

Reference: 20200326



16 December 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 8 September 2020. You requested the following:

Under the Official Information Act, I would like to request a copy of all advice, including memos, aide memoires and briefings, that Treasury has prepared for, and given to, the Finance Minister this calendar year to date, regarding a Government financial loan for Air New Zealand.

On 8 September 2020, you revised this request to:

Under the Official Information Act, I would like to request a copy of all advice, including memos, aide memoires and briefings, that Treasury has prepared for, and given to, the Finance Minister this calendar year to date, regarding a Government financial loan for Air New Zealand, including the interest rate attached to a loan and the expected timeline for repayments.

On 14 September 2020, I wrote to you to extend the time limit for deciding on your request by an additional 50 working days due to the large quantity of information covered, and the consultations required.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	15 March 2020	Email: Air NZ possible terms sheet	Release in part
2.	19 March 2020	Treasury Report: Project 20: Terms Sheet for In Principle Agreement	Release in part
3.	19 March 2020	Treasury Report: Project 20: Terms Sheet for Final Agreement [contains legally privileged information]	Release in part

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<https://treasury.govt.nz>

4.	20 March 2020	Treasury Report: Project 20: Update for Cabinet	Release in part
5.	20 March 2020	Oral item for cabinet: Terms sheet	Release in part
6.	23 March 2020	CAB-20-MIN-0137: Air New Zealand: Crown Loan Facility	Release in part
7.	27 March 2020	Email: Air NZ minimum domestic schedule	Release in part
8.	28 March 2020	Email: FW: Air New Zealand	Release in part
9.	31 March 2020	Email: Air NZ – variation letter – final 31 March 2020	Release in part
10.	31 March 2020	Attachment: variation letter	Release in part
11.	17 April 2020	Joint Report: Project 20: Minimum Service Levels for Alert Levels 3 and 2	Release in part
12.	17 April 2020	Attachment: variation letter draft	Release in part
13.	20 April 2020	Attachment: variation letter (signed)	Release in part
14.	8 May 2020	Email: Air NZ minimum services – alert level 2 – urgent	Release in part
15.	12 May 2020	Aide Memoire: Project 20: Minimum Domestic Service Levels – Alert Level 2	Release in part
16.	21 May 2020	Treasury Report: Air NZ: Final Loan Documents	Release in part
17.	28 May 2020	Treasury Report: Air NZ: Security Documents	Release in part
18.	25 August 2020	Aide Memoire - Air NZ Annual Results Announcements - Q&A	Release in part

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information;
- section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied;
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions;

- section 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;
- section 9(2)(h) – to maintain legal professional privilege;
- section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage; and,
- section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage.

Information publicly available

The following information is also covered by your request and is publicly available on the governments' COVID-19 website:

Item	Date	Document Description	Website Address
19.	23 March 2020	CAB-20-MIN-0137: Air New Zealand: Crown Loan Facility	https://covid19.govt.nz/assets/resources/proactive-release-2020-october/SE56-cabinet-minute-cab-20-min-0137-4281902-additional-item-air-new-zealand-crown-loan-facility-23-mar-2020.pdf

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information has been removed from the documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

Information to be withheld

There are additional documents covered by your request that I have decided to withhold in full under the following sections of the Official Information Act, as applicable:

- section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information;
- section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied;
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions;

- section 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;
- section 9(2)(h) – to maintain legal professional privilege;
- section 9(2)(i) – to enable the Crown to carry out commercial activities without prejudice or disadvantage; and,
- section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely



Juston Anderson
Acting Manager, Commercial Performance

OIA 20200326

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Alex Colton [TSY]

From: Juston Anderson [TSY]
Sent: Sunday, 15 March 2020 6:15 PM
To: ^Parliament: Craig Renney; ^EXT: Angus Hodgson
Cc: Matthew Gilbert [TSY]; Aaron Gill [TSY]; Aedeen Boadita-Cormican [TSY]; Stephen Revill [TSY]
Subject: Air NZ - possible terms sheet
Importance: High

[SEEMAIL][SENSITIVE]

Hi

As requested.

High-level details for short-term Crown cashflow support facility:

- 12-18 month term
- "Commercial" interest rate (no subsidy)
- Fixed interest rate. To be discussed – set the rate now (by Tuesday afternoon) or later
- Crown considering taking security over Air NZ's un-encumbered aircraft s9(2)(b)(ii), s9(2)(ba)(i)
- Air NZ has to exhaust all private sector lending options first (this already appears to be the case)
- Dividend stop
- Repayment triggers, to be agreed
- Preconditions for drawdown, to be agreed
- Air NZ needs either approval by other shareholders to borrow from the Crown (as it is a related party transaction) or Air NZ to seek a waiver from this requirement (timing makes seeking shareholder approval difficult – this is a matter for Air NZ to consider)
- A minimum set of routes and frequencies that Air NZ will fly and agreement that it must consult with the Crown before making any changes s9(2)(g)(i)

We expect that the term sheet will be binding once signed, but we will consider what conditions can be incorporated into it.

Juston Anderson | Principal Advisor | Te Tai Ōhanga – The Treasury
s9(2)(g)(ii) | Juston.Anderson@treasury.govt.nz

COMMERCIAL-IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY**Treasury Report:** Project 20: Term Sheet for in principle agreement

Date:	Thursday 19 March 2020	Report No:	T2020/701
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of this report	8pm Thursday 19 March 2020
Minister of Transport (Hon Phil Twyford)	Agree in principle the attached Term Sheet in your capacity as negotiating Minister under CAB-20-MIN-0108	8pm Thursday 19 March 2020
Associate Minister of Finance (Hon David Parker)	Agree in principle the attached Term Sheet in your capacity as negotiating Minister under CAB-20-MIN-0108	8pm Thursday 19 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Juston Anderson	Principal Advisor, Commercial Performance	s9(2)(g)(ii)	✓
Maureena van der Lem	Manager, Commercial Performance		

Minister's Office actions (if required)

Return the signed report to Treasury

Refer this report and attached Term Sheet to the office of the Minister of Finance

Note any
feedback on
the quality of
the report
Enclosure: Yes (attached)

COMMERCIAL-IN-CONFIDENCE**Treasury Report: Project 20: Term Sheet for in principle agreement**

Executive Summary

You as Ministers (the Minister of Transport (Hon Twyford) and Associate Minister of Finance (Hon Parker)) have been tasked with negotiating, and agreeing in principle, a loan by the Crown to Air New Zealand Limited (Air NZ) [CAB-20-MIN-0108 refers].

This report provides you with advice on a Term Sheet detailing the conditions of the loan, and seeks your in principle agreement before the Term Sheet is provided to the Minister of Finance for consideration as the statutory decision maker (**attached at Annex One**). This Term Sheet has been negotiated with the Chair, Deputy Chair and senior management from Air NZ and reflects the discussions officials have had with your office regarding your objectives on 18th of March 2020 and the morning of 19th March 2020.

The negotiated attached Term Sheet has been undertaken in a compressed timeframe and within a dynamic economic environment as market conditions continue to worsen. These changing conditions are having increasingly adverse implications for the aviation sector with overseas airlines taking increasingly drastic actions in response, for example, Qantas standing down two-thirds of its staff. Paragraph 2 of this report outlines key amendments that have occurred as a result of worsening conditions.

The attached Term Sheet has attempted to respond to the Government's objectives to provide support to Air NZ in a commercial, fiscally sustainable, targeted and proportionate manner and reflects the direction you both gave officials. The Crown has been advised during negotiations by Goldman Sachs, Korda Mentha and Chapman Tripp. Goldman Sachs has separately provided a letter (**attached at Annex Two**) s9(2)(ba)(i)

The Term Sheet has been developed based on all parties' best understanding of the impacts over the next year of COVID-19 and the Government's response to it on: economic activity; the demand for Air NZ's services; and any restrictions on Air NZ's ability to operate services. s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Timeframes are compressed as Air NZ has a trading halt in place until the NZX opens at 10.00am on Friday 20 March 2020. In order for the company to begin trading again on Friday as scheduled, the Minister of Finance and Chair of Air NZ need to approve and sign the Term Sheet before 8.30am on Friday 20 March 2020 when announcements are made (but after trading on both the NZX and ASX close on 19 March 2020 per listing rules).

We ask you to agree in principle. Officials will also provide the Term Sheet to the Minister of Finance for consideration and decision (under section 65L of the Public Finance Act) following discussions with you both. These actions are happening simultaneously due to the compressed timeframes.

COMMERCIAL-IN-CONFIDENCE**Recommended Action**

We recommend that you:

- a **note** that officials consider that the Term Sheet (attached at Annex One) achieves the Government's objectives to provide support to Air NZ in a commercial, fiscally sustainable, targeted and proportionate manner
- b s9(2)(ba)(i)
- c **agree** in principle to the attached Term Sheet negotiated with Air New Zealand Limited (Air NZ) to provide liquidity support; and
- | | |
|------------------------|-------------------------------|
| <i>Agree/disagree.</i> | <i>Agree/disagree.</i> |
| Minister of Transport | Associate Minister of Finance |
- d **refer** this report and the attached Term Sheet to the Minister of Finance for ultimate consideration and decision under s65L of the Public Finance Act.
- | | |
|-------------------------------|-------------------------------|
| <i>Referred/not referred.</i> | <i>Referred/not referred.</i> |
| Minister of Transport | Associate Minister of Finance |

Maureena van der Lem
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

Hon David Parker
Associate Minister of Finance

COMMERCIAL-IN-CONFIDENCE**Treasury Report: Project 20: Term Sheet for in principle agreement**

Purpose of Report

1. This report:
 - provides you with officials' advice on the Term Sheet negotiated with Air New Zealand Limited (Air NZ) to provide liquidity support via a commercial loan; and
 - recommends you agree the Term Sheet (**attached at Annex One**), in principle, in your capacity as negotiating Minister (CAB-20-MIN-0108 refers).
2. The negotiated attached Term Sheet has been undertaken in a compressed timeframe and within a dynamic economic environment as market conditions continue to worsen. These changing conditions are having increasingly adverse implications for the aviation sector and as a result have reduced volume demand of future flight bookings significantly in the last 12 hours and have led to changes in the negotiated Term Sheet:
 - the debt facility increased to \$900m (from \$800m) with a larger upfront tranche of \$600m (from \$450m)
 - domestic flight frequencies have reduced – from once a daily to two per week as a minimum
 - reduced international destinations:
 - i LA was amended to a North American destination to provide flexibility for potential closures; and
 - ii Norfolk Island services are no longer in the Term Sheet as these are subsidised by the Australian Federal Government. However, Air NZ is likely to continue these flights

Negotiations

3. You as Ministers (Minister of Transport (Hon Twyford) and Associate Minister of Finance (Hon Parker)) have been tasked with negotiating, and agreeing in principle, a loan to Air New Zealand Limited [CAB-20-MIN-0108 refers].
4. Officials from Treasury, with specialist advice from Korda Mentha, Chapman Tripp, and Goldman Sachs, worked closely with senior management from Air NZ to negotiate the Term Sheet.
5. Korda Mentha held extensive discussions with Air NZ to interrogate its forecasts and their underlying assumptions in order to ensure Crown support provided is proportionate to Air NZ's immediate need, while meeting the Crown's objectives.
6. Goldman Sachs met with the Minister of Transport and the Associate Minister of Finance in order to understand the Crown's objectives and advise on the option best suited to achieve them.
7. The option described in the Term Sheet of a senior debt facility with a condition around minimum routes and frequencies was considered the most suitable and feasible option to achieve the Crown's objectives, while at the same time maintaining the ability to explore other options in the future if necessary, s9(2)(i) and 9(2)(j)

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8. Chapman Tripp provided legal advice throughout and drafted the Term Sheet to reflect the agreed objectives and the positions reached in the course of the negotiations. s9(2)(h)

9. Negotiations were held with the Government's objectives in mind, that ultimately the Government wanted to support Air NZ in a commercial fiscally sustainable, targeted and proportionate manner, whilst taking account of:

- ensuring there are flights to repatriate New Zealanders and to return foreign citizens home;
- ensuring air freight capacity, particularly for pharmaceuticals and other critical time sensitive cargo continues to be available;
- supporting the Pacific;
- cushioning the impact of the economic shock on workers, and
- supporting confidence in the near term.

10. In addition, you advised us that you wanted to:

- ensure domestic destinations across NZ remain serviced as well as key international routes; and
- ensure adequate supervision of any debt facility to manage the Crown's financial exposure.

11. The negotiated Term Sheet has attempted to respond to the above objectives. This has been done by ensuring that the conditions included in the Term Sheet are not solely to protect Air NZ, but rather to protect the core part of Air NZ's services that support the wider economy and the wellbeing of New Zealanders. s9(2)(g)(i)

12. Officials are confident that the attached Term Sheet responds to the objectives outlined in paragraphs 9 and 10 above. Goldman Sachs has separately provided a memo

s9(2)(ba)(i)

Analysis of the Term Sheet

13. The attached Term Sheet would require the Crown to provide a commercial loan facility of \$900m. This is contained in two separate tranches of \$600m and \$300m, over a maximum duration of 24 months (separable into two 12 month periods).

14. s9(2)(b)(ii), s9(2)(i), s9(2)(j)

15. Air NZ will fly where the revenue it earns is higher than the variable operating costs. The interest it will pay on the loan is not a variable operating cost and, therefore, has no impact on what flights it undertakes. The number of flights it undertakes determines

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staff requirements, s9(2)(g)(i)

16. s9(2)(b)(ii), s9(2)(i), s9(2)(j)

17. Under these assumptions, Korda Mentha has modelled three possible scenarios using different lengths of time for how long the disruption to the aviation industry, including border restrictions, may continue.
18. The two proposed tranches of the debt facility cover:

s9(2)(b)(ii), s9(2)(i), s9(2)(j)

- 19.

20. The following table outlines the key terms in the Term Sheet and their rationale for inclusion. It reflects the discussion and direction you gave officials in a meeting on 18 and 19 March 2020, and subsequent discussions with your offices.
21. The Term Sheet also contains the Crown's standard provisions relating to, amongst other things, GST, illegality tax, indemnities, anti-money laundering conditions etc.

