Issue One: Twenty Twenty Three

OPPORTUNITIES | PATIENCE | GROUNDWORK

Covisory Connect

MAGAZINE

About us

[but really all about how we can assist you with your issues and concerns]

Are you looking to understand what is important to you from your perspective?

We partner with you to help you understand what is truly important to you. We help individuals, families, and their businesses to exceed their expectations for what matters most to them.

Have a problem?

We work with you to transform how you conduct your businesses and trusts. We help you to build enduring, resilient frameworks and capabilities across all that you do.

Our team defines us

Covisory is a team that are united by a strong set of values, with a deep commitment to making a positive impact through our work and how we connect with you, our client.

With an expert team with significant technical and commercial experience based New Zealand and Internationally, we combine local insight and global expertise and contacts to help you turn your goals into reality.

Our consultants include accountants, lawyers, designers, business managers, entrepreneurs, strategists, researchers, and writers. We can provide you with the right team, with the right expertise and experience when you need it.

All our people have been drawn to Covisory for the opportunity to apply their expertise to important complex challenges that you face.

Our reputation is defined by our interactions with our clients

- We help clients build strong systems to achieve better performance through data.
- We work with you to build positive outcomes for your future, and for future succession.
- We create solutions that are always in partnership with you, that uniquely combine our expertise and the particular resources of your business and family circumstances. We deliver innovative solutions that create immediate results and a strong framework to sustain your progress into the future.

OUR PURPOSE

To be innovative customer centric advisers exceeding your expectations for your business, trust, wealth & tax needs

COVISORY.COM

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INTRODUCTION:

NIGEL SMITH
Founder -
Covisory Group

What happened to our summer?

A friend and client told me the other day a story – God decided that New Zealand had enjoyed far too much well-being for too long and it was time for some harder times to make us remember and appreciate him more. So, he sent New Zealand Jacinda Ardern and her Labour government for two terms (to date). However, we survived that, so it was COVID next on the agenda for us, which somehow, we got through too. So now he has decided to take summer from us and inflict multiple terrible weather events on us to finally try to break our spirit.

I don't know about you, but I was really looking forward to a long hot summer to make up for all the ill effects and stress of the last 3 years go away. That summer has yet to arrive and now it's Autumn!!

The current economic outlook and position for 2023 are not great. Higher interest rates are biting hard, which coupled with the lack of available labour to fill gaps are making it even harder for businesses and individuals. But all is not lost, as recessionary times do provide opportunities as well.

In this episode, we take stock of where things are at in our economy and at what governance should look like in these times.

Our team has been busy assisting clients and seeking out opportunities for them. Above all else, there have been a lot of active discussions with you, our clients.

While 2023 may have got off to a wet start, it need not extinguish all hope and opportunity for the rest of the year.

Nigel

Covisory Deskside Chats

Two new topical short information videos have been added to our on-line vblog collection.

1: Practice and Fee Block Sales

2: What is happening with the IRD?

covisory.com/news-and-insights

BUSINESS:

Thriving or surviving in uncertain times

Three things to do to in 10 minutes to help you thrive.

Economic cycles repeat, that's why we call them cycles.

It's just like the annual seasons.

So, with a slowing economy, the spectre of a recession in New Zealand, and similar issues internationally, this is not the time for dismay and panic, but to research history and apply learnings from past cycles. We focus on what makes a winning strategy.

Firstly, Focus – take a pen and write down what is keeping you awake at night.

Whether you are a business owner, a director, a trustee or a business adviser, your role and function should be to focus on the 3 or 4 things that will distinguish success or failure in these changing times. Sleep is critical and if it is being interrupted you probably have a sense of what needs attention.

We have found that much of what happens can be predicted, not everything as Cyclone Gabriele has shown, but a lot can be predicted.

Each business will differ, but they often come back to some core themes. Not all of these may be relevant to you and your business, but some will be so let's consider what you should be focusing your time on.

1. People, people, people

i. Do you have the right people in your business? Is your team the right team?

Ii Downturns and recessions are great times to recruit top talent. You are often able to entice talent out of existing roles from organisations that are not seeking opportunities to interest their key people. Look carefully at your bench strength, where is the team weak and act.

Some questions to ponder... Do your people bring forward ideas to improve the business? Do they have the capacity to grow? Do they have the training not just to do todays Job, but have you up skilled them for the future. Do you feel you can confidently take time out of the business for a break and that it will function in your absence?

And for you... do you have the skills you need for today and tomorrow? When was the last time you did some personal or professional development? What are your strengths? What needs attention?

