

The Treasury

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

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Cabinet Document Details

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No information has been withheld

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Cabinet

Minute of Decision

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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 **noted** 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:

- 7.1 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;
 - 7.2 maintain, as a minimum, to be reviewed after one month from the date of the terms sheet:
 - 7.3 at least one return flight per day to every currently serviced domestic location other than Auckland, Wellington, Christchurch and Dunedin;
 - 7.4 at least two return flights per day to each of Auckland, Wellington, Christchurch and Dunedin for passengers and cargo;
- 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 requiring Air NZ to meet various financial covenants;
- 9 **noted** that various supervision and monitoring requirements have also been imposed, including:
- 9.1 the appointment of an Investigative Consultant that will engage with Air NZ senior management and be provided assurance regarding all material changes in company performance that may give rise to financial implications for the company;
 - 9.2 a Crown observer (likely to be the Investigative Consultant) on the Audit and Risk Committee with access to all documents from Air NZ management to the Board of Directors;
 - 9.3 the company must provide for approval by the Crown of an operating finance plan, including cash flow forecasts and key assumptions that cover Air NZ's activities for the duration of the loan
- 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;

- 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