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OFFICIAL INFORMATION ACT

Page 7 - 9 withheld under s9(2)(b)(ii), s9(2)(i)

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22. The maximum amount for the loan facility for Air NZ is \$900m, the terms for the facility were established on a commercial basis.
23. This will be funded via a new, non-departmental capital expenditure multi-year appropriation in Vote Finance. The Minister of Finance will seek Cabinet's agreement to establish the new appropriation on Monday 23 March 2020.
24. Depending on the amount drawn down by Air NZ, the facility will have a corresponding initial impact on net core Crown debt. However, this will be reversed as the loans are repaid.
25. As the Term Sheet includes provisions for dividends to be suspended while the loans are outstanding, we expect that the loans will be repaid within ten years. As such, the loans will not have an impact on Budget allowances.
26. Unless the Crown engages in separate purchase contracts to achieve other policy objectives, there should be no further operating expenditures associated with this facility. For example:
 - repatriation from locations as appropriate (such as London or Buenos Aires);
 - redeployment of Air NZ staff to other roles; or
 - ensuring air freight capacity.
27. There will be additional resource considerations for Treasury to undertake and monitor this proposed facility.

Next Steps

28. If you agree with officials' recommendations, officials will provide the Term Sheet and accompanying advice to the Minister of Finance for final approval under section 65L of the Public Finance Act.
29. Air NZ has a trading halt in place until the NZX opens at 10am on Friday 20 March 2020. In order for the company to begin trading again on Friday as scheduled, the Minister of Finance and Chair of Air NZ need to approve the Term Sheet by 8.30am on Friday 20 March 2020 when an announcement would be released by the NZX (but after trading has completed on the NZX and ASX on Thursday 19th March 2020).
30. Air NZ are planning to make an announcement of the loan, including rates, for opening of the NZX on Friday 20 March 2020. There are requirements for disclosure they must meet under listing rules. Your office was consulted on the draft announcement.
31. The Minister of Finance is intending to take a paper to Cabinet on Monday 23 March 2020 to update Cabinet colleagues on the outcome of the negotiation.
32. The Minister of Transport is taking an item to Cabinet on Monday 23 March 2020 to propose a scheme to purchase freight capacity from Air NZ and other airlines.

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TE TAI ŌHANGA
THE TREASURY**Treasury Report:** Project 20: Term Sheet for Final Agreement [contains legally privileged information]

Date:	19 March 2020	Report No:	T2020/642
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree on behalf of the Crown to lend money to Air New Zealand in accordance with the terms described in the Term Sheet.	19 March 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Juston Anderson	Principal Advisor, Commercial Performance	s9(2)(g)(ii)	✓
Maureena van der Lem	Manager, Commercial Performance		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report**Enclosure:** Yes (attached)

COMMERCIAL-IN-CONFIDENCE**Treasury Report: Project 20: Term Sheet for Final Agreement [contains legally privileged information]**

Executive Summary

On 16 March 2020 you took an oral item to inform Cabinet of your intention to make a decision under section 65L of the Public Finance Act 1989 as to whether and, if so on what terms, to grant a Crown short-term support facility (loan) to Air New Zealand Limited (Air NZ). [CAB-20-MIN-0108]

With the support of specialist advisors, from 16 to 19 March 2020 officials carried out analysis of information provided by Air NZ and negotiated with Air NZ management the terms of a loan that is intended to meet the Crown's objectives to keep Air NZ operating and thereby to:

- ensure there are flights to repatriate New Zealanders and to return foreign citizens home;
- ensure air freight capacity, particularly for pharmaceuticals and other critical, time sensitive cargo continues to be available;
- support the Pacific;
- cushion the impact of the economic shock on workers; and
- support confidence in the near-term.

Throughout this period the Minister of Transport and the Associate Minister of Finance (Hon Parker) received updates from officials on the progress of negotiations and provided instructions to officials on the position the Crown wishes to take on key points in the negotiations. These Ministers have confirmed they are satisfied that the loan reflected in the draft Term Sheet meets the Crown's objectives. They have agreed in-principle the attached draft Term Sheet and have requested that officials provide it to you for consideration.

As the Minister responsible for the administration of the Public Finance Act 1989 you have power (under section 65L of that Act) to lend money to Air NZ if it appears to you to be necessary or expedient in the public interest to do so.

Officials consider the loan as described in the draft Term Sheet meets the criteria of being necessary and expedient in the public interest.

Any lending under section 65L of the Public Finance Act must be made from a capital expenditure appropriation, or other authority, approved by Parliament for the purpose. If you decide to grant a loan to Air NZ officials will prepare a paper for you to take to Cabinet seeking a new multi-year appropriation for this purpose.

COMMERCIAL-IN-CONFIDENCE**Recommended Action**

We recommend that you:

- a **discuss** the contents of this report with us; and
- b **agree** on behalf of the Crown to lend money to Air New Zealand in accordance with the terms described in the Term Sheet.

Agree/disagree.

Maureena van der Lem
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

COMMERCIAL-IN-CONFIDENCE**Treasury Report: Project 20: Term Sheet for Final Agreement [contains legally privileged information]**

Purpose of Report

1. This report provides:
 - A high level description of the work undertaken by officials and the Crown's specialist advisors to analyse information provided by Air New Zealand Limited (Air NZ) and negotiate the terms of the proposed loan.
 - A summary of the key terms of the proposed loan to Air NZ.
 - Advice on the nature and scope of your power under section 65L of the Public Finance Act 1989 to lend money on behalf of the Crown.
 - Officials' assessment that lending money to Air NZ on the terms set out in the draft Term Sheet is necessary or expedient in the public interest.

Information gathering, analysis and negotiation

2. Trading in Air NZ's shares was suspended on the morning of 16 March 2020. The trading halt, initially due to expire before market open on 18 March 2020, was extended until opening on 20 March 2020.
3. From 16 to 19 March 2020 officials from Treasury, with specialist advice from Korda Mentha, Chapman Tripp, and Goldman Sachs, worked closely with Air NZ management to gather information about Air NZ's business and scenario planning and negotiate and draft the Term Sheet.
4. Korda Mentha held extensive discussions with Air NZ to interrogate its forecasts and the underlying assumptions to ensure Crown support provided is proportionate to Air NZ's immediate need, while meeting the Crown's objectives.
5. Goldman Sachs met with the Minister of Transport (Hon Twyford) and the Associate Minister of Finance (Hon Parker) to understand the Crown's objectives and to advise on the option best suited to achieve them.
6. The option described in the Term Sheet of a senior debt facility with a condition around minimum routes and frequencies was considered the most suitable and feasible option to achieve the Crown's objectives. This option maintains the ability to explore future options if necessary. s9(2)(i), s9(2)(j)
[REDACTED]
7. Chapman Tripp provided legal advice throughout and drafted the Term Sheet to reflect the agreed objectives and the positions reached in the course of the negotiations. s9(2)(h)
[REDACTED]
8. Negotiations were held with the Government's objectives in mind that ultimately the Government to support Air NZ in a commercial, fiscally sustainable, targeted and proportionate manner whilst:

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- ensuring there are flights to repatriate New Zealanders and to return foreign citizens home;
 - ensuring air freight capacity, particularly for pharmaceuticals and other critical time sensitive cargo continues to be available;
 - supporting the Pacific;
 - cushioning the impact of the economic shock on workers; and
 - supporting confidence in the near-term.
9. In addition, the negotiating Ministers advised us that the Government wanted to:
- ensure domestic destinations across NZ remain serviced as well as key international routes; and
 - ensure adequate supervision of any debt facility to manage the Crown's financial exposure.
10. The negotiated Term Sheet has attempted to respond to the above objectives. This has been done by ensuring that the conditions included in the Term Sheet are not solely to protect Air NZ, but rather to protect the core part of Air NZ's services that support the wider economy and the wellbeing of New Zealanders. s9(2)(g)(i)
- [REDACTED]
11. Officials are confident that the attached Term Sheet responds to the objectives outlined in paragraphs 8 and 9 above. Goldman Sachs has separately provided a letter s9(2)(b)(ii), s9(2)(ba)(i)
- [REDACTED]
12. The Minister of Transport and Associate Minister of Finance have confirmed they are satisfied that the loan reflected in the Term Sheet meets the Crown's objectives. They have agreed in-principle the attached Term Sheet and have requested that officials provide it to you for consideration (T2020/701 refers).
13. s9(2)(h)
- [REDACTED]
14. Accordingly, the Term Sheet can be executed by you on behalf of the Crown if you are satisfied that it is necessary or expedient in the public interest that the Crown lend money to Air NZ on the terms set out in the draft Term Sheet.

Term sheet - key terms

15. A copy of the draft Term Sheet is attached to this report. The key terms of the proposed loan to Air NZ are summarised in the table below. The key risks are outlined in a separate following section.

Page 6 withheld - s9(2)(b)(ii), s9(2)(i), s9(2)(j)

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s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Your power under section 65L of the Public Finance Act 1989 to lend money on behalf of the Crown

16. The Term Sheet is intended to be legally binding and, if you decide to execute it, will constitute a commitment by the Crown to lend money to Air NZ as described in its terms.
17. Section 65L of the Public Finance Act 1989 (the Act) empowers you, as the Minister responsible for the administration of the Act, to lend money to a person or organisation in New Zealand or elsewhere if it appears to you to be 'necessary or expedient in the public interest' to do so, and to make such a loan on any terms and conditions that you think fit.
18. Section 65P of the Act provides that any lending under section 65L must be made from a capital expenditure or other authority approved by Parliament for the purpose.

Officials' assessment that lending money to Air NZ in the terms outlined in the draft Term Sheet is 'necessary or expedient in the public interest'

19. It is a matter for you to decide whether you are satisfied that it is necessary or expedient in the public interest to lend money to Air NZ in the terms outlined in the Term Sheet.

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20. The following paragraphs set out factors that officials consider are relevant to that assessment. s9(2)(h)

Public interest

21. The Act does not define 'the public interest'. s9(2)(h)

22. The COVID-19 pandemic has had a significant impact on people and the economy, worldwide. The extensive travel restrictions imposed to slow down the spread of the virus have had a material adverse impact on the business of airlines.
23. Officials consider it is not difficult to identify the public interest in ensuring there are flights to repatriate New Zealanders and to return foreign citizens home; the continued availability of air freight capacity (particularly for pharmaceuticals and other critical, time sensitive cargo); supporting the Pacific; cushioning the impact of the economic shock on workers; maintenance of a domestic aviation network covering all the major centres; and supporting confidence in the near-term.
24. The Crown loan to Air NZ in the terms set out in the draft Term Sheet can fairly be described as securing public policy outcomes in the public interest.

Necessary or expedient

25. Air NZ significantly reduced capacity across its network as a result of the impact of COVID-19 on travel demand. On 16 March 2020, Air NZ announced its long haul network will be reducing its capacity by 85 percent over the coming months, and that it will operate a minimal schedule to allow New Zealanders to return home and to keep trade corridors with Asia and North America open.
26. Among the long haul network capacity reductions, Air NZ advised it is suspending flights between Auckland and Chicago, San Francisco, Houston, Buenos Aires, Vancouver, Tokyo, Honolulu, Denpasar and Taipei from 30 March to 30 June 2020. It is also suspending its London-Los Angeles service from 16 March and 17 March through to 30 June 2020.
27. The Tasman and Pacific Island network capacity will significantly reduce between April and June 2020. On the domestic network, capacity will be reduced by around 30% percent in April and May.
28. Air NZ also announced that, as a result of the downturn in travel it continues to review its cost base. Air NZ is also in talks with its unions as to the job redundancies that will need to be made to address the new operating environment which it now faces.
29. Financial support for Air NZ as a company is not an objective of the proposed loan, except as a means of delivering on the Crown's objectives. Nor is support for Air NZ's shareholders and existing creditors.
30. Air NZ is already focused on cost reductions and preserving cash. s9(2)(g)(i)

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31. 9(2)(b)(ii)
s9(2)(g)(i)

Risks and mitigations

32. s9(2)(i)
33. The negotiated attached Term Sheet has been undertaken in a compressed timeframe and within a dynamic economic environment as market conditions continue to worsen. These changing conditions are having increasingly adverse implications for the aviation sector and as a result have reduced volume demand of future flight bookings significantly in the last 12 hours and have led to changes in the negotiated Term Sheet. Officials and their advisers are undertaking further work to respond to any further risks.

s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Assessment of risks and benefits against the public interest threshold

38. In light of the above, officials consider there is a clear public interest in achieving the Crown's objectives as outlined in this report; the benefits of the proposed loan outweigh the risks when mitigations are taken into account; s9(2)(b)(ii), s9(2)(i)

Financial implications

39. The maximum amount for the loan facility for Air NZ is \$900m, the terms for the facility were established on a commercial basis.

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40. This will be funded via a new, non-departmental capital expenditure multi-year appropriation in Vote Finance. Officials are drafting a paper for you to take to Cabinet to seek Cabinet's agreement to establish the new appropriation on Monday 23 March 2020 to this effect.
41. Depending on the amount drawn down by Air NZ, the facility will have a corresponding initial impact on net core Crown debt. However, this will be reversed as the loans are repaid.
42. As the Term Sheet includes provisions for dividends to be suspended while the loans are outstanding, we expect that the loans will be repaid within ten years. As such, the loans will not have an impact on Budget allowances.
43. Unless the Crown engages in separate purchase contracts to achieve other policy objectives, there should be no further operating expenditures associated with this facility. Examples of other purchase contracts could include:
 - a repatriation from locations as appropriate (such as London or Buenos Aires);
 - b redeployment of Air NZ staff to other roles; or
 - c ensuring air freight capacity.
44. There will be additional resource considerations for Treasury to undertake and monitor this proposed facility.

Next Steps

45. If you are satisfied that it is necessary and expedient in the public interest to do so, please execute the term sheet in accordance with your powers under section 65L of the Public Finance Act.
46. Air NZ has a trading halt in place until the NZX opens at 10am on Friday 20 March 2020. In order for the company to begin trading again on Friday as scheduled, you and Chair of Air NZ need to approve the Term Sheet by 8.30am on Friday 20 March 2020 when an announcement would be released by the NZX (but after trading has completed on the NZX and ASX on Thursday 19th March 2020).
47. Air NZ are planning to make an announcement of the loan, including rates, for opening of the NZX on Friday 20 March 2020. There are requirements for disclosure they must meet under listing rules. Your office was consulted on the draft announcement.
48. Officials have provided a draft press statement to your office for release alongside Air NZ's announcement.
49. The draft Cabinet paper will be provided to your office tomorrow 20 March 2020. Cabinet office has been informed.
50. The Minister of Transport is taking an item to Cabinet on Monday 23 March 2020 to propose a scheme to purchase freight capacity from Air NZ and other airlines.

