

MEMORANDUM

To: Peter Harris, Office of the Minister of Finance

From: Linda Dixon, Senior Analyst, Asset & Liabilities Management Branch, Treasury

Date: 12 March 2002

Air New Zealand – Work Programme for Assessing K Proposal

This note sets out the Treasury's views of the work required to inform the Minister of Finance of the merits of any proposal that may arise from Air NZ relating to the purchase of shares in the company by K.

We seek agreement to the work programme. In the event the Minister of Finance agrees that the issues below need to be addressed prior to making a decision on a K proposal, a reasonable (yet to be defined) lead time would be required after notification of the final details of a proposal for the issues to be analysed.

Issues needing to be assessed

These fall into three categories:

1. Value Implications, including:
 - What is the value to the Crown, as shareholder, of the transaction, compared with other scenarios (eg running a contestable process at a later date) and how is that value derived (ie if through a lessening of competition, the gain to the shareholder could be a loss to the welfare of New Zealanders)?
 - What are the risks, including the impact of having K locked into Air NZ for the future and the impact on the degree of control that can be exercised by the Crown with a reduction in its shareholding?
2. Economic Implications, including:
 - What is the impact for the economy, in particular the potential losses of consumer welfare through lessening of competition?
3. National Interest Package:
 - Assessment of the elements of a Package, including reviewing the proposed content of packages proposed last year to assess their ongoing merit.

Interaction with Air New Zealand

If you agree that the above issues need to be addressed, it is important that expectations be communicated to Air NZ as soon as possible. We would propose engaging with the Chair of the Board, or his nominated person, as soon as practical to:

- understand the parameters of a possible proposal, including possible timeframe for which a proposal may be presented and for which a decision would be required;

- understand how the transaction would affect the Crown (ie would it be a purchase of the Crown's shares or an issue of new equity?);
- understand the counter-factual (ie what are the possible scenarios if the K proposal was declined?);
- ensure that there is acceptance of the Crown's need for a reasonable lead time to enable the necessary analysis to be completed.

We note that while a proposal is not public, and indeed not finalised, there is a limit to the preliminary work that the Treasury could undertake to address the above issues. While advance notice has given us an opportunity to scope a work programme, and should enable us to commence some elements of analysis, we would not expect to complete many, if any, of the tasks in the absence of a final proposal.