (excluding treasury shares) assuming full use of the authority to make market purchases sought under resolution 12.

Donations

No political or charitable donations were made during the year (2014: Nil).

Going concern

The group's business activities, together with the factors likely to affect its future development are set out in the Chairman's Statement on the preceding page 2, the Mining Review on pages 5 to 7 and its financial position is set out on page 12 of the Strategic Report. In addition Note 22 to the financial statements includes the group's treasury policy, interest rate risk, liquidity risk and hedging profile.

The group has prepared cash flow forecasts which demonstrate that the group has sufficient resources to meet its liabilities as they fall due for at least the next 12 months.

In October 2013, an increase in the structured trade finance facility from R60million (South African Rand) to R80million was signed by Black Wattle Colliery (Pty) Limited ("Black Wattle") with Absa Bank Limited, a South African subsidiary of Barclays Bank PLC. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. The Directors do not foresee any reason why the facility will not continue to be renewed at the next renewal date, in line with prior periods and based on their banking relationships This facility comprises of a R60million revolving loan to cover the working capital requirements of the group's South African operations, and a R20million loan facility to cover guarantee requirements related to the group's South African mining operations.

In December 2014, the group signed a £6 million term loan facility with Santander. The loan is secured against the company's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

If required, the group has sufficient financial resources available at short notice including cash, available-for-sale investments and its £2m loan to Dragon Retail Properties Limited which is repayable on demand. In addition its investment property assets benefit from long term leases with the majority of its tenants. Although the directors expect that that the challenging coal market conditions experienced by Black Wattle Colliery, its direct mining asset, in 2015 will be similar going into 2016, they have a reasonable expectation that the mine will continue to achieve positive levels of cash generation for the group in 2016. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

As a result of the banking facilities held as well as the acceptable levels of profitability and cash generation the mine is expected to achieve in 2016, the Directors believe that the group has adequate resources to continue in operational existence for the foreseeable future and that the group is well placed to manage its business risks. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the board

G.J Casey

Secretary

24 Bruton Place

London W1J 6NE

18 April 2016

Statement of the Chairman of the remuneration committee

The remuneration committee presents its report for the year ended 31 December 2015.

The Annual Remuneration Report details remuneration awarded to directors and non-executive directors during the year. The shareholders will be asked to approve the Annual Remuneration Report as an ordinary resolution (as in previous years) at the AGM in June 2016.

A copy of the remuneration policy, which details the remuneration policy for directors, can be found at[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk). The remuneration policy was subject to a binding vote which was approved by shareholders at the AGM in June 2014. The approval will apply for a 3 year period commencing 11 June 2014. The approved policy took effect from 11 June 2014.

The remuneration committee reviewed the existing policy and deemed no changes necessary to the current arrangements.

Both of the above reports have been prepared in accordance with The Large and Medium-sized Companies and groups (Accounts and Reports) (Amendment) Regulations 2013.

The company's auditors, BDO LLP are required by law to audit certain disclosures and where disclosures have been audited they are indicated as such.

Christopher Joll

Chairman - remuneration committee

24 Bruton Place

London W1J 6NE

18 April 2016

Annual remuneration report

The following information has been audited:

Single total figure of remuneration for the year ended 31 December 2015

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Salaries  and Fees | Bonuses | Benefits | Pension | Total  before  Share  options | Share  options | Total  2015 |
|  | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 | **£'000** |
| Executive Directors |  |  |  |  |  |  |  |
| Sir Michael Heller | **75** | **-** | **-** | **-** | **75** | **-** | **75** |
| A R Heller | **450** | **300** | **67** | **36** | **853** | **59** | **912** |
| G J Casey | **133** | **100** | **15** | **18** | **266** | **59** | **325** |
| R Grobler | **146** | **62** | **14** | **7** | **229** | **-** | **229** |
| Non-Executive Directors |  |  |  |  |  |  |  |
| C A Joll\* | **30** | **-** | **-** | **-** | **30** | **-** | **30** |
| J A Sibbald\* | **2** | **-** | **3** | **-** | **5** | **-** | **5** |
| Total | **836** | **462** | **99** | **61** | **1,458** | **118** | **1,576** |

\*Members of the remuneration committee for the year ended 31 December 2015

In addition, A Heller received £109,000 in cash on cancellation of share options representing the increase in value of the shares under option at the cancellation date.

Single total figure of remuneration for the year ended 31 December 2014

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Salaries  and Fees | Bonuses | Benefits | Pension | Total  before  Share  options | Share  options | Total  2014 |
|  | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Executive Directors |  |  |  |  |  |  |  |
| Sir Michael Heller | 75 | - | - | - | 75 | - | 75 |
| A R Heller | 450 | 300 | 54 | 32 | 836 | 26 | 862 |
| G J Casey | 124 | 100 | 14 | 16 | 254 | - | 254 |
| R Grobler | 149 | 102 | 15 | 8 | 274 | - | 274 |
| Non-Executive Directors |  |  |  |  |  |  |  |
| C A Joll\* | 25 | - | - | - | 25 | - | 25 |
| J A Sibbald\* | 2 | - | 3 | - | 5 | - | 5 |
| Total | 825 | 502 | 86 | 56 | 1,469 | 26 | 1,495 |

\*Members of the remuneration committee for the year ended 31 December 2014

|  |  |  |  |
| --- | --- | --- | --- |
| Summary of directors' terms | Date of contract | Unexpired term | Notice period |
| Executive directors |  |  |  |
| Sir Michael Heller | November 1972 | Continuous | 6 months |
| A R Heller | January 1994 | Continuous | 3 months |
| G J Casey | June 2010 | Continuous | 3 months |
| R J Grobler | April 2008 | Continuous | 3 months |
| Non-executive directors |  |  |  |
| C A Joll | February 2001 | Continuous | 3 months |
| J A Sibbald | October 1988 | Continuous | 3 months |

Pension schemes and incentives

Two (2014: three) directors have benefits under money purchase pension schemes. Contributions in 2015 were £54,000 (2014: £56,000), see table above.

Scheme interests awarded during the year

On the 18 September 2015, under the company's 2012 Share Option Scheme, Andrew Heller and Garrett Casey were granted an option to acquire 150,000 Shares each at an Acquisition Price of £87.01 pence per share.

Share option schemes

The company currently has three "Unapproved" Share Option Schemes which are not subject to HM Revenue and Customs (HMRC) approval. The "2006 Scheme" was approved by shareholders on 29 June 2006, and the "2010 Scheme" was approved by shareholders on 7 June 2011. The "2012 Scheme" was approved by the remuneration committee of the company on 28 September 2012. Existing options over ordinary shares granted under the First Scheme lapsed on 29 September 2012. All available options under each of the Schemes have been granted.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Number of share options |  |  |  |  |  |
|  | Option  price\* | 1 January  2015 | Options  Granted/  Cancelled  in  2015 | 31  December  2015 | Exercisable  from | Exercisable  to |
| The 2006 Scheme |  |  |  |  |  |  |
| A R Heller | 237.05p | 275,000 | - | 275,000 | 4/10/2009 | 3/10/2016 |
| Employee | 237.05p | 50,000 | - | 50,000 | 4/10/2009 | 3/10/2016 |
| The 2010 Scheme |  |  |  |  |  |  |
| G J Casey | 202.05p | 80,000 | - | 80,000 | 31/08/2013 | 30/08/2020 |
| The 2012 Scheme |  |  |  |  |  |  |
| A R Heller | 34.00p | 193,000 | (193,000) | - | 01/10/2012 | 30/09/2022 |
| A R Heller | 87.01p | - | 150,000 | 150,000 | 18/09/2015 | 17/09/2025 |
| G J Casey | 87.01p | - | 150,000 | 150,000 | 18/09/2015 | 17/09/2025 |

\*Middle market price at date of grant

No consideration is payable for the grant of options under the Unapproved Share Option Schemes.

Performance conditions:

The exercise of options under the Unapproved Share Option Schemes, for certain option issues, is subject to the satisfaction of objective performance conditions specified by the remuneration committee, which will conform to institutional shareholder guidelines and best practice provisions in force from time to time. The performance conditions for the 2010 scheme, agreed by members on 31 August 2010, requires growth in net assets over a three year period to exceed the growth in the retail price index by a scale of percentages. There are no performance conditions attached to the other schemes.

Payments to past directors

No payments were made to past directors in the year ended 31 December 2015.

Payments for loss of office

No payments for loss of office were made in the year ended 31 December 2015.

Statement of directors' shareholding and share interest

Directors' interests

The interests of the directors in the shares of the company, including family and trustee holdings where appropriate, were as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beneficial | Non-beneficial |  |  |
|  | 31.12.2015 | 1.1.2015 | 31.12.2015 | 1.1.2015 |
| Sir Michael Heller | 148,783 | 148,783 | 181,334 | 181,334 |
| A R Heller | 785,012 | 785,012 | - | - |
| C A Joll | - | - | - | - |
| J A Sibbald | - | - | - | - |
| R J Grobler | - | - | - | - |
| G J Casey | 40,000 | 40,000 | - | - |

The following section is unaudited.

The following graph illustrates the company's performance compared with a broad equity market index over a ten year period. Performance is measured by total shareholder return. The directors have chosen the FTSE All Share Mining index as a suitable index for this comparison as it gives an indication of performance against a spread of quoted companies in the same sector.

GRAPH

The middle market price of Bisichi Mining PLC ordinary shares at 31 December 2015 was 77.50p (2014-80p). During the year the share price ranged between 62.50p and 92.50p.

Remuneration of the Managing Director over the last ten years

The table below demonstrates the remuneration of the holder of the office of Managing Director for the last ten years for the period from 1 January 2005 to 31 December 2015.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Managing  Director | Managing Director  Single total figure of  remuneration  £'000 | Annual bonus payout  against maximum  opportunity\*  % | Long-term incentive  vesting rates against  maximum opportunity\*  % |
| 2015 | A R Heller | 853 | 22% | N/A |
| 2014 | A R Heller | 836 | 22% | N/A |
| 2013 | A R Heller | 614 | N/A | N/A |
| 2012 | A R Heller | 544 | N/A | N/A |
| 2011 | A R Heller | 626 | N/A | N/A |
| 2010 | A R Heller | 568 | N/A | N/A |
| 2009 | AR Heller | 817 | N/A | N/A |
| 2008 | AR Heller | 716 | N/A | N/A |
| 2007 | AR Heller | 961 | N/A | N/A |
| 2006 | AR Heller | 462 | N/A | N/A |
| 2005 | AR Heller | 413 | N/A | N/A |

Bisichi Mining PLC does not have a Chief Executive so the table includes the equivalent information for the Managing Director.

\*There were no formal criteria or conditions to apply in determining the amount of bonus payable or the number of shares to be issued prior to 2014.

Percentage change in remuneration of director undertaking role of Managing Director

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Managing Director  £'000 | UK based employees  £'000 |  |  |  |  |
|  | 2015 | 2014 | % change | 2015 | 2014 | % change |
| Base salary | 450 | 450 | 0% | 208 | 199 | 4.3% |
| Benefits | 67 | 54 | 19.4% | 15 | 14 | 6.6% |
| Bonuses | 300 | 300 | 0% | 100 | 100 | 0% |

Bisichi Mining PLC does not have a Chief Executive so the table includes the equivalent information for the Managing Director.

The comparator group chosen is all UK based employees as the remuneration committee believe this provides the most accurate comparison of underlying increases based on similar annual bonus performances utilised by the group.

Relative importance of spend on pay

The total expenditure of the group on remuneration to all employees (see Notes 29 and 8 to the financial statements) is shown below:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Employee remuneration | 5,094 | 5,057 |
| Distribution to shareholders | 427 | 427 |

Statement of implementation of remuneration policy

The remuneration policy was approved at the AGM in June 2014. The policy took effect from 11 June 2014 and will apply for 3 years unless changes are deemed necessary by the Remuneration committee. The company may not make a remuneration payment or payment for loss of office to a person who is, is to be, or has been a director of the company unless that payment is consistent with the approved remuneration policy, or has otherwise been approved by a resolution of members.

Consideration by the directors of matters relating to directors' remuneration

The remuneration committee considered the executive directors remuneration and the board considered the non-executive directors remuneration in the year ended 31 December 2015. No increases were awarded and no external advice was taken in reaching this decision.

Shareholder voting

At the Annual General Meeting on 10 June 2015, there was an advisory vote on the resolution to approve the remuneration report, other than the part containing the remuneration policy. In addition, on 11 June 2014 there was a binding vote on the resolution to approve the remuneration policy the results of which are detailed below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | % of votes  for | % of votes  against | No of votes  withheld |
| Resolution to approve the Remuneration Report (10 June 2015) | 98.94% | 1.06% | 120 |
| Resolution to approve the Remuneration Policy (11 June 2014) | 98.75% | 1.04% | 5,405 |

Service contracts

All executive directors have full-time contracts of employment with the company. Non-executive directors have contracts of service. No director has a contract of employment or contract of service with the company, its joint venture or associated companies with a fixed term which exceeds twelve months. Directors notice periods (see page 29 of the annual remuneration report) are set in line with market practice and of a length considered sufficient to ensure an effective handover of duties should a director leave the company.

All directors' contracts as amended from time to time, have run from the date of appointment. Service contracts are kept at the registered office.

