

The Treasury

Official information regarding the Crown's support for Air New Zealand as a result of the COVID-19 pandemic

December 2022

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- [1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government
- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Treasury Report: Project 20: Update for the week of 14 March 2022

Date:	17 March 2022	Report No:	T2022/594
		File Number:	SE-1-3-21

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Provide feedback, if any, on the Crown commitment letter and key terms of the Crown Standby Facility 2, agree to take an oral item to Cabinet on 28 March 2022, and indicate if you wish to make a Ministerial press release with respect to the Crown's involvement in the Air New Zealand equity raise	21 March 2022
Associate Minister of Finance (Hon David Parker)	Provide feedback, if any, on the Crown commitment letter and key terms of the Crown Standby Facility 2, agree to take an oral item to Cabinet on 28 March 2022, and indicate if you wish to make a Ministerial press release with respect to the Crown's involvement in the Air New Zealand equity raise	21 March 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Daniel Madley	Senior Analyst, Commercial Performance	[35]	✓
Juston Anderson	Principal Advisor, Commercial Performance		

Minister's Office actions

Return the signed report to the Treasury.
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Note any feedback on the quality of the report

Enclosure: [Annex 1 - Draft Crown commitment letter \(Treasury:4627554v1\)](#)

Treasury Report: Project 20: Update for the week of 14 March 2022

Purpose of report

1. This report provides you with a draft of the Crown commitment letter and the key terms of the Crown Standby Facility 2 (CSF2), with respect to the upcoming launch of Air New Zealand's (Air NZ's) equity raise.
2. It also recommends that you provide an oral update to Cabinet on Monday 28 March 2022 with respect to your decision to exercise authority previously delegated from Cabinet (as you indicated to Cabinet you would), and asks you to confirm if you wish to issue a press release to coincide with the intended launch of the equity raise, which is currently targeted for the evening of Wednesday 30 March 2022.

Background and analysis

3. Officials and the Crown's commercial and legal advisors are continuing to undertake preparatory work with Air NZ, and its advisors, in advance of Air NZ's capital raise. Air NZ's preferred date to launch its upcoming equity raise is the week commencing 28 March 2022. The exact launch date has not yet been finalised but the date of Wednesday 30 March 2022 is firming up as the company's preference.
4. As previously signalled (T2022/456 refers), we intend to provide you with a briefing on 24 March 2022, seeking agreement from the Minister of Finance to:
 - a. sign a binding Crown commitment letter to Air NZ, pre-committing the Crown to purchase shares in the equity raise sufficient for the Crown's shareholding in Air NZ post-raise to be 51% (forecast to be [25] and of new ordinary shares); and
 - b. sign the CSF2 loan agreement.

Crown commitment letter

5. The current draft of the Crown commitment letter is provided as **Annex 1**. We are providing it to you in advance so that you have the opportunity to provide any comment on the wording of the letter, prior to the final version of the letter being provided to you on 24 March 2022. The text of the draft letter has been agreed with Air NZ.
6. The Treasury has no concerns with the Crown commitment letter as it is currently drafted. The Crown's legal advisors (Chapman Tripp) and the Crown's commercial advisors (Goldman Sachs) have reviewed the letter and have been involved in its drafting.
7. In December 2021 Cabinet delegated authority to yourselves, as joint Ministers, to determine whether the commercial aspects of the Air NZ capital raise are satisfactory and to take the final decision for the Crown to participate in the equity raise, subject to specific financial limits [DEV-21-MIN-0253 refers].
8. As the letter will be legally binding, the decision to sign it and provide it to Air NZ will be the final decision with respect to the Crown's participation in the company's equity raise. In line with the delegated authority from Cabinet, you will both need to agree to the letter being signed and delivered to Air NZ, however only the Minister of Finance, as the holder of the Crown's shareholding in Air NZ, is required to sign the letter.

9. The letter is intended to be released by Air NZ, as referenced in paragraph (h) of the letter. This approach is consistent with certain previous letters that the Minister of Finance has provided to Air NZ. The fact that the Crown has pre-committed to purchase the number of shares sufficient to have a 51% shareholding post-offer will be included in Air NZ's launch materials and will provide an important signal to the share market and existing investors.
10. The Crown's pre-commitment to the capital raise, via this letter, is required before the commercial underwriters sign the underwriting agreement with Air NZ for the non-Crown portion of the offer.

