

Summary of key terms for Chatham Islands community

Background

- The Ministry of Transport has signed an agreement with 44 South Limited Partnership (44 South), a joint venture between McCallum Bros Limited and Nova Marine Carriers SA for shipping services to the Chatham Islands. The agreement provides for shipping services to the Chatham Islands for a minimum of 20 years with a new, purpose-built vessel.

New vessel and delivery

- 44 South is building a new vessel in China using the Anhui Port & Shipping Sealand Equipment Co. Ltd shipyard. The new vessel will be capable of transporting fuel, livestock, and general freight to and from the Chatham Islands. This will include three holds below deck for livestock (with one hold able to be converted for general cargo as required) with containers and roll-on, roll-off (RoRo) cargo stored on the vessel deck.
- Specifications for the vessel are as follows

Key dimensions

- Length overall – 77 m
- Breadth – 16 m
- Design draught – 3.8 m

Hold and Capacities

- Marine Gas oil tanks – 285 m³
- Diesel oil tank – 310 m³
- Fresh Water tank – 250 m³
- Ballast water tanks – 600 m³
- Sewage tanks (for livestock waste) – 350 m³
- Container capacity – Approx 76 TEU (above deck/hatch, 2 tiers x 5 rows)
- Reefer capacity – Approx 10 TEU

Livestock

- Net pen area – Approx 1,500 m² (spread across three floors) with a total capacity of approximately 4,500 stock units. For example:
 - Total sheep capacity (assumes all three decks used for sheep) – approx. 4,500
 - Total cattle capacity (assumes all three decks used for cattle) – approx. 900
 - Two decks of cattle, one deck sheep – approx. 600 cattle, 1,400 sheep
 - Two decks of sheep, one deck cattle – approx. 2,900 sheep, 300 cattle.

Cranes

- 1x fixed boom 40 tonne capacity crane
- 1x knuckle boom crane 5 tonne capacity.

- The final specifications of the vessel described above, such as the exact livestock carrying capacity, will be determined in the detailed design phase of the project. Detailed design of the vessel is expected to commence in March 2026.
- The vessel is expected to be completed by late 2027 and due to be in operation before 1 March 2028. It should be noted that, as with any ship build, the exact delivery date will depend on a range of factors and could be extended due to force majeure events (such as a significant weather event delaying delivery of the vessel).

Contract duration

- The funding agreement requires 44 South to operate services to the Chatham Islands for a period of 20 years from the operational commencement date.
- At least two years (but not more than three years) prior to the expiration of the initial term, 44 South will have the right to extend the contract for a further 5 years, provided it has not committed a material breach of the contract within the prior five-year period (otherwise any decision to extend the contract will be at the Ministry of Transport's sole discretion).
- Should 44 South wish to discontinue the service in the lead up to the expiry of the initial term, the Ministry may begin a procurement process for a new operator and 44 South will be required to co-operate with the Ministry as part of this procurement process and to maintain detailed records of the service that can be used by the Crown as part of any future procurement process for services.
- After 25 years (if agreement was extended), the agreement between 44 South and the Ministry will expire and ownership of the vessel will remain with 44 South. At that point, the Government will need to consider whether any ongoing support is required to support shipping services to the Chatham Islands.

Sailing schedule

- The funding agreement requires 44 South to provide a minimum of 14 return sailings to the Chatham islands each calendar year and a minimum frequency of