2. Cash

Warren Buffett once remarked "you don't see who is swimming naked until the tide goes out". One of his business strengths has been to be in cash when there is a downturn so he can buy at a discount.

A Cashflow:

i Customers - How well do you know your customers business? How are they travelling? Are your debtors increasing? Are there obvious problems?

ii How is your banking arrangement? Do you have the right facilities? What dollars are in the bank?

B Costs:

i What are key costs? Review all costs to see what can be eliminated.

ii Where are you underspending?

C Inventory:

il "Just in time" has been replaced by "just in case", but that will blow working capital requirements out. What's redundant or slow moving, how do you action and realise this?

3 What are your key risks?

Cyclone Gabrielle has highlighted risk in a way that has impacted on every business and home. Reflect on what you have learnt from Gabrielle then think about what are the risks to your business? What if key customers or suppliers fail or you cannot get product?

Two key risks every business should consider is cyber. How safe is your information about your business and you customers? What would happen if your clients and customer information was hacked? And also the possibility that disruptors will enter and successfully change your industry. How prone are you to this?

If you are clear about where you are with people, cash and risk then you are likely to be on the thrive track.

So, some final thoughts from us:
Have a clear vision for your business.

1. Refine your strategic plan and commit to it.

Set milestones and goals and hold people accountable, but also reward them well for achieving them. Don't over-stretch, but there must be some stretch. Also, make sure everyone in the organization knows the goals and what's important.

2. Get online.

COVID taught us that online worked. While the level of online sales may have receded past COVID, online is the growing sales channel for most businesses. What's your digital strategy and sales plan?

3. Have an Exit Plan

Think about whether your business is growing with good prospects or has perhaps peaked. A useful way to think of this is should you Hold or Sell

Owners need to have a clear vision of if, when and how they will exit. Will your business value go down or up in difficult economic times? COVID saw some losers, but also a lot of winners. Too many businesses have ended up closing when the lease runs out when they could have been sold if thought had been given to that option in a timely manner.

Get great independent external advice.

You may already get external advice for your business, but often it is time to get some new thoughts to the table. However, don't just ask what an independents views and thoughts are, but deep dive into why they come to the conclusions they do. Often, they have had similar past situations, or maybe they are basing their opinions on what they are seeing in the market/ world now.

The role of an external adviser, especially at a governance level, is to challenge your thinking and help you to see often hopefully better options, outcomes, and processes.

As a business owner or manager, it can be lonely and hard to find people to talk to who appreciate the situation you are in, and the problems you face.

Conclusion – Fortune favours the prepared

These are not unchartered waters, we have been here before, we have just forgotten that. The present economic challenges create as many opportunities as threats, we just need to identify them and have the courage and time to pursue them.

In times of uncertainty get an accurate picture of where you are and what your strengths and weaknesses are as an organization or business. Get good advice, but don't be afraid to get new or different advice.

As advisers these are the times, when we can add significant value in helping you frame the next stage of your business endeavours. Call me if you would like to have an informal catch up to discuss these or any other issues.

CASE STUDY

The GFC hit finance companies hard, with many either handing the keys to the government or appointing liquidators when the ability to both attract funds and collect those loaned out simultaneously dried up. It was hardly the time to be an independent director on a board, let alone a finance company with a prospectus in the market. But it was exactly where I found myself in 2008.

The advantages that independent directors bring to a board is not just limited to their experience, it's the fact that you are not personally emotionally invested in the business to the same level as owners are. This gave the owner clear, strong and unwavering support, but also a calm clear direction and set of steps to navigate the turmoil's of the GFC, let alone the regulatory nightmare of being an issuer governed by the equivalent of what is now the FMA (Financial Markets Authority).

The finance company still operates today, albeit no longer as an issuer borrowing money from the public. It was one of the very few that were around when the GFC hit to default, not requiring the government guarantee for its investors.

So when you are troubled by your business and related investments, having a clear, calm unbiased voice to help you deal with the stresses of owning and managing a business can be invaluable.

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Current Trust Issues

The world of trusts in New Zealand has had a lot going on over the last six months. There has been some interesting work and court cases, so a quick summary follows:

We have started off 2023 dealing with a number of Will and Enduring Powers of Attorney issues. From a Will perspective it revolves around updating Wills based on changed circumstances, i.e. the sale of a business, children leaving home etc. We are also seeing more disputes with Enduring Powers of Attorney with one interesting matter involving the appointed attorney not consulting with the people listed in the Enduring Power of Attorney. That surely cannot end well!