Attachment material withheld under s9(2)(b)(ii), s9(2)(i) and s9(2)(j)

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TE TAI ŌHANGA
THE TREASURY**Treasury Report: Cabinet Oral Item: Project 20: Update for Cabinet**

Date:	20 March 2020	Report No:	T2020/685
		File Number:	SE-1-3-21

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the attached oral item for Cabinet. Lodge the attached minutes for Cabinet.	Monday 23 March 2020.
Minister for Transport (Hon Phil Twyford)	Note the attached Cabinet paper.	None
Associate Minister of Finance (Hon David Parker)	Note the attached Cabinet paper.	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Juston Anderson	Principal Advisor, Commercial Performance	s9(2)(g)(ii)	N/A (mob) ✓
Maureena van der Lem	Manager, Commercial Performance	s9(2)(g)(ii)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
Lodge the attached minutes with the Cabinet Office for discussion on Monday 23 March.
Refer this report to the offices of the Minister for Transport and Associate Minister of Finance (Hon Parker).

Note any
feedback on
the quality of
the report

Enclosure: Yes (attached)

COMMERCIAL-IN-CONFIDENCE**Treasury Report: Project 20: Update for Cabinet**

Executive Summary

This report attaches speaking points and minutes to lodge at Cabinet on 23 March 2020 to update your colleagues on the Government's negotiations, and subsequent agreement, with Air New Zealand Limited on liquidity support.

The minutes and recommendations your earlier discussions per [T2020/642].

Recommended Action

We recommend that you:

- a **note** the attached oral item for Cabinet on Monday 23 March 2020, and
- b **table** the attached minutes with the Cabinet Office for Cabinet on Monday 23 March 2020.

Tabled/ not tabled.
Minister of Finance

Maureena van der Lem
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister for Transport

Hon David Parker
Associate Minister of Finance

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COMMERCIAL-IN-CONFIDENCE**Impact of COVID-19 on the aviation industry, and Cabinet update****Background**

- The aviation industry, alongside many other industries, has been significantly impacted by COVID-19.
- On the 14th of March 2020, the Government announced comprehensive travel restrictions, which have recently been extended further, to protect the health and wellbeing of New Zealanders.
- Air NZ was provided a trading halt on the 16 March 2020 and announced significant reductions to its network in response to the shocks to the aviation sector.
- After having exhausted discussions with other lenders, Air NZ reached out to the Crown, as its majority shareholder, to discuss potential financial assistance. Air NZ also publicly announced that it was in discussions with the Government about possible financial assistance.
- Consistent with the announcement from Air NZ, on the 16th of March 2020 I brought an oral item to Cabinet to discuss this potential financial assistance, and confirmed that the Government had entered into negotiations with Air NZ to agree a Term Sheet under which liquidity support would be offered. I tasked the Minister of Transport and the Associate Minister of Finance (Hon Parker) to undertake negotiations.
- Consistent with this, on Friday 20 March 2020 I announced that the Government agreed a debt facility with Air NZ for a maximum of \$900 million in order to provide the company with much needed liquidity during these unprecedented conditions.
- I made this decision using my statutory powers under section 65L of the Public Finance Act.

Arm's length negotiations were held with Air NZ, with the Government's objectives in mind

- I did not take the decision to enter into negotiations with Air NZ lightly.
- COVID-19 is an unprecedented event, and Air NZ:
 - Since Crown ownership in 2002, it has been a profitable and highly performing entity.
 - It has been well run by an experienced board and senior management.
 - Has a very strong reputation in the aviation sector.
 - Has a large, highly skilled, workforce, with a strong positive culture.

- s9(2)(g)(i), s9(2)(i), s9(2)(j)

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- s9(2)(i), s9(2)(j)
[REDACTED]
- Negotiations were held with the Government's objectives in mind; that ultimately the Government wanted to support Air NZ in a commercial, fiscally sustainable, targeted and proportionate manner, whilst taking account of:
 - Ensuring there are flights to repatriate New Zealanders and to return foreign citizens home.
 - Ensuing air freight capacity, particularly for pharmaceuticals and other critical time sensitive cargo continues to be available.
 - Supporting the Pacific.
 - Cushioning the impact of the economic shock on workers.
 - Supporting confidence in the near-term.
- In addition, I was clear that the Government wanted to:
 - Ensure domestic destinations across NZ remain serviced as well as key international routes.
 - Ensure adequate supervision of any debt facility to manage the Crown's financial exposure.

I am confident that the agreement reached, in the form of a Term Sheet, is the best way of achieving the Government's objectives, s9(2)(b)(ii)
[REDACTED]

- During negotiations the Crown was advised by a specialist team of experts Korda Mentha, Goldman Sachs and Chapman Tripp. Goldman Sachs has separately provided a letter s9(2)(b)(ii)
[REDACTED]
- Furthermore, officials have advised that the agreement is the best way of achieving the Government's objectives as the s9(2)(i), s9(2)(j), s9(2)(g)(i)
[REDACTED]
- Through this agreement we successfully have:
 - Maintain, as a minimum, services to North America, Hong Kong, Singapore, Sydney, Melbourne, Brisbane, and a number of Pacific Islands, at the frequencies of at least one return flight a week.
 - Maintain, as a minimum, to be reviewed after one month from the date of this terms sheet:
 - at least one return flight per day to every currently serviced domestic location other than Auckland, Wellington, Christchurch and Dunedin; and

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- at least two return flights per day to each of Auckland, Wellington, Christchurch and Dunedin for passengers and cargo.

- s9(2)(j)

The agreement requires the Crown to provide a commercial loan facility for a maximum of \$900m, structured in a way to manage the Crown's financial risk and with appropriate monitoring and supervision

- This loan is to be contained in two separate tranches of \$600m and \$300m, over a maximum duration of 24 months (separable into two 12 month periods).
- The effective interest rate on the first tranche is initially expected to be between 7% and 8% per annum and the effective interest rate on the second tranche is expected to be around 9%. The effective interest rate on both tranches will increase by 1% if the loan remains after 12 months.

s9(2)(j)

However, both officials and the Crown's expert advisory team have been clear with me, and negotiating Ministers, on the risks associated with the Term Sheet

- s9(2)(g)(i)

- The Term Sheet has been developed based on all parties' best understanding of the impacts over the next year of COVID-19 and the Government's response to it on: economic activity; the demand for Air NZ's services; and any restrictions on Air NZ's ability to operate services.

- s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Overall I am pleased that we have taken our responsibilities as majority owner seriously in order to support our national airline. Air NZ has a unique and critical role in our economy and society, and the timely intervention undertaken by the Government will allow the company to continue to undertake this role.

COMMERCIAL-IN-CONFIDENCE**Recommendations**

The Minister of Finance recommends that the Committee:

1. **Note** that on 16 March 2020, Cabinet noted that:
 - 1.1. the Minister of Finance intended to make a decision under s65L of the Public Finance Act as to whether, and on what terms, the Crown should support a loan to Air NZ;
 - 1.2. the Crown's position on the loan and its terms were to be negotiated by the Minister of Transport and Associate Minister of Finance (Hon David Parker) (collectively "Negotiation Ministers") [CAB-20-MIN-0108 refers];
2. **Note** that the Negotiation Ministers, supported by expert advice from Korda Mentha, Chapman Tripp, and Goldman Sachs, agreed in-principle to a draft term sheet and subsequently referred it to the Minister of Finance for consideration and decision;
3. **Note** that the Minister of Finance, as the Minister responsible for the administration of the Public Finance Act 1989, has the power (under section 65L of that Act) to lend money to Air NZ if he determines it to be necessary or expedient in the public interest to do so;
4. **Note** that the Minister of Finance, under section 65L of the Public Finance Act, agreed and signed the negotiated term sheet to support Air NZ as it manages the significant impact of the Covid-19 outbreak;
5. **Note** the agreed term sheet requires the Crown to provide a standby loan facility for a total possible amount of \$900m and a maximum duration of 24 months, where:
 - 5.1. the loan is comprised of two tranches, a first tranche of \$600m and a second tranche of \$300m, and
 - 5.2. the effective interest rate on the first tranche is initially expected to be between 7% and 8% per annum and the effective interest rate on the second tranche is expected to be around 9%. The effective interest rate on both tranches will increase by 1% if the loan remains after 12 months
6. **Note** that while Air NZ's intention is to maintain its services to the full extent that can be justified based on customer demand, the agreement imposes minimum service standards on Air NZ that requires it to:
 - 6.1. maintain, as a minimum, services to North America, Hong Kong, Singapore, Sydney, Melbourne, Brisbane, and a number of Pacific Islands, at the frequencies of at least one return flight a week;
 - 6.2. maintain, as a minimum, to be reviewed after one month from the date of this terms sheet:

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- 6.3. at least one return flight per day to every currently serviced domestic location other than Auckland, Wellington, Christchurch and Dunedin; and
- 6.4. at least two return flights per day to each of Auckland, Wellington, Christchurch and Dunedin for passengers and cargo.
7. **Note** that the term sheet includes a number of mechanisms to allow the Crown to manage its financial exposure, such as:
- 7.1. a requirement that no dividends can be paid by the company for the duration of the term of the loan;
- 7.2. the ability for the Crown to convert its loan to equity at any point after financial close;
- 7.3. the ability for the Crown, from six months after financial close, to require the company to undertake a capital raising with the proceeds applied to repayment of the loan;
- 7.4. holding security for the loan against Air NZ's unencumbered aircraft; and
- 7.5. s9(2)(b)(ii), s9(2)(i), s9(2)(f)
8. s9(2)(i)
9. **Note** that the term sheet has been negotiated as a commercial, arms-length, arrangement and fulfils the government's objectives to provide support in a commercial, fiscally sustainable, targeted and proportionate manner;
10. **Agree** to establish the following new multi-year appropriation, to run from 23 March 2020 to 30 June 2021:

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Vote	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	COVID-19: Loans to Air New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to loans to Air New Zealand as part of the Government's response to COVID-19.

11. **Approve** the following changes to appropriations to give effect to the policy decisions above, with a corresponding impact on net core Crown debt;

	\$m - increase/(decrease)
Vote Finance	2019/20 to 2021/22
Minister of Transport	
Non-Departmental Capital Expenditure:	-900
COVID-19: Loans to Air New Zealand	

12. **Note** that the indicative spending profile for the new multi-year appropriation described above is as follows:

	\$m - increase/(decrease)				
Indicative annual spending profile	2019/20	2020/21	2021/22	2022/23	2023/24
	600	300	-	-	-

13. **Agree** that the proposed change to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
14. **Note** that there will be an initial impact on net core Crown debt, however, this will reverse over the term of the loans as it is repaid;
15. **Note** that as the loans will be established on a commercial basis and be repaid within ten years, there is no impact on Budget allowances;

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

COMMERCIAL: IN CONFIDENCE

CAB-20-MIN-0137



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Additional Item: Air New Zealand: Crown Loan Facility

Portfolio Finance

On 23 March 2020, Cabinet:

- 1 **noted** that on 16 March 2020, Cabinet authorised the Minister of Finance, Minister of Transport and the Associate Minister of Finance (Hon David Parker) to have Power to Act to finalise the government's position on the provision of support to Air New Zealand [CAB-20-MIN-0108];
- 2 **noted** that the Crown's position on the loan and its terms were negotiated by the Minister of Transport and the Associate Minister of Finance (Hon David Parker) (the Negotiation Ministers);
- 3 **noted** that the Negotiation Ministers, supported by expert advice from Korda Mentha, Chapman Tripp, and Goldman Sachs, agreed in-principle to a draft term sheet and subsequently referred it to the Minister of Finance for consideration and decision;
- 4 **noted** that the Minister of Finance, as the Minister responsible for the administration of the Public Finance Act 1989, has the power (under section 65L of that Act) to lend money to Air NZ if he determines it to be necessary or expedient in the public interest to do so;
- 5 **noted** that the Minister of Finance, under section 65L of the Public Finance Act, agreed and signed the negotiated term sheet to support Air NZ as it manages the significant impact of the Covid-19 outbreak;
- 6 **noted** the agreed term sheet requires the Crown to provide a standby loan facility for a total possible amount of \$900 million and a maximum duration of 24 months, where:
 - 6.1 the loan is comprised of two tranches, a first tranche of \$600 million and a second tranche of \$300 million;
 - 6.2 the effective interest rate on the first tranche is initially expected to be between 7% and 8% per annum and the effective interest rate on the second tranche is expected to be around 9%. The effective interest rate on both tranches will increase by 1% if the loan remains after 12 months;

7 s9(2)(b)(ii), s9(2)(i), s9(2)(j)

COMMERCIAL: IN CONFIDENCE**CAB-20-MIN-0137**

7.1 s9(2)(b)(ii), s9(2)(i), s9(2)(j)

7.2

7.3

7.4

8 **noted** that the term sheet includes a number of mechanisms to allow the Crown to manage its financial exposure, such as:

8.1 a requirement that no dividends can be paid by the company for the duration of the term of the loan;

8.2 the ability for the Crown to convert its loan to equity at any point after financial close;

8.3 the ability for the Crown, from six months after financial close, to require the company to undertake a capital raising with the proceeds applied to repayment of the loan;

8.4 holding security for the loan against Air NZ's unencumbered aircraft;

8.5 s9(2)(b)(ii), s9(2)(i), s9(2)(j)

9

10 **noted** that the term sheet has been negotiated as a commercial, arms-length, arrangement and fulfils the government's objectives to provide support in a commercial, fiscally sustainable, targeted and proportionate manner;

COMMERCIAL: IN CONFIDENCE**CAB-20-MIN-0137**

- 11 **agreed** to establish the following new multi-year appropriation, to run from 23 March 2020 to 30 June 2021:

Vote	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	COVID-19: Loans to Air New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to loans to Air New Zealand as part of the Government's response to COVID-19.

- 12 **approved** the following changes to appropriations to give effect to the policy decisions above, with a corresponding impact on net core Crown debt;

	\$m - increase/(decrease)
Vote Finance Minister of Transport	2019/20 to 2021/22
Non-Departmental Capital Expenditure: COVID-19: Loans to Air New Zealand	900

- 13 **noted** that the indicative spending profile for the new multi-year appropriation described above is as follows:

	\$m - increase/(decrease)				
Indicative annual spending profile	2019/20	2020/21	2021/22	2022/23	2023/24
	600	300	-	-	-

- 14 **agreed** that the proposed change to appropriations above be included in the 2019/20 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 15 **noted** that there will be an initial impact on net core Crown debt, however, this will reverse over the term of the loans as it is repaid;
- 16 **noted** that as the loans will be established on a commercial basis and be repaid within ten years, there is no impact on Budget allowances.

