

OC250260

30 May 2025

Tēnā koe

I refer to your email dated 1 April 2025, requesting the following under the Official Information Act 1982 (the Act):

*“communications, correspondence, meeting minutes, Cabinet papers, briefing notes, or internal memoranda **between 1 February 2024 and 1 April 2025**, specifically involving:*

- *Nicola Willis (Minister of Finance)*
- *Winston Peters (Minister for Rail)*
- *Chris Bishop (Minister of Transport and Infrastructure)*
- *Simeon Brown (Minister for State-Owned Enterprises)*
- *The Ministry of Transport*
- *The Treasury*

This refined request focuses solely on:

1. **Discussions involving Bluebridge (StraitNZ)** as a potential or actual participant in the Cook Strait ferry replacement project.
2. **Consideration of private sector or privatized options**, including procurement alternatives outside of KiwiRail.
3. **Changes in oversight, funding, or direction** of the ferry project, particularly those involving a shift away from public ownership or operation.”

Eighteen documents fall within the scope of your request and are detailed in the document schedule attached as Annex 1. The schedule outlines how the documents you requested have been treated under the Act.

Certain information is withheld under the following sections of the Act:

- | | |
|--------------|---|
| 9(2)(a) | to protect the privacy of natural persons |
| 9(2)(b)(ii) | to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information |
| 9(2)(ba)(i) | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied |
| 9(2)(ba)(ii) | protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of |

- | | |
|-------------|---|
| | any enactment, where the making available of the information would be likely otherwise to damage the public interest |
| 9(2)(f)(iv) | to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials |
| 9(2)(g)(i) | to maintain the effective conduct of public affairs through the free and frank expression of opinions by or between or to Ministers of the Crown or members of an organisation or officers and employees of any public service agency or organisation in the course of their duty |
| 9(2)(i) | to enable a Minister of the Crown or any public service agency or organisation holding the information to carry out, without prejudice or disadvantage, commercial activities |

I am refusing your request for certain information under the following section of the Act:

- | | |
|-------|---|
| 18(d) | the information requested is or will soon be publicly available |
|-------|---|

With regard to the information that has been withheld under section 9 of the Act, I am satisfied that the reasons for withholding the information at this time are not outweighed by public interest considerations that would make it desirable to make the information available.

I note that your request was sent to multiple Ministers and Government departments, as such a formal transfer is not deemed to be required under the Official Information Act. I am responding to your request for information held by the Ministry of Transport. You will receive separate responses from the other Ministers and the Treasury.

You have the right to seek an investigation and review of this response by the Ombudsman, in accordance with section 28(3) of the Act. The relevant details can be found on the Ombudsman's website www.ombudsman.parliament.nz

The Ministry publishes our Official Information Act responses and the information contained in our reply to you may be published on the Ministry's website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā



Marian Willberg
Manager, Maritime, Freight & Access

Annex 1

Doc #	Date	Title of Document	Decision on request
1	14 May 2024	Email & slides - MoT /MAG & Treasury - workshop alternative Cook Strait options	Some information withheld under Section 9(2)(a)
2	22 May 2024	Email – For feedback 22 May: MoT briefing Cook Strait barriers to market response	Some information withheld under Section 9(2)(a)
3	31 May 2024	Email – For info: Cook Strait Resilience Phase One Advice	Some information withheld under Section 9(2)(a) Note the attachment is released at document #18
4	18 June 2024	Email – Cook Strait Ferries: Project Orange Governance Group	Some information withheld under Section 9(2)(a), Section 9(2)(ba)(i), and Section 9(2)(g)(i)
5	23 June 2024	Email – RE: MAG Report	Some information withheld under Section 9(2)(i) Note the attachment is already publicly available.
6	24 June 2024	Email: FW: For approval: Schedule 4a talking points for Minister Brown	Some information withheld under Section 9(2)(a)
7	25 June 2024	Email – MoT contribution to Treasury Report	Some information withheld under Section 9(2)(a)
8	27 June 2024	Email – MoT comments on draft Cabinet paper	Some information withheld under Section 9(2)(a) Note the Cabinet paper attached to this email is publicly available and a hyperlink has been included.
9	24 July 2024	Email - For info: Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service	Most information withheld under Section 9(2)(a), Section 9(2)(b)(ii), and Section 9(2)(ba)(i),
10	7 August 2024	Email – FW: The Treasury Jarden – Catch-up	Most information withheld under Section 9(2)(a), Section 9(2)(b)(ii), and Section 9(2)(ba)(i),
11	8 August 2024	Email – RE: Urgent – questions regarding Cook Strait	Some information withheld under Section 9(2)(a), Section 9(2)(b)(ii), and Section 9(2)(g)(i)

12	8 August 2024	Email – FW: Macquarie briefing on Cook Strait Ferry Experience	Some information withheld under Section 9(2)(a), Section 9(2)(b)(ii), and Section 9(2)(ba)(i),
13	14 August 2024	Email - Emailing: Mafic Ministerial Advisory Group discussion material	Attachment has been withheld in full under Section 9(2)(b)(ii), and Section 9(2)(ba)(i),
14	29 November 2024	Email - Cook Strait Ferries: talking points for Monday official meeting	Some information withheld under Section 9(2)(a), and Section 9(2)(g)(i), Note that the attachment (Cabinet paper) is already publicly available
15	4 March 2025	Email – RE: Evaluation of alternative option submissions	Most information withheld under Section 9(2)(a), Section 9(2)(ba)(i), and Section 9(2)(i)
16	7 March 2025	Email – RE: For info: Evaluation of alternative option submissions	Most information withheld under Section 9(2)(a), Section 9(2)(ba)(i), and Section 9(2)(i)
17	24 May 2024	Full slidepack – Internal MoT Cook Strait connectivity options assessment	Some information withheld under Section 9(2)(b)(ii), Section 9(2)(g)(i) and Section 9(2)(i)
18	24 May 2024	Summary slidepack – Internal MoT Cook Strait connectivity options assessment	Some information withheld under Section 9(2)(b)(ii), Section 9(2)(g)(i) and Section 9(2)(i)

Wendy Harrison

From: Rory Sedgley
Sent: Tuesday, 14 May 2024 10:38 am
To: Bev Driscoll; Chelsea Whitfield; Callum Gill; Sarah Carson; Mark Thompson; Mark Cairns; roger@sul.co.nz; Ann Webster [TSY]; Michael Moore [TSY]; Chris White (Treasury); Simon Hay [TSY]; Dominic Millich [TSY]; Chris Jones; Andrew Somerfield
Cc: Siobhan Routledge; Mitchell, Karen
Subject: RE: MoT/MAG & Treasury - workshop alternative Cook Strait options
Attachments: 20240515 - Initial options presentation workbook (DRAFT) (2).pptx; Assumptions in the Phase One Cook Strait Report.docx

Dear all,

Please find attached a pack of slides to guide our discussion tomorrow at 1200.

As you know, we are taking a 'first principles' approach to the investigation of the broad spectrum of interventions available to Ministers to secure the Crown's objectives on the Cook Strait. We have sketched out 7 possible interventions in the attached slides, and we are keen to hear your thoughts on the advantages, disadvantages and implementation issues associated with each of these options.

We will have limited time to explore each of the interventions tomorrow, so if you are able to give them some advance consideration, that would be very helpful. If there are alternative interventions that we have not thought of, please let me know.

@Mark Thompson I have responded to your questions about some of the macro assumptions that we have made in the Phase One report in a separate attachment, although a couple of placeholders remain. I expect these will be clear in the draft report we send you on Thursday.

I look forward to discussing with you all tomorrow,
Rory

Rory Sedgley

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MINISTRY OF TRANSPORT

Hāpaitia ana ngā tāngata o Aotearoa kia eke
Enabling New Zealanders to flourish

-----Original Appointment-----

From: Rory Sedgley
Sent: Tuesday, April 30, 2024 12:08 PM
To: Rory Sedgley; Bev Driscoll; Chelsea Whitfield; Callum Gill; Sarah Carson; Mark Thompson; Mark Cairns; roger@sul.co.nz; Ann Webster [TSY]; Michael Moore [TSY]; Chris White (Treasury); Simon Hay [TSY]; Dominic Millich [TSY]; Chris Jones; Andrew Somerfield
Cc: Siobhan Routledge; Mitchell, Karen
Subject: MoT/MAG & Treasury - workshop alternative Cook Strait options
When: Wednesday, 15 May 2024 12:00 pm-2:00 pm (UTC+12:00) Auckland, Wellington.
Where: Microsoft Teams Meeting; 3 Queens Wharf; 3QW.01 Ngake (External 14 pax)

Dear all,

This meeting is intended to provide an opportunity for the MAG and Treasury to assist the Ministry of Transport in fleshing out the alternative options for delivering the Crown's objectives on Cook Strait.

In advance of the meeting, we will circulate some brief papers on the merits and implementation issues associated with each of the high level alternatives previously identified (illustration below for reference).

We will then use this session to test our early thinking with you and incorporate your input as we prepare some more detailed analysis.

Location is 3 Queens Wharf, and apologies for the lunchtime scheduling.

Directly own and operate	Crown purchases ships and contracts out operations	Crown tender for services	Regulate the market	Underpin the market
<ul style="list-style-type: none">• Status quo – KiwiRail• New Crown owned entity established to procure ships. In the long-term this could transition to private ownership of either the entity or the ships.	<ul style="list-style-type: none">• Depending on a commercial assessment, this could be a concession (operator pays Crown) or a tender (Crown pays operator)• Examples of this in Scotland, or NZ metro rail where local Govt owns rolling stock and tenders out the operations	<ul style="list-style-type: none">• Instead of purchasing ships, the Crown could procure the services it seeks (e.g. 2 ferries sailing twice a day with capacity for X lane metres) and transfer responsibility for sourcing and operating ships to the supplier	<ul style="list-style-type: none">• Economic regulatory regime to protect consumers• This could be light touch information disclosure (e.g. airports) or a price-quality path regime (e.g. lines companies)	<ul style="list-style-type: none">• An underwrite could be made available to guarantee a minimum level of service• A licensing regime could 'tie in' operators with a notice period• Crown actions to facilitate, enable or induce a new market entrant (e.g. changes to land ownership around ports)

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Cook Strait connectivity Initial options

Working session

15 May 2024

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**The focus of today's session is to test
and refine high-level options for
ensuring connectivity and capacity on
the Cook Strait**

**We are keen to identify any gaps, sub-
options, or missing nuance to direct
further analysis.**

Spectrum of options considered so far

We have focused on exploring a broad range of options to present to Ministers. The options are not exhaustive. They are intended to provide Ministers with a flavour of what is possible and identify areas for further analysis.



Options High-level analysis



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No / very low intervention

No /very low intervention

The Crown exits the Cook Strait ferry market with either:

- No role in planning or facilitating post-KiwiRail ferry services, or
- A role in facilitating the divestment and sale of KiwiRail ferry assets and services.

Advantages

- Material saving to the Crown (No new costs and no ongoing KiwiRail support)
- Strongest market-based approach
- Potential benefits to customers through pure market competition

Disadvantages

- No guarantee of levels of service (capacity and price)
- Prices could increase without additional price regulation
- Reliance on continued operation of private companies
- Potential monopoly (or unequal duopoly) with 'first mover' advantage for incumbent
- Significant time requirement for new entrant to enter the market (regulatory approval, H&S, commercial agreements)

Costs

- No cost for the provision of services, potential for savings
- Some disestablishment costs (KiwiRail likely to require additional funding)
- Initial costs to ports for redevelopment of facilities
- Potential increased costs for consumers if available capacity reduces, and prices rise.

Implementation

- No guarantee of a market response without Crown role in facilitating the transition.
- No intervention relies on an assumption that new operators enter the market and negotiate port access independently
- Shareholder would need to approve divestment (and sale) of Interislander.
- Sale likely to be complicated by highly unionised workforce.

Conclusion

- No intervention at all is not feasible or realistic.
- Crown could take actions during transition to support divestment and orderly transition to a private sector duopoly. This would give confidence that there will be a second operator. Additional incentives and safeguards may be required to ensure a certain level of service level and to protect consumers.
- Any sale would be complicated by the highly unionised nature of KiwiRail workforce and operations (need to preserve the ability for a new owner to reform / streamline operations).

Enhanced regulatory regimes

Enhanced regulatory regimes

The Crown could adjust current regulatory settings to ensure a transparent, level playing field for commercial operators. This could include information disclosure requirements, cost transparency, and / or licensing requirements.

Advantages

- Theoretically creates a more level playing field for commercial activities through a light touch regulatory approach (requirements for port cost transparency etc).
- Promotes 'market-based' solution to Cook Strait capacity.
- Relatively inexpensive to the Crown – some resources required to monitor compliance and maintain regulations.

Disadvantages

- No guarantee regulatory changes alone will be sufficient to attract market interest (likely to be lag between regulatory changes and new entrant standing up services).
- No guarantee that light-touch changes to regulation will materially impact operator costs (i.e. transparency over port costs will not prevent operators being required to pay for port upgrades).

Costs

- Upfront costs to develop, consult, and implement regulatory changes.
- Some ongoing operating costs to monitor compliance and maintain regulations.

Implementation

- Will take time. Extensive consultation and assessment required before regulatory changes could be implemented.
- Would need to confirm where regulatory function is best held (i.e. MOT, MNZ, MBIE, ComCom).
- Regulatory changes would need to happen in parallel with other interventions (i.e. support in KiwiRail divestment / sale and securing new market entrant to avoid capacity gap).

Conclusion

- Likely to only be required if the Crown exits the Cook Strait market entirely and concerns about lack of competition / commercially viable services need to be addressed.
- Only a partial solution as unlikely to entice a new market entrant within the timeframe required. May need to be implemented in parallel with more intensive intervention options (i.e. to ensure any new operators can be commercially viable once established).

Direct market incentives

Direct market incentives

The Crown would offer direct incentives to support new entrants to the market, which could include:

- Supporting the rationalisation land ownership around Ports; and / or
- Timebound Crown underwrites to support initial operations.

Advantages

- Can remove or reduce barriers to entry without binding the Crown to continue providing Cook Strait services.
- Incentives can be clearly timebound to ensure a transition to unsupported commercial activities occurs as planned.

Disadvantages

- Underwrites / other support schemes can be difficult to exit once in place. Risk that entrants threaten to leave market as supports are reduced.
- Less direct supports (i.e. supporting rationalisation of port land) unlikely to be enough to entice new market entrants on its own)

Costs

- Lower upfront capital costs than direct ship procurement, but potential for an ongoing operational cost.
- Crown could limit exposure with an upfront agreement to gradually scale-down support, or by limiting support to facilitate market entry and no ongoing subsidy.

Implementation

- Levers to direct land rationalisation by NZRC/KiwiRail held by Shareholding Ministers
- Negotiation of practical arrangements to support new market entrant could be protracted. Complex contractual and management arrangements for Crown underwrite.
- Uncertainty over process to select new market entrant – only room in the market (and ports) for two operators.

Conclusion

- Direct market incentives are possible. However, there is a risk they do not go far enough on their own (i.e. land rationalisation), or become costly and complicated to manage (underwrite schemes).
- Any underwrite scheme would need to be clearly timebound, be based on full cost transparency, pricing expectations (i.e. charge the same or more than existing operator), and include claw back provisions in the event the operate leaves the market within an agreed period.

Crown tender for services

Crown tender for services

KiwiRail would exit the Cook Strait ferry market and the Crown would contract with a new commercial operator to provide an agreed level of service with their own vessels. Likely to require a Crown interface role between ports and the new operator.

Advantages

- Transfers vessel procurement and operation risk to commercial operator
- Process of competition for the market provides transparent mechanism for Crown to secure best value for money
- Crown procurement role means greater certainty that capacity will be available than if left to market forces alone (potentially guaranteed for contract period).

Costs

- Very difficult to quantify without market soundings.
- Procurement costs likely to be significant given number of stakeholders and complexity of arrangements.
- Potential for some ongoing costs (i.e. underwrite, concession etc).

Conclusion

- There is potential for the Crown to tender Cook Strait ferry services. However, this is likely to be long and complex so may not be completed in time to avoid capacity shortfalls (if KiwiRail exits quickly).
- The exact nature of commercial arrangements would need to be refined. If services are assumed to be commercially viable then there should be no need for any ongoing subsidies or costs to the Crown. However, there may need to be some form of incentive for a new operator to establish operations (timebound underwrite, upfront capital support etc).
- Crown support likely required to smooth implementation (interface with Ports, consenting process etc)
- Question as to whether this would present value for money for the Crown or provide an unfair advantage to the new operator.

Disadvantages

- Risk of unequal competition in the market if Crown support provides new operator with unfair advantage
- Unlikely to receive many tenders without some form of incentive (why bid in a government process if you could set up operations commercially anyway). Potential for ongoing financial liability (depending on terms of the procurement).
- May take a long time to procure and operationalise services

Implementation

- Open and competitive procurement process could take several years to complete and for capacity to arrive.
- Would need to determine which department best placed to lead procurement and manage contract.
- Would need active management to ensure no unintended impact on other commercial services (i.e. price, capacity, commercial viability of existing operators)

Directly own - contract out services

Directly own – contract out services

Crown purchases new / used vessels and awards a concession to a private provider to run the operations

Advantages

- Maintains Crown control over vessel and service level specifications
- Introduces commercial discipline from the private sector to the operation of the ferry business and ability for Crown to recover capital costs over the life of the concession
- Cost of capital for the Crown is lower than it would be for a private operator

Costs

- Upfront capital costs estimated in the region of \$800m-\$1 billion
- Potential for revenue source during operation through concession arrangement
- Potential for ongoing maintenance / upgrade costs depending on commercial arrangement agreed

Conclusion

- This option is similar to the Crown tendering for services but retains Crown control over the vessel type and service levels. The option makes sense if the Crown has a specific view on vessel / service requirements or is concerned about the ability of the market to provide and operate appropriate vessels.
- The requirement to both purchase / build vessels and tender services means this option is likely to be long and complex to implement.
- Contractual and management arrangements are also likely to be complex to ensure clarity on roles and responsibilities, payments, service levels, and penalties for non-performance.

Disadvantages

- Risk that the Crown is 'back to square one' at the end of the contract (25-30 years)
- An implicit Crown 'backstop' or guarantee for the concession holder may encourage excessive risk-taking
- Potentially complex relationship and 'blame-game' unless responsibilities clear (maintenance regime etc).
- Still requires upfront capital contribution

Implementation

- A Crown entity (KiwiRail or alternative) still needs to purchase ferries
- Open and competitive process over several years required to select new operator

PPP-like arrangement

PPP-like arrangement

Crown enters a PPP or PPP-like arrangement with a private sector partner to design, build, finance, and operate services for a fixed period.

This could include 'Build, Own, Operate, and Transfer' or other PPP-like models.

Advantages

- Introduces commercial discipline from the private sector to the operation of the ferry business
- Preserves Crown role in setting service / vessel requirements
- Ensures a higher quality asset throughout the concession period
- Spreads the cost of vessels / services over a longer period.

Disadvantages

- Crown will be left with end-of-life assets at end of concession period
- Requires the Crown to have a robust view of current and future service requirements from the outset
- Likely to be complex to negotiate and manage
- May take longer to deliver as model most valuable if vessels are new builds

Costs

- Capital investment similar to the other Crown purchase options, but spread out over the life of the contract rather than upfront.
- Additional ongoing cost to the Crown to provide Partner with an acceptable rate of return
- Administrative costs (external financial and legal advisers) to establish contractual arrangements

Implementation

- Complex contractual arrangements with multiple parties to be negotiated.
- Requires the Crown to have a reasonable understand of the type of service / vessels it needs

Conclusion

- A PPP-like arrangement would be appropriate if the Crown has a clear view on service requirements over the long-term, requires a new (rather than used) vessel, and seeks a means to spread significant upfront capital costs over a longer period.
- Performance regimes are likely to lead to better maintenance and operating performance. However, likely to be expensive.
- The complexity of the model and the requirement for new vessels means that the model will take longer to procure and operationalise.

Directly own and operate

Directly own and operate

Crown continues to own and operate Cook Strait ferry services, either through continued KiwiRail operations or through a new Crown-owned entity (which could be privatised at a later date)

Advantages

- Provides certainty over capacity and enables greater service continuity
- Greater influence over market pricing, service levels, alternate use of vessels (disaster relief etc).
- Avoids materially changing the market and risking loss of service / capacity shortfalls etc

Disadvantages

- Requires Crown to establish capability to procure and operationalise new vessels
- Risks creating continued reliance on Crown funding for what should be commercially viable operations.

Costs

- KiwiRail likely to require funding during procurement. New entity would also require a capital injection.
- Likely to be material establishment costs for a new Crown owned entity (\$10m)
- Assumption is that following procurement, KiwiRail / new entity would operate commercially and without ongoing Crown funding.

Implementation

- KiwiRail would require oversight and interface support during procurement. It would need to rebuild capability it has released.
- A new Crown owned entity would require significant work to confirm the form, funding and governance arrangements, build capability, and procure vessels. Would need to determine ongoing operational requirements.

Conclusion

- A version of the status quo (with services delivered either by KiwiRail or a new Crown owned entity) would present significant cost. However, it would most likely prevent service failure / material negative changes to pricing or capacity on Cook Strait.
- In either situation, capability to deliver a procurement would need to be rebuilt. Any new entity would also need to establish an operational capability (regardless of whether the services were subsequently sold).
- The process of establishing a new Crown owned entity would be logistically challenging at pace. However, a ferry-focused entity may have a greater chance of operating commercially than KiwiRail with its significantly larger cost base.
- Would need to consider the implications of an existing heavily unionised workforce in the transfer of services to a new entity.

Proposed evaluation criteria

Principles and objectives

The Minister of Finance provided three 'principles' to guide this work:

1. Competition on the Strait;
2. Commercial discipline; and
3. Urgency.

These principles have been expanded into the three objectives to the right. The objectives will be used in the Multi-Criteria Analysis to assess the options.

The objectives are broad given the diverse range of options being assessed (from regulatory changes to large scale investments)

The following objectives for Cook Strait connectivity have been developed for this analysis:

1. There is competition in freight and passenger transport across the Cook Strait;
2. Cook Strait ferry services are commercially viable and follow appropriate commercial disciplines; and
3. There is continuity of service when current vessels reach end-of-life (end of 2029).

Do these objectives reflect current Ministerial thinking?
Are they sufficient to meaningfully differentiate the options?

Options assessment approach

At this stage we propose using multi-criteria analysis (MCA) to compare the options at a high-level.

The proposed criteria are based on NZTA – Waka Kotahi’s standard MCA framework (and the Treasury’s Critical Success Factors) and are included to the right. Project specific criteria are also included.

These criteria may need to be adapted if they are not sufficiently differentiating the options.

The rating scale is included on the following slide.

Evaluation criteria	Broad Description
Strategic Objectives	How well the option: <ul style="list-style-type: none"> Meets the agreed objectives (competition, commercial viability / discipline, pace) Aligns with the Government’s broader transport priorities
Potential value for money	How well the option: <ul style="list-style-type: none"> Optimises value for money (i.e., the optimal mix of potential benefits, costs and risks).
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services, and Is likely to result in a sustainable arrangement that optimises value for money over the term of the contract.
Potential affordability	How well the option: <ul style="list-style-type: none"> Matches available funding constraints, and Is likely to be financially sustainable over the long-term.
Potential achievability	How well the option: <ul style="list-style-type: none"> Is likely to be delivered given technical, safety, regulatory, and capability considerations.

Any other criteria that would meaningfully differentiate the options / reflect additional Ministerial priorities?

MCA rating scale

A seven-point rating scale is proposed to provide sufficient differentiation between the options.

Magnitude	Definition	Score
Large positive	Major positive impacts resulting in substantial and long-term improvements or enhancements of the existing environment.	+3
Moderate positive	Moderate positive impact, possibly of short-, medium- or long-term duration. Positive impacts may be in terms of new opportunities and outcomes of enhancement or improvement.	+2
Slight positive	Minimal positive impact, possibly only lasting over the short term. May be confined to a limited area.	+1
Neutral	Neutral – no discernible or predicted positive or negative impact. Counterfactual could be the do-minimum or do-nothing.	0
Slight negative	Minimal negative impact, possibly only lasting over the short term, and definitely able to be managed or mitigated. May be confined to a small area.	-1
Moderate negative	Moderate negative impact. Impacts may be short-, medium- or long-term and are highly likely to respond to management actions	-2
Large negative	Impacts with serious, long-term and possibly irreversible effect leading to serious damage, degradation or deterioration of the physical, economic, cultural or social environment. Required major rescope of concept, design, location and justification, or requires major commitment to extensive management strategies to mitigate the effect.	-3

Assumptions in the Phase One report

Our work on the long-term requirements for a resilient Cook Strait connection started with a hypothetical scenario in which KiwiRail exits the Cook Strait ferry market. We took this as the only variable to the status quo. The report can be read assuming all other factors, trends and projections occur in the context of the status quo. When we discuss the implications of KiwiRail exiting the Cook Strait ferry market, that can be read as the implications where all other factors, including Government intervention, are as they are now.

Considering multiple variables such as KiwiRail exiting the ferry market AND a major disruption to the current North-South freight-bound majority would require more detailed analysis and modelling.

Freight market growth/segment-rail/road/sea/air

- We have not assumed any major changes to freight market growth in any of the modes (although we expect slight changes). Our view is that as the economy continues to grow, shippers and carriers will continue to use the mode that best meets the matrix of price, time, and reliability, which will result in the majority continuing to choose roading options.
- However, we may see a slight uptick in coastal shipping as a result of NZTA's coastal shipping activity class resulting in three additional vessels (two of which carry general cargo). Pacifica are now servicing Auckland and Christchurch 2x week. Based off our stakeholder interviews, rail demand to Christchurch is slightly lower than in previous years as it has priced itself out of the market versus road.

NZ Supply chain model – North bound/South bound volumes/trends by mode

- Based off stakeholder interviews, we don't expect any big changes in North bound/South bound freight flows (i.e. an imbalance going South versus North) in the long run. Stakeholders noted that, while land is more readily available in Christchurch, getting the right type and quantity of labour to fulfil the roles was difficult. There were some examples given where this had been done successfully, but Auckland has established itself as the distribution centre of New Zealand. We think it will be difficult to change this.
- Again, the majority of freight is also likely to travel by road given the time and price aspect.

Population growth in the South Island

- Our assumptions about population growth are based on StatsNZ's population projections. The projections are that:
 - total population numbers reach 5.19-5.94 million in 2030,
 - the North island's population will grow faster than the South Island's (0.7 percent to 2048 compared to 0.6). Most growth will be in Auckland for the North Island and Canterbury in the South.
 - populations in the West Coast and Southland are projected to decrease.

Coastal shipping future role in interisland freight volumes

- Based on our discussions with freight forwarders, decisions around modal choice are very price and time sensitive. If KiwiRail were to exit the rail freight market, we believe it could encourage price-sensitive, non-time-sensitive freight to move to coastal shipping (and we

understand the coastal shipping market could absorb the increase). The majority (freight forwarding) would likely move to road while coastal shipping would continue to play a rather niche role in the overall Akl - Chch freight market.

Tourism market -domestic v international

- We met with tourism representatives to understand the value of the Cook Strait ferry market to the tourism industry.
- They advise that, for the year ended March 2023:
 - total tourism expenditure was \$37.7 billion, an increase of 39.6% (\$10.7 billion) from the previous year.
 - international tourism expenditure increased 456.9% (\$8.9 billion) to \$10.8 billion; domestic tourism expenditure increased 7.2% (\$1.8 billion) to \$26.9 billion
 - overseas visitor arrivals to New Zealand increased 858.7% to 2,199,073
 - tourism generated a direct contribution to GDP of \$13.3 billion, or 3.7% of GDP, an increase of 30.9% (\$3.1 billion)
 - the indirect value added of industries supporting tourism generated an additional \$8.8 billion, or 2.5% of GDP.¹

Note that these increases are based on previous years in which COVID-19 shut the borders and significantly impacted domestic tourism.

- About 1.2m (roughly 50%) of overseas visitors to New Zealand arrive as part of a group tour (tours with a set itinerary of destinations and attractions where transport and a guide are provided for the group). Most of these tours include both islands and use either Cook Strait ferry operator to travel from island to island.
- [Growth forecast for next 5-10-15 years]
- If KiwiRail exited the Cook Strait ferry market some passengers would switch to Bluebridge but since Bluebridge is perceived as the 'budget' option, this would likely not appeal to overseas tourists on a group tour, who pay for a more premium experience.

Duopoly behaviour on Cook Strait with two operators

- We were provided some guiding principles from the Minister of Finance, one of which was maintaining competition on the Cook Strait. In our view, there is also no room in the market (or physical space in the ports) for a third provider in addition to Bluebridge and the Interislander. We therefore believe a duopoly market is the best outcome for maintaining some competition on the Cook Strait.

Govt policy on road v rail v sea emission reductions

- Our focus for emissions reduction was about the tightening environmental and emissions standards with which ship operators will have to comply.

¹ Tourism Satellite Account Year Ended March 2023

<https://www.mbie.govt.nz/immigration-and-tourism/tourism-research-and-data/tourism-data-releases/tourism-and-the-economy/>

- At a high level, the International Maritime Organisation (IMO) sets standards to which New Zealand has committed. The IMO's International Convention for the Prevention of Pollution from Ships (MARPOL) covers pollutants from ships: sewage, oil, and air emissions.
- Additionally, the IMO launched a revised Greenhouse Gas Strategy which aspires to reach 100% zero emission fuels for the shipping industry by 2050.
- Stakeholders told us that the second-hand market for ships that meet these standards is extremely tight.
- The Phase One advice does not go into detail about mode shift or compare modes, except to state the share of freight that may shift to road or coastal shipping when the rail-enabled ferries reach the end of their working life. An increase in road freight will increase congestion and fuel emissions.
- [Insert forecast about growth in uptake of zero emission heavy vehicles]
- The Government intends for the Emissions Trading Scheme to be the main policy tool to reduce net emissions in New Zealand. The price signal the ETS creates is intended to encourage sectors and industry to invest in emissions reduction where that is cheaper than the current (or expected) price of units under the ETS. This means that the Government is not currently intending to set specific policy on road versus rail versus coastal shipping emissions. This differs from the previous Government that set a specific target to reduce freight emissions by 35% by 2030, and expected this to occur in part by freight mode shift to rail and coastal shipping.

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From: Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>
Sent: Wednesday, 22 May 2024 4:54 pm
To: Rory Sedgley; Michael Moore [TSY]; Ann Webster [TSY]; Simon Hay [TSY]; Chris White (Treasury); roger; markthompson59; mark; karen.mitchell@treasury.co.nz
Cc: Sarah Carson; Bev Driscoll
Subject: RE: For feedback 22 May: MoT briefing Cook Strait barriers to market response

[IN-CONFIDENCE]

Hello Rory

Thank you for the opportunity to review the paper. I have compiled the comments from the various Treasury addressees as follows.

We've got a comment on the overall positioning of the paper and then some detailed comments.

Overall conclusion

The paper commences with the statement that "the market is well placed to respond if KiwiRail exits the Cook Strait ferry market and it could be commercially viable for a new, private entrant to fill the gap left by KiwiRail." In our view, this is quite a bullish conclusion that does not really reflect the discussion in the paper on the various uncertainties that could hamper the market response. The market being "well-placed" tends to imply a seamless continuation of services under a different configuration.

It would be more helpful to be more specific about how the market could respond if Kiwirail were to exit. For example, it could be something like:

- Services would still be provided as Bluebridge would remain and would likely attempt to expand its capacity through the purchase of another 2nd hand ship.
- There may be an overall reduction in services, however, and an increase in pricing.
- Based on the view that Bluebridge is profitable with a 55% market share, there is potentially a commercially viable entry for a new competitor.
- There are, however, significant impediments to a new entrant.
 - Bluebridge being profitable with a 55% market share by itself is not necessarily an inducement for others to enter the market (unless they are making supernormal returns). Entry requires any competitor to significantly de-risk entry or be confident they have a more profitable and defensible business model to compete given up front risk capital required (either by leasing or owning)
 - Bluebridge as we understand it were able to enter the market on the back of captive revenue streams and then scaling from there to de-risk their market entry. What are the other specific opportunities for a competitor to de-risk the deployment of such a significant amount of capital?
 - If it is difficult for KiwiRail to get new ships (i.e., 3 years away), and Bluebridge is having trouble finding appropriate second-hand ships, and there are difficulties securing labour, how will a new operator enter the market?
 - Even if a new operator did enter, how long would it take (i.e., what is the short run adjustment function for the market before it gets back into long run equilibrium). Any new operator may not enter until KR had left and prices had risen. How long is that time for short run market adjustment, and is the Crown prepared to wait for a new operator to enter? 3 years? 5 years? Some comment around lead and lag times is important to give Ministers a sense of risk in this regard.

By better specifying the “do nothing” situation, it becomes easier for Ministers to assess the merit of each intervention.

Two other points

1. The paper touches on but doesn't really address the points raised in the meeting around any “no-regrets” activity that could occur in the regulatory space (removing the requirement to ship hazardous chemicals in the sounds if I recollect rightly etc), and land rationalisation that could lower costs to entry, and no doubt there are others. Possibly this is something for the second phase of the study?
2. MOT explicitly rule out the tourism market from the paper. I don't know how important this is vis-à-vis freight, but I would have thought this was important enough for the Government in terms of the 50,000 people per week that use the strait in peak season (I think that was the statistic used) and as one of our key export growth markets, so I would suggest they build some analysis on this into the paper.

Specific Comments

Purpose, para 2 – this isn't quite right. KR is running the HMD sole source procurement option. MAG is testing the wider market for new ferries. And Treasury is developing a market procurement strategy.

1st key point – “lighter touch” sentence. This seems to be contrary to where you are going with the second phase work (and with the comment on the overall conclusion above). Perhaps you don't need to indicate this conclusion here.

Rec 8 – we don't think proactive release makes sense ahead of decision making in late July.

Para 3.1 – we do not think this reflects what KR are doing. KR is looking at second hand ships and are about to say this is not possible (based on BRS advice), and are working on the HMD option, which will run until late July before it reveals feasibility and a price. KR is not exploring broader market options - MAG is taking the lead on this.

Para 3.2 – As for above, it would be helpful to be more specific about the scope of the June advice.

Para 5 - Ministers will be receiving advice rather than proposals. In early June, MAG will report on market options for ferries and Treasury will report on a potential procurement strategy. In late July, KR will report on the feasibility and price of the HMD reuse option following assessment by HMD.

Para 11 – When discussing a successful market response through the paper you should note that this would likely involve a significant transition for the market, which could expose Ministers, supply chains, and operators to significant risk.

Para 12 – there was also a brief period of fast passenger only services.

Para 14 - The potential profitability, or not, of a new entrant is absolutely key to forming a view about its likelihood. There needs to be better information than this paragraph. Kiwirail intends to provide Tsy and the MAG with its business case for the new ferries following its board meeting next week. That could be a source of some more detailed financial information.

Para 16 – hard to see it as a going concern if the ships are at end of life.

Para 23 - the paper mentions s 9(2)(i) in capital investment required. There needs to be better information to underpin this type of statement. Again, perhaps the business case might come in handy here.

Para 51 – MAG market sounding: report in week of 10-14 June. MAG advice on new ships: report in week of 10-14 June.

Hope that's helpful. We are happy to discuss further if you want.

Thanks

Dominic & Treasury team



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Dominic Millicich | Principal Advisor | Te Tai Ōhanga – The Treasury

Tel: s 9(2)(a) | Email/IM: dominic.millicich@treasury.govt.nz

Visit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)

From: Rory Sedgley <R.Sedgley@transport.govt.nz>

Sent: Friday, May 17, 2024 9:42 AM

To: Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>; Chris White [TSY] <Chris.White@treasury.govt.nz>; Dominic Millicich [TSY] <Dominic.Millicich@treasury.govt.nz>; roger <roger@sul.co.nz>; markthompso s 9(2)(a); mark s 9(2)(a); Mitchell, Karen s 9(2)(a)

Cc: Sarah Carson <S.Carson@transport.govt.nz>; Bev Driscoll <B.Driscoll@transport.govt.nz>

Subject: For feedback 22 May: MoT briefing Cook Strait barriers to market response

Dear all,

Thank you for your contributions to our meeting on Wednesday on the development of the broad range of alternative interventions to achieve the Crown's objectives on Cook Strait. We will refine these options and prepare a more detailed written report by the end of the month for your feedback.

As previously signalled, I am attaching a draft of our first piece of advice to the Minister on the barriers to a market response in the hypothetical scenario of KiwiRail exiting the Cook Strait market. This also gives an early indication of the broad spectrum of alternative interventions that we are developing advice on.

I would appreciate if you could provide any written comments or feedback by close Weds 22 May. This will allow us time to incorporate or respond to any feedback before the advice is submitted.

In order to assist Ministers with consideration of a coordinated stream of advice, we would like to include the perspective of the MAG within this briefing. We have left a placeholder for this and @Mark Thompson if you would like to embed the MAG's advice here (particularly if it diverges from the Ministry's assessment) then please could you propose some suitable text to include.

@Chris White (Treasury) please could you help finalise the indicative timeline at the end?

Thank you very much,
Rory

Rory Sedgley

Kaitohutohu Mātāmua – Ngā Ara Whakarato | Principal Adviser – Supply Chain
Te Manatū Waka Ministry of Transport

M: s 9(2)(a) | E: r.sedgley@transport.govt.nz | transport.govt.nz

My working days are Tuesday-Friday

MINISTRY OF TRANSPORT

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Wendy Harrison

From: Rory Sedgley
Sent: Friday, 31 May 2024 11:54 am
To: Mario DiMaio [DPMC]; Jason Raven [DPMC]
Subject: For info: Cook Strait Resilience Phase One Advice
Attachments: OC240407 Cook Strait Resilience Phase One Report - Internal signature.pdf; 240531 Phase 2 detailed options assessment pack Exec Sum.pptx

the attachment has been removed as it was duplicate

Hi both,

Just following up on our previous discussion, the advice attached was submitted to the Minister of Transport on Wednesday. Apologies I forgot to share it sooner.

We are well into the preparation of our Phase Two advice now, looking at the range of options available to Ministers. We have prepared a rather long slide deck to document the evaluation process and provide a logical record of the Ministry's thinking on this subject.

I thought I'd spare you all 61 pages and just share the executive summary. This is subject to revision as we gather more feedback and crucially our final recommendation will need to take into account some more practical considerations about what might actually be viable in the limited time now available.

I'd welcome any feedback from you, and more than happy to share the full pack if you'd like a deeper dive, or we can set up a call to talk you through.

All the best,
Rory

Rory Sedgley

Kaitohutohu Mātāmua – Ngā Ara Whakarato | Principal Adviser – Supply Chain
Te Manatū Waka Ministry of Transport

M: s 9(2)(a) E: r.sedgley@transport.govt.nz | transport.govt.nz

My working days are Tuesday-Friday

Catherine Coombs

From: Rory Sedgley
Sent: Tuesday, 18 June 2024 3:42 pm
To: Siobhan Routledge
Subject: RE: Cook Strait Ferries: Project Orange Governance Group

s 9(2)(ba)(i)

I have organised an introductory meeting for Karen with Bluebridge next Wednesday so can make some gentle enquiries then.

I think the main comment we would have at this stage is that it would add time and complexity to the negotiate/contract/build timelines.

From: Siobhan Routledge <S.Routledge@transport.govt.nz>
Sent: Tuesday, June 18, 2024 3:32 PM
To: Rory Sedgley <R.Sedgley@transport.govt.nz>
Subject: RE: Cook Strait Ferries: Project Orange Governance Group

Hi Rory, do we have any comment to make on the multi-user facility in case this is raised? I recall this was an issue Bluebridge was concerned about including the logistical practicalities of turning around cars, trucks etc etc at pace.

From: Rory Sedgley <R.Sedgley@transport.govt.nz>
Sent: Tuesday, June 18, 2024 2:26 PM
To: Audrey Sonerson <A.Sonerson@transport.govt.nz>
Cc: Siobhan Routledge <S.Routledge@transport.govt.nz>; Sharyn Forty <S.Forty@transport.govt.nz>; Bev Driscoll <B.Driscoll@transport.govt.nz>; David Wood <D.Wood@transport.govt.nz>
Subject: RE: Cook Strait Ferries: Project Orange Governance Group

Hi Audrey,
Hopefully these few points are helpful tomorrow, grateful if you could let me know how the meeting goes.

I still haven't seen the Treasury Report (including draft Procurement Strategy) that is proposed for noting at this meeting (**Agenda item 3**) but I did speak to Karen Mitchell this morning and she'll circulate when it is ready. I will reciprocate with our Phase Two briefing once David has signed it out.

Agenda item 2

The Terms of Reference are fine, though it would have been helpful to have had advance sight. I have asked Karen to tweak the description of the MoT workstream to make it more accurate.
I also explained how we envisioned the MoT role going forward - providing policy support to the Treasury as they lead the establishment of the new entity and leadership of the procurement process. Treasury are going to need to figure out how they resource themselves, but one area that they will likely look to the Ministry to lean into is the port infrastructure and landside redevelopment.

Agenda item 4

I understand that the MAG will recommend this week that the Crown invests in the renewal of port infrastructure in Wellington and Picton. s 9(2)(g)(i)

MAG might also recommend that this Crown investment in port infrastructure is put into multi-user ferry terminal facilities, again motivated by desire for a level playing field and to defray the infrastructure costs over both operators.

The Ministry has not given any consideration to the merits or otherwise of direct Crown investment in port infrastructure, as it's just not something we have ever done. If there is any suggestion tomorrow that the Ministry lead some work on the development of port infrastructure to support the proposed new ferries, I would recommend pushing back.

Our engagement with the port companies revealed a willingness to invest in infrastructure renewal on a commercial basis, and we did not discuss the prospect of direct Crown investment (as it just wasn't on the table).

Agenda item 5

The final agenda item is KiwiRail's business case, which we have not had visibility of. I think KiwiRail still assume that they will lead vessel procurement, so the proposal to establish a new entity is unlikely to be discussed with Peter tomorrow.

Rory Sedgley

M: s 9(2)(a)

E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Bev Driscoll <B.Driscoll@transport.govt.nz>

Sent: Sunday, June 16, 2024 9:38 AM

To: Audrey Sonerson <A.Sonerson@transport.govt.nz>; David Wood <D.Wood@transport.govt.nz>

Cc: Siobhan Routledge <S.Routledge@transport.govt.nz>; Sharyn Forty <S.Forty@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>

Subject: Fwd: Cook Strait Ferries: Project Orange Governance Group

Many thanks Audrey.

We'll get some bullets to you / David on Tuesday in the pm, to support attendance at the governance group meeting (Weds, 19 June, 3.30 - 5.00pm, tbc).

Nga mihi, nui
Bev

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From: Audrey Sonerson <A.Sonerson@transport.govt.nz>

Sent: Friday, June 14, 2024 4:02 PM

To: Bev Driscoll <B.Driscoll@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>

Cc: Sharyn Forty <S.Forty@transport.govt.nz>

Subject: FW: Cook Strait Ferries: Project Orange Governance Group

These have just come in.

Audrey Sonerson (she / her / Ms)

M: [s 9\(2\)\(a\)](#) | E: a.sonerson@transport.govt.nz | transport.govt.nz

Executive Assistant: Sharyn Forty | M: [s 9\(2\)\(a\)](#) | E: s.forty@transport.govt.nz

From: Anneliese Mills [TSY] <Anneliese.Mills@treasury.govt.nz>

Sent: Friday, June 14, 2024 3:50 PM

To: Audrey Sonerson <A.Sonerson@transport.govt.nz>

Cc: Sharyn Forty <S.Forty@transport.govt.nz>

Subject: Cook Strait Ferries: Project Orange Governance Group

[IN-CONFIDENCE]

Kia koutou,

The Project Orange Treasury team has put forward a recommendation for the establishment of a Governance Group to enable discussion and visibility of the workstreams and progress towards providing a commercially viable, safe, and reliable ferry service across the Cook Strait.

Multiple streams of work are underway, all led by different agencies with individual accountabilities. The outputs of these workstreams are integral to the development of a 'whole of Crown' recommendation paper, which is due for completion by the end of July 2024, which will seek decisions to procure 2 new ROPAX, non-rail enabled ferries.

The establishment of a dedicated Governance Group is proposed to guide the coordination and integration of these workstreams, contributing effectively to the 'whole of Crown' recommendation paper.

It is proposed the group convenes on a fortnightly basis with the following schedule:

Initial meeting 19th June 3.30-5pm

Subsequent meeting to be scheduled in the first week of July.

Final meeting at the end of July, immediately prior to the submission of the 'whole of Crown' recommendations paper.

The group will be chaired by Leilani Frew, and Treasury will provide secretarial support.

The agenda and draft Terms of Reference are attached, noting that due to the compressed timeline, the remainder of the supporting documents will be provided nearer the meeting.

To ensure that all necessary arrangements are in place to facilitate your attendance and participation, **please review and sign the attached Project acknowledgements form.**

The form outlines the confidentiality arrangements applicable to all Governance Group attendees, emphasizing the importance of safeguarding sensitive information shared during meetings. All attendees are required to adhere to strict confidentiality protocols, particularly concerning information designated as legally privileged. The form also includes a declaration of any relevant interests pertinent to any of the projects within scope.

An invite for 19th June will follow.

Please reach out if you have any questions.

Nga mihi nui,

Anneliese Mills | Project Manager, Projects, Financial and Commercial Group

Tel: [s 9\(2\)\(a\)](#) | anneliese.mills@treasury.govt.nz



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Wendy Harrison

From: Bev Driscoll
Sent: Sunday, 23 June 2024 1:35 pm
To: Helen FionaWhite
Cc: Sydney Van Nortwick; Dominic Cowell-Smith; David Wood; Rory Sedgley; Natasha Rave; Brent Johnston; Audrey Sonerson; Matthew Green; Chris Roblett; Paul Fistonich; Lucas Vetter; Carl Van Der Meulen
Subject: RE: MAG report
Attachments: Ministerial Advisory Group report 4(4970017.5).docx; Fortnightly Report - WE23 June 2024 - FINAL.docx

The Ministerial Advisory Group report is already publicly available at <https://www.treasury.govt.nz/publications/information-release/ministerial-advisory-reports-regarding-ferry-procurement>

[SEEMAIL] [COMMERCIAL-IN-CONFIDENCE]

Kia ora Helen

Thanks for your email and text. As requested, please see attached Report 4 from the MAG.

I understand Report 4 was submitted to Ministers' on Thursday/Friday. (Unfortunately, Treasury did not provides us with a copy in advance or at the time. This was only provided to us on request yesterday).

Cut and paste below, MAG recommendations from Report 4 for ease of reference.

1. *"Establish a company to be responsible for:*
 - o *In the near term, for commissioning, construction and delivery of the ships, negotiating agreement with the ports on the provision of portside infrastructure needs and ensuring ports are ready to receive new vessels as soon as possible.*
 - o *In the medium term, to manage the transition to new ferries and infrastructure transition with a view to the entity assuming responsibility for operating the Interislander service safely and reliably and driving improved commercial performance.*
2. *Agree that during the transition to new vessels arrangements should be made to ensure effective alignment between the new company and KiwiRail, with KiwiRail remaining responsible for operating the Interislander service, safely and reliably.*
3. *Direct the Treasury to prepare a procurement pathway for a decision on new ships to be made by 31 July so a contract can be signed by 1 October 2024 at the latest, noting that a Cabinet exemption is likely to be required from the 'all of government procurement' rules.*

S 9(2)(K)(V)

5. *Ask the Treasury to advise on re-establishing the Future Ports Forum⁽¹⁾ and expand this group to include Port of Marlborough and Marlborough District Council with Waka Kotahi to take responsibility for the integration of the ports (i.e., for Dublin St and the Kaiwharawhara interchanges).*

S 9(2)(K)(V)

7. Direct the Treasury to invite ^{s 9(2)(i)} [REDACTED] to submit a price and delivery date for a generic detailed specification to provide a basis for comparison with the option being prepared by KiwiRail with HMD, to enable Ministers to consider options at the end of July.
8. Note that the MAG had intended that its work would be concluded by 30 June 2024 but key workstreams remain in progress. Subject to confirmation by Ministers, MAG is therefor available to provide advice and assurance to Ministers until a new entity is established and the pathway to confirming a procurement decision is underway, but currently proposes no further specific work."

Note that Treasury will submit advice on ship procurement and the establishment of a new entity to Ministers' on Monday. This is signalled in the Cabinet paper MoT is preparing for the Minister.

In the risk table in the attached MAG Report, the MAG notes that "The Det Norske Veritas (DNV) report on the remaining useful lives of KiwiRail's existing ferries has not been received." Attached for your awareness, recent KiwiRail advice to the Minister about the DNV Report. The DNV report concludes that: "There are no systemic issues that will stop the Interislander fleet operating until 2029, provided it continues to follow regular on-going preventative and corrective maintenance activities, all relevant Class and Statutory surveys are carried out, and the vessel continues to hold valid certificates."

Let me know if you need anything further.

Ngā mihi, nui
Bev

From: Helen FionaWhite <Helen.FionaWhite@parliament.govt.nz>
Sent: Sunday, June 23, 2024 12:24 PM
To: Bev Driscoll <B.Driscoll@transport.govt.nz>
Cc: Sydney Van Nortwick <Sydney.VanNortwick@parliament.govt.nz>; Dominic Cowell-Smith <Dominic.Cowell-Smith@parliament.govt.nz>
Subject: MAG report

Hi Bev

Did a report from the MAG go up this week? Do you have a copy you can share?

Cheers
Helen

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^[1] The Future Ports Forum comprised representatives of the Greater Wellington Regional Council, the Wellington City Council, CentrePort, the New Zealand Transport Agency, KiwiRail, and Bluebridge and was set up to look at where to situate the Wellington Cook Strait ferry terminal.

Wendy Harrison

From: Bev Driscoll
Sent: Monday, 24 June 2024 9:23 am
To: Matthew Green
Cc: David Wood; Siobhan Routledge; Rory Sedgley
Subject: FW: For approval: Schedule 4a talking points for Minister Brown

Importance: High

Kia ora Matthew

I just spoke to David Wood, and he is not convinced there is an issue. Unless you have strong views to the contrary, David is comfortable with removing any reference to issues with the Minister being a shareholder of the new entity, or the need to provide further advice.

Grateful if you could come back to me asap. I will then send these bullets over.

Ngā mihi, nui
Bev

From: Bev Driscoll <B.Driscoll@transport.govt.nz>
Sent: Monday, June 24, 2024 7:48 AM
To: David Wood <D.Wood@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>; Matthew Green <M.Green@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>
Subject: Re: For approval: Schedule 4a talking points for Minister Brown

Hi All

Just a suggestion that I pondered on my walk this morning.

Could we say something like this at the end of the bullets:

"We will come back to you on whether or not it would be appropriate for you to be a shareholding Minister in the new entity, given that longer-term, the new vessels, their operations and crew will be subject to the transport regulatory framework (which you have responsibility for) and regulatory decision making by transport entities and their Directors."

This would also give us time to consider in the immediate term - i.e the procurement phase - whether a shareholder position by the Minister is also appropriate or not. I'm mindful the new entity would be negotiating landside facilities with the ports and associated charges, and there is also a competitor - Strait Shipping - who also needs access etc and fair terms. Am unclear in my own mind what the actual risk is but could there be a perception of undue influence (or bias?) if the transport minister was also a shareholder?

Matthew, appreciate you might have a legal take on this and whether or it is an issue.

For my own understanding too - Section 431 of the MTA sets out MNZ's functions and (g) specifies "to license ships, their operation, and crew". Hence the comment in my earlier about MNZ's licensing

role. I am not sure how MNZ carries this function out - I.e whether they delegate that to the Director. But regardless, does the MNZ Board have statutory independence in relation to this? I think this is different to aviation legislation (which I am more familiar with) where the Director licences craft, operations and crew and has statutory independence. Anyways, I might be going down a rabbit hole here which is not needed at this time.

Nga mihi, nui
Bev

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From: Bev Driscoll <B.Driscoll@transport.govt.nz>

Sent: Sunday, June 23, 2024 7:28 PM

To: David Wood <D.Wood@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>; Matthew Green <M.Green@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>

Subject: Re: For approval: Schedule 4a talking points for Minister Brown

That's true David, transport Directors have independent statutory powers to manage individual entry and exit into the system, including investigation and enforcement action against a transport operator for breach of transport legislation (including rules).

But to Siobhan's point, I think we do need to carefully consider the Minister of Transport as a shareholder in the company - particularly when the company moves into operations and is:

- licensed by the MNZ (whose Board is appointed by, and accountable to, the Minister of Transport)
- subject to transport rules (set by the Minister of transport)
- subject to approvals, monitoring and enforcement by the Director of MNZ.

I acknowledge that the Director is not accountable to the Board or the Minister for action taken against a license holder. However, given the first two bullets, above, I think there is a perception issue if the Minister of Transport is involved in a company that is in breach of the regulatory system he maintains. (Not to say the Company will automatically end up in breach of transport legislation and rules but it is a risk).

I hope this makes sense and very happy to discuss tomorrow morning.

Nga mihi, nui
Bev

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From: David Wood <D.Wood@transport.govt.nz>

Sent: Sunday, June 23, 2024 6:25 PM

To: Siobhan Routledge <S.Routledge@transport.govt.nz>; Bev Driscoll <B.Driscoll@transport.govt.nz>; Matthew Green <M.Green@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>
Subject: RE: For approval: Schedule 4a talking points for Minister Brown

Given the precedent with ALR and CRL, I'm not convinced the Minister of Transport shouldn't be a shareholder of the schedule 4A company.

The Minister's capacity to have direct influence on regulatory matters is constrained by the legislative settings. Welcome your thoughts.

From: Siobhan Routledge <S.Routledge@transport.govt.nz>

Sent: Sunday, June 23, 2024 6:21 PM

To: Bev Driscoll <B.Driscoll@transport.govt.nz>; Matthew Green <M.Green@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>; David Wood <D.Wood@transport.govt.nz>

Subject: Re: For approval: Schedule 4a talking points for Minister Brown

Good with me too.

On the point about the potential for a Minister of Transport to be a shareholding minister - there is precedent but the regulatory issues are different- eg Minister is involved in CRL (and previously ALR). Could add to the end of your final bullet something like 'This is particularly likely to be an issue when the entity moves to operations (as opposed to procurement).' (Better language could be drafted...)

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From: Bev Driscoll <B.Driscoll@transport.govt.nz>

Sent: Sunday, June 23, 2024 5:32:29 PM

To: Matthew Green <M.Green@transport.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>; David Wood <D.Wood@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>

Subject: RE: For approval: Schedule 4a talking points for Minister Brown

And from me too, thanks Rory.

One further addition from me in green.

Ngā mihi, nui
Bev

From: Matthew Green <M.Green@transport.govt.nz>

Sent: Sunday, June 23, 2024 5:31 PM

To: Rory Sedgley <R.Sedgley@transport.govt.nz>; David Wood <D.Wood@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>; Bev Driscoll <B.Driscoll@transport.govt.nz>

Subject: RE: For approval: Schedule 4a talking points for Minister Brown

Looks good from my perspective.

Some minor comments in red below.

Matthew

From: Rory Sedgley <R.Sedgley@transport.govt.nz>

Sent: Sunday, June 23, 2024 5:21 PM

To: David Wood <D.Wood@transport.govt.nz>; Siobhan Routledge <S.Routledge@transport.govt.nz>; Matthew Green <M.Green@transport.govt.nz>; Bev Driscoll <B.Driscoll@transport.govt.nz>

Subject: For approval: Schedule 4a talking points for Minister Brown

Hi all,

I've kept this short and to the point. Grateful if you could let me know any feedback, or if you're happy with it this evening so that I can submit to Helen.

- The Minister of Finance intends to bring a paper to Cabinet next week proposing the establishment of a new entity to be responsible for procuring new Cook Strait ferries. This would be a Schedule 4A Company – so called because the companies are all listed in **Schedule 4A of the Public Finance Act 1989**.
- City Rail Link Ltd, and Crown Infrastructure Partners Ltd are high profile examples of a Schedule 4A company.
- This type of entity is most appropriate for circumstances when the Crown is seeking to achieve a mixture of commercial and social outcomes. The other most obvious commercial entity form would be a State Owned Enterprise (an SOE like KiwiRail) **which is regulated by the State Owned Enterprises Act 1986**.
- The advantage of a Schedule 4A company over an SOE is that it enables joint ownership, for example, City Rail Link Ltd is 51 percent Crown owned, while Auckland Council owns 49 percent
- The introduction of a private sector shareholder could be undertaken at any point in time, and should help to enforce commercial discipline and support the long-term commercial viability of the services.
- The Ministry provided you with advice on Thursday 20 June 2024 (OC250407 refers) recommending a "mixed ownership style" approach as an optimal longer-term solution for the provision of Cook Strait ferry services. The establishment of a Schedule 4A company to lead the initial ferry procurement is most conducive to achieving this outcome.
- Formation of the company requires two or more shareholding Ministers, one of whom must be the Minister of Finance.
- We would not expect the Minister of Transport to be proposed as a shareholding Minister in this new company as it could be perceived as creating a conflict of interest with your regulatory responsibilities for the transport sector (in the same way that you are not a KiwiRail shareholder).

Rory Sedgley

Kaitohutohu Mātāmua – Ngā Ara Whakarato | Principal Adviser – Supply Chain

Te Manatū Waka Ministry of Transport

M: **s 9(2)(a)** | E: r.sedgley@transport.govt.nz | transport.govt.nz

My working days are Tuesday-Friday

Wendy Harrison

From: Rory Sedgley
Sent: Tuesday, 25 June 2024 4:35 pm
To: Karen Mitchell [TSY]; Dominic Milicich [TSY]
Cc: Bev Driscoll
Subject: MoT contribution to Treasury Report
Attachments: 240625 2 pager for Treasury Report.docx

Hi both,

As discussed this morning, please find attached some bullet points for you to weave into your TR intended to bring a wider group of Ministers up to speed on Cook Strait ferry issues. I'm happy to expand or clarify anything in here

Please could you send us a copy of the near final report before it is submitted? David has asked to review and I'm sure could look at it in parallel with sign off at your end.

@Dominic Milicich [TSY] we need to have a think about some of the issues raised in your draft Cabinet paper, please could you give me a deadline for our input?

Thanks very much,
Rory

Rory Sedgley

Kaitohutohu Mātāmua – Ngā Ara Whakarato | Principal Adviser – Supply Chain
Te Manatū Waka Ministry of Transport

M: +s 9(2)(a) | E: r.sedgley@transport.govt.nz | transport.govt.nz

My working days are Tuesday-Friday

Could we just leave it to the market?

- In early 2024 the Ministry of Transport conducted a period of intensive stakeholder engagement across the ferry and port companies, industry representative bodies, freight forwarding and logistics sector, regulatory agencies, and unions. The Ministry investigated the potential for a commercial response in the hypothetical scenario that KiwiRail left the Cook Strait market.
- Several stakeholders have expressed scepticism at the prospect of KiwiRail successfully divesting itself of the Interislander business due to a perception that the end-of life-ships, employment arrangements and other legacy obligations represent more liabilities than there are assets in the business.
- The Ministry did not discover anything to suggest that a market-led response would be impossible.
- However, while services should be commercially viable, there is no indication that a new operator is 'waiting in the wings' to establish services in the event of KiwiRail's exit. It is unlikely that a new operator could establish services in time to avoid a loss of capacity or competition on the route in the short-medium term.
- Loss of service on Cook Strait would disrupt supply chains and distribution networks, as well as the travelling public and visiting tourists. Reduced competition or monopolisation of the market by Bluebridge would likely see higher prices for consumers.
- Direct Government intervention, and procurement of new ferries, is required in order to provide certainty that sufficient capacity across Cook Strait will be available once the KiwiRail ferries retire, and that there will be competition in the market.

There are high barriers to entry for a prospective private sector operator

Cost and availability of ships

- The ferry service is a capital intensive business that would require an investor to sink hundreds of millions of dollars into establishing the business, acquiring suitable ships, negotiating access to port infrastructure and building a customer base.
- Bluebridge advised the Ministry of Transport it has a high-level of confidence in its ability to source a suitable ship on the second-hand market to grow its fleet (if there was a commercial opportunity). KiwiRail has commissioned shipbrokers to search for second-hand ships on the market. KiwiRail (and the Ministerial Advisory Group) advises there are very few ships in existence that meet their specifications, and none of them are currently for sale.

Port infrastructure – investment and land holdings

- The port companies advise that with a sufficient lead-in period, suitable landside infrastructure could be made available (wharf access and vehicle marshalling yards etc.). The port operators would require contractual arrangements to secure a commercial return from their infrastructure investment.

- The wharves used by KiwiRail in Picton reach end of life in 2029, and the need to replace them with alternative infrastructure remains regardless of future operator. The infrastructure at CentrePort will require renewal, but to a lesser extent.
- KiwiRail controls significant strategic landholdings in the ports which would constrain the operations of a new competitor and the ability of the ports to develop infrastructure to support an alternative operator.

Labour market

- Attracting and retaining qualified seafarers has been an issue for many years. The sector is seen as unattractive to work in, the qualification and certification system is complex for new recruits and the funding model for maritime schools is not fit for purpose. Competition with Australia is also challenging given the high wages in the Australian oil and gas industry.

Cook Strait connections enable a highly competitive and flexible freight transport market

- The ability to move freight reliably and affordably between the North and South Islands is essential to the economy. National freight distribution systems have become concentrated in the Upper North Island with logistics networks operating just-in-time services that depend on predictable ferry services across Cook Strait.
- Competition within the road freight sector is intense, particularly in the current economic climate, and price competition between Bluebridge and KiwiRail has benefitted consumers.
- Freight shifts between road, rail and coastal shipping based on price, and the characteristics of the freight commodity (e.g. size and density). If KiwiRail exited the market and capacity across the Strait reduced, prices would likely rise. This could encourage price-sensitive freight to move to coastal shipping (and we understand the coastal shipping sector could absorb the increase). It could also cause system-level changes in supply chains, for instance, encouraging direct imports through South Island ports, rather than concentrating imports and distribution networks in the Upper North Island.

Passenger revenue is critical but seasonal for ferry operators

- The market for passenger travel across Cook Strait is valuable and actively targeted by both ferry operators, but it is highly seasonal, with more than 50% of passenger volume travelling in just four months December to March. Scaling available capacity to meet the seasonal demand for passenger traffic over the summer is a challenge for the incumbent operators. Lay on too little capacity, and there is a risk of unmet demand and foregone earnings in the summer. Lay on too much capacity and there is a risk of excess capacity in the winter and higher operating costs all year.
- The passenger market tends not to be contestable with aviation, as people choose the ferry for the convenience of being able to take their own vehicle (instead of hiring at their destination) and taking as much luggage as they like, or as an economical way for a group of people to travel together.

Newbuild ships the only viable option for Cook Strait at this point

- Advice from shipbrokers - via KiwiRail and the MAG - is that there are no second-hand vessels suitable for the Cook Strait crossing available for purchase. Ferries are

commissioned to service a particular route, and tailored to suit that market, so tend only to be offered for sale at retirement age or if a route is discontinued.

Only the Crown has the resources and investment horizon to purchase new ships

- The extent of the capital investment required and uncertainty of making an economic return make for an unattractive proposition to a private sector operator considering starting up a new Cook Strait ferry service.
- Once established, the Crown could recover some capital costs through partially or fully reducing its ownership stake in the new ferry operator. A Schedule 4A company makes provision for joint ownership, and careful consideration will need to be given to the appropriate moment to divest in order to maximise return to the Crown.

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Wendy Harrison

From: Rory Sedgley
Sent: Thursday, 27 June 2024 2:55 pm
To: Dominic Milicich [TSY]
Cc: Karen Mitchell [TSY]
Subject: MoT comments on draft Cabinet paper
Attachments: Project Mandarin - Cabinet paper_MoT comments.docx
Attachment withheld under s.18(d). The Cabinet paper regarding the Government decision to procure new ferries is available online at <https://www.treasury.govt.nz/publications/information-release/ministerial-advisory-reports-regarding-ferry-procurement>

Hi Dominic,

I have tracked in some suggested text in the attached where requested.

A few additional points to make on top of this.

- If the Minister of Transport is to be a shareholder (and we need to discuss how to manage possible perceived conflicts of interest) then in our view the Ministry ought to be a joint monitoring department from the outset, in particular to provide advice to shareholding Ministers on the Company's initial purpose and establishment documents.
- Perhaps this requires an MoT secondee to Treasury, or some kind of joint unit to ensure close collaboration?
- If the Ministry is to establish specialised monitoring functions, then it will need to be funded to do so. There should be a sentence or two and rec that notes that the \$0.300 departmental monitoring money will be transferred from Vote Finance to Vote Transport at the time the monitoring responsibility shifts from Treasury the Ministry
- Please could we be consulted on the list of candidate directors to be approached (para 51).

A second order issue, the proposed name (*Strait Ferries New Zealand Limited*) is perhaps a little too similar to StraitNZ, Bluebridge's parent company?

Cheers,
Rory

Rory Sedgley

M:  | E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>
Sent: Tuesday, June 25, 2024 1:02 PM
To: Rory Sedgley <R.Sedgley@transport.govt.nz>
Subject: RE: draft Cabinet paper

[IN-CONFIDENCE]

Hi Rory

Attached. Please note it is very draft and hasn't been through our internal processes at all. You'll see a couple of paras on the transport aspects of the situation that could do with your help.

Dominic

From: Rory Sedgley <R.Sedgley@transport.govt.nz>
Sent: Tuesday, June 25, 2024 12:57 PM
To: Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>
Subject: draft Cabinet paper

Hi Dom,
Just pulling together that summary note for you as requested. Please could you share a draft of your Cabinet paper?
Cheers,
Rory

Rory Sedgley

Kaitohutohu Mātāmua – Ngā Ara Whakarato | Principal Adviser – Supply Chain
Te Manatū Waka Ministry of Transport

M: ^{s 9(2)(a)} [REDACTED] | E: r.sedgley@transport.govt.nz | transport.govt.nz

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MINISTRY OF TRANSPORT

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Wendy Harrison

From: Rory Sedgley
Sent: Wednesday, 24 July 2024 1:48 pm
To: Karen Mitchell [TSY]
Cc: Callum Gill
Subject: For info: Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service
Attachments: 20240717_New Zealand Government - Strategic option for Interislander ferry service vF.pdf

Hi Karen,
We have just prepared a straightforward acknowledgment response for the Minister to reply to the unsolicited proposal attached.

We also undertook to share with Treasury officials for consideration in the development of your advice.

Rory Sedgley

M: s 9(2)(a) E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Keith Turner <keith.turner99@gmail.com>
Sent: Thursday, July 18, 2024 10:29 AM
To: Simeon Brown (MIN) <S.Brown@ministers.govt.nz>
Cc: Steve Hammerton <steve.hammerton@flagstaffpartners.com>
Subject: Fwd: Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service

Simeon

Further to our phone call last Friday, re the Cook Strait Ferry service options.

Attached is the brief outline I referred to of the Flagstaff proposal that might have compelling advantages for NZ

After 10 years (7 as Deputy Chair) of Auckland Airport, I can attest to the effectiveness of the model for attracting infrastructure capital at competitive rates and enabling the service and quality to match demand.

I understand, from our conversation, that this proposal would be forwarded on to the MAG who are assessing a range of options for advice to Government.

Flagstaff Principals will be in Wellington on August 22nd (on another matter) but would have time to meet with you, your staff and the MAG if that is helpful??

Best regards
Cheers
Dr Keith Turner

Sent from my iPad

Begin forwarded message:

From: Steve Hammerton <Steve.Hammerton@flagstaffpartners.com>
Date: 17 July 2024 at 8:32:30 PM NZST
To: keith.turner99@gmail.com
Cc: Paul Donnelly ^{s 9(2)(a)}, Alex Holdsworth
<Alex.Holdsworth@flagstaffpartners.com>
Subject: Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service

Keith

As discussed, please find attached a memo from Flagstaff Partners: Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service

Rgs

Steve Hammerton

Managing Director, Flagstaff Partners

Level 20, 101 Collins St, Melbourne

Tel ^{s 9(2)(a)}

steve.hammerton@flagstaffpartners.com

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Strategic option for the New Zealand Government's consideration regarding the future of KiwiRail's Interislander ferry service

17 July 2024

Flagstaff Partners ("Flagstaff" or we) is pleased to outline an option for the New Zealand Government's ("Government") consideration in relation to the future of KiwiRail's Interislander ferry service.

About Flagstaff Partners

s 9(2)(b)(ii), s 9(2)(ba)(i)

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Wendy Harrison

From: Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>
Sent: Wednesday, 7 August 2024 3:34 pm
To: Rory Sedgley
Subject: FW: The Treasury | Jarden - Catch-up
Attachments: 240807 Cook Strait Ferries_Jarden perspectives.pdf

[IN-CONFIDENCE]

Hi Rory

Hi Rory

I note that capacity of the Bluebridge fleet as per slide 3 is a bit different to the numbers in your AM, although noting your source as their website. Jarden slides suggest a total of 1090 Pax and 5200 LM?

Regards
Karen

From: Ross Mitchell s 9(2)(a)
Sent: Wednesday, August 7, 2024 1:29 PM
To: Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>
Cc: Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>; Matt Tolan [TSY] <Matt.Tolan@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>; Andrew Parsonage s 9(2)(a)
Subject: RE: The Treasury | Jarden - Catch-up

Some people who received this message don't often get email from s 9(2)(a) [Learn why this is important](#)
Simon & team,

Please find attached a few pages for reference on our call shortly.

Kind regards
Ross

Ross Mitchell

Director, Investment Banking
s 9(2)(a)

Level 32, PWC Tower, 15 Customs Street West, Auckland, PO Box 5333



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-----Original Appointment-----

From: Charlotte Christie On Behalf Of Ross Mitchell

Sent: Friday, August 2, 2024 6:13 PM

To: Ross Mitchell; Andrew Parsonage; Simon Hay [TSY]

Cc: Lars Piepke [TSY]; Matt Tolan [TSY]; Karen Mitchell [TSY]; Rory Sedgley

Subject: The Treasury | Jarden - Catch-up

When: Wednesday, 7 August 2024 1:30 pm-2:30 pm (UTC+12:00) Auckland, Wellington.

Where: Microsoft Teams Meeting

Hi Simon,

As discussed, please forward this invite onto your team. Please let me know if any issues arise with this timing.

Kind regards

Charlotte Christie

Team Assistant

s 9(2)(a)

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 JARDEN

Cook Strait Ferries

Jarden perspectives from involvement with StraitNZ transactions

7 August 2024

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Wendy Harrison

From: Rory Sedgley
Sent: Thursday, 8 August 2024 9:40 am
To: Juston Anderson [TSY]
Subject: RE: Urgent - questions regarding Cook Strait

A private sector operator might be interested in taking control, but that's not what Ministers have been discussing/thinking about. The introduction of private capital in this context has always been discussed as a minority partner (in a schedule 4a company) in order for the Crown to retain control over a piece of critical national infrastructure.

Rory Sedgley

M: s 9(2)(a) | E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>
Sent: Thursday, August 8, 2024 9:32 AM
To: Rory Sedgley <R.Sedgley@transport.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>; s 9(2)(a) Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>; David Wood <D.Wood@transport.govt.nz>
Cc: Matt Gilbert <matthew.gilbert@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>
Subject: RE: Urgent - questions regarding Cook Strait

[IN-CONFIDENCE]

Hi Rory

I think this statement is a little too strong: s 9(2)(b)(i)

From: Rory Sedgley <R.Sedgley@transport.govt.nz>
Sent: Thursday, August 8, 2024 9:22 AM
To: Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>; markthompson s 9(2)(a) Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>; David Wood <D.Wood@transport.govt.nz>
Cc: Matthew Gilbert [TSY] <Matthew.Gilbert@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>; Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>
Subject: RE: Urgent - questions regarding Cook Strait

Hi Karen,
Looks good. Just a couple of small additions from me in the attached.
Cheers,
Rory

Rory Sedgley

M: s 9(2)(a) | E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>

Sent: Thursday, August 8, 2024 12:50 AM

To: Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>; markthompson s 9(2)(a) Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>; David Wood <D.Wood@transport.govt.nz>

Cc: Matt Gilbert <matthew.gilbert@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>;

Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>;

Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>; Rory Sedgley <R.Sedgley@transport.govt.nz>

Subject: RE: Urgent - questions regarding Cook Strait

Hi all

I have prepared that attached first draft for comment and amendment.

Mark, if you can make any further amendments and additions on the attached.

Rory, I will reach out to you in the morning.

Regards

Karen

From: Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>

Sent: Wednesday, August 7, 2024 7:42 PM

To: markthompson s 9(2)(a) Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; david.wood@transport.govt.nz

Cc: Matthew Gilbert [TSY] <Matthew.Gilbert@treasury.govt.nz>; Dominic Milicich [TSY]

<Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY]

<Michael.Moore@treasury.govt.nz>; Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>

Subject: RE: Urgent - questions regarding Cook Strait

Thanks Mark for your very useful starter for 10 response.

We have also reached out via text to David W at MOT so he can activate on his side as MOT should have some additional information and data to feed into the responses to the questions.

We can then draft a co-ordinated email tomorrow morning for the MAG and TSY consideration and response to the questions.

Ngā mihi

Lars



TE TAI ŌHANGA
THE TREASURY

Lars Piepke | Poutaki, Mahinga - Tauhokohoko me ngā Umanga | Manager, Commercial and Institutional Performance | Te Tai Ōhanga – The Treasury

Tel: s 9(2)(a) | Lars.Piepke@treasury.govt.nz

Visit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)

From: Mark Thompson s 9(2)(a)
Sent: Wednesday, August 7, 2024 7:15 PM
To: Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; david.wood@transport.govt.nz
Cc: Matthew Gilbert [TSY] <Matthew.Gilbert@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>; Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>; Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>
Subject: Re: Urgent - questions regarding Cook Strait

- Hi
-
- I have yet to talk to Mark and Roger but here is my starter for 10. More to come.
-
-

Have you tested whether maintaining the existing market structure and capacity on the Cook Strait is imperative and if so, do you have analysis to support the position that it is?

s 9(2)(g)(i)

- Have you considered alternative options for the inter-island freight task?

The interisland freight market consists of 4 modes, air, sea (coastal) road and rail. All are driven by customer supply chain model where supply must meet demand. The freight that travels across cook strait is road/rail modes and provide a deferred services predominately for Akl-Chc volumes for a 24–36-hour transit time. The alternative option for both modes is via sea (coastal shipping) which is a slower , cheaper and less reliable and when we approached them they were not interested in expanding their operations . Rail volumes have reduced markedly over the past 9 years as transport operators have invested in warehouses back in the South Island to provide better service reliability for their customers and costal operators have struggled to take market share of the road mode which is the most reliable .

- Have you considered the possibility that the current five-ship, two-operator arrangement may be uneconomic?
- Cook Strait serves 2 markets, rail and road modal freight and domestic and international tourism . The current operators have a mixed fleet of ships and terminal which drives operational inefficiencies and therefore extra costs . During the winter months freight volumes are consistent but don't support 5 ships. However, summer passengers in car volumes increased markedly and in peak peak times around Christmas and New Year capacity is restricted and therefore revenue lost to the airlines etc. By having only Ropax ships, co-locating terminals, sharing landside staff and operations investing in sister ships the benefits will flow through to the ferry operators and ultimately the consumer.
- Have you considered the possibility / feasibility of introducing private capital prior to making critical procurement decisions?

s 9(2)(b)(ii), s 9(2)(g)(i)

- What, if any, are the implications of delaying decisions and taking additional time to consider alternatives, considering the anticipated timeline for delivery and the current fleet's expected remaining lifetime?
With new regulations around Marpol and Solas the investment required to ensure compliance alone with the existing aged fleet till 2029 will be high plus Port infrastructure is nearing end of life so investing in infrastructure for ships that will be replaced doesn't make sense. Also note that as the fleet gets older, they have more dry docks and maintenance requirements which takes them out of services more often. Also , no matter what ship is procured ,

the existing Aratere rail linkspans in both Picton and Wellington must be removed to allow new wharfs and linkspans to be built for future ships. This alone will take 3 years to complete. So further delays will result in increased operating costs, reduced reliability and poor customer satisfaction. And the ability to procure new ships may be lost.

From: Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>
Sent: Wednesday, 7 August 2024 6:59 pm
To: markthompson ^{s 9(2)(a)}; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; david.wood@transport.govt.nz <david.wood@transport.govt.nz>
Cc: Matthew Gilbert [TSY] <Matthew.Gilbert@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>; Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>; Lars Piepke [TSY] <Lars.Piepke@treasury.govt.nz>
Subject: Re: Urgent - questions regarding Cook Strait

Kia ora Karen

Are you able to lead the development and coordination of the response to this request by the required deadline please.

David, keen for MoT's perspectives and/or assistance for some of the questions below.