We are still coming across instances where settlors of a trust – who are often the trustees as well – have not made any disclosure to the beneficiaries of the trust of trust information even though this is a requirement in the Trusts Act 2019. The attitude is the assets are theirs and there is no way anyone is going to receive any information about the trust. This attitude cannot continue in the current environment for trusts and will not end well for any trustee that is not complying with these disclosure requirements.

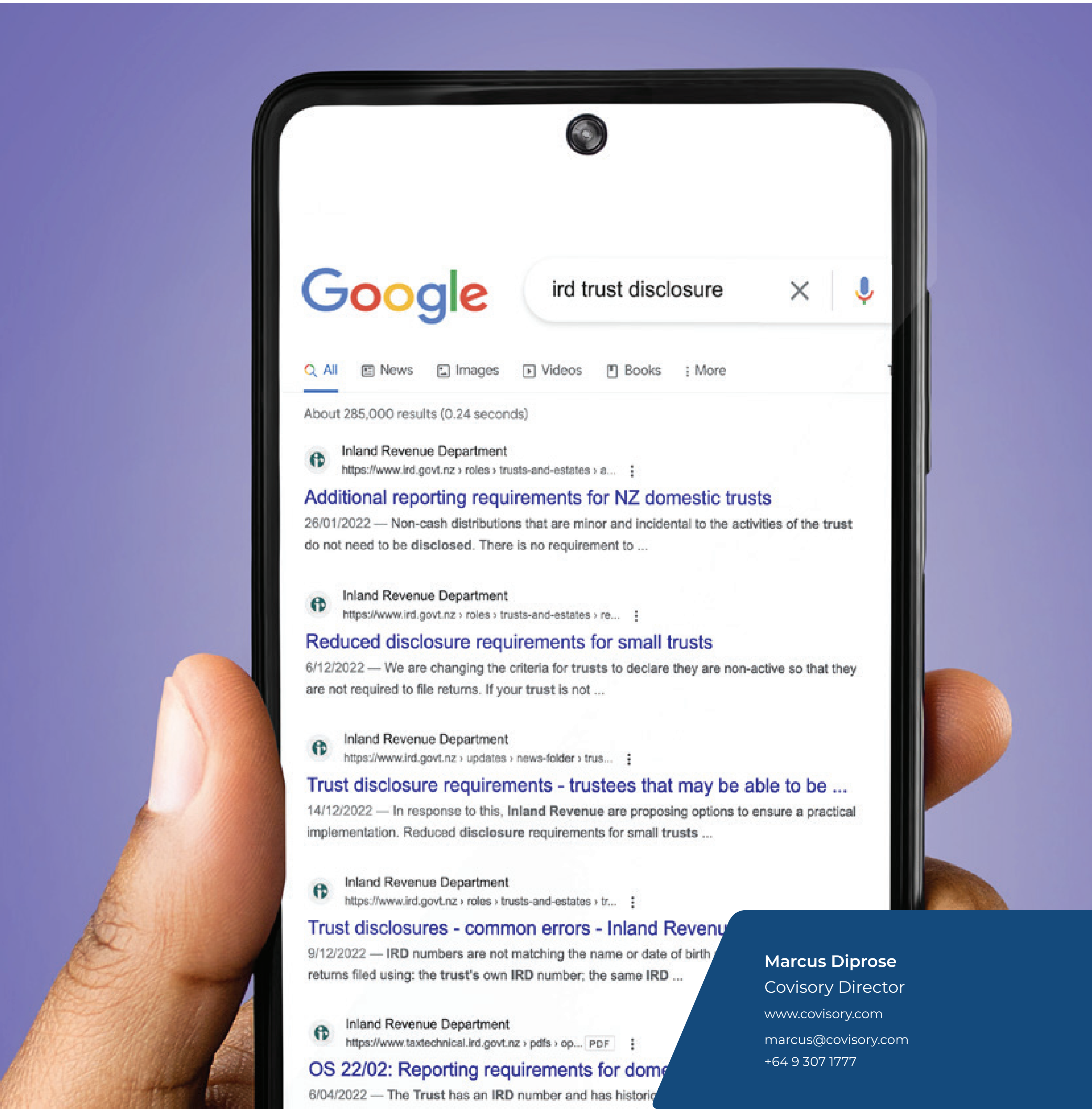
Trust Tax Disclosures – as most of you will be aware the trust tax disclosure regime is now in full swing. The IRD has already published information regarding issues they have seen. These include:

- Lack of information for all the settlors and beneficiaries of the trust with no tax residency information being supplied.
- Dates of birth not aligning with the IRD number being supplied for settlors or beneficiaries.
- No information being provided for the settlors of the trust at all.

