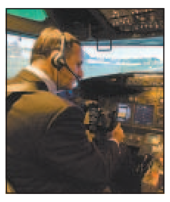

TAKING OFF
Firm aims for bigger share
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BUSINESSDAY
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Airline lifts prices 20 per cent

By **Nikki Preston** and **Roeland van den Bergh**

An airline which makes about 80 flights out of Hamilton a month pushed prices up 20 per cent price hike as other airlines make moves to recover costs from record oil prices.

Tauranga-based Sunair Aviation, which operates domestic flights out of Hamilton to Napier, Gisborne, Kerikeri, and Whangarei, will raise its prices for the second time in six months in an attempt to recover the 20 to 25 per cent hike in fuel prices, Sunair chief executive Daniel Power said.

The announcement came as Air New Zealand downgraded its profit forecast a second time and increased fare prices, and Qantas said it had cut its fleet and made route changes.

A return Sunair flight from Hamilton to Whangarei in June is $490, according to the airline's website, but would rise to around $560 with the increase.

The airline had been badly affected by the fuel price increase and says an international shortage of pilots has resulted in it cancelling some flights.

Air New Zealand chief executive Rob Fyfe this week warned of "carnage" in the coming months, and warned few airlines would be able to operate profitably at current fuel prices.

Air New Zealand said this week it would reduce capacity and increase fares to minimise losses. The price for oil has risen to $US135 a barrel, almost double the long-term average of between $US70-$US80.

Air New Zealand burns about 9 million barrels of fuel a year

Air New Zealand has said it will now make less than $200 million profit before unusuals and tax for the year to June 30

Last month Air New Zealand cut profit expectations by about 23 per cent to between $200 million and $220 million from previous guidance of bettering its $268 million profit in 2007.

In a market update, the airline said in the last month the price of oil had risen from $US119 a barrel to peak at over $US135 a barrel last week. The price today was $173. The refining margin between oil and jet fuel had almost doubled from $US24 a barrel to $US40 a barrel. The refining margin increase is not covered by the airline's hedges.

"Our expectation of 2008 normalised earnings before taxation and unusual items is now below $200 million," Air New Zealand said.

The airline had already announced that it would replace its Boeing 747-400s with smaller, more fuel-efficient Boeing 777-200ERs on its Auckland to London services via Los Angeles from September to save about $100 million in fuel.

Analysts said Air New Zealand was able to capitalise on its young, fuel-efficient fleet, new cabins and dominant network position to ride out the storm.

Across the Tasman, Qantas has announced it will ground aircraft, reduce Australian domestic services and axe staff in a bid to stave off the effects of an $A2 billion ($NZ2.43 billion) increase in its fuel bill for the year.

The airline would ground or retire four aircraft and cancel delivery of a new Airbus A321 for its budget subsidiary Jetstar.

None of the changes appears to affect Qantas' or Jetstar's New Zealand services.

Chris Doak, chief executive of Hamilton International Airport, said Hamilton had not been exempt from the slowdown in international passengers and would support the airlines since it largely relied on them.

He said the hike in fuel prices would not impact its plans to attract an international carrier to the airport.

National grilled over scheme

By **Tracy Watkins**

National is under pressure from business groups to let them offset KiwiSaver contributions against wage rises after it was forced into an admission over compulsory employer contributions.

A day after the bungled admission that National would retain compulsory employer contributions, National MPs have gone to ground on KiwiSaver, with leader John Key and his finance spokesman Bill English yesterday refusing to spell out what else National had planned for the scheme, which has been a runaway success.

National's industrial relations spokeswoman Kate Wilkinson also failed to return calls and a National Party spokesperson said yesterday she had nothing further to say.

Ms Wilkinson got into strife on Tuesday when she told a group that National did not support compulsory employer contributions, which are worth one per cent of salary now, rising to four per cent by 2011.

National leader John Key was forced to correct Ms Wilkinson and confirm National's plan to keep compulsion in place.

The party has been under pressure to scrap the employers component by business groups annoyed by the Government's decision to make them compulsory. Business New Zealand chief executive Phil O'Reilly said yesterday businesses had felt betrayed over the way compulsory contributions were imposed by the Government.

