HUGOvision

Assessing the economic and political environment in New Zealand

February 5 2016 | Confidential to HUGO members

TPP – signed but not finished

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This week's signing ceremony for the Trans-Pacific Partnership was misinterpreted by many protesting the deal as signifying finality. In fact, there are at least two years of ratification processes to go through and the very real prospect of renegotiations and stalemate.

Polarised politics – Key and Waitangi

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The Prime Minister has judged the public mood right by turning down a highly conditional invitation to the lower marae at Waitangi – the scene for ritual complaint that usually precedes the national day celebrations. However, his non-attendance indicates a more deeply polarised politics emerging ahead of next year's election. That is not good for the country.

Damned if you do, damned if you don't

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There was a distinctly defensive air to Reserve Bank governor Graeme Wheeler's speech on the conduct of monetary policy in the current environment, affected as it is by plunging global commodity prices. The pressure to resist further early interest rate cuts appears justified.

Labour flirts with relevance

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Andrew Little's call to repudiate the TPP was important to keep the party's increasingly powerful left wing on side, but it will be a turn-off to middle NZ and the govt is relishing the chance to exploit it. On the other hand, Labour's first salvo in its Future of Work campaign – an unexpected, affordable-looking policy on life-long learning – was politically savvy.

TPP – a long parliamentary road ahead

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Both National and Labour are engaged in complex calculations about where the political advantage and bear-traps sit in the parliamentary process that will be required to advance the few legislation changes that TPP will entail. Will any of it be passed before the 2017 election?

Export pricing

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Contrary to conventional wisdom, NZ primary exporters aren't forced to price to global market prices. Three-quarters of primary produce is being "priced to market", reflecting the ability of different markets to pay different prices, according to a study by the RBNZ.

Auckland infrastructure

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The announcement of a timetable for the Central Rail Loop funding made it seem as if peace had broken out between the govt and Auckland Council. However, the govt is still reluctant to let the council impose congestion charges or a regional fuel tax if it won't first either sell some assets or borrow more. The future of Auckland's port also remains very live.

Text finalised February 5

TPP: parliamentary dynamics

Compared to the blunt instrument politics of street protest, the parliamentary dynamics for the passage of TPP legislation represent a fascinating matrix of procedural and political considerations.

National will seek to punish Labour for choosing to oppose the TPP at a macro level while supporting it at a micro level by using an omnibus Bill to introduce required law changes. That will force Labour to vote – at least once – against even those measures it supports.

For its part, Labour will seek to embarrass the govt if it's seen to be pushing through enabling legislation too far ahead of the TPP's ratification by other signatory nations.

Labour is also banking on the TPP negotiations being reopened – an outcome that can't be ruled out, given the absence of a US Congressional majority to back the passage of TPP in Washington, the new Canadian Trade Minister's indications that Canada will seek some changes to deal with its own domestic opposition to the pact, and the potential for Japan to seek further concessions. If that happens, the danger is TPP will join the WTO Doha round in a twilight world of unfulfillable ambition thwarted by the anti-globalist sentiment increasingly visible in developed economies' politics.

Surprisingly little enabling legislation is required in NZ to make TPP operative. Tariff cuts, copyright law changes and tax changes to permit discriminatory imposts on foreign land investment will be among the main features. Detailed examination of the deal will occur in select committee hearings, based on the newly published National Interest Analysis. The committee will produce a report, which will inevitably contain a range of dissenting views, but this process doesn't trigger a parliamentary vote and can't stop ratification.

Labour supports tariff cuts and is still making up its mind on copyright law, but will oppose the tax changes, since it wants the ability to ban foreign land purchases.

The easiest way for National to force Labour's hand would be to include all the various law changes required in a single 'omnibus' Bill. That would require Labour to vote against measures it agrees with. However, that approach may only work at First Reading. Once the Bill has gone to a select committee, it would normally be split into various Bills to amend separate Acts. Labour would then be free to vote for the bits it agrees with.

On timing, Labour suspects the govt will only push enabling legislation through the House if they're clear it's a) worth doing because other nations are moving to ratify and b) if they fear they could lose next year's election, in which case they'd want to bind Labour. In other words, it's not even clear that TPP-related legislation will be passed before the 2017 election. Crucially, however, Labour will not withdraw from the TPP agreement, should it come to power and the agreement be in place.