Nga mihi nui

Leilani

From: Daniel Madley <Daniel.Madley@parliament.govt.nz>
Sent: Wednesday, August 7, 2024 18:04
To: markthompson ^{s 9(2)(a)}; Leilani Frew [TSY] <Leilani.Frew@treasury.govt.nz>
Cc: Matthew Gilbert [TSY] <Matthew.Gilbert@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Ann Webster [TSY] <Ann.Webster@treasury.govt.nz>; Michael Moore [TSY] <Michael.Moore@treasury.govt.nz>; Juston Anderson [TSY] <Juston.Anderson@treasury.govt.nz>; Abby McRoberts <Abby.McRoberts@parliament.govt.nz>; ^Parliament: Simon McLoughlin <simon.mcloughlin@parliament.govt.nz>
Subject: Urgent - questions regarding Cook Strait

Good evening Mark and Leilani,

As part of undertaking consultation on the draft Cabinet paper, MoF has this afternoon received questions as below. She has asked for the MAG's urgent consideration and response to the questions, drawing in officials from Treasury and MoT as required.

Abby, can you please ensure David and Rory are across this? A consolidated response no later than 11am tomorrow morning would be appreciated please to support Ministers in considering if a late lodge is viable.

Many thanks all for your time at such short notice. Feel free to text / call me on ^{s 9(2)(a)} if you would like to discuss.

- Have you tested whether maintaining the existing market structure and capacity on the Cook Strait is imperative and if so, do you have analysis to support the position that it is?
- Have you considered alternative options for the inter-island freight task?
- Have you considered the possibility that the current five-ship, two-operator arrangement may be uneconomic?

- Have you considered the possibility / feasibility of introducing private capital prior to making critical procurement decisions?
- What, if any, are the implications of delaying decisions and taking additional time to consider alternatives, considering the anticipated timeline for delivery and the current fleet's expected remaining lifetime?

Regards,



Daniel Madley
Private Secretary – Finance and State Owned Enterprises
Office of Hon Nicola Willis | Office of Hon Paul Goldsmith
Minister of Finance | Minister for State Owned Enterprises

s 9(2)(a)

E: daniel.madley@parliament.govt.nz

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Auckland | NZ Government Auckland Policy Office | Level 7, 167B Victoria Street West | PO Box 106238 | Auckland City | Auckland 1143 | NEW ZEALAND | Tel: +64 4 439 9000 |

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Wendy Harrison

From: Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>
Sent: Thursday, 8 August 2024 10:42 am
To: Rory Sedgley
Cc: Lars Piepke [TSY]
Subject: FW: Macquarie briefing on Cook Strait Ferry experience
Attachments: Cook Strait Ferries (August 2024).pdf

From: Alex MacDonald (MacCap) s 9(2)(a)
Sent: Thursday, August 8, 2024 10:15 AM
To: Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>; Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>; Dominic Milicich [TSY] <Dominic.Milicich@treasury.govt.nz>; Stacey Lulham [TSY] <Stacey.Lulham@treasury.govt.nz>; Olivia Paterson [TSY] <Olivia.Paterson@treasury.govt.nz>; Martin Wight (MacCap) s 9(2)(a)
Subject: RE: Macquarie briefing on Cook Strait Ferry experience

All,

Ahead of this morning's call, please find attached some materials to help the discussion.

Regards

Alex MacDonald | Associate Director
Advisory & Capital Solutions | Macquarie Capital
Level 13, PwC Tower, 15 Customs Street West Auckland, 1010 New Zealand
s 9(2)(a) | macquarie.com

-----Original Appointment-----

From: Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>
Sent: Tuesday, July 23, 2024 2:21 PM
To: Simon Hay [TSY]; Alex MacDonald (MacCap); Karen Mitchell [TSY]; Dominic Milicich [TSY]; Stacey Lulham [TSY]; Olivia Paterson [TSY]; Martin Wight (MacCap)
Subject: Macquarie briefing on Cook Strait Ferry experience
When: Thursday, 8 August 2024 11:00 am-12:00 pm (UTC+12:00) Auckland, Wellington.
Where: Microsoft Teams Meeting; +TSY 4.05 Meeting Room -8P

External Communication

-----Original Appointment-----

From: Simon Hay [TSY] <Simon.Hay@treasury.govt.nz>
Sent: Tuesday, July 23, 2024 2:11 PM
To: Simon Hay [TSY]; Karen Mitchell [TSY]; Dominic Milicich [TSY]; Stacey Lulham [TSY]; Olivia Paterson [TSY]; Martin Wight (MacCap)
Subject: Macquarie briefing on Cook Strait Ferry experience
When: Thursday, 8 August 2024 11:00 AM-12:00 PM (UTC+12:00) Auckland, Wellington.
Where: Microsoft Teams Meeting; +TSY 4.05 Meeting Room -8P

External Communication

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Wendy Harrison

From: Karen Mitchell [TSY] <Karen.Mitchell@treasury.govt.nz>
Sent: Wednesday, 14 August 2024 3:11 pm
To: Rory Sedgley
Subject: Emailing: Mafic Ministerial Advisory Group discussion material(5001024.1).pdf
Attachments: Mafic Ministerial Advisory Group discussion material(5001024.1).pdf

[IN-CONFIDENCE]

Hi Rory

Attached is the Mafic preso they did for the MAG. Forwarded to me by Duncan Olde.

Regards
Karen

Your message is ready to be sent with the following file or link attachments:

Mafic Ministerial Advisory Group discussion material(5001024.1).pdf

slides have been withheld in full under s. 9(2)(b)(i) and s.9(2)(ba)(i)

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Wendy Harrison

From: Rory Sedgley
Sent: Friday, 29 November 2024 4:46 pm
To: Audrey Sonerson
Cc: David Wood; Ruth Fairhall; Marian Willberg
Subject: Cook Strait ferries: talking points for Monday officials meeting
Attachments: Updated draft Cabinet paper - 28 November.docx

release refused under s 18(d). Cabinet paper is available online <https://www.treasury.govt.nz/publications/cabinet-paper/cabinet-paper-cab-24-sub-0486-procuring-new-ferries-improve-cook-strait-resilience>

Hi Audrey,

Yesterday evening we received the attached updated version of the Cabinet paper "Procuring new ferries to improve Cook Strait resilience" which includes some amended text (paras 39-42) and a new recommendation (copied below for ease).

s 9(2)(g)(i)

I recommend that you also discuss with Minister Brown at your meeting on Monday, and have prepared some suggested talking points for you below.

s 9(2)(g)(i)

Rory Sedgley

Principal Adviser – Maritime & Freight

Te Manatū Waka Ministry of Transport

s 9(2)(a)

| E: r.sedgley@transport.govt.nz | transport.govt.nz

My working days are Tuesday-Friday

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Catherine Coombs

From: Rory Sedgley
Sent: Tuesday, 4 March 2025 11:05 am
To: Alex Kirch; Zoe Dawson
Cc: Zinzan Currey [TSY]; Anneliese Mills [TSY]; Chris White (Treasury)
Subject: RE: Evaluation of alternative option submissions

Hi Alex,

Very similar assessment, but I've just prepared a brief commentary on each of the three proposals and a suggested response.

Let me know if you need anything else, otherwise I'll wait to provide input on the TR.

Rory

s 9(2)(ba)(i), s 9(2)(i)

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Rory Sedgley

s 9(2)(a)

E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Alex Kirch s 9(2)(a)

Sent: Monday, 3 March 2025 4:45 pm

To: Rory Sedgley <R.Sedgley@transport.govt.nz>; Zoe Dawsor s 9(2)(a)

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Anneliese Mills [TSY]

<Anneliese.Mills@treasury.govt.nz>; Chris White (Treasury) <chris.white@treasury.govt.nz>

Subject: RE: Evaluation of alternative option submissions

I love your work Rory!

I have three more for you which all fall into a similar bucket as s 9(2)(i) e.g. running freight services to different ports than Picton some from Wellington some from Auckland / Tauranga.

Interested on your views on whether the same conclusion applies to the attached as the ^{s 9(2)(i)} - noting the ^{s 9(2)(i)} response has more detail.

Cheers,

AK

From: Rory Sedgley <R.Sedgley@transport.govt.nz>

Sent: Monday, 3 March 2025 4:30 pm

To: Zoe Dawson ^{s 9(2)(a)}

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Alex Kirch ^{s 9(2)(a)} Anneliese Mills

[TSY] <Anneliese.Mills@treasury.govt.nz>; Chris White (Treasury) <chris.white@treasury.govt.nz>

Subject: RE: Evaluation of alternative option submissions

Hi Zoe,

In the interest of expediency I thought I'd send through my responses this afternoon. I'll follow-up with any additional thoughts tomorrow if necessary.

I'm available to discuss any of this tomorrow on a call or in-person.

Cheers,

Rory

^{s 9(2)(b)(i), s 9(2)(i)}

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Rory Sedgley

s 9(2)(a)

E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Rory Sedgley

Sent: Monday, 3 March 2025 8:50 am

To: Zoe Dawson s 9(2)(a)

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Alex Kirch s 9(2)(a)

Anneliese Mills

[TSY] <Anneliese.Mills@treasury.govt.nz>; Chris White (Treasury) <chris.white@treasury.govt.nz>

Subject: RE: Evaluation of alternative option submission: s 9(2)(a)

Understood Zoe. Will respond to you with an assessment of the 4 proposals below by midday tomo

Rory Sedgley

M: s 9(2)(a) | E: r.sedgley@transport.govt.nz | transport.govt.nz



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From: Zoe Dawson s 9(2)(a)

Sent: Saturday, 1 March 2025 5:55 pm

To: Rory Sedgley <R.Sedgley@transport.govt.nz>

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Alex Kirch s 9(2)(a) Anneliese Mills

[TSY] <Anneliese.Mills@treasury.govt.nz>; Chris White (Treasury) <chris.white@treasury.govt.nz>

Subject: RE: Evaluation of alternative option submission: Kevin McGrath, ABC Limited,

Hi Rory,

After a further review of the proposals, we would ask that you focus on evaluating:

s 9(2)(i)

No need to evaluate the other proposals I sent through previously.

Thanks,



Zoe Dawson
Mafic Partners Limited
s 9(2)(a)

From: Zoe Dawson

Sent: Friday, 28 February 2025 6:30 pm

To: r.sedgley@transport.govt.nz

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Alex Kirch s 9(2)(a) Anneliese Mills

[TSY] <Anneliese.Mills@treasury.govt.nz>; Chris White [TSY] <chris.white@treasury.govt.nz>

Subject: Evaluation of alternative option submission: Kevin McGrath, ABC Limited,

Hi Rory,

I have attached 4 more submissions received regarding alternative transport systems and/or ship configurations. from:

s 9(2)(i)

I have another 4 more which I will send in a following email.

As mentioned below, please review these and send back your evaluation by next Tuesday 4th March 12pm.

Regards,



Zoe Dawson
Mafic Partners Limited

s 9(2)(a)

From: Zoe Dawson

Sent: Friday, 28 February 2025 4:11 pm

To: Karl Jackson [TSY] <Karl.Jackson@treasury.govt.nz>; Massimo Soprano [TSY]

<Massimo.Soprano@treasury.govt.nz>; r.sedgley@transport.govt.nz

Cc: Zinzan Currey [TSY] <Zinzan.Currey@treasury.govt.nz>; Alex Kirch s 9(2)(a) : Anneliese Mills
[TSY] <Anneliese.Mills@treasury.govt.nz>

Subject: Evaluation of alternative option submission: CentrePort

Kia ora Karl, Massimo and Rory,

We have received a market sounding submission for alternative procurement options from s 9(2)(i)

This proposal includes comments and ideas regarding alternative ship configurations (Rory), ports and landside infrastructure (Karl), and direct ferry procurement (Massimo).

As the relevant people qualified to comment on these aspects, could you please read the proposal attached and evaluate it based on the below six factors (which were distributed to parties during the market sounding process):

1. Their ability to deliver ferries in 2029 with appropriate freight and passenger capacity and that meet certain specified standards
 - a. Ships must meet Safe Return to Port standards and be able to manoeuvre through the Tory Channel, and transit the Cook Strait (which has ocean-like characteristics) and the Marlborough Sound (an environmentally sensitive area)
 - b. Ships must have combined minimum capacity of 4800 lane metres and be able to carry up to ~1,600 passengers each
2. Their ability to provide confidence that any landside development necessary will support new ferries operating in 2029
3. Their capability and experience in the operation, financing and/or investment in maritime transport infrastructure
 - a. The proposal is credible
4. Their ability to manage risks associated with the transition from current ferry operations to new arrangements
 - a. This is critical for the commissioning of new ships
5. Value for money on a whole of life basis, delivering an annual economic return, at less cost than a Government-led procurement
6. Any dependencies, or assumptions that the proposal relies on.

Please send back your evaluation – commenting on the above six factors - by next Tuesday 4th March 12pm.

Kind regards,

Zoe Dawson

Mafic Partners Limited

Level 26, 151 Queen Street

Auckland, New Zealand

Mobile: s 9(2)(a)

Email: s 9(2)(a)

www.mafic.co.nz



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s 9(2)(a)

From: Rory Sedgley <R.Sedgley@transport.govt.nz>

Sent: Thursday, 6 March 2025 9:21 am

To: Zoe Dawson s 9(2)(a)

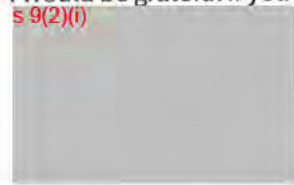
Subject: Alternative market proposals

Hi Zoe,

Please could you share with me a few more of the proposals received in the market sounding process?

I would be grateful if you could forward on the written submissions received from

s 9(2)(i)



Thanks very much,

Rory

Rory Sedgley

Principal Adviser – Maritime & Freight

Te Manatū Waka Ministry of Transport

s 9(2)(a)

| E: r.sedgley@transport.govt.nz | transport.govt.nz

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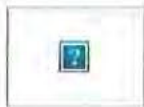
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From: [Zoe Dawson](#)
To: [Rory Sedgley](#)
Subject: RE: Alternative market proposals
Date: Thursday, 6 March 2025 9:38:21 am
Attachments: [image001.png](#)
[image002.png](#)
s 9(2)(i)



Sure, those 3 attached here.

Thanks,



Zoe Dawson
Mafic Partners Limited
s 9(2)(a)



From: Rory Sedgley <R.Sedgley@transport.govt.nz>
Sent: Thursday, 6 March 2025 9:35 am
To: Zoe Dawson s 9(2)(a)
Subject: RE: Alternative market proposals

Awesome, thank you.

Yeah could you send the docs from s 9(2)(i) please?

Rory Sedgley
s 9(2)(a)

| E: r.sedgley@transport.govt.nz | transport.govt.nz



From: Zoe Dawson s 9(2)(a)
Sent: Thursday, 6 March 2025 9:25 am
To: Rory Sedgley <R.Sedgley@transport.govt.nz>
Subject: RE: Alternative market proposals

Hi Rory,

Sure – see attached here.

Let me know if there are any others you would like to see.

Regards,

Zoe Dawson
Mafic Partners Limited

Wendy Harrison

From: Ruth Fairhall
Sent: Friday, 7 March 2025 7:36 pm
To: Rory Sedgley
Subject: RE: For info: Evaluation of alternative market-led Cook Strait proposals

Apologies for taking so long to look at this. There were some very creative proposals.

From: Rory Sedgley <R.Sedgley@transport.govt.nz>
Sent: Tuesday, 4 March 2025 3:24 pm
To: Ruth Fairhall <R.Fairhall@transport.govt.nz>
Subject: For info: Evaluation of alternative market-led Cook Strait proposals

Hi Ruth,

I just wanted you to be aware of my response to the Treasury (below) on the eight proposals which I was asked to review. The full proposal documents are saved in TARDIS if you would like to peruse, but there should be enough summarised below to give you an idea of what they cover.

s 9(2)(i)

Note that the Ministry was only asked to comment on those proposals where the transport solution was substantively different to the base case. The Treasury (with support from Mafic) will evaluate proposals focussed on how the procurement should be run.

A package of three Treasury Reports is expected to be submitted to Ministers on Friday.

s 9(2)(i), s 9(2)(ba)(i)

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TE MANATŪ WAKA
MINISTRY OF TRANSPORT

DRAFT – NOT GOVERNMENT POLICY

Cook Strait connectivity Options assessment summary

DRAFT 24 May 2024

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This document informs the content of the Ministry's Phase 2 advice to Ministers. It is primarily intended as a record of the analysis and as an internal consultation document.

It sets out the long-list of options considered, describes their implementation and other relevant details, and assesses them against the agreed evaluation criteria.

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Introduction and background



Introduction

Following the cancellation of Project iReX (to replace KiwiRail's Interislander ferries with two new, large rail-enabled ships) the Government asked the Ministry to assess the long-term requirements for resilient Cook Strait connectivity now and once the Interislander ferries have reached the end of their lives.

Phase 1 of this work involved identifying any barriers to entry in the Cook Strait ferry market. Phase 2 (the subject of this report), involves identifying and assessing the interventions that could meet the Crown's objectives (including alternatives to a direct ferry purchase).

This advice is being prepared in parallel with separate advice from KiwiRail and the Ministerial Advisory Group (MAG) on the operation, maintenance, and replacement of the current Interislander fleet.

The overarching objective of the Government is to ensure commercially viable, safe, and reliable services across Cook Strait that meet the needs of the wider New Zealand economy. The Minister of Finance provided three 'principles' to guide options analysis in Phase 2:

- Competition on the Strait;
- Commercial discipline; and
- Urgency.

These principles have been incorporated into the evaluation criteria set out later in this report.

Background to this report

The Ministry's Phase 1 report identified some constraints to a market response in the event KiwiRail ceases its Cook Strait ferry services. It also identified areas where Government intervention would improve the likelihood of a market response.

The Ministry did not discover anything to suggest that a market response would be impossible. However, the Ministry's view is that the most likely outcome of a Crown exit is a Bluebridge monopoly / loss of service continuity in the medium term.

Given the findings of the Phase 1 report, the work in Phase 2 focuses on identifying and assessing interventions to secure the outcomes the Crown is seeking on Cook Strait. These interventions extend across a range of investment, contractual and regulatory options and are designed (in part) to address some of the barriers identified in Phase 1.

This report:

- Details the options development process;
- Sets out the evaluation criteria;
- Details and assesses each of the options (at a high-level);
- Summarises the results of the assessment; and
- Outlines next steps.

This report is not intended to provide a final recommendation to Ministers on next steps. Instead, it is intended to indicate the advantages, disadvantages, and implementation requirements of each option, should Ministers wish to progress them. Further detailed planning and market sounding would then be completed based on Ministerial preferences.

Other advice underway

The Ministry's Phase 2 advice focuses on understanding the spectrum of policy interventions available to Ministers. Phase 2 does not reflect more specific advice being prepared in parallel by the Treasury, KiwiRail, MAG, and other unrelated Ministry workstreams. The work programmes include:

- Advice on vessel procurement (KiwiRail);
- Negotiations with HMD (KiwiRail);
- Commercial and fiscal considerations (MAG);
- Advice on a new vessel procurement approach; and
- Options for new entity establishment (the Treasury).

As this advice becomes available over the next two months, the options described in this document may narrow as they are found to be unviable in practice. Where relevant, we have included commentary regarding when a specific option would no longer be viable. For example, if only new vessels are available at considerable cost, this limits the ability to contract out operation of those vessels as operators may not be able to earn sufficient returns and compete with the incumbent operator (depending on the return on capital the Crown wants to achieve through its ownership).

Executive summary

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Key context for this analysis

Ministerial objectives

The Minister of Finance proposed three 'principles' for Cook Strait ferry services; competition on the Strait, commercial discipline, and urgency. These 'principles' were developed into four strategic objectives for this work:

- There is competition in freight and passenger transport across the Cook Strait;
- Cook Strait ferry services are commercially viable and follow appropriate commercial disciplines;
- There is continuity of service when current vessels reach end-of-life (end of 2029); and
- The Crown retains future optionality around the provision of Cook Strait ferry services.

Vessel and operator availability

The Crown has determined that rail enabled ferries of the size required by KiwiRail are not realistic given the cost of portside infrastructure to support the vessels, the lack of second-hand vessels, and the additional procurement cost and complexity of building new, rail enabled vessels. This work assumes that any vessels procured by the Crown or sourced by a new operator would be RoRo, rather than rail enabled.

There is a very limited market for second hand vessels which meet the Crown's requirements (including passenger / vehicle capacity and Safe Return to Port capability). Appropriate vessels are fully utilised by their owners and there is little to no interest in selling them due to the cost of purchasing replacement vessels.

Given the limited availability of appropriate vessels on the market, it is unlikely that a new operator is 'waiting in the wings' to establish Cook Strait services. It is likely that some form of Crown involvement would be required to provide certainty that vessels will be available when the existing KiwiRail fleet reaches end of life.

Viability of services

The Cook Strait freight market is currently highly competitive, with most freight users having a range of options available across the current operators, and coastal shipping (noting some goods are limited in the transport options available to them). ^{s 9(2)(b)(ii)}

KiwiRail transition risk

KiwiRail reform

KiwiRail's services struggle to be commercially viable due to:

- Historic labour arrangements and other constraints which limit opportunities for innovation / productivity increases;
- Its aging and non-profitable infrastructure / rail services which impact the overall profitability of KiwiRail's operations;
- Direct competition with a company with lower operating costs constrains their ability to lift prices; and
- A history of safety challenges, obsolete spare parts, high maintenance costs, and increasing unexpected breakdowns / outages.

A right-sized operator (whether Crown-owned or a new entrant) should be able to operate viable services if KiwiRail's current constraints are removed (noting that the cost of the new vessels will impact how much the new operator needs to recoup to be 'commercially viable').

Transition risk

Regardless of the intervention choice made by the Crown, there is significant risk associated with KiwiRail's managed withdrawal from the Cook Strait ferry market. Mitigations will need to be put in place to ensure that KiwiRail meets its exit timeframes, works collaboratively with ports, operators and freight users, and does not create any additional barriers to the transition into service of a new entity.

If KiwiRail fails to exit the market smoothly, this will have a significant impact on the ports' ability to upgrade infrastructure. Wharves will need to be upgraded for the new operator while still allowing KiwiRail to continue services in the interim. Similarly, a new entrant will be reliant on customers seamlessly transitioning from KiwiRail to the new entity. There are employment law and employee protection provisions that will require more considered specialist legal advice, as establishing a substantively similar company may trigger expectations of employment transfer under present contractual arrangements. There may need to be a role for the Crown in support the transfer of customer business to the new entity in the short term (before allowing commercial discipline to drive market choices fully).

s 9(2)(j)

s 9(2)(g)(i)

Spectrum of options considered

We have focused on exploring a broad range of options to present to Ministers. They are intended to provide Ministers with a flavour of what is possible (given the context outlined on the previous pages) and identify areas for further analysis.



Longlist options overview

The options below were explored at a conceptual level against a set of strategic objectives. Four were progressed for more detailed assessment to determine their viability.

Option 1. No further Crown role	Option 2. Facilitate and broker	Option 3. Facilitate, broker, and incentivise	Option 4. Enhance regulatory regimes	Option 5. Crown tender for services	Option 6. Contract out services	Option 7. PPP-like arrangement	Option 8. Mixed-ownership style approach	Option 9. Directly own and operate
<p>KiwiRail ceases Cook Strait ferry services. The Crown plays no role in KiwiRail's divestment of ferry assets / services (outside of its role as shareholder), or in the provision of Cook Strait services following KiwiRail's exit.</p> <p>Future provision of services is left to either: an expansion of the existing commercial operator (Bluebridge) or a new entrant to the market.</p>	<p>KiwiRail ceases Cook Strait ferry services. The Crown takes steps to facilitate an orderly transition to a new commercial operator including:</p> <ul style="list-style-type: none"> Overseeing KiwiRail wind-down of services, Active engagement with potential providers to identify and address barriers, Brokering / interface role with key stakeholders (i.e., KiwiRail, Ports, MNZ, operators). 	<p>KiwiRail ceases Cook Strait ferry services. In addition to the facilitation and brokering role of Option 2, the Crown works with potential providers to offer incentives to support new entrants to the market, which could include:</p> <ul style="list-style-type: none"> Supporting the rationalisation of land ownership around Ports; Direct brokering role between the new operator and regulators / ports / KiwiRail customers; and / or Negotiation of timebound Crown underwrites to support initial operations. 	<p>KiwiRail ceases Cook Strait ferry services. The Crown plays no role in securing a new entrant to the market. However, the Crown would adjust current regulatory settings to ensure a transparent, level playing field for commercial operators. This could include:</p> <ul style="list-style-type: none"> Information disclosure requirements / cost transparency, Changes to seafarer qualification requirements; and / or Licensing requirements (to operate on the Cook Strait). 	<p>KiwiRail ceases Cook Strait ferry services. The Crown directly procures a new commercial operator to provide an agreed level of service with their own vessels in time to replace KiwiRail.</p> <p>Services would be expected to operate commercially with the support provided to the selected provider intended to cover only the cost of ship procurement (fully or partially).</p>	<p>Crown purchases new / used vessels to replace the existing KiwiRail fleet via another Crown owned entity.</p> <p>Crown awards a concession to a private provider to operate services for a fixed period (i.e. 10 years) using the Crown's vessels.</p> <p>The provider would then pay a concession to the Crown for use of the vessels. The provider would retain any profits from the operation of the services to incentivise commercial disciplines.</p>	<p>Crown enters a PPP-like arrangement with a private sector partner to design, build, finance, and operate services for a fixed period.</p> <p>The Crown would set the service requirements (capacity, frequency etc) and procure a consortium to design, build and fund new vessels. The consortium would operate the vessels on the route for a fixed period (i.e. 30 years). The Crown would make payments over the concession period to repay the upfront capital cost of the vessels, plus a reasonable rate of return.</p>	<p>Crown establishes a new Crown-owned entity to procure and operate vessels across Cook Strait.</p> <p>Crown would investigate opportunities to sell a partial stake in future (similar to the Air New Zealand / power company model). Private capital could be introduced prior to or following services commencing.</p>	<p>Under this option, the Crown continues to own and operate Cook Strait ferry services, either through continued KiwiRail operations or through a new Crown-owned entity.</p> <p>Unlike Option 8, this option assumes that the Crown intends to retain full ownership of the assets and services for at least the life of the new vessels.</p>
		Shortlisted			Shortlisted		Shortlisted	Shortlisted

Longlist options overview (alternative view)

Intervention	Description
Option 1. No further Crown role	KiwiRail ceases Cook Strait ferry services. The Crown plays no role in KiwiRail's divestment of ferry assets / services (outside of its role as Shareholder). Future provision of services is left to either: an expansion of the existing commercial operator (Bluebridge) or a new entrant to the market.
Option 2. Facilitate and broker	KiwiRail ceases Cook Strait ferry services. The Crown takes steps to facilitate an orderly transition to a new commercial operator including: <ul style="list-style-type: none"> Active oversight of the winddown of KiwiRail's services, Active engagement with potential providers to identify and address barriers to entry, Brokering / interface role with key stakeholders (i.e., KiwiRail, Ports, MNZ, operators).
Option 3. Facilitate, broker, and incentivise	In addition to the facilitation and brokering role of Option 2, the Crown works with potential providers to offer incentives to support new entrants to the market, which could include: <ul style="list-style-type: none"> Supporting the rationalisation of land ownership around Ports; Direct brokering role between the new operator and regulators / ports / KiwiRail customers; and / or Negotiation of timebound Crown underwrites to support initial operations
Option 4. Enhance regulatory regimes	KiwiRail ceases Cook Strait ferry services. The Crown plays no role in securing a new entrant to the market. However, the Crown would adjust current regulatory settings to ensure a transparent, level playing field for commercial operators. This could include: <ul style="list-style-type: none"> Information disclosure requirements / cost transparency, Changes to seafarer qualification requirements; and / or Licensing requirements (to operate on the Cook Strait).

Intervention	Description
Option 5. Crown tender for services	KiwiRail ceases Cook Strait ferry services. The Crown directly procures a new commercial operator to provide an agreed level of service with their own vessels in time to replace KiwiRail. The Crown may provide some form of timebound support to the successful operators.
Option 6. Contract out services	Crown purchases new / used vessels to replace the existing KiwiRail fleet via another Crown owned entity. Crown awards a concession to a private provider to operate services for a fixed period (i.e. 10 years) using the Crown's vessels. The provider would then pay a concession to the Crown for use of the vessels. The provider would retain any profits from the operation of the services to incentivise commercial disciplines.
Option 7. PPP-like arrangement	Crown enters a PPP-like arrangement with a private sector partner to design, build, finance, and operate services for a fixed period. The Crown would set the service requirements (capacity, frequency etc) and procure a consortium to design, build and fund new vessels. The consortium would operate the vessels on the route for a fixed period (i.e. 30 years). The Crown would make payments over the concession period to repay the upfront capital cost of the vessels, plus a reasonable rate of return.
Option 8. Mixed-ownership style approach	Crown establishes a new Crown-owned entity to procure and operate vessels across Cook Strait. The Crown-owned entity would be designed to provide future governments with optionality around ownership settings. Crown would investigate opportunities to sell a partial stake in future (similar to the Air New Zealand / power company model). Private capital could be introduced prior to or following services commencing.
Option 9. Directly own and operate	The Crown continues to own and operate Cook Strait ferry services, either through continued KiwiRail operations (following KiwiRail structural reform)) or through a new Crown-owned entity (as in Option 8, however without the flexibility to adjust ownership settings in future).

Shortlist summary

Option 3. Facilitate, broker, and incentivise

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- Rationalisation of land ownership (Crown instructs KiwiRail to sell land to ports or establishes new holding company);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services)
- Identification of new entrant (Crown actively engages with potential operators to assess interest through EOI or informal process);
- Brokering of new operator entry (Crown acts as interface to smooth entry);
- Financial incentive (Crown delivers timebound financial support to new entrant).

Assessment summary

On balance, Option 3 is compelling as it enables a facilitated, market-led response to the exit of KiwiRail. However, it is high risk from a capacity and continuity of service perspective and there is no guarantee an operator will be willing or able to stand up services in time or remain in the market long term.

Option 3 relies on the Crown being able to identify and negotiate with an operator in a short amount of time. This presents significant risk as there is no guarantee an operator can be found and 'locked in' at short notice. There are few, if any vessels in the market which could be transferred to operate in New Zealand. Any new operator would likely need to build new vessels for the route which could take several years, and the return on capital from newbuild ships is commercially questionable.

If the Crown is unable to find an operator, then it may be too late to pivot to an alternative approach without risking loss of service in future (i.e. the Crown may not be able to have vessels built fast enough to respond to KiwiRail's exit).

Option 6. Contract out services

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- Vessel procurement (Crown procurement of two new or used vessels, and development of port infrastructure to accommodate them);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services);
- Tendering of services (formal approach to market to tender an operator for Cook Strait services using Crown-owned vessels);
- Commercial negotiations (confirmation of services, fee, penalties, and other key terms); and
- Operations and monitoring (ongoing monitoring to ensure compliance with contract terms).

Assessment summary

At this stage we have not identified a party that could be interested and available to establish services using Crown-owned vessels.

The choice of vessel has a significant impact on the viability of this option. Purchasing relatively cheap, second-hand vessels may make it easier for the Crown to recoup its costs through the concession payment while also allowing the operator to make a reasonably return on its operations. However, there are few, if any, second-hand vessels available on the market which meet the Crown's requirements.

If high-cost new vessels are procured instead, the Crown may not be able to recoup its costs while also enabling the operator to compete with Bluebridge on price. The Crown may need to accept that it will 'lose money' under this option to ensure competition and capacity.

Option 6 is the most contractually complex approach considered. Decisions on penalty regimes, maintenance responsibilities, revenue sharing, and other key contractual elements have the potential to delay agreements being entered, see the Crown retaining significant risk, and delivering potentially lower value for money.

Shortlist summary (continued)

Option 8. Mixed-ownership style approach

Key activities

Under the 'mixed-ownership style approach', there are five key activities which will need to be completed:

- Establishment of Crown-owned entity (for procurement, operations, or both with the option to transition to mixed ownership in future)
- Vessel procurement (New entity procurement of two new or used vessels);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services);
- Operations and monitoring (ongoing monitoring to ensure compliance with contract terms); and
- Ownership transition (Confirmation of future ownership settings).

Assessment summary

Option 8 does not lead to a fully market-led approach or commercial discipline from the outset. However, the design of the new Crown-owned entity should enable the Crown to inject commercial discipline into operations if it transitions into a mixed ownership arrangement (i.e. similar to the Air New Zealand model).

Theoretically, the option is agnostic to the types of vessels procured by the Crown. However, if new vessels come at considerable cost, it may be more difficult for the Crown to demonstrate services are generating sufficient return to attract private capital. Similarly, if the Crown purchases second-hand vessels with only a limited lifespan, it may be difficult to attract capital in the knowledge that vessels will need to be replaced sooner rather than later (noting that the Crown could purchase used vessels as an interim measure and use capital from investors to purchase new vessels down the line).

Option 9. Directly own and operate

Key activities

Under the 'Directly own and operate' option, the Crown would need to decide whether to reform, but continue existing services with KiwiRail, or cease KiwiRail's interisland services and establish a new Crown-owned entity for the sole purpose of purchasing and / or operating Cook Strait services.

Regardless of whether operations continue with KiwiRail or a new Crown-owned entity, new vessels will need to be purchased, existing vessels transitioned out of service, and portside infrastructure updated to meet new vessel requirements.

Assessment summary

The viability and assessment of this option differs depending on whether KiwiRail purchases and continues to operate services, or the Crown establishes a new entity in its place.

s 9(2)(g)(i)

Shortlist assessment output

The table below summarises the assessment of the shortlisted options.

Magnitude	Score
Large positive	+3
Moderate positive	+2
Slight positive	+1
Neutral	0
Slight negative	-1
Moderate negative	-2
Large negative	-3

		Low intervention	High intervention		
Criteria		Facilitate, broker, and incentivise	Contract out services	Mixed-ownership style approach	Directly own and operate
Strategic Objectives	How well the option: <ul style="list-style-type: none"> Meets the agreed objectives (competition, commercial viability / discipline, pace) Aligns with the Government's broader transport priorities 	+1 Supports objectives, but no guarantee new entrant available in time	+3 Brings commercial discipline to operations, certainty over capacity, and the required pace	+2 Retains Crown involvement initially, but potential for increased commercial discipline, viability, and optionality over time	+1 Retains full Crown ownership. Potential for non-commercial behaviours through perceived Crown underwrite.
Potential value for money	How well the option: <ul style="list-style-type: none"> Optimises value for money (i.e., the optimal mix of potential benefits, costs and risks). 	+2 Minimises Crown funding requirement and transfers risk to the private sector (noting risk that no operators available)	+1 Requires the Crown to fund and maintain vessels without access to commercial profits from operations. Increasing risk as vessels age.	+2 Ability to recoup initial capital through transition to mixed ownership. Benefits of private sector discipline and risk transfer.	+1 Crown retains all risk and responsibility for funding vessels
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services, and Is likely to result in a sustainable arrangement that optimises value for money over the term of the contract. 	-2 Unclear whether operators are available. Risk that Crown required to step in if no provider available (may be too late to ensure continuity of service)	-1 Unclear whether operators are available. Will become increasingly difficult to retender as vessels age	+2 If the Crown can demonstrate commercial viability, then likely to be interest from investors	+2 Continuation of the status quo. Potential for some market hesitancy if KiwiRail remains in charge of procurement.
Potential affordability	How well the option: <ul style="list-style-type: none"> Matches available funding constraints, and Is likely to be financially sustainable over the long-term. 	+3 Likely to be low cost (timebound underwrite)	+2 Requires upfront capital, but losses profit from operations in exchange for concession	+2 Requires upfront capital, but opportunity to recoup capital and return from viable services	+1 Requires upfront capital, risk of continued investment requirement as under status quo
Potential achievability	How well the option: <ul style="list-style-type: none"> Is likely to be delivered given technical, safety, regulatory, and capability considerations. 	+1 Likely to be deliverable due to low level of Crown involvement (assuming provider can be found)	-1 Complex arrangements, particularly as vessels age and contracts expire	+2 Likely to be achievable, but sourcing capital likely to be complex	+1 Likely to be achievable, noting challenge of establishing new entities / reforming KiwiRail
Total / Summary		+5	+4	+10	+6
Ranking		3	4	1	2

Recommendations / next steps

It is likely too late to progress the low intervention option without risking a service gap and limiting future options for Ministers. This option has not been discussed with the market, nor have the mechanics of an underwrite scheme been developed in detail. There is no indication that there is an operator 'waiting in the wings' and research has revealed a very limited market for second-hand ferries. It is unlikely that a timebound support scheme would be enough to incentivise an operator to reallocate existing vessels to the Cook Strait or commit to purchase new vessels at significant cost.

There is a risk that if Ministers progress only a low intervention option and no new operator is forthcoming, it will be too late to pivot to a higher intervention option (it will take considerable time to procure new vessels given shipbuilder capacity constraints). Given the tight timeframes, operator uncertainty, and the high risk of loss of service, we recommend that the low intervention option is not considered further.

At this stage, the Ministry considers a high intervention option, where the Crown purchases new vessels, to best meet Ministers' objectives. The mixed ownership style approach offers the best balance across the three high intervention options. The initial Crown investment gives certainty, but unlike the directly own and operate option, there is an opportunity to recoup some of the upfront capital. The Crown is not locked into owning all or some of the services over the long-term. The introduction of a minority private shareholder would also be expected to bring increased commercial discipline to the business.

A mixed ownership style arrangement would require the establishment of a new Crown owned entity to run the procurement and initial entry into service. Establishing a new entity offers an opportunity to transition to a mixed ownership arrangement without the legacy obligations or structural limitations at KiwiRail.

The mixed ownership style approach still requires further refinement by officials, including:

- **Confirmation of the type of entity to be established and the implementation pathway required:** This includes confirming whether different procurement and operating entities are required. Officials will also need to clarify any legislative, legal, or market requirements for the establishment of a new entity and wind-down of KiwiRail's ferry services;
- **Analysis of the potential approaches and timing to source private sector capital:** The Crown has utilised a range of mechanisms for accessing private capital in the past. The options available in this case include, competitive tender, direct sale, public float, partial sale to institutional investors, joint venture, or combination of approaches; and
- **Due diligence and valuation of the ferry services:** The ability to raise private capital will depend in part on the cost of new vessels (currently being assessed) and whether the market perceives the services will be commercially viable. Analysis will be required to understand whether services are likely to be commercially viable, and if so, how much capital could feasibly be raised and when.

We recommend that if Ministers wish to progress the mixed ownership style arrangement, they direct officials to refine the implementation pathway and other key elements of the approach as set out above

Evaluation process

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Evaluation approach

The remainder of this report sets out each option in more detail, including advantages / disadvantages, implementation requirements, costs, and long-term implications.

The long-list of options is first assessed against the strategic objectives (set out to the right) in a pass / fail assessment to arrive at a shortlist. The shortlist of options is then evaluated against a standard set of evaluation criteria.

Evaluation of the options broadly follows the multi-criteria analysis approach used by both NZTA-Waka Kotahi and the Treasury (described on the following pages).

The strategic objectives are broad given the diverse range of options being assessed (from regulatory changes to large scale investments). The objectives are:

1. There is competition in freight and passenger transport across the Cook Strait;
2. Cook Strait ferry services are commercially viable and follow appropriate commercial disciplines;
3. There is continuity of service when current vessels reach end-of-life (end of 2029); and
4. The Crown retains future optionality around the provision of Cook Strait ferry services.

Ministers have also requested 'urgency' be considered as part of this work. Urgency is not explicitly included as an evaluation criteria as it relates primarily to the speed of advice and decision-making. The 'continuity of service' objective is intended to address the need to implement any changes prior to current vessels reaching end-of-life in 2029.

Strategic objectives description

The 'end state' based on the Crown's strategic objectives are for a competitive Cook Strait freight and passenger market, with two viable operators, and similar levels of capacity as currently available.

More nuanced descriptions of the four strategic objectives are set out in the table to the right.

Strategic Objective	Description
There is <u>competition</u> in freight and passenger transport across the Cook Strait	'Competition' means a market where there are at least two operators able to differentiate on price and service. Customers have the choice to use the operator that best meets their needs. Operators are not required to be privately owned and operated for the market to be considered 'competitive'. However, customers must be able to genuinely substitute one service for another.
Cook Strait ferry services are <u>commercially viable</u> and follow appropriate <u>commercial disciplines</u>	'Commercially viable' means operators can generate sufficient revenue to cover the cost of operations and provide a return to shareholders. Commercially viable services would not require any ongoing Crown underwrite or financial support. 'Commercial disciplines' means operators make decisions based on the most appropriate commercial / financial outcome and without assumed or implied Crown financial support. This means making operational decisions which are financially prudent, competitive, and with a view to long-term commercial viability.
There is <u>continuity of service</u> when current vessels reach end-of-life (2028/29)	'Continuity of service' means that the level of freight and passenger capacity on the Cook Strait does not materially decrease prior to or after the current KiwiRail owned vessels are retired.
The Crown retains future <u>optionality</u> around the provision of Cook Strait ferry services	'Optionality' means that the Crown can pivot to a different operating model or commercial structure without significant costs or loss of market capacity / service levels. For example, options which tie the Crown's hand, either through binding commercial arrangements or delayed decisions (limiting the Crown's choice), would reduce future optionality.

Assessment criteria

A multi-criteria analysis (MCA) has been used to compare the shortlisted options at a high-level.

The criteria are based on NZTA – Waka Kotahi's standard MCA framework (and the Treasury's Critical Success Factors) and are included to the right. These criteria have been modified to reflect project specific requirements where appropriate.

The rating scale is included on the following slide.

Evaluation criteria	Broad Description
Strategic Objectives	How well the option: <ul style="list-style-type: none"> Meets the agreed objectives (competition, commercial viability / discipline, pace) Aligns with the Government's broader transport priorities
Potential value for money	How well the option: <ul style="list-style-type: none"> Optimises value for money (i.e., the optimal mix of potential benefits, costs and risks).
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services, and Is likely to result in a sustainable arrangement that optimises value for money over the term of the contract.
Potential affordability	How well the option: <ul style="list-style-type: none"> Matches available funding constraints, and Is likely to be financially sustainable over the long-term.
Potential achievability	How well the option: <ul style="list-style-type: none"> Is likely to be delivered given technical, safety, regulatory, and capability considerations.

Assessment rating scale

A seven-point rating scale has been used to provide sufficient differentiation between the options.

Magnitude	Definition	Score
Large positive	Major positive impacts resulting in substantial and long-term improvements or enhancements of the existing environment.	+3
Moderate positive	Moderate positive impact, possibly of short-, medium- or long-term duration. Positive impacts may be in terms of new opportunities and outcomes of enhancement or improvement.	+2
Slight positive	Minimal positive impact, possibly only lasting over the short term. May be confined to a limited area.	+1
Neutral	Neutral – no discernible or predicted positive or negative impact. Counterfactual could be the do-minimum or do-nothing.	0
Slight negative	Minimal negative impact, possibly only lasting over the short term, and definitely able to be managed or mitigated. May be confined to a small area.	-1
Moderate negative	Moderate negative impact. Impacts may be short-, medium- or long-term and are highly likely to respond to management actions	-2
Large negative	Impacts with serious, long-term and possibly irreversible effect leading to serious damage, degradation or deterioration of the physical, economic, cultural or social environment. Required major rescope of concept, design, location and justification, or requires major commitment to extensive management strategies to mitigate the effect.	-3

Long-list of options Overview

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Long-list of options

This section sets out the long-list of options considered at a conceptual level.

It sets out their advantages, disadvantages, key challenges, requirements, and costs.

The long-list options are then assessed in the next section.

The long-list of options includes:

- **Option 1:** No future or transitional role
- **Option 2:** Facilitate and broker
- **Option 3:** Facilitate, broker, and incentivise
- **Option 4:** Enhance regulatory regimes
- **Option 5:** Tender for services
- **Option 6:** Contract out services
- **Option 7:** PPP-like arrangement
- **Option 8:** Mixed-ownership style arrangement
- **Option 9:** Directly own and operate (adjusted status quo)

Option 1

Minimal intervention: Crown exit – no future or transitional role

Overview

Under this option, KiwiRail ceases Cook Strait ferry services when vessels reach end-of-life. The Crown plays no role in KiwiRail's divestment of ferry assets / services (outside of its role as shareholder), or in the provision of Cook Strait services more generally following KiwiRail's exit (outside of maintaining existing regulatory mechanisms).

The Crown would leave future provision of services to either: an expansion of the existing commercial operator (Bluebridge) or a new entrant to the market.

Key requirements

- The Crown would need to signal as soon as possible its intention to leave the Cook Strait to allow time for other operators to enter the market.
- KiwiRail would need to signal its intentions and timeframes clearly and transparently to allow freight users, competitors, and new entrants to make arrangements accordingly.

Key challenges

- This option assumes that two private sector operators on the Cook Strait would be commercially viable. Performance of Bluebridge indicates that the service is viable for a right-sized operator. However, if market dynamics change (i.e. Bluebridge expands its market share aggressively), viability may be more marginal for a new entrant.
- Any uncertainty over the Government's timeframes or intentions will impact the ability for the market to 'fill the gap'.

Long-term implications / considerations

- The Crown would lose its ability to directly influence the critical connection between the North and South Islands.
- If uncompetitive behaviours emerge (i.e. price gouging), the Crown may need to implement additional regulatory levers to protect consumers.
- There is a risk that (once established) operators use the threat of their exit to secure concessions from the Crown.

Advantages

- Material saving to the Crown. No ongoing KiwiRail support required.
- Strongest market-based approach
- Potential benefits to customers through pure market competition

Disadvantages

- No guarantee of levels of service (capacity and price)
- Prices could increase
- Reliance on continued operation of private companies
- Potential for a monopoly (or unequal duopoly) with 'first mover' advantage for incumbent
- Significant time requirement for new entrant to enter the market (regulatory approval, Health & Safety, commercial agreements)

Cost requirements

- No cost for the provision of services, potential for savings
- Some disestablishment costs to wind up KiwiRail operations.
- Initial costs to ports for redevelopment of facilities.
- Potential increased costs for consumers if available capacity reduces and prices rise.

Option 2

Minimal intervention: Crown exit – Facilitate and broker

Overview

Under this option, KiwiRail ceases Cook Strait ferry services when vessels reach end-of-life. The Crown takes steps to facilitate an orderly transition to a new commercial operator including:

- Overseeing KiwiRail wind-down of services to ensure no barriers to new entrant operations are created,
- Active engagement with potential providers to identify and address barriers,
- Brokering / interface role with key stakeholders (i.e., KiwiRail, Ports, MNZ, operators).

Key requirements

- The Crown would need to signal its intention to leave the Cook Strait as soon as possible to allow time for other operators to enter the market.
- KiwiRail would need to signal its intentions and timeframes clearly and transparently to allow freight users, competitors, and new entrants to make arrangements accordingly.
- The Crown would need to confirm the limits of its facilitation / brokering role to provide clarity on roles with the market / KiwiRail.

Advantages

- Material saving to the Crown (Limited new costs and no ongoing KiwiRail support).
- Strong market-led approach.
- Potential benefits to customers through pure market competition.
- Secures competition on Cook Strait
- Potential for continuity of service, through Crown facilitation of an orderly transition from KiwiRail to new operator.

Key challenges

- KiwiRail assets will be end-of-life, the ships will be retired, but the landside infrastructure will need to be renewed for the new entrant at the same time as KiwiRail operates its last few years.
- There may not be a private sector entity willing to purchase and operate ferries on the route. There is therefore no guarantee that by playing a greater role in the wind-down of KiwiRail services, the Crown is able to attract a new entrant.
- KiwiRail will need to communicate and deliver an orderly wind-down.

Disadvantages

- No guarantee of levels of service (capacity and price)
- Prices could increase without additional price regulation.
- Reliance on continued operation of private companies.
- Potential monopoly (or unequal duopoly) with 'first mover' advantage for incumbent.
- Significant time requirement for new entrant to enter the market (regulatory approval, Health & Safety, commercial agreements).

Long-term implications / considerations

- The Crown would lose its ability to directly influence the Cook Strait freight and passenger market.
- If uncompetitive behaviours emerge (i.e. price gouging), the Crown may need to implement additional regulatory levers to protect users.
- There is a risk that (once established) operators use the threat of their exit to secure concessions from the Crown.

Cost requirements

- No cost for the provision of services, potential for savings.
- Some disestablishment costs (KiwiRail may require additional funding to maintain services in the interim).
- Initial costs to ports for redevelopment of facilities.
- Potential increased costs for consumers if available capacity reduces, and prices rise.

Option 3

Low intervention: Crown exit – Facilitate, broker, and incentivise

Overview

Under this option, KiwiRail ceases Cook Strait ferry services when vessels reach end-of-life. In addition to the facilitation and brokering role of Option 2, the Crown would work with potential providers to offer direct incentives to support new entrants to the market, which could include:

- Supporting the rationalisation of land ownership around Ports (this is a material barrier to infrastructure renewal and to new market entrants);
- Direct brokering role between the new operator and regulators / ports to smooth entry to the market; and / or
- Negotiation of timebound Crown underwrites to support initial operations (high upfront costs and uncertain initial revenues mean establishing operations may be too high risk without some form of Crown guarantee).

Key requirements

- As with Option 2 (certainty of direction from Crown and KiwiRail, limitations on brokering role).
- The Crown would need to secure funding and determine its appetite and potential mechanisms for providing targeted financial incentives to a new entrant.
- Mechanisms would be required to ensure if the supported entrant subsequently exited the market, penalties / clawback provisions were in place.

Key challenges

- Negotiation of practical arrangements to support new market entrant could be protracted. Complex contractual and management arrangements for Crown underwrite.
- Uncertainty over process to select new market entrant – only room in the market (and ports) for two operators.
- If a formal procurement is not run (i.e. the Crown holds discussions with potential parties and negotiates directly), then this may breach procurement rules.

Long-term implications / considerations

- Underwrites / other support schemes can be difficult to exit once in place.
- There is a risk that (once established) operators use the threat of their exit to secure concessions from the Crown.
- Levers to direct land rationalisation by NZRC/KiwiRail are held by Shareholding Ministers. Rationalisation is likely to be valuable regardless of whether the Crown retains a role in the Cook Strait market.

Advantages

- Can remove or reduce barriers to entry without binding the Crown to continue providing Cook Strait services.
- Incentives can be clearly timebound to ensure a transition to unsupported commercial activities occurs as planned.
- Crown role in securing services provides greater certainty that capacity will be available (assuming the Crown is successful in identifying and securing a provider) and that there will be competition across the Strait.

Disadvantages

- Support schemes can be difficult to exit once in place. Risk that entrants threaten to leave market as supports are reduced.
- Less direct support (i.e. supporting rationalisation of port land) unlikely to be enough to entice new market entrant on its own)
- May be perceived as 'unfair' as incentives would not be available to Bluebridge.
- No guarantee that there is a provider that could be incentivised to enter the market, and "locked in" to provide certainty of continued service.

Costs

- Lower upfront capital costs than direct ship procurement, but potential for an ongoing operational cost (depending on incentive arrangement agreed).
- Crown could limit exposure with an upfront agreement to gradually scale-down support, or by limiting support to facilitate market entry and no ongoing subsidy.

Option 4

Low intervention: Crown exit - Enhance regulatory regimes

Overview

Under this option, KiwiRail ceases Cook Strait ferry services when vessels reach end-of-life. The Crown would not play a role in securing a new entrant to the market. However, the Crown would assess and adjust gaps in current regulatory settings to ensure a transparent, level playing field for commercial operators. This could include:

- Information disclosure requirements (from both ports and operators),
- Cost transparency (in regard to post infrastructure);
- Changes to seafarer qualification requirements; and / or
- Licensing requirements (to operate on the Cook Strait) with minimum notice periods attached to withdrawing service.

Key requirements

- That the cost of additional regulatory requirements is not outweighed by the benefits to consumers.
- Interventions should be beneficial regardless of the evolution of the future market structure.
- Interventions should secure Crown objectives (e.g. improved competition in the market, guarantee of a minimum level of service).