Michael Webster
Secretary of the Cabinet

Alex Colton [TSY]

From: Juston Anderson [TSY]
Sent: Friday, 27 March 2020 6:51 PM
To: ^EXT: Angus Hodgson
Cc: Matthew Gilbert [TSY]; Maureena van der Lem [TSY]; Kirstie Hewlett
Subject: Air NZ minimum domestic schedule

Importance: High

Hi Angus

Air NZ is seeking consent from Ministers to urgently make some changes to its domestic schedule. Treasury's view is that the changes are commercially imperative because:

- Air NZ is seeing domestic demand fall off by around 86% while it has only reduced its capacity by 10%
- Further reductions are likely next week as people stop returning to their homes – e.g. a 98% reduction in demand seems likely
- s9(2)(b)(ii) and s9(2)(ba)(i)

The Ministry of Transport has been consulted and agrees.

For example Air NZ flew 4 flights between Hamilton and Palmerston North on one day this week. Three flights were empty (zero passengers) and the fourth had one passenger. This is a load factor of 0.5% (1 passenger for 200 seats). There would have been almost no commercial cargo on these flights – the plane that flies this route (a turboprop) has negligible cargo capacity. Any substantial air cargo to/from Palmerston North and Hamilton would be sent via road/rail to Wellington or Auckland.

We also note that Ministers, via a declaration of a National Emergency and a mandatory four week lockdown, have made it clear they don't actually want people travelling around, other than emergency/critical workers – to ensure the health and safety of New Zealanders.

Specifically Air NZ would like the Crown's consent to cease flying, as soon as possible:

s9(2)(b)(ii) and 9(2)(j)

- Christchurch to Hamilton (passengers routed via Wellington)
- Christchurch to Napier (passengers routed via Wellington)
- Christchurch to New Plymouth (passengers routed via Wellington)
- Christchurch to Nelson (passengers routed via Wellington)
- Christchurch to Palmerston North (passengers routed via Wellington)
- Christchurch to Rotorua (passengers routed via Wellington)
- Christchurch to Tauranga (passengers routed via Wellington)

s9(2)(b)(ii) and 9(2)(j)

- Hamilton to Palmerston North (passengers routes via Wellington)
- Auckland to Invercargill (passengers routed via Christchurch)
- Auckland to Queenstown (passengers routed via Christchurch)

s9(2)(b)(ii) and 9(2)(j)

- Wellington to Timaru (no flights to/from Timaru – nearest airport would be Christchurch)
- Auckland to Taupo (no flights to/from Taupo – nearest airport would be Rotorua)

s9(2)(b)(ii) and 9(2)(j)

- Auckland to Blenheim (passengers routed via Wellington)
- Auckland to Dunedin (passengers routed via Christchurch)
- Wellington to Dunedin (passengers routed via Christchurch)
- Wellington to Gisborne (passengers routed via Auckland)
- Wellington to Invercargill (passengers routed via Christchurch)
- Wellington to Queenstown (passengers routed via Christchurch)

Air NZ notes that there is very low demand on all its domestic routes, not just these ones. All routes retained are expected to have less than 10% load factors, meaning Air NZ can easily get passengers where they want to go, even if demand on a particular route is several times higher than it currently estimates.

Air NZ confirms that if there was a need to move a large number of people to any of these destinations, e.g. emergency or critical workers, it could provide flights to do so quickly (within 24 hours). It doesn't need to maintain a minimum schedule of mostly-empty flights to preserve that capability.

Air NZ confirms that passengers wanting to travel to any of the destinations above (except Timaru and Taupo) could be accommodated via flights through Auckland/Wellington/Christchurch, and should not have long wait times at those cities (i.e. a couple of hours max – not 4+ hours or longer).

If all changes above were agreed, Air NZ's new domestic network would look like this:



As signalled at the meeting on Monday this week, early next week Air NZ would like to have a further conversation with Ministers about the minimum domestic schedule and frequencies it should fly during alert level 4 (lockdown).

This further conversation will be informed by advice from the Ministry of Transport on the minimum domestic schedule the Crown needs. It will also be informed by advice from Air NZ about the cost to it of flying particular routes and frequencies.

Treasury's first-best advice is that if Ministers want Air NZ to fly beyond its commercial minimums, this should be paid for through a purchase contract (separate to the Crown \$900m loan) in the same way that air cargo will be purchased. This would ensure we keep the principles of ownership interests and purchase interests separate for transparency and consistency s9(2)(g)(i)

Ahead of that further conversation, Air NZ is seeking consent to make the changes above, as soon as possible. Practically, it will take Air NZ a couple of days to implement any schedule changes. The earliest the changes could happen, if approved Saturday, would be early next week.

Juston Anderson | Principal Advisor | Te Tai Ōhanga – The Treasury
s9(2)(g)(ii) | Juston.Anderson@treasury.govt.nz

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Alex Colton [TSY]

From: Angus Hodgson <Angus.Hodgson@parliament.govt.nz>
Sent: Saturday, 28 March 2020 3:31 PM
To: Juston Anderson [TSY]
Cc: ^Parliament: Craig Renney; ^Parliament: Natalie Labuschagne; Maureena van der Lem [TSY]; Matthew Gilbert [TSY]; Andrew Hagan [TSY]
Subject: FW: Air New Zealand

Kia ora Juston

The Minister of Finance has agreed to the variations as described in the table below, but notes that his agreement applies only for the period of time in which New Zealand remains in Alert Level 4. These issues will continue to be revisited as circumstances change. Please communicate this to Air New Zealand as this will enable them to prepare their schedule changes.

The Minister has said that a further discussion will be required next week with Air New Zealand to ensure that essential services are not delayed from a lead-in time (i.e. Air New Zealand need to confirm that it can move critical or essential workers as soon as possible, rather than "within 24 hours" as noted below). The Minister does not yet see a need to have discussions about contracts for services, however you should continue to source the cost information we discussed yesterday as the information needs to be known for our preparatory purposes.

Next step: I will arrange a meeting time involving Ministers Robertson and Twyford. Once confirmed, could you please liaise with Air New Zealand and the Ministry of Transport and tell me who will be on the call? Will aim for Monday morning.

Thank you.

Hei konā



Angus Hodgson, Finance and State Owned Enterprises Advisor
 Office of Hon Grant Robertson | Office of Rt Hon Winston Peters
 Minister of Finance | Minister for State Owned Enterprises

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
 s9(2)(g)(ii)
 E: angus.hodgson@parliament.govt.nz

From: Angus Hodgson
Sent: Friday, 27 March 2020 8:47 PM
To: [deleted]
Cc: Craig Renney <Craig.Renney@parliament.govt.nz>; Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Subject: Air New Zealand
Importance: High

Kia ora Minister

As signalled, Air New Zealand is seeking urgent consent from the Government to change its domestic schedule per the terms of the Crown loan facility. Treasury and the Ministry of Transport's view is that the proposed changes are commercially imperative and necessary because:

- Domestic demand has fallen off by ~86% while capacity has been reduced by only 10%. s9(2)(b)(ii) and s9(2)(ba)(i)

- Demand reductions are likely to increase next week as people stop returning to their homes (i.e. 98% demand reduction is likely).

The National Emergency declaration and the mandatory four-week lockdown has also made it clear that people should not be travelling around, other than essential workers, to protect public health. This provides greater certainty that a number of connection flights will have negligible demand and, as such, consent to change the domestic schedule is recommended.

The mechanism to provide consent is via you expressing consent, as you are the signatory on the Crown loan facility. However, we would recommend you discuss this with the Prime Minister, Minister of Transport and any other Minister you deem necessary.

As a practical example, Air New Zealand flew four flights between Hamilton and Palmerston North on one day this week. Three flights were empty. The fourth had one passenger – out of 200 seats. These flights would have next to no cargo on them (especially so for turboprop planes servicing some lines) and road/rail alternatives are carrying these freight connections.

Air New Zealand is therefore seeking Crown consent, as soon as possible, to cease flying:

s9(2)(b)(ii) and 9(2)(j)	Route	Note
	Christchurch to Hamilton...	Connection via Wellington
	Christchurch to Napier...	
	Christchurch to New Plymouth...	
	Christchurch to Nelson...	
	Christchurch to Palmerston North	
	Christchurch to Rotorua...	
	Christchurch to Tauranga...	
	Hamilton to Palmerston North	Connection via Wellington
	Auckland to Invercargill	Connection via Christchurch
	Auckland to Queenstown	Connection via Christchurch
	Wellington to Timaru...	Alt. serviced by Christchurch
	Auckland to Taupo...	Alt. serviced by Rotorua
	Auckland to Blenheim...	Connection via Wellington
	Auckland to Dunedin...	Connection via Christchurch
	Wellington to Dunedin...	Connection via Christchurch
	Wellington to Gisborne...	Connection via Auckland
	Wellington to Invercargill...	Connection via Christchurch
	Wellington to Queenstown...	Connection via Christchurch

Contract for services?

Treasury's first-best advice is that if Ministers want Air New Zealand to fly beyond its commercial minimums, which would reduce further per their proposal, then this should be paid for through a purchase contract (i.e. separate from the Crown loan). This would keep the principles of ownership interests and purchase interests separate for transparency and consistency.

Treasury has requested information from Air New Zealand on the costs of these services, as ideally you should know this information when considering this point as one thing may lead to the other if the Government thinks a service must continue. In these circumstances a connection flight would continue with few passengers.

What about essential movements of personnel?

Separate to this, I have asked Treasury to request the costs should the Government require Air New Zealand to move essential personnel. ^{s9(2)(j)}

Next steps

Please let me know as soon as possible this weekend what your preference is and we will relay this to Air New Zealand. If you need any more information to take the decision, please let me know and we will work to provide this to you with urgency.

Further information provided from Treasury:

- Air New Zealand notes that there is very low demand on all its domestic routes, not just these ones. All routes retained are expected to have less than 10% load factors, meaning Air NZ can easily get passengers where they want to go even if demand on a particular route is several times higher than it currently estimates.
- Air NZ confirms that if there was a need to move a large number of people to any of these destinations, e.g. emergency or critical workers, it could provide flights to do so quickly (within 24 hours). It doesn't need to maintain a minimum schedule of mostly-empty flights to preserve that capability
- Air NZ confirms that passengers wanting to travel to any of the destinations above (except Timaru and Taupo) could be accommodated via flights through Auckland/Wellington/Christchurch, and should not have long wait times at those cities (i.e. a couple of hours max – not 4+ hours or longer)
- If all changes above were agreed, Air NZ's new domestic network would look like this:



- As signalled at the meeting on Monday this week, early next week Air NZ would like to have a further conversation with Ministers about the minimum domestic schedule and frequencies it should fly during alert level 4 (lockdown).
- This further conversation will be informed by advice from the Ministry of Transport on the minimum domestic schedule the Crown needs. It will also be informed by advice from Air NZ about the cost to it of flying particular routes and frequencies.

- Ahead of that further conversation, Air NZ is seeking consent to make the changes above, as soon as possible. Practically, it will take Air NZ a couple of days to implement any schedule changes. The earliest the changes could happen, if approved Saturday, would be early next week.

Thank you.

Hei konā



Angus Hodgson, Finance and State Owned Enterprises Advisor
Office of Hon Grant Robertson | Office of Rt Hon Winston Peters
Minister of Finance | Minister for State Owned Enterprises

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

s9(2)(g)(ii)

E: angus.hodgson@parliament.govt.nz

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Juston Anderson [TSY]
Sent: Tuesday, 31 March 2020 2:15:50 PM
To: ^EXT: Angus Hodgson; Hugh Mazey
Cc: 'K.Hewlett@transport.govt.nz'; Matthew Gilbert [TSY]; Maureena van der Lem [TSY]; ^EXT: Mark Reese
Subject: Air NZ - variation letter - final 31 March 2020
Attachments: 4261309_Variation Letter draft 31 March 2020.DOCX
Importance: High

Hi Angus

As discussed here is the agreed variation letter regarding Air NZ's minimum services.

The Treasury's view is that this letter reflects the discussion with Air NZ on Monday morning, and we recommend that the Minister of Finance signs it.

Air NZ has agreed with the letter and intends to sign it.

The Ministry of Transport has been closely involved in drafting the letter and I believe also recommends that the Minister of Finance signs, but I haven't had a chance to confirm that this afternoon.

Juston Anderson | Principal Advisor | **Te Tai Ōhanga – The Treasury**
s9(2)(g)(ii) Juston.Anderson@treasury.govt.nz

[IN-CONFIDENCE]

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage

**CONFIDENTIAL**

31 March 2020

Greg Foran
Chief Executive Officer
Air New Zealand Limited
185 Fanshaw Street
Auckland 1010

Dear Greg

Variation Letter to the Committed Binding Term sheet dated 20 March 2020 ("Terms Sheet")

The Crown, acting through the Minister of Finance, and Air New Zealand have agreed to vary the terms of the Terms Sheet as set out in this letter (the "Variation"). Defined terms used in this Variation shall have the meaning given to those terms in the Terms Sheet. Unless otherwise expressly varied in this Variation, all terms and conditions of the Terms Sheet shall continue in full force and effect. In the event of any inconsistency between this Variation and any future financing documentation, the financing documentation will prevail.

Background

The New Zealand Government moved into the Covid-19 response Alert Level 4 at 11.59 pm on Wednesday 25 March 2020, with the consequence that from 11.59 Friday 27 March it is no longer legal for individuals to move around New Zealand unless their travel is related to them being involved in the provision of an essential service or they are a New Zealander returning from overseas that has completed self-isolation or quarantine for 14 days. Consequently demand has significantly and rapidly fallen for Air New Zealand's domestic passenger services.

Variation to Minimum Service

The parties agree that the domestic Route requirements on pages 5 and 6 of the Terms Sheet and Schedule 1 need to be revised due to declining demand making it no longer commercially viable to fly some of those listed domestic routes with the frequencies originally anticipated at the time of entry into the Terms Sheet.

Consequently Air New Zealand have requested, and the Crown has consented to Schedule 1 of the Terms Sheet and the Minimum Services description in the Terms Sheet being updated in respect of domestic destinations with effect from Saturday 3 April 2020 for so long as New Zealand remains at Alert Level 4, with Air New Zealand agreeing to fly the following Minimum Services on the domestic network (which will be Minimum Services for the purposes of the Terms Sheet):

Route	Days and frequency	Type of service
Auckland to Wellington	One return service per day (7 per week)	A320
Auckland to Christchurch	Three return services per day on each of Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	A320
Wellington to Christchurch	Two return services per day Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	Q300 ATR
Wellington to Nelson	One return service per day Monday to Friday (inclusive)	Q300
Christchurch to Dunedin	Two return services per week operating on a Monday and a Friday	ATR

Where no passenger or cargo loads exist for any of those agreed domestic flights, Air New Zealand will have the right to cancel the applicable service on the relevant day.

