

# 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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### Cabinet Document Details

Title: **Cabinet Minute: DEV-21-MIN-0253: Air New Zealand Capital Raise**

Date: **8 December 2021**

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[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

[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

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# Cabinet Economic Development Committee

## Minute of Decision

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### Air New Zealand Capital Raise

**Portfolio**                      **Finance / Associate Finance (Hon David Parker)**

On 8 December 2021, the Cabinet Economic Development Committee:

- 1        **agreed** that the objectives of the government maintaining a majority shareholding in Air New Zealand (Air NZ) are to ensure:
  - 1.1      a national airline continuing in operation to support economic development, including access to international markets for New Zealand exporters and international tourism linkages, once international borders re-open;
  - 1.2      a comprehensive domestic route network that allows people and goods to move across New Zealand in a timely fashion at a reasonable cost;
  - 1.3      the airline's commitment to environmental sustainability, including engaging with the development of new aviation fuels for New Zealand;
  - 1.4      the airline's role as a leader for best practice workplace relations given that it is one of New Zealand's largest employers;
  - 1.5      Air NZ continues acting as a responsible corporate citizen;
  - 1.6      Air NZ achieves these objectives while operating as a commercially sustainable and capital efficient business;
- 2        **agreed** that it is the government's policy to maintain an ordinary shareholding in Air NZ of exactly 51 percent for the foreseeable future in order to achieve the government's objectives as stated in paragraph 1 above;
- 3        **noted** that the operations and financial position of Air NZ have been severely impacted by restrictions imposed in order to manage the COVID-19 pandemic;
- 4        **noted** that Air NZ intends to undertake a capital raise, including new equity and debt, in early calendar 2022;
- 5        **noted** that significant preparatory work has been and continues to be undertaken ahead of the capital raise, and that officials and the Crown's commercial advisors have been participating in this work;

## Additional Crown support for Air New Zealand in advance of a capital raise

- 6 **noted** that additional Crown support for Air NZ in advance of the capital raise is required;
- 7 **noted** that the Crown is considering amending the terms of the existing Crown Standby Loan Facility (CSF-1) as follows:
- 7.1 decrease the total loan facility to \$1,000 million (from \$1,500 million);
- 7.2 extend the term to 31 January 2026;
- 8 **agreed** that the Crown subscribe to up to \$1,000 million in non-voting redeemable shares in Air NZ, with the key terms of the redeemable shares being:
- 8.1 Air NZ could request that the Crown subscribe for these non-voting redeemable shares once 85 percent (or \$850 million) of CSF-1 had been drawn;
- 8.2 Air NZ's access to the redeemable shares will expire once Air NZ has completed one or more ordinary equity raises totalling at least \$1,000 million;
- 8.3 the non-voting redeemable shares will carry a mandatory quarterly dividend – Air NZ can choose not to pay this in any quarter, however any suspended dividends on the redeemable shares accumulate and are required to be paid at a future date, and Air NZ cannot pay dividends on its ordinary shares while the redeemable share dividends are suspended;
- 8.4 the dividend on the redeemable shares will be set at a base rate plus a margin, with the margin initially the same as the interest rate on CSF-1, being 3.5 percent, but stepping up to 5.5 percent on 1 January 2024 and 7.5 percent on 1 January 2027, if the shares have not been redeemed by then;
- 8.5 the scheduled redemption date for all of the redeemable shares issued is set at 25 years, however this can be extended by five years (on multiple occasions) if Air NZ has not raised a total of at least \$1,000 million in ordinary equity, or if Air NZ's directors resolve that the company will not satisfy a solvency test immediately following redemption of the redeemable shares;
- 8.6 Air NZ could choose to redeem the redeemable shares, in whole or in part, at any time if its directors resolve that the company will satisfy a solvency test immediately following redemption of the redeemable shares, and no insolvency event has occurred. Air NZ is incentivised to redeem the shares due to the step ups in the dividends payable on them;
- 9 **authorised** the Minister of Finance and the Associate Minister of Finance (Hon David Parker) to finalise the terms and final drafting matters on which the Crown agrees to subscribe for up to \$1,000 million of redeemable shares, consistent with the key terms agreed in paragraph 8 above;
- 10 **noted** that if CSF-1 or the redeemable shares are still in place in 12 months' time, then under the terms of the waiver granted by NZX, Air NZ would require the approval of its shareholders;
- 11 **noted** that the Minister of Finance intends to give a voting undertaking that, if a shareholder vote is required, the Crown would vote in favour;

## Capital raise

- 12 **noted** that the structure of Air NZ's proposed capital raise is:
- 12.1 around [25] and [37] of new equity;
  - 12.2 around \$600 million of medium-term private debt;
  - 12.3 a new \$400 million Crown Standby Facility (CSF-2) available until 31 January 2026;
- 13 **noted** that, as part of the capital raise, the Crown would provide new equity and the CSF-2 debt facility to Air NZ, and the medium-term private debt would not be provided by the Crown;
- 14 **noted** that the intention is for Air NZ's capital raise to be used, in part, to repay the amounts outstanding under CSF-1, which will then be cancelled, and to redeem any redeemable shares that have been issued to the Crown;
- 15 **noted** that the new CSF-2 includes enhanced reporting requirements for Air NZ, and a requirement that the company cannot pay dividends if it draws on CSF-2;
- 16 **agreed** that the Crown participate in the proposed capital raise to maintain the Crown's majority ordinary shareholding and to achieve the government's objectives as stated in paragraph 1 above;
- 17 **authorised** the Minister of Finance and the Associate Minister of Finance (Hon David Parker) to determine whether the commercial aspects of the deal are satisfactory and, therefore, to take the final decision for the Crown to participate in the equity raise, in line with the appropriations outlined in paragraphs 23 and 27 below;
- 18 **noted** that:
- 18.1 the Crown, as part of the proposed capital raise, will be requested by Air NZ to pre-commit to taking its allocation of ordinary shares in the equity raise, before any other investors;
  - 18.2 the Crown will charge Air NZ a fee of 0.5 percent of the Crown equity contribution as a pre-commitment fee, which would result in the Crown receiving a fee of around \$3 million;
- 19 **noted** that the Minister of Finance, as the Minister responsible for the administration of the Public Finance Act 1989, is the Minister with the statutory power under section 65L of that Act to lend money to Air NZ if the Minister determines it to be necessary or expedient in the public interest to do so;
- 20 **noted** that it is the current intention of the Minister of Finance to make a decision under section 65L of the Public Finance Act 1989 as to whether to amend CSF-1 as outlined in paragraph 7 above and whether to make available a new \$400 million Crown Standby Facility (CSF-2);