The IRD are asking the person filing the disclosures to rectify this information. One thing is clear is that accountants preparing the annual financial statements and filing the disclosures have to obtain all the relevant information. Leaving fields blank in the disclosure documents is not acceptable.

There was a recent court case where a trustee company had used trust funds to pay for legal costs in a trust dispute. Ultimately it was ruled that the trustee company was not entitled to costs and was ordered to repay all costs to the trust. It remains to be seen whether the company is in a position to do that and ultimately whether it is liquidated and if any liability will fall on the directors of the trustee company.

There is surely more to come in the world of trusts in 2023.



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Key tasks to get 2023 on the right track

‘Now is the time to go old school and get lost in the weeds,” says Nigel Smith, partner at Covisory. When times are good and profits come freely, business owners tend to get lazy and not do the careful and detailed housekeeping that is necessary.

Here are 8 key things we all need to be doing now to make sure we are as prepared as we can be for the year ahead. Some of these tasks may seem simple but nonetheless, they are important.

1. Repay debt asap – with interest rates at likely 7 per cent plus for 2023 it’s time to get your debt down as much as possible and as fast as possible. If that means selling a few assets for less than you may have got a while ago then so be it. It’s not going to be a time to be beholden to your bank.
2. Fix your interest rates if you have not already.
3. Review all your costs. Go through them line by line. What costs can you remove?

4. Have a good look at your staff. There are some that you simply can't afford to lose and some that you may wish to lose. Consider if they go who will you replace them with and will they be any better? It's a great time to identify and reward your good staff but t o actively work replace poor performers. This may take some time.

5. Look at your working capital. Many businesses are carrying too much stock (as a result of logistics uncertainty) and often it's in different warehouses (additional rent costs). Review your infantry. Do you need the 'just-in-case' we get an order for it? This also applies to debtors. Look hard at all aspects of the "locked-up" capital in your business and start improving it. It will release cash.

6. If you are investing be patient. The days of 20 per cent plus annual returns are gone. It's now about the return of capital rather than the return on capital. I always get nervous when junk-grade bonds start to be offered by advisers as a means to get better returns. Review your asset allocation (SIPO) and make sure you understand your risk profile. The ride will be bumpy for a few years yet so you will have to take a longer-term view and be patient.

7. Prices for goods and services need to be regularly reviewed. That does not mean annually. This is, however, a tricky exercise – put them up too much and you may lose sales, but don't put them up and you will be going backwards.

8. It's also a great time to look at your customers and suppliers. Who do you work well with and make money from and who is difficult? Are there opportunities to grow sales channels, or to get better terms from suppliers?

Addendum – Have you been adversely affected by the recent weather events?

The recent weather events tested our resolve and the fickle nature of our country's infrastructure. Businesses will be affected in many different ways depending on if / how the weather impacted on them. However there are a few simple things businesses and self employed people should be doing and looking at:

1. Insurance – check what insurance you have and if you are insured and have damage get photos and get in touch with your insurer asap. Its also a great chance to review what insurances you actually have.

2. Cash is king – we have seen that many businesses could not rely on eftpos and reverted to cash sales. Make sure you have

cash to buy goods if needed and also to have a system to be able to receive cash, even if you have traditionally become a cashless business.

3. How can I contact you? When the cell network went down did you have a good old fashioned copper wire landline with a non powered phone? Can you ring your customers and check on your top ones to see if they are ok?

4. Supply chain – will goods you order get through to you and how long will it take? How much more should I order and how far in advance?

5. Do I need a generator to keep goods cold / chilled if the power is out? How much fuel will I need for it? What about a solar power system although this will likely need a battery back up to store the power (is your car a suitable battery for this purpose if its electric ?).

6. Your people – how do you check in with your team and to make sure they are ok? Do you have a plan for events like this to make sure you can let each other know they are ok or need anything.

7. IT – do you have a back up system and / or access to cloud based data storage so you can access the systems and data from other computers at other locations in the event of business interruption.

8. Premises – are your business premises (and homes for that matter) in a flood or adverse weather prone location? Eventually you will be unable to get insurance if these events continue so think about whether you should relocate your premises or home to somewhere less likely to be affected.

The key as always is to look at what actually happened to not only your businesses but others and then see what learnings can be taken from the events.

History tells us that these events will occur again, we just don't know when and how severe.

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BUSINESS:

Managing your supply chain risks – 5 key strategies

Even without adding in 3 years of Covid, the war in Ukraine and the NZ weather events ensuring your supply chain should be one of your key focuses for 2023.

So how do you improve your resilience to these volatile conditions and stay afloat.

