# HON JUDITH COLLINS KC, MINISTER OF DEFENCE

## DEFENCE FORCE – BOEING 757 AIRCRAFT REPLACEMENT

**October 2025**

This publication provides three Cabinet papers and associated minutes of decision on the Government's decision to replace the New Zealand Defence Force's fleet of Boeing 757s.

The pack comprises the following documents:

- the September 2024 Cabinet paper and associated minute of decision *Defence Force – Boeing 757 Aircraft Replacement: Indicative Business Case* [FPS-24-MIN-0025, FPS-24-SUB-0025],
- the December 2024 Cabinet paper and associated minute of decision *Defence Force – Boeing 757 Aircraft Replacement: Detailed Business Case* [CAB-24-MIN-0497, CAB-24-SUB-0497], and
- the August 2025 Cabinet paper and associated minute of decision *Defence Force Boeing 757 Aircraft Replacement: Project Implementation Business Case* [EXP-25-MIN-0080, EXP-25-SUB-0080].

This pack has been released on the Ministry of Defence website, available at: www.defence.govt.nz/publications/.

It has been necessary to withhold certain information in accordance with the following provisions of the Official Information Act 1982. Where information is withheld, the relevant sections of the Act are indicated in the body of the document. Information is withheld where making it available would be likely to prejudice:

- the security or defence of New Zealand or the international relations of the Government of New Zealand [section 6(a)], and
- the entrusting of information to the Government of New Zealand on a basis of confidence by the government of any other country [section 6(b)(i)].

Information is also withheld in order to:

- protect information that would be likely to unreasonably prejudice the commercial position of the person who supplied or is the subject of the information [section 9(2)(b)(ii)]
- maintain the effective conduct of public affairs through the free and frank expression of opinions [section 9(2)(g)(i)]
- maintain the confidentiality of advice tendered by Ministers of the Crown and officials [section 9(2)(f)(iv)], and
- enable a Minister of the Crown or any department to carry on, without prejudice or disadvantage, negotiations [section 9(2)(j)].

Where information is withheld under section 9(2) of the Act it is not considered that the public interest outweighs the need to protect it.

As per usual process, Cabinet was provided with estimated costs and delivery timeframes that were subsequently superseded. During the early stages of this procurement process, Cabinet was also provided with the option for an interim capability solution. This interim solution was not pursued.

# Cabinet Foreign Policy and National Security Committee

## Minute of Decision



## Defence Force - Boeing 757 Aircraft Replacement: Indicative Business Case

**Portfolio** **Defence**

On 17 September 2024, the Cabinet Foreign Policy and National Security Committee:

1 **noted** that strategic air mobility aircraft underpin a broad range of Defence operations and enable New Zealand to support its security interests across the globe;

2 **noted** that the fleet of two Royal New Zealand Air Force Boeing 757 aircraft are degrading, reaching their planned withdrawal date, and that:

2.1 replacement aircraft are needed; and

2.2 the New Zealand Defence Force needs a capability that is supportable throughout its life and can undertake strategic air transport missions;

3 **agreed** to the following short-list of options, to be considered in a Detailed Business Case (DBC):

3.1 Do Nothing: 2x Boeing 757;

3.2 Do Minimum: 2x Military Medium Aircraft;

3.3 Do Some: 2x Civilian Medium Aircraft;

3.4 Do More: 2x Civilian Heavy Aircraft;

3.5 Do Most: 2x Military Heavy Aircraft;

4 **noted** that officials would look into further possible delivery options, in accordance with the shortlist in paragraph 3, for inclusion in the DBC, including potential support from international partners and leasing options;

5 **noted** that at this stage, the preferred way forward recommended by Defence is 'Do Some', which has an estimated whole of life cost of s9(2)(g)(i) over 30 years, and will require a capital injection of up to $637 million and additional operating funding;

6 **noted** that agreeing to further investigate the short-list does not pre-commit Cabinet to any future decisions or imply agreement to funding;

7 **noted** that Defence is investigating the potential for interim replacement aircraft;

8 **directed** Defence to prepare a DBC from the agreed shortlist of options, that will refine and look at additional opportunities to reduce costs and recommend a preferred option for Cabinet consideration.

Jenny Vickers
Committee Secretary

**Present:**
Rt Hon Christopher Luxon
Rt Hon Winston Peters (Chair)
Hon David Seymour
Hon Nicola Willis
Hon Judith Collins
Hon Mark Mitchell
Hon Todd McClay
Hon Nicola Grigg

**Officials present from:**
Office of the Prime Minister
Officials Committee for FPS
Office of the Chair of FPS

Office of the Minister of Defence

Cabinet Expenditure and Regulatory Review Committee

# DEFENCE FORCE: BOEING 757 AIRCRAFT REPLACEMENT - INDICATIVE BUSINESS CASE

## Proposal

1 This paper seeks Cabinet approval for the overall approach to replacing the two Boeing 757 aircraft operated by the Royal New Zealand Air Force (RNZAF) and for Defence to begin work on a Detailed Business Case (DBC) to analyse the shortlisted options and recommend a preferred option, potentially including an interim solution.

## Relation to government priorities

2 The replacement of the Boeing 757 aircraft fleet will ensure New Zealand maintains the sovereign capability to deploy New Zealand Defence Force (NZDF) personnel, deliver freight such as humanitarian aid, and transport government trade and diplomatic delegations quickly, reliably, over long distances and into austere environments at short notice.

## Executive Summary

3 The Boeing 757s are 32 years old. They are breaking down more often, experiencing increased unscheduled maintenance and routine maintenance is taking more time to resolve. The cost of running the aircraft is increasing as maintenance issues worsen and spare parts become harder to source.

*New Zealand needs to maintain a sovereign strategic air transport capability*

4 The two Boeing 757 aircraft provide Defence's sovereign 'strategic air mobility' capability. Strategic air mobility missions are generally long-range flights outside of contested or hostile airspace, landing at airfields with supporting infrastructure. Sovereign aircraft are owned and registered to a government rather than a commercial or private entity, providing certain privileges only afforded to government aircraft.

5 The strategic air mobility capability contributes to defence, foreign and trade policy objectives. This includes the transportation of troops and equipment to coalition military operations, evacuation of civilians and transportation of important Government and trade delegations. This capability provides the government's fastest, most responsive, and flexible method of deploying personnel and certain types of freight for military as well as humanitarian and disaster relief operations over long distances.

6 In addition, the aircraft work within the Antarctic Treaty System providing flights to Antarctica and assistance to New Zealand's diplomatic and trade efforts by providing on-call transportation for high priority passengers.

7 s6(a)

*A short-list of options to replace the Boeing 757s has been developed*

8 Defence has prepared an Indicative Business Case (IBC) to replace the Boeing 757 fleet which developed a short list of option in consultation with industry, the wider New Zealand government and military partners.

9 Analysis of the short-list has determined procurement of two medium-sized commercial aircraft as the preferred way forward. These aircraft will likely be commercial off the shelf, avoiding major bespoke modifications. The preferred way forward will be tested in the DBC.

10 The DBC will also outline ownership, leasing, financing, second hand vs new and service delivery options as well as how Defence may work with other industry partners including Air New Zealand to deliver the aircraft.

*Accelerating delivery*

11 A formal Request for Information (RFI) has been released and Defence is currently analysing responses. The RFI will also seek details from industry on more immediately available second-hand options, how to accelerate the delivery of new aircraft, or an interim solution. The information gained from this request, along with other market research, will be used to develop the DBC.

12 I have directed Defence to initiate the replacement of the Boeing 757s ahead of the Defence Capability Plan (DCP). I have made this decision as the increasing maintenance burden is affecting Defence operations and Government business. The current state of the aircraft industry means there are long lead times between order placement and the arrival of newly built aircraft to customers.

*Next steps*

13 If Cabinet agrees, Defence will continue to work with industry to confirm detailed information on the short-listed options to inform a DBC with a preferred option for Cabinet consideration. The DBC will also indicate if there is potential for an interim solution, and any related costs.

**Background**

14 The New Zealand Defence Force (NZDF) conducts air transport missions in support of military operations and other government tasks. These air transport missions are primarily carried out using the tactical air mobility fleet, currently

the C-130J fleet of five aircraft, and the strategic air mobility fleet, currently the Boeing 757 fleet of two aircraft.

*RNZAF C-130J – Tactical Air Mobility*

*RNZAF Boeing 757 – Strategic Air Mobility*

15 Tactical air mobility aircraft generally have a range of less than 3,000 nautical miles and are used predominantly for military operations in hostile or austere environments. Modern strategic air mobility aircraft usually have a range of over 5,000 nautical miles. Accordingly, strategic air mobility missions are generally long-range missions between nations or continents outside of contested or hostile airspace, landing at regular airfields with supporting infrastructure.

