Air New Zealand is expected to cut some services

The New Zealand government will resume ownership of the national airline, Air New Zealand, which went private 12 years ago.

Finance Minister Michael Cullen said the government was going to take over 83% stake in the company and unveiled an NZ$885m (US$354m) taxpayer-funded package to save the ailing airline.

Air New Zealand is vital to the country's lucrative tourism industry, which provides jobs for about 10% of the population.

The company is to receive the capital in the form of a NZ$585m ($234m) equity injection and a NZ$300m ($120m) loan that will later be converted to shares.

Shareholders' stakes slashed

"The recapitalisation agreement contains arrangements that will enable Air New Zealand to start a process of recovery from the severe setbacks it has suffered on several fronts," Air New Zealand acting chairman Jim Farmer said in a statement.

The deal slashes the stakes of two major shareholders, Singapore Airlines and Brierley.

Singapore Airlines' stake shrinks from 25% to 4.3%, and Brierley's 30% holding is cut to...
just 5.2%.

Mr Cullen told reporters that the government saw itself as a temporary shareholder in Air New Zealand and that it would look for another airline to become a "cornerstone investor".

Ansett folds

Last month - even before the terrorist attack on the United States - the company's subsidiary, Australian domestic carrier Ansett, collapsed.

Some 16,000 people lost their jobs, and Air New Zealand found itself owing up to NZ$675m ($270m) in unpaid salaries and bonuses.

Air New Zealand is expected to announce cuts to its international and domestic network schedules shortly.

Shares in Air New Zealand have been suspended from trading since 27 September.