Your ultimate Goals for managing your supply chain are:

1. **EFFICIENCY** Ensure all parts of your supply chain are running efficiently
2. **OPTIMISE** Ensure your logistics are optimised and standardise wherever possible
3. **QUALITY** Constantly focus on improving quality
4. **FLEXIBILITY** Look at ways you can improve flexibility in all your processes
5. **FINANCIAL** You are a business – you are there to make a profit so make sure you monitor the supply chain to ensure it operates cost effectively and supports your financial success.

One small incident can see a domino effect to destabilize your supply chain. The fall out if you do not have sufficient oversight can mean your company suffering potential delayed deliveries, damaged products, a tarnished reputation, and other operational and financial consequences.

You need to know your own data.

- Identify your vulnerabilities (security risks) to your supply chain – both physical and data and recognise where they could be introduced or exploited.
- Review your exposure to volatile market pricing and build protective mechanisms into your supply chains to cover the shortages and rising logistic costs.

To do this you need to map out your entire supply chain covering the sourcing of your product or its components, the shipping, where you will make and store your product and the Delivery to your end consumers.

For each of these four areas you will need to identify your areas where you have exposure to supply and inflation risks. At what points could you be open to theft or sabotage and how do you protect yourself from this?

In addition to the steps outlined above, there are five key strategies that businesses can implement to manage their supply chain risks:

1. Diversify your supplier base: Relying on a single supplier for your raw materials or components can be risky, especially if that supplier is located in a volatile region or experiences disruptions. Consider working with multiple suppliers to ensure that you have a backup in case one supplier is unable to deliver.

2. Build strong relationships with suppliers: Developing strong relationships with your suppliers can help to mitigate risks by ensuring that you have open communication channels and can work collaboratively to address any issues that arise.

3. Develop a contingency plan: Create a contingency plan that outlines the steps you will take in the event of a supply chain disruption. This could include identifying alternative suppliers, developing backup transportation options, or increasing your inventory levels.

4. Invest in technology: Technology can help to improve visibility and transparency throughout your supply chain, making it easier to identify potential risks and address them proactively. Consider implementing supply chain management software or other technology solutions that can help you monitor your supply chain in real time.

5. Conduct regular risk assessments: Regularly assessing your supply chain for potential risks can help you stay ahead of any potential disruptions. Identify potential risks, evaluate their likelihood, and impact, and develop strategies to mitigate them.

By implementing these strategies, businesses can help to ensure that their supply chain is resilient and can withstand the challenges of today's dynamic and ever-changing business environment.

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What multiple do I apply when valuing a business?

On too many occasions I have been left shaking my head when someone says to me that valuing a business is easy – all you do, they say, is take the most recent period or year's earnings and apply a multiple of '4' to derive the value of the business.

This could not be further from reality.

In fact in the 40 years that I have been valuing businesses I have determined the appropriate multiple to apply to range between as low as 2 times and as high as 14 times.

So why did I just not adopt 4 times!

The answer to this lies in the fact that the determination of the proper multiple to apply presents the valuer with the most difficult issue when valuing a business adopting the commonly used capitalization or multiple of earnings valuation approach.

Determining the multiple involves much judgment as well as subjective analysis. This is why they say that valuation is more an 'art' than a 'science'. There are many factors to consider when determining the multiple.

The underlying principle is that higher risk demands higher returns and hence a lower multiple, and vice versa.

Two key factors impacting the relative risk associated with a particular business are, (i) its size, and (ii) the risk of achieving assessed future maintainable earnings ("FME").

Size matters: put simply, the smaller the business the smaller the down-turn in business activity required to have a significant impact on the bottom-line of the business. Hence, all other factors being equal, a smaller business would attract a lower multiple than that for a larger business.

Confidence in achieving FME: assessment of FME is the other side of the valuation equation. The higher degree of confidence a valuer has that his/her assessed FME will be achieved going forward, the higher the multiple, and vice versa. Factors that impact the level of confidence a valuer has in achieving FME would include;

- potential for loss of key personnel
- 'stickability' of customers; particularly key customers
- likelihood of losing a key supplier
- degree of competition in the sector the business trades – factors that come into play here would include; - proprietary element – product/service differentiation – market size and share – ease of market entry.

Other factors impacting on the determination of an appropriate multiple, include;

- **the level of (resultant) goodwill inherent in the earnings based valuation** – too high goodwill, relative to the number of years FME's it represents, would warrant applying a lower multiple,

- **time in the business** – there is a lot to be said for a business having a track record of having had experienced numerous business and economic cycles,
- **management ability** – it is a truism that one will get a better outcome from having strong management operate an under-performing or poor business; rather than poor management operate a strong business',
- **financial strength** – a strong balance sheet is fundamental to with-standing 'shocks' to the business,
- **growth prospects** – a business on a viable growth trajectory will attract a higher multiple than one in a mature stage,
- **prospects for the Industry the business operates in** – is the Industry 'on the up' or has it 'had its day in the sun', and
- **economic outlook** – how would an economic down-turn impact the business – it differs widely from business to business.