Protest politics: TPP and Key at Waitangi

Anti-TPP protests passed largely peacefully, a credit to both the protest organisers and the policing of the events. The Prime Minister decided to skip Waitangi, calculating that he would gain public support in the fact of Ngapuhi's factions dithering in public about whether and how to invite him. The breakdown is significant, however, as an indication of a sharp increase in political polarisation that is currently under way. The electorate offices of two Ministers – Gerry Brownlee and Anne Tolley – were attacked this week, the latter firebombed.

Labour gets active, flirts with relevance

Labour's promise of a life-long right to three years' "free" tertiary study was a powerful political gesture that was also couched in such fiscally responsible terms as to be difficult for the govt to attack. Instead, ministers were left claiming the initiative "achieves nothing" and amounts to middle class welfare that ordinary working people will have to fund. Neither was a compelling rebuttal to the first action for months by Labour to create a positive political surprise.

Its hardened TPP position, which threatens but does not destroy decades of bi-partisanship on free trade, may prove more politically problematic, but it also represented a moment when Labour became clearly differentiated from its primary political opponent – something Labour consistently struggles to do.

Next up is Grant Robertson's Future of Work Conference, in Auckland on March 23 and 24, to be addressed by Clinton era Secretary of Labor Robert Reich, who retains a high public profile in the US as an economic commentator concerned with growing income inequality and the consequent alienation of a growing group of voters to the pro-market economic orthodoxy of the last 30-plus years. Reich's newest book, "Saving Capitalism – For the Many, Not the Few", is at the top of Labour strategists' reading lists at present. While highly skewed to the US system, where unemployment benefits are time-limited and formal employment is the main route to guaranteed healthcare, Reich's thinking chimes with themes on the NZ political left of concern about the unchecked spread of pro-corporate globalisation and threats to employment represented by automation and digital technology.

Labour's left in charge

One thing Labour's new position on TPP demonstrates is the extent to which the left of the party has the whip hand at present. Many senior MPs are deeply frustrated to have been pushed to a position on TPP that they don't believe. The caucus retreat where the new policy was decided saw MPs Phil Goff, David Parker, David Shearer, Chris Hipkins, Clayton Cosgrove, Stuart Nash, Kris Faafoi, and Kelvin Davis all argue in favour of TPP. However, the left of the caucus, with party president Nigel Haworth reportedly leading the charge, won the day. Many were smarting from angry reaction among activists to Andrew Little's flip-flopping performance on the issue earlier that week. Finance spokesman Grant Robertson and 5th-ranked Jacinda Ardern are said to have kept their counsel, although Robertson is concerned at the political weapon the TPP policy hands the govt, especially amongst rural and regional audiences, where the value of opportunities for agricultural trade is undisputed.

Water issues bubbling

Last year Judith Collins looked like she was on her own questioning the potential preferences proposed by the Land and Water Forum for iwi in developing a final water rights policy.

But in his negotiations to get Maori Party support for his amendments to the RMA, Environment Minister Nick Smith agreed to concessions to the Maori Party, including giving iwi the right to be consulted "at the front end" of resource management and council planning through Iwi Participation Agreements.

This has sharpened up opinion on National's backbenches, some of whom are concerned that this dependency on Maori Party support risks losing traditional National Party voters to NZ First.

Winston Peters argues that, as it currently stands, the RMA provides for iwi to become consenting authorities.   This could take the form of either a full consenting authority or a joint consenting authority, along with local councils.

"These provisions have been rarely used, with the Joint Management Agreement between Ngati Porou and the Gisborne District Council being perhaps the most well-known," he says. "Under this agreement, Ngati Porou will move from being a joint consenting authority to a full consenting authority, within five years, over the entire Gisborne region.

"Under the new bill, every council in New Zealand will be required by law to invite the local iwi to 'discuss, agree and record ways in which tangata whenua' through iwi authorities, can participate in the formulation of policy plans, including water management plans.

"All of this has to happen within just 30 days of a council being elected."

One National MP who has already been out door-knocking this year says Maori rights over water and the RMA are the most discussed items on the doorstep.