Essential or critical services

In addition to the domestic services outlined above as the Minimum Services, for so long as New Zealand remains at Covid 19 Alert Level 4, Air New Zealand agrees that it will:

- maintain one turboprop aircraft (ATR72 – maximum of 68 passengers or Q300 – maximum of 50 passengers) on standby in each of Auckland and Christchurch. If requested by the New Zealand Government for the purposes of services which the government deem essential or critical for New Zealand, then Air New Zealand must be able to have these aircraft ready to take off within a minimum of 90 minutes and a maximum of 180 minutes of a written request from the New Zealand Government, to any location within New Zealand which was serviced by Air New Zealand with turboprop aircraft as at 30 March 2020. This will require Air New Zealand to maintain appropriate crew and ground handling, as required, on standby at these locations; and
- if requested by the New Zealand Government at any time for critical services, make available additional jet services (A320 or A321) on a similar timeframe as set out above, from Auckland to any domestic location in New Zealand which was serviced by Air New Zealand as at 30 March 2020, and which is capable of handling an A320 or A321 aircraft.

Attached to this letter is Air New Zealand's schedule of deployment costs for essential and critical services.

Weekly review

In addition to the changes to the Minimum Services to Domestic destinations outlined above, Air New Zealand agrees that with effect from Monday 6 April 2020, it will jointly review the then current and future demand with the Treasury and Ministry of Transport on a weekly basis to agree whether any further or other changes are required to the Minimum Services and to ensure that planning for any changes to the Minimum Services as a result of a move to Covid 19 Alert Level 3 services is being appropriately considered by both parties.

Air New Zealand should indicate its acceptance of the terms of this Variation by signing below and returning one copy to the Minister of Finance's office. This Variation may be signed in counterpart copies which, read together, will constitute one document.

Yours faithfully

The Sovereign in right of New Zealand
acting by and through the Minister of Finance:

Minister of Finance

Accepted and agreed by Air New Zealand Limited by:

Chief Executive Officer

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Angus Hodgson
Sent: Monday, 20 April 2020 11:02:07 AM
To: Danni Thian [TSY]; Kirstie Hewlett; Juston Anderson [TSY]
Cc: Hugh Mazey; Jemima de Lacey; ^Parliament: Craig Renney; Beth Houston; Ministerial Services Inbox [TSY]; Keiran Kennedy [TSY]; ^MOF: Katy Greco-Ainslie; Hon Grant Robertson
Subject: T2020/0955 Minimum Air NZ Services
Attachments: MOF SIGNED AH 5. T2020-0995 Project 20 Minimum Service Levels for COVID-19 Alert Levels 3 and 2.pdf, MOF TRACKED CHANGES Variation Letter Project 20.docx

[FCI]

Kia ora koutou

The Minister of Finance has considered the *Project 20: Minimum Service Levels for COVID-19 Alert Levels 3 and 2* joint Treasury and Ministry of Transport report. The Minister agrees with recommendations c and d (as amended) and has agreed to sign the letter when amended to take into account his decisions. The amendments reflect the Minister's view that the proposed minimum services levels for Alert Level 2 are, in-principle, supported but will be finalised prior to a decision to move to this Level when the Government has taken final decisions on permitted activities.

Please see the joint report (amended and signed) and a Word version of the variation letter with tracked changes. Juston, could you please confirm that these changes accurately reflect the Minister's decisions or propose an alternative wording?

Please pass on these decisions to the Minister of Transport (attn. Hugh/Jemima).

Thank you.

Hei kōwhiri



Angus Hodgson, Finance and State Owned Enterprises Advisor
Office of Hon Grant Robertson | Office of Rt Hon Winston Peters
Minister of Finance | Minister for State Owned Enterprises

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

s9(2)(g)(ii)

E: angus.hodgson@parliament.govt.nz

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Ministry of Transport

TE MANATŪ WAKA

TE TAI ŌHANGA
THE TREASURY
Joint Report: Treasury / Ministry of Transport: Project 20: Minimum Service Levels for COVID-19 Alert Levels 3 and 2

Date:	17 April 2020	Report No:	T2020/995
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree the minimum service levels for Air New Zealand under COVID-19 alert levels 3 and 2	Before Wednesday 22 April 2020, being the day before New Zealand is anticipated to move to alert level 3
Minister of Transport (Hon Phil Twyford)	Note the contents of this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Danni Thian	Senior Analyst, Commercial Performance	s9(2)(g)(ii)	
Kirstie Hewlett	Deputy Chief Executive, System & Regulatory Design, Ministry of Transport		
Juston Anderson	Acting Manager, Commercial Performance		✓

Minister's Office actions

Return the signed report to Treasury.
Sign the attached letter and return to Treasury.

Enclosure: Yes (attached)

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Joint Report: Treasury / Ministry of Transport: Project 20:
Minimum Service Levels for COVID-19 Alert Levels
3 and 2

Purpose of report

1. This report seeks the Minister of Finance's agreement to Air New Zealand's (Air NZ's) minimum domestic service levels under COVID-19 alert levels 3 and 2.

Background

2. Under the Term Sheet agreed by the Crown and Air NZ on 20 March 2020, Air NZ must seek the Crown's agreement to vary its minimum service levels for the duration of the loan agreement.
3. Air NZ's current minimum service levels (detailed below) were set by a letter dated 1 April 2020 and reflect the travel restrictions put in place by the Government during COVID-19 alert level 4.
4. On 16 April 2020 the Government announced what COVID-19 alert levels 3 and 2 will look like, and provided updated travel restrictions. This report seeks agreement to new minimum service levels for alert levels 3 and 2 to reflect these new travel restrictions.
5. Officials will report back to Ministers later to seek agreement for minimum service levels under alert level 1.

Minimum service levels under each COVID-19 alert level

Current minimum service levels – alert level 4

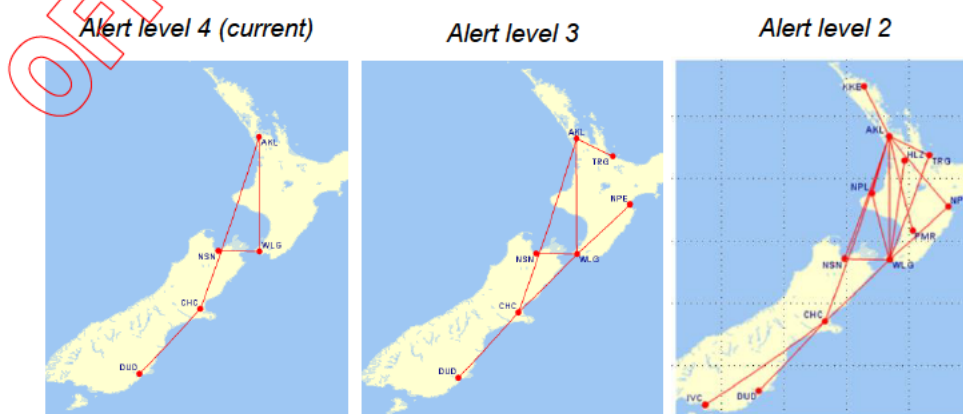
6. Under alert level 4, domestic travel is not allowed for individuals unless their travel is related to the provision of an essential service or they meet a number of other limited restrictions, for example they are a New Zealander returning from overseas that has completed self-isolation or quarantine for 14 days or someone leaving the country on an international flight and undertaking domestic transit.
7. As a result of these restrictions, demand has fallen significantly and is currently at approximately 1% of normal levels. This low demand is reflected in the current minimum service levels Air NZ is required to fly domestically, which is only flights to major ports in Auckland, Wellington, Christchurch, Nelson and Dunedin (full detail in **appendix 1**).
8. Alert level 4 provides safeguards should additional capacity be needed at short notice through Air NZ maintaining standby services in Auckland and Christchurch (further detail also in **appendix 1**).

Minimum service levels for alert levels 3 and 2

9. Under alert level 3, domestic air travel is still restricted to those able to travel under alert level 4 with a small extension allowing those that were 'stuck in the wrong place' in isolation under lock down to return home.

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10. Consequently, Air NZ anticipates demand to increase only marginally under alert level 3, to 2% of normal capacity, and is proposing to maintain alert level 4 services to major ports (Auckland, Wellington, Christchurch, Nelson and Dunedin) and open two additional ports: Napier and Tauranga.
11. Under alert level 3 Air NZ is also seeking agreement to reduce one of the daily flights between Christchurch and Auckland used mainly for cargo; the service is not commercially viable as there is currently insufficient demand. Therefore Air NZ proposes a minimum of two flights per day between Auckland and Christchurch on weekdays and one per day on weekends.
12. Alert level 2 permits slightly more travel: an advisory will be issued saying that only essential travel is recommended, this will mean more people may travel for essential business trips or family events (in addition to travel allowed under alert level 3), however, recreational travel and tourism will still not be recommended. Air NZ anticipates that demand will initially remain low at around 5% of normal capacity, but build to 10% of normal capacity as time passes and greater control of COVID-19 is managed.
13. Under alert level 2, Air NZ is proposing to add services to Hamilton, Invercargill, Kerikeri, New Plymouth and Palmerston North. If demand grows as anticipated, Gisborne, Hokitika and Queenstown could also become destinations at a later point in time when alert level 2 starts to move towards alert level 1.
14. It is not recommended Air NZ move directly to this extended scenario as demand for travel is too uncertain, and there are flow on costs for others in the aviation industry (like airports) who would need to gear up and then gear down if demand is not there and flights are uneconomic and removed (see more under 'time frames' section below).
15. Under both alert level 3 and 2, if demand is higher than anticipated, Air NZ has stated that it can build in additional services at short notice given ready availability of crew and planes. It will also maintain the standby services in Auckland and Christchurch. Similarly Air NZ has stated that should the Government change alert levels for different regions in the future, making it not possible (or inadvisable) to travel to certain destinations, it will change its schedule accordingly.
16. The maps below outline the differences between proposed operational ports under alert levels 4, 3 and 2, and additional detail is contained in **appendix 2**.
17. Officials support Air NZ's proposed minimum service levels under both alert levels 3 and 2.



Time frames to move to new minimum service levels

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18. We propose a 1-week period for Air NZ to begin the new services when New Zealand steps down to alert level 3.
19. The current Term Sheet and variation letter imply that as soon as the Government implements a lower alert level, Air NZ must immediately begin flying to a wider set of destinations. This is not practical – Air NZ requires time to stand up pilots, cabin crew and airport staff and to schedule flights. Similarly, airports and other associated services (such as Aviation Security) will need time to prepare for the flights. Air NZ and the Ministry of Transport will work to co-ordinate these steps.
20. Ideally, Air NZ would announce its new schedule at least a week in advance and make tickets for the flights available for customers to purchase on its website. Without this, Air NZ risks flying empty or near-empty flights in the first few days simply because people have not had time to plan, prepare and book tickets to travel.
21. If the step-down to a lower alert level is announced in advance of when it occurs, Air NZ, airports and others may be able to begin the new schedule in less than a week. All parties have a strong incentive to allow flights to commence as soon as possible.

Next steps

22. If you agree to the proposed minimum service levels for alert level 3 please sign the attached variation letter to confirm the changes (as required under the Term Sheet). Air NZ has been consulted on the variation letter and has indicated it is also willing to sign it.
23. Officials will send the letter to Air NZ for its Chief Executive Officer to sign.
24. Air New Zealand intends to publicly announce its alert level 3 schedule on the same day the Government announces that New Zealand will be moving to alert level 3.

Recommended Action

We recommend that you:

- a **note** Air New Zealand is required to seek the Crown's agreement to vary its minimum service levels under the Term Sheet signed on 20 March 2020 (the Term Sheet)
- b **note** Air New Zealand's current minimum service levels reflect COVID-19 alert level 4 travel restrictions
- c **agree** to Air New Zealand's minimum service levels removing one Christchurch to Auckland return flight per week from alert level 4, meaning it will fly twice per day on weekdays and once per day on weekends

☒ Agree ☐ disagree

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- d **agree** to the following minimum service levels for COVID-19 alert level 3 and agree in principle to the following minimum service levels for COVID-19 alert level 2 reflecting the Government's announcement on 16 April 2020 (*italics reflects additional ports*)

Operational ports under COVID-19 alert level 3	Operational ports under COVID-19 alert level 2
Auckland Wellington Christchurch Dunedin Nelson <i>Napier</i> <i>Tauranga</i>	Auckland Wellington Christchurch Dunedin Nelson Napier Tauranga Hamilton Invercargill, Kerikeri, New Plymouth Palmerston North

☒ Agree ☐ disagree

- e **note** that minimum service levels for COVID-19 Alert Level 2 will be finalised prior to moving to Alert Level 2, depending on final decisions regarding allowed activities at that alert level.
- f **sign** the attached letter confirming this variation as required under the Term Sheet, and
- ☒ Agree ☐ disagree
- g **note** that officials will report back to Ministers seeking agreement to vary minimum service levels under COVID-19 alert level 1.

Juston Anderson
Acting Manager, Commercial Performance



Hon Grant Robertson
Minister of Finance

Hon Phil Twyford
Minister of Transport

COMMERCIAL-IN-CONFIDENCE**Appendix 1: Minimum service levels under alert level 4**

The table below details the current minimum service levels under alert level 4.

Route	Days and frequencies
Auckland to Wellington	One return service per day (7 per week)
Auckland to Christchurch	Three return services per day on each of Monday to Friday (inclusive) One return service per day on each Saturday and Sunday
Wellington to Christchurch	Two return services per day Monday to Friday (inclusive) One return service per day on each Saturday and Sunday
Wellington to Nelson	One return service per day Monday to Friday (inclusive)
Christchurch to Dunedin	Two return services per week operating on a Monday and a Friday

Air NZ is seeking to amend the second row of this table to say:

Route	Days and frequencies
Auckland to Christchurch	Two return services per day on each of Monday to Friday (inclusive) One return service per day on each Saturday and Sunday

In addition to the above services, Air NZ has agreed to:

- maintain a turboprop aircraft (ATR72 – maximum passengers 68, or Q300 – maximum passengers 50) on standby in each of Auckland and Christchurch ready to take off at short notice (between 90-180 minutes) under instruction of the Government if required for essential or critical services; and
- make available at short notice (between 90-180 minutes) available additional jet services from Auckland to anywhere in New Zealand serviced by Air NZ as of 30 March 2020 for critical services.

COMMERCIAL-IN-CONFIDENCE**Appendix 2: Proposed Minimum service levels under alert levels 3 and 2**

The table below details the proposed minimum service levels under alert levels 3 and 2. In addition, Air NZ will maintain the standby services (as described above).