16 An example of a military operation involving the strategic air mobility capability is Operation Tieke supporting the defence of Ukraine. This operation involved using the Boeing 757 fleet to transport over one hundred NZDF personnel to the United Kingdom to provide military training to Ukrainian volunteers. This type of transportation, whilst possible with tactical air mobility aircraft, would take considerably longer and require more flights.

17 Deployments like Operation Tieke would also be possible on a commercial airline. The drawback of using a commercial airline is responsiveness and operational security. Use of military aircraft with military aircrew allows the operation to be planned around what timing works best to complete the mission rather than relying on the scheduled flights of the airline or when a chartered aircraft can be made available. Military aircraft also allow the passengers to be transported alongside hazardous cargo such as weapons and ammunition.

18 The tactical fleet has already been replaced (CAB-20-MIN-0251 refers), with the new C-130Js now entering into service in 2024.

**Replacing the Boeing 757s**

*The Boeing 757s are becoming increasingly difficult to maintain and expensive to support*

19 The current Boeing 757 fleet were second-hand commercial airliners purchased in 2003, originally manufactured in 1992, and later modified to include a cargo door. These aircraft can transport pallets of freight and around 150 passengers. The interior of the aircraft can be modified to carry purely freight, purely passengers, medical stretchers or a combination of all three.

20 Due to their age, the Boeing 757s have become more prone to breakdowns and unscheduled maintenance issues. Scheduled maintenance is also taking longer to complete, for example the most recent heavy maintenance check took 27 weeks to complete, two and a half times as long as planned. Increasing unscheduled maintenance events are further impacting aircraft availability. As the aircraft continue to age, the number of breakdowns will increase and spare parts will become increasingly difficult to source.

21 The Boeing 757 fleet has a planned withdrawal date of 2030. The specific engines the RNZAF use on the fleet are no longer manufactured. The aircraft type and the engines are also not used by any partner militaries or civilian airliners in our region. Furthermore, the global fleet of Boeing 757s is declining as nations and commercial airlines retire them. These factors are steadily increasing the cost and availability of spare parts and maintenance, as well as the time it takes to make repairs and conduct even the scheduled routine maintenance and checks. As of 2022, the cost per flying hour of the Boeing 757 fleet has increased on average 26% per annum over the previous 9 years.

*New Zealand needs to maintain a sovereign air transport capability to carry out a large range of government tasks*

22 Strategic air mobility aircraft are used for missions which require rapid movement over long range beyond the South Pacific. These tasks range from more traditional military roles to support for civilian tasks. Figure 1 provides an overview of the tasks performed by the strategic mobility aircraft.


*Figure 1: Examples of tasks performed by the strategic air mobility.*

23 Sovereign military aircraft are valuable for strategic mobility due to their *legal status, flexibility,* and *availability.*

23.1 The legal status of a sovereign military aircraft provides important protections. s6(a)

23.2 Sovereign aircraft are available to fly wherever directed by the Defence Force and the government. This arrangement allows the Boeing 757 fleet to fly to locations where commercial airliners cannot or do not operate. The ability to fly to these locations at short notice affords flexibility not provided by non-sovereign aircraft. An example of these types of missions are the flights to Antarctica that the Boeing 757s carry out each year in support of Scott Base and the bases of other nations.

24 The *availability* and *flexibility* of a sovereign air transport capability is also valued for non-military missions. When an aircraft is fully government operated, diplomatic and trade missions can build their itinerary around the value it will bring to New Zealand rather than being constrained by commercial flight schedules.

*There are a number aircraft types that can deliver a new Strategic Air Mobility Capability*

25 A fixed-wing aircraft remains the only viable way to deliver the outputs that the current strategic air mobility capability offers. Other forms of transport do not have the same combination of range, capacity and speed provided by fixed wing aircraft. When looking at options to replace the Boeing 757s, there are two broad categories; those aircraft of a military design and those aircraft of a civilian design. Within those categories there are a number of aircraft types.

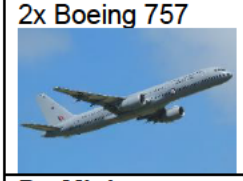
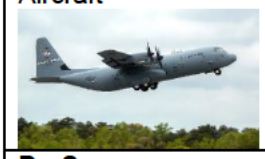
26 Defence consulted internally and with the wider New Zealand Government to identify investment objectives and critical success factors to narrow the field of options. Meetings were subsequently held with partner nation militaries, commercial airlines such as Air New Zealand and with aircraft manufacturers in order to understand the market.

27 At this stage, a key planning assumption is that the solution will require two aircraft. This assumption is in place from studies carried out to decide the optimum fleet mix when paired with the five new C-130J aircraft. Given that aircraft require extensive maintenance, it is necessary to have two aircraft to maximise availability. This assumption will be revisited in the DBC.

28 As part of preparing the IBC, Defence analysed a long list of 17 options, considering not just what type of aircraft the project would deliver, but also ownership, financing, timing and service delivery. This followed best practice process for options assessment laid out by The Treasury. This Long List was then analysed to narrow it down to a short list, which can be found in Table 1 below.

29 Note the images used in the short-list are generic examples and the costs are indicative only and based on informal engagement with a limited number of industry partners. The RFI will provide a broader view of the market and the most up to date cost information for the DBC.

*Table 1: Short-List of Options*

| Option | (Escalated, $millions) | | | | Recommendation |
|---|---|---|---|---|---|
| | Initial Capital | Through life Capital | Operating | Whole of Life | |
| **Do Nothing:** 2x Boeing 757  | nil | s9(2)(b)(ii), s9(2)(j) | | | Short-listed |
| **Do Minimum:** 2x Military Medium Aircraft  | | | | | Short-listed |
| **Do Some:** 2x Civilian Medium Aircraft s9(2)(j) | | | | | **Preferred way forward** |
| **Do More:** 2x Civilian Heavy Aircraft s9(2)(j) | | | | | Short-listed |
| **Do Most:** 2x Military Heavy Aircraft s6(a) | | | | | Short-listed |

30 The key benefits and drawbacks of these options are:

30.1 *Do nothing:* Retain the current strategic air mobility capability. This option would result in the eventual loss of a strategic air mobility capability for the NZDF when the Boeing 757s are removed from service. The existing C-130J fleet could carry out some tasks, however it would not be suitable for longer haul flights. As a military designed aircraft, the C-130s have austere interiors and a military exterior not suitable for most government delegation flights.

[1] This cost is only calculated out to planned withdrawal date of 2030.
[2] This cost is only calculated out to planned withdrawal date of 2030.
[3] Civilian Heavy aircraft may require s9(2)(g)(i), this is included in the initial capital cost.
[4] Military Heavy aircraft may require s9(2)(g)(i), this is included in the initial capital cost.

30.2 *Military medium:* Acquiring these aircraft would provide a larger and common fleet to the NZDF for air transport (these aircraft would likely be the same as the existing fleet of Hercules C130-J). As stated above, these aircraft are slower, would require multiple stops to refuel for longer haul flights, and are less comfortable than civilian airliners. These aircraft are not suitable for most government delegations.

30.3 *Civilian medium:* Newer civilian medium aircraft have increased range over the current fleet. As these aircraft are most like the current Boeing 757 fleet, there would be little change to existing training and infrastructure requirements. There would also be synergies with other New Zealand-based aircraft in terms of spares, repairs and maintenance. The main drawback of this option is the continued lack of oversized freight transport such as the transportation of large military vehicles by air. Transportation of large military vehicles by air would continue using current charter and partner arrangements.

30.4 *Civilian Heavy:* These aircraft have increased range and speed over smaller aircraft as well as increased passenger and cargo capacity. There would be synergies with New Zealand-based aircraft fleets. However, they have a higher cost, including the possible need for new infrastructure to accommodate the increased size. The aircraft provide no oversize freight capability such as the transportation of helicopters.

30.5 *Military Heavy:* These aircraft can move a large amount of freight (including oversized freight such as helicopters) and personnel over long distances into austere and hostile environments. Almost all of our partner militaries possess an aircraft of this type. Military aircraft would not be suitable for the transportation of trade and diplomatic delegations given their military design and austere interiors. Like the civilian heavy aircraft, this may also need new infrastructure to accommodate the increased size.

31 Based on the short-list above, the current preferred way forward is the delivery of two civilian medium aircraft. This option will deliver a similar passenger capability to the current Boeing 757 fleet and whilst it can carry cargo, unlike the 757s, it lacks the capability to transport palletised freight.