## Financial implications

21 **agreed** to establish the following new annual appropriations:

Vote	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	Subscription for Non-Voting Redeemable Shares in Air New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to the subscription for non-voting redeemable shares in Air New Zealand.
Finance	Minister of Finance	Subscription for Ordinary Shares in Air New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to the subscription for new ordinary shares in Air New Zealand.

22 **agreed** to establish the following new multi-year appropriation, to run from 1 March 2022 to 30 June 2026:

	Appropriation Minister	Title	Type	Scope
Finance	Minister of Finance	Crown Standby Loan Facility for Air New Zealand	Non-Departmental Capital Expenditure	This appropriation is limited to loans to Air New Zealand.

23 **approved** the following change to appropriations to reflect the Crown's participation in Air NZ's planned capital raise, each with a corresponding impact on net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & outyears
Non- Departmental Capital Expenditure: Subscription for Non-Voting Redeemable Shares in Air New Zealand	1,000	-	-	-	-
Non- Departmental Capital Expenditure: Subscription for Ordinary Shares in Air New Zealand	[25] and [37]	-	-	-	-
<b>Total Capital</b>		-	-	-	-

- 24 **approved** the following change to appropriations to reflect the reduction in the size of CSF-1 to \$1,000 million, with a corresponding impact on net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)	
	2021/22 to 2024/25	2025/26 & Outyears
Multi-Year Appropriation Non-Departmental Capital Expenditure: COVID-19: Loans to Air New Zealand	(500.000)	-

- 25 **approved** the extension of the term of the existing multi-year appropriation in Vote Finance for CSF-1, titled *COVID-19: Loans to Air New Zealand*, to 30 June 2024;

- 26 **approved** the following change to appropriations to reflect the terms of CSF-2, with a corresponding impact on net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)	
	2021/22 to 2025/26	2026/27 & Outyears
Non-Departmental Capital Expenditure: Crown standby loan facility for Air New Zealand	400.000	-

- 27 **authorised** the Minister of Finance and the Associate Minister of Finance (Hon David Parker) to increase the amount of the relevant appropriations for:

27.1 the Crown to subscribe for ordinary shares in Air NZ by a maximum of [25], [37] and [38] if the size of Air NZ's equity raise increases, in order to maintain the Crown's 51 percent ordinary shareholding in the company;

27.2 the new Crown standby loan facility for Air NZ, CSF-2, by a maximum of [25], [37] and [38] if necessary;

- 28 **noted** that as CSF-2 is a revolving credit facility, if Air NZ draws on the loan and then subsequently repays it, under the proposed terms of the facility agreement the amount available under the facility increases by the amount of any repayments;

- 29 **authorised** the Minister of Finance and the Associate Minister of Finance (Hon David Parker) to increase the amount of the appropriation for CSF-2, to reflect any drawdowns and repayments of the loan by Air NZ;

- 30 **noted** that there will be an increase in net core Crown debt from the funding to subscribe for ordinary shares in Air NZ to achieve the Crown's targeted 51 percent ordinary shareholding in Air NZ post the equity raise;

- 31 **noted** that there will be an initial increase in net core Crown debt as a result of the Crown subscribing for redeemable shares in Air NZ;

- 32 **noted** that there would only be an initial impact on net core Crown debt from the new CSF-2 to Air NZ if this loan were drawn by the company, and if drawn, this impact would reverse over the term of the loan;
- 33 **noted** that there will be a decrease in net core Crown debt when the existing CSF-1 is repaid by Air NZ once the company receives the proceeds from the capital raise, and also when any redeemable shares issued are repaid, which Air NZ is expected to do after the capital raise;
- 34 **agreed** that the capital expenditure in paragraph 23 above for the Crown's subscription for new ordinary shares in Air NZ be a charge against the Multi-year Capital Allowance;
- 35 **noted** that as the CSF-2 and the subscription for redeemable shares will be established on a commercial basis and, if drawn, are expected to be repaid within ten years, there is no impact on Budget allowances;
- 36 **agreed** that the changes to appropriations above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 37 **noted** that as CSF-2 is not expected to be drawn on, there is no indicative spending profile for this appropriation.

Janine Harvey  
Committee Secretary

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**Present:**

Hon Grant Robertson (Chair)  
Hon Dr Megan Woods  
Hon David Parker  
Hon Nanaia Mahuta  
Hon Poto Williams  
Hon Damien O'Connor  
Hon Stuart Nash  
Hon Kris Faafoi  
Hon Willie Jackson  
Hon Dr David Clark  
Hon Meka Whaitiri  
Hon Phil Twyford  
Rino Tirikatene, MP  
Dr Deborah Russell, MP

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV