



12 September 2001

Mr John Anderson  
Deputy Prime Minister  
AUSTRALIA

Via facsimile: +612 6273-4126

Dear Minister

As you will know, Air NZ has just been advised by Qantas that it does not wish to proceed with a purchase of Ansett. This will force the hand of the Air NZ Directors to move forward to a liquidation as advised to you earlier.

However, I am writing to you to see if some co-operative solution can be found to the present Ansett difficulty that would enable Ansett, at least in a restructured form, to survive and to participate in an airline market in Australia having a greater degree of rationalisation than at present.

The concept that I would like to put to you for urgent consideration is that:

1. Air New Zealand continues to operate Ansett for an agreed period on a basis of a full underwrite from the Australian Government while an attempt is made to restructure the airline and also to lay the foundation blocks for a restructured and more rational market in which competition operates constructively for benefit of consumers and not, as at present, destructively.
2. The concept of the restructured airline and rational market that I think should be considered is, in broad outline, as follows:
  - (i) Air New Zealand would form a new airline (Ansett 2) which would, in its initial form, seek to be a value based airline with a similar cost base to Virgin Blue but undertaking a much broader coverage, nationally and regionally.
  - (ii) Existing staff at Ansett, to the extent required, would be offered employment with the new company under a new industrial award

provided that they agree not to seek redundancy or other severance payments from Ansett. Staff who do not take up that employment would no doubt make redundancy claims. These would be dealt with in the ordinary way on the basis that the Australian Government would meet them but in return for an agreed equity interest in the new company coupled with an agreement for that equity to be redeemed (or sold or the subject of an IPO) in 5 years time at the Government's option in accordance with an agreed formula.

- (iii) Assets, routes, terminals, etc, not required by Ansett 2 would be offered for sale to Qantas and Virgin Blue.
- (iv) Ansett 1 would at that point be put into liquidation with every effort being made to negotiate creditors' claims remaining. To the extent that there were such claims, the Australian Government would meet them on the same basis as stated above in relation to redundancy claims.

Air New Zealand has, as you know, experience at running a low cost, value based, airline (Freedom Air) and believes that, freed of the crippling cost structure that it inherited when it bought Ansett, it could make this venture a success and provide real competition to Qantas and Virgin Blue which, otherwise, are likely to carve up the Australian market between them.

There may be other variants of this proposal and there are also other options that appear to be emerging that could see interest in an acquisition of Ansett if it was still a going concern and if a business case could be put together. I would respectfully suggest that this provides a real opportunity for the Australian Government to assume a leadership role not only in saving many jobs and the Ansett brand but also to provide the foundation for a re-invigorated competitive market based on sound principles.

It would also serve to divert attention away from the pointless exercises that all parties are currently going through in blaming others for the present situation and channel all of our efforts into a constructive outcome.

I will call you shortly to discuss this concept further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Farmer', with a long horizontal flourish extending to the right.

**Jim Farmer**  
Acting Chairman