32 Options such as shared ownership, leasing, new vs second-hand and service delivery will be considered in the DBC.

33 While new aircraft are costed in Table 1 above, the DBC will consider other options such as second-hand or leased aircraft. The RFI to industry may return information on aircraft that meet some specific requirements but are not present in the short list, such as small civilian jets. These will also be assessed in the DBC.

*Investigating an interim solution*

34 Due to the current state of the aircraft market, there are long lead times on the delivery of new aircraft, which can be as long as seven years. Because of this,

the currently published RFI is seeking details an interim solution, including from aircraft leasing companies and second-hand aircraft vendors. The DBC will present options for this interim aircraft if one is available.

35 Increased breakdowns are severely impacting Defence operations and Government business. It is because of this that I have directed this project to initiate ahead of the Defence Capability Plan. s9(2)(g)(i)

**Financial Implications**

36 Along with the aircraft, Defence has included costs for maintenance, training, personnel, infrastructure and logistics. Costs for through-life upgrades have also been factored in to provide a complete picture. The estimated whole of life costs over 30 years for the preferred way forward are below.

*Table 2: Preferred Way Forward Indicative Costs*

| Costs (escalated) | $millions |
|---|---|
| Initial capital | s9(2)(b)(ii), s9(2)(j) |
| Through-life upgrades (capital) | |
| Operating | |
| Whole of life cost | |

37 Steady state depreciation and capital charge expenditure per year for the preferred option is summarised in the table below.

*Table 3: Indicative Depreciation and Capital Charge Costs*

| Costs | $millions |
|---|---|
| Depreciation | s9(2)(f)(iv) |
| Capital Charge | |

38 The cost pressures facing the NZDF will limit the ability to absorb additional operating costs. The NZDF therefore intends to seek a baseline operating uplift for any operating expenditure impact of this investment. The DBC will provide more accurate estimates of the additional baseline operating uplift.

39 I intend, subject to the outcomes of the RFI, to seek funding for this investment in Budget 25 s9(2)(g)(i) following consideration of a DBC before the end of the year. I will seek up to $637 million capital injection and associated additional operating funding required for two newly built aircraft, accompanying support equipment and spares.

s9(2)(j)

40 The currently published RFI is seeking accurate costings and availability for suitable aircraft consistent with the shortlisted options in the IBC. The results of this will be presented within the DBC.

41 The final investment proposal may need to be revised to align with subsequent DCP decisions.

## Risks

42 The main risks identified for the Boeing 757 replacement are as follows:

42.1 Should the project not proceed, the Boeing 757 fleet will continue to become increasingly expensive to operate and maintain, break downs will increase in frequency and compulsory refurbishments such as a planned future overhaul of the landing gear will be required, further driving up costs and decreasing availability. This will leave New Zealand with an increasingly unreliable strategic air mobility capability.

42.2 s9(2)(g)(i)

## Project Assurance

43 The Future Air Mobility Capability Project is being delivered under Defence's Capability Management System, which has been developed in alignment with international best practice specifically to deliver defence capability. The Capability Governance Board includes two independent external members.

## Next Steps

44 If Cabinet agrees, Defence will continue to work with industry to confirm detailed information on the short-listed options to inform a DBC with a preferred option for Cabinet consideration. The following are the next project milestones. Once the RFI is assessed, aircraft delivery dates will be included.

*Table 4: Governance Milestones*

| Milestone | Date |
|---|---|
| Detailed Business Case | Q4 2024 |
| Project Implementation Business Case | Q3 2025[6] |

## Use of External Resources

45 No external resources were used in the development of the advice present in this paper.

[6] Assuming funding in B25

## Consultation

46 This paper was prepared by the Ministry of Defence and the New Zealand Defence Force. It has been consulted with The Treasury, Department of Prime Minister and Cabinet, Antarctica New Zealand, the Ministry of Foreign Affairs and Trade, the National Emergency Management Agency, New Zealand Police, Fire and Emergency New Zealand, and Maritime New Zealand.

## Proactive Release

47 This paper will be proactively released.

## Recommendations

The Minister of Defence recommends the Committee:

1 **note** that strategic air mobility aircraft underpins a broad range of Defence operations and enables New Zealand to support its security interests across the globe;

2 **note** the fleet of two Royal New Zealand Air Force Boeing 757 aircraft are degrading and reaching their planned withdrawal date and replacement aircraft are needed and that the New Zealand Defence Force needs a capability that is supportable throughout its life and can undertake strategic air transport missions;

3 **agree** to the following short-list of options, to be considered in a Detailed Business Case:

3.1 **Do Nothing:** 2x Boeing 757

3.2 **Do Minimum:** 2x Military Medium Aircraft

3.3 **Do Some:** 2x Civilian Medium Aircraft

3.4 **Do More:** 2x Civilian Heavy Aircraft

3.5 **Do Most:** 2x Military Heavy Aircraft

4 **Note** that at this stage the preferred way forward recommended by Defence is *Do Some*, which has an estimated whole of life cost (WOLC) of s9(2)(j) over 30 years and will require a capital injection of up to $637 million and additional operating funding;

5 **note** that agreeing to further investigate the short-list does not pre-commit Cabinet to any future decisions or imply agreement to funding;

6 **note** that Defence is investigating the potential for interim replacement aircraft; and

7 **direct** Defence to prepare a Detailed Business Case that will recommend a preferred option for Cabinet consideration.

Authorised for lodgement

Hon Judith Collins KC

Minister of Defence

# Cabinet

## Minute of Decision



## Defence Force - Boeing 757 Aircraft Replacement: Detailed Business Case

**Portfolio** **Defence**

On 16 December 2024, following reference from the Cabinet Expenditure and Regulatory Review Committee, Cabinet:

### Background

1 **noted** that in September 2024, the Cabinet Foreign Policy and National Security Committee agreed to a short-list of options for the replacement of the two Royal New Zealand Air Force Boeing 757 aircraft, and directed officials to prepare a Detailed Business Case for Cabinet's consideration [FPS-24-MIN-0025];

2 **noted** that a continued strategic air mobility capability is needed to support New Zealand's defence, policy, and trade objectives;

### Long term solution

3 **noted** that Defence has reassessed the short-list of options following the results of market engagement, and has developed and assessed options for ownership arrangements and aircraft models;

4 **agreed** that the preferred long-term option for the Future Air Mobility Capability – Strategic Project be two civilian medium aircraft, either the Airbus A321 LR/XLR or Boeing 737 Max 8;

5 **noted** that two procurement options are being considered: lease-to-buy, and direct purchase;

6 **noted** that based on a lease to purchase arrangement, the Minister of Defence will be seeking approximately $542.0 million capital and $100.6 million in operating funding for the New Zealand Defence Force (NZDF) at Budget 2025, as part of the Defence Capability Plan funding process, to fund this long-term capability, subject to the finalisation of these costs in the Project Implementation Business Case;

7 **noted** that:

7.1 the capital costs outlined in the paper under CAB-24-SUB-0497 are predominantly denominated in USD, and fluctuations in the exchange rate between now and approval of the Project Implementation Business Case will impact the NZD cost of the project;

7.2 contingency for movements in foreign exchange rates of up to s9(2)(j) may therefore be required;

8 **noted** that the non-refundable deposit of approximately s9(2)(j) required to preserve the option to lease-to-buy an Airbus A321LR/XLR in 2027 will be funded from NZDF depreciation reserves;

9 s6(b)(i)

10 **authorised** Defence to release a Request for Proposal to seek suppliers for the preferred long-term and interim solutions selected by Cabinet;

## Interim capability

11 **noted** that Defence has explored options for an interim capability to provide an immediate improvement in reliability until a long-term capability is delivered in late 2027;

12 **noted** that maintaining the current Boeing 757s was found to be the only option affordable within current NZDF funding;

13 **authorised** Defence to seek firm pricing for chartering and leasing a business jet for an interim capability as part of the Request for Proposal, and to present the findings in the Project Implementation Business Case;

## Next steps

14 **directed** Defence to develop a Project Implementation Business Case for the long-term and interim solutions approved by Cabinet, subject to the outcomes of Budget 2025;

15 **noted** that if a finance lease is required, approval will be sought from the Minister of Finance to proceed.