The business community's reaction to National continuing with compulsory co-contributions would depend on what else was in National's KiwiSaver policy, Mr O'Reilly said.

"We'd want to ensure employers could take co-contributions into account in pay negotiations to sensibly manage wage and salary costs."

The Government reacted angrily last month to reports that some employers were offering lower pay rises to workers in KiwiSaver while still pocketing the employer tax credit of up to $20-a-week.

FIGHTING BACK: Kerry Paul with his Manuka Expose newspaper distributed today. PICTURE: Supplied

Honey producer hits back with tabloid

By **Kathy Graham**

The row over a key ingredient in a honey produced in Te Awamutu has hit the tabloids.

Manuka Health chief executive Kerry Paul has produced a four-page National Enquirer-style paper which screams: Inaccurate test vs Active Ingredient. He says more than 2500 copies of the paper will be sent to honey producers and other people involved in the industry.

Manuka Health has fallen foul of the National Honey Association over its claim that methylglyoxal is the key anti-bacterial ingredient in manuka honey.

Waikato University biochemist Professor Peter Molan, who is co-director of the Honey Research Unit, said that methylglyoxal does not by itself account for the antibacterial activity of manuka honey.

Manuka Health produces a range of products which trumpet the value of the single ingredient, methylglyoxal, but has had its membership of the Active Manuka Honey Association cancelled because the AMHA said the company could not prove the product contained UMF (unique manuka factor). UMF is the registered name and trademark of AMHA.

Mr Paul said the debate came down to science. "The product on the shelves is still the same. Our distributors are excited by the prospect of moving to a testing system where they will know exactly what is in the pot (of honey)."

"We want to tell the truth," Mr Paul said. "I have been selling UMF products for five years now and 95 per cent of people have no idea what it means. It is especially hard to get across to consumers."

Mr Paul said people who had used anti-bacterial honey knew the benefits of it. But, he said, there was a large untapped consumer market of people who did not understand it. He said the measurement system they could provide with methylglyoxal would be able to capture that market.

Members of the AMHA pay a levy to the association to use the UMF label.

Mr Paul said his company had removed all UMF branding from its labels and was now using the trademark "MGO" (relating to methylglyoxal). He said there had been a financial cost in creating new labelling, packaging and promotional material, but declined to put a figure on the cost.

"We have been selling UMF honey and promoting UMF honey ever since we started but now we are putting our dollar into promoting MGO," he said. "Our products are still being bought by the consumer."

He said research by the University of Dresden had proved that a compound known as methylglyoxal, identified in mid 2006, was the dominant antibacterial constituent of manuka honey.

Manuka Health now labelled its product with the concentration of methylglyoxal in the honey.

"We know our system (of measurement) is much easier for consumers to understand," Mr Paul said.

He said no government agency recognised the UMF test, including the Food Safety Authority. "The industry has never agreed on any grading criteria for manuka honey. Anybody can jump in there and call their honey manuka."

Mr Paul said the company had spent a few thousand dollars producing the first issue of the newspaper and intended to follow it up with further issues.

Manuka Health sells 70 products including honey with methylglyoxal in it to markets in 25 countries.

BIG STEP: Foreign Minister Winston Peters believes the Nutritek deal means selling NZ's "priceless image". PICTURE: The Dominion Post

Peters warns: the Russians are coming

By **Tim Donoghue** and NZPA

New Zealand First leader Winston Peters has predicted Russian buyers will target Fonterra.

He made the claim while criticising Tuesday's decision by Finance Minister Michael Cullen and Land Information Minister David Parker to allow Nutritek, Russia's biggest baby formula manufacturer, to take a controlling shareholding in South Canterbury dairy company New Zealand Dairies Ltd.

"Fonterra will be the next big target on the horizon as foreign buyers launch their capital expansion plans," Mr Peters said.

New Zealanders in the dairy industry were now facing an uncertain future. "They'll become the lowly paid servants of foreign masters."

Fonterra chairman Henry van der Heyden said today his company would always be a New Zealand co-operative controlled by New Zealand farmers. "It is just a nonsense statement."