Having regard to the above, would you still adopt 4 times for valuing all businesses?

Meet Mike Bradley

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Mike has a background in corporate advisory, having worked for Deloitte in New Zealand and the United Kingdom in its Corporate Finance area; where he specialised in the valuation of privately owned businesses. Mike qualified as an CA in 1985 whilst at Deloitte.

More recently, Mike was a founder member of ANZ's private equity business; going on to establish and head up its sister Development Capital business for Australia and New Zealand; and then to head ANZ's private equity business in New Zealand. A key function of his private equity investing involved the valuation of privately held businesses.

Mike works as a consultant with Covisory Partners, where he specializes in business valuations and business sales.

Mike has been accredited by CA ANZ as a Business Valuation Specialist (a designation held by select chartered accountants with proven expertise in the valuation of businesses, shares and other assets).

Mike has extensive experience in the valuation of closely controlled companies for shareholder disputes and relationship property matters.

NZ Funds. Economic Update

For March 2023

NZFunds

Global growth has been revised upward despite what has been a volatile start to the year. Emerging markets were the main driver of the stronger outlook, with robust prospects across the region.

Strong growth is especially apparent in China. After three years of strict Covid related lockdown measures, China is finally re-opening and its prospects for economic growth in 2023 are looking very attractive. This contrasts to many Western economies which will be glad to avoid recession, let alone achieve significant economic expansion.

This provides a great opportunity for the commodities rally that began in 2021 to continue. Although commodities were one of the only asset classes that made positive returns in 2022, there were many peaks and troughs in commodity prices as the year progressed through events such as the Ukraine war, European energy crises and Covid-related lockdowns and re-openings .

These events have distracted somewhat from the longer-term commodities super cycle that is still early in its development. This up-cycle is due to over a decade of under-investment into key commodities which is now leading to significant levels of under supply relative to expected demand. On the demand side, key structural changes such as the transition to a 'green economy' have also changed the forward looking demand profile for many commodities.

As the biggest consumer of many of the world's commodities, China's re-opening and economic expansion puts significant upwards pressure on commodity prices.

We also see upside in the China share market following the relaxation of lockdown restrictions and a number of regulatory risks which are now being addressed.

Meanwhile in share markets more generally, valuations have normalised from expensive levels at the beginning of 2022 to long-term average levels. This provides the platform for attractive returns over a 10-year+ time horizon. 2023 will see continued volatility as the pathway for lower inflation and the extent of economic slowdown is assessed.

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Tax in Brief

GST changes from 1 April 2023

From 1 April 2023, GST registered persons will not be required to hold tax invoices in order to claim back GST.

Instead a “taxable supply approach” can be taken that requires a set list of information be provided to any GST registered customers within 28 days of the date of supply. The set list includes the information currently required for a tax invoice and adds:

the date of supply (when time of supply is triggered) rather than the date on which the tax invoice is issued; and

for supplies over $1,000, the taxable supply information must include the recipient’s physical address.

In practical terms, you can continue the tax invoice approach or provide the set list of information to GST registered customers within 28 days of the date of supply. For non GST registered customers, you have 28 days from when the customer requests the information.

There are other changes with respect to buyer created invoices and debit/credit notes which we would be happy to discuss if you are impacted by these changes.

Weather Related Costs

As you or your clients deal with the impact of the recent storms and cyclones, the income tax treatment of repair/replacement costs may need to be considered for the preparation of 2023 income tax returns.

Repair and maintenance costs are fully deductible in the year incurred. The exception to this is where an asset has been repaired to the extent that it is over and above good wear & tear. This may change the character of the asset and will be considered capital expenditure (and subject to tax depreciation if permitted).

The replacement of low value assets costing less than $1,000 can be written when incurred.

If assets are written off and replaced, the tax impact of any insurance proceeds or government grants should also be considered.

Given the extent of the damage, we are hopeful that the Government may announce further tax relief to businesses impacted.

Please contact us if you want discuss any aspects of the above.