Rachel Hayward
Secretary of the Cabinet

Office of the Minister of Defence

Cabinet Expenditure and Regulatory Review Committee

# DEFENCE FORCE: BOEING 757 AIRCRAFT REPLACEMENT - DETAILED BUSINESS CASE

## Proposal

1 This paper seeks approval of a detailed business case (Annex B) to replace the New Zealand Defence Force's (NZDF) aging Boeing 757 aircraft at a cost of approximately $542.0 million capital and s9(2)(j) in operating (10-year total). I intend to seek funding through Budget 2025. Indicatively $542.0 million capital, $100.6 million in operating and s9(2)(j) contingency for movements in foreign exchange rates between now and the time of Project Implementation Business Case approval.

2 If Cabinet agrees, Defence will release a request for proposal and prepare an implementation business case.

## Relation to government priorities

3 The replacement of the Boeing 757 (B757) fleet will support the Government to maintain its active defence, foreign and trade policy agenda. It will ensure New Zealand maintains the sovereign capability to deploy NZDF personnel, deliver freight such as military equipment and humanitarian aid, and transport government trade and diplomatic delegations quickly and reliably, over long distances at short notice.

## Executive Summary

4 The NZDF has a strategic air mobility capability to transport military personnel and equipment quickly over long distances. This capability is important given New Zealand's geographic distance from the rest of the world. The strategic aircraft (currently B757s) are also used for non-military roles including evacuation of civilians, support to the Antarctic programme, and transportation of government and trade delegations.

5 The B757s are aging. They are breaking down more often and routine maintenance is taking more time to resolve with costs continuing to increase.

6 Following Cabinet's approval of the indicative business case earlier this year, Defence officials approached the market through a request for information. Analysis confirmed the preferred option to replace the B757s as lease or purchase two civilian medium aircraft. There are two main aircraft choices in the market: Airbus A321 (LR or XLR), or Boeing 737 Max 8. The Airbus A321XLR best meets requirements.

7 Aircraft can be procured through lease, lease-to-buy, or direct purchase. Leasing has been discounted as offering the lowest value for money. A key consideration for procurement is timing of aircraft delivery. If Cabinet prefers a delivery by 2027, there are two options:

7.1 Lease-to-buy an Airbus A321. s9(2)(b)(ii) This option would require a non-refundable deposit of approximately s9(2)(j).

7.2 Purchase directly from Boeing. s9(2)(b)(ii)

8 I recommend taking both options through to the next phase to maintain competition between suppliers and maximise value for money for the taxpayer.

9 A further consideration is through life costs, particularly maintenance support. Defence officials have engaged extensively with Air New Zealand to understand cost saving opportunities. s9(2)(b)(ii)

10 If Cabinet agrees to proceed with this project, I will seek indicatively $542.0 million in capital and $100.6 million in operating at Budget 25 for the acquisition and introduction into service of two medium civilian aircraft. This is made up of s9(2)(j) for the aircraft themselves, s9(2)(j) for other capital items such as spare engines and parts and s9(2)(j) of contingency. As a result, fluctuations in exchange rates between now and the time of Project Implementation Business Case approval contingency for movements in foreign exchange rates of s9(2)(j) may be required. Introduction into service costs and foreign exchange contingency requirements will be further refined as part of the development of a Project Implementation Business Case.

11 Defence officials have also investigated options to supplement the B757s for executive air transport until replacement aircraft are delivered and has identified several suitable New Zealand based and registered aircraft. These corporate jet type aircraft carry up to 10 passengers and are available to charter on a trip-by-trip basis. Leasing opportunities have also been identified to provide an aircraft always ready for government tasking. Full costings are not yet available and will be presented as part of the implementation business case.

12 Following approval of this paper Defence officials will go to the market with a Request for Proposals and prepare a Project Implementation Business Case.

**Background**

13 On 23 September 2024 Cabinet agreed to a short list of options for the replacement of the RNZAF's two Boeing 757s. Defence was directed to prepare a Detailed Business Case (DBC) to confirm the preferred option [CAB-24-MIN-0370 refers].

14 Defence has undertaken a Request for Information (RFI) to understand in greater detail the cost and availability of aircraft that could replace the B757. The outcomes of the RFI informed the development of the attached business case.

*Strategic airlift supports military and government objectives*

15 The NZDF's strategic air mobility capability transports military personnel and equipment quickly over long distances. The aircraft (currently B757s) have greater capacity, range, and speed than the NZDF's tactical aircraft (C-130J). The C-130J aircraft are used in conflict areas and carry personnel and heavier equipment over shorter distances. Both types of aircraft are needed given New Zealand's geographic distance from the rest of the world.

16 The strategic aircraft are also used for non-military roles including evacuation of civilians, support to the Antarctic programme, and transportation of government and trade delegations (executive air transport). s9(2)(g)(i)

*Civilian medium aircraft are the preferred option to deliver strategic airlift*

17 As part of the business case process, Defence undertook a more detailed analysis of the costs, benefits and risks of the shortlisted options:

17.1 Do nothing: Maintain the B757s to 2030, after which the C-130J Hercules provides a limited strategic air mobility capability;

17.2 Do minimum: Purchase an additional two C-130J Hercules;

17.3 Do some: Lease or purchase two civilian medium aircraft;

17.4 Do more: Lease or purchase two civilian heavy aircraft; and

17.5 Do most: Purchase two military heavy aircraft.

18 Analysis confirmed two civilian medium aircraft as the preferred option. This option provides aircraft with the best ability to support both military and civilian tasks due to their speed, range and comfort, and ability to access a large number of airfields across the Southwest Pacific. The full options assessment can be found in the Detailed Business Case.

*Available civilian medium aircraft choices are Airbus A321 or Boeing 737 Max 8*

19 There are two main aircraft that meet the civilian medium aircraft requirements. The Airbus A321LR/XLR meets requirements for passenger and cargo capacity, range and speed, and can access most airfields across our region. The Boeing 737 Max 8 meets most of the same requirements. Further detail is presented in the attached Detailed Business Case and the summary table at Annex A of this paper.

20 s9(2)(g)(i)

21 s6(a) [redacted]

*Aircraft can be procured through lease-to-buy and direct purchase*

22 Defence has been directed to accelerate the delivery of replacement aircraft. This acceleration will ensure delivery of aircraft by approximately the second half of 2027 or early 2028 s9(2)(g)(i) [redacted]

23 s9(2)(g)(i) [redacted]

24 Defence has evaluated three key ownership options identified from the Request For Information taking delivery timelines in to account. These are:

24.1 Lease – Defence would lease an aircraft for an agreed period, after which the aircraft is returned to the lessor. This option has the highest cost, based on the cost to return the aircraft at the end of the lease period, and is discounted.

24.2 Lease-to-buy – Defence would lease the aircraft for a period, usually six years or more, after which it would purchase the aircraft. This is the preferred ownership option for an Airbus A321LR/XLR as it allows the earliest delivery date s9(2)(b)(ii) [redacted].

24.3 Direct purchase – The aircraft are purchased directly from the manufacturer and would be owned by the Crown. s9(2)(g)(i) [redacted] s9(2)(b)(ii) [redacted]

25 s9(2)(b)(ii) [redacted]

26 Defence has assessed that the lease-to-buy option is likely to be a finance lease. This would require approval from the Minister of Finance. If this option is recommended in the Project Implementation Business Case, the Minister of Finance's approval will be sought before entry in to any arrangement.

*Preserving the options for delivery of an Airbus A321LR/XLRs in 2027 requires a non-refundable deposit in early 2025* s9(2)(g)(i)

27 If Cabinet's preference is for aircraft to be delivered as quickly as possible, I recommend proceeding with a non-refundable deposit of approximately s9(2)(j) to secure a 2027 delivery of two Airbus A321LR/XLR aircraft through a leasing company. This does not commit Defence to this aircraft but will keep the option open for the Project Implementation Business Case. This deposit will be funded from NZDF depreciation reserves.

*Defence is exploring the potential to support the new aircraft through an innovative arrangement with Air New Zealand*

28 Defence has engaged extensively with Air New Zealand to understand collaboration opportunities. s9(2)(b)(ii)

29 s9(2)(b)(ii)

s6(a)

30 s6(a) s6(b)(i)

31 s6(a)

32 s6(a) s6(b)(i)

*For reliable executive transport in the interim, lease or charter options are available*

33 Defence officials also assessed options to provide an interim capability until new aircraft are delivered to provide an immediate improvement to the reliability of executive air transport for the New Zealand Government. Options include:

33.1 Do nothing: Maintain the B757 fleet until the replacement aircraft is delivered in 2027 at the earliest; or

33.2 Charter: Supplement the B757 fleet with the charter of business jet type aircraft (up to 10 seats) as needed. Based on a charge of s9(2)(g)(i) per flying hour plus ground handling fees, this would cost around s9(2)(g)(i) over two years until late 2027. Ten seats is a lower capacity than needed for executive transport but would provide for critical delegation members. It is expected that the majority of executive travel will continue to be undertaken using the B757 fleet and commercial airlines until the delivery of the long term solution.