Alert level 3	
Route	Frequencies
Auckland to Wellington	Seven return services per week
Auckland to Christchurch	Thirteen return services per week
Auckland to Tauranga	Three return services per week
Auckland to Napier	Three return services per week
Wellington to Christchurch	Twelve return services per week
Wellington to Nelson	Seven return services per week
Christchurch to Dunedin	Seven return services per week
Alert level 2	
Route	Frequencies
Auckland to Wellington	Ten return services per week
Auckland to Christchurch	Thirteen return services per week
Auckland to Tauranga	Seven return services per week
Auckland to Napier	Seven return services per week
Auckland to Kerikeri	Four return services per week
Auckland to New Plymouth	Seven return services per week
Auckland to Nelson	Seven return services per week
Auckland to Palmerston North	Seven return services per week
Auckland to Tauranga	Seven return services per week
Wellington to Christchurch	Seventeen return services per week
Wellington to Nelson	Ten return services per week
Wellington to Hamilton	Seven return services per week
Wellington to Napier	Three return services per week
Wellington to New Plymouth	Three return services per week
Wellington to Tauranga	Three return services per week
Christchurch to Dunedin	Seven return services per week
Christchurch to Invercargill	Seven return services per week

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage

**CONFIDENTIAL**

17 April 2020

Greg Foran
Chief Executive Officer
Air New Zealand Limited
185 Fanshaw Street
Auckland 1010

Dear Greg

Variation Letter to the Committed Binding Term sheet dated 20 March 2020 ("Terms Sheet")

The Crown, acting through the Minister of Finance, and Air New Zealand have agreed to vary the terms of the Terms Sheet and the terms subsequently agreed through a variation letter dated 1 April 2020 ("Initial Variation") as set out in this letter (the "Variation"). Defined terms used in this Variation shall have the meaning given to those terms in the Terms Sheet. Unless otherwise expressly varied in this Variation, all terms and conditions of the Terms Sheet shall continue in full force and effect. The Crown and Air New Zealand agree that on and from the date of this letter, this Variation replaces the Initial Variation. In the event of any inconsistency between this Variation and any future financing documentation, the financing documentation will prevail.

Background

The New Zealand Government moved into the COVID-19 response Alert Level 4 at 11.59 pm on Wednesday 25 March 2020, with the consequence that from 11.59 Friday 27 March it is no longer legal for individuals to move around New Zealand unless their travel is related to them being involved in the provision of an essential service or they are a New Zealander returning from overseas that has completed self-isolation or quarantine for 14 days. Consequently, demand has significantly and rapidly fallen for Air New Zealand's domestic passenger services. As a result of this, the Initial Variation was agreed between the Crown and Air New Zealand.

Subsequently, on 16 April 2020 the New Zealand Government announced what travel restrictions would be in place when New Zealand enters COVID-19 Alert Levels 3, 2 and 1. As New Zealand steps down through these Alert Levels, increased levels of domestic travel are legal.

Variation to Minimum Service

The parties agree that the domestic Route requirements on pages 5 and 6 of the Terms Sheet and Schedule 1 (as varied by the Initial Variation Letter) need to be revised to set out the Minimum Services when New Zealand is in each of COVID-19 Alert Levels 3, 2 and 1.

Treasury:4367550v1

Consequently, Air New Zealand have requested, and the Crown has consented to Schedule 1 of the Terms Sheet and the Minimum Services description in the Terms Sheet being updated in respect of domestic destinations with effect on and from one week following the date on which a change in the COVID-19 Alert Level takes effect for any destination for so long as that destination remains at that COVID-19 Alert Level (which will be Minimum Services for the purposes of the Terms Sheet).

In the event that there are different COVID-19 Alert Levels at different destinations at any time, the Minimum Services for any flights between those destinations will be based on the destination with the highest COVID-19 Alert Level at that time.

Alert Level 4		
Route	Days and frequency	Type of service
Auckland to Wellington	One return service per day (per week)	A320
Auckland to Christchurch	Two return services per day on each of Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	A320
Wellington to Christchurch	Two return services per day Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	Q300 ATR
Wellington to Nelson	One return service per day Monday to Friday (inclusive)	Q300
Christchurch to Dunedin	Two return services per week operating on a Monday and a Friday	ATR
Alert Level 3		
Auckland to Wellington	Seven return services per week	A320
Auckland to Christchurch	Thirteen return services per week	A320
Auckland to Tauranga	Three return services per week	Q300 ATR
Auckland to Napier	Three return services per week	Q300 ATR
Wellington to Christchurch	Twelve return services per week	Q300 ATR
Wellington to Nelson	Seven return services per week	Q300 ATR
Christchurch to Dunedin	Seven return services per week	Q300 ATR
Alert Level 2		
Auckland to Wellington	Ten return services per week	A320
Auckland to Christchurch	Thirteen return services per week	A320
Auckland to Tauranga	Seven return services per week	Q300 ATR
Auckland to Napier	Seven return services per week	Q300 ATR
Auckland to Kerikeri	Four return services per week	Q300 ATR
Auckland to New Plymouth	Seven return services per week	Q300 ATR

Auckland to Nelson	Seven return services per week	Q300 ATR
Auckland to Palmerston North	Seven return services per week	Q300 ATR
Auckland to Tauranga	Seven return services per week	Q300 ATR
Wellington to Christchurch	Seventeen return services per week	Q300 ATR
Wellington to Nelson	Ten return services per week	Q300 ATR
Wellington to Hamilton	Seven return services per week	Q300 ATR
Wellington to Napier	Three return services per week	Q300 ATR
Wellington to New Plymouth	Three return services per week	Q300 ATR
Wellington to Tauranga	Three return services per week	Q300 ATR
Christchurch to Dunedin	Seven return services per week	Q300 ATR
Christchurch to Invercargill	Seven return services per week	Q300 ATR

Where no passenger or cargo loads exist for any of those agreed domestic flights, Air New Zealand will have the right to cancel the applicable service on the relevant day.

Essential or critical services

In addition to the domestic services outlined above as the Minimum Services, for so long as any region in New Zealand remains at COVID-19 Alert Levels 4, 3 and 2, Air New Zealand agrees that it will:

- maintain one turboprop aircraft (ATR72 – maximum of 68 passengers or Q300 – maximum of 50 passengers) on standby in each of Auckland and Christchurch. If requested by the New Zealand Government for the purposes of services which the government deem essential or critical for New Zealand, then Air New Zealand must be able to have these aircraft ready to take off within a minimum of 90 minutes and a maximum of 180 minutes of a written request from the New Zealand Government, to any location within New Zealand which was serviced by Air New Zealand with turboprop aircraft as at 30 March 2020. This will require Air New Zealand to maintain appropriate crew and ground handling, as required on standby at these locations,; and
- if requested by the New Zealand Government at any time for critical services, make available additional jet services (A320 or A321) on a similar timeframe as set out above, from Auckland to any domestic location in New Zealand which was serviced by Air New Zealand as at 30 March 2020, and which is capable of handling an A320 or A321 aircraft.

Attached to this letter is Air New Zealand's schedule of deployment costs for essential and critical services.

Weekly review

In addition to the changes to the Minimum Services to Domestic destinations outlined above, Air New Zealand agrees that it will continue to jointly review the then current and future demand with the Treasury and Ministry of Transport on a weekly basis to agree whether any further or other changes are required to the Minimum Services. Any changes to the Minimum Services will require agreement by the Minister of Finance.

Air New Zealand should indicate its acceptance of the terms of this Variation by signing below and returning one copy to the Minister of Finance's office. This Variation may be signed in counterpart copies which, read together, will constitute one document.

Yours faithfully

The Sovereign in right of New Zealand
acting by and through the Minister of Finance:

Minister of Finance

Accepted and agreed by **Air New Zealand Limited** by:

Chief Executive Officer

From: Juston Anderson [TSY]
Sent: Friday, 8 May 2020 1:22:26 PM
To: ^EXT: Angus Hodgson
Cc: Aaron Gill [TSY]; Aedeen Boadita-Cormican [TSY]; Danni Thian [TSY]; Dominic Milicich [TSY]; Matthew Gilbert [TSY]; Maureena van der Lem [TSY]; Stephen Revill [TSY]; Vincent Schumacher [TSY]; K.Hewlett@transport.govt.nz
Subject: Air NZ minimum services - alert level 2 - urgent
Attachments: MOF SIGNED 20200420 Variation Letter to the Committed Binding Term sheet dated 20 March 2020 ("Terms Sheet").pdf

Hi Angus

The MoF previously agreed in principle that minimum Air NZ domestic services under AL2 would be AL3 ports plus:

- Hamilton
- Invercargill
- Kerikeri
- New Plymouth
- Palmerston North

With these new ports to be added to the minimum schedule from one week following the date on which a change in the COVID-19 Alert Level takes effect. See attached letter.

Air NZ advise that, assuming the PM announces on Monday that NZ is moving to AL2 with effect from Wednesday, Air NZ proposes to fly to all the above ports from Thursday next week, except Kerikeri, which would start on Monday 18 May. This is consistent with the in-principle decision from MoF.

Air NZ also propose to fly to Queenstown (from Thursday), and Whangarei, Gisborne, Rotorua and Blenheim (from Monday 18 May). These ports would be above the required minimum service levels from the in-principle decision by MoF.

Air NZ say "We are aiming to announce the new schedule shortly to address the growing customer and stakeholder queries we are receiving". Your office is also receiving queries.

Decisions required

Air NZ is seeking urgent confirmation of the MoF's previous in-principle decision. Can you please advise.

s9(2)(g)(i)

Consultation

Air NZ has informed Kirstie at MoT of these proposals and I have copied Kirstie into this email. Due to the urgency I have not had time to discuss the contents of this email with her.

Other matters

For your information Air NZ also said the following:

One of the challenges that we do face is that due to physical distancing we can only fill our jet planes to 66% of capacity and turbo prop to ~46% so we won't be able to sell the lower lead in fares that we normally do and we expect that this may cause some negative public feedback, s9(2)(b)(ii) and s9(2)(ba)(i) The MoT support for removal of aviation security and air nav charges makes a difference in this regard and will help us keep prices lower, but these prices will dampen some demand which is why we are being cautious as we build back capacity.

Physical distancing also means that at this point in time services to Timaru and Taupo will not be commercially viable and it will not be until level 1 or later in level 2 that we plan on re-introducing those services. Hokitika will be delayed until May 25th, this is likely to be 3 times per week for level 2.

Timaru, Taupo and Hokitika were not covered by the Minister's previous AL2 in-principle decision. So again Hokitika is above the minimum requirement.

Juston Anderson | Acting Manager, Commercial Performance | **The Treasury**
s9(2)(g)(ii) | Juston.Anderson@treasury.govt.nz

[IN-CONFIDENCE]

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage

**CONFIDENTIAL**

20 April 2020

Greg Foran
Chief Executive Officer
Air New Zealand Limited
185 Fanshaw Street
Auckland 1010

Dear Greg

Variation Letter to the Committed Binding Term sheet dated 20 March 2020 ("Terms Sheet")

The Crown, acting through the Minister of Finance, and Air New Zealand have agreed to vary the terms of the Terms Sheet and the terms subsequently agreed through a variation letter dated 1 April 2020 ("Initial Variation") as set out in this letter (the "Variation"). Defined terms used in this Variation shall have the meaning given to those terms in the Terms Sheet. Unless otherwise expressly varied in this Variation, all terms and conditions of the Terms Sheet shall continue in full force and effect. The Crown and Air New Zealand agree that on and from the date of this letter, this Variation replaces the Initial Variation. In the event of any inconsistency between this Variation and any future financing documentation, the financing documentation will prevail.

Background

The New Zealand Government moved into the COVID-19 response Alert Level 4 at 11.59 pm on Wednesday 25 March 2020, with the consequence that from 11.59 Friday 27 March it is no longer legal for individuals to move around New Zealand unless their travel is related to them being involved in the provision of an essential service or they are a New Zealander returning from overseas that has completed self-isolation or quarantine for 14 days. Consequently, demand has significantly and rapidly fallen for Air New Zealand's domestic passenger services. As a result of this, the Initial Variation was agreed between the Crown and Air New Zealand.

Subsequently, on 16 April 2020 the New Zealand Government announced what travel restrictions would be in place when New Zealand enters COVID-19 Alert Levels 3, 2 and 1. As New Zealand steps down through these Alert Levels, increased levels of domestic travel are legal.

Variation to Minimum Service

The parties agree that the domestic Route requirements on pages 5 and 6 of the Terms Sheet and Schedule 1 (as varied by the Initial Variation Letter) need to be revised to set out the Minimum Services when New Zealand is in each of COVID-19 Alert Levels 3, 2 and 1.

Consequently, Air New Zealand have requested, and the Crown has consented to Schedule 1 of the Terms Sheet and the Minimum Services description in the Terms Sheet being updated in respect of domestic destinations with effect on and from one week following the date on which a change in the COVID-19 Alert Level takes effect for any destination for so long as that destination remains at that COVID-19 Alert Level (which will be Minimum Services for the purposes of the Terms Sheet).

With regard to the minimum services under COVID-19 Alert Level 2, the Crown agrees in principle to the minimum services outlined below but will finalise its view prior to moving to COVID-19 Alert Level 2 dependant on its final decisions regarding allowed activities under that Alert Level.

In the event that there are different COVID-19 Alert Levels at different destinations at any time, the Minimum Services for any flights between those destinations will be based on the destination with the highest COVID-19 Alert Level at that time.

Alert Level 4		
Route	Days and frequency	Type of service
Auckland to Wellington	One return service per day (per week)	A320
Auckland to Christchurch	Two return services per day on each of Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	A320
Wellington to Christchurch	Two return services per day Monday to Friday (inclusive) One return service per day on each Saturday and Sunday	Q300 ATR
Wellington to Nelson	One return service per day Monday to Friday (inclusive)	Q300
Christchurch to Dunedin	Two return services per week operating on a Monday and a Friday	ATR
Alert Level 3		
Auckland to Wellington	Seven return services per week	A320
Auckland to Christchurch	Thirteen return services per week	A320
Auckland to Tauranga	Three return services per week	Q300 ATR
Auckland to Napier	Three return services per week	Q300 ATR
Wellington to Christchurch	Twelve return services per week	Q300 ATR
Wellington to Nelson	Seven return services per week	Q300 ATR
Christchurch to Dunedin	Seven return services per week	Q300 ATR
Alert Level 2		
Auckland to Wellington	Ten return services per week	A320
Auckland to Christchurch	Thirteen return services per week	A320
Auckland to Tauranga	Seven return services per week	Q300 ATR
Auckland to Napier	Seven return services per week	Q300 ATR

Auckland to Kerikeri	Four return services per week	Q300 ATR
Auckland to New Plymouth	Seven return services per week	Q300 ATR
Auckland to Nelson	Seven return services per week	Q300 ATR
Auckland to Palmerston North	Seven return services per week	Q300 ATR
Auckland to Tauranga	Seven return services per week	Q300 ATR
Wellington to Christchurch	Seventeen return services per week	Q300 ATR
Wellington to Nelson	Ten return services per week	Q300 ATR
Wellington to Hamilton	Seven return services per week	Q300 ATR
Wellington to Napier	Three return services per week	Q300 ATR
Wellington to New Plymouth	Three return services per week	Q300 ATR
Wellington to Tauranga	Three return services per week	Q300 ATR
Christchurch to Dunedin	Seven return services per week	Q300 ATR
Christchurch to Invercargill	Seven return services per week	Q300 ATR

Where no passenger or cargo loads exist for any of those agreed domestic flights, Air New Zealand will have the right to cancel the applicable service on the relevant day.