Crown Standby Facility 2 (CSF2)

11. We will also, on 24 March 2022, provide you with the CSF2 documentation for the Minister of Finance's signature. The (intended) key terms of CSF2 were included in the paper that you took to Cabinet in December 2021.
12. For your reference now, in advance of receiving the documentation on 24 March 2022, the key terms of CSF2 are:
 - a. The facility limit of CSF2 will be \$400m.
 - b. CSF2 is a revolving credit facility; if Air NZ draws down on the loan but then repays it, the repaid funds can be re-borrowed.
 - c. The facility will expire on 31 January 2026.
 - d. Air NZ is able to request that the facility limit be decreased to \$100m if it wishes, but no lower, so that the reporting requirements outlined below remain in place until the facility expires.
 - e. The interest rate margin over the base rate is initially 1.5% per annum, with the ability for margin step ups to occur.
 - f. Air NZ will be required to prepare an annual business plan, provide it to the Crown, and report monthly against the business plan (unlike CSF1, the Crown does not need to approve the business plan).
 - g. To make any drawings on the CSF2 facility Air NZ is required to consult with the Crown on its financial position and the steps it will take to ensure the loan is repaid.
 - h. Air NZ is not able to pay any dividends on its ordinary shares while any CSF2 drawings remain outstanding (this does not affect the mandatory dividends the Crown will receive from the Redeemable Shares issued by Air NZ to the Crown).
13. Before determining whether to execute the CSF2 loan documentation, the Minister of Finance will need to make a decision, in line with section 65L of the Public Finance Act 1989, as to whether lending money to Air NZ is necessary or expedient in the public interest. We will provide you with further advice on this in our briefing of 24 March 2022.

Oral update to Cabinet on 28 March 2022

14. The paper that you took to Cabinet in December 2021 indicated that you would report back to Cabinet once you had taken decisions under delegated authority.

15. We recommend that you take an oral item to Cabinet on 28 March 2022, once you have taken a decision, under delegated authority, on signing the Crown commitment letter and signing the CSF2 loan documentation. This timing would allow you to inform your Cabinet colleagues of the Crown's participation in Air NZ's equity raise, prior to its market launch.

Ministerial press release

16. You may wish to issue a press release to coincide with the launch of the equity raise. This press release could outline that the Crown has pre-committed to purchase shares in the equity raise sufficient for the Crown's shareholding in Air NZ post-raise to be 51%.
17. A Ministerial press release is optional, as the Crown's pre-commitment, and the other facts regarding the Crown's support for Air NZ and its capital raise, will be included in Air NZ's launch documents, and the rationale for the Crown's ongoing majority shareholding has already been communicated through the public release of letters that the Minister of Finance has previously sent to Air NZ.
18. Air NZ will be making a media statement of its own with the launch of the capital raise (as well as releasing the formal offer documents). A draft of this will be provided to your office on a "no surprises" basis.
19. We expect the capital raise will attract significant media attention, for obvious reasons, including the very large size of the capital raise in both dollar terms and relative to Air NZ's current market capitalisation, and for the pricing issues outlined in our report last week (T2022/456 refers). The fact that the Crown will receive a pre-commitment fee of ~\$3m may also attract attention.

No surprises update – cash bonus to Air New Zealand staff

20. Air NZ has indicated to the Treasury that, pending final board approval, it will shortly announce a cash bonus to every staff member of \$1,000 (net of tax). This is in recognition of staff's efforts to ensure that the airline remains operating throughout the current Omicron outbreak with minimal disruption. As Air NZ currently has around 8,000 staff the cost to Air NZ is expected to be ~\$11m.

Next steps

21. We will look to incorporate any feedback that you may have on the draft Crown commitment letter prior to providing these documents to you on 24 March 2022 for your decision and execution.
22. If you wish to take an oral item to Cabinet on 28 March 2022 we will provide you with draft talking points.

Recommended action

We recommend that you:

- a **provide** feedback, if any, to officials on the draft Crown commitment letter, attached as Annex 1

Agree/disagree.
Minister of Finance

Agree/disagree.
Associate Minister of Finance

- b **agree** to take an oral item to Cabinet on Monday 28 March 2022 to provide an update on decisions you have taken under delegated authority

Agree/disagree.
Minister of Finance

Agree/disagree.
Associate Minister of Finance

- c **indicate** if you wish to make a Ministerial press release to coincide with the launch of the Air New Zealand equity raise, currently scheduled for late-March 2022.

Yes/no.
Minister of Finance

Yes/no.
Associate Minister of Finance

Juston Anderson
Principal Advisor, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance