

## In Confidence

Office of the Minister of Transport

Cabinet Economic Policy Committee

## Cessation of work on levy funded emergency ocean response capability in the Cook Strait

### Proposal

- 1 This paper proposes ceasing any further work on procuring emergency ocean response capabilities (EORC) with a focus on the Cook Strait. I seek Cabinet's approval to:
  - 1.1 Cease work on consulting on EORC-specific levies (EXP-25-MIN-0020) and continue with the status quo.
  - 1.2 Rescind the decision to procure an interim EORC solution for the Cook Strait (EXP-24-MIN-0067), and to direct Maritime New Zealand (Maritime NZ) to cancel the contract for the interim solution.

### Relation to government priorities

- 2 This aligns with this Government's priority to restore discipline to public spending. The advice indicates that there is no comprehensive EORC solution that will improve matters in a cost-effective way.

### Background

- 3 Through Budget 2024, Cabinet directed the Ministry of Transport (the Ministry) and Maritime NZ to develop a business case that considers options to improve New Zealand's maritime emergency ocean response capability, with a focus on the Cook Strait. This work was initiated in response to a few high-profile incidents involving Cook Strait ferries, and in parallel to the Cook Strait resilience work.
- 4 Cabinet considered an Indicative Business Case (IBC) in November 2024, and a Detailed Business Case (DBC) in March 2025. The business case proposed procuring (via retainer style contracts) two separate EORC vessels: an EORC vessel based in the Cook Strait that could stabilise a stricken vessel, and a larger EORC vessel that could tow the stricken vessel to a safe harbour (a "two-strike solution").
- 5 The proposal was for full costs to be underwritten by the Crown, with some costs to be defrayed by future levies. Cabinet agreed to my proposal to first explore the appropriateness and requirements for establishing EORC-specific levies before committing to the procurement of an EORC solution.

## Advice supports ceasing work on establishing EORC solutions

- 6 I have received advice from my officials describing how EORC-specific levies could be established under the Maritime Transport Act 1994. I also received a draft discussion document to test the willingness of users to pay EORC-specific levies.
- 7 I have considered this alongside the advice when the business case was submitted. Officials' first best advice was that the business case did not provide a compelling case to proceed with EORC as the risk is very low, and the cost environment has become significantly more challenging. Since the original decision to explore establishing EORC-specific levies, the Cook Strait ferries procurement has progressed to a point where we have certainty about the provision of modern and safer ferries.
- 8 I recommend Cabinet agrees to cease further work on exploring the procurement of EORC solutions on a predominately user-pays basis. This means we retain the status quo of relying on commercially available vessels to provide towing responses if required, noting these might not always be available in New Zealand waters.

### *The risk and potential benefits are not compelling*

- 9 The business case states the risk in the Cook Strait is very small and does not justify the procurement of EORC. There have been 23 incidents over the last five years where ready access to EORC may have supported the response. All these incidents were resolved with existing capabilities and vessels of opportunity. The *Connemara* loss of power incident (September 2024) is an example of when an EORC solution would have been more suitable than the response that was provided by the Wellington Port tugs.
- 10 The procurement of the new Cook Strait ferries will further minimise the risk profile of the Cook Strait. While the risk profile in the Cook Strait remains very small, it is not eliminated.
- 11 The identified benefits are only realised in the top 1% of incidents, and only if the EORC solution is based close enough with a short enough activation and travel time to reach the scene of the incident. Most of the recorded incidents occurred outside the Cook Strait area, which demonstrates this limitation. The EORC vessel must also be capable enough to provide a successful response to an incident before the situation escalates to a grounding or similar outcome.

### *Procurement costs have significantly escalated*

- 12 The indicative costs to procure the two-strike solution escalated from around \$80 million over 10 years at the IBC stage in November 2024, to over \$259 million over 10 years at the DBC stage in March 2025. While most of these costs are intended to be paid with the establishment of EORC-specific levies, there would still be significant cost pressures on the Crown to procure an EORC solution.

- 13 These costs need to be considered within the context of the current fiscal environment. It is my view that the business case does not provide a compelling case for the Crown to pay these costs. The business case also does not justify passing these costs on to users via EORC-specific levies.