Essential or critical services

In addition to the domestic services outlined above as the Minimum Services, for so long as any region in New Zealand remains at COVID-19 Alert Levels 4, 3 and 2, Air New Zealand agrees that it will:

- maintain one turboprop aircraft (ATR72 – maximum of 68 passengers or Q300 – maximum of 50 passengers) on standby in each of Auckland and Christchurch. If requested by the New Zealand Government for the purposes of services which the government deem essential or critical for New Zealand, then Air New Zealand must be able to have these aircraft ready to take off within a minimum of 90 minutes and a maximum of 180 minutes of a written request from the New Zealand Government, to any location within New Zealand which was serviced by Air New Zealand with turboprop aircraft as at 30 March 2020. This will require Air New Zealand to maintain appropriate crew and ground handling, as required, on standby at these locations,; and
- if requested by the New Zealand Government at any time for critical services, make available additional jet services (A320 or A321) on a similar timeframe as set out above, from Auckland to any domestic location in New Zealand which was serviced by Air New Zealand as at 30 March 2020, and which is capable of handling an A320 or A321 aircraft.

Attached to this letter is Air New Zealand's schedule of deployment costs for essential and critical services.

Weekly review

In addition to the changes to the Minimum Services to Domestic destinations outlined above, Air New Zealand agrees that it will continue to jointly review the then current and future demand with the Treasury and Ministry of Transport on a weekly basis to agree whether any further or other changes are required to the Minimum Services. Any changes to the Minimum Services will require agreement by the Minister of Finance.

Air New Zealand should indicate its acceptance of the terms of this Variation by signing below and returning one copy to the Minister of Finance's office. This Variation may be signed in counterpart copies which, read together, will constitute one document.

Yours faithfully

The Sovereign in right of New Zealand
acting by and through the Minister of Finance:



Minister of Finance

Accepted and agreed by Air New Zealand Limited by:

Chief Executive Officer

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Reference: T2020/1446 SE-1-3-21 (Project 20)

Date: 12 May 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: None
(if any)**Aide Memoire: Project 20: Minimum Domestic Service Levels – Alert Level 2****Purpose**

This Aide Memoire updates you on Air New Zealand's (Air NZ's) proposed minimum domestic service levels under COVID-19 Alert Level 2 (Alert Level 2).

Minimum Service Levels – Alert Level 2

Under the Terms Sheet signed by the Crown and Air NZ on 20 March 2020, Air NZ must seek the Crown's agreement to vary its minimum service levels for the duration of the loan agreement.

In T2020/995 you agreed, in principle, to a minimum domestic service level for Alert Level 2, subject to final decisions after the Government announces what activities will be permitted under this alert level, and the restrictions on those activities. The table below outlines operational ports under this in-principle agreement.

Operational ports under Alert Level 2	
Auckland	Tauranga
Wellington	Hamilton
Christchurch	Invercargill
Dunedin	Kerikeri
Nelson	New Plymouth
Napier	Palmerston North

On 11 May 2020, the Government announced that New Zealand would move to Alert Level 2 on 14 May 2020 and extended domestic travel for recreation and tourism, so long as appropriate public health guidance was followed, including physical distancing on flights. Air NZ has also announced its proposed flight schedule under Alert Level 2. In light of these announcements, the Treasury considers that the minimum domestic services levels agreed in T2020/995 remain appropriate, with one additional port: Queenstown (reflecting Queenstown airport's contribution to tourism).

COMMERCIAL-IN-CONFIDENCE***Process to confirm the Minimum Service Level for Alert Level 2***

Historically, you have updated Air NZ's minimum service levels via a letter signed by you and Air NZ's Chief Executive. There are currently two letters confirming changes to service levels. Within the next fortnight, the Treasury intends to provide you with the final documentation for approval of the Air NZ loan facility. At this time, we will also seek your final agreement to the minimum service levels under Alert Level 2, and include the changes previously agreed to in the letters, relating to Alert Levels 3 and 4. The minimum services schedule will be an attachment to the loan facility documentation. This will ensure all changes to date are recorded in one place.

Future changes to Alert Levels

For the duration of the loan agreement, you have the ability to change Air NZ's minimum service levels. There could be points in the future when it makes sense to reconsider the current minimum service levels - for example, if physical distancing on flights was no longer required for health reasons.

Physical distancing

As required Air NZ is applying physical distancing to its domestic flights under Alert Level 2. This means around 50% of seats can be sold on turboprop aircraft, and around 67% of seats on A320 aircraft. This has significant financial costs for Air NZ, and real economic costs for New Zealand. It materially reduces the available capacity on domestic flights; significantly increases the average price of tickets; and means lower-priced tickets that were available in the past can no longer be offered (which disproportionately affects lower-income New Zealanders, restricting their ability to travel by air).

Whether physical distancing should be maintained will be a key consideration for any adjustments to Alert Level 2 and for the move to Alert Level 1.

Danni Thian, Senior Analyst, Commercial Performance, s9(2)(g)(ii)
Juston Anderson, Acting Manager, Commercial Performance, [REDACTED]

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TE TAI ŌHANGA
THE TREASURY**Treasury Report: Air NZ: Final Loan Documents**

Date:	21 May 2020	Report No:	T2020/1185
		File Number:	SE-1-3-21 (Project 20)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Sign the attached loan documents	26 May 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Dominic Milicich	Principal Advisor, Commercial Performance	N/A (wk)	s9(2)(g)(ii)
Juston Anderson	Acting Manager, Commercial Performance	s9(2)(g)(ii)	N/A (mob) ✓

Minister's Office actions (if required)

Return the signed report and loan documents to the Treasury. If referred, forward the report to the Minister of Transport and the Associate Minister of Finance (Hon Parker).

Note any
feedback on
the quality of
the report

Enclosure: Yes (attached)

[Air NZ Operating Finance Plan submitted 11 May 2020 with Treasury Policy \(Treasury:4281973v1\)](#)
[Crown and Air New Zealand Facilities Agreement - Execution Version \(002\) \(Treasury:4282060v1\)](#)
[Air NZ - Sign off - CSFA \[Signed\] \(Treasury:4281959v1\)](#)

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Treasury Report: Air NZ: Final Loan Documents

Executive Summary

Under section 65L of the Public Finance Act 1989 you decided to provide Air New Zealand (Air NZ) with a \$900m standby loan facility, by executing a legally binding terms sheet that specified the characteristics of that loan (the Term Sheet, T2020/642 refers). Air NZ and officials have now finalised the loan documents that will govern the provision and operation of the loan facility. Chapman Tripp has prepared the legal documents for the Crown and KordaMentha has provided financial expertise and advice. Goldman Sachs has also provided input into the loan documents.

Attached to this report are:

- i a Letter from Chapman Tripp ^{s9(2)(h)}
- ii the Crown Standby Facility Agreement (Facility Agreement), including the Minimum Services Schedule (at Schedule 10), and
- iii the Approved Operating Plan.

A General Security Deed and Deeds of Aircraft Mortgage and Assignment will also require your signature. These will be provided to you next week.

The Facility Agreement replicates the terms and conditions from the Term Sheet. There are, however, a small number of cases where we have agreed variations from the Term Sheet, but we do not consider that these variations are material. These variations are detailed in this report. In summary the variations relate to:

- changes to the minimum service levels to formalise your previous decisions (T2020/995 and T2020/1446 refers). Air NZ has requested one additional change to international minimum service levels to allow it to service any port in Asia rather than specifying Singapore and Hong Kong

s9(2)(b)(ii), s9(2)(i), s9(2)(j)

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The Approved Operating Plan has been agreed and finalised. It includes a financial projection for Air NZ against which its operating performance will be tracked.

s9(2)(b)(ii), s9(2)(i), s9(2)(j)

When you decided to execute the legally binding Term Sheet in the exercise of your power under section 65L of the Public Finance Act 1989 you concluded that granting a loan in those terms was necessary or expedient in the public interest. Although there have been some relatively minor changes to the terms of the loan (as outlined above) officials are of the view that it remains necessary or expedient in the public interest to grant the loan in the terms of the loan documentation. Officials' assessment of the public interest test is detailed in this report for your consideration.

Recommended Action

We recommend that you:

- a **agree** that under the minimum service levels, Air New Zealand is required to service two international flights per week to any Asian port, rather than one flight per week specifically to Singapore and Hong Kong
Agree/disagree.
- b **note** that the Treasury has taken into account the variations from the Term Sheet and considers the loan to Air New Zealand as detailed in the Facility Agreement remains necessary or expedient in the public interest within the meaning of section 65L of the Public Finance Act
- c **agree** the grant of a loan to Air New Zealand in accordance with the terms of the Facility Agreement is necessary or expedient in the public interest in accordance with section 65L of the Public Finance Act
Agree/disagree.
- d **agree** the loan to Air New Zealand will be made from the capital appropriation approved by Cabinet on 23 March 2020 [CAB-20-MIN-0137]
Agree/disagree.

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- e **sign** the attached Facility Agreement, and
Agree/disagree.
- f **refer** this report to the Minister of Transport and the Associate Minister of Finance
(Hon David Parker)
Refer/not referred.

Juston Anderson
Acting Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

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Treasury Report: Project 20: Final Loan Documents

Purpose of Report

1. Attached to this report for your approval and signature is the Facility Agreement for the standby loan facility for Air New Zealand Ltd (**Air NZ**). This report outlines the nature of the final deal and discusses the company's projected financial information as included in the Approved Operating Plan.
2. The Facility Agreement includes some variations from the legally binding term sheet (Term Sheet) you executed on behalf of the Crown on 20 March 2020. This report therefore also sets out the Treasury's assessment that the variations are non-material and that the Treasury considers that the loan to Air New Zealand, detailed in the Facility Agreement, remains necessary or expedient in the public interest within the meaning of section 65L of the Public Finance Act.

Background

3. Under section 65L of the Public Finance Act 1989 you have the power to lend money to a person or organisation in New Zealand or elsewhere if it appears to you to be 'necessary or expedient in the public interest' to do so. Under this authority, on 20 March 2020, you decided to provide Air NZ with a standby loan facility by executing the Term Sheet that specified the characteristics of that loan (T2020/642 refers).
4. The main characteristics of the loan are as follows:
 - **Borrower:** The borrower will be Air New Zealand Aircraft Holdings Limited (**Borrower**), a wholly owned subsidiary of Air NZ. Air NZ will guarantee the obligations of the Borrower under the loan documentation.
 - **Size:** \$900,000,000 in two tranches – Tranche A \$600,000,000 and Tranche B \$300,000,000.
 - **Duration:** 24 months from the date of the loan agreement.
 - s9(2)(b)(ii), s9(2)(i), s9(2)(j)
 -

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- **Capital raising:** the Crown can request (at any point from 6 months after financial close) Air NZ to take all reasonably necessary steps to complete a capital raising to repay the money owing to the Crown under or in connection with the loan documentation. Air NZ's obligation to "take all reasonably necessary steps" is subject to specified matters, including compliance with applicable law and the NZX Listing Rules.
 - **Convertibility:** the Crown can request (at any point following financial close) Air NZ to take all reasonably necessary steps to convert all or part of the money owing to the Crown under or in connection with the loan documentation, into ordinary shares in Air NZ. Air NZ's obligation to "take all reasonably necessary steps" is subject to specified matters, including compliance with applicable law and the NZX Listing Rules.
 - **Minimum services:** service level to be maintained by Air NZ for the Covid-19 alert level operational at any particular time, as specified in the Minimum Services Schedule agreed between the Crown and Air NZ.
 - s9(2)(b)(ii), s9(2)(i), s9(2)(j)
 - **Key undertakings:** amongst other requirements Air NZ must maintain an Approved Operating Plan and not pay any dividends.
5. Based on the Term Sheet, Air NZ and officials have now finalised the loan documents that will govern the provision and operation of the standby loan facility. Chapman Tripp has prepared the Facility Agreement for the Crown and reviewed the General Security Deed and Deeds of Aircraft Mortgage and Assignment (which have been prepared by Bell Gully, Air NZ's counsel). Attached to this report is a letter from Chapman Tripp
- s9(2)(h)
- KordaMentha has provided financial expertise and advice.
6. The loan documents comprise the:
- **Crown Standby Facility Agreement** (Facility Agreement) – the contract specifying the terms and conditions of the loan, for your signature
 - **General Security Deed** – under this document, Air NZ and the Borrower will each grant security over its interests in all its present and future property to the Crown (this will be provided for your signature next week)
 - **Deeds of Aircraft Mortgage and Assignment** – under these documents, the Borrower as the owner of the aircraft described in Schedule 2 of the Term Sheet will grant security over all its present and future interests relating to that aircraft to the Crown (also to be provided next week)
 - **Approved Operating Plan** – an agreed financial projection for Air NZ against which its operating performance will be tracked over the duration of the loan (the final Approved Operating Plan will be attached to the loan agreement as a schedule), and
 - **Minimum Services Schedule** – the Crown's requirements for minimum services to be provided by Air NZ under each Covid-19 alert level.

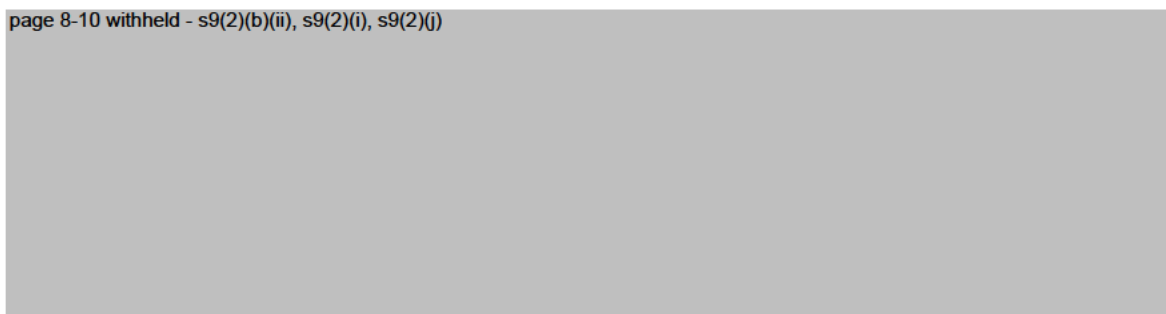
COMMERCIAL-SENSITIVE**Crown Standby Facility Agreement**

7. The Facility Agreement primarily replicates the terms and conditions from the Term Sheet. There are, however, a small number of cases where we have agreed variations from the Term Sheet where the company raised operational or other concerns with the original specification or where external circumstances have changed. We do not consider that any of these variations are material changes to the agreement as specified in the Term Sheet, but we identify them below so that you are fully aware on the contents of the final agreement.