Key challenges

- Interventions may be viewed as excessive until / unless market failure occurs.
- Individual regulatory changes are unlikely to incentive an operator to establish services on their own. Regulatory changes would likely be more effective if implemented in parallel with other options.

Long-term implications / considerations

- Regulatory change takes time (extensive consultation and assessment prior to implementation).
- Decisions would need to be made about the long-term home of the regulatory / monitoring function (i.e. MOT, MNZ, MBIE, ComCom).
- Would likely be more impactful when applied in conjunction with other interventions to promote a new market entrant.

Advantages

- Theoretically creates a more level playing field for commercial activities through a light touch regulatory approach (requirements for port cost transparency etc).
- Promotes 'market-based' solution to Cook Strait capacity.
- Relatively inexpensive to the Crown – some resources required to monitor compliance and maintain regulations.
- Licensing regime could give Crown comfort of service continuity

Disadvantages

- Unlikely that regulatory changes alone will be sufficient to attract market interest (likely to be lag between regulatory changes and new entrant standing up services).
- No guarantee that light-touch changes to regulation will materially impact operator costs (i.e. transparency over port costs will not prevent operators being required to pay for port upgrades).

Costs

- Upfront costs to develop, consult, and implement regulatory changes.
- Some ongoing operating costs to monitor compliance and maintain regulations.

Option 5

Moderate intervention: Crown exit - Tender for services

Overview

Under this option, KiwiRail ceases Cook Strait ferry services when vessels reach end-of-life. The Crown would directly procure a new commercial operator to provide an agreed level of service with their own vessels in time to replace KiwiRail.

Services would be expected to operate commercially (revenues cover operating costs) with the support provided to the selected provider intended to cover only the cost of ship procurement (fully or partially).

Key requirements

- Immediate and future service specifications would need to be developed.
- The Crown would need to confirm which Department(s) is best placed to lead procurement and manage the contract (active management required to ensure competitive market prevails).

Key challenges

- Open and competitive procurement process could take several years to complete and for capacity to arrive.
- Would need active management to ensure no unintended impact on other commercial services (i.e. price, capacity, commercial viability of existing operators).
- It would be difficult to provide a compelling rationale for providing a financial incentive for commercial services

Long-term implications / considerations

- The Crown would need to be satisfied that tendering services would be a one-off temporary measure, rather than an ongoing intervention.
- The Crown would need to consider the risk that it inadvertently creates a market where it needs to support / incentivise both operators to be viable.

Advantages

- Transfers vessel procurement and operation risk to commercial operator
- Competitive procurement provides transparent mechanism for Crown to secure best value for money
- Contractual arrangements provide greater certainty that capacity will be available than if left to market forces alone (potentially guaranteed for contract period).

Disadvantages

- Risk of unequal competition in the market if Crown support provides new operator with unfair advantage
- Unlikely to receive many tenders without some form of incentive (why bid in a government process if you could set up operations commercially anyway). Potential for ongoing financial liability (depending on terms of the procurement).
- May take a long time to procure and operationalise services

Costs

- Very difficult to quantify without market soundings, but in theory no more or less costly than providing capital to KiwiRail to support newbuild vessel purchase. It still involves the Crown making up the difference between the cost of the vessels, and what is commercially recoverable from a ferry business.
- Procurement costs likely to be significant given number of stakeholders and complexity of arrangements.
- Potential for some ongoing costs (i.e. underwrite, monitoring / contract management etc).

Option 6

High intervention: Contract out services

Overview

Under this option, the Crown purchases new / used vessels to replace the existing KiwiRail fleet via another Crown owned entity.

During delivery of the vessels (i.e. once the capacity, vessel type etc are confirmed), the Crown awards a concession to a private provider to operate services for a fixed period (i.e. 10 years) using the Crown's vessels.

The provider would then pay a concession to the Crown for use of the vessels. The concession holder would pay the Crown for use of the assets (allowing for some capital recovery) and support other costs associated with asset ownership (i.e. depreciation, maintenance, and refurbishment). The provider would retain any profits from the operation of the services to incentivise commercial disciplines.

Key requirements

- Immediate and future service specifications would need to be developed.
- Confirmation of Crown entity for purchasing vessels.
- Robust, rapid procurement processes to meet time constraints.
- Process (and party) for monitoring of contract needs to be determined.
- Orderly transition of service operation from KiwiRail to the new concession holder.

Key challenges

- A Crown entity (KiwiRail or alternative) still needs to purchase ferries and the Crown needs a clear view on future service requirements.
- Open and competitive process over several years required to select new operator.
- Contractual arrangements would likely be complex (including allocation of responsibilities, risks, and penalties for non-performance), requiring resources to implement and monitor.

Long-term implications / considerations

- The Crown will need to consider long-term arrangements for the vessels / services, including contract renewals, vessel maintenance.
- At the end of the vessel's useful life, the Crown would need to renew or refurbish vessels. As vessels age it may become increasingly difficult to find an operator to provide services if their viability is constrained by vessel issues.

Advantages

- Maintains Crown control over vessel and service specifications
- Introduces commercial discipline from the private sector to the operation of the ferry business and ability for Crown to recover capital costs over the life of the concession
- Cost of capital for the Crown is lower than it would be for a private operator and payments from the concession holder would be expected (to some extent) to cover the cost of capital investment.

Disadvantages

- Risk that the Crown is 'back to square one' at the end of the contract (25-30 years)
- An implicit Crown 'backstop' or guarantee for the concession holder may encourage excessive risk-taking
- Potentially complex relationship and 'blame-game' unless responsibilities clear (maintenance regime etc).
- Still requires upfront capital contribution and risk of negative reaction from public/unions.

Costs

- Upfront capital costs estimated in the region of \$800m-\$1 billion
- Potential for revenue source during operation through concession arrangement.
- Potential for ongoing maintenance / upgrade costs depending on commercial arrangement agreed.
- Ongoing monitoring costs of contract.

Option 7

High intervention: PPP-like arrangement

Overview

Under this option, the Crown enters a PPP or PPP-like arrangement with a private sector partner to design, build, finance, and operate services for a fixed period.

The Crown would set the service requirements (capacity, frequency etc) and procure a consortium to design, build and fund new vessels. The consortium would operate the vessels on the route for a fixed period (i.e. 30 years). The Crown would make payments over the concession period to repay the upfront capital cost of the vessels, plus a reasonable rate of return. The consortium would retain revenue from operating the services to incentivise for commercial performance.

Key requirements

- Immediate and future service specifications would need to be developed.
- Process (and party) for monitoring of contract needs to be determined.

Advantages

- Introduces commercial discipline from the private sector to the operation of the ferry business
- Preserves Crown role in setting service / vessel requirements
- Ensures a higher quality asset throughout the concession period
- Spreads the cost of vessels / services over a longer period.

Key challenges

- Complex contractual arrangements with multiple parties to be negotiated.
- Requires the Crown to have a reasonable understand of the type of service / vessels it needs.
- Justifying the use of a PPP model may be difficult as assets are not durable and are not a natural fit for a PPP solution.
- Market for PPP-like arrangements in the New Zealand maritime sector has not been tested. Uncertain whether appropriate partners are available.

Disadvantages

- If assets are transferred, then the Crown will be left with end-of-life assets at end of concession period.
- Requires the Crown to have a robust view of current and future service requirements from the outset
- Likely to be complex to negotiate and manage
- May take longer to deliver as model most valuable if vessels are new builds.

Long-term implications / considerations

- The Crown would be paying a premium for vessels with no book or real value at the end of the concession period. This may not present value for money.

Costs

- Capital investment similar to the other Crown purchase options, but spread out over the life of the contract rather than upfront.
- Additional ongoing cost to the Crown to provide Partner with an acceptable rate of return
- Administrative costs (external financial and legal advisers) to establish contractual arrangements

Option 8

High intervention: Mixed-ownership style approach

Overview

Under this option, the Crown establishes a new Crown-owned entity to procure and operate vessels across Cook Strait.

The Crown owned entity would be established to allow the Crown to investigate opportunities to sell a partial stake in future (similar to the Air New Zealand / power company model). Private capital could be introduced prior to or following service introduction:

- The Crown could secure capital from a large-scale investor (e.g. NZ Super Fund) prior to new vessels arriving, or
- The new Crown owned entity could operate services independently and as a fully commercial enterprise until it could demonstrate to the market that services are commercially viable and represent an investable opportunity.

Key requirements

- Robust market engagement required to confirm likelihood of market interest.
- Requires establishment of new Crown-owned entity capable of partial sale in future if required.
- Process (and party) for determining and running any sale needs to be determined.

Advantages

- Provides the Crown with optionality in future ownership.
- Preserves Crown role in setting service / vessel requirements while introducing greater commercial discipline from mixed ownership style arrangement.
- Ability to recoup upfront capital costs faster than under full Crown ownership model.

Key challenges

- Requires the Crown to have a reasonable understanding of the type of service / vessels it needs.
- Risks associated with perceived 'asset sales'.
- Market for potential investors has not been tested. Uncertain whether appropriate partners are available.
- The Crown would need to find an upfront partner or be able to demonstrate the ability to operate commercially and profitably for 3-5 years. If services are viable and profitable, then case for sale may be weakened in the eyes of the public.

Disadvantages

- Requires a large upfront capital contribution from the Crown.
- May not be able to find a willing investor upfront / services may not be able to demonstrate sufficient returns to be attractive to the market.
- Risk of potential negative public reaction.

Long-term implications / considerations

- Establishing a new entity with the ability for a partial sale gives the Crown flexibility in future ownership arrangements / ability to recoup upfront capital costs early.
- If services operated by the entity are commercially viable, the Crown would forego some revenue through diluted ownership.

Costs

- Capital investment similar to the other Crown purchase options, but potential to recoup some costs earlier.
- Reduced future returns through diluted Crown ownership.
- Costs associated with establishment and operation of a new Crown-owned entity and in delivering the partial sale.

Option 9

High intervention: Directly own and operate (adjusted status quo)

Overview

Under this option, the Crown continues to own and operate Cook Strait ferry services, either through continued KiwiRail operations or through a new Crown-owned entity.

Unlike Option 8, this option assumes that the Crown intends to retain full ownership of the assets and services for at least the life of the new vessels.

Retaining existing KiwiRail responsibility for services, or establishing a new Crown owned entity have different implementation requirements and risks. These are explored later in this document.

The content to the right outlines the option at a conceptual level – i.e., ‘what would it look like if the Crown continued to have full ownership?’

Key requirements

- Clarity over immediate and future vessel requirements.
- Confirmation of preferred ownership structure (i.e., KiwiRail versus new Crown owned entity)
- Assessment and confirmation of total funding available.
- Assessment and implementation of broader changes to improve the viability of KiwiRail's operations.

Advantages

- Provides certainty over capacity and enables greater service continuity
- Greater influence over market pricing, service levels, alternate use of vessels (disaster relief etc).
- A proven model that avoids materially changing the market and risking loss of service / capacity shortfalls etc

Key challenges

- KiwiRail would require oversight and interface support during procurement. It would need to rebuild capability it has released.
- No guarantee KiwiRail will be commercially viable without broader change.
- A new Crown owned entity would require significant work to confirm the form, funding and governance arrangements, build capability, and procure vessels. Would need to determine ongoing operational requirements.

Disadvantages

- Requires Crown to establish capability to procure and operationalise new vessels
- Risks creating continued reliance on Crown funding for what should be commercially viable operations.
- High upfront capital costs for new ships and associated landside infrastructure.
- Decisions relating to the vessel design and entry in service could constrain future room for manoeuvre if market expectations change, or if the business model needs to adapt to remain competitive.

Long-term implications / considerations

- If services are retained by KiwiRail there is no guarantee that services will be commercially viable and there will be no further requests for Crown funding without material change.
- Expectation that future fleet renewals are funded by retained earnings.

Costs

- KiwiRail likely to require funding during procurement. New entity would also require a capital injection.
- Likely to be material establishment costs for a new Crown owned entity (\$10m)
- Assumption is that following procurement, KiwiRail / new entity would operate commercially and without ongoing Crown funding.

Long-list of options Assessment

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Assessment against strategic objectives

Each of the long-list options has been assessed against the Crown's strategic objectives based on whether the option supports, partially supports, or does not support (i.e. does not help to further) achievement of the strategic objective. Any option which does not support an objective is discounted from further analysis.

	Minimal intervention		Low intervention		Moderate intervention	High intervention			
Criteria	No further Crown role	Facilitate and broker	Facilitate, broker, and incentivise	Enhance regulatory regimes	Crown tender for services	Contract out services	PPP-like arrangement	Mixed-ownership style approach	Directly own and operate
1. There is <u>competition</u> in freight and passenger transport across the Cook Strait*	Does not support	Partially supports	Partially supports	Partially supports	Partially supports	Fully supports	Fully supports	Fully supports	Fully supports
2. Cook Strait ferry services are <u>commercially viable</u> and follow appropriate <u>commercial disciplines</u>	Fully supports	Partially supports	Partially supports	Partially supports	Does not support	Fully supports	Fully supports	Fully supports	Partially supports
3. There is <u>continuity of service</u> when current vessels reach end-of-life (end of 2029)*	Does not support	Does not support	Partially supports	Does not support	Fully supports	Fully supports	Partially supports	Fully supports	Fully supports
4. The Crown retains future <u>optionality</u> around the provision of Cook Strait ferry services	Fully supports	Fully supports	Fully supports	Fully supports	Partially supports	Partially supports	Does not support	Fully supports	Partially supports
Progress / discount	Discounted	Discounted	Progressed	Discounted	Discounted	Progressed	Discounted	Progressed	Progressed

Rationale for discounted options

Based on the assessment against the strategic objectives, the following long-list options have been discounted:

- **Option 1. No further Crown role:** Option 1 provides significant flexibility to the Crown and is a pure, market-based solution. However, Option 1 was discounted as:
 - The most likely result should the Crown exit the market is an expansion and monopoly by Bluebridge. This would not support Minister's objectives for competition on the Cook Strait.
 - It is unlikely that without some form of incentive or significant Crown role, sufficient capacity will be available in time to replace KiwiRail and avoid loss of capacity in the market.
- **Option 2. Facilitate and broker:** Option 2 provides significant flexibility to the Crown, is a pure, market-based solution, and may result in limited competition if a new entrant could be facilitated entry. However, Option 2 was discounted as:
 - We have a low level of confidence that subtle facilitation and engagement with potential new entrants could deliver sufficient capacity to replace KiwiRail. Some form of incentive would likely be needed to secure new services at pace and avoid loss of service. However, there are likely to be benefits from pursuing some of the initiatives under this option (e.g. land rationalisation) regardless of the Government's choice of market intervention.
- **Option 4. Enhance regulatory regimes:** Option 4 would go some way to reducing perceived barriers to entry on the Cook Strait (which could lead to a competitive, commercial market) while also retaining future optionality for the Crown. However, Option 4 was discounted as:
 - It is unlikely that regulatory change on its own would be enough to incentivise a new market entrant in time to replace KiwiRail (given any regulatory changes will take time to implement, and new entrants would need significant time to stand-up services). However, it may be prudent to pursue regulatory reform in parallel to a significant investment in new assets to improve the operation of the market.
- **Option 5. Crown tender for services:** Option 5 would help ensure that there are services in place to replace KiwiRail. However, Option 5 was discounted as:
 - It would require the Crown to directly tender for commercial services, create an uneven playing field with Bluebridge, and potentially encourage non-market disciplines to be followed. It would lead to the perverse situation where the Crown was directly supporting one commercial operator, at the expense of another, in the name of competition.
- **Option 7. PPP-like arrangement:** Option 7 would enable continuity of service, promote competition, and commercial discipline on the Cook Strait. However, Option 7 was discounted as:
 - It would significantly constrain the Crown's future optionality in relation to the Crown's role in Cook Strait connectivity. It would also be difficult to practically implement as the PPP model is not well suited to assets with useful lives as short as a ferry (as services are not 'durable'). The Crown would be required to pay a premium to cover the cost of the assets which have no book or real value at the end of the contract.

Rationale for shortlisted options

The remaining shortlisted options are:

- **Option 3. Facilitate, broker, and incentivise:** Option 3 was progressed to the shortlist as it goes some way to supporting a new entrant to the market, promoting competition and commercial discipline, and allowing the Crown to retain future optionality (through timebound financial supports or discreet initiatives). However, as a low intervention model, there is still a risk that no new entrant can be found and incentivised to establish services.
- **Option 6. Contract out services:** Option 6 was progressed to the shortlist as it would ensure continuity of service through the Crown provision of vessels, while promoting competition and commercial discipline through the contracting out of operations / services to the private sector. Future options are somewhat constrained for the length of the contract period (e.g. 10 years). However, the Crown would still have the ability to sell assets or take back operational responsibility once the contract ends.
- **Option 8. Mixed-ownership style approach:** Option 8 was progressed to the shortlist as it meets all of the Crown's objectives. The Crown continues to play an active role, ensuring continuity of service, while also promoting commercial discipline and viability through the need to demonstrate services are 'investment worthy' and then through the need to provide commercial returns to investors.

- **Option 9. Directly own and operate:** Option 9 was progressed to the shortlist as it is the status quo option and supports the Crown's objectives. The option has different challenges / benefits depending on whether a new entity is created, or KiwiRail continues services. If KiwiRail were to continue operating ferry services, additional changes would need to be made to their operation to ensure that the status quo / non-commercially viable business and operational arrangements are not maintained.

Further regulatory change considerations

While regulatory changes on their own do not support the Crown's objectives and have therefore been discounted, the Ministry's view is that beneficial regulatory changes should be considered regardless of the final approach chosen by Ministers. Increased cost transparency, seafarer qualification requirements, and other regulatory adjustments could lead to greater competition and commercial viability for all market participants.

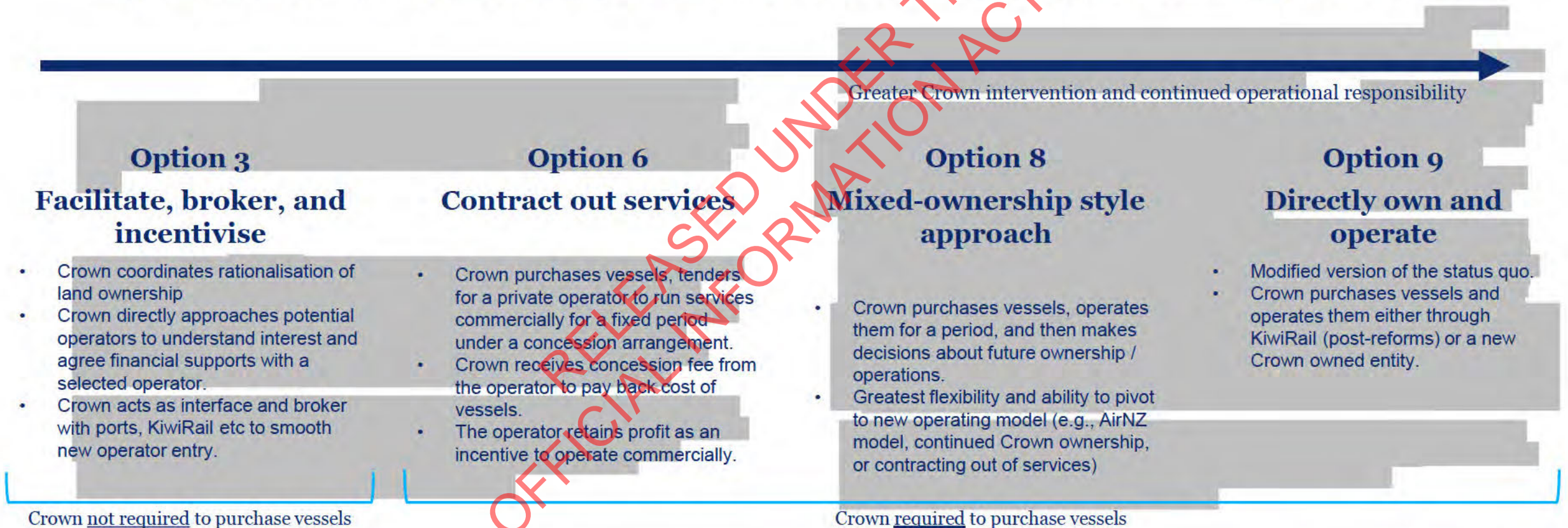
Transition risks exist in all scenarios other than the status quo.

Short-list of options Implementation and risks



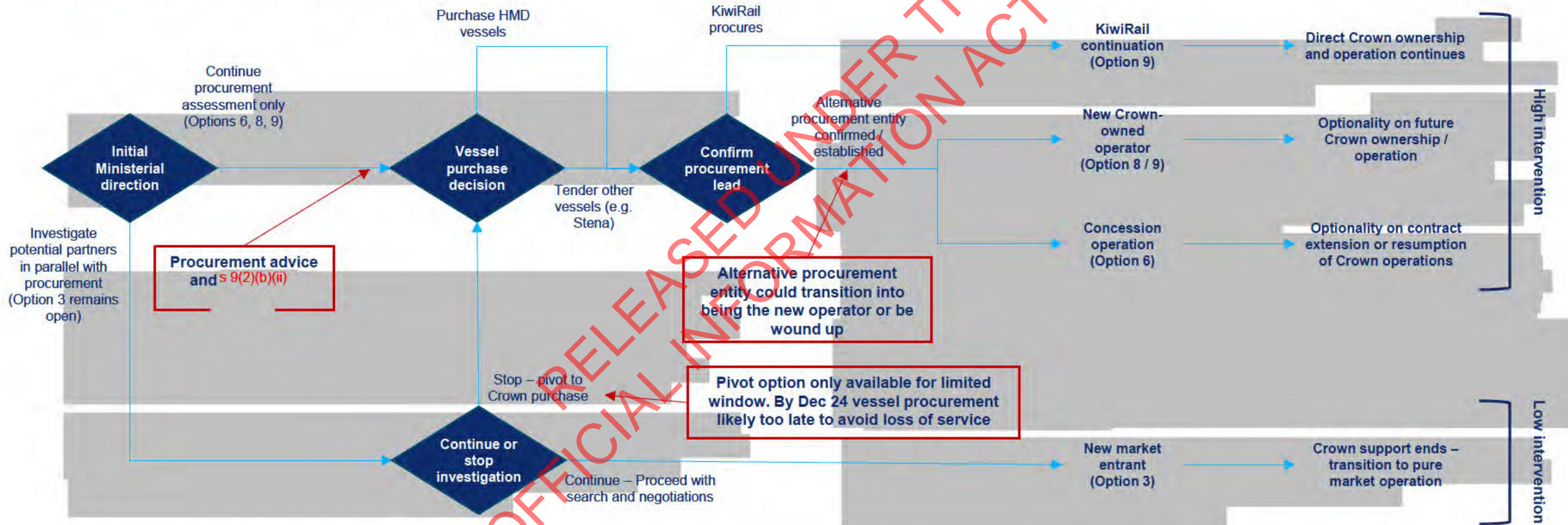
Shortlist options overview

The four shortlisted options fall on a spectrum from lower to greater levels of Crown intervention and operational responsibility. Only the low intervention option (Facilitate, broker, and incentivise) does not require the Crown to purchase vessels.



Shortlist options timeline of choices

The shortlisted options are not mutually exclusive from the outset. Ministers can maintain optionality and there is limited flexibility in the next few months for the Crown to pivot its approach as new operator availability, vessel costs, and timelines become clearer. The figure below demonstrates the decision timeline at a conceptual level (exact timings TBC).



Implementation considerations

Option 3. Facilitate, broker, and incentivise

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- Rationalisation of land ownership (Crown instructs KiwiRail to sell land to ports or establishes new holding company);
- Identification of new entrant (Crown actively engages with potential operators to assess interest through EOI or informal process);
- KiwiRail transition (orderly divestment);
- Brokering of new operator entry (Crown acts as interface to smooth entry);
- Financial incentive (Crown delivers timebound financial support to new entrant)

The key implementation requirements for the Facilitate, broker, and incentivise option are included below:

Rationalisation of land ownership

- Confirmation of scope of rationalisation, confirmation of lead department to oversee rationalisation, development of timelines and programme of works.
- Crown directs KiwiRail to sell land to ports, including any required conditions of sale or covenants.
- Engagement with port companies, KiwiRail, the Crown, and any other relevant parties (e.g. Iwi / Treaty partners) on transition.

Identification of new entrant

- Crown confirms timetable and nature of KiwiRail exit from the Cook Strait market, including providing access to financials to support market engagement.
- Crown confirms lead department for engagement and begins market sounding with potential operators (through EOI or informal process).
- Crown confirms whether a new entrant is likely to be available and (if so) begins negotiations for support.

Regulatory reform

- Minister for Commerce and Consumer Affairs orders ComCom inquiry into port fees for ferry operators with hypothesis that information disclosure and cost transparency from monopoly service providers will improve functioning of the market.
- ComCom inquiry might determine that regulation is warranted.

KiwiRail transition:

- Confirmation of KiwiRail transition timeline.
- Active management of KiwiRail's transition to ensure no new barriers to entry are created and timelines are met.

Brokering of new operator entry

- Crown provides interface between new operator and ports / regulators to smooth entry to market.
- Shareholder provides guarantee that KiwiRail will work cooperatively with new operator to renew port infrastructure and vacate the market on time (including consideration of any commercial arrangements such as transfer of rail freight contracts)
- Crown confirms whether there is a need to split Interislander operations out of KiwiRail during wind down.

Financial incentive

- Pre-new entrant: Refinement of financial assistance scheme (including detailed commercial arrangements and exploration of mechanisms outside of a Crown underwrite)
- Pre-new entrant: Confirmation of funding envelope and Ministerial expectations for support.
- New entrant identified: Negotiation of financial assistance package (including service levels, payment and reporting mechanisms, non-performance penalties, clawback provisions).
- New entrant appointed: Ongoing monitoring and management of financial supports. Confirmation of monitoring department required.

This option is only viable for a short window. If a new operator is not found quickly (i.e. by December 2024 at the latest) then it may be too late for the Crown to pivot to purchasing vessels and continuing Crown operations.