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What is going on in Europe, right now

– biodiversity, Latin America and train operations, all part of the EU's plans for 2023

CLIMATE

A highly contested trade agreement with four Latin American countries, binding requirements for nature protection, distribution of Mediterranean refugees and more train traffic across EU borders. These are some of the major themes on the EU's agenda for 2023; Covisory's internationalisation specialist, Michael Dall, has spent the past few months onsite in Scandinavia and visited a number of European countries along the way; here is his green and global perspective.

The EU Commission getting the controversial trade agreement with four Latin American countries, including Brazil, adopted and into practice. Photo: Marcelo Villa/VIEWpress

The EU-Mercosur deal is a meeting of minds between two giants of global trade. Mercosur comprises Argentina, Brazil, Paraguay and Uruguay. The scale of the proposed deal with the EU will create a transatlantic market of nearly 800 million consumers, accounting for nearly a quarter of the world's GDP.

It has once again been a year of crisis for the EU. After a few years with the coronavirus in the air, Russia's invasion of the Ukraine became the biggest headache of the year for the EU countries, and it will also affect the EU and the member states in the coming year.

The war in the Ukraine has had far-reaching consequences. The energy supply to EU countries was threatened and food security worldwide became uncertain. EU countries agreed to step up the green transition and find new suppliers of natural gas. On the other hand, agricultural organisations believe that the EU's plans for nature and biodiversity can weaken food production. Nevertheless, the EU has chosen to present strategies for green transition and biodiversity, which must be negotiated in the coming year.

Sweden needs to try to steer the course through the troubled waters, as the Swedes hold the presidency of the EU's Council of Ministers in the first half of 2023. So far, the EU Commission, the Parliament and the Council of Ministers have agreed on the priorities for the coming year.

The EU Commission has presented a programme of work with a list of the new initiatives that will be presented in 2023. At the same time, there is a number of previous proposals where the parties must agree on the specific details.

Covisory Connect has taken a closer look at some of the most important topics – considering a global perspective around the EU's plans for the coming year.

The threat of new dependencies

One of the lessons learned from Russia's invasion of the Ukraine is that becoming too dependent on a single supplier for essential supplies can be dangerous. The EU has been working to rid itself of the Russian natural gas that has been flowing to Europe for the past several years.

Over-dependence on one supplier must not become a reality again, said the commission's head, Ursula von der Leyen, in her annual status speech in the European autumn. She warned against a possible dependence on China to provide the important raw materials needed for digitalisation along with the green transition.

China has a monopoly (almost) on supplying rare earths and processed lithium; and at the same time there is a "global race" to gain access to the important resources, reports the commission.

Mining of rare minerals in China. Photo: Jie Zhao/Corbis via Getty Images

The commission will aim to mitigate that challenge by presenting an action plan for critical raw materials in the first period of 2023.

The action plan must ensure stable supplies of the important metals and minerals by, among other things, closely monitoring the supply chains for risks, ensuring faster approval of mining projects in EU countries and increasing the recycling of critical raw materials, reads a presentation.

Controversial trade agreement comes into play, yet again

An update to the EU's trade deal with Chile, put in place late last year, is likely to help lithium supplies. There will therefore be a proposal from the commission in the first half of the year on priorities for a closer partnership with the countries in the region.

In general, the EU Commission intends to strengthen cooperation with Latin America, just as the EU's foreign affairs officer, Josep Borrell, has pointed out that it is high time that cooperation with the continent on the other side of the Atlantic Ocean be strengthened. In November he visited several countries in the region and here he particularly focused on reviving a trade agreement with the Mercosur association.

The agreement with the trading bloc, which consists of Argentina, Brazil, Paraguay and Uruguay, was finalised by the European Commission a few years ago, but has never been officially adopted by the EU and its member states.

It was deeply unpopular in several countries, including France, and several NGOs ran a campaign against the pact. "Beats for cars", it was mockingly called, as NGOs believed that the EU is interested in selling cars in Latin America, while the South American countries want to export meat to the EU. Therefore, it said, the trade agreement will be harmful to the climate and forests.

It may have benefited the deal's prospects with a new president in Brazil, as Luiz Inácio Lula da Silva was officially installed at New Year. He has promised to make an effort to slow down deforestation in the Amazon, and Josep Borrell believes that this is a good opportunity to get the trade agreement right on target.

Farmers demonstrate against the EU's trade agreement with Mercosur in Brussels in 2019. Photo: Dursun Aydemir/Anadolu Agency/Getty Images

As reported by the Spanish Commissioner for Foreign Affairs after the visit to the continent in November: "The newly elected President Lula has made it clear that he wants to protect Brazil's democracy, the wounds of the whole society, promote social justice and boost the economy, while at the same time fighting climate change and deforestation in the Amazon. The agreement with the EU will support this effort by enabling knowledge sharing, improving standards, strengthening environmental protection and sustainable production methods."