Remuneration policy table

The remuneration policy table below is an extract of the group's remuneration policy on directors' remuneration, which was approved by a binding vote at the 2014 AGM. The approved policy took effect from 11 June 2014. A copy of the full policy can be found at[*http://www.bisichi.co.uk*](http://www.bisichi.co.uk).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Element | Purpose | Policy | Operation | Opportunity and performance conditions |
| Executive directors |  |  |  |  |
| Base  salary | To recognise:  Skills  Responsibility  Accountability  Experience  Value | Considered by remuneration committee on appointment  Set at a level considered appropriate to attract, retain motivate and reward the  right individuals | Reviewed annually  Paid monthly in cash | There is no prescribed maximum salary or maximum rate of increase  No specific performance conditions are attached to base salaries |
| Pension | To provide competitive retirement benefits | Company contribution offered  at up to 10% of base salary as part of overall remuneration package | The contribution payable by the company is included in the director's contract of employment  Paid into money purchase schemes | Company contribution offered at up to 10% of base salary as part of overall remuneration package  No specific performance conditions are attached to pension contributions |
| Benefits | To provide a competitive benefits package | Contractual benefits can  include but are not limited to:  Car or car allowance  Group health cover  Death in service cover  Permanent health insurance | The committee retains the discretion to approve changes in contractual benefits in exceptional circumstances or where factors outside the control of the group lead to increased costs (e.g. medical inflation) | The costs associated with benefits offered are closely controlled and reviewed on an annual basis  No specific performance conditions are attached to contractual benefits  The value of benefits for each director for the year ended 31 December 2015 is shown in the table on page 28 |
| Annual  Bonus | To reward and incentivise | In assessing the performance of the executive team, and in particular to determine whether bonuses are merited the remuneration committee takes into account the overall performance of the business  Bonuses are generally offered in cash | The remuneration committee determines the level of bonus  on an annual basis applying such performance conditions and performance measures  as it considers appropriate | The current maximum bonus opportunity will not exceed 200% of base salary in any one year, but the remuneration committee reserves the power to award up to 300% in an exceptional year  Performance conditions will be assessed on an annual basis. The performance measures applied may be financial, non-financial, corporate, divisional or individual and in such proportion as the remuneration committee considers appropriate |
| Share Options | To provide executive directors with a  long-term interest  in the company | Granted under existing  schemes (see page 29) | Offered at appropriate times by the remuneration committee | Entitlement to share options is not subject to any performance conditions  Share options will be offered by the remuneration committee as appropriate  There are no maximum levels for share options offered |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Element | Purpose | Policy | Operation | Opportunity and performance conditions |
| Non-executive directors |  |  |  |  |
| Base  salary | To recognise:  Skills  Experience  Value | Considered by the board on appointment  Set at a level considered appropriate to attract, retain and motivate the individual  Experience and time required for the role are considered on appointment | Reviewed annually | There is no prescribed maximum salary or maximum rate of increase  No specific performance conditions are attached to base salaries |
| Pension |  | No pension offered |  |  |
| Benefits |  | No benefits offered except to one non-executive director who is eligible for health cover (see annual remuneration  report page 28) |  | The costs associated with the benefit offered is closely controlled and reviewed on an annual basis  No specific performance conditions are attached to contractual benefits |
| Share Options |  | Non-executive directors do not participate in the share option schemes |  |  |

The remuneration committee consider the performance measures outlined in the table above to be appropriate measures of performance and that the KPI's chosen align the interests of the directors and shareholders.

Audit committee report

The committee's terms of reference have been approved by the board and follow published guidelines, which are available from the company secretary. The audit committee comprises the two non-executive directors, Christopher Joll (chairman), an experienced financial PR executive and John Sibbald, a retired chartered accountant.

The Audit Committee's prime tasks are to:

Review the scope of external audit, to receive regular reports from the auditor and to review the half-yearly and annual accounts before they are presented to the board, focusing in particular on accounting policies and areas of management judgment and estimation;

Monitor the controls which are in force to ensure the integrity of the information reported to the shareholders;

Assess key risks and to act as a forum for discussion of risk issues and contribute to

the board's review of the effectiveness of the group's risk management control and processes;

Act as a forum for discussion of internal control issues and contribute to the board's review of the effectiveness of the group's internal control and risk management systems and processes;

Consider each year the need for an internal audit function;

Advise the board on the appointment of external auditors and rotation of the audit partner every five years, and on their remuneration for both audit and non-audit work, and discuss the nature and scope of their audit work;

Participate in the selection of a new external audit partner and agree the appointment

when required;

Undertake a formal assessment of the auditors' independence each year which includes:

·     a review of non-audit services provided to the group and related fees;

·     discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence;

·     a review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and

·     obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Meetings

The committee meets prior to the annual audit with the external auditors to discuss the audit plan and again prior to the publication of the annual results. These meetings are attended by the external audit partner, managing director, director of finance and company secretary. Prior to bi-monthly board meetings the members of the committee meet on an informal basis to discuss any relevant matters which may have arisen. Additional formal meetings are held as necessary.

During the past year the committee:

·     met with the external auditors, and discussed their report to the Audit Committee;

·     approved the publication of annual and half-year financial results;

·     considered and approved the annual review of internal controls;

·     decided that due to the size and nature of operation there was not a current need for an internal audit function;

·     agreed the independence of the auditors and approved their fees for both audit and not-audit services as set out in note 4 to the financial statements.

External Auditors

BDO LLP held office throughout the year. In the United Kingdom the company is provided with extensive administration and accounting services by London & Associated Properties PLC which has its own audit committee and employs a separate firm of external auditors, RSM UK Audit LLP (Formerly Baker Tilly UK Audit LLP). In South Africa Grant Thornton (Jhb) Inc. acts as the external auditor to the South African companies, and the work of that firm was reviewed by BDO LLP for the purpose of the group audit.

Christopher Joll

Chairman - audit committee

24 Bruton Place

London W1J 6NE

18 April 2016

Valuers' certificates

To the directors of Bisichi Mining PLC

In accordance with your instructions we have carried out a valuation of the freehold property interests held as at 31 December 2015 by the company as detailed in our Valuation Report dated 31 December 2015.

Having regard to the foregoing, we are of the opinion that the open market value as at 31 December 2015 of the interests owned by the company was £12,800,000 being made up as follows:

|  |  |
| --- | --- |
|  | £000 |
| Freehold | 10,150 |
| Leasehold | 2,650 |
|  | 12,800 |
| Leeds  31 December 2015 | Carter Towler  Regulated by Royal Institute of Chartered Surveyors |

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group for that period.

In preparing these financial statements, the directors are required to:

·     select suitable accounting policies and then apply them consistently;

·     make judgements and accounting estimates that are reasonable and prudent;

·     state with regard to the group financial statements whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;

·     state with regard to the parent company financial statements, whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

·     prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business;

·     prepare a strategic report, director's report and director's remuneration report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

·     the group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.

·     the annual report includes a fair review of the development and performance of the business and the financial position of the group and the parent company, together with a description or the principal risks and uncertainties that they face.

Independent auditor's report

To the members of Bisichi Mining PLC

We have audited the financial statements of Bisichi Mining PLC for the year ended 31 December 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in shareholders' equity, the consolidated cash flow statement, the parent company balance sheet, the parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at[*http://www.frc.org.uk/auditscopeukprivate*](http://www.frc.org.uk/auditscopeukprivate).

Opinion on financial statements

In our opinion:

·     the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's loss for the year then ended;

·     the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

·     the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

·     the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

·     the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

·     the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

·     adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

·     the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

·     certain disclosures of directors' remuneration specified by law are not made; or

·     we have not received all the information and explanations we require for our audit.

Ryan Ferguson (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London, United Kingdom

20 April 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

for the year ended 31 December 2015

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Notes | 2015  Trading  £'000 | 2015  Revaluations and impairment  £'000 | 2015  Total  £'000 | 2014  Trading  £'000 | 2014  Revaluations and impairment  £'000 | 2014  Total  £'000 |
| Group revenue | 1 | **25,655** | **-** | **25,655** | 26,500 | - | 26,500 |
| Operating costs | 2 | **(23,938)** | **-** | **(23,938)** | (22,224) | - | (22,224) |
| Operating profit before depreciation, fair value adjustments and exchange movements |  | **1,717** | **-** | **1,717** | 4,276 | - | 4,276 |
| Depreciation | 2 | **(1,284)** | **-** | **(1,284)** | (2,682) | - | (2,682) |
| Operating profit before fair value adjustments and exchange movements | 1 | **433** | **-** | **433** | 1,594 | - | 1,594 |
| Exchange losses |  | **(497)** | **-** | **(497)** | (143) | - | (143) |
| Increase/(decrease) in value of investment properties | 3 | **-** | **225** | **225** | - | (6) | (6) |
| (Decrease)/increase in value of other investments |  | **-** | **(11)** | **(11)** | - | 1 | 1 |
| Loss on held for trading investments |  | **-** | **-** | **-** | - | (82) | (82) |
| Operating (loss)/profit | 1 | **(64)** | **214** | **150** | 1,451 | (87) | 1,364 |
| Share of profit/(loss) in joint ventures | 12 | **104** | **(35)** | **69** | 65 | 498 | 563 |
| Loss on reclassification of asset as held for sale | 14 | **-** | **(138)** | **(138)** | - | - | - |
| Profit before interest and taxation |  | **40** | **41** | **81** | 1,516 | 411 | 1,927 |
| Interest receivable |  | **245** | **-** | **245** | 234 | - | 234 |
| Interest payable | 6 | **(473)** | **-** | **(473)** | (593) | - | (593) |
| (Loss)/Profit before tax | 4 | **(188)** | **41** | **(147)** | 1,157 | 411 | 1,568 |
| Taxation | 7 | **(84)** | **(24)** | **(108)** | (348) | (17) | (365) |
| (Loss)/Profit for the year |  | **(272)** | **17** | **(255)** | 809 | 394 | 1,203 |
| Attributable to: |  |  |  |  |  |  |  |
| Equity holders of the company |  | **(276)** | **17** | **(259)** | 709 | 394 | 1,103 |
| Non-controlling interest | 27 | **4** | **-** | **4** | 100 | - | 100 |
| (Loss)/Profit for the year |  | **(272)** | **17** | **(255)** | 809 | 394 | 1,203 |
| (Loss)/Profit per share - basic | 9 |  |  | **(2.43p)** |  |  | 10.33p |
| (Loss)/Profit per share - diluted | 9 |  |  | **(2.43p)** |  |  | 10.23p |

Trading gains and losses reflect all the trading activity on mining and property operations. Revaluation gains and losses reflects the revaluation of investment properties and other assets within the group and any proportion of these amounts within Joint Ventures, together with impairment loss on reclassification of assets to held for sale. The total column represents the consolidated income statement presented in accordance with IAS 1.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| (Loss)/Profit for the year | **(255)** | 1,203 |
| Other comprehensive (expense)/income: |  |  |
| Items that may be subsequently recycled to the income statement: |  |  |
| Exchange differences on translation of foreign operations | **(1,167)** | (121) |
| (Loss)/Gain on available for sale investments | **(202)** | 56 |
| Taxation | **41** | (15) |
| Other comprehensive expense for the year net of tax | **(1,328)** | (80) |
| Total comprehensive (expense)/income for the year net of tax | **(1,583)** | 1,123 |
| Attributable to: |  |  |
| Equity shareholders | **(1,500)** | 1,036 |
| Non-controlling interest | **(83)** | 87 |
|  | **(1,583)** | 1,123 |

Consolidated balance sheet

at 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | Notes | 2015  £'000 | 2014  £'000 |
| Assets |  |  |  |
| Non-current assets |  |  |  |
| Value of investment properties | 10 | **12,800** | 11,575 |
| Fair value of head lease | 31 | **194** | 195 |
| Investment properties |  | **12,994** | 11,770 |
| Mining reserves, plant and equipment | 11 | **5,374** | 6,064 |
| Investments in joint ventures accounted for using equity method | 12 | **1,198** | 2,898 |
| Loan to joint venture | 12 | **900** | 1,040 |
| Other investments | 12 | **14** | 152 |
| Total non-current assets |  | **20,480** | 21,924 |
| Current assets |  |  |  |
| Inventories | 16 | **1,049** | 1,760 |
| Trade and other receivables | 17 | **6,187** | 6,860 |
| Corporation tax recoverable |  | **29** | 35 |
| Available for sale investments | 18 | **594** | 796 |
| Cash and cash equivalents |  | **1,608** | 2,838 |
| Non-current assets held for sale | 14 | **1,168** | - |
| Total current assets |  | **10,635** | 12,289 |
| Total assets |  | **31,115** | 34,213 |
|  | Notes | 2015  £'000 | 2014  £'000 |
| Liabilities |  |  |  |
| Current liabilities |  |  |  |
| Borrowings | 20 | **(2,267)** | (2,139) |
| Trade and other payables | 19 | **(4,234)** | (4,986) |
| Current tax liabilities |  | **-** | (23) |
| Total current liabilities |  | **(6,501)** | (7,148) |
| Non-current liabilities |  |  |  |
| Borrowings | 20 | **(5,940)** | (6,013) |
| Provision for rehabilitation | 21 | **(847)** | (930) |
| Finance lease liabilities | 31 | **(194)** | (195) |
| Deferred tax liabilities | 23 | **(2,002)** | (2,208) |
| Total non-current liabilities |  | **(8,983)** | (9,346) |
| Total liabilities |  | **(15,484)** | (16,494) |
| Net assets |  | **15,631** | 17,719 |
| Equity |  |  |  |
| Share capital | 24 | **1,068** | 1,068 |
| Share premium account |  | **258** | 258 |
| Translation reserve |  | **(2,757)** | (1,677) |
| Available for sale reserve |  | **(120)** | 41 |
| Other reserves | 25 | **574** | 652 |
| Retained earnings |  | **16,287** | 16,973 |
| Total equity attributable to equity shareholders |  | **15,310** | 17,315 |
| Non-controlling interest | 27 | **321** | 404 |
| Total equity |  | **15,631** | 17,719 |