Key risks

Option 3. Facilitate, broker, and incentivise

Key risks

There are a number of key risks associated with Option 3 –

Facilitate, broker incentivise, which could impact the viability of the option.

Key risks, their likelihood of occurring, potential impact, and mitigations are included in the table to the right.

Risk	Likelihood	Impact	Mitigation / comment
If there are no operators available to enter the Cook Strait market and the Crown waits too long to pivot to another option, then there may be a loss of connectivity and capacity regardless of Crown incentives.	Moderate	Severe	Crown has limited options to mitigate this risk in the event there are no operators available / interested. Early market engagement will help to determine whether operators exist or whether a more direct Crown intervention is required.
If services are not commercially viable, then the Crown may be required to extend its support to maintain market capacity.	Low	High	Any Crown financial support would need to be structured in such a way as to disincentivise the operator from becoming reliant on it. Analysis to date suggests that a right-sized operator should be able to operate commercially viable services without Crown support.
If the Crown's support scheme undermines Bluebridge's commercial viability, then the Crown may be required to extend its support to Bluebridge to preserve market capacity.	Low	High	Bluebridge is currently viable even with a Crown supported operator competing with it. An underwrite of a new operator should not materially impact the viability of Bluebridge's services.
If KiwiRail's exit from the market is not managed effectively, then new barriers to entry may be created which jeopardise the viability of a new entrant.	Moderate	High	The Crown will need to have significant oversight of KiwiRail's transition to ensure it meets its timeframes, port infrastructure is available when required, and customers have clarity over their transport options.
If the Crown pursues this option in parallel with investigating direct ferry procurement, then there is a risk of the Crown being perceived as not engaging in good faith	High	High	The Crown would need to carefully communicate the reasons for maintaining a parallel process and manage stakeholder expectations accordingly.

Implementation considerations

Option 6. Contract out services

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- **Vessel procurement** (Crown procurement of two new or used vessels, and development of port infrastructure to accommodate them);
- **KiwiRail transition** (orderly divestment and exit of KiwiRail's Cook Strait services);
- **Tendering of services** (formal approach to market to tender an operator for Cook Strait services using Crown-owned vessels);
- **Commercial negotiations** (confirmation of services, fee, penalties, and other key terms); and
- **Operations and monitoring** (ongoing monitoring to ensure compliance with contract terms).

The key implementation requirements for the contracting out of services are included below:

Vessel procurement:

- Establishment / confirmation of procurement entity (which could be an existing entity, new entity, and / or a separate entity from the eventual monitoring agency).
- Confirmation of capacity and vessel requirements, and funding envelope.
- Negotiation and procurement of vessels (new or used).
- Management of vessel procurement (costs, timeline etc).
- Engagement with ports on portside infrastructure requirements.

KiwiRail transition:

- Confirmation of KiwiRail transition timeline and approach.
- Active management of KiwiRail's transition to ensure no new barriers to entry are created and timelines are met.

Tendering of services:

- Design and release of tendering documentation, including refinement of commercial arrangements (including level of Crown return), service requirements, length of contract, renewal rights, key contractual terms.
- Tender support and bid evaluation.

Commercial negotiations:

- Negotiations with appointed operator on concession fee, service levels, performance regime, maintenance responsibilities etc.
- Ministerial approval process for entering commercial arrangements with operator.

Operations and monitoring:

- Confirmation of responsible department for ongoing monitoring (same as procuring entity or different entity?)

Outstanding items for refinement

Some key commercial elements will need to be tested with the market if this option is preferred. For example, it is not clear which party should be responsible for maintenance activities (which impacts which party is at risk during a breakdown or responsible for covering costs during dry dock) or how penalty regimes would work in the event of non-performance (i.e. Crown levers outside of termination or relying on the operator's desire to make a profit to incentivise performance).

If the service contract only lasts for a fixed period (i.e. 10 years), it will become increasingly difficult to retender as vessels age, are more prone to service failure, and require refurbishment. The Crown could find itself financially exposed or unable to secure an operator without some form of incentive.

Key risks

Option 6. Contract out services

Key risks

There are a number of key risks associated with Option 6 – Contract out services, which could impact the viability of the option. Key risks, their likelihood of occurring, potential impact, and mitigations are included in the table to the right.

Risk	Likelihood	Impact	Mitigation / comment
If the cost of purchasing new vessels is excessive, then it may not be viable to secure the capacity required.	Low	Severe	Robust and early engagement with shipbuilders etc to understand likely costs. Transparent monitoring and reporting of costs to decision makers to ensure 'no surprises'
If the cost of purchasing new vessels is excessive, then it may not be possible to recoup the costs of the vessels through the concession payment without jeopardising commercial viability of the services.	Moderate	High	Robust and early engagement with shipbuilders and potential operators to understand likely costs and revenue requirements. Early Crown acceptance that the full cost of capital will not be recovered through the concession.
If there are no operators willing to establish services, then the Crown may be required to stand up services itself at pace.	Moderate	Severe	Early market engagement will help to identify the level of interest in the market. If there is insufficient market interest, then the Crown retains the optionality to establish its own services if required.
If the Crown's aging vessels become a material barrier to extending service agreements / finding new operators, then the Crown may be required to pay for refurbishment / provide incentives to attract operators / stand up services itself.	Moderate	High	The Crown will need to ensure that the contracting out of services remains an attractive proposition for the market throughout the life of the vessels. The Crown may need to factor refurbishment / incentives into its costs from the outset to ensure it does not struggle to extend or enter new service agreements (with good VfM) as vessels age.
If the Crown purchases vessels which are not 'fit-for-purpose', then an operator may not be able to run services viably / may not be interested in establishing services.	Low	Severe	The Crown will need to undertake analysis of the current and future vessel requirements and soft market engagement prior to purchasing any vessels.
If responsibility for maintenance and vessel failure is unclear, then the Crown may fund itself in dispute with the operator / incurring penalties	Moderate	High	The service agreement will need to be clear on which party is responsible for maintenance activities and different types of fault. This will become more important and complicated as vessels age and become more prone to failure.
If KiwiRail's exit from the market is not managed effectively, then new barriers to entry may be created which jeopardise the viability of a new entrant.	Moderate	High	The Crown will need to have significant oversight of KiwiRail's transition to ensure it meets its timeframes, port infrastructure is available when required, and customers have clarity over their transport options.

Implementation considerations

Option 8. Mixed-ownership style approach

Key activities

Under the 'mixed-ownership style approach', there are five key activities which will need to be completed:

- **Establishment of Crown-owned entity** (with the option to transition to a mixed ownership style arrangement in future)
- **Vessel procurement** (New entity procurement of two new or used vessels);
- **KiwiRail transition** (orderly divestment and exit of KiwiRail's Cook Strait services);
- **Operations and monitoring** (ongoing monitoring to ensure compliance with contract terms); and
- **Ownership transition** (Confirmation of future ownership options).

The key implementation requirements for the mixed-ownership style approach are included below:

Establishment of Crown-owned entity:

- Confirmation of procurement and operating entity (i.e. separate entities, single new entity).
- Confirmation of new entity type (i.e., Crown Company, Schedule 4A PFA Company, Mixed Model Ownership Company).
- Formal establishment of new entity (including legal establishment, recruitment, establishment of monitoring regime).

Vessel procurement:

- Confirmation of capacity and vessel requirements, and funding envelope.
- Negotiation and procurement of vessels (new or used).
- Management of vessel procurement (costs, timeline etc).
- Engagement with ports on portside infrastructure requirements.

KiwiRail transition:

- Confirmation of KiwiRail transition timeline / approach.
- Active management of KiwiRail's transition to ensure a smooth transition from Interislander to the new entity.

Operations and monitoring:

- Confirmation of responsible department for ongoing monitoring of the new entity.

Ownership transition:

- Analysis and confirmation of capital requirement (i.e. amount that would be sought to offset upfront capital costs of vessels).
- Assessment of different ownership options (e.g. competitive tender, direct sale, public float, partial sale to institutional investors, joint venture, or combination of the above)
- Confirmation approach and timing for sourcing capital / entering mixed ownership style arrangement (if at all).

Outstanding items for refinement

Some key option elements will need to be tested with Ministers, Central Agencies, and commercial advisors. For example, the Crown would need to confirm the best time and approach to sourcing capital (e.g., after vessels are procured but before operational commencement or following a period of operations to demonstrate commercial viability, direct approach to potential investors (e.g. NZ Super Fund) versus IPO) and the most appropriate operating structure long-term (i.e. Air NZ model versus more direct Crown control).

Key risks

Option 8. Mixed-ownership style approach

Key risks

There are a number of key risks associated with Option 8 – Mixed-ownership style approach, which could impact the viability of the option.

Key risks, their likelihood of occurring, potential impact, and mitigations are included in the table to the right.

Risk	Likelihood	Impact	Mitigation / comment
If the cost of purchasing new vessels is excessive, then it may not be viable to secure the capacity required.	Low	Severe	Robust and early engagement with shipbuilders etc to understand likely costs. Transparent monitoring and reporting of costs to decision makers to ensure 'no surprises'
If the Crown determines that a mixed-ownership style approach will not be pursued, then the benefits of this option will not be achieved, and the Crown will not have its upfront capital recouped.	Moderate	Moderate	If services are viable, then the Crown should recoup its capital costs through operating profit over the life of the vessels. If services are not viable, then it is unlikely a private sector partner would be willing to provide capital regardless of the Crown's intentions to enter a mixed ownership style approach.
If services are not viable even under a new Crown owned entity, then it may not be possible to secure private sector capital.	Low	Moderate	A right-sized operator is expected to be viable on this route given the performance of Bluebridge. However, if services are not viable, the Crown may be required to provide additional financial support to cover any losses or divest entirely.
If KiwiRail's exit from the market is not managed effectively, then new barriers to entry may be created which jeopardise the viability of the new mixed-ownership entity	Moderate	High	The Crown will need to have significant oversight of KiwiRail's transition to ensure it meets its timeframes, port infrastructure is available when required, and customers have clarity over their transport options.

Implementation considerations

Option 9. Directly own and operate

Key activities

Under the 'Directly own and operate' option, the Crown would need to decide whether to reform, but continue existing services with KiwiRail, or cease KiwiRail's interisland services and establish a new Crown-owned entity for the sole purpose of purchasing and / or operating Cook Strait services.

Regardless of whether operations continue with KiwiRail or a new Crown-owned entity, new vessels will need to be purchased, existing vessels transitioned out of service, and portside infrastructure updated to meet new vessel requirements.

Confirmation of Crown-owned operator

- Confirmation of continued KiwiRail services on the Cook Strait, or establishment of a new Crown-owned entity.

Establishment of new Crown-owned entity

Establishment of Crown-owned entity:

- Confirmation of procurement and operating entity (i.e. separate entities, single new entity).
- Confirmation of new entity type (i.e., Crown Company, Schedule 4A PFA Company).
- Formal establishment of new entity (including legal establishment, recruitment, establishment of monitoring regime).

KiwiRail transition:

- Confirmation of KiwiRail transition timeline.
- Active management of KiwiRail's transition to ensure a smooth transition from Interislander to the new entity.

Continuation of KiwiRail services

Confirmation of KiwiRail reforms:

- s 9(2)(b)(ii)

Confirmation of scope, timeline, and monitoring of those reforms will be required.

Vessel procurement:

- Confirmation of capacity and vessel requirements, and funding envelope.
- Negotiation and procurement of vessels (new or used).
- Management of vessel procurement (costs, timeline etc).
- Engagement with ports on portside infrastructure requirements.
- Transition from existing to new fleet.

Outstanding items for refinement

s 9(2)(g)(i)

Even in a model where the Crown does not intend to access private capital, the ability to adjust Crown ownership settings in future could be considered when determining the form of the new Crown-owned entity.

Key risks

Option 9. Directly own and operate

Key risks

There are a number of key risks associated with Option 9 – Directly own and operate, which could impact the viability of the option. Key risks, their likelihood of occurring, potential impact, and mitigations are included in the table to the right.

Risk	Likelihood	Impact	Mitigation / comment
If KiwiRail is unable to complete the reforms required to become commercially viable, then the Crown may be required to continue providing financial support.	Moderate	High	High level of Crown oversight of reform activities will be required.
If the cost of purchasing new vessels is excessive, then it may not be viable to secure the capacity required.	Low	Severe	Robust and early engagement with shipbuilders etc to understand likely costs. Transparent monitoring and reporting of costs to decision makers to ensure 'no surprises'.
If the new Crown-owned entity is not able to operate commercially viable services, then the Crown may be required to continue providing financial support.	Moderate	High	A right-sized entity should be able to operate services commercially. However, if services are not viable the Crown will assess whether there are further barriers which need to be addressed.
If KiwiRail's exit from the market is not managed effectively, then new barriers to entry may be created which jeopardise the viability of the new Crown-owned entity.	Moderate	High	The Crown will need to have significant oversight of KiwiRail's transition to ensure it meets its timeframes, port infrastructure is available when required, and customers have clarity over their transport options.

Short-list of options Assessment

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Shortlist assessment output

Each of the shortlist options has been assessed against the agreed evaluation criteria. The rationale behind the evaluation is summarised on the following pages and detailed in Appendix 1.

Magnitude	Score
Large positive	+3
Moderate positive	+2
Slight positive	+1
Neutral	0
Slight negative	-1
Moderate negative	-2
Large negative	-3

		Low intervention	High intervention		
Criteria		Facilitate, broker, and incentivise	Contract out services	Mixed-ownership style approach	Directly own and operate
Strategic Objectives	How well the option: <ul style="list-style-type: none"> Meets the agreed objectives (competition, commercial viability / discipline, pace) Aligns with the Government's broader transport priorities 	+1 Supports objectives, but no guarantee new entrant available in time	+3 Brings commercial discipline to operations, certainty over capacity, and the required pace	+2 Retains Crown involvement initially, but potential for increased commercial discipline, viability, and optionality over time	+1 Retains full Crown ownership. Potential for non-commercial behaviours through perceived Crown underwrite.
Potential value for money	How well the option: <ul style="list-style-type: none"> Optimises value for money (i.e., the optimal mix of potential benefits, costs and risks). 	+2 Minimises Crown funding requirement and transfers risk to the private sector (noting risk that no operators available)	+1 Requires the Crown to fund and maintain vessels without access to commercial profits from operations. Increasing risk as vessels age.	+2 Ability to recoup initial capital through transition to mixed ownership. Benefits of private sector discipline and risk transfer.	+1 Crown retains all risk and responsibility for funding vessels
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services, and Is likely to result in a sustainable arrangement that optimises value for money over the term of the contract. 	-2 Unclear whether operators are available. Risk that Crown required to step in if no provider available (may be too late to ensure continuity of service)	-1 Unclear whether operators are available. Will become increasingly difficult to retender as vessels age	+2 If the Crown can demonstrate commercial viability, then likely to be interest from investors	+2 Continuation of the status quo. Potential for some market hesitancy if KiwiRail remains in charge of procurement.
Potential affordability	How well the option: <ul style="list-style-type: none"> Matches available funding constraints, and Is likely to be financially sustainable over the long-term. 	+3 Likely to be low cost (timebound underwrite)	+2 Requires upfront capital, but losses profit from operations in exchange for concession	+2 Requires upfront capital, but opportunity to recoup capital and return from viable services	+1 Requires upfront capital, risk of continued investment requirement as under status quo
Potential achievability	How well the option: <ul style="list-style-type: none"> Is likely to be delivered given technical, safety, regulatory, and capability considerations. 	+1 Likely to be deliverable due to low level of Crown involvement (assuming provider can be found)	-1 Complex arrangements, particularly as vessels age and contracts expire	+2 Likely to be achievable, but sourcing capital likely to be complex	+1 Likely to be achievable, noting challenge of establishing new entities / reforming KiwiRail
Total / Summary		+5	+4	+10	+6
Ranking		3	4	1	2

Shortlist assessment summary

Option 3. Facilitate, broker, and incentivise

The rationale behind the assessment of Option 3. Facilitate, broker, incentivise is set out below.

Option 3, where the Crown identifies a potential new entrant, provides a direct financial incentive to enter the market, and takes an active role in overcoming barriers to establishing services, ranked third in the shortlisted options.

Its comparatively high score was largely driven by the low cost, and market driven nature of the option (over the long term). However, Option 3 scored lower as:

- It relies on the Crown being able to identify and negotiate with an operator in a short amount of time. This presents significant risk as there is no guarantee an operator can be found and 'locked in' at short notice. There are few, if any vessels in the market which could be transferred to operate in New Zealand. Any new operator would likely need to build new vessels for the route which could take several years.
- If the Crown is unable to find an operator, then it may be too late to pivot to an alternative approach without risking loss of service in future (i.e. the Crown may not be able to have vessels built fast enough to respond to KiwiRail's exit);
- The specifics of the support scheme will need to be designed and approved by Ministers (including funding) prior to formal negotiations commencing. This may not be possible in the time available.
- The Crown may find it difficult to exit a support arrangement once established; and
- Crown supports may distort the market over the short to medium term and may impact the viability of the incumbent operator.

It is also unclear whether the Crown taking a more active facilitation / brokering role in bringing a new entrant to the market is required. If the Crown anticipates that services should be viable on their own, then the operator, ports, and KiwiRail should be naturally incentivised to work together to overcome barriers to entry (as they all [including KiwiRail from its rail freight operations] rely on revenue from a new entrant being successful).

On balance, Option 3 is compelling as it enables a facilitated, market-led response to the exit of KiwiRail. However, it is high risk from a capacity and continuity of service perspective and there is no guarantee an operator will be willing or able to stand up services in time.

Shortlist assessment summary

Option 6. Contract out services

The rationale behind the assessment of Option 6. Contract out services is set out below.

Option 6, where the Crown purchases vessels and contracts services to a private provider through a concession, ranked the lowest of the shortlisted options.

While this option would help ensure that operations follow commercial disciplines and take a market-based approach, it scored lower due to the lack of certainty and risk involved in relying on an as yet unidentified operator to take over responsibility for services, and the relative complexity of the option.

There is currently no identified party that could be interested and available to establish services using Crown-owned vessels. An operator could be identified through future market engagement. However, there is significantly more uncertainty over this option than, for example, the relative clarity over vessel building options / continued Crown operation.

Option 6 is the most contractually complex approach considered. Decisions on penalty regimes, maintenance responsibilities, revenue sharing, and other key contractual elements have the potential to:

- Significantly raise or lower market interest;
- Drag out any negotiations;
- Result in a resource intensive contract management infrastructure;
- See the Crown being required to retain significant capability for maintenance and responsibility for renewal and refurbishment; and
- Achieve lower overall value for money if the Crown cannot recoup its investment or share in profits from operating the services.

Option 6 is also likely to become more complex and less attractive over time. As vessels age and become more prone to failure, operators will be less likely to take any risk that vessels are not operational and may require incentives to continue providing services.

The choice of vessel also has a significant impact on the viability of this option. Purchasing relatively cheap, second-hand vessels may make it easier for the Crown to recoup its costs through the concession payment while also allowing the operator to make a reasonably return on its operations. However, there are few if any second-hand vessels available on the market which meet the Crown's requirements.

s 9(2)(b)(iii)

Shortlist assessment summary

Option 8. Mixed-ownership style approach

The rationale behind the assessment of Option 8. Mixed ownership style approach is set out below.

Option 8, where the Crown establishes a new Crown-owned entity, purchases vessels, establishes operations, and then implements changes to ownership structures at a later date (if required), ranked the highest of the shortlisted options.

This option helps ensure capacity and continuity of service through the Crown purchasing vessels to meet demand and KiwiRail exit timelines. It also preserves future optionality around the continued Crown ownership of ferry services.

Option 8 does have some complexity, in particular the establishment of a new Crown-owned entity that could be fully or partially divested in future, and the transition of services from KiwiRail to the new entity. However, these are likely to be manageable challenges and no more complex than any of the other options.

This option does not lead to a fully market-led approach or commercial discipline from the outset. However, the design of the new Crown-owned entity should enable the Crown to inject commercial discipline into operations if it transitions into a mixed ownership style approach (i.e. similar to the Air New Zealand model).

Theoretically, Option 8 is agnostic to the types of vessels procured by the Crown. However, if new vessels come at considerable cost, it may be more difficult for the Crown to demonstrate services are generating sufficient return to attract private capital. Similarly, if the Crown purchases second-hand vessels with only a limited lifespan, it may be difficult to attract capital in the knowledge that vessels will need to be replaced sooner rather than later (noting that the Crown could purchase used vessels as an interim measure and use capital from investors to purchase new vessels down the line).

Option 8 still incurs the upfront capital costs of securing new or used vessels. However, there is the opportunity to raise private capital to offset these costs, either at once vessels are procured, or after the Crown has demonstrated services are commercially viable. There is an assumption that a new, purpose-built Crown entity will be able to provide greater financial return to the Crown than KiwiRail in its current form. This assumption would make the option more affordable over the long term than the status quo.

Shortlist assessment summary

Option 9. Directly own and operate

The rationale behind the assessment of Option 9. Directly own and operate is set out below.

Option 9, is a modified version of the status quo, where the Crown purchases vessels and either continues to operate them via KiwiRail, or establishes a new Crown-owned entity to operate services. Option 9 ranked second in the shortlisted options.

This option is conceptually similar to Option 8. However, it assumes that the Crown will continue to both own and operate Cook Strait ferries for the foreseeable future. As a version of the status quo, there is less risk from a change perspective. However, the option inherits some of the challenges of the current arrangements. This includes a potential reliance on Crown financial support and a lack of commercial discipline / viability of services.

The viability and assessment of this option differs depending on whether KiwiRail purchases and continues to operate services, or the Crown establishes a new entity in its place.

s 9(2)(b)(ii)

s 9(2)(g)(i)

Establishing a new Crown-owned entity carries risk as new people, systems, and processes need to be established. However, this could be done in phases, beginning with the procurement entity first, before transitioning to the operational entity over time. This would help to reduce some of the implementation risks involved.

The option is potentially the most expensive of the shortlisted options due to a combination of:

- High upfront capital requirements;
- The inability to recoup upfront capital through privatisation / granting of concessions; and
- A risk that services are not viable and additional Crown funding is required.

Recommendations & next steps

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Recommendations / next steps

It is likely too late to progress the low intervention option without risking a service gap and limiting future options for Ministers. This option has not been discussed with the market, nor have the mechanics of an underwrite scheme been developed in detail. There is no indication that there is an operator 'waiting in the wings' and research has revealed a very limited market for second-hand ferries. It is unlikely that a timebound support scheme would be enough to incentivise an operator to reallocate existing vessels to the Cook Strait or commit to purchase new vessels at significant cost.

There is a risk that if Ministers progress only a low intervention option and no new operator is forthcoming, it will be too late to pivot to a higher intervention option (it will take considerable time to procure new vessels given shipbuilder capacity constraints). Given the tight timeframes, operator uncertainty, and the high risk of loss of service, we recommend that the low intervention option is not considered further.

At this stage, the Ministry considers a high intervention option, where the Crown purchases new vessels, to best meet Ministers' objectives. The mixed ownership style approach offers the best balance across the three high intervention options. The initial Crown investment gives certainty, but unlike the directly own and operate option, there is an opportunity to recoup some of the upfront capital. The Crown is not locked into owning all or some of the services over the long-term. The introduction of a minority private shareholder would also be expected to bring increased commercial discipline to the business.

A mixed ownership style arrangement would require the establishment of a new Crown owned entity to run the procurement and initial entry into service. Establishing a new entity offers an opportunity to transition to a mixed ownership arrangement without the legacy obligations or structural limitations at KiwiRail.

The mixed ownership style approach still requires further refinement by officials, including:

- **Confirmation of the type of entity to be established and the implementation pathway required:** This includes confirming whether different procurement and operating entities are required. Officials will also need to clarify any legislative, legal, or market requirements for the establishment of a new entity and wind-down of KiwiRail's ferry services;
- **Analysis of the potential approaches and timing to source private sector capital:** The Crown has utilised a range of mechanisms for accessing private capital in the past. The options available in this case include, competitive tender, direct sale, public float, partial sale to institutional investors, joint venture, or combination of approaches; and
- **Due diligence and valuation of the ferry services:** The ability to raise private capital will depend in part on the cost of new vessels (currently being assessed) and whether the market perceives the services will be commercially viable. Analysis will be required to understand whether services are likely to be commercially viable, and if so, how much capital could feasibly be raised and when.

We recommend that if Ministers wish to progress the mixed ownership style arrangement, they direct officials to refine the implementation pathway and other key elements of the approach as set out above.

Additional considerations

Regulatory / other reform: Some regulatory reform options were considered as part of the long-list but were discounted as they could not achieve the Crown's objectives on their own. However, we recommend some of these changes be implemented regardless of the final option chosen. The recommended changes have the potential to materially improve the operation and viability of the Cook Strait market and include:

- Rationalisation of portside land ownership. Complex land ownership arrangements are a material barrier to the efficient operating and upgrading of portside infrastructure.
- Seafarer qualification requirements. Current seafarer qualifications are complex and time consuming. These requirements should be updated to better meet current and future personnel needs.
- Information disclosure and cost transparency. The current 'black box' of port costs makes it difficult for operators to effectively plan for and fund infrastructure development and maintenance. Greater transparency will reduce some of the pain points for operators.

Transition risk: Regardless of the intervention choice made by the Crown, there is significant risk associated with KiwiRail's exit from the Cook Strait ferry market. Mitigations will need to be put in place to ensure that KiwiRail meets its exit timeframes, works collaboratively with ports and operators, and does not create any additional barriers to the transition into service of a new entity.

