



Office of Hon Bill English

MP for Clutha-Southland
Deputy Prime Minister

Minister of Finance
Minister for Infrastructure

27 January 2011

John Whitehead
Secretary to the Treasury
PO Box 3724
WELLINGTON

Dear John

REQUEST FOR ADVICE ON EXTENDING THE MIXED OWNERSHIP MODEL

As you will know from the Prime Minister's speech yesterday, the Government wants to look at areas where it can prioritise and reallocate its capital. While the Government will remain a strong net buyer of assets for the foreseeable future, it wishes to direct this investment to high-priority areas and to reduce the rate of debt accumulation.

The greatest scope to change this mix of assets lies with the government's portfolio of commercial assets, and in particular by extending the sort of mixed-ownership model under which Air New Zealand currently operates.

We have read Treasury's initial think piece on this topic, dated 3 December 2010, and want to confirm that the Government is not interested in pursuing all of the options discussed in that paper.

As the Prime Minister has outlined, we are asking for Treasury advice only on the merits and viability of:

- extending the mixed-ownership model to Mighty River Power, Meridian, Genesis and Solid Energy, with the Crown retaining a majority stake in these companies; and
- reducing the Crown's shareholding in Air New Zealand, again while maintaining a majority stake.

The Government's policy on state-owned assets during the term of this Parliament is very clear and remains unchanged. No sale of any interest in these companies is to be contemplated in this term.

In addition, the Government will only proceed with a mixed ownership model if it meets the following tests:

- the Government would have to maintain a majority controlling stake by owning more than 50 percent of the company;
- New Zealand investors would have to be at the front of the queue for shareholdings, and we would have to be confident of widespread and substantial New Zealand share ownership;
- the companies involved would have to present good opportunities for investors;
- the capital freed up would have to be used on behalf of taxpayers to fund new public assets and thereby reduce the pressure on the government to borrow; and
- the Government would have to be satisfied that industry-specific regulations adequately protected New Zealand consumers.

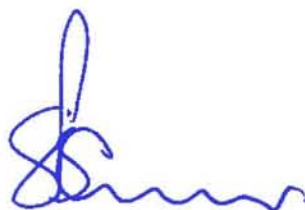
Only the four companies we have mentioned will be considered for the mixed ownership model already applying to Air New Zealand. However, as regards other Crown commercial entities, we continue to remain open to your advice on improving commercial arrangements with a view to enhancing the performance of the portfolio for the benefit of all New Zealanders.

We look forward to receiving your advice.

Yours sincerely,



Hon Bill English
Minister of Finance



Hon Simon Power
Minister for State Owned
Enterprises