

The Treasury

Letters of Expectations Information Release

September 2020

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Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Hon Shane Jones

Minister of Forestry

Minister for Infrastructure

Minister for Regional Economic Development

Associate Minister of Finance

Associate Minister for State Owned Enterprises

Associate Minister of Transport



Denise Church
Chair
Airways Corporation of New Zealand Ltd
[23]

Dear Ms Church

SHAREHOLDER EXPECTATIONS FOR AIRWAYS CORPORATION LTD

In light of the economic downturn and unforeseen impacts to the aviation industry as a result of COVID-19, I am writing on behalf of the shareholding Ministers of Airways Corporation of New Zealand Ltd (Airways) to provide a new expectations letter. This letter outlines actions and approaches we expect Airways can take to adjust itself and to assist its customers through the downturn so that there is a robust post-downturn aviation sector in New Zealand. The expectations outlined in this letter are consistent with the objectives in the COVID-19 Aviation Relief Package agreed by the Ad Hoc Cabinet Committee on COVID-19 Response (CVD), and which included Crown financial support for Airways.

Airways has in the past played, and is expected to play, a critical role in New Zealand's air transport network by being an efficient, reliable, safe and low cost Air Traffic Management service. However, Airways' primary objective remains to ensure all aircraft and passengers operating in controlled airspace reach their destination safely and efficiently.

The Government is committed to resolving key short term and long term challenges facing New Zealand and is undertaking steps to mitigate the impact of COVID-19 on the aviation industry and the wider economy. As you will appreciate, there is a high level of uncertainty regarding future travel restrictions and consequently the size and length of impacts on the aviation industry.

The Government has already taken steps to support the aviation industry and Airways, including:

- the suspension of funding reviews across all aviation and border agencies for the next 12 months,
- financial support to airlines by rebating them for fees paid to Airways over the next 6 months, and
- providing Airways with additional equity capital of up to \$70 million to help mitigate [37] issues the company was facing, so that it can continue to provide air traffic services to the airlines.

We support Airways' decision as outlined in your 17 March 2020 letter to me, not to pursue its ordinary commercial avenue of increasing prices to offset volume shortfalls, which, due to the significantly reduced flight volume, would have resulted in significantly

increased costs for your customers from 1 July 2020. It is intended that the \$70 million of equity funding will provide Airways sufficient financial resources for the short term, while also enabling it to support its airline customers by not raising Airways' service fees for the next 12 months.

I have been informed by my officials that Airways has accessed other relief packages issued by the Government, such as the Economic Response package around COVID-19. We expect that you will continue to access financial relief available to the aviation sector and entities impacted by COVID-19.

In light of the uncertain economic future, we note your steps taken to mitigate the impact of reduced revenues flowing to Airways through cost cutting measures ^[37,38] and immediate actions to lower Airways' operating cost base. _[37,38]

Now that the immediate liquidity issue has been resolved, but recognising that activity in the aviation sector is unlikely to return to pre COVID-19 levels for some time, we expect that Airways will undertake further measures to right-size its operation, and reduce its financial risk exposure over a longer time period than the six-months covered by the Aviation Relief Package. For instance, ^[25,37] _[25,37]

_[25,37] We expect that, as a commercial business, Airways will take the necessary steps to realign its business with customer demand. Airways fundamental licence to operate is based on its safety and efficiency. In respect to any decisions Airways makes, we expect that you will be mindful of this and take steps to retain skills and flexibility where possible.

We expect that the Airways Board will continue to support the Government to resolve the challenges faced by the aviation industry by adhering to the Government's action plan as set out in the Aviation Relief Package. ^[25,37] _[25,37]
_[25,37]
_[25,37]

Engagement

We expect Airways to liaise with our officials on a regular basis to identify risk of further air traffic volume reductions ^[25,34] _[25,34]. If you have any questions please contact Maruta Kanepa (on ^[39] _[39]). Alternatively you can contact Shelley Hollingsworth, Manager Commercial Performance, (on ^[39] _[39]).

Yours sincerely

Hon Shane Jones
Associate Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc: Mr Graeme Sumner, CEO, Airways, ^[23]
Mr James Young, CFO, Airways, ^[23]