These financial statements were approved and authorised for issue by the board of directors on 18 April 2016 and signed on its behalf by:

A R Heller               G J Casey                              Company Registration No. 112155

Director                  Director

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2015

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Share  capital  £'000 | Share  Premium  £'000 | Translation  reserves  £'000 | Available-  for-sale reserves  £'000 | Other  reserves  £'000 | Retained  earnings  £'000 | Total  £'000 | Non-  controlling  interest  £'000 | Total  equity  £'000 |
| Balance at 1 January 2014 | 1,064 | 249 | (1,569) | - | 587 | 16,297 | 16,628 | 359 | **16,987** |
| Revaluation and impairments | - | - | - | - | - | 394 | 394 | - | **394** |
| Trading | - | - | - | - | - | 709 | 709 | 100 | **709** |
| Profit for the year | - | - | - | - | - | 1,103 | 1,103 | 100 | **1,203** |
| Other comprehensive (expense)/income | - | - | (108) | 41 | - | - | (67) | (13) | **(80)** |
| Total comprehensive expense/income for the year | - | - | (108) | 41 | - | 1,103 | 1,036 | 87 | **1,123** |
| Dividend (note 8) | - | - | - | - | - | (427) | (427) | (42) | **(469)** |
| Share issues | 4 | 9 | - | - | - | - | 13 | - | **13** |
| Share options issued | - | - | - | - | 65 | - | 65 | - | **65** |
| Balance at 1 January 2015 | 1,068 | 258 | (1,677) | 41 | 652 | 16,973 | 17,315 | 404 | 17,719 |
| Revaluation and impairments | - | - | - | - | - | 17 | 17 | - | 17 |
| Trading | - | - | - | - | - | (276) | (276) | 4 | **(272)** |
| Loss/Profit for the year | - | - | - | - | - | (259) | (259) | 4 | (255) |
| Other comprehensive expense | - | - | (1,080) | (161) | - | - | (1,241) | (87) | (1,328) |
| Total comprehensive expense/income for the year | - | - | (1,080) | (161) | - | (259) | (1,500) | (83) | (1,583) |
| Dividend (note 8) | - | - | - | - | - | (427) | (427) | - | (427) |
| Share options issued | - | - | - | - | 31 | - | 31 | - | 31 |
| Share options cancelled | - | - | - | - | (109) | - | (109) | - | (109) |
| Balance at 31 December 2015 | **1,068** | **258** | **(2,757)** | **(120)** | **574** | **16,287** | **15,310** | **321** | **15,631** |

Consolidated cash flow statement

for the year ended 31 December 2015

|  |  |  |
| --- | --- | --- |
|  | Year ended  31 December  2015  £'000 | Year ended  31 December  2014  £'000 |
| Cash flows from operating activities |  |  |
| Operating profit | **150** | 1,364 |
| Adjustments for: |  |  |
| Depreciation | **1,284** | 2,682 |
| Share based payments | **31** | 65 |
| Loss on investment held for trading | **-** | 82 |
| Unrealised loss on investment properties | **(225)** | 6 |
| Unrealised (gain)/loss on other investments | **132** | (1) |
| Exchange adjustments | **497** | 143 |
| Cash flow before working capital | **1,869** | 4,341 |
| Change in inventories | **393** | (4) |
| Change in trade and other receivables | **(212)** | 2,438 |
| Change in trade and other payables | **(71)** | (3,083) |
| Cash generated from operations | **1,979** | 3,692 |
| Interest received | **115** | 234 |
| Interest paid | **(363)** | (506) |
| Income tax paid | **-** | (14) |
| Cash flow from operating activities | **1,731** | 3,406 |
| Cash flows from investing activities |  |  |
| Acquisition of reserves, property, plant and equipment | **(2,992)** | (1,903) |
| Share of profit in joint ventures | **104** | - |
| Cash flow from investing activities | **(2,888)** | (1,903) |
|  | Year ended  31 December  2015  £'000 | Year ended  31 December  2014  £'000 |
| Cash flows from financing activities |  |  |
| Borrowings drawn | **18** | 5,902 |
| Borrowings repaid | **(66)** | (5,000) |
| Equity dividends paid | **(427)** | (427) |
| Net proceeds from issue of ordinary shares | **-** | 13 |
| Cancelled share options | **(109)** | - |
| Cash flow from financing activities | **(584)** | 488 |
| Net (decrease) / increase in cash and cash equivalents | **(1,741)** | 1,991 |
| Cash and cash equivalents at 1 January | **719** | (1,322) |
| Exchange adjustment | **396** | 50 |
| Cash and cash equivalents at 31 December | **(626)** | 719 |
| Cash and cash equivalents at 31 December comprise: |  |  |
| Cash and cash equivalents as presented in the balance sheet | **1,608** | 2,838 |
| Bank overdrafts (secured) | **(2,234)** | (2,119) |
|  | **(626)** | 719 |

Group accounting policies

for the year ended 31 December 2015

Basis of accounting

The results for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies are described below:

The group financial statements are presented in £ sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise stated.

The functional currency for each entity in the group, and for joint arrangements and associates, is the currency of the country in which the entity has been incorporated. Details of which country each entity has been incorporated can be found in note 15 for subsidiaries and Note 13 for joint arrangements and associates.

Going concern

The group has prepared cash flow forecasts which demonstrate that the group has sufficient resources to meet its liabilities as they fall due for at least the next 12 months.

In October 2013, an increase in the structured trade finance facility from R60million (South African Rand) to R80million was signed by Black Wattle Colliery (Pty) Limited ("Black Wattle") with Absa Bank Limited, a South African subsidiary of Barclays Bank PLC. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held in the group's South African operations. The Directors do not foresee any reason why the facility will not continue to be renewed at the next renewal date, in line with prior periods and based on their banking relationships This facility comprises of a R60million revolving loan to cover the working capital requirements of the group's South African operations, and a R20million loan facility to cover guarantee requirements related to the group's South African mining operations.

In December 2014, the group signed a £6 million term loan facility with Santander. The loan is secured against the company's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

If required, the group has sufficient financial resources available at short notice including cash, available-for-sale investments and its £2m loan to Dragon Retail Properties Limited which is repayable on demand. In addition its investment property assets benefit from long term leases with the majority of its tenants. Although the directors expect that that the challenging coal market conditions experienced by Black Wattle Colliery, its direct mining asset, in 2015 will be similar going into 2016, they have a reasonable expectation that the mine will continue to achieve positive levels of cash generation for the group in 2016. As a consequence, the directors believe that the group is well placed to manage its business risks successfully.

As a result of the banking facilities held as well as the acceptable levels of profitability and cash generation the mine is expected to achieve in 2016, the Directors believe that the group has adequate resources to continue in operational existence for the foreseeable future and that the group is well placed to manage its business risks. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

International Financial Reporting Standards (IFRS)

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. These are prepared under the historic cost basis as modified by the revaluation of investment properties and available for sale investments.

During 2015, there were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2015 that would have had material impact on the financial statements.

None of the amendments to Standards that are effective from that date have resulted in a change of the group's accounting policy and they had no material impact on the group's financial position or performance.

The group has not adopted any standards or interpretations in advance of the required implementation dates. The following new or revised standards that are applicable to the group were issued but not yet effective:

·     IFRS 9 - Financial instruments

·     IFRS 15 - Revenue from Contracts with Customers

·     Amendment to IAS 1 - Presentation of Financial Statements Disclosure Initiative.

·     Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation

·     Amendments to IFRS 11 - Accounting amendments relating to acquisitions of interests in joint operations.

The effects of IFRS 15 Revenues from Contracts with Customers and IFRS 9 Financial Instruments are still being assessed, as these new standards may have a significant effect on the group's future financial statements.

Key judgements and estimates

Areas where key estimates and judgements are considered to have a significant effect on the amounts recognised in the financial statements include:

Life of mine and reserves

The directors consider their judgements and estimates surrounding the life of the mine and its reserves to have the most significant effect on the amounts recognised in the financial statements and to be the area where the financial statements are at most risk of a material adjustment due to estimation uncertainty.  The group's coal reserves are subject to assessment by an independent Competent Person and impact assessments of the carrying value of property, plant and equipment, depreciation calculations and rehabilitation and decommissioning provisions.  There are numerous uncertainties inherent in estimating coal reserves and changes to these assumptions may result in restatement of reserves.  These assumptions include factors such as commodity prices, production costs and yield.

Depreciation, amortisation of mineral rights, mining development costs and plant & equipment

The annual depreciation/amortisation charge is dependent on estimates, including coal reserves and the related life of mine, expected development expenditure for probable reserves, the allocation of certain assets to relevant ore reserves and estimates of residual values of the processing plant. The charge can fluctuate when there are significant changes in any of the factors or assumptions used, such as estimating mineral reserves which in turn affects the life of mine or the expected life of reserves. Estimates of proven and probable reserves are prepared by an independent Competent Person. Assessments of depreciation/amortisation rates against the estimated reserve base are performed regularly. Details of the depreciation/amortisation charge can be found in note 11.

Provision for mining rehabilitation including restoration and de-commissioning costs

A provision for future rehabilitation including restoration and decommissioning costs requires estimates and assumptions to be made around the relevant regulatory framework, the timing, extent and costs of the rehabilitation activities and of the risk free rates used to determine the present value of the future cash outflows. The provisions, including the estimates and assumptions contained therein, are reviewed regularly by management. The group engages an independent expert to assess the cost of restoration and decommissioning annually as part of management's assessment of the provision. Details of the provision for mining rehabilitation can be found in note 21.

Impairment

Property, plant and equipment representing the group's mining assets in South Africa are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable.  The impairment test is performed using the approved Life of Mine plan and those future cash flow estimates are discounted using asset specific discount rates and are based on expectations about future operations. The impairment test requires estimates about production and sales volumes, commodity prices, proven and probable reserves (as assessed by the Competent Person), operating costs and capital expenditures necessary to extract reserves in the approved Life of Mine plan. Changes in such estimates could impact recoverable values of these assets. Details of the carrying value of property, plant and equipment can be found in note 11.

The impairment test indicated significant headroom as at 31 December 2015 and therefore no impairment is considered appropriate.  The key assumptions include:  coal prices, including domestic coal prices based on recent pricing and assessment of market forecasts for export coal; production based on proven and probable reserves assessed by the independent Competent Person and an increase in yield associated with new mining areas based on assessments by the Competent Person and empirical data. A 5.5% decrease in yield below expectation would be required to create a break even scenario.  However, the assumptions used are considered appropriate.

Fair value measurements of investment properties

An assessment of the fair value of investment properties, is required to be performed. In such instances, fair value measurements are estimated based on the amounts for which the assets and liabilities could be exchanged between market participants. To the extent possible, the assumptions and inputs used take into account externally verifiable inputs. However, such information is by nature subject to uncertainty. The directors note that the fair value measurement of the investment properties, can be considered to be less judgemental where external valuers have been used and as a result of the nature of the underlying assets. The fair value of investment property is set out in note 10, whilst the carrying value of investments in joint ventures which themselves include investment property held at fair value by the joint venture is set out at note 12.

Carrying value of Ezimbokedwini joint venture

The group holds a £1,225,000 (2014: £1,722,000) of loans and joint venture investment in Ezimbokedwini Mining (Pty) Limited ("Ezimbokedwini"), the recoverability of which is dependent upon the completion of the acquisition of the Pegasus coal project in South Africa.  The carrying value of the underlying project is supported by its coal reserves and Life of Mine plan and is considered appropriate given the underlying economic value of the project.

Basis of consolidation

The group accounts incorporate the accounts of Bisichi Mining PLC and all of its subsidiary undertakings, together with the group's share of the results of its joint ventures. Non-controlling interests in subsidiaries are presented separately from the equity attributable to equity owners of the parent company. On acquisition of a non-wholly owned subsidiary, the non-controlling shareholders' interests are initially measured at the non-controlling interests' proportionate share of the fair value of the subsidiaries net assets. Thereafter, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.  For subsequent changes in ownership in a subsidiary that do not result in a loss of control, the consideration paid or received is recognised entirely in equity.

The definition of control assumes the simultaneous fulfilment of the following three criteria:

·     The parent company holds decision-making power over the relevant activities of the investee,

·     The parent company has rights to variable returns from the investee, and

·     The parent company can use its decision-making power to affect the variable returns.

Investees are analysed for their relevant activities and variable returns, and the link between the variable returns and the extent to which their relevant activities could be influenced in order to ensure the definition is correctly applied.