Whilst big iwi like Ngai Tahu have skilled environmental experts on their staffs, many smaller provincial iwi do not and the lack of capacity among smaller iwi is a major concern to those National MPs questioning the moves. This has all the potential to be this year's employment safety reform issue with the Government being forced into a back down.

That would threaten the relationship with the Maori Party, which is why it will be a big challenge for National's leadership.

The issue was to be discussed between the Iwi Leaders' Group and govt ministers in the margins of Waitangi Day activity, whatever form that takes. John Key is making it clear he will not accede to iwi aspirations for a national settlement, being determined to act only a catchment by catchment basis. If they push too hard on this, the govt will call Maori leaders' bluff, knowing that political damage can cut both ways. If iwi over-reach, they will end up with less than might otherwise have been achievable.

ETS review papers

Removing the 2-for-1 emissions surrender deal for heavy GHG emitters "imposes a small cost on the economy as a whole", with the burden falling disproportionately on the rural, mining and food processing sectors, says an NZIER study released today for the ETS review.

At $50/tonne for carbon, GDP would take a 0.2% annual hit for a 1.5% emissions reduction. A separate paper considers the forestry sector.

Auckland transport

Even though the govt has approved construction of the Auckland inner city rail loop starting in 2018, its own funding will not start to flow till 2020 which means that, as far as Wellington is concerned, nothing has changed. In fact, there is still no agreement on the key issue for Auckland: whether Auckland Council will be allowed to impose congestion charges or a fuel tax to help fund the project.

Wellington wants to see the Council using its balance sheet – code for selling assets, but also potentially raising new debt – before it will agree to a new tax on Auckland motorists.

Discussions on these will continue through the Auckland Transport Alignment Project, a joint govt/ Auckland City committee which is looking at other future Auckland transport options, most notably a second harbour crossing, and how they will be funded.

Auckland Mayor Len Brown says that the charge and the tax remain on the table in those discussions. However, there is no appetite at all in the govt for them.

The city's current net debt is $6b and its asset base sits at around $35b. The Council earns $3.5b a year, of which $1.45b is from rates. Bill English believes that gives the Council room to borrow the amount it may need for the loop, probably $1.25b.

Both Brown and mayoral contender Phil Goff oppose asset sales so borrowings may be the route that the Council ends up taking if Goff wins the mayoral contest. Meanwhile Victoria Crone and the Auckland Future campaign will continue to highlight the possibility of partial privatisation as a way of part funding the loop.

In the background, the group of stakeholders appointed to consider the future of the Auckland port has commissioned PwC to consider options. Indications are that a majority of the 16 members of the group favour trying to move the port, perhaps to the Firth of Thames. However, that would depend crucially on whether a resource consent could ever be issued for such a massive new piece of infrastructure in this day and age. It seems unlikely.

What some on the port study group advocate is partial sale of the port, perhaps to Maori interests – Ngati Whatua and Tainui representatives are both present on the study group and reportedly keeping their counsel on the option.

No ISDS in EU-NZ FTA?

European negotiators are understood to have told NZ trade officials that they have no interest in including investor state dispute settlement provisions in the proposed EU-NZ free trade agreement.

ISDS provisions were a primary source of contention in the TPP and have tended to be included in trade agreements to ensure that investors in countries with weak or unreliable rule of law have options other than the local system to pursue redress for alleged damages.

However, there is arguably no case for such provisions in FTAs between developed nation economies.

The EU's antipathy to ISDS is also likely motivated by the push from the US to include such terms in the Trans-Atlantic Trade and Investment Partnership (TTIP), a TPP-equivalent currently under negotiation. The US is seeking global consistency in its new plurilateral trade agreements as it seeks to standardise global trade and investment rules. Its primary target is to guide China to similar disciplines.

On the subject of ISDS, US Trade Representative Mike Froman told this week's Auckland press conference that TPP closed loopholes found in other trade agreements around the world, ensuring governments of the 12 nations in the deal could regulate in the public interest.

"Collectively we've reached that conclusion and have advanced the ball towards making sure that ISDS procedures are used appropriately."