34 A third option of supplementing the B757 fleet with the lease of a business jet type aircraft is also currently being investigated. Firm costings for this option will not be available until a Request for Proposal is released.

35 If Cabinet would like to proceed with an interim capability ahead of the delivery of new aircraft in late 2027, I will direct officials to provide further advice on options, based on a Request for Proposal.

36 Having an interim capability is a supplementary service and will not offer reductions in the operating costs of the B757s as the maintenance, flight hours and personnel requirements of the B757s will not be substantially decreased. The cost of the capability would need to be funded through an operating uplift to the NZDF or the agency best placed to administer executive transport.

**Relation to Defence Capability Plan**

37 This project appears in the draft Defence Capability Plan as an investment in Budget 2025. If funding for Defence is constrained in Budget 2025, the project investment could be deferred, based on the ability of the C-130J fleet to partially mitigate any capability gaps (with a resulting impact on other tasking).

**Implementation**

38 Subject to funding being available at Budget 25 I will bring a further paper to Cabinet in mid-2025 seeking approval to enter into a contract for the long term solution and an interim capability.

*Table 1: Key Milestones for the Project*

| Milestone/Activity | Timeframe |
|---|---|
| Request for Proposals released | December 2024 – January 2025 |
| Preferred company selected (and non-refundable down payment made) | March 2025 |
| Project Implementation Business Case to Cabinet | July – August 2025 |
| Arrangement for interim solution finalised | s9(2)(j) |
| Contract for long term solution signed | |
| Long term solution reaches initial operating capability, B757 withdrawn and interim solution concluded | |

## Financial Implications

39 The financial implication of this paper is the deposit of approximately s9(2)(j) to preserve the option to lease-to-buy an Airbus A321LR/XLR in 2027. This will be funded from NZDF depreciation reserves.

40 The majority of the project costs are denominated in USD. The exposure to fluctuations in exchange rates can be mitigated once funding has been approved by Cabinet. As a result, fluctuations in exchange rates between now and the time of funding approval will impact the NZD cost of the project. The estimated of cost fluctuations is s9(2)(j) NZD. Consistent with standard practice, the Project Implementation Business Case will provide an updated of contingency required for movement in foreign exchange.

41 Below are expected costs for the long-term solution based on the formal Request for Information received from industry. These costs are based on a lease to purchase arrangement. Indicative funding of approximately $542.0 million in capital, s9(2)(j) contingency for movements in foreign exchange rates and $100.6 million in operating will be sought in Budget 25 subject to approval of a Project Implementation Business Case.

*Table 2: Expected costs for long-term solution*

| $million | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total Forecast Period | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 & outyears | Total (10-Year) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Initial Capital - Aircraft | s9(2)(j) | | | | | | | | | | | |
| Initial Capital - Other | | | | | | | | | | | | |
| Initial Capital - Contingency | | | | | | | | | | | | |
| **Total Capital** | | | | | | | | | | | | |
| Operating - Direct Operating | | | | | | | | | | | | |
| Operating - Lease Costs | | | | | | | | | | | | |
| Operating - Depreciation | | | | | | | | | | | | |
| Operating - Capital Charge | | | | | | | | | | | | |
| **Total Operating** | | | | | | | | | | | | |
| **Total** | | | | | | | | | | | | |

42 Operating costs are being sought to cover direct operating cost pressures, depreciation, capital charge, and the operating portion of the lease costs.

## Climate Implications of Policy Assessment

43 This project has the following estimated carbon emissions:

*Table 3: Estimated Carbon Emissions*

| | **Current fleet**: Two B757 | **Interim Solution:** Two B757 and a business jet | **Long-term solution:** Two Medium Civilian Aircraft |
|---|---|---|---|
| Carbon Emissions (Million kg of $CO_2$ per year) | 22.409 | 22.624 | 12.833 |

## Other Implications

44 There are no cost of living, legislative, population, or human rights implications from this paper.

## Use of External Resources

45 The Ministry of Defence has contracted three commercial aviation subject matter experts to support the development of the Detailed Business Case. These contractors provided insights into commercial aircraft markets and leasing arrangements not held by Defence and assisted with analysing the RFI data.

46 A commercial advisor was contracted to accelerate the release and evaluation of the RFI and develop the commercial approach for the project.

47 The total cost of these external resources was $84,870.

## Consultation

48 This paper was prepared by the Ministry of Defence and the New Zealand Defence Force. It has been consulted with The Treasury, Department of Prime Minister and Cabinet, Antarctica New Zealand, the Ministry of Foreign Affairs and Trade, the National Emergency Management Agency, New Zealand Police, Fire and Emergency New Zealand, and Maritime New Zealand.

## Communications

49 If funded through Budget 25 the communication of this project will be coordinated through the Budget announcement process.

## Proactive Release

50 This paper will be proactively released with appropriate redactions as part of the Budget 2025 proactive release process.

**Recommendations**

The Minister for Defence recommends that the Committee:

1 **note** that on 20 September 2024 Cabinet agreed to a short list of options for the replacement of the two Royal New Zealand Air Force Boeing 757 aircraft [CAB-24-MIN-0370 refers];

2 **note** a continued strategic air mobility capability is needed to support New Zealand's defence, policy and trade objectives;

*Long term solution*

3 **note** that Defence reassessed the short list of options following the results of market engagement, and developed and assessed options for ownership arrangements and aircraft models;

4 **agree** that the preferred long-term option for the Future Air Mobility Capability – Strategic Project is two civilian medium aircraft, either the Airbus A321 LR/XLR or Boeing 737 Max 8;

5 **note** that two procurement options are considered: lease-to-buy and direct purchase;

6 **note** that based on a lease to purchase arrangement, I will be seeking approximately $542.0 million capital and $100.6 million in operating funding for the New Zealand Defence Force at Budget 25 to fund this long-term capability, subject to the finalisation of these costs in the Project Implementation Business Case;

7 **note** that the capital costs in this paper are predominantly denominated in USD, and fluctuations in the exchange rate between now and approval of the Project Implementation Business Case will impact the NZD cost of the project and contingency for movements in foreign exchange rates of up to s9(2)(j) may be required;

8 **note** the non-refundable deposit of approximately s9(2)(j) required to preserve the option to lease-to-buy an Airbus A321LR/XLR in 2027 will be funded from NZDF depreciation reserves;

9 s6(b)(i)

10 **authorise** Defence to release a Request for Proposal to seek suppliers for the preferred long term and interim solutions selected by Cabinet;

*Interim capability*

11 **note** that Defence has explored options for an interim capability to provide an immediate improvement in reliability until a long-term capability is delivered in late 2027;

12 **note** that maintaining the current Boeing 757s was found to be the only option affordable within current Defence Force funding;

13 **authorise** Defence to seek firm pricing for chartering and leasing a business jet for an interim capability as part of the Request for Proposal and present findings in the Project Implementation Business Case;

*Next steps*

14 **direct** Defence to develop a Project Implementation Business Case for the long term and interim solutions approved by Cabinet, subject to the outcomes of Budget 25; and

15 **note** that if a finance lease is required, approval will be sought from the Minister of Finance to proceed.

Authorised for lodgement.

Hon Judith Collins KC
**MINISTER OF DEFENCE**

**Annexes:**

**A.** Aircraft taken forward to the Request for Proposal stage
**B.** Detailed Business Case

## Annex A: Aircraft taken forward to the Request for Proposal stage

1. Defence assessed the available aircraft types to determine which are appropriate to take forward to a Request for Proposals. This assessment was against Defence User Requirements, availability, and potential synergies.

s9(2)(b)(ii)

| | A321 LR (long range) | A321 XLR (extra-long range) | B737-MAX 8 |
|---|---|---|---|
| Range examples | s9(2)(b)(ii) | | |
| Payload (kg) (maximum – no additional fuel tanks) | | | |
| Cargo capacity (m3) (B757 lower deck cargo = 50.5m3) | | | |
| Passenger capacity (Dependent on additional storage, seat pitch, amenities etc.) | | | |
| Antarctica Point of Safe Return (PSR) (B757 is 70%[1]) | | | |
| Availability | | | |
| Synergies | | | |
| Remarks | | | |

[1] The percentage of PSR denotes how far in the flight an aircraft can get to Antarctica before it must turn around to New Zealand or commit to landing in Antartica.