*There are implementation risks in proceeding with establishing EORC solutions*

- 14 There are several implementation risks that would need to be addressed should Cabinet decide to proceed with procuring EORC solutions on a predominately user-pays basis.
- 15 Maritime NZ may not be able to procure a two-strike EORC solution in the future, even if EORC-specific levies have been established. The commercial case relies on providers having sufficient commercial work to defray total costs to the Crown and levy-payers. It is possible that there may not be enough commercial work available for this model to be cost-effective. I have been advised that this risk may impact the continued delivery of the interim solution (described in the next section of this paper).
- 16 Public consultation on establishing new maritime levies will not be well received by the maritime industry. Signalling a new EORC-specific levy may further disincentivise the cruise industry from operating in New Zealand, which would be out of step with the Tourism Growth Roadmap.

**There is no clear need to continue with the interim solution**

- 17 Cabinet previously made decisions (in November 2024 and March 2025) to procure the services of the vessel *MMA Vision* to provide an interim EORC solution for the Cook Strait until June 2027, while advice on EORC-specific levies was conducted.
- 18 If Cabinet agrees to my recommendation to cease work on establishing EORC solutions, then there is no longer a requirement to continue with the interim solution until June 2027. I recommend that Cabinet directs Maritime NZ to cancel the contract that procures the *MMA Vision* as an interim EORC solution for the Cook Strait.
- 19 Maritime NZ have confirmed that the contract can be terminated at their discretion after at least six months since the commencement date, with a three month notice period. The earliest opportunity to cancel the contract would be February 2026. This will be after the new ferries procurement process has been completed and announced.

*There may be no interim solution between July 2026 and June 2027*

- 20 I have received an update on commercial arrangements that will potentially affect the ongoing provision of the interim solution from July 2026 to June 2027. The interim solution is provided by the *MMA Vision* under a three-way contract between Maritime NZ, OMV (as operator of the Taranaki oil and gas fields), and the owner of the *MMA Vision* (which is under separate contract to provide support services to OMV). The interim solution contract is in place

until July 2026, as this aligns with the contract between OMV and the *MMA Vision*.

21 **[Commercial in confidence]** s 9(2)(b)(ii) [Redacted]

22 **[Commercial in confidence]** s 9(2)(b)(ii) [Redacted]

**Cost-of-living and other implications**

23 This paper does not have any cost-of-living, legislative, human rights, or population implications.

**Financial implications**

24 In November 2024, Cabinet agreed to establish the “Emergency Ocean Response Capability” appropriation for the procurement of the interim solution until December 2025. Funding came from a tagged operating contingency established though Budget 24. In March 2025, Cabinet agreed to extend the duration of the interim solution until June 2027 by drawing down all remaining funding from the tagged contingency. The total funding provided was \$13.400 million.

25 Cancelling the interim solution will result in savings of approximately \$9.100 million, which I intend to reprioritise to other priorities or cost pressures within Vote Transport as part of Budget 2026.