8. s9(2)(b)(ii), s9(2)(i), s9(2)(j)



page 8-10 withheld - s9(2)(b)(ii), s9(2)(i), s9(2)(j)



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s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Conditions Precedent

22. Once the loan agreement is signed, the Crown's obligation to provide funding will be conditional on the satisfaction of conditions precedent listed in the loan agreement, which are usual for a facility of this nature.

International long-haul service levels

23. The minimum international service levels contained in the Term Sheet require Air NZ to fly at least once per week to both Singapore and Hong Kong. No other long-haul destinations in Asia are required. Air NZ is seeking the Crown's agreement to update these minimum service levels to require two international flights per week to Asia - not to specific locations.
24. The other international long-haul destination Air NZ is required to service is "North America" (currently Los Angeles, but with flexibility to fly elsewhere if necessary). Flights to Australia and the Pacific are short-haul; no changes are proposed to these minimum service levels.

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s9(2)(b)(ii), s9(2)(i), s9(2)(j)

Officials' assessment that executing the Facility Agreement is 'necessary or expedient in the public interest'

29. As you are aware, section 65L of the Public Finance Act 1989 (Act) empowers you, as the Minister responsible for the administration of the Act, to lend money to a person or organisation in New Zealand or elsewhere if it appears to you to be 'necessary or expedient in the public interest' to do so, and to make such a loan on any terms and conditions that you think fit.
30. Before executing the Term Sheet you decided that granting the loan to Air NZ was necessary or expedient in the public interest. The Term Sheet is legally binding and, had there been no variation of its terms in the Facility Agreement, there would be no need for you to again consider the public interest test in section 65L of the Act.
31. Because the Facility Agreement contains some variations to the terms of the Term Sheet, for completeness Treasury has considered whether those variations change the assessment of the public interest that was carried out at the time the Term Sheet was executed.
32. The variations are non-material, as described in paragraph 8 of this report. In summary, relevant to the public interest test, it is important to note that the Treasury considers the variations do not change the risk/benefit assessment of the loan or its effectiveness in meeting the Crown's objectives identified at the time the Term Sheet was executed.
33. The Treasury's assessment follows, s9(2)(h)

COMMERCIAL-SENSITIVE***Public interest***

34. An explanation of the meaning of the term "public interest" was described in T2020/642 and is not repeated in this report.
35. The Covid-19 pandemic continues to have a significant impact on people and the economy worldwide with extensive travel restrictions imposed to slow down the spread of the virus having an ongoing material adverse impact on the business of airlines.
36. The variations to the terms in the Term Sheet do not impact on the effectiveness of the loan to Air NZ in securing the public policy outcomes sought in the public interest (ensuring there are flights to repatriate New Zealanders and to return foreign citizens home; the continued availability of air freight capacity; supporting the Pacific; cushioning the impact of the economic shock on workers; and supporting confidence in the near-term).

Necessary or expedient

37. Air NZ significantly reduced capacity across its network as a result of the impact of Covid-19 on travel demand. The Approved Operating Plan described in this report details the impact of this on Air NZ's business. Financial support for Air NZ as a company is not an objective of the proposed loan, except as a means of delivering on the Crown's objectives. Nor is support for Air NZ's shareholders and existing creditors. The variations to the Term Sheet do not change this.
38. Air NZ continues to have few other options for support other than the Crown and this has been tested through the development of the Approved Operating Plan. The loan is necessary to support Air NZ during the period of disruption until it is in a position to refinance or raise additional capital. We therefore conclude that Crown support for Air NZ is necessary to achieve the public interest objectives identified above.

Risks and mitigations

39. The principal risk with providing a loan to Air NZ in the current uncertain environment is that it will not be able to repay it. This risk was also present when the Term Sheet was executed and cannot be eliminated. Like the Term Sheet, the Facility Agreement, includes various provisions to mitigate this risk – for example the ability to convert the loan to equity. The variations to the Term Sheet do not change the nature or extent of this risk, or its mitigations.

Benefits

40. The variations to the Term Sheet do not reduce or alter the benefits of providing the loan (supporting confidence in Air NZ and minimising the risk of an immediate, disorderly outcome and the associated significant disruption that would make it more difficult to achieve the Crown's objectives; keeping open future options, including equity options, and facilitating them).

Assessment of risks and benefits against the public interest threshold

41. In light of the above, officials consider the clear public interest that was met by execution of the Term Sheet will continue to be met through the terms of the Facility Agreement. Taking into account the variations to the Term Sheet, which are non-material, the benefits of the proposed loan outweigh the risks when mitigations are taken into account; and the loan remains necessary. Accordingly, officials are of the view that the legal test that the loan be necessary or expedient in the public interest continues to be met.

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TE TAI ŌHANGA
THE TREASURY**Treasury Report: Air NZ: Security Documents**

Date:	28 May 2020	Report No:	T2020/1635
		File Number:	SE-1-3-21 (Project 20)

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Sign the attached security documents	2 June 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Danni Thian	Senior Analyst, Commercial Performance	s9(2)(g)(ii)	N/A (mob) ✓
Juston Anderson	Acting Manager, Commercial Performance	s9(2)(g)(ii)	

Minister's Office actions (if required)

Return the signed report and attachments to the Treasury.

Note any
feedback on
the quality of
the report**Enclosure:** Yes (attached)

s9(2)(b)(ii) and 9(2)(j)

[Crown General Security Deed \[Execution Version\] \(Treasury:4285450v1\)](#)[Air NZ - Sign Off - Security documents \[Signed\] \(Treasury:4285436v1\)](#) [Add to worklist](#)

COMMERCIAL-SENSITIVE**Treasury Report: Air NZ: Security Documents**

Executive Summary

Last week, you signed the facility agreement to finalise the Crown's loan to Air New Zealand (Air NZ) (T2020/1185 refers). This report provides you with the loan's accompanying security documents, the General Security Deed and Deeds of Aircraft Mortgage and Assignment, for your signature. Two copies of each document are provided for your signature, as this will allow one to be kept by the Crown and the other by Air NZ. Once you sign the documents, the loan will become operational and Air NZ can begin to draw the loan down.

The security documents confirm the security arrangements that were agreed to in the Term Sheet signed by the Crown and Air NZ on 20 March 2020, namely, that Air NZ will grant the Crown general security, together with specific security over aircraft owned by Air NZ. Only specified aircraft are secured, as some of Air NZ's fleet is subject to other specific security interests (by the relevant lender) or is leased.

Specifically, the General Security Deed grants a security interest to the Crown over all present and future assets of Air NZ, save for certain excluded classes of asset (such as leased aircraft and already mortgaged aircraft). A Deed of Aircraft Mortgage and Assignment is also to be taken over each of the aircraft that the Crown and Air NZ have agreed the Crown is to have a specific security interest in. These aircraft are listed in Schedule 6 of the Facility Agreement and Schedule 3 of the General Security Deed.

The Deeds of Aircraft Mortgage and Assignment confirm that the Crown's security interests in the aircraft represent an "international interest" under international civil aviation conventions. This means that enforcement action taken while the aircraft is overseas will be recognised by the local authorities. The Deeds also provide protections should specific parts in the aircraft require replacement.

Chapman Tripp prepared these documents for the Crown. Attached to this report is its letter confirming that the security documents are consistent with the Term Sheet, and in a form that is legally appropriate for the Crown to sign.

You have already authorised Treasury officials to undertake any steps required to register: financing statements and financing change statements on the Personal Property Securities Register, and security interests on the International Registry of Mobile Assets, in relation to the Air NZ assets that the Crown will be taking security over (authorisation by email on 10 May 2020).

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Recommended Action

We recommend that you **sign** the attached General Security Deed and the Deeds of Aircraft Mortgage and Assignment (two copies of each document), and

☒ **Agree** ~~disagree~~.

Juston Anderson
Acting Manager, Commercial Performance



Hon Grant Robertson
Minister of Finance

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All attachments withheld - s9(2)(b)(ii), s9(2)(i), s9(2)(j)

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Reference: T2020/2950 SE-1-3-21 (Project 20)

Date: 25 August 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before Air New Zealand releases its annual results on 27 August 2020

Aide Memoire - Air New Zealand's Annual Results Announcement – Q&A

This Aide Memoire provides you with:

- An overview of the Crown loan facility key terms, to support your planned conversation tomorrow with Air New Zealand (Air NZ) Chair Dame Therese Walsh.
- Suggested questions and answers to support you to answer any questions regarding the Crown participating in a future equity raise by Air NZ. We expect you will receive such questions after the company releases its annual results at 8:30am on Thursday 27 August 2020. Air NZ is holding a teleconference to discuss its results at 10am that day.
- Upcoming Treasury reports on Air NZ.

Overview of Crown loan facility

The main characteristics of the loan are as follows:

- **Size:** \$900,000,000 in two tranches – Tranche A \$600,000,000 and Tranche B \$300,000,000.
- **Duration:** 24 months from the date of the loan agreement.
- s9(2)(j), s9(2)(i) s9(2)(b)(ii)

•

- Public statements on the loan interest rate were that for tranche A, it was “expected to be between 7% and 8% per annum” and for the second tranche “expected to be in the order of 9% per annum” with a 1% step-up in rate on both tranches after 12 months.

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- **Capital raising:** the Crown can request (at any point from 6 months after financial close) Air NZ to take all reasonably necessary steps to complete a capital raising to repay the money owing to the Crown under or in connection with the loan documentation. Air NZ's obligation to "take all reasonably necessary steps" is subject to specified matters, including compliance with applicable law and the NZX Listing Rules.
- **Convertibility:** the Crown can request (at any point following financial close) Air NZ to take all reasonably necessary steps to convert all or part of the money owing to the Crown under or in connection with the loan documentation, into ordinary shares in Air NZ. Air NZ's obligation to "take all reasonably necessary steps" is subject to specified matters, including compliance with applicable law (e.g. the Takeovers Code) and the NZX Listing Rules.
- **Minimum services:** service level to be maintained by Air NZ for the COVID-19 alert level operational at any particular time, as specified in the Minimum Services Schedule agreed between the Crown and Air NZ.
- s9(2)(j), s9(2)(i), s9(2)(b)(ii)
- **Key undertakings:** amongst other requirements Air NZ must maintain an Approved Operating Plan and not pay any dividends.

Questions and answers**Approved statement**

Air NZ sought your approval to make a statement regarding the Crown's intention

s9(2)(j)

You approved the following statement (T2020/2641 and via email on 12 August 2020).

"The Government has recently reaffirmed the Crown's long-standing commitment to maintaining its majority shareholding in Air New Zealand, having regard to the unique and critical role the company has in New Zealand's economy and society. This is reflected in the Crown loan facility that provides Air New Zealand with liquidity support whilst the airline works through to a permanent solution. Air New Zealand is engaging constructively with the Crown as it continues to assess its capital structure and funding needs."

Follow up Q&A on Crown's intentions

We have prepared a number of possible Q&A's to support you to answer any follow up questions. In general, our recommendation is that any answer should be true and accurate and not misleading (including by omission) and go as far as possible in addressing questions about the Crown's future intentions.

We have requested Air NZ to refer any questions about the Crown's intentions to your office for comment.

s9(2)(g)(i), s9(2)(j)

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s9(2)(g)(i), s9(2)(j)

We recommend you direct any questions about the amount and/or quantum drawn from the Crown loan facility to Air NZ to answer. Air NZ will not have drawn down on the loan at the time of the results announcement, but will have submitted its first drawdown request, for a drawdown the following week. Air NZ intends to announce to the market that it has made the first drawdown request, but does not intend to disclose the amount, or to make any further comment when future drawdown requests are submitted.

Q&A from Air NZ

Air NZ has also prepared a number of Q&A (below) to answer follow up questions about the company's intention to undertake a future equity raise:

Why haven't you done an equity raise yet? The Crown loan provides us with short-term liquidity support. The Board is continuing to review the company's longer term capital structure but isn't in a position to provide specific details at this point.

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Isn't it obvious that equity is required? As I said, we have short-term liquidity in place – we always saw that as a short-term arrangement. We are continuing to work through our future funding needs and what a solution could look like.

If you were to raise equity, what is the level you believe you need? What are you solving for? Not going to discuss a transaction that hasn't happened. As you know, we have historically taken a prudent approach to gearing and liquidity levels and I think it has served us really well.

Is the Crown holding up an equity raise? Will the Crown support it? We have been engaging constructively with the Crown since COVID first hit, but I'm not in a position to provide details of that at this time.

Does your statement on capital structure imply that the Government will maintain its current level of shareholding? Or does it mean that the Crown may increase its shareholding? I am not in a position to speak on behalf of the Government.

Has the Government indicated that they will look to trigger the conversion clause in the loan facility which may increase their shareholding? I am not in a position to speak on behalf of the Government, but I would point to the statement we have already made that the Crown is looking to maintaining its majority shareholding. [We have asked Air NZ to consider also making a statement that conversion to equity would be subject to compliance with laws and any necessary regulatory and/or shareholder approvals; this has already been explained as part of Air NZ's announcement of the loan agreement on 20 March 2020.]

How can you be an investable airline without getting your capital structure issues resolved? We very much appreciate the support of our investors, many of whom have been investors for a long period of time, and many of whom are loyal customers. We are working through our capital structure requirements and approach, in close consultation with our Board, and I don't have any further comments at this time.

Future reporting

Over the next two weeks we will provide you with the following reports on Air NZ:

- An overview of the first drawdown request on the loan once it is received, likely tomorrow, 26 August 2020 (i.e. the amount of the drawdown request, and Air NZ's latest forecast drawdown schedule).
- An overview of Air NZ's results, on 27 August 2020.
- An updated Approved Operating Finance Plan for your approval, around 31 August 2020.

Danni Thian, Senior Analyst, Commercial Performance, s9(2)(g)(ii)
Juston Anderson, Acting Manager, Commercial Performance, s9(2)(g)(ii)