Revenue

Revenue comprises sales of coal and property rental income. Revenue is recognised when the customer has a legally binding obligation to settle under the terms of the contract and has assumed all significant risks and rewards of ownership.

Revenue is only recognised on individual sales of coal when all of the significant risks and rewards of ownership have been transferred

to a third party. Export revenue is generally recognised when the product is delivered to the export terminal location specified by the customer, at which point the customer assumes risks and rewards under the contract.  Domestic coal revenues are generally recognised on collection by the customer from the mine when loaded into transport, where the customer pays the transportation costs.

Rental income which excludes services charges recoverable from tenants, is recognised in the group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives.

Investment properties

Investment properties comprise freehold and long leasehold land and buildings. Investment properties are carried at fair value in accordance with IAS 40 'Investment Properties'. Properties are recognised as investment properties when held for long-term rental yields, and after consideration has been given to a number of factors including length of lease, quality of tenant and covenant, value of lease, management intention for future use of property, planning consents and percentage of property leased. Investment properties are revalued annually by professional external surveyors and included in the balance sheet at their fair value. Gains or losses arising from changes in the fair values of assets are recognised in the consolidated income statement in the period to which they relate. In accordance with IAS 40, investment properties are not depreciated. The fair value of the head leases is the net present value of the current head rent payable on leasehold properties until the expiry of the lease.

Mining reserves, plant and equipment

The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in accordance with agreed specifications. Freehold land is not depreciated. Other property, plant and equipment is stated at historical cost less accumulated depreciation.

Provisions

Provisions are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

A provision for rehabilitation of the mine is initially recorded at present value and the discounting effect is unwound over time as a finance cost.  Changes to the provision as a result of changes in estimates are recorded as an increase / decrease in the provision and associated decommissioning asset. The decommissioning asset is depreciated in line with the group's depreciation policy over the life of mine. The provision includes the restoration of the underground, opencast, surface operations and de-commissioning of plant and equipment. The timing and final cost of the rehabilitation is uncertain and will depend on the duration of the mine life and the quantities of coal extracted from the reserves.

Mine reserves and development cost

The purpose of mine development is to establish secure working conditions and infrastructure to allow the safe and efficient extraction of recoverable reserves. Depreciation on mine development is not charged until production commences or the assets are put to use. On commencement of full commercial production, depreciation is charged over the life of the associated mine reserves extractable using the asset on a unit of production basis.  The unit of production calculation is based on tonnes mined as a ratio to proven and probable reserves and also includes future forecast capital expenditure.

Other assets and depreciation

The cost, less estimated residual value, of other property, plant and equipment is written off on a straight-line basis over the asset's expected useful life. This includes the washing plant and other key surface infrastructure. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively. Heavy surface mining and other plant and equipment is depreciated at varying rates depending upon its expected usage.

The depreciation rates generally applied are:

|  |  |
| --- | --- |
| Mining equipment | 5-10 per cent per annum, but  shorter of its useful life or the life of the mine |
| Motor vehicles | 25 - 33 per cent per annum |
| Office equipment | 10 - 33 per cent per annum |

POST PRODUCTION STRIPPING

In surface mining operations, the group may find it necessary to remove waste materials to gain access to coal reserves prior to and after production commences.  Prior to production commencing, stripping costs are capitalised until the point where the overburden has been removed and access to the coal seam commences.  Subsequent to production, waste stripping continues as part of extraction process as a run of mine activity.  There are two benefits accruing to the group from stripping activity during the production phase: extraction of coal that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.  Economic coal extracted is accounted for as inventory.  The production stripping costs relating to improved access to further quantities in future periods are capitalised as a stripping activity asset, if and only if, all of the following are met:

it is probable that the future economic benefit associated with the stripping activity will flow to the group;the group can identify the component of the ore body for which access has been improved; andthe costs relating to the stripping activity associated with that component or components can be measured reliably.

In determining the relevant component of the coal reserve for which access is improved, the group componentises its mine into geographically distinct sections or phases to which the stripping activities being undertaken within that component are allocated. Such phases are determined based on assessment of factors such as geology and mine planning.

The group depreciates deferred costs capitalised as stripping assets on a unit of production method, with reference the tons mined and reserve of the relevant ore body component or phase.

Employee benefits

Share based remuneration

The company operates a share option scheme. The fair value of the share option scheme is determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. The fair value of options granted is calculated using a binomial or Black-Scholes-Merton model. Details of the share options in issue are disclosed in the Directors' Remuneration Report on page 29 under the heading Share option schemes which is within the audited part of that report.

Pensions

The group operates a defined contribution pension scheme. The contributions payable to the scheme are expensed in the period to which they relate.

Foreign currencies

Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are included in the consolidated income statement within the results of operating activities if arising from trading activities and within finance cost/income if arising from financing.

For consolidation purposes, income and expense items are included in the consolidated income statement at average rates, and assets and liabilities are translated at year end exchange rates. Translation differences arising on consolidation are recognised in other comprehensive income. Where foreign operations are disposed of, the cumulative exchange differences of that foreign operation are recognised in the consolidated income statement when the gain or loss on disposal is recognised.

Transactions in foreign currencies are translated at the exchange rate ruling on transaction date.

Financial instruments

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Bank loans and overdrafts

Bank loans and overdrafts are included as financial liabilities on the group balance sheet at the amounts drawn on the particular facilities net of the unamortised cost of financing. Interest payable on those facilities is expensed as finance cost in the period to which it relates.

Finance lease liabilities

Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, ***reducing*** in subsequent reporting periods by the apportionment of payments to the lessor.

Available for sale investments

Financial assets available for sale are measured at fair value and movements in fair value are charged/credited to the statement of comprehensive income in the period.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as ***reduced*** by appropriate allowances for estimated recoverable amounts as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Other financial assets and liabilities

The groups other financial assets and liabilities not disclosed above are accounted for at amortised cost.

Joint ventures

Investments in joint ventures, being those entities over whose activities the group has joint control, as established by contractual agreement, are included at cost together with the group's share of post-acquisition reserves, on an equity basis. Dividends received are credited against the investment. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about relevant strategic and/or key operating decisions require unanimous consent of the parties sharing control. Control over the arrangement is assessed by the group in accordance with the definition of control under IFRS 10.  Loans to joint ventures are classified as non-current assets when they are not expected to be received in the normal working capital cycle.  Trading receivables and payables to joint jointures are classified as current assets and liabilities.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and overheads relevant to the stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Other investments

Other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised at cost less any provision for impairment.

Impairment

Whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable an asset is reviewed for impairment. A review involves determining whether the carrying amounts are in excess of their recoverable amounts. An asset's recoverable amount is determined as the higher of its fair value less costs of disposal and its value in use. Such reviews are undertaken on an asset-by-asset basis, except where assets do not generate cash flows independent of other assets, in which case the review is undertaken on a cash generating unit basis.

If the carrying amount of an asset exceeds its recoverable amount An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less cost to sell and value in use) if that is less than the asset's carrying amount. Any change in carrying value is recognised in the comprehensive income statement.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of indexation on the historical cost of the properties and any available capital losses.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the group income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case it is also dealt with in other comprehensive income.

Dividends

Dividends payable on the ordinary share capital are recognised as a liability in the period in which they are approved.

Cash and cash equivalents

Cash comprises cash in hand and on-demand deposits. Cash and cash equivalents comprises short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and original maturities of three months or less. The cash and cash equivalents shown in the cashflow statement are stated net of bank overdrafts.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs of sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investment is no longer equity accounted.

SEGMENTAL REPORTING

For management reporting purposes, the group is organised into business segments distinguishable by economic activity. The group's only business segments are mining activities and investment properties. These business segments are subject to risks and returns that are different from those of other business segments and are the primary basis on which the group reports its segment information. This is consistent with the way the group is managed and with the format of the group's internal financial reporting. Significant revenue from transactions with any individual customer, which makes up 10 percent or more of the total revenue of the group, is separately disclosed within each segment.

Notes to the financial statements

for the year ended 31 December 2015

1. Segmental reporting

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015 |  |  |  |
| Business analysis | Mining  £'000 | Property  £'000 | Other  £'000 | Total  £'000 |
| Significant revenue customer A | 14,126 | - | - | 14,126 |
| Significant revenue customer B | 2,561 | - | - | 2,561 |
| Significant revenue customer C | 1,545 | - | - | 1,545 |
| Other revenue | 6,376 | 1,014 | 33 | 7,423 |
| Segment revenue | **24,608** | **1,014** | **33** | **25,655** |
| Operating (loss)/profit before fair value adjustments & exchange movements | (288) | 690 | 31 | **433** |
| Revaluation of investments & exchange movements | (497) | 225 | (11) | **(283)** |
| Operating (loss)/profit and segment result | **(785)** | **915** | **20** | **150** |
| Segment assets | 10,102 | 13,525 | 2,594 | **26,221** |
| Unallocated assets |  |  |  |  |
| - Non-current assets |  |  |  | **20** |
| - Cash & cash equivalents |  |  |  | **1,608** |
| Total assets excluding investment in joint ventures and assets held for sale |  |  |  | **27,849** |
| Segment liabilities | (4,865) | (2,183) | (229) | **(7,277)** |
| Borrowings | (2,280) | (5,927) | - | **(8,207)** |
| Total liabilities | (7,145) | (8,110) | (229) | **(15,484)** |
| Net assets |  |  |  | **12,365** |
| Non segmental assets |  |  |  |  |
| - Investment in joint ventures |  |  |  | **1,198** |
| - Loan to joint venture |  |  |  | **900** |
| - Non-current asset held for sale |  |  |  | **1,168** |
| Net assets as per balance sheet |  |  |  | **15,631** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Geographic analysis | United  Kingdom  £'000 | South  Africa  £'000 | Other  £'000 | Unallocated  £'000 | Total  £'000 |
| Revenue | 1,047 | 24,608 | - | - | 25,655 |
| Operating profit/(loss) and segment result | 935 | (785) | - | - | 150 |
| Non-current assets excluding investments | 13,003 | 5,355 | - | 10 | 18,368 |
| Total net assets | 6,672 | 2,064 | 10 | 6,885 | 15,631 |
| Capital expenditure | 1,002 | 1,990 | - | - | 2,992 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2014 |  |  |  |
| Business analysis | Mining  £'000 | Property  £'000 | Other  £'000 | Total  £'000 |
| Significant revenue customer A | 12,607 | - | - | 12,607 |
| Significant revenue customer B | 6,455 | - | - | 6,445 |
| Significant revenue customer C | 1,793 | - | - | 1,793 |
| Other revenue | 4,681 | 931 | 33 | 5,645 |
| Segment revenue | 25,536 | 931 | 33 | 26,500 |
| Operating profit before fair value adjustments & exchange movements | 864 | 699 | 31 | 1,594 |
| Revaluation of investments & exchange movements | (143) | (6) | (81) | (230) |
| Operating profit/(loss) and segment result | 721 | 693 | (50) | 1,364 |
| Segment assets | 12,058 | 12,546 | 2,797 | 27,401 |
| Unallocated assets |  |  |  |  |
| - Non-current assets |  |  |  | 36 |
| - Cash & cash equivalents |  |  |  | 2,838 |
| Total assets excluding investment in joint ventures |  |  |  | 30,275 |
| Segment liabilities | (6,698) | (1,301) | (319) | (8,318) |
| Borrowings | (2,179) | (5,973) | - | (8,152) |
|  | (8,877) | (7,274) | (319) | (16,470) |
| Unallocated liabilities |  |  |  | (24) |
| Total liabilities |  |  |  | (16,494) |
| Net assets |  |  |  | 13,781 |
| Non segmental assets |  |  |  |  |
| - Investment in joint ventures |  |  |  | 2,898 |
| - Loan to joint venture |  |  |  | **1,040** |
| Net assets as per balance sheet |  |  |  | 17,719 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Geographic analysis | United  Kingdom  £'000 | South  Africa  £'000 | Other  £'000 | Unallocated  £'000 | Total  £'000 |
| Revenue | 964 | 25,536 | - | - | 26,500 |
| Operating profit and segment result | 643 | 721 | - | - | 1,364 |
| Non-current assets excluding investments | 11,780 | 6,030 | - | 24 | 17,834 |
| Total net assets | 5,724 | 3,176 | 17 | 8,802 | 17,719 |
| Capital expenditure | 26 | 1,877 | - | - | 1,903 |

2.  Operating costs

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Mining | **19,177** | 18,244 |
| Property | **111** | 97 |
| Cost of sales | **19,288** | 18,341 |
| Administration | **5,934** | 6,565 |
| Operating costs | **25,222** | 24,906 |
| The direct property costs are: |  |  |
| Ground rent | **10** | 8 |
| Direct property expense | **71** | 55 |
| Bad debts | **30** | 34 |
|  | **111** | 97 |

Operating costs above include depreciation of £1,284,000 (2014: £2,682,000).

