

## Treasury Report: Overseas investment review: information on Auckland Airport

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<b>Date:</b>	14 July 2009	<b>Report No:</b>	T2009/1664
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### Action Sought

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	Action Sought	Deadline
Minister of Finance (Hon Bill English)	<b>Note</b> the contents of this report.	20 July 2009

### Contact for Telephone Discussion (if required)

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Name	Position	Telephone		1st Contact
Nic Blakeley	Acting Manager, International	[withheld – privacy]	[withheld – privacy]	✓
[withheld – privacy]	Analyst, International	[withheld – privacy]	[withheld – privacy]	

### Minister of Finance's Office Actions (if required)

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None.
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**Enclosure: No**

## **Treasury Report: Overseas investment review: information on Auckland Airport**

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### **Purpose of report**

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1. You asked us for further information on the changes made to the overseas investment regime at the time of the Auckland Airport application, and current shareholding information on Auckland Airport.

### **Analysis**

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#### **Overseas investment decisions regarding Auckland Airport in early 2008**

##### *Legal context*

2. For an overseas investment in sensitive land to be approved, Ministers must be satisfied that the investor is of good character, has business acumen, financial commitment and that the investment is likely to benefit New Zealand. The consideration of benefit is made against a number of factors set out in the Overseas Investment Act. These factors include whether the investment will create jobs, adequately protect wildlife, walking access and historic heritage. In addition, Ministers can consider “any other factors set out in regulations”, and the factors considered can be added to or changed via regulation.

##### *Auckland Airport applications*

3. Two applications for overseas investment in Auckland International Airport Limited (Auckland Airport) in early 2008 brought the issue of strategic assets into the public debate. The first offer from Dubai Aerospace Enterprise to take a 51%-60% shareholding was withdrawn in the face of strong public opposition but before any decision was made on the application by Ministers.
4. A subsequent bid was made by the Canadian Pension Plan Investment Board (CCPIB) for a 40% shareholding in the Airport. The previous government held concerns about the ability of a foreign investor to control the Airport and the Minister of Finance asked for advice on options to limit foreign ownership in the Airport.
5. Treasury provided advice on two main options to achieve this objective:
  - legislative changes that would have capped total foreign ownership of the Airport at 49.9%, with no single foreign shareholder able to hold more than 20%; or
  - adding an additional factor to the Overseas Investment Regulations that Ministers may consider when assessing whether the investment would provide benefit to New Zealand.
6. Treasury advised against making any intervention, but that an amendment to the Regulations would be superior to making legislative changes as it would have relatively less impact on our key international relationships and agreements.

7. Cabinet subsequently decided to change the Overseas Investment Regulations by adding an additional factor for consideration in assessing applications for sensitive land:
  - *whether the overseas investment will, or is likely to, assist New Zealand to maintain New Zealand control of strategically important infrastructure on sensitive land.*
8. After the change to the regulations, the CCPIB revised its offer to state that it would restrict its voting rights to 24.9% (while maintaining a 40% ownership stake) to show that it would not be able to control the airport. An application for consent under the Overseas Investment Act was made on this basis.
9. On assessing the application, Ministers' judgement was that the investment was not likely to provide benefits to New Zealand based on consideration of nine "high importance" factors. With a number of these factors, Ministers considered that the restricted voting rights meant that it was uncertain whether the CCPIB would be able to influence the board and ensure that benefits were realised. The decision did not hinge on the 'strategically important infrastructure' factor, although Ministers did consider that the investment was not likely to assist New Zealand to maintain control of the Airport.

#### **Current shareholding of Auckland International Airport Ltd**

10. NZX's Deep Archive database has information on the top 100 shareholders in companies listed on the NZX. At 26 September 2009, Auckland International Airport Ltd had 51,151 shareholders and the top 100 shareholders held 74.7% of total shares. The top 10 shareholders are listed on the table below:

	<b>Holder</b>	<b>% of total</b>	<b>% cumulative</b>
1	Auckland City Council	12.71	12.7
2	Manukau City Investments Limited	10.02	22.7
3	New Zealand Superannuation Fund Nominees Limited	9.75	32.5
4	HSBC Nominees (New Zealand) Limited A/C State Street	6.22	38.7
5	National Nominees New Zealand Limited	6.02	44.7
6	Renew Nominees Limited	3.86	48.6
7	Accident Compensation Corporation	3.15	51.7
8	Citibank Nominees (New Zealand) Limited	2.21	53.9
9	HSBC Nominees (New Zealand) Limited	1.86	55.8
10	Custodial Services Limited	1.76	57.6

#### *Auckland City Council's Long Term Plan*

11. The Auckland City Council has recently amended its 2006-2016 Long Term Council Community Plan to provide it with more flexibility to buy additional shares in Auckland International Airport.
12. The Council has not yet decided whether or not it will change the size of its stake in Auckland Airport. However the new policy commits the council to retaining its existing stake and allows for the potential for this to be increased. For example where it may enhance the council's strategic position through increasing its voting power or mitigate threats, such as reducing its shareholding if Auckland Airport issues more shares.

13. The Council has also developed a number of key objectives and criteria that it will use to evaluate proposals that it may receive regarding its stake in Auckland Airport:
- no single investor controlling 50 per cent or more of voting rights in the Auckland Airport.
  - maximising both long-term and short-term financial returns.
  - the council being able to influence the governance and strategic direction of Auckland Airport.
  - any significant new investors being committed and able to contribute to the sustainable long-term development of Auckland Airport.
  - agreement that the council's ownership or influence will not later be diluted/reduced in circumstances outside its control.
  - ongoing listing of Auckland Airport on the New Zealand Stock Exchange.
  - no reduction in council's stake in Auckland Airport below its current stake.
14. This change suggests that the Council could increase its ownership stake in the Airport in the future. However, such a judgment needs to be tempered against the fact that any increases are likely to require approval from the Auckland Transitional Authority, and that the new Auckland Council, once established, may take a different approach to its shareholding policy.

## Recommended Action

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We recommend that you **note** the contents of this report.

### **Nic Blakeley**

Acting Manager, International  
for Secretary to the Treasury

Hon Bill English  
**Minister of Finance**