Peace breaks out on copper pricing

Telecommunications network operator **Chorus** and retailer **Spark** have elected not to appeal the Commerce Commission's final decision on pricing for access to the ageing copper network, which is progressively being replaced by fibre-optic cable. Chorus was judged the winner in the regulator's final decision, just before Christmas, on how much it can charge for access to its copper lines. Spark raised its own prices to pass on the additional network costs, accepting the ruling at the end of a process described as "a regulatory debacle".

Chorus has gained breathing space, but uncertainty remains about future risks, say First NZ Capital analysts.

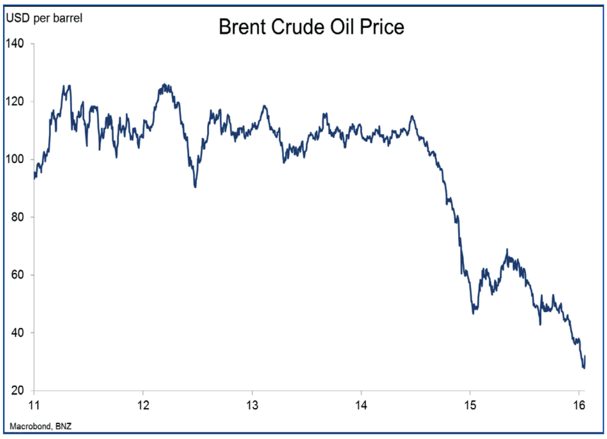
The key risk for Chorus is the future regulated price path, which it appears will be assumed to fall steadily as time goes on. Uncertainty on that count may be the reason Crown Fibre Holdings has yet to announce a winner from the tender round for further expansion of the rural broadband network.

Electricity sector regulation

From Feb 1, electricity retailers must provide consumption data to consumers, who will also able to access information on metering and connection arrangements. The Electricity Authority expects this to spur retail competition. Meanwhile, spot-only retailer Flick Electric has had a significant win, convincing the Consumer Powerswitch site that it understates potential savings. The EA has received 21 submissions on its paper on network regulation issues thrown up by emerging technologies.

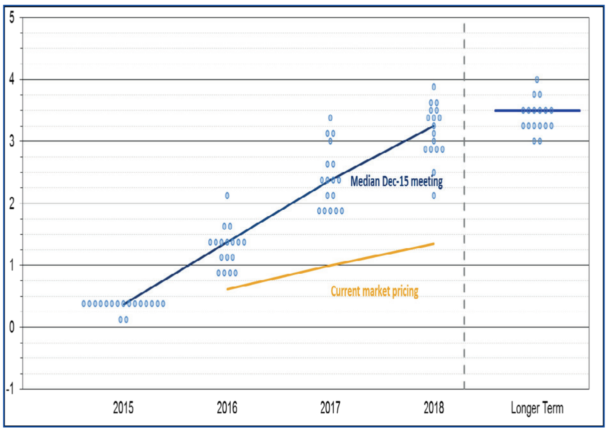
Chinese Growth Wilting

- Chinese manufacturing is probably in technical recession, although total growth remains positive;
- It is uncontroversial to suggest that Chinese GDP figures are unreliable and are likely overstated;
- What matters is the 'direction of travel', which is clearly still slowing;
- While a kind of QE is playing out in China at present, the country has massive reserves, which create a buffer against a wider global shock, should China slow more dramatically than expected.



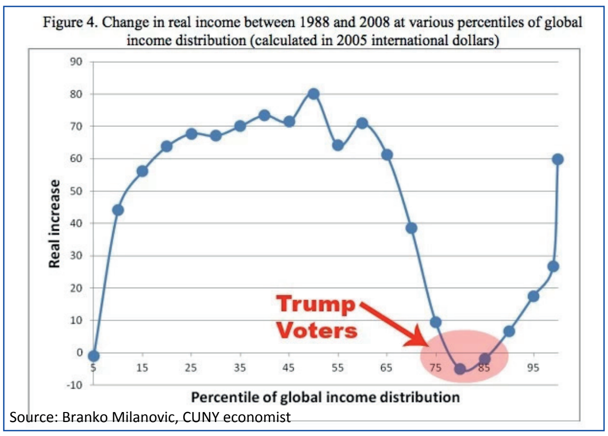
Oil Price Slump

- A major contributor to low global inflation;
- But also to increased instability in geo-political hotspots: e.g., the Middle East, Nigeria, Venezuela, and Russia;
- Four factors keep prices low for the foreseeable future: flexibility to ramp shale oil production up and down easily; Saudi Arabia's determination to monetise remaining reserves as oil use falls; Iran's re-entry into global oil markets; weak global growth keeps demand growth low.