**Use of external resources**

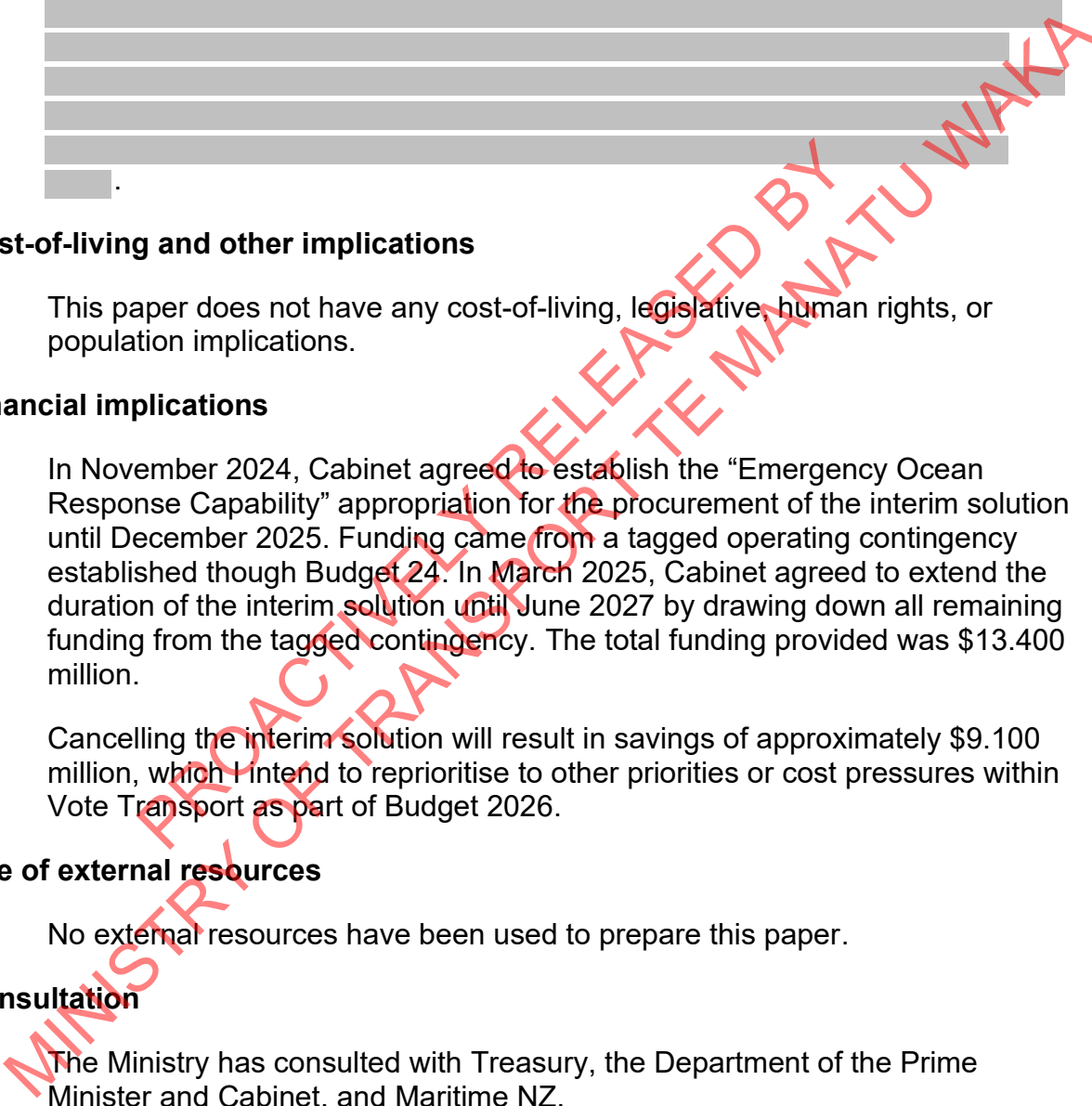
26 No external resources have been used to prepare this paper.

**Consultation**

27 The Ministry has consulted with Treasury, the Department of the Prime Minister and Cabinet, and Maritime NZ.

**Proactive release and communications**

28 This Cabinet paper will be proactively released on the Ministry’s website at a time to be agreed following announcements of the new ferries procurement process.



- 29 I do not intend to make any announcements of decisions to cease the EORC work and to cancel the interim solution. I will direct my officials to ensure the negotiations to cancel the interim solution remain confidential until the new ferries procurement announcements are completed.

## Recommendations

The Minister of Transport recommends that the Committee:

- 1 **agree** that procurement of emergency ocean response capabilities is not warranted as the low risk and high costs indicate a comprehensive solution cannot be provided in a cost-effective way;
- 2 **note** that in March 2025, the Cabinet Expenditure and Regulatory Review Committee (EXP) noted that procurement of emergency ocean response capabilities on a predominately user-pays basis would be explored and invited me to report back with further advice and a draft discussion document on EORC specific levies [EXP-25-MIN-0020];
- 3 **agree** to cease work on consulting on EORC-specific levies and instead retain the status quo;
- 4 **note** that in November 2024, EXP agreed to direct Maritime NZ to procure the services of the *MMA Vision* as an interim emergency ocean response capability for the Cook Strait from December 2024 to December 2025 [EXP-24-MIN-0067];
- 5 **note** that in March 2025, EXP agreed to extend the duration of the interim emergency ocean response capability referred to in recommendation three until June 2027 [EXP-25-MIN-0020];
- 6 **agree** to rescind the decisions referred to in recommendations four and five, and instead direct Maritime NZ to cancel the interim emergency ocean response capability for the Cook Strait;
- 7 **note** the earliest the contract can be cancelled is February 2026;
- 8 **note** cancelling the contract in February 2026 is expected to result in savings of approximately \$9.100 million which I intend to reprioritise to other priorities or cost pressures within Vote Transport as part of Budget 2026;

Authorised for lodgement

Hon Chris Bishop

Minister of Transport