# Cabinet Expenditure and Regulatory Review Committee

## Minute of Decision





## Defence Force Boeing 757 Aircraft Replacement Project: Project Implementation Business Case

**Portfolio** **Defence**

On 12 August 2025, the Cabinet Expenditure and Regulatory Review Committee:

1 **approved** the Future Air Mobility Capability – Strategic Project Implementation Business Case, attached under EXP-25-SUB-0080;

2 **noted** that as part of Budget 25, Cabinet:

2.1 agreed to establish tagged contingencies for the replacement of the two Boeing 757 aircraft currently operated by the Royal New Zealand Air Force:

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(j) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |
| | 2030/31 | 2031/32 | 2032/33 | 2033/34 & outyears | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(j) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |

2.2 noted that the replacement of the Boeing 757 involves a finance lease arrangement, and therefore requires approval by the Minister of Finance under section 47 of the Public Finance Act 1989;

2.3 agreed that drawdown of these contingencies is subject to Cabinet's approval of an Implementation Business Case;

2.4 agreed that the expiry date for the above tagged operating and capital contingencies be 31 March 2026;

[CAB-25-MIN-0126.19]

3 **agreed** to amend the indicative phasing of the tagged operating and capital contingences detailed in paragraph 2 above to be:

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(j) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |
| | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 & outyears |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(j) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |

4 **authorised** the New Zealand Defence Force (NZDF) to enter into a lease-to-purchase agreement with s9(2)(j) for the delivery of two A321 XLR aircraft, subject to the Minister of Finance's approval of the finance lease (being borrowing) under section 47 of the Public Finance Act 1989;

5 **directed** the NZDF to prepare the section 47 finance lease request for approval by Minister of Finance;

6 **noted** that the initial capital cost of the procurement of two Airbus A321 XLR aircraft is $620.526 million, including s9(2)(j) capital contingency and s9(2)(j) foreign exchange contingency;

7 **noted** that $0.538 million has been funded through depreciation reserves;

8 **authorised** the Secretary of Defence to commit and approve expenditure of public money up to s9(2)(j) for the delivery of the future Air Mobility Capability – Strategic (Boeing 757 Replacement);

9 **approved** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the Future Air Mobility Capability – Strategic (Boeing 757 Replacement);

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| Vote Defence<br>Minister of Defence | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** |
| **Multi-Category Appropriation**<br>Defence Capabilities MCA<br>**Non-Departmental Capital Expenditure**<br>Defence Capability Delivery | s9(2)(j) | | | | |
| | **2030/31** | **2031/32** | **2032/33** | **2033/34** | **2034/35 & outyears** |
| **Multi-Category Appropriation**<br>Defence Capabilities MCA<br>**Capital Expenditure**<br>Defence Capability Delivery | s9(2)(j) | | | | |

10 **noted** that the costs in paragraph 9 above are offset by a capital receipt from the NZDF;

11 **approved** the following changes to appropriations to implement the decision in paragraph 3 above, with a corresponding impact on the operating balance and net core Crown debt;

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| Vote Defence Force<br>Minister of Defence | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| **Capital Injection:**<br>New Zealand Defence Force - Capital Injection | s9(2)(j) | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Defence Force Capabilities Prepared for Joint Operations and Other Tasks Multi- Category Appropriation (MCA)<br>**Departmental Output Expense:**<br>Army Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)<br>Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) | | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Protection of New Zealand and New Zealanders (MCA):<br>**Departmental Output Expense:**<br>Military Assistance to Civil Authorities in Non-Emergency Situations (funded by revenue Crown) | | | | | |
| **Total Operating** | | | | | |
| **Total Capital** | | | | | |

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 & outyears |
| **Capital Injection:** New Zealand Defence Force - Capital Injection | s9(2)(j) | | | | |
| **Multi-Category Expenses and Capital Expenditure:** Defence Force Capabilities Prepared for Joint Operations and Other Tasks Multi- Category Appropriation (MCA) **Departmental Output Expense:** Army Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) | | | | | |
| **Multi-Category Expenses and Capital Expenditure:** Protection of New Zealand and New Zealanders (MCA): **Departmental Output Expense:** Military Assistance to Civil Authorities in Non-Emergency Situations (funded by revenue Crown) | | | | | |
| **Total Operating** | | | | | |
| **Total Capital** | | | | | |

12 **agreed** that the changes to appropriations for 2025/26 in paragraphs 9 and 11 above be included in the 2025/26 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

13 **agreed** that the expenses incurred under paragraph 11 above be charged against the "Defence Capability Plan – Future Air Mobility Capability – Strategic (Boeing 757 Replacement)" operating tagged contingency described in paragraph 2 above, and that the capital expenditure incurred under paragraph 11 above be charged against the "Defence Capability Plan – Future Air Mobility Capability – Strategic (Boeing 757 Replacement)" capital tagged contingency described in paragraph 2 above;

14 **noted** that, following the changes detailed in paragraph 11 above, the tagged operating and capital contingencies described in paragraph 3 above are now exhausted and therefore closed, and that the remaining $53.565 million in the operating contingency will return to the centre and will then be closed.

Tom Kelly
Committee Secretary

**Attendance: (See over)**

**Present:**
Hon David Seymour (Chair)
Rt Hon Winston Peters
Hon Chris Bishop
Hon Simeon Brown
Hon Erica Stanford
Hon Paul Goldsmith
Hon Judith Collins KC
Hon Mark Mitchell
Hon Brooke van Velden
Hon Shane Jones
Hon Casey Costello
Hon Chris Penk
Hon Andrew Hoggard
Hon Mark Patterson

**Officials present from:**
Officials Committee for EXP
Office of the Minister of Defence
Office of the Minister of Corrections
Ministry of Defence
New Zealand Defence Force

Office of the Minister of Defence

Cabinet Expenditure and Regulatory Review Committee

# DEFENCE FORCE: BOEING 757 AIRCRAFT REPLACEMENT – PROJECT IMPLEMENTATION BUSINESS CASE

## Proposal

1 This paper seeks approval of the Project Implementation Business Case (Annex A) to replace the New Zealand Defence Force's (NZDF) aging Boeing 757 (B757) aircraft at a cost of $620.526 million capital including s9(2)(j) in foreign exchange contingency. The four-year operating is $80.855 million. Defence seeks Cabinet approval to fund this from the capital and operating tagged contingency established by Cabinet as part of Budget 2025 [CAB-25-MIN-0126.19 refers].

2 If Cabinet agrees, Defence will enter a contract for two Airbus A321 XLR as the replacement aircraft for the two Royal New Zealand Air Force (RNZAF) Boeing 757s.

## Relation to government priorities

3 Replacing the NZDF's aging Boeing 757 aircraft is one of the major 2025-2028 investments included in the 2025 Defence Capability Plan (DCP) [CAB-24-MIN-0011]. These aircraft are necessary to achieve the Government's foreign, defence and trade policy priorities. This investment contributes to New Zealand's active defence policy agenda, enhancing our security and underpinning our prosperity. It also signals that the Government will be vigilant in the protection of the values of democracy, freedom and security.

## Executive Summary

4 The NZDF currently has two B757s to transport personnel and equipment quickly over long distances. This capability is vital given New Zealand's geographic isolation. The aircraft are also used for a variety of civil roles.

5 The current B757s are aging, with frequent breakdowns, and routine maintenance is increasingly expensive and slow. Spare parts for the B757s are also becoming progressively more difficult to source.

6 Following Cabinet's approval of the Detailed Business Case in December 2024 [CAB-24-MIN-0497], Defence officials approached the market through a request for tender to replace the B757 fleet. Analysis of the tender information indicated the preferred aircraft for the RNZAF would be the Airbus A321XLR.

7 Based on Best and Final Offers for Airbus A321XLR (XLRs) suppliers, Defence recommends a lease-to-buy arrangement with s9(2)(j) as the preferred supplier. Upon the completion of the six-year lease, New Zealand will purchase the aircraft outright. Because this arrangement is a finance lease, it constitutes borrowing and it will require approval from the Minister of Finance under section 47 of the Public Finance Act.

8 Throughout the tender process, Defence officials have engaged extensively with Air New Zealand to gain industry knowledge s9(2)(j) , noting that all contract opportunities will be advertised in line with the Government Procurement Rules.

9 This investment can be fully met from the funding set aside as part of Budget 2025. I am seeking Cabinet approval to draw down a tagged contingency of $619.988 million in capital and $80.855 million in operating funding (four-year total) for the acquisition and introduction into service of two A321XLRs. $0.538 million of capital has been funded from depreciation reserves, with the total capital cost being $620.526 million.