If KiwiRail fails to exit the market smoothly, this will have a significant impact on the ports ability to upgrade infrastructure (as wharfs will need to be upgraded for the new operator while still allowing KiwiRail to continue services in the interim) and for new operators to establish services in a way that minimises disruption to customers. The Crown may want to considered splitting out KiwiRail's ferry services (including separate leadership) to enable it to focus entire on the orderly wind down and transition of services.

s 9(2)(b)(ii)

Appendix 1

Rationale for short-list options assessment

Shortlist assessment summary

Option 3. Facilitate, broker, and incentivise

Criteria	Rating	Rationale
Strategic Objectives	+1	As the most 'market-led' option in the shortlist, this option meets the strategic objectives around competition and commercial discipline. It also helps to preserve future optionality for Ministers as the Crown has no role in the market. However, there is no guarantee that a new operator would enter the market in time to prevent a loss of service continuity or an expansion / monopoly by Bluebridge. As there are few, if any, operators with spare vessels available to establish services, there is a material risk of a loss of services under this option.
Potential value for money	+2	Assuming that a new operator can be found, and financial incentives can be kept sufficiently timebound and low cost, then this option is likely to present value for money to the Crown. The new operator would be 'at risk' for its services following the end of Crown support and the Crown gets the benefit of a fully commercial, competitive operator on the route. There is a real risk however, that no new operator is available when needed.
Supplier capacity and capability	-2	It is looking increasingly likely that there are no any appropriate operators with spare vessels available which could be transferred to the Cook Strait route. Overseas operators would need to reduce capacity on existing services to free up vessels (and risk losing existing market share). It is unclear whether the Cook Strait would provide sufficient financial return to justify reallocating vessels. It is possible that operators could build new vessels for the Cook Strait route. However, these vessels will be expensive (and therefore may not be viable to operate based on the returns available) and will take time to procure and build. Operators will only be willing to do this if there is a guarantee there will be sufficient space in the market for them.
Potential affordability	+3	Assuming a new operator is available, this option is likely to be the most affordable of the shortlisted options. The Crown is only required to pay costs associated with timebound underwrite / financial supports. Assuming that a new entrant is able to operate commercially viable services, then there will be no financial implications for the Crown long-term.
Potential achievability	+1	As this criteria speaks to the Crown's ability to deliver (rather than the market's ability to provide a new operator), this option is likely to be achievable by the Crown. The Crown has operated timebound underwrite schemes in the past. While it will be complex to negotiate and administer a support scheme, it is unlikely to present a material barrier to the Crown.
Total / Summary	+5	

Shortlist assessment summary

Option 6. Contract out services

Criteria	Rating	Rationale
Strategic Objectives	+3	This options brings competition and commercial discipline through the outsourcing of services to the concession operator. The Crown purchase of suitable vessels ensures that capacity is available to align with KiwiRail's exit.
Potential value for money	+1	On balance, the option is likely to provide a positive value for money based on the transfer of operational risk and responsibility. However, this option is costly, contractually complex, with increasing risk as vessels age, and reduced benefits as the profit from operations would most likely remain with the operator.
Supplier capacity and capability	-1	It is unclear whether there is a viable operator willing to establish services using Crown owned vessels. Assuming the Crown entered fixed term arrangements with an operator (i.e. 10 years) it may become increasingly difficult to extend the concession arrangements as vessels age and service failure risk increases. The Crown may be required to incentivise the concession holder to extend services or take on more risk. This could reduce value for money over time.
Potential affordability	+2	It is intended that the Crown will recoup the cost of the vessels through the concessions paid by the operator. However, if the cost of a new vessel is significant, then it may not be possible to recoup the upfront capital through the concession arrangement (and still enable the operator to make a sufficient return). The Crown may have to accept making a loss to maintain capacity and competition on the route. The Crown would also lose access to any profit made by the operator on the route.
Potential achievability	-1	The contractual arrangements are likely to be complex. Decisions will need to be made on penalty regimes, maintenance responsibilities, revenue sharing, and other key contractual elements. These will need to be managed throughout the life of the contract and will become increasingly difficult to manage as vessels age, require refurbishment (and are therefore out of commission), and are at increasing risk of service failure.
Total / Summary	+4	

Shortlist assessment summary

Option 8. Mixed-ownership style approach

Criteria	Rating	Rationale
Strategic Objectives	+2	This option helps ensure capacity and continuity of service through the Crown purchasing vessels to meet demand and KiwiRail exit timelines. It also preserves future optionality around the continued Crown ownership of ferry services. This option does not lead to a fully market-led approach or commercial discipline from the outset. However, the design of the new Crown-owned entity should enable the Crown to inject commercial discipline into operations if it transitions into a mixed ownership arrangement (i.e. the Air New Zealand model).
Potential value for money	+2	The Crown has the option to recoup some of the upfront capital cost through sourcing private capital (either through a large-scale investor, or IPO). This reduces the overall cost and could help to access some enhanced commercial disciplines through mixed-ownership of the services. If the new Crown-owned entity is transitioned into a commercial entity (i.e. Air New Zealand model) then there is the ability to transfer significant risk from the Crown.
Supplier capacity and capability	+2	Current advice suggests that new vessels should be able to be procured in time to meet KiwiRail's exit. We note that if new vessels come at considerable cost, it may be more difficult for the Crown to demonstrate services are generating sufficient return to attract private capital. Similarly, if the Crown purchases second-hand vessels with only a limited lifespan, it may be difficult to attract capital in the knowledge that vessels will need to be replaced sooner rather than later (noting that the Crown could purchase used vessels as an interim measure and use capital from investors to purchase new vessels down the line). Evidence from Bluebridge suggests that a right-sized operator should be able to demonstrate commercial viability on the route.
Potential affordability	+2	The Crown will be required to pay the upfront capital cost of the vessels and for the establishment of the new Crown-owned entity(ies). However, the ability to transition to a Mixed-ownership model means that the Crown may be able to recoup some of this upfront capital costs. There is an assumption that a new, purpose-built Crown entity will be able to provide greater financial return to the Crown than KiwiRail in its current form. This assumption would make the option more affordable over the long term than the status quo.
Potential achievability	+2	The Mixed-ownership model does have some complexity, in particular the establishment of a new Crown-owned entity that could be fully or partially divested in future, and the transition of services from KiwiRail to the new entity. However, these are likely to be manageable challenges and no more complex than any of the other options.
Total / Summary	+10	

Shortlist assessment summary

Option 9. Directly own and operate

Criteria	Rating	Rationale
Strategic Objectives	+1	If the Crown continues to directly own and operate Cook Strait services (either through KiwiRail or a new Crown-owned entity) the Crown is able to guarantee connectivity and capacity. However, services may not operate fully commercially or with commercial discipline as a result of a continued Crown 'backstop' and the like of a private sector partner / revenue incentive. The Crown's future optionality is somewhat constrained by continue Crown ownership and responsibility for operating the vessels (in particular if KiwiRail retains responsibility).
Potential value for money	+1	This option assumes that the Crown will continue to both own and operate Cook Strait ferries for the foreseeable future. As a version of the status quo, there is less risk from a change perspective. However, the option inherits some of the challenges of the current arrangements. This includes a potential reliance on Crown financial support and a lack of commercial discipline / viability of services. The option also comes with significant costs. The Crown would need to pay the upfront capital costs, as well as any operating losses (if KiwiRail reforms are not able to make services commercially viable).
Supplier capacity and capability	+2	As a continuation of the status quo there are not expected to be any material barriers to supplier capacity (assuming new / used vessels can be procured in time). There is some hesitancy from the market due to the government's previous cancellation of vessel procurement. However, this should not be a material barrier.
Potential affordability	+1	The option is potentially the most expensive of the shortlisted options due to a combination of high upfront capital requirements, the inability to recoup upfront capital through privatisation / granting of concessions, and the risk that services are not viable and additional Crown funding is required.
Potential achievability	+1	The purchasing and operation of vessels is likely to be achievable given it is a variation of the status quo. However, reform of KiwiRail may be complex and could have a high risk of failure. There is also the complexity and risk involved in the establishment and operation of a new Crown-owned entity.
Total / Summary	+6	

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TE MANATŪ WAKA
MINISTRY OF TRANSPORT

DRAFT – NOT GOVERNMENT POLICY

Cook Strait connectivity Options assessment summary

DRAFT 24 May 2024

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This document informs the content of the Ministry's Phase 2 advice to Ministers. It is primarily intended as a record of the analysis and as an internal consultation document.

It sets out the long-list of options considered, describes their implementation and other relevant details, and assesses them against the agreed evaluation criteria.

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Introduction and background



Introduction

Following the cancellation of Project iReX (to replace KiwiRail's Interislander ferries with two new, large rail-enabled ships) the Government asked the Ministry to assess the long-term requirements for resilient Cook Strait connectivity now and once the Interislander ferries have reached the end of their lives.

Phase 1 of this work involved identifying any barriers to entry in the Cook Strait ferry market. Phase 2 (the subject of this report), involves identifying and assessing the interventions that could meet the Crown's objectives (including alternatives to a direct ferry purchase).

This advice is being prepared in parallel with separate advice from KiwiRail and the Ministerial Advisory Group (MAG) on the operation, maintenance, and replacement of the current Interislander fleet.

The overarching objective of the Government is to ensure commercially viable, safe, and reliable services across Cook Strait that meet the needs of the wider New Zealand economy. The Minister of Finance provided three 'principles' to guide options analysis in Phase 2:

- Competition on the Strait;
- Commercial discipline; and
- Urgency.

These principles have been incorporated into the evaluation criteria set out later in this report.

Background to this report

The Ministry's Phase 1 report identified some constraints to a market response in the event KiwiRail ceases its Cook Strait ferry services. It also identified areas where Government intervention would improve the likelihood of a market response.

The Ministry did not discover anything to suggest that a market response would be impossible. However, the Ministry's view is that the most likely outcome of a Crown exit is a Bluebridge monopoly / loss of service continuity in the medium term.

Given the findings of the Phase 1 report, the work in Phase 2 focuses on identifying and assessing interventions to secure the outcomes the Crown is seeking on Cook Strait. These interventions extend across a range of investment, contractual and regulatory options and are designed (in part) to address some of the barriers identified in Phase 1.

This report:

- Details the options development process;
- Sets out the evaluation criteria;
- Details and assesses each of the options (at a high-level);
- Summarises the results of the assessment; and
- Outlines next steps.

This report is not intended to provide a final recommendation to Ministers on next steps. Instead, it is intended to indicate the advantages, disadvantages, and implementation requirements of each option, should Ministers wish to progress them. Further detailed planning and market sounding would then be completed based on Ministerial preferences.

Other advice underway

The Ministry's Phase 2 advice focuses on understanding the spectrum of policy interventions available to Ministers. Phase 2 does not reflect more specific advice being prepared in parallel by the Treasury, KiwiRail, MAG, and other unrelated Ministry workstreams. This includes:

- Advice on new / second hand vessel procurement;
- Negotiations with HMD;
- Progression of Northland dry dock advice;
- Commercial and fiscal considerations; and
- Options for new entity establishment.

As this advice becomes available over the next two months, the options described in this document may narrow as they are found to be unviable in practice. Where relevant, we have included commentary regarding when a specific option would no longer be viable. For example, if only new vessels are available at considerable cost, this limits the ability to contract out operation of those vessels as operators may not be able to earn sufficient returns and compete with the incumbent operator (depending on the return on capital the Crown wants to achieve through its ownership).

Executive summary

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Key context for this analysis

Ministerial objectives

The Minister of Finance proposed three 'principles' for Cook Strait ferry services; competition on the Strait, commercial discipline, and urgency. These 'principles' were developed into four strategic objectives for this work:

- There is competition in freight and passenger transport across the Cook Strait;
- Cook Strait ferry services are commercially viable and follow appropriate commercial disciplines;
- There is continuity of service when current vessels reach end-of-life (end of 2029); and
- The Crown retains future optionality around the provision of Cook Strait ferry services.

Vessel and operator availability

The Crown has determined that rail enabled ferries of the size required by KiwiRail are not realistic given the cost of portside infrastructure to support the vessels, the lack of second-hand vessels, and the additional procurement cost and complexity of building new, rail enabled vessels. This work assumes that any vessels procured by the Crown or sourced by a new operator would be RoRo, rather than rail enabled.

There is a very limited market for second hand vessels which meet the Crown's requirements (including passenger / vehicle capacity and Safe Return to Port capability). Appropriate vessels are fully utilised by their owners and there is little to no interest in selling them due to the cost of purchasing replacement vessels.

Given the limited availability of appropriate vessels on the market, it is unlikely that a new operator is 'waiting in the wings' to establish Cook Strait services. It is likely that some form of Crown involvement would be required to provide certainty that vessels will be available when the existing KiwiRail fleet reaches end of life.

Viability of services

The Ministry considers that two, right-sized operators should be commercially viable on the Cook Strait. Two operators provides sufficient competition to meet Ministerial expectations.

The Cook Strait freight market is currently highly competitive, with most freight users having a range of options available across the current operators, coastal shipping, and airfreight (noting some goods are limited in the transport options). ^{s 9(2)(b)(ii)}

Transition risk

Transition risk

Regardless of the intervention choice made by the Crown, there is significant risk associated with KiwiRail's exit from the Cook Strait ferry market. Mitigations will need to be put in place to ensure that KiwiRail meets its exit timeframes, works collaboratively with ports and operators, and does not create any additional barriers to the transition into service of a new entity.

If KiwiRail fails to exit the market smoothly, this will have a significant impact on the ports ability to upgrade infrastructure (as wharfs will need to be upgraded for the new operator while still allowing KiwiRail to continue services in the interim) and for new operators to establish services in a way that minimises disruption to customers. The Crown may want to considered splitting out KiwiRail's ferry services (including separate leadership) to enable it to focus entire on the orderly wind down and transition of services.

s 9(2)(g)(i)

Spectrum of options considered

We have focused on exploring a broad range of options to present to Ministers. They are intended to provide Ministers with a flavour of what is possible (given the context outlined on the previous pages) and identify areas for further analysis.



Longlist options overview

The options below were explored at a conceptual level against a set of strategic objectives. Four were progressed for more detailed assessment to determine their viability.

Option 1. No further Crown role	Option 2. Facilitate and broker	Option 3. Facilitate, broker, and incentivise	Option 4. Enhance regulatory regimes	Option 5. Crown tender for services	Option 6. Contract out services	Option 7. PPP-like arrangement	Option 8. Mixed-ownership model	Option 9. Directly own and operate
<p>KiwiRail ceases Cook Strait ferry services. The Crown plays no role in KiwiRail's divestment of ferry assets / services (outside of its role as shareholder), or in the provision of Cook Strait services following KiwiRail's exit.</p> <p>Future provision of services is left to either: an expansion of the existing commercial operator (Bluebridge) or a new entrant to the market.</p>	<p>KiwiRail ceases Cook Strait ferry services. The Crown takes steps to facilitate an orderly transition to a new commercial operator including:</p> <ul style="list-style-type: none"> Overseeing KiwiRail wind-down of services, Active engagement with potential providers to identify and address barriers, Brokering / interface role with key stakeholders (i.e., KiwiRail, Ports, MNZ, operators). 	<p>KiwiRail ceases Cook Strait ferry services. In addition to the facilitation and brokering role of Option 2, the Crown works with potential providers to offer incentives to support new entrants to the market, which could include:</p> <ul style="list-style-type: none"> Supporting the rationalisation of land ownership around Ports; Direct brokering role between the new operator and regulators / ports / KiwiRail customers; and / or Negotiation of timebound Crown underwrites to support initial operations. 	<p>KiwiRail ceases Cook Strait ferry services. The Crown plays no role in securing a new entrant to the market. However, the Crown would adjust current regulatory settings to ensure a transparent, level playing field for commercial operators. This could include:</p> <ul style="list-style-type: none"> Information disclosure requirements / cost transparency, Changes to seafarer qualification requirements; and / or Licensing requirements (to operate on the Cook Strait). 	<p>KiwiRail ceases Cook Strait ferry services. The Crown directly procures a new commercial operator to provide an agreed level of service with their own vessels in time to replace KiwiRail.</p> <p>Services would be expected to operate commercially with the support provided to the selected provider intended to cover only the cost of ship procurement (fully or partially).</p>	<p>Crown purchases new / used vessels to replace the existing KiwiRail fleet via another Crown owned entity.</p> <p>Crown awards a concession to a private provider to operate services for a fixed period (i.e. 10 years) using the Crown's vessels.</p> <p>The provider would then pay a concession to the Crown for use of the vessels. The provider would retain any profits from the operation of the services to incentivise commercial disciplines.</p>	<p>Crown enters a PPP-like arrangement with a private sector partner to design, build, finance, and operate services for a fixed period.</p> <p>The Crown would set the service requirements (capacity, frequency etc) and procure a consortium to design, build and fund new vessels. The consortium would operate the vessels on the route for a fixed period (i.e. 30 years). The Crown would make payments over the concession period to repay the upfront capital cost of the vessels, plus a reasonable rate of return.</p>	<p>Crown establishes a new Crown-owned entity to procure and operate vessels across Cook Strait.</p> <p>Crown would investigate opportunities to sell a partial stake in future (similar to the Air New Zealand / power company model). Private capital could be introduced prior to or following services commencing.</p>	<p>Under this option, the Crown continues to own and operate Cook Strait ferry services, either through continued KiwiRail operations or through a new Crown-owned entity.</p> <p>Unlike Option 8, this option assumes that the Crown intends to retain full ownership of the assets and services for at least the life of the new vessels.</p>
		Shortlisted			Shortlisted		Shortlisted	Shortlisted

Shortlist summary

Option 3. Facilitate, broker, and incentivise

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- Rationalisation of land ownership (Crown instructs KiwiRail to sell land to ports or establishes new holding company);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services)
- Identification of new entrant (Crown actively engages with potential operators to assess interest through EOI or informal process);
- Brokering of new operator entry (Crown acts as interface to smooth entry);
- Financial incentive (Crown delivers timebound financial support to new entrant).

Assessment summary

On balance, Option 3 is compelling as it enables a facilitated, market-led response to the exit of KiwiRail. However, it is high risk from a capacity and continuity of service perspective and there is no guarantee an operator will be willing or able to stand up services in time or remain in the market long term.

Option 3 relies on the Crown being able to identify and negotiate with an operator in a short amount of time. This presents significant risk as there is no guarantee an operator can be found and 'locked in' at short notice. There are few, if any vessels in the market which could be transferred to operate in New Zealand. Any new operator would likely need to build new vessels for the route which could take several years, and the return on capital from newbuild ships is commercially questionable.

If the Crown is unable to find an operator, then it may be too late to pivot to an alternative approach without risking loss of service in future (i.e. the Crown may not be able to have vessels built fast enough to respond to KiwiRail's exit).

Option 6. Contract out services

Key activities

Under the 'Contract out services' option, there are five key activities which will need to be completed:

- Vessel procurement (Crown procurement of two new or used vessels, and development of port infrastructure to accommodate them);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services);
- Tendering of services (formal approach to market to tender an operator for Cook Strait services using Crown-owned vessels);
- Commercial negotiations (confirmation of services, fee, penalties, and other key terms); and
- Operations and monitoring (ongoing monitoring to ensure compliance with contract terms).

Assessment summary

At this stage we have not identified a party that could be interested and available to establish services using Crown-owned vessels.

The choice of vessel has a significant impact on the viability of this option. Purchasing relatively cheap, second-hand vessels may make it easier for the Crown to recoup its costs through the concession payment while also allowing the operator to make a reasonably return on its operations. However, there are few, if any, second-hand vessels available on the market which meet the Crown's requirements.

If high-cost new vessels are procured instead, the Crown may not be able to recoup its costs while also enabling the operator to compete with Bluebridge on price. The Crown may need to accept that it will 'lose money' under this option to ensure competition and capacity.

Option 6 is the most contractually complex approach considered. Decisions on penalty regimes, maintenance responsibilities, revenue sharing, and other key contractual elements have the potential to delay agreements being entered, see the Crown retaining significant risk, and delivering potentially lower value for money.

Shortlist summary (continued)

Option 8. Mixed-ownership model

Key activities

Under the 'mixed-ownership model' option, there are five key activities which will need to be completed:

- Establishment of Crown-owned entity (for procurement, operations, or both with the option to transition to a mixed ownership model in future)
- Vessel procurement (New entity procurement of two new or used vessels);
- KiwiRail transition (orderly divestment and exit of KiwiRail's Cook Strait services);
- Operations and monitoring (ongoing monitoring to ensure compliance with contract terms); and
- Ownership transition (Confirmation of future ownership settings).

Assessment summary

Option 8 does not lead to a fully market-led approach or commercial discipline from the outset. However, the design of the new Crown-owned entity should enable the Crown to inject commercial discipline into operations if it transitions into a mixed ownership model (i.e. similar to the Air New Zealand model).

Theoretically, the option is agnostic to the types of vessels procured by the Crown. However, if new vessels come at considerable cost, it may be more difficult for the Crown to demonstrate services are generating sufficient return to attract private capital. Similarly, if the Crown purchases second-hand vessels with only a limited lifespan, it may be difficult to attract capital in the knowledge that vessels will need to be replaced sooner rather than later (noting that the Crown could purchase used vessels as an interim measure and use capital from investors to purchase new vessels down the line).

Option 9. Directly own and operate

Key activities

Under the 'Directly own and operate' option, the Crown would need to decide whether to reform, but continue existing services with KiwiRail, or cease KiwiRail's interisland services and establish a new Crown-owned entity for the sole purpose of purchasing and / or operating Cook Strait services.

Regardless of whether operations continue with KiwiRail or a new Crown-owned entity, new vessels will need to be purchased, existing vessels transitioned out of service, and portside infrastructure updated to meet new vessel requirements.

Assessment summary

The viability and assessment of this option differs depending on whether KiwiRail purchases and continues to operate services, or the Crown establishes a new entity in its place.

s 9(2)(g)(i)

Shortlist assessment output

The table below summarises the assessment of the shortlisted options.

Magnitude	Score
Large positive	+3
Moderate positive	+2
Slight positive	+1
Neutral	0
Slight negative	-1
Moderate negative	-2
Large negative	-3

		Low intervention	High intervention		
Criteria		Facilitate, broker, and incentivise	Contract out services	Mixed-ownership model	Directly own and operate
Strategic Objectives	How well the option: <ul style="list-style-type: none"> Meets the agreed objectives (competition, commercial viability / discipline, pace) Aligns with the Government's broader transport priorities 	+1 Supports objectives, but no guarantee new entrant available in time	+3 Brings commercial discipline to operations, certainty over capacity, and the required pace	+2 Retains Crown involvement initially, but potential for increased commercial discipline, viability, and optionality over time	+1 Retains full Crown ownership. Potential for non-commercial behaviours through perceived Crown underwrite.
Potential value for money	How well the option: <ul style="list-style-type: none"> Optimises value for money (i.e., the optimal mix of potential benefits, costs and risks). 	+2 Minimises Crown funding requirement and transfers risk to the private sector (noting risk that no operators available)	+1 Requires the Crown to fund and maintain vessels without access to commercial profits from operations. Increasing risk as vessels age.	+2 Ability to recoup initial capital through transition to mixed ownership. Benefits of private sector discipline and risk transfer.	+1 Crown retains all risk and responsibility for funding vessels
Supplier capacity and capability	How well the option: <ul style="list-style-type: none"> Matches the ability of potential suppliers to deliver the required services, and Is likely to result in a sustainable arrangement that optimises value for money over the term of the contract. 	-2 Unclear whether operators are available. Risk that Crown required to step in if no provider available (may be too late to ensure continuity of service)	-1 Unclear whether operators are available. Will become increasingly difficult to retender as vessels age	+2 If the Crown can demonstrate commercial viability, then likely to be interest from investors	+2 Continuation of the status quo. Potential for some market hesitancy if KiwiRail remains in charge of procurement.
Potential affordability	How well the option: <ul style="list-style-type: none"> Matches available funding constraints, and Is likely to be financially sustainable over the long-term. 	+3 Likely to be low cost (timebound underwrite)	+2 Requires upfront capital, but losses profit from operations in exchange for concession	+2 Requires upfront capital, but opportunity to recoup capital and return from viable services	+1 Requires upfront capital, risk of continued investment requirement as under status quo
Potential achievability	How well the option: <ul style="list-style-type: none"> Is likely to be delivered given technical, safety, regulatory, and capability considerations. 	+1 Likely to be deliverable due to low level of Crown involvement (assuming provider can be found)	-1 Complex arrangements, particularly as vessels age and contracts expire	+2 Likely to be achievable, but sourcing capital likely to be complex	+1 Likely to be achievable, noting challenge of establishing new entities / reforming KiwiRail
Total / Summary		+5	+4	+10	+6
Ranking		3	4	1	2

Recommendations / next steps

Until there is clarity over vessel availability, the cost of procuring new vessels, and the timeline for new vessels becoming available for service, it is difficult to determine which option is the most feasible and delivers the greatest benefits to the Crown.

Some options, for example contracting out services, are only feasible if suitable second-hand vessels are available at a reasonable price (which is looking increasingly unlikely). ^{s.9(2)(i)}

At this stage, the Ministry considers a high intervention option, where the Crown purchases new vessels, to best meet Ministers' objectives. However, Ministers will need to provide direction on the future operational setting for the Cook Strait Ferries. There are material impacts on chosen procurement / operational entity if Ministers wish to preserve the ability to adjust ownership settings in future.

The feasibility of the various options will depend in part on the outcome of advice from the MAG, KiwiRail, and the Treasury. If assumptions change (i.e., around anticipated procurement costs or the availability of vessels), then these options would need to be reassessed.

Additional considerations

Regulatory / other reform: Some regulatory reform options were considered as part of the long-list but were discounted as they could not achieve the Crown's objectives on their own. However, we recommend some of these changes be implemented regardless of the final option chosen. The recommended changes have the potential to materially improve the operation and viability of the Cook Strait market and include:

- Rationalisation of portside land ownership. Complex land ownership arrangements are a material barrier to the efficient operating and upgrading of portside infrastructure.
- Seafarer qualification requirements. Current seafarer qualifications are complex and time consuming. These requirements should be updated to better meet current and future personnel needs.
- Information disclosure and cost transparency. The current 'black box' of port costs makes it difficult for operators to effectively plan for and fund infrastructure development and maintenance. Greater transparency will reduce some of the pain points for operators.