3.  GAIN/(LoSS) on revaluation of investment properties

The reconciliation of the investment surplus/(deficit) to the gain/(loss) on revaluation of investment properties in the income statement is set out below:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Investment surplus/(deficit) | **226** | (5) |
| Loss on valuation movement in respect of head lease payments | **(1)** | (1) |
| Gain/(Loss) on revaluation of investment properties | **225** | (6) |

4.  (LOSS)/Profit before taxation

(Loss)/profit before taxation is arrived at after charging:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Staff costs (see note 29) | **5,094** | 5,057 |
| Depreciation | **1,284** | 2,682 |
| Exchange loss | **497** | 143 |
| Fees payable to the company's auditor for the audit of the company's annual accounts | **31** | 48 |
| Fees payable to the company's auditor and its associates for other services: |  |  |
| The audit of the company's subsidiaries pursuant to legislation | **8** | 3 |
| Audit related services | **2** | 1 |

The directors consider the auditors were best placed to provide the above non-audit services.

The audit committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

5.  Directors' emoluments

Directors' emoluments are shown in the Directors' remuneration report on pages 28 and 29 under the heading Directors' remuneration which is within the audited part of that report.

6.  Interest payable

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| On bank overdrafts and bank loans | **364** | 487 |
| Unwinding of discount | **79** | 87 |
| Other interest payable | **30** | 19 |
| Interest payable | **473** | 593 |

7.  Taxation

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| (a) Based on the results for the year: |  |  |
| Corporation tax - adjustment in respect of prior year - UK | **(23)** | 20 |
| Corporation tax - adjustment in respect of prior year - Overseas | **3** | 16 |
| Current tax | **(20)** | 36 |
| Deferred tax | **128** | 329 |
| Total tax in income statement | **108** | 365 |

(b) Factors affecting tax charge for the year:

The corporation tax assessed for the year is different from that at the standard rate of corporation tax in the United Kingdom of 20% (2014: 23%)

The differences are explained below:

|  |  |  |
| --- | --- | --- |
| (Loss)/Profit on ordinary activities before taxation | **(147)** | 1,568 |
| Tax on profit on ordinary activities at 20.25% (2014: 21.5%) | (30) | 337 |
| Effects of: |  |  |
| Expenses not deductible for tax purposes | 21 | 45 |
| Adjustment to tax rate | (63) | (2) |
| Other differences | 200 | (59) |
| Adjustment in respect of prior years | (20) | 44 |
| Total tax | **108** | 365 |

(c) Analysis of United Kingdom and overseas tax

United Kingdom tax included in above:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Corporation tax | **-** | - |
| Adjustment in respect of prior years | **(23)** | 20 |
| Current tax | **(23)** | 20 |
| Deferred tax | **12** | 38 |
|  | **(11)** | 58 |
| Overseas tax included in above: |  |  |
| Corporation tax | **-** | 16 |
| Adjustment in respect of prior years | **3** | - |
| Current tax | **3** | 16 |
| Deferred tax | **116** | 291 |
|  | **119** | 307 |

8.  Dividends paid

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015  Per share | 2015  £'000 | 2014  Per share | 2014  £'000 |
| Dividends paid during the year relating to the prior period | **4.00p** | **427** | 4.00p | 427 |
| Dividends to be paid: |  |  |  |  |
| Interim dividend for 2015 paid on 5 February 2016 | **1.00p** | **107** | 1.00p | 107 |
| Proposed final dividend for 2015 | **3.00p** | **320** | 3.00p | 320 |
|  | **4.00p** | **427** | 4.00p | 427 |

The dividends to be paid are not accounted for until they have been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of retained earnings in the year ending 31 December 2016.

9.  (LOSS)/Profit and diluted (LOSS)/profit per share

Both the basic and diluted (loss)/profit per share calculations are based on a loss of £259,000 (2014: profit: £1,103,000). The basic (loss)/profit per share has been calculated on a weighted average of 10,676,839 (2014: 10,673,506) ordinary shares being in issue during the period. The diluted (loss)/profit per share has been calculated on the weighted average number of shares in issue of 10,676,839 (2014: 10,673,506) plus the dilutive potential ordinary shares arising from share options of nil (2014: 110,975) totalling 10,676,839 (2014: 10,784,481).

Dilutive potential ordinary shares of 34,973 (2014: nil) were excluded from the calculation of diluted ordinary shares as there was no dilutive effect due to the loss for the year.

10. Investment properties

|  |  |  |  |
| --- | --- | --- | --- |
|  | Freehold  £'000 | Long  Leasehold  £'000 | Total  £'000 |
| Valuation at 1 January 2015 | 8,925 | 2,650 | 11,575 |
| Acquisition | 960 | - | 960 |
| Additions | 40 | - | 40 |
| Revaluation | 225 | - | 225 |
| Valuation at 31 December 2015 | 10,150 | 2,650 | 12,800 |
| Valuation at 1 January 2014 | 9,035 | 2,524 | 11,559 |
| Additions | 22 | - | 22 |
| Revaluation | (132) | 126 | (6) |
| Valuation at 31 December 2014 | 8,925 | 2,650 | **11,575** |
| Historical cost |  |  |  |
| At 31 December 2015 | 5,823 | 728 | 6,551 |
| At 31 December 2014 | 4,823 | 728 | 5,551 |

Long leasehold properties are those for which the unexpired term at the balance sheet date is not less than 50 years.

All investment properties are held for use in operating leases and all properties generated rental income during the period.

Freehold and Long Leasehold properties were externally professionally valued at 31 December on an open market basis by:

|  |  |
| --- | --- |
|  | 2015  £'000 |
| Carter Towler | 12,800 |

The valuations were carried out in accordance with the Statements of Asset Valuation and Guidance Notes published by The Royal Institution of Chartered Surveyors.

Each year external valuers are appointed by the Executive Directors on behalf of the Board. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the group.

Valuations are performed annually and are performed consistently across all investment properties in the group's portfolio. At each reporting date appropriately qualified employees of the group verify all significant inputs and review the computational outputs. Valuers submit their report to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, EBITDA, discount rates, construction costs including any specific site costs (for example section 106), professional fees, developer's profit including contingencies, planning and construction timelines, lease regear costs, planning risk and sales prices based on known market transactions for similar properties to those being valued.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer will consider the cost and likelihood of achieving and implanting this change in arriving at its valuation.

There are often restrictions on Freehold and Leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission or lease extension and renegotiation of use are required or when a credit facility is in place. These restrictions are factored in the property's valuation by the external valuer.

IFRS 13 sets out a valuation hierarchy for assets and liabilities measured at fair value as follows:

Level 1:   valuation based on inputs on quoted market prices in active markets

Level 2:   valuation based on inputs other than quoted prices included within level 1 that maximise the use of observable data directly or from market prices or indirectly derived from market prices.

Level 3:   where one or more inputs to valuations are not based on observable market data

The inter-relationship between key unobservable inputs and the groups' properties is detailed in the table below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Class of property Level 3 | Carrying/  fair value  2015  £'000 |  | Valuation technique | Key  unobservable inputs | Range  (weighted  average)  2015 |  |
| Freehold - external valuation | 10,150 |  | Income capitalisation | Estimated rental value  per sq ft p.a | £7 - £27 (£19) |  |
|  |  |  |  | Equivalent Yield | 8.0% - 12.6% (9.2%) |  |
| Long leasehold - external valuation | 2,650 |  | Income capitalisation | Estimated rental  value per sq ft p.a | £8 - £8 (£8) |  |
|  |  |  |  | Equivalent yield | 7.5% - 7.5% (7.5%) |  |
| At 31 December 2015 | 12,800 |  |  |  |  |  |
|  |  |  |  |  |  |  |

There are interrelationships between all these inputs as they are determined by market conditions. The existence of an increase in more than one input would be to magnify the input on the valuation. The impact on the valuation will be mitigated by the interrelationship of two inputs in opposite directions, for example, an increase in rent may be offset by an increase in yield.

The table below illustrates the impact of changes in key unobservable inputs on the carrying / fair value of the group's properties:

|  |  |  |
| --- | --- | --- |
|  | Estimated rental value  10% increase or decrease  £'000 | Equivalent yield  25 basis point contraction  or expansion  £'000 |
| Freehold - external valuation | 1,015 / (1,015) | 300 / (263) |
| Long Leasehold - external valuation | 265 / (265) | 92 / (86) |

11. Mining reserves, plant and equipment

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mining  reserves  £'000 | Mining  equipment  £'000 | Motor  vehicles  £'000 | Office  equipment  £'000 | Total  £'000 |
| Cost at 1 January 2015 | 1,266 | 17,539 | 169 | 115 | 19,089 |
| Exchange adjustment | (271) | (4,048) | (30) | (12) | (4,361) |
| Additions | - | 1,964 | 11 | 17 | 1,992 |
| Disposals | - | (2) | - | - | (2) |
| Cost at 31 December 2015 | 995 | 15,453 | 150 | 120 | 16,718 |
| Accumulated depreciation at 1 January 2015 | 1,149 | 11,705 | 77 | 94 | 13,025 |
| Exchange adjustment | (256) | (2,679) | (17) | (11) | (2,963) |
| Charge for the year | 56 | 1,177 | 39 | 12 | 1,284 |
| Disposals | - | (2) | - | - | (2) |
| Accumulated depreciation at 31 December 2015 | 949 | 10,201 | 99 | 95 | 11,344 |
| Net book value at 31 December 2015 | 46 | 5,252 | 51 | 25 | 5,374 |
| Cost at 1 January 2014 | 1,310 | 16,328 | 165 | 112 | 17,915 |
| Exchange adjustment | (44) | (550) | (4) | (2) | (600) |
| Additions | - | 1,838 | 38 | 5 | 1,881 |
| Disposals | - | (77) | (30) | - | (107) |
| Cost at 31 December 2014 | 1,266 | 17,539 | 169 | 115 | 17,915 |
| Accumulated depreciation at 1 January 2014 | 1,184 | 9,470 | 77 | 88 | 10,819 |
| Exchange adjustment | (38) | (329) | (1) | (1) | (369) |
| Charge for the year | 3 | 2,641 | 31 | 7 | 2,682 |
| Disposals in year | - | (77) | (30) | - | (107) |
| Accumulated depreciation at 31 December 2014 | 1,149 | 11,705 | 77 | 94 | 13,025 |
| Net book value at 31 December 2014 | 117 | 5,834 | 92 | 21 | 6,064 |

12. Investments held as non-current assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015  Joint  ventures  assets  £'000 | 2015  Other  £'000 | 2014  Joint  ventures  assets  £'000 | 2014  Other  £'000 |
| At 1 January | **2,898** | **156** | 3,235 | 156 |
| Transfer to non-current asset held for sale | **(1,168)** | **-** | - | - |
| Loss on transfer | **-** | **(126)** | - | - |
| Dividends received | **(105)** | **-** | (900) | - |
| Exchange adjustment | **(358)** | **(1)** | - | - |
| Share of gain in joint ventures | **69** | **-** | 563 | - |
| Loss on reclassification of non-current asset held for sale | **(138)** | **-** | - | - |
| Net assets at 31 December | **1,198** | **29** | 2,898 | 156 |
| Loan to joint venture (Ezimbokedwini): |  |  |  |  |
| At 1 January | **1,040** | **-** | 984 | - |
| Exchange adjustments | **(235)** | **-** | (36) | - |
| Additions | **95** | **-** | 92 | - |
| At 31 December | **900** | **-** | 1,040 | - |
| At 31 December | **2,098** | **29** | 3,938 | 156 |
| Provision for diminution in value: |  |  |  |  |
| At 1 January | **-** | **(4)** | - | (5) |
| Transfer | **-** | **-** | - | - |
| Write back\(down) of investment | **-** | **(11)** | - | 1 |
| At 31 December | **-** | **(15)** | - | (4) |
| Net book value at 31 December | **2,098** | **14** | 3,938 | 152 |

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Net book value of unquoted investments | - | 126 |
| Net book and market value of investments listed on overseas stock exchanges | 14 | 26 |
|  | 14 | 152 |

13. Joint ventures

The company owns 50% of the issued share capital of Dragon Retail Properties Limited, an unlisted property investment company. The remaining 50% is held by London & Associated Properties PLC. Dragon Retail Properties Limited is incorporated in England and Wales. It has issued share capital of 500,000 (2014: 500,000) ordinary shares of £1 each.

The company owns 49% of the issued share capital of Ezimbokodweni Mining (Pty) Limited, an unlisted coal exploration and development company. The company is incorporated in South Africa. It has issued share capital of 100 (2014: 100) ordinary shares of ZAR1 each.

Prior to 11 March 2016, the company owned 12.5% of the units of Langney Shopping Centre Unit Trust, an unlisted property unit trust incorporated in Jersey. 12.5% of the units in the trust were held by London & Associated Properties PLC and 75% were held by Columbus UK GP limited, a partner acting on behalf of Columbus UK Real Estate Fund. On the 11 March 2016, the company disposed of its investment in Langney Shopping Centre Unit Trust. The net proceeds from the sale were £1,168,000 which includes £30k dividends repaid post year end. At 31 December 2015, the investment was transferred from investment in joint ventures to non-current asset held for sale in the balance sheet. At year end, the share of the net assets of the trust held by the group were £1,168,000 (2014: £1,375,000) which includes a loss on the reclassification of the asset to held for sale in the amount of £138,000.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Dragon  50%  £'000 | Ezimbokodweni  49%  £'000 | Langney  12.5%  £'000 | 2015  £'000 | 2014  £'000 |
| Turnover |  | 86 | - | 172 | **258** | 236 |
| Profit and loss |  |  |  |  |  |  |
| (Loss)/Profit before tax |  | (37) | - | (102) | **(139)** | 564 |
| Taxation |  | 70 | - | - | **70** | (1) |
| (Loss)/Profit after taxation |  | 33 | - | (102) | **(69)** | 563 |
| Balance sheet |  |  |  |  |  |  |
| Non-current assets |  | 1,349 | 895 | 2,286 | **4,530** | 5,060 |
| Current assets |  | 1,274 | 2 | 102 | **1,378** | 1,735 |
| Current liabilities |  | (1,100) | (897) | (46) | **(2,043)** | (2,329) |
| Non-current liabilities |  | (650) | - | (1,174) | **(1,824)** | (2,251) |
| Share of net assets at 31 December |  | 873 | - | 1,168 | **2,041** | 2,215 |

14. NON-CURRENT ASSETS HELD FOR SALE

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |  |  |  |
| Investment in Langney Shopping Centre Unit Trust |  |  |  |  |  |
| Balance at 1 January | **-** | - |  |  |  |
| Transfer | **1,168** | - |  |  |  |
|  | **1,168** | - |  |  |  |
| On the 11 March 2016, the company disposed of its investment in Langney Shopping Centre Unit Trust, an unlisted property unit trust incorporated in Jersey. At year end, the company owned 12.5% of the units of the trust. The net proceeds from the sale were £1,138,000 (excluding dividend). At year end, the company's share of the net assets of the trust were £1,168,000 (2014: £1,375,000). |  |  |  |  |  |
|  |  |  |  |  |  |

15. Subsidiary companies

The company owns the following ordinary share capital of the subsidiaries which are included within the consolidated financial statements:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Activity | Percentage of  share capital |  | Country of  incorporation |
| Mineral Products Limited | Share dealing | 100% |  | England and Wales |
| Bisichi (Properties) Limited | Property | 100% |  | England and Wales |
| Bisichi Northampton Limited | Property | 100% |  | England and Wales |
| Bisichi Trustee Limited | Property | 100% |  | England & Wales |
| Urban First (Northampton) Limited | Property | 100% |  | England & Wales |
| Black Wattle Colliery (Pty) Limited | Coal mining | 62.5% |  | South Africa |
| Bisichi Coal Mining (Pty) Limited | Coal mining | 100% |  | South Africa |
| Black Wattle Klipfontein (Pty) Limited | Coal mining | 62.5% |  | South Africa |
| Bisichi Mining (Exploration) Limited | Holding company | 100% |  | England and Wales |
| Ninghi Marketing Limited | Dormant | 90.1% |  | England and Wales |
| Bisichi Mining Managements Services Limited | Dormant | 100% |  | England and Wales |
| Amandla Ehtu Mineral Resource Development (Pty) Limited | Dormant | 70% |  | South Africa |

Details on the non-controlling interest in subsidiaries are shown under note 27.

16. Inventories

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Coal |  |  |
| Washed | **778** | 606 |
| Run of mine | **110** | 1,070 |
| Work in progress | **122** | 45 |
| Other | **39** | 39 |
|  | **1,049** | 1,760 |

17. Trade and other receivables

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Amounts falling due within one year: |  |  |
| Trade receivables | **3,500** | 4,046 |
| Amount owed by joint venture | **2,140** | 2,168 |
| Other receivables | **490** | 419 |
| Prepayments and accrued income | **57** | 227 |
|  | **6,187** | 6,860 |

18.        Available for sale investments

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Market value of listed Investments: |  |  |
| Listed in Great Britain | **568** | 758 |
| Listed outside Great Britain | **26** | 38 |
|  | **594** | 796 |
| Original cost of listed investments | **737** | 740 |
| Unrealised deficit / surplus of market value versus cost | **(143)** | 56 |

19. Trade and other payables

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Trade payables | **1,982** | 1,682 |
| Amounts owed to joint ventures | **223** | 305 |
| Other payables | **1,279** | 1,320 |
| Accruals and deferred income | **750** | 1,679 |
|  | **4,234** | 4,986 |

20. Financial liabilities - borrowings

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Current | Non-current |  |  |
|  | 2015  £'000 | 2014  £'000 | 2015  £'000 | 2014  £'000 |
| Bank overdraft (secured) | **2,234** | 2,119 | **-** | - |
| Bank loan (secured) | **33** | 20 | **5,940** | 6,013 |
|  | **2,267** | 2,139 | **5,940** | 6,013 |
|  |  |  | 2015  £'000 | 2014  £'000 |
| Bank overdraft and loan instalments by reference to the balance sheet date: |  |  |  |  |
| Within one year |  |  | **2,267** | 2,139 |
| From one to two years |  |  | **27** | 21 |
| From two to five years |  |  | **5,913** | 5,992 |
|  |  |  | **8,207** | 8,152 |
| Bank overdraft and loan analysis by origin: |  |  |  |  |
| United Kingdom |  |  | **5,927** | 5,973 |
| Southern Africa |  |  | **2,280** | 2,179 |
|  |  |  | **8,207** | 8,152 |

The United Kingdom bank loans and overdraft are secured by way of a first charge over the investment properties in the UK which are included in the financial statements at a value of £12,800,000.

The South African bank loans are secured by way of a first charge over specific pieces of mining equipment, inventory and the debtors of the relevant company which holds the loan which are included in the financial statements at a value of £4,830,291.

Consistent with others in the mining and property industry, the group monitors its capital by its gearing levels. This is calculated as the net debt (loans less cash and cash equivalents) as a percentage of equity. At year end the gearing of the group was calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Total debt | **8,207** | 8,152 |
| Less cash and cash equivalents | **(1,608)** | (2,838) |
| Net debt | **6,599** | 5,314 |
| Total equity attributable to shareholders of the parent | **15,310** | 17,315 |
| Gearing | **43.1%** | 30.7% |

21. Provision for rehabilitation

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| As at 1 January | **930** | 874 |
| Exchange adjustment | **(162)** | (31) |
| Unwinding of discount | **79** | 87 |
| As at 31 December | **847** | 930 |

22. Financial instruments

Total financial assets and liabilities

The group's financial assets and liabilities are as follows, representing both the fair value and the carrying value:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Loans and  receivables  £'000 | Financial  Liabilities  measured at  amortised cost  £'000 | Available for sale investments  £'000 | 2015  £'000 | 2014  £'000 |
| Cash and cash equivalents | 1,608 | - | - | **1,608** | 2,838 |
| Available for sale investments | - | - | 594 | **594** | 796 |
| Other investments | - | - | 14 | **14** | 152 |
| Trade and other receivables | 6,954 | - | - | **6,954** | 7,673 |
| Bank borrowings and overdraft | - | (8,207) | - | **(8,207)** | (8,152) |
| Finance leases | - | (194) | - | **(194)** | (195) |
| Other liabilities | - | (4,024) | - | **(4,024)** | (4,836) |
|  | 8,562 | (12,425) | 608 | **(3,255)** | (1,724) |

Available for sale investments fall under level 1 of the fair value hierarchy into which fair value measurements are recognised in accordance with the levels set out in IFRS 7. Other investments are held at cost. The directors are of the opinion that the difference in value between cost and fair value of other investments is not significant or material. The comparative figures for 2014 fall under the same category of financial instrument as 2015.

Treasury policy

Although no derivative transactions were entered into during the current and prior year, the group may use derivative transactions such as interest rate swaps and forward exchange contracts as necessary in order to help manage the financial risks arising from the group's activities. The main risks arising from the group's financing structure are interest rate risk, liquidity risk, market risk, credit risk, currency risk and commodity price risk. There have been no changes during the year of the main risks arising from the group's finance structure. The policies for managing each of these risks and the principal effects of these policies on the results are summarised below.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cashflows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the group uses. Treasury activities take place under procedures and policies approved and monitored by the Board to minimise the financial risk faced by the group. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and loans to joint ventures. Interest bearing borrowings comprise bank loans, bank overdrafts and variable rate finance lease obligations. The rates of interest vary based on LIBOR in the UK and PRIME in South Africa.

As at 31 December 2015, with other variables unchanged, a 1% increase or decrease in interest rates, on investments and borrowings whose interest rates are not fixed, would respectively decrease or increase the loss for the year by £67,000 (2014: £79,000). The effect on equity of this change would be an equivalent decrease or increase for the year of £67,000 (2014: £79,000).

Liquidity risk

The group's policy is to minimise refinancing risk. Efficient treasury management and strict credit control minimise the costs and risks associated with this policy which ensures that funds are available to meet commitments as they fall due. As at year end the group held borrowing facilities in the UK in Bisichi Mining PLC and in South Africa in Black Wattle Colliery (Pty) Ltd.

The following table sets out the maturity profile of the financial liabilities as at 31 December:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Within one year | **6,692** | 7,400 |
| From one to two years | **213** | 223 |
| From two to five years | **6,464** | 6,539 |
| Beyond five years | **133** | 134 |
|  | **13,502** | 14,296 |

The following table sets out the maturity profile of the financial liabilities as at 31 December maturing within one year:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Within one month | **606** | 1,587 |
| From one to three months | **2,709** | 2,438 |
| From four to twelve months | **3,377** | 3,375 |
|  | **6,692** | 7,400 |

In South Africa, an increase in the structured trade finance facility from R60million (South African Rand) to R80million was signed by Black Wattle Colliery (Pty) Limited in October 2013 with Absa Bank Limited, a South African subsidiary of Barclays Bank PLC. The facility is renewable annually at 30 June and is secured against inventory, debtors and cash that are held by Black Wattle Colliery (Pty) Limited.

This facility comprises of a R60million revolving loan to cover the working capital requirements of the group's South African operations, and a R20million loan facility to cover guarantee requirements related to the group's South African mining operations. The interest cost of the loan is at the South African prime lending rate.

In December 2014, the group signed a £6 million term loan facility with Santander. The Loan is secured against the group's UK retail property portfolio. The debt package has a five year term and is repayable at the end of the term. The interest cost of the loan is 2.35% above LIBOR.

As a result of the above agreed banking facilities, the Directors believe that the group is well placed to manage its liquidity risk.

Credit risk

The group is mainly exposed to credit risk on its cash and cash equivalents, trade and other receivables and amounts owed by joint ventures as per the balance sheet. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet which at year end amounted to £8,562,000 (2014: £10,511,000). The group's credit risk is primarily attributable to its trade receivables. The group had amounts due from its significant revenue customers at the year end that represented 91% of the trade receivables balance. These amounts have been subsequently settled.

Trade debtor's credit ratings are reviewed regularly. The group only deposits surplus cash with well-established financial institutions of high quality credit standing. As at year end the amount of trade receivables held past due date was £144,000 (2014: £130,000). To date, the amount of trade receivables held past due date that has not subsequently been settled is £136,000 (2014: £85,000). Management have no reason to believe that this amount will not be settled.

Financial assets maturity

On 31 December 2015, cash at bank and in hand amounted to £1,608,000 (2014: £2,838,000) which is invested in short term bank deposits maturing within one year bearing interest at the bank's variable rates. Cash and cash equivalents all have a maturity of less than 3 months.

Commodity price risk

Commodity price risk is the risk that the group's future earnings will be adversely impacted by changes in the market of commodities. The group is exposed to commodity price risk as its future revenues will be derived based on a contract with a physical off-take partner at prices that will be determined by reference to market prices of coal at the delivery date.

From time to time the group may manage its exposure to commodity price risk by entering into forward sales contracts with the goal of preserving future revenue streams. The group has not entered any such contracts in 2015 and 2014.

Foreign exchange risk

All trading is undertaken in the local currencies. Funding is also in local currencies other than inter-company investments and loans and it is not the group's policy to obtain forward contracts to mitigate foreign exchange risk on these amounts. During 2015 and 2014 the group did not hedge its exposure of foreign investments held in foreign currencies.

The table below shows the currency profiles of cash and cash equivalents:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Sterling | **1,135** | 1,697 |
| South African Rand | **470** | 1,138 |
| US Dollar | **3** | 3 |
|  | **1,608** | 2,838 |

Cash and cash equivalents earn interest at rates based on LIBOR in Sterling and Prime in Rand.

The tables below shows the currency profiles of net monetary assets and liabilities by functional currency of the group:

|  |  |  |
| --- | --- | --- |
| 2015: | Sterling  £'000 | South  **African**  Rands  £'000 |
| Sterling | **(3,221)** | **-** |
| South African Rand | **89** | **(136)** |
| US Dollar | **13** | **-** |
|  | **(3,119)** | **(136)** |

|  |  |  |
| --- | --- | --- |
| 2014: | Sterling  £'000 | South  African  Rands  £'000 |
| Sterling | (2,515) | - |
| South African Rand | 153 | 618 |
| US Dollar | 20 | - |
|  | (2,342) | 618 |

The directors consider there to be no significant risk from exchange rate movements of foreign currencies against the functional currencies of the reporting companies within the group, excluding inter-company balances. As such no sensitivity analysis is prepared.

23. Deferred taxation

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Balance at 1 January | **2,208** | 1,902 |
| Recognised in income | **128** | 329 |
| Recognised in other comprehensive income | **(41)** | 15 |
| Exchange adjustment | **(293)** | (38) |
|  | **2,002** | 2,208 |
| The deferred tax balance comprises the following: |  |  |
| Revaluation of properties | **626** | 730 |
| Capital allowances | **1,487** | 1,418 |
| Short-term differences | **(111)** | 60 |
|  | **2,002** | 2,208 |

24. Share capital

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Authorised: 13,000,000 ordinary shares of 10p each | 1,300 | 1,300 |

Allotted and fully paid:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015  Number of  ordinary  shares | 2014  Number of  ordinary  shares | 2015  £'000 | 2014  £'000 |
| At 1 January | **10,676,839** | 10,636,839 | **1,068** | 1,064 |
| Shares issued during the year in regard to employee share options exercised (note 26) | **-** | 40,000 | **-** | 4 |
| Outstanding at 31 December | **10,676,839** | 10,676,839 | **1,068** | 1,068 |

25. Other reserves

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Equity share options | **488** | 566 |
| Net premium on share capital in joint venture | **86** | 86 |
|  | **574** | 652 |

26. Share based payments

Details of the share option scheme are shown in the Directors' remuneration report on pages 28 and 29 under the heading Share option schemes which is within the audited part of this report. Further details of the share option schemes are set out below.

The Bisichi Mining PLC Unapproved Option Schemes:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year of grant | Subscription  price per share | Period within  which options  exercisable | Number of share  for which options  outstanding at  31 December 2014 | Number of  share options  issued/  (cancelled)  during year | Number of share  for which options  outstanding at  31 December 2015 |
| 2006 | 237.5p | Oct 2009 - Oct 2016 | 325,000 | - | 325,000 |
| 2010 | 202.5p | Aug 2013 - Aug 2020 | 80,000 | - | 80,000 |
| 2012 | 34.0p | Oct 2012 - Sep 2022 | 193,000 | (193,000) | - |
| 2015 | 87.0p | Sep 2015 - Sep 2025 | - | 300,000 | 300,000 |

The exercise of options under the Unapproved Share Option Schemes, for certain option issues, is subject to the satisfaction of objective performance conditions specified by the remuneration committee, which will conform to institutional shareholder guidelines and best practice provisions in force from time to time. The performance conditions for the 2010 scheme, agreed by members on 31 August 2010 respectively, requires growth in net assets over a three year period to exceed the growth of the retail prices index by a scale of percentages. There are no performance or service conditions attached to the other schemes.

The 2015 options were valued at £118,000 at date of grant using the Black-Scholes-Merton model with the following assumptions:

Expected volatility                                                  36.30%

Expected life                                                          4 years

Risk free rate                                                          0.994%

Expected dividends                                                  4.47%

Expected volatility was determined by reference to the historical volatility of the share price over a period commensurate with the option's expected life. The expected life used in the model is used on the risk-averse balance likely to be required by the option holders.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015  Number | 2015  Weighted  average  exercise price | 2014  Number | 2014  Weighted  average  exercise price |
| Outstanding at 1 January | **598,000** | **167.1p** | 718,000 | 157.7p |
| Granted during the year | **300,000** | **87.0p** | - | - |
| Cancelled during the year | **(193,000)** | **34.0p** | (80,000) | (149.0p) |
| Exercised during the year | **-** | **0.0p** | (40,000) | (34.0p) |
| Outstanding at 31 December | **705,000** | **133.1p** | 598,000 | 167.1p |
| Exercisable at 31 December | **705,000** | **133.1p** | 598,000 | 167.1p |

27. Non-controlling interest

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| As at 1 January | **404** | 359 |
| Share of profit for the year | **4** | 100 |
| Dividends received | **-** | (42) |
| Exchange adjustment | **(87)** | (13) |
| As at 31 December | **321** | 404 |

The non-controlling interest comprises of a 37.5% shareholding in Black Wattle Colliery (Pty) Ltd. A coal mining company incorporated in South Africa. Summarised financial information reflecting 100% of the underlying subsidiary's relevant figures, is set out below.

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Revenue | 24,608 | 25,536 |
| Expenses | (24,582) | (24,866) |
| Profit for the year | 26 | 670 |
| Other comprehensive Income | - | - |
| Total comprehensive income for the year | 26 | 670 |
| Balance sheet |  |  |
| Non-current assets | 5,355 | 6,030 |
| Current assets | 5,932 | 8,054 |
| Current liabilities | (7,156) | (9,125) |
| Non-current liabilities | (1,988) | (2,260) |
| Net assets at 31 December | 2,143 | 2,699 |

The non-controlling interest relates to the disposal of a 37.5% shareholding in Black Wattle Colliery (Pty) Ltd in 2010. The total issued share capital in Black Wattle Colliery (Pty) Ltd was increased from 136 shares to 1,000 shares at par of R1 (South African Rand) through the following shares issue:

-    a subscription for 489 ordinary shares at par by Bisichi Mining (Exploration) Limited increasing the number of shares held from 136 ordinary shares to a total of 675 ordinary shares;

-    a subscription for 110 ordinary shares at par by Vunani Mining (Pty) Ltd;

-    a subscription for 265 "A" shares at par by Vunani Mining (Pty) Ltd

Bisichi Mining (Exploration) Limited is a wholly owned subsidiary of Bisichi Mining PLC incorporated in England and Wales.

Vunani Mining (Pty) Ltd is a South African Black Economic Empowerment company and minority shareholder in Black Wattle Colliery (Pty) Ltd.

The "A" shares rank pari passu with the ordinary shares save that they will have no dividend rights until such time as the dividends paid by Black Wattle Colliery (Pty) Ltd on the ordinary shares subsequent to 30 October 2008 will equate to R832,075,000.

A non-controlling interest of 15% in Black Wattle Colliery (Pty) Ltd is recognised for all profits distributable to the 110 ordinary shares held by Vunani Mining (Pty) Ltd from the date of issue of the shares (18 October 2010). An additional non-controlling interest will be recognised for all profits distributable to the 265 "A" shares held by Vunani Mining (Pty) Ltd after such time as the profits available for distribution, in Black Wattle Colliery (Pty) Ltd, before any payment of dividends after 30 October 2008, exceeds R832,075,000.

28. Related party transactions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | At 31 December | During the year |  |  |
|  | Amounts  owed  to related  party  £'000 | Amounts  owed  by related  party  £'000 | Costs  recharged  (to)/by  related  party  £'000 | Cash paid  (to)/by  related  party  £'000 |
| Related party: |  |  |  |  |
| London & Associated Properties PLC (note (a)) | 59 | - | 138 | (82) |
| Langney Shopping Centre Unit Trust (note (b)) | - | (64) | - | 104 |
| Dragon Retail Properties Limited (note (c)) | 223 | (2,076) | (180) | 21 |
| Ezimbokodweni Mining (Pty) Limited (note (d)) | - | (897) | (94) | - |
| As at 31 December 2015 | **282** | **(3,037)** | **(136)** | **43** |
|  |  |  |  |  |
| London & Associated Properties PLC (note (a)) | 3 | - | 138 | (135) |
| Langney Shopping Centre Unit Trust (note (b)) | - | (168) | - | 64 |
| Dragon Retail Properties Limited (note (c)) | 305 | (2,000) | (174) | (726) |
| Ezimbokodweni Mining (Pty) Limited (note (d)) | - | (1,040) | (92) | - |
| As at 31 December 2014 | 308 | (3,208) | (128) | (797) |

London & Associated Properties PLC is a substantial shareholder. Dragon Retail Properties Limited is a joint venture and is treated as a non-current asset investment. On the 11 March 2016, the company disposed of its investment in Langney Shopping Centre Unit Trust, a joint venture. The trust is therefore held as a non-current asset held for sale. Ezimbokodweni Mining (Pty) Limited is a joint venture and is treated as a non-current asset investment.

(a)  London & Associated Properties PLC - Property management, office premises, general management, accounting and administration services are provided for Bisichi Mining PLC and its UK subsidiaries.

(b)  Langney Shopping Centre Unit Trust - Langney Shopping Centre Unit Trust is an unlisted property unit trust incorporated in Jersey.

(c)  Dragon Retail Properties Limited - ("Dragon") is owned equally by the company and London & Associated Properties PLC. During 2012 the company lent £2million to Dragon at 6.875 per cent annual interest.

(d) Ezimbokodweni Mining (Pty) Limited - Ezimbokodweni Mining is a prospective coal production company based in South Africa.

Details of key management personnel compensation and interest in share options are shown in the Directors' Remuneration Report on pages 28 and 29 under the headings Directors' remuneration, Pension schemes and incentives and Share option schemes which is within the audited part of this report. The total employers' national insurance paid in relation to the remuneration of key management was £157,000 (2014: 114,000). In 2012 a loan was made to one of the directors, Mr A R Heller, for £116,000. The loan amount outstanding at year end was £86,000 (2014: £101,000) and a repayment of £15,000 (2014: £15,000) was made during the year.

29. Employees

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| The average weekly numbers of employees of the group during the year were as follows: |  |  |
| Production | **191** | 213 |
| Administration | **17** | 18 |
|  | **208** | 231 |

|  |  |  |
| --- | --- | --- |
|  | £'000 | £'000 |
| Staff costs during the year were as follows: |  |  |
| Salaries | **4,682** | 4,676 |
| Social security costs | **160** | 117 |
| Pension costs | **221** | 209 |
| Share based payments | **31** | 55 |
|  | **5,094** | 5,057 |

30. Capital commitments

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Commitments for capital expenditure approved but not contracted for at the year end | **306** | 389 |
| Share of commitment of capital expenditure in joint venture | **1,102** | 1,402 |

31. Head lease commitments and future property lease rentals

Present value of head Leases on properties

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Minimum lease  payments | Present value of  minimum lease  payments |  |  |
|  | 2015  £'000 | 2014  £'000 | 2015  £'000 | 2014  £'000 |
| Within one year | **12** | 12 | **12** | 12 |
| Second to fifth year | **48** | 49 | **45** | 45 |
| After five years | **1,549** | 1,569 | **137** | 138 |
|  | **1,609** | 1,630 | **194** | 195 |
| Discounting adjustment | **(1,415)** | (1,435) | **-** | - |
| Present value | **194** | 195 | **194** | 195 |

Finance lease liabilities are in respect of leased investment property. Many of the leases provide for contingent rents in addition to the rents above which are a proportion of rental income. Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in event of default.

The group leases out its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Within one year | **923** | 746 |
| Second to fifth year | **2,699** | 2,399 |
| After five years | **9,786** | 9,868 |
|  | **13,408** | 13,013 |

32. Contingent liabilities

Bank guarantees have been issued by the bankers of Black Wattle Colliery (Pty) Limited on behalf of the company to third parties. The guarantees are secured against the assets of the company and have been issued in respect of the following:

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Rail siding | **47** | 158 |
| Rehabilitation of mining land | **1,009** | 1,114 |
| Water & electricity | **42** | 52 |

Company balance sheet

at 31 December 2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | Notes | 2015  £'000 | 2014  £'000 |
| Fixed assets |  |  |  |
| Tangible assets | 35 | **20** | 34 |
| Investment in joint ventures | 36 | **1,810** | 1,810 |
| Other investments | 36 | **7,577** | 7,712 |
|  |  | **9,407** | 9,556 |
| Current assets |  |  |  |
| Debtors - amounts due within one year | 37 | **3,296** | 2,981 |
| Debtors - amounts due in more than one year | 37 | **659** | 1,127 |
| Bank balances |  | **1,031** | 988 |
|  |  | **4,986** | 5,096 |
| Creditors - amounts falling due within one year | 38 | **(1,301)** | (1,218) |
| Net current liabilities |  | **3,685** | 3,878 |
| Total assets less current liabilities |  | **13,092** | 13,434 |
| Creditors - amounts falling due in more than one year - term bank loan | 38 | **(9)** | (64) |
| Provision for liabilities and charges | 39 | **(182)** | - |
| Net assets |  | **12,901** | 13,370 |
| Capital and reserves |  |  |  |
| Called up share capital | 24 | **1,068** | 1,068 |
| Share premium account |  | **258** | 259 |
| Other reserves |  | **489** | 566 |
| Retained earnings | 33 | **11,086** | 11,477 |
| Shareholders' funds |  | **12,901** | 13,370 |

The company financial statements were approved and authorised for issue by the board of directors on 18 April 2015 and signed on its behalf by:

A R Heller               G J Casey                              Company Registration No. 112155

Director                  Director

Company statement of

changes in equity

for the year ended 31 December 2015

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Share  capital  £'000 | Share  premium  £'000 | Other  reserve  £'000 | Retained  earnings  £'000 | **Shareholders**  **funds**  **£'000** |
| Balance at 1 January 2014 | 1,064 | 249 | 503 | 10,279 | **12,095** |
| Dividend paid | - | - | - | (427) | **(427)** |
| Share option charge | 4 | 10 | 63 | - | **77** |
| Profit and total comprehensive income for the year | - | - | - | 1,625 | **1,625** |
| Balance at 1 January 2015 | 1,068 | 259 | 566 | 11,477 | 13,370 |
| Dividend paid | - | - | - | (427) | **(427)** |
| Share option charge | - | (1) | 32 | - | **31** |
| Share option cancelled | - | - | (109) | - | **(109)** |
| Profit and total comprehensive income for the year | - | - | - | 36 | **36** |
| Balance at 31 December 2015 | 1,068 | 258 | 489 | 11,086 | 12,901 |

Company accounting policies

for the year ended 31 December 2015

The following are the main accounting policies of the company:

Accounting convention: First time adoption of FRS 100 and 101

In the current year the company has adopted FRS 100 and FRS 101. In previous years the financial statements were prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with applicable UK Generally Accepted Accounting Practice.