Fed Tightening

- The December tightening was a harder call than is widely acknowledged;
- Already, forecasts for global growth this year are being widely revised downward;
- The rate of US interest rate increases forecast by the Fed is well ahead of current market pricing;
- Next FOMC meeting = March 15/16, accompanied by summary of economic projections and Yellen press conference.



The Trump effect

- Anti-TPP protests are largely confined to developed economies;
- The chart at left shows substantial lifts in the incomes of the world's poorest and wealthiest citizens between 1998 and 2008;
- The area circled "Trump voters" indicates a developed economy working and middle class that has suffered income reductions or very little gain in the era of globalisation. These people don't believe more globalisation will be good for them.

Monetary policy

The RBNZ maintained its easing bias in its statement last week at the halfway mark between Monetary Policy Statements. But Governor Graeme Wheeler's speech this week highlighted the lack of urgency to ease further. Rather, he indicated that "some recent inflation indicators are encouraging", referring particularly to the central bank's preferred 'sectoral factor' model for assessing core inflation, which it says was running at around 1.6% last year, compared with the official measure of just 0.1%. The trouble with that is that no one else has the capacity to calculate that measure, let alone forecast it.

Meanwhile, the annual headline CPI inflation has been below the mid-point of the RBNZ's target band since December 2011 and looks likely to stay that way until at least September next year. No wonder there was a defensive tone to Wheeler's speech. This record is not only ammunition for Labour's Grant Robertson to take potshots at whether monetary policy still works, but is creating plenty of angst in the Beehive where Wheeler's relative hawkishness is contrasted with Janet Yellen's dovish tendencies.

While understandable, the frustration is a little unfair. Wheeler is not personally responsible for the fact that the NZ dollar remained stubbornly high as he cut rates last year or for the collapse in global commodity prices that now underpins low inflation despite a much softer kiwi emerging in recent months. His capacity to stimulate domestic demand even more aggressively to push non-tradables inflation higher, is limited. That's already largely happening, without creating price pressure, except in the housing market, which has little CPI impact anyway.

Easing monetary policy therefore more likely courts potential disaster than stimulates inflation towards the mid-point of the target band. Excess domestic demand means: ongoing upward pressure on house prices; increasing leverage in an already overly-leveraged household sector; a higher demand for imported goods; a deteriorating current account balance; a weakening external debt position; and, so, a heightened chance of a future sudden stop and significant economic volatility.

Blind pursuit of an inflation target in these circumstances is clearly unwise.

Monetary policy-making requires that the benefits of whatever measures are applied should outweigh the negatives. This is the real bind faced by the RBNZ at the moment. Wheeler's speech highlighted the fact that the Policy Targets Agreement contains "a requirement that the Bank monitor asset prices, have regard to the efficiency of the financial system and seek to avoid unnecessary instability in output, interest rates and the exchange rate". With those requirements in mind, Wheeler has decided to ignore the face value evidence of the need for further easing. The costs of doing so are just too great and the chances of success - getting inflation higher - are too low.

On the balance of probabilities, that means the Official Cash Rate is more likely to stay at 2.5% for some time to come than to be cut. The factor most likely to change that judgement would be if real economy conditions deteriorated in such a way that the RBNZ believes lower interest rates might help avoid a period of sub-trend growth. We don't expect that, but believe that's where the balance of risk lies.

Export pricing

NZ soft commodity exports are less subject to prevailing global market prices than is commonly supposed, according to RBNZ analysis of Statistics NZ's 2010 Business Operations Survey, covering 1,250 exporters. "The commonly held view on primary exports is that such products are homogenous and that the price is determined by the balance of international demand and supply, and hence the same across countries," the study says. NZ primary exporters not only price to market, but are more likely to do so than firms in all other sectors, even taking into account other firm characteristics.

FBU scotches break-up talk

Fletcher Building ceo **Mark Adamson** has rejected analysis from First NZ Capital that spinning off the company's under-performing Australian and rest-of-the-world businesses may provide the best value for shareholders.

