

**QUOTE FROM DAVID LEVENSTEIN (Kitco web commentary)**

At the moment Spain has almost \$2 trillion in debt. Unemployment is at 25% with youth unemployment at 51.5%! Housing prices are down 30%. Bad loans on held by banks are at 8.4%, the highest since 1994. GDP will shrink 1.8% this year. So there's no possibility for Spain to grow its way out of debt.

According to Jim Rogers, bailing out ailing financial institutions adds to debt burdens and gives policymakers wiggle room to put off making tough decisions like paying down debts.

"It's nothing more than pushing the thing out into the future. It's making the situation worse. The solution to too much debt is not more debt. This is the most insane thing I have ever heard," Rogers told CNBC.

"It's going to make the collapse, when it comes, even worse. You should be not careful, you should be worried."

"What we are doing in the West, we are taking the assets from the competent people and giving them to the incompetent people and say 'now you compete with the competent people with their money.' It's absurd economics. It's absurd morality."

This global mountain of debt is going to continue to expand because to a politician or a banker, the answer to a debt crisis is always more debt. So far, all the bail-out programs as well as the huge quantitative easing programs of the US Fed, the ECB, BoE and BoJ have saved numerous financial institutions from total collapse, but have done nothing to stimulate the deteriorating economies in the Eurozone. And, as unemployment rises, and GDP growth contracts, they will be forced into providing additional stimulus, or in real terms, "print more money" which will lead to the debasement of their respective fiat currencies relative to hard currencies.

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## News & views from Summit Spring 2012



### **Fuel can be expensive - if you dance for the piper -**

You probably know that fuel is expensive and a major cost in our economy. You also know that nearly all of the fuel is processed or refined at Marsden Point near Whangarei and that it is distributed. But we missed something! I happen to buy a 9kg bottle of LPG for \$22, which in Christchurch would have cost me \$36.

So the NZ Government is using a distribution tax policy where all of the regions pay four levels of tax on the same fuel that comes into this land. In simple language, people near the refinery pay about the same rate as the people at the other end of the land. This is entirely logical and reasonable, especially if we think about electricity which is mainly produced in the lakes of the South Island and then transmitted to the North Island. It is charged out at about the same rate for both islands.

It is believed that our current options for diesoline are:

1. Do nothing and pay the normal \$1.45 inclusive GST.
2. Get a fuel card from AA, CRT, ATS, Z or somebody - get 5-8c off.
3. Go to Pak n Save for 4-20c off, but your limit will be under 150 litres.
4. Join a bulk scheme with us at a starting point around 120 cents per litre plus GST but you will need to be a large buyer. This would only be viable where we have a very large client willing to have a 30,000 Litre tank with a key pad and access for several users.
5. Let us help you join a special group that will import fuel already processed at a cost of about \$1 plus GST and you will avoid at least one layer of NZ tax. As in item 4, it will be necessary to have large tanks in strategic locations – preferably at or near fishing ports.

### **ISO 14001 SYSTEM**

Clients who wish to export to Japan, USA and Europe should consider an environmental management system to provide serious competitive advantage. Trade and Industry Grants of \$20,000 may apply.



## 2.

### WELL MANAGED RISK GROUP - UPDATE

We are delighted to announce that we can now provide audit services to those clients who wish to pursue much much cheaper insurance on an annual basis. They will agree to let us provide a risk management audit lasting 60 - 90 minutes and provide them with a report plus a copy for their insurer. They may also agree to provide us with a letter of authority to obtain a special quote for their WELL MANAGED RISK SITE from a top quality international insurer. They will expect to reduce costs by 20% or 30% or 40% or 50% or in some cases up to 80%.

### INSURANCE STORIES GUARANTEED TO BE REAL

Since most of our clients are cautious people and do not wish to suffer loss or failure, they will want proof of actual situations / results. So, let us talk about a few of them.

- A Local company found that it was difficult to survive in tough times so decided to cancel all of its existing insurances. It currently saves \$84,000 per annum but runs the risk of hitting the wall and going out of business. It may be much wiser to be more realistic and seek Well Managed Risk cover.
- A South Island Company had three claims in three successive years and their annual premium went from \$40,000 to \$200,000. They decided to let us help them with systems and training. They were then able to obtain improved cover for under \$50k per annum once the certification was completed.
- A Northland company was paying about \$30,000 per annum for a fleet of agricultural plant but they had a mishap and lost a large machine that fell through a farm bridge. They became uninsurable. They declined our offer of help and decided that they would do their own thing. They were then able to get cover for \$100,000 which they could not afford, so they decided to cut the plant list in half.
- A company in Christchurch was paying \$15,000 p.a. for a process factory which was on a small section. They fortunately listened to what we told them and were able to reduce the premiums to \$4,500 p.a.
- A company in Hawkes Bay with a huge storage factory for apples was paying a large annual sum. They decided to listen to our story and to have annual training for fire wardens plus a site audit and report. They were able to reduce annual premiums by \$100,000 per annum and the Accountant rings us every year to spend less than \$3,000 on Fire Regulations to get the \$100,000.
- A large contracting company in Palmerston North recently decided to get a quote from a high quality international insurer that provides cover for well managed risk. They were able to produce audit reports and our certificates. To their delight, they found that their annual premiums dropped by 20% immediately.

## 3.

### DEBT TO INCOME RULES?

In the old days the rule for domestic borrowing was that not more than 30% of household income should be applied to the mortgage repayment. Then it became 40% and then 50%. And the maximum amount to be borrowed should not exceed 66% of the value of the property and then it became 80% and then 100% and finally 120%. So people went for the 120% then went on holiday or purchased a car or furniture. They suddenly became the new wealthy. And the home went up in value by 100% so it was not a problem and some people then cleverly borrowed even more and more. But eventually the chickens came home to roost and the property prices fell back to the 100 year average.



### FRACTIONAL BANKING AND LOOSE FINANCIAL POLICIES

Most people will remember the Tech Crash of 2003 /2005. Much of this was caused by loose lending principles. In NZ we had wonderful financial policies under which many groups could form and operate a finance company. It was easy. Unfortunately it was also easy for them to offer attractive interest rates and borrow short and lend long (a no no no). NZ happened to lose most of its finance companies and many thousands of NZ people lost all of their savings.

BUT there was a man called Greenspamer and he decided that the best way to recover from the Tech Crash was to create enormous liquidity. All banks would be invited to operate under lowered prudential ratios. The normal ratio of yesteryear was \$12-15 of hard securities that must be held against every \$100 of loans made to customers. Then the ratio was reduced from 12-15% down to 10% and then 8% and many of them now operate on just 5%. And so we now have a world wide predicament of almost unsolvable proportions. Here is a link so that you can look at the nations of the world and their relative sustainability, long term.

[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_public\\_debt](http://en.wikipedia.org/wiki/List_of_countries_by_public_debt)

If you wish to look at the five causes of the great depression then look here.

<http://americanhistory.about.com/od/greatdepression/tp/greatdepression.htm>

Do your own search to find out how many 100s of banks have already crashed.

### SOMETHING TO PONDER

The Lord Jesus shall be revealed from heaven with his mighty angels; In flaming fire taking vengeance on them that know not God, and that obey not the gospel of our Lord Jesus Christ.

2 Thess 1/7-8