This change in the basis of preparation has materially altered the recognition and measurement requirements applied in accordance with previously applicable UK accounting standards. An explanation of the impact of adoption of FRS 100 and FRS 101 for the first time is included in note 41.

DISCLOSURE EXEMPTIONS ADOPTED

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

·     certain comparative information as otherwise required by EU endorsed IFRS;

·     certain disclosures regarding the company's capital;

·     a statement of cash flows;

·     the effect of future accounting standards not yet adopted;

·     the disclosure of the remuneration of key management personnel; and

·     disclosure of related party transactions with the company's wholly owned subsidiaries

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the company's Consolidated Financial Statements.

Dividends received

Dividends are credited to the profit and loss account when received.

Depreciation

Provision for depreciation on tangible fixed assets is made in equal annual instalments to write each item off over its useful life. The rates generally used are:

Motor vehicles        25 - 33 per cent

Office equipment   10 - 33 per cent

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies have been translated at the rates of exchange ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

Investment properties

The investment property portfolio is included in the financial statements at open market valuation. An external professional valuation is carried out annually by professional external surveyors. Surpluses and deficits arising on valuations are taken direct to the revaluation reserve. No depreciation or amortisation is provided in respect of freehold and leasehold investment properties. Depreciation or amortisation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

On the 23rd of December 2014, the investment property portfolio was transferred within the group to Bisichi (Properties) Limited, a 100% owned and controlled subsidiary of the company.

Investments

Investments of the company are stated in the balance sheet as fixed assets at cost less provisions for impairment.

Financial instruments

Bank loans and overdrafts

Bank loans and overdrafts are included in creditors on the company balance sheet net of the unamortised cost of financing.

Interest payable on those facilities is expensed as a finance cost in the period to which it relates.

Debtors

Amounts due from subsidiary undertakings are held at present value where the interest that would be recognised from discounting future cash payments is considered to be material. Other debtors do not carry interest and are stated at their nominal value as ***reduced*** by appropriate allowances for estimated recoverable amounts.

Creditors

Creditors are not interest bearing and are stated at their nominal value.

Joint ventures

Investments in joint ventures, being those entities over whose activities the group has joint control as established by contractual agreement, are included at cost, less impairment.

Deferred taxation

A full provision is made for deferred tax where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for those differences in respect of which the standard specifies that deferred tax should not be recognised. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Leased assets and obligations

All leases are "Operating Leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term. Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease so as to spread the benefit received over the lease term.

Pensions

The company makes contributions to a money purchase scheme and the costs are charged to the profit and loss account in the period to which they relate.

Share based remuneration

The company operates a share option scheme. The fair value of the share option scheme is determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. The fair value of options granted is calculated using a binomial model or Black-Scholes-Merton model. Details of the share options in issue are disclosed in the Directors' Remuneration Report on pages 28 and 29 under the heading Share option schemes which is within the audited part of this report.

33. PROFIT & LOSS ACCOUNT

A separate profit and loss account for Bisichi Mining PLC has not been presented as permitted by Section 408(2) of the Companies Act 2006. The profit for the financial year, before dividends, was £36,000 (2014: £1,625,000)

Details of share capital are set out in note 24 and details of the share options are shown in the Directors' Remuneration Report on page 29 under the heading Share option schemes which is within the audited part of this report and note 26.

34. Dividends

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2015  Per share | 2015  £'000 | 2014  Per share | 2014  £'000 |
| Dividends paid during the year relating to the prior period | **4.00p** | **427** | 4.00p | 427 |
| Dividends to be paid: |  |  |  |  |
| Interim dividend for 2015 paid on 5 February 2016 | **1.00p** | **107** | 1.00p | 107 |
| Proposed final dividend for 2015 | **3.00p** | **320** | 3.00p | 320 |
|  | **4.00p** | **427** | 4.00p | 427 |

The aggregate amount of dividends to be paid and not recognised as liabilities as at year end is £427,000 (2014: £427,000). The dividends to be paid are not accounted for until they have been approved at the Annual General Meeting. The amount will be accounted for as an appropriation of retained earnings in the year ending 31 December 2016.

35. Tangible fixed assets

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
|  | Motor  vehicles  £'000 | Office  equipment  £'000 | Total  £'000 |  |  |  |
| Cost at 1 January 2015 | 37 | 66 | 103 |  |  |  |
| Additions | - | 1 | 1 |  |  |  |
| Cost at 31 December 2015 | 37 | 67 | 104 |  |  |  |
|  |  |  |  |  |  |  |
| Accumulated depreciation at 1 January 2015 | 14 | 55 | 69 |  |  |  |
| Charge for the year | 13 | 2 | 15 |  |  |  |
| Accumulated depreciation at 31 December 2015 | 27 | 57 | 84 |  |  |  |
| Net book value at 31 December 2015 | 10 | 10 | 20 |  |  |  |
| Net book value at 31 December 2014 | 23 | 11 | 34 |  |  |  |
|  |  |  |  |  |  |  |

36. Investments

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Joint  ventures  shares  £'000 | Shares in subsidiaries  £'000 | Loans  £'000 | Other  investments  £'000 | Total  £'000 |
| Cost at 1 January 2015 | 1,810 | 6,356 | 1,331 | 26 | 7,713 |
| Invested during year | - | - | 3 | - | 3 |
| Loss on transfer | - |  | (126) | - | (126) |
| Cost at 31 December 2015 | 1,810 | 6,356 | 1,208 | 26 | 7,590 |
| Provision for impairment |  |  |  |  |  |
| As at 1 January | - | - | - | (1) | (1) |
| Impaired during the year | - | - | - | (12) | (12) |
| As at 31 December 2015 | - | - | - | (13) | (13) |
| Net book value at 31 December 2015 | 1,810 | 6,356 | 1,208 | 13 | 7,577 |
| Net book value at 31 December 2014 | 1,810 | 6,356 | 1,331 | 25 | 7,712 |

Other investments comprise £13,000 (2014: £25,000) shares.

Investments in subsidiaries are detailed in note 15. In the opinion of the directors the aggregate value of the investment in subsidiaries is not less than the amount shown in these financial statements.

On the 11 March 2016, the company disposed of its joint venture investment in Langney Shopping Centre Unit Trust. The net book value of the investment included in these financial statements at 31 December 2015 was £963,000. The net proceeds from the sale were £1,138,000 (excluding dividend). Further information relating to the disposal of Langney Shopping Centre Unit Trust can be found in Note 14.

37. Debtors

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Amounts due within one year: |  |  |
| Amounts due from subsidiary undertakings | **1,003** | 360 |
| Trade receivables | **16** | 109 |
| Other debtors | **81** | 118 |
| Joint venture | **2,140** | 2,168 |
| Prepayments and accrued income | **56** | 226 |
|  | **3,296** | 2,981 |
| Amounts due in more than one year: |  |  |
| Amounts due from subsidiary undertakings | **659** | 1,123 |
| Deferred taxation | **-** | 4 |
|  | **659** | 1,127 |

38. Creditors

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Amounts falling due within one year: |  |  |
| Bank overdraft (secured) | **-** | - |
| Bank loan (secured) | **8** | 7 |
| Amounts due to subsidiary undertakings | **365** | - |
| Joint venture | **223** | 305 |
| Current taxation | **-** | 23 |
| Other taxation and social security | **3** | 89 |
| Other creditors | **574** | 444 |
| Accruals and deferred income | **128** | 350 |
|  | **1,301** | 1,218 |
| Amounts falling due in more than one year: |  |  |
| Bank loan (secured) | **9** | 64 |

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Bank and other loan instalments by reference to the balance sheet date: |  |  |
| Within one year | **8** | 7 |
| From one to two years | **7** | 7 |
| From two to five years | **2** | 57 |
|  | **17** | 71 |

39. Provisions for liabilities

|  |  |  |
| --- | --- | --- |
|  | 2015  £'000 | 2014  £'000 |
| Deferred taxation |  |  |
| Balance at 1 January | - | 695 |
| Provision | 182 | (695) |
| Transfer | - | - |
|  | 182 | - |

40. Related party transactions

|  |  |  |  |
| --- | --- | --- | --- |
| At 31 December | During the year |  |  |
|  | Amounts owed  by related party  £'000 | Costs  recharged /  accrued  (to) / by  related party  £'000 | Cash paid  (to)/ by  related  party  £'000 |
| Related party: |  |  |  |
| Black Wattle Colliery (Pty) Ltd (note (a)) | (1,157) | (653) | 1,812 |
| Ninghi Marketing Limited (note (b)) | (102) | - | - |
| As at 31 December 2015 | (1,259) | (653) | 1,812 |
| Black Wattle Colliery (Pty) Ltd (note (a)) | (2,316) | (1,009) | 1,207 |
| Ninghi Marketing Limited (note (b)) | (102) | - | - |
| As at 31 December 2014 | (2,418) | (1,009) | 1,207 |

(a)  Black Wattle Colliery (Pty) Ltd - Black Wattle Colliery (Pty) Ltd is a coal mining company based in South Africa.

(b)  Ninghi Marketing Limited - Ninghi Marketing Limited is a dormant coal marketing company incorporated in England & Wales.

Black Wattle Colliery (PTY) Ltd and NInghi Marketing Limited are subsidiaries of the company.

In addition to the above, the company has issued a company guarantee of R17,000,000 (2013: R17,000,000) (South African Rand) to the bankers of Black Wattle Colliery (Pty) Ltd in order to cover bank guarantees issued to third parties in respect of the rehabilitation of mining land.

A provision of £102,000 has been raised against the amount owing by Ninghi Marketing Limited as the company is dormant.

In 2012 a loan was made to one of the directors, Mr A R Heller, for £116,000. There is no fixed repayment date. The loan amount outstanding at year end was £86,000 (2014: £101,000) and a repayment of £15,000 (2014: £15,000) was made during the year.

Under FRS 101, the company has taken advantage of the exemption from disclosing transactions with other wholly owned group companies.

Details of other related party transactions are given in note 28 of the group financial statements.

41. FIRST TIME ADOPTION OF FRS 101 ***REDUCED*** DISCLOSURE FRAMEWORK

This is the first time that the company has adopted FRS 101 having previously applied applicable UK accounting standards.  The date of transition to FRS 101 was 1 January 2014.

In applying FRS 101 for the first time the company has made the election to retain the cost of investment in subsidiary undertakings at their carrying amounts under applicable UK accounting standards.

The following table summarise the effects on the company's equity and total comprehensive income of applying FRS 101 for the first time.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Equity  at  1 January 2014  £'000 | Equity  at  31 December 2014  £'000 | Comprehensive income  at  31 December 2014  £'000 |
| **As previously reported in accordance with applicable UK accounting standards** | **12,808** | **13,370** | **912** |
| **Transition adjustments:** |  |  |  |
| Deferred taxation on revaluation of investment property | (713) | - | 713 |
| **Accounted in accordance with  FRS 101** | **12,095** | **13,370** | **1,625** |

In addition to above, in the 2014 year end there is a reclassification of debtor amounts that are due in more than one year of £1,127,000 from non-current assets to current assets in the balance sheet.

**Load-Date:** April 22, 2016

**End of Document**

1. 1New Era, 14 Sep 2015 [↑](#footnote-ref-2)
2. 2Shetekela quoted in New Era, 17 Sep 2015 [↑](#footnote-ref-3)
3. 3The Namibian, 24 Sep 2015. [↑](#footnote-ref-4)
4. 4The Namibian, 24 Sep 2015. [↑](#footnote-ref-5)
5. 5The Namibian, 24 Sep 2015. [↑](#footnote-ref-6)
6. 6The Namibian, 24 Sep 2015. [↑](#footnote-ref-7)
7. 7Namibia Statistics Agency, Annual National Accounts 2014. [↑](#footnote-ref-8)
8. 8Namibia Statistics *Agency, Annual National Accounts 2014* [↑](#footnote-ref-9)
9. 9FIS: financial intermediation services [↑](#footnote-ref-10)
10. 10IJG Namibia, Final National Accounts 2014, 11 Sep 2015 [↑](#footnote-ref-11)
11. 11UNCTAD, World Investment Report 2015 [↑](#footnote-ref-12)
12. 12Weatherly International, Operations Update, 14 Sep 2015 [↑](#footnote-ref-13)
13. 13Weatherly International, Operations Update, 14 Sep 2015 [↑](#footnote-ref-14)
14. 14Namibia Economist, 11 Sep 2015 [↑](#footnote-ref-15)
15. 15Xin Shunkan quoted in Namibia Economist, 11 Sep 2015 [↑](#footnote-ref-16)
16. 16Namibia Economist, 14 Aug 2015; Ohorongo Cement press release 30 July 2015 [↑](#footnote-ref-17)
17. 17The Namibian, 23 Sep 2015 [↑](#footnote-ref-18)
18. 18The Namibian, 16 Sep 2015 [↑](#footnote-ref-19)
19. 19See ARC Briefing Namibia November 2014 [↑](#footnote-ref-20)
20. 20The Namibian, 16 Sep 2015 [↑](#footnote-ref-21)
21. 21The Namibian, 16 Sep 2015 [↑](#footnote-ref-22)