

Commercial: Secret

CAB Min (01) 23/20

Air New Zealand: Options

On 30 July 2001 Cabinet:

Background

- 1 noted the contents of the submission tabled by the Minister of Finance and the Minister of Transport, "Air New Zealand: Options", and the briefing from the Minister of Finance on the submission;
- 2 noted that Air New Zealand (Air NZ) is to announce its financial results for 2001 on 4 September 2001, and that it is imperative that it be able to present a credible recovery plan to the market on that date;
- 3 agreed that officials progress the following two options with Air New Zealand, with a view to securing ultimately the one that presents the greatest net benefits for Air NZ and New Zealand:
 - 3.1 Singapore Airlines (SJA) increasing its equity stake to 35%, the Crown purchasing a 10% equity stake, and the "A" and "B" shares being merged; and
 - 3.2 Air NZ selling Ansett Australia to SIA, and Qantas purchasing the 25% stake in Air NZ currently held by SIA, and possibly the 30% BIL stake to be held in a Trust structure;

Further Work

- 4 agreed that an ad hoc group of Ministers be established, comprising the Minister of Finance (lead), Prime Minister, Deputy Prime Minister, Minister of Tourism and the Minister of Commerce, and the Minister of Transport, with delegated authority to approve a negotiations strategy, and any required changes to that strategy during the negotiations phase;
- 5 directed officials to report back to the ad hoc Ministerial group as soon as possible, seeking approval for a negotiating strategy, and a mandate to commence discussions and negotiations with Air NZ, SIA and Qantas, as appropriate;
- 6 directed officials to report back to the ad hoc Ministerial group with progress reports, and to seek agreement to a package that will be represented in a Heads of Agreement between Air New Zealand, the Crown, and either Qantas or SIA, following consideration by Cabinet (see paragraph 12);

Funding for Further Work

- 7 noted that specialist expertise would be needed in the negotiations;

- 8 approved the following changes to appropriations to enable the contracting of the necessary skills onto the Crown's negotiation team, with the following impact on the Government's operating provisions:

| Vote Finance | \$m — increase | | | | | |
|---|----------------|---------|---------|---------|----------|------|
| | 2001/02 | 2002/03 | 2003/04 | 2004/05 | Outyears | GST |
| Departmental Output Class 9 Policy Advice Policy Advice (funded by revenue Crown | 1.125 | - | - | - | - | Incl |

- 9 noted that the net fiscal impact of the decision in paragraph 5, of \$1,125 million (GST inclusive) in 2001/02, will be a charge against the 2001/02 contingency;
- 10 agreed that the increase in appropriation in paragraph S above be included in the 2001/02 Supplementary Estimates and that, in the interim, the expenses be met from Imprest Supply;
- 11 authorised the Ministers of Finance and Transport to approve fiscally neutral transfers of up to \$1.0 million (GST exclusive) to allow this funding to be transferred as appropriate, so that the costs of negotiations can be met where they fall;

Next Steps

- 12 invited the Minister of Finance and the Minister of Transport to submit details of the final package to Cabinet for approval;
- 13 noted that the negotiation should be complete, and a Heads of Agreement signed, by Friday 24 August 2001 at the latest.

Secretary

Reference: Paper, "Air New Zealand: Options" tabled by the Minister of Finance and the Minister of Transport