10 If Cabinet approves, Defence will, subject to approval of the lease by the Minister of Finance under s.47 the Public Finance Act, enter into contracts with s9(2)(j) for the delivery and fit out of the two aircraft.

11 The first aircraft is scheduled for delivery in s9(2)(j) 2028 and will be available for some operations shortly after. The second aircraft will arrive in s9(2)(j) 2028.

**Background**

12 A Detailed Business Case was approved by Cabinet in December 2024 [CAB-24-MIN-0497] which confirmed two medium civilian aircraft as the preferred class of aircraft to replace the B757 fleet, with either a Boeing 737 or Airbus A321 derivative as the preferred specific aircraft type.

13 Since the approval of the Detailed Business Case, the DCP has been approved by Cabinet. Replacing the B757 fleet is a near term investment in the DCP, and funding for the project as laid out in this Cabinet paper was included in Budget 25.

*Strategic airlift supports military and government objectives*

14 The NZDF's strategic air mobility capability transports military personnel and equipment quickly over long distances. The aircraft (currently B757s) have greater passenger capacity, range, and speed than the NZDF's C-130J Hercules tactical air mobility aircraft. The C-130Js are used in conflict areas and carry personnel and heavier equipment over shorter distances. New Zealand's geographic isolation necessitates both types of aircraft.

15 The strategic aircraft are also used for non-military roles including evacuation of civilians, support to the Antarctic programme, and transportation of government diplomatic and trade delegations (executive air transport). A proportional breakdown of B757 tasking is included in Annex A[2].

[1] s9(2)(b)(ii)
[2] Page 18, Project Implementation Business Case

## Analysis

*The Airbus A321XLR is the preferred option to replace the Boeing 757 fleet*

16 Defence approached the market with a Request for Tender for both airframe and engine selection. Seven proposals were received from a mix of airframe manufacturers and leasing companies. Three aircraft types were proposed by industry, the Airbus A321LR, Airbus A321XLR and Boeing 737-MAX 8. A description of the characteristics of these aircraft can be found at Annex B.

17 Defence concluded that two Airbus XLRs are the most suitable airframe and engine[3] that met requirements and provided the best value for money. The XLR is the only aircraft that meets the core requirements to reach Singapore from Auckland in one flight, and fly to Antarctica with no Point of Safe Return[4].

18 The XLR represents the latest in commercial aircraft technology and is 31% more fuel efficient than the B757s currently in service with the RNZAF.

*A lease to buy arrangement through* s9(2)(j) *was determined to provide the best value for money and delivery timeline*

19 Best and Final Offers from XLR suppliers were requested by Defence. Both lease-to-buy and direct purchase options were considered.

20 s9(2)(j) is the preferred supplier, and lease-to-buy the preferred delivery method. s9(2)(i) are a major aircraft lessor with high levels of experience. s9(2)(j) lease-to-buy proposal provides a s9(2)(b)(ii) lower net present cost pathway to acquisition and ownership than directly purchasing the aircraft on day 1[5]. Table 1 below shows the net present cost for the aircraft under both direct purchase and lease-to-buy options. All other costs are the same regardless of procurement option.

*Table 1: Net Present Cost Table (Aircraft only)*

| Procurement Option | Total Aircraft NZ$m | Net Present Cost NZ$m |
|---|---|---|
| Direct Purchase | s9(2)(b)(ii) | |
| Lease-to Buy | | |

21 The lease-to-buy option will see two XLRs leased for six years, after which the NZDF will purchase the aircraft and take on full ownership. The aircraft will be on the military register and there will be no restrictions on the use of the aircraft over the six-year lease.

[3] s9(2)(b)(ii)

[4] This means the aircraft can fly 100% of the journey to Antarctica and still have enough fuel to return to New Zealand if severe weather prevents the aircraft from landing on the ice.

[5] Net Present Cost (NPC) reflects the time value of money in that a dollar today has more buying power in the future. Future payments are 'discounted' to reflect their cost in today's dollars. For the purposes of selecting the preferred supplier and delivery method, payments were discounted to the expected delivery date of the aircraft s9(2)(j). A lower NPC is the lower cost option over time.

22 The preferred engine will provide the opportunity to access in-country engine support. s9(2)(b)(ii) [redacted]

**Defence Capability Plan Key Considerations**

*What is the most cost-effective and durable option?*

23 The options analysis process indicated that a lease-to-buy option of two XLRs is the most cost-effective and durable option.

*What is the Australian approach, and is there any reason for New Zealand to take a different approach?*

24 The Royal Australian Air Force (RAAF) operates several different strategic air mobility aircraft. Defence analysed Australia's approach and met with Australian officials to understand their capability. Defence excluded the RAAF aircraft types for reasons including the size of the aircraft, cost to operate, or not meeting key operational requirements.

25 Currently, there are no barriers to strategic airlift interoperability with Australia and this is not anticipated to change; the preferred option will be able to seamlessly operate with the RAAF.

*Can we partner with industry to deliver the capability differently?*

26 s9(2)(b)(ii) [redacted]

27 Through life support is subject to future market engagement during the introduction of the aircraft, and domestic industry synergies will be explored. Funding for through life support is included in the project costs.

*What is the minimum viable capability needed?*

28 The recommended option represents the minimum viable capability needed to meet the NZDF's strategic aircraft requirements, with no military adjustments.

## Implementation

29 The first aircraft will arrive in early 2028 with an initial operating capability for the first aircraft released between s9(2)(j) 2028.

*Table 2: Key Milestones for the Project*

| Milestone | Forecasted Completion |
|---|---|
| PIBC Approved by Cabinet | July/August 2025 |
| Contract Signed | s9(2)(j) |
| Delivery of first aircraft | s9(2)(j) 2028 |
| Delivery of second aircraft | 2028 |
| Initial Operational Release | s9(2)(j) |
| Full Operational Release[6] | |

30 Defence investigated earlier production slots but the aircraft fit-out did not meet requirements. The subsequent post-delivery retrofit would be extensive in terms of time and costs due to the structural modifications required. This added cost and time s9(2)(b)(ii) would bring minimal advantage to the earlier production slot offered.

31 The earlier production aircraft would also end up heavier than the preferred option, adversely restricting take-off performance on limited runways such as Whenuapai airfield and limiting maximum take-off weight out of Antarctica.

32 Cabinet directed Defence to consider options for an interim solution in the period before the new aircraft is delivered in case of unexpected breakdowns. Defence does not recommend an interim solution s9(2)(g)(i) s9(2)(b)(ii)

## Financial Implications

33 The lease-to-buy agreement for the procurement of the XLR aircraft meets the definition of a finance lease under the Income Tax Act 2007 and Public Benefit Entity International Public Sector Accounting Standards 13: *Leases*[7] and therefore constitutes borrowing under the Public Finance Act 1989. Minister of Finance approval is therefore required in order to enter into the lease agreement. Generally, a New Zealand domiciled lessee under a finance lease is required to deduct withholding tax on lease payments to an overseas entity. In the present case, the terms of the lease require NZDF (as the lessee) to gross up the payments for any applicable withholding tax in order to compensate the lessor for any such tax withheld. However s.CW 8 of the Income Tax Act 2007 allows the New Zealand government to access an exemption where the lease is to the government, or to a public authority and the lease is not for the purpose of a commercial activity.

[6] The delay for Full Operational Release allows for training and evaluation of the Antarctic flight capabilities.
[7] Public Benefit Entity International Public Sector Accounting Standard

*Funding*

34 As part of Budget 2025, Cabinet established a tagged contingency of $619.988 million in capital funding, and $100.597 million operating funding over the forecast period towards the Future Air Mobility Capability – Strategic (Boeing 757 Replacement) [CAB-25-MIN-0126.19 refers].

*Capital*

35 The initial capital investment cost of the XLR aircraft, appropriate spares and support equipment and introduction into service is calculated at s9(2)(j) A capital contingency of s9(2)(j) and foreign exchange contingency of s9(2)(j) brings the total capital cost to $620.526 million. $0.538 million was funded from depreciation reserves leaving $619.988 to be funded.

36 Capital expenditure from 2025/26 is summarised in Table 1 at Annex C. The spike in capital expenditure in 2033/34 is when the lease ends and Defence purchases the aircraft outright.

37 Funding for the XLR capital investment, including capital and FX contingencies will require capital injections of $619.988 million phased over nine years as set out in Table 3 below.

*Table 3: Capital Injection for the Project*

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** |
| Capital Injection | s9(2)(j) | | | | |
| | **2030/31** | **2031/32** | **2032/33** | **2033/34** | **Total** |
| Capital Injection | s9(2)(j) | | | | **619.988** |

*Through-Life Capital*

38 Through-life capital sustainment costs, the majority of which are anticipated to be incurred beyond 2032 as the aircraft get older and parts require replacing or overhaul, are estimated to be s9(2)(j) over the 25-year life of the aircraft. Funding is not sought for these through-life capital sustainment costs in this Cabinet paper.

*Operating*

39 Total ownership costs of the XLR are less than the B757 as B757 maintenance costs are high and will continue to increase. There is an increase in operating costs for the XLR for the first six years as the interest component of the lease costs are included in operating. Annual direct operating will reduce once Defence owns the aircraft outright.

40 A conservative approach has been taken to costing engine maintenance. While the engines on the XLR will be more reliable and have 31% greater fuel efficiency, Defence has included a high number of repairs in the cost model, with key input from Air New Zealand. This accounts for differences in military

and civil operation of the aircraft and will be revisited through the aircraft's life. Savings made through the increased fuel efficiency of the engines will largely offset the conservatively estimated maintenance cost.

41 Figure 1 shows that total sustainment costs of the XLR are lower than B757.[8]


*Operating Uplift*

42 The total operating expenditure is summarised in Table 2 at Annex C. The operating baseline uplift required is summarised in Table 4 below. This financial uplift will support enhanced availability and preventative maintenance that will reduce through life support costs going forward.[9] This higher availability will support delivery of outputs in the deteriorating strategic environment.

*Table 4: Operating Baseline Uplift*

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | **2025/26** | **2026/27** | **2027/28** | **2028/29** | **2029/30** |
| Total Operating Costs | s9(2)(j) | | | | |
| Current Baseline Funding | | | | | |
| **Operating Baseline Uplift** | | | | | |
| | **2030/31** | **2031/32** | **2032/33** | **2033/34** | **2034/35 & outyears** |
| Total Operating Costs | s9(2)(j) | | | | |
| Current Baseline Funding | | | | | |
| **Operating Baseline Uplift** | | | | | |

43 s9(2)(j)

s9(2)(b)(ii)

s9(2)(j)

44 NZDF will require a depreciation uplift to reflect the value of the A321 XLR. Capital charge will be incurred as a result of the capital injection.

**Other Implications**

45 There are no cost of living, legislative, population, or human rights implications from this paper.

**Use of External Resources**

46 Six consultants were engaged to deliver commercial work. They represent subject matter expertise from the aviation industry, probity specialists and commercial experts. A total of $665,384 was spent on consultants.

**Consultation**

47 This paper has been consulted with The Treasury, Department of Prime Minister and Cabinet, Antarctica New Zealand, the Ministry of Foreign Affairs and Trade, the National Emergency Management Agency, New Zealand Police, Fire and Emergency New Zealand, and Maritime New Zealand.

**Communications**

48 If approved, communications for this project will be coordinated through the Office of the Minister of Defence.

**Proactive Release**

49 This paper will be proactively released with appropriate redactions in accordance with the Official Information Act 1982.

**Recommendations**

The Minister of Defence recommends that the Committee:

1 **approve** the attached Project Implementation Business Case;

2 **note** that as part of Budget 25, Cabinet [CAB-25-MIN-0126.19]:

2.1 agreed to establish tagged contingencies for the replacement of the two Boeing 757 aircraft currently operated by the Royal New Zealand Air Force. The new aircraft will have enhanced range and reliability, allowing the New Zealand Defence Force to undertake strategic air mobility missions;

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(f)(iv) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |

| | 2030/31 | 2031/32 | 2032/33 | 2033/34 & outyears |
|---|---|---|---|---|
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(f)(iv) | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | |

2.2 noted that the replacement of the Boeing 757 involves a finance lease arrangement, and therefore requires approval by the Minister of Finance under section 47 of the Public Finance Act 1989;

2.3 agreed that drawdown of these contingencies is subject to Cabinet's approval of an Implementation Business Case;

2.4 agreed that the expiry date for the above tagged operating and capital contingencies be 31 March 2026;

3 **agree** to amend the indicative phasing of the tagged operating and capital contingences detailed in recommendation 2 above to be:

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(f)(iv) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |
| | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 & outyears |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Operating tagged contingency | s9(2)(f)(iv) | | | | |
| Defence Capability Plan - Future Air Mobility Capability - Strategic (Boeing 757 Replacement) Capital tagged contingency | | | | | |

4 **authorise** the New Zealand Defence Force to enter into a lease-to-purchase agreement with s9(2)(j) for the delivery of two A321 XLR aircraft, subject to the Minister of Finance's approval of the finance lease (being borrowing) under section 47 of the Public Finance Act 1989;

5 **direct** the New Zealand Defence Force to prepare the section 47 finance lease request for approval by Minister of Finance;

6 **agree** as required, that the lease payments are to be exempt under section CW 8 of the Income Tax Act 2007.;

7 **note** the initial capital cost of the procurement of two Airbus A321 XLR aircraft is $620.526 million, including s9(2)(j) capital contingency and s9(2)(j) foreign exchange contingency;

8 **note** $0.538 million has been funded through depreciation reserves;

9 **authorise** the Secretary of Defence to commit and approve expenditure of public money up to s9(2)(j) for the delivery of the future Air Mobility Capability – Strategic (Boeing 757 Replacement);

10 **approve** the following changes to appropriations for the Secretary of Defence to commit to the acquisition process associated with the Future Air Mobility Capability – Strategic (Boeing 757 Replacement);

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| Vote Defence<br>Minister of Defence | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| **Multi-Category Appropriation**<br>Defence Capabilities MCA<br>**Non-Departmental Capital Expenditure**<br>Defence Capability Delivery | s9(2)(f)(iv) | | | | |
| | **2030/31** | **2031/32** | **2032/33** | **2033/34** | **2034/35 & outyears** |
| **Multi-Category Appropriation**<br>Defence Capabilities MCA<br>**Capital Expenditure**<br>Defence Capability Delivery | s9(2)(f)(iv) | | | | |

11 **note** that these costs are offset by a capital receipt from the New Zealand Defence Force;

12 **approve** the following changes to appropriations to implement the decision in recommendation 3 above, with a corresponding impact on the operating balance and net core Crown debt;

| | NZ $M - increase/(decrease) | | | | |
|---|---|---|---|---|---|
| Vote Defence Force<br>Minister of Defence | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 |
| **Capital Injection:**<br>New Zealand Defence Force - Capital Injection | s9(2)(f)(iv) | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Defence Force Capabilities Prepared for Joint Operations and Other Tasks Multi-Category Appropriation (MCA)<br>**Departmental Output Expense:**<br>Army Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)<br>Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) | | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Protection of New Zealand and New Zealanders (MCA):<br>**Departmental Output Expense:**<br>Military Assistance to Civil Authorities in Non-Emergency Situations (funded by revenue Crown) | | | | | |
| **Total Operating** | | | | | |
| **Total Capital** | | | | | |

| | 2030/31 | 2031/32 | 2032/33 | 2033/34 | 2034/35 & outyears |
|---|---|---|---|---|---|
| **Capital Injection:**<br>New Zealand Defence Force - Capital Injection | s9(2)(f)(iv) | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Defence Force Capabilities Prepared for Joint Operations and Other Tasks Multi-Category Appropriation (MCA)<br><br>**Departmental Output Expense:**<br>Army Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown)<br><br>Air Force Capabilities Prepared for Joint Operations and Other Tasks (funded by revenue Crown) | | | | | |
| **Multi-Category Expenses and Capital Expenditure:**<br>Protection of New Zealand and New Zealanders (MCA):<br><br>**Departmental Output Expense:**<br>Military Assistance to Civil Authorities in Non-Emergency Situations (funded by revenue Crown) | | | | | |
| **Total Operating** | | | | | |
| **Total Capital** | | | | | |

13 **agree** that the proposed changes to appropriations for 2025/26 in recommendations 10 and 12 above be included in the 2025/26 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

14 **agree** that the expenses incurred under recommendation 12 above be charged against the Defence Capability Plan – Future Air Mobility Capability – Strategic (Boeing 757 Replacement) operating tagged contingency described in recommendation 2 above, and that the capital expenditure incurred under recommendation 13 above be charged against the Defence Capability Plan – Future Air Mobility Capability – Strategic (Boeing 757 Replacement) capital tagged contingency described in recommendation 2 above;

15 **note** that, following the changes detailed in recommendation 12 above, the tagged operating and capital contingencies described in recommendation 3 above is now exhausted and therefore closed. The remaining $53.565 million in the operating contingency will return to the centre and will then be closed.

Authorised for lodgement

Hon Judith Collins KC MP
**MINISTER OF DEFENCE**