Its shares are worth 25% more than their current market price on a sum-of-the-parts valuation, the brokerage said. Fletcher's existing cost-cutting and right-sizing programmes may not be enough.

The company could be shrunk back to its NZ operations, which stand to benefit from domestic, commercial and infrastructure projects, and where it has unrivalled positions for some of its products.

Adamson this week bolstered the most-profitable NZ arm of the company, announcing the $315m purchase of **Higgins Group**, NZ's third-largest road construction and maintenance company, and a restructure into five divisions that could facilitate spinoffs. Last month, Fletcher completed the sale of Rocla Quarry Products assets to Hanson Construction Materials following clearance from Aust regulators, which along with the separate sale of related assets will generate about A$194m.

Primary sector

The wholemilk powder price fell 10.4% in the GlobalDairyTrade auction overnight Tuesday, Feb 3, as part of a 7.4% fall in the average price of products offered on the platform. That was the third straight decline this year and pushed WMP back under $2,000 a tonne ($1,952/tonne) to the lowest level since Aug. 18 last year. If sustained, that may prompt a further cut to the forecast Fonterra payout to farmer-shareholders for the 2015/16 season. The forecast payout was cut to $4.15 per kg of milksolids last week.

In a landmark move, **Zespri** and **Turners & Growers** have signed a joint marketing MoU for export markets. The first collaboration will be in the Thai, Cambodian, Laos and Myanmar markets. It will involve marketing both kiwifruit and apples.

Financial services

Cameron Partners is conducting a strategic review of **Paymark**, after owners ANZ Bank, ASB Bank, BNZ and Westpac said they had a potential buyer for the electronic payments firm. Paymark's financials are relatively modest – it had profit of $12m last year on sales of $52.4m – but the 1.1b of payments it handles a year give the company about 75% of the market.

Xero may be bringing its quarterly cash burn under control. The cloud-based accounting software developer spent $13.6m on investing activities in the final three months of 2015, most of it on acquiring intellectual property and down from $14.4m a year earlier. Xero had cash and short-term deposits totalling $202.7m at Dec 31, having raised another $147m from investors last year to fund its expansion.

Retail and marketing

Kathmandu may be closer to rewarding shareholders who backed the board and management as it fended off a hostile takeover by **Briscoe Group** last year – a time when both its share price and margin were weak. The retailer lifted first-half profit 9.1%, on wider margins, and says it's on track to deliver annual profit of $30.2m. Sales rose to $195.7m in the 26 weeks ended Jan. 31 from $179m, and gross margins improved by 360bps. Full results are due on March 22.

Smiths City Group will compete more aggressively for market share after trimming lower-margin businesses. Following a strategic review, it has wound down its **Powerstore** and **LV Martin** operations, rebranding some stores and closing others. Ceo **Roy Campbell** says the company has consciously moved away from the commodity end of appliance retailing. "If you observe the Dick Smith demise, it's increasingly more challenging to survive as a singly-branded retailer in appliances."

Retirement homes

Ryman Healthcare will invest $200m to build its third retirement village in Melbourne, confident Aust's aging population will allow it to repeat its success in NZ. Ryman already operates villages at Wheelers Hill and the Brandon Park site it bought in 2014 and the third site, a 2.5 hectare block in Burwood East, will house more than 400 residents. It expects to have five villages in Melbourne by 2020, adding to 30 villages, with 9,000 residents, in NZ. **Summerset Group's** Auckland skew may limit its ability to keep delivering positive earnings updates if house price growth in the city continues to moderate. Real Estate Institute data showed moderating Auckland prices is a risk for the business although it is too early to determine whether the cooling will last.

Corporate governance

Fonterra has released a discussion document for its farmers ahead of a review of the cooperative's governance and representation structures it hopes will be ready for a vote in May. The review attempts to answer criticism that Fonterra has an unwieldy board of 13 appointed under a system that may not be best practice for the increasingly multinational dairy company. Stronger governance and representation were now needed to ensure Fonterra can meet goals including lifting the volume it collects to 30b litres of milk from five to six pools by 2025 – both in NZ and in overseas markets – from 22b litres now, driving revenue to $35b over the next decade from $18.8b. Fonterra wants to ensure it has enough directors with business acumen, specifically in overseeing a global corporation, knowledge of manufacturing and consumer products, specialised skills in audit, finance and risk management, and knowledge of the commercial application of science and IT. To reach that may require lifting the number of independent directors from four currently. The company also wants its farmers to consider how it should build loyalty among fresh milk suppliers in other countries, a question that could potentially be answered by offering them equity. The same questions will be asked of its Shareholders' Council of 35, which helps protect shareholders' interests but makes Fonterra a more complex organisation than listed rival Nestle.

Pyne Gould Corp continues to operate like the private company that dominant shareholder and managing director **George Kerr** wanted it to be when he fell short of a complete takeover. Its shares have been suspended from trading on the NZX since

Oct because of its failure to file its 2015 accounts and it was censured for the second year in a row. It expects further delays to its 2015 numbers, blaming a disagreement between auditors. Because it is Guernsey-based but NZX listed, it must meet audit requirements in more than one jurisdiction and its various units run on different financial years. The company was fined and censured by the NZ Markets Disciplinary Tribunal over the delayed 2014 annual report, which had been tagged by auditor PwC because of the firm's inability to obtain sufficient information about Pyne Gould's investment in Torchlight Group and Torchlight Fund. Adding to the confusion this time, chairman Bryan Mogridge resigned unexpectedly in Nov citing personal reasons.

SFO investigation: Intueri Education Group's Quantum Education college is under investigation by the Serious Fraud Office, a development that has weighed on the company's stock. Last month, the Financial Markets Authority said elements of Intueri's 2014 prospectus could have been more clearly and effectively described. While the FMA recommended the company give further consideration to how student enrolment data is disclosed in future communications, it took no further action at that time.

Rights issue revisited: The Shareholders Association is reconsidering its support for **Wynyard Group's** rights issue, after the security software company said it wanted the flexibility to offer new shares to investors at less than the $2 a share minimum it has approval for. At a meeting in Dec, shareholders backed the issue of up to 15m shares at a minimum of $2 a share, a slight premium on the $1.97 trading price at that time, but well above the $1.38 the shares had traded at when the meeting was first announced in November. Ceo **Craig Richardson** says its stock is undervalued due to thin trading versus other comparable stocks and the company believed there was demand at this price level, despite the volatility in global capital markets.

Export manufacturing:

Spending delays: Rakon has warned that annual earnings will miss its forecast because major network operators have delayed spending on new equipment. Underlying earnings are expected to be between $9m and $10m in the year ending March 31, down from a previous forecast of $15.4m. "Previously it was expected that investment in infrastructure would resume in the second half of the current financial year, however latest forecasts from the market now indicate this is likely to be delayed further," Rakon said. The company has been exiting the smart wireless device market, which didn't deliver big enough margins, to focus on the burgeoning telecommunications sector, and has shifted manufacturing from the UK and France to NZ and India as part of restructuring to reduce its global workforce by 45 percent and slash its operating costs.

Transport

Infratil's NZ Bus unit has missed out on a tender for South Auckland's public transport services, where it currently runs about 153 buses, but is still in talks with the local body agency to renew other contracts representing about half of its existing business in Auckland. NZ Bus failed to win any of the agency's South Auckland services which were put to tender last year. Infratil said it was disappointed given that as the incumbent, "we understand clearly the costs of operating in the South Auckland market". Infratil's bus division had earnings of $22.7m in its first half, on revenue of about $119m. South Auckland services make up about 14% of NZ Bus's national fleet of 1,070 buses.

Aviation

Emirates announced an Dubai-Akl non-stop daily connection from March 1, while Qatar Airways is reported by Bloomberg to be considering Auckland-Doha, which would be the world's longest long-haul sector at 18 hours' flying time. Jetstar expanded regional NZ routes (Akl to New Plymouth and Palmerston North + Wellington - Nelson). Wellington City Council was embarrassed by leaks on detail of the deal to get Singapore Airways to fly to the city from Canberra. Air NZ signaled more price cuts thanks to low fuel costs and heightened competition. Pilots agreed terms for night flying into Queenstown, while Air NZ suspended services to Vanuatu, citing runway safety concerns.

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