

Chair  
CABINET

## **RECAPITALISATION OF AIR NEW ZEALAND**

### **Introduction**

1. This paper describes the situation relating to Air New Zealand and Ansett Australia, outlines the company's proposals for Crown assistance, and recommends you ratify the approach adopted by the Ad Hoc Committee of Ministers.

### **Background**

2. The Crown negotiators have been continuing their discussions with the Air New Zealand Board and major shareholders over the weekend. It has become increasingly clear that Ansett Australia's financial situation is extremely poor and that this is affecting Air New Zealand's own position severely.
3. It is the view of the Crown negotiators that the Board of Air New Zealand has only limited options:

#### **Ansett Australia**

- (i) Either put Ansett Australia into Administration to test sales options, or
- (ii) Put Ansett Australia into liquidation.

#### **Air New Zealand**

- (iii) Either recapitalise Air New Zealand with shareholder and Crown support,  
or
- (iv) Put Air New Zealand into statutory management.

### **Options**

#### ***(i) Ansett Australia in Administration***

4. This is the Australian equivalent of statutory management. It would probably require the Australian Government to assist by offering assurances to the Administrator to allow trading to continue for a limited time. This would allow the Administrator to test sales options. It is our negotiator's view that the only

possible buyer is Qantas. This would be very unpalatable to the Australian Government, but may be their only option. Qantas have already expressed interest in the purchase of Ansett Australia at a nominal price. I understand Qantas are discussing their concerns regarding regulatory approvals with the Australian Government. The Board of Air New Zealand is understood to be offering Qantas a limited time to finalise an offer. This could be the best scenario for New Zealand, and might mean no further Crown support of Air New Zealand would be necessary.

***(ii) Ansett Australia in Liquidation***

5. If sale or Administration is not possible the Directors of Air New Zealand are likely to have no option but to put Ansett Australia into liquidation. In this case Australian operations would likely cease immediately. If this happens [and possibly also in option (i)], claims from Ansett Australia's creditors will be lodged against Air New Zealand causing it further pressure. Ultimately company law may offer some protection against this, but it is not guaranteed.

***(iii) Recapitalising of Air New Zealand***

6. Air New Zealand is thought to require significant recapitalisation to boost its cash flows and allow it to continue operating; it may also need financial support to face claims resulting from Ansett Australia's liquidation. The proposal outlined below suggests this be done via a combination of shareholder and Crown support.

***(iv) Air New Zealand into Statutory Management***

7. This seems to be the only other likely option. It would require the Securities Commission recommending appointing a Statutory Manager and the Crown giving an indemnity and guaranteeing credit lines to allow the company to continue to trade. The Statutory Manager would then likely offer the Air New Zealand operation for sale.

**Air New Zealand's Proposal**

8. On the evening of Sunday, 9 September 2001, Air New Zealand sounded out the Crown regarding the following proposal:
  - (a) BIL and Singapore Airlines each agree to contribute \$150 million in the form of subordinated convertible notes, conditional on receiving the support of Air New Zealand's banks not to call-in Air New Zealand's debt. This \$300 million would cover Air New Zealand's immediate cash needs.
  - (b) The Crown would agree to be prepared, if necessary, to contribute up to \$550 million as a lender of last resort. This would be available to cover any successful claims from Ansett Australia's creditors. The intention would be to make the terms of this loan very tight, limited in duration, and relatively

unattractive. This could, for example, be done by requiring a holding fee, a draw-down fee, a big coupon, a conversion option, a transferability requirement, an expiry after 12 months, or other design characteristics. It would be less risky than other options as it would rank ahead of shareholders, ahead of convertible note issues in (a), and pari passu with other unsecured creditors of Air New Zealand. The terms would incentivise Air New Zealand not to draw on the loan if it can find finance elsewhere, and to close the funding facility down early if possible.

- (c) Changes to the limits on foreign carrier ownership and foreign shareholder ownership will need to be implemented to allow the proposal to take place. Details on these are currently being worked through.

### **Meeting of Ad Hoc Ministerial Committee**

- 9. At 8.30pm on Sunday, 9 September 2001, there was a telephone conference call joined by the Prime Minister, Deputy Prime Minister, Minister of Finance, both Associate Ministers of Finance, Minister of Transport and Minister of Tourism. They heard the Air New Zealand proposal presented by the Crown negotiators. After discussion they agreed that the negotiating team should signal to the Air New Zealand Board that the Crown was prepared to work to progress the Board's proposal. This indicated the Crown's commitment to find a solution, but it did not at this stage imply any commitment by the Crown to provide finance. The team would work over the next two days to negotiate the proposal jointly with Air New Zealand and its bankers, then return to Ministers for decisions.

### **Consultation**

- 10. Due to time constraints it has not been possible to consult with agencies on the paper.

### **Recommendations**

- 11. I recommend that you:
  - 1. **note** that the situation relating to Air New Zealand and Ansett Australia remains very fluid;
  - 2. **agree** that the Crown continues to negotiate on the Air NZ Board's proposal, including any necessary changes to Air NZ's foreign ownership limits and possible Crown financial support as a lender of last resort;
  - 3. **note** that the Crown may need to make further decisions regarding finance and ownership of Air New Zealand, possibly within the next 48 hours;
  - 4. **note** that these decisions could involve raising the foreign carrier ownership up to 49 percent and collapsing the Class A and B share structure;

5. **authorise** the Ad Hoc Ministerial Committee to take these decisions on finance and ownership as required.
6. **agree** the Ministerial Committee will report any decisions made to Cabinet Policy Committee on 12 September 2000; and

**Trevor Mallard**  
Acting Minister of Finance