The Government has allowed Nutritek to increase its 5.6 per cent shareholding in the $140 million Studholme, South Canterbury, venture to 100 per cent during the next 12 months.

Mr Peters, who unsuccessfully sought an urgent debate on the issue in Parliament yesterday, said he could smell "a very big rat behind the deal".

"This is a very big, untoward step towards foreign ownership of local dairy farming interests."

He wanted to know why approval had been granted to the Russian concern when the dairy industry was playing an enormous role in holding the New Zealand economy together.

What particularly concerned him was Nutritek's obvious intention to send raw dairy products to China for processing. Once processed in Nutritek's Asian bridgehead factories, the Russian-owned company would then sell the dairy products by promoting them as New Zealand produce.

"This deal means we are selling our priceless image overseas as well as another highly valuable local asset. All the value will be added in Asia," Mr Peters said.

Ministers said Nutritek had met or complied with all aspects of the Overseas Investment Act and benefits were likely to flow from the transaction.

Meanwhile, speaking under privilege in Parliament yesterday, NZ First MP Doug Woolerton further suggested "fraudulent" methods had been used to allow the takeover.

He said the New Zealand-based owners ran out of money in developing the $140 million operation and the cash shortage led to them looking for new shareholders.

"I have reason to believe that certain people brokered this deal behind the backs of the original shareholders," Mr Woollerton said. "And I believe that a situation was manufactured where this company was seemingly short of money for development.

"That was an event that was made to happen."

The company's general manager, Aidan Johnstone, said there had been no impropriety whatsoever.

MARKET WATCH SUMMARY

NZX New Zealand

The sharemarket closed down for the seventh consecutive session as pessimism about the economy depressed sentiment. The NZSX-50 index closed down 4.33 points at 3547.01, its lowest level in six weeks. Ninety-day bank bills were up at 8.73 (8.72).

Top stocks

By turnover	Auckair 11,005,277
By $ Value	Telecom 38,777,183

Rises: 36 **Falls:** 54

Comvita up 10 at 220
Newoceana up 10 at 180
Amp down 11 at 899
Lionnathan down 24 at 1075
Metlifecare down 26 at 450

Australia

The S&P/ASX 200 index fell 66.3 points to 5648.1.

DOW JONES Wall Street

The Dow Jones industrial average was down 21.90 points, or 0.17 per cent, at 12,526.45.

FTSE Britain

The FTSE 100 closed up 11.1 points, or 0.18 per cent, at 6069.6.

NIKKEI Japan

The Nikkei ended down 183.87 points at 13,709.44.

Origin may be seeking higher bid

Origin Energy Ltd, Australia's second largest power retailer, has entered a trading halt pending a decision regarding a $A12.9 billion ($NZ15.8 billion) takeover approach from BG Group Plc.

The power retailer said discussions with BG Group had reached a position where the company believed an announcement to the market was warranted, which "is likely to be material" to Origin's share price.

BG Group – formerly British Gas – the UK's third largest natural gas producer, approached Origin earlier this month with a proposal to acquire the company for $A14.70 cash per share.

Origin, 51.4 per cent owner of New Zealand's Contact Energy, said an announcement would be made to the market today.

BG Group has received signed funding commitments from a syndicate of banks, believed to include BNP Paribas, HSBC, Royal Bank of Scotland and Santander.

Origin, however, has argued that BG Group must address the true value of its resource position, especially with regard to its extensive coal-seam methane reserves in Queensland, and hinted a higher bid might be required. – AAP

Auckland lender the latest to go

Another finance company – the 19th in the past two years – has hit the wall.

The relatively small Auckland-based Belgrave Finance, which principally loaned on residential property and development, called in receivers Grant Graham and Brendan Gibson from accountants KordaMentha.

According to its September half-year accounts Belgrave owed about $27 million to investors, with more than half of this money invested for short terms or on call.

The directors and shareholders were Shane Buckley and Stephen Smith.

In a letter to investors, Mr Buckley and Mr Smith yesterday said the company had been discussing its future for the past 12 days after an "expected" substantial funding line had become unavailable.

– **David Hargreaves**