Free trade-oriented Sweden has also mentioned that it wants to finalise as many trade agreements as possible during the presidency, including the agreement with Mercosur.

Binding environmental requirements

Nature in Europe will also come under scrutiny in 2023. In 2020, the EU Commission presented its proposal for a strategy to slow the loss of biodiversity. Now the EU institutions must negotiate to reach an agreement on the concrete details of the plan.

It is happening at the same time that all the world's nations adopted new global targets for biodiversity in December in an agreement known as the Kunming-Montreal agreement.

A large part of the goals in the EU Commission's strategy are identical to the global goals, but while the global agreement is not binding for the countries, the EU Commission has several binding requirements in the proposal for the member states. This means that the countries may be legally obliged to make an effort.

This applies, for example, in relation to pesticides, protected nature and restoration of depleted nature. The strategy will therefore be able to pressure the member states to make efforts for nature.

Danish Inger Andersen, head of the UN Environment Programme, China's Environment Minister, Huang Runqiu, Canada's Environment Minister, Steven Guilbeault and David Cooper from the UN Secretariat for Biodiversity celebrate the adoption of a new global strategy to curb the loss of biodiversity. Photo: Yu Ruidong/ China News Service/VCG via Getty Images

This also applies in Denmark, where an assessment carried out by the Biodiversity Council last month concluded that only two percent of the Danish land mass is actually protected nature. In the EU Commission's strategy, there is a binding requirement that 30 percent of land and sea areas in the EU must be under protection by 2030.

The details of the strategy must be negotiated in place during the year, and when that has happened, some major environmental accountabilities await Denmark. It is not something that is immediately reflected in the government foundation, which the new Danish government under Mette Frederiksen (S) presented in December.

The plans to adopt a Biodiversity Act, which like the current Climate Act must lay down some binding requirements for any sitting government. In addition, the government parties have agreed that 250,000 hectares of new forest must be planted across the Kingdom. This corresponds to an area that is roughly equivalent to 6% of arable land in Denmark, and it can help towards fulfilling the European Commission's goal to plant 3 billion new trees in the EU by 2030.

Ditch the plane and take the train

The EU is about to introduce legislation that can ensure that the Union lives up to its promises to reduce climate-damaging emissions by 55 percent in 2030 – the 'Fit for 55 package', as it is called. In the coming year, there will be another initiative in the area of climate, which will ensure that more people take the train across borders in the EU rather than by plane or car.

The EU Commission has already presented an action plan to make it easier and more user-friendly to order tickets for the train across borders.

In the second quarter of 2023, the commission has planned to present concrete legislation that will contribute to increasing the capacity for train operation and make it more flexible for travellers in EU countries to choose the train.

The Commission is also planning new initiatives on food and clothing waste, sustainable food and greener shipping in 2023.

Continued discussions on migration

There are also plans for even more discussions on migration in the coming year. It is a topic that has haunted Europe for years. The EU Commission has tried several times to propose solutions that can ensure a fair distribution of the refugees who typically arrive in the countries by the Mediterranean, but they have never been accepted by all member states.

While old proposals in the area are being discussed, the EU Commission will come up with a single new proposal on migration. It will be about recognising qualifications for skilled labour from other countries, so that it will be easier to migrate legally to EU member states. Legal migration to the EU is a desire that African countries have expressed for a long time, but the question is whether the EU Commission's proposal will end in the same stalemate as the other initiatives in the area.

It may be easier to agree on the details of a new EU package to protect democracy in Europe against "hidden influence from outsiders", as it is called.

It was a trend that Ursula von der Leyen warned against in her address in September, where she pointed out that "shady" companies and foundations are trying to influence EU countries in order to undermine European values. She cited as an example that a research centre that rejected documentation of forced labour for Uyghurs in China was funded by Chinese entities.

"These lies are poisonous to our democracies," von der Leyen said at the time.

Space strategy and digital euro

In addition to the many global topics touched upon in the EU Commission's programme of works for 2023, there are also plans of a more cosmic nature. The Commission will present a strategy for security and defence in outer space.

There is a lot of traffic in space in the coming years, as China, the United States and many other countries have plans to explore our neighbouring planets in the near future.

There may also be a future in another proposal from the Commission, which is about introducing a digital EURO. The EURO had its 20th anniversary last year and in the coming year the foundations for a digital version of the currency can therefore be laid.

Another busy year is set for the EU Commission, the Parliament and the member states. Politicians and diplomats certainly hope to get as much in place as possible in the coming year, as there are elections for the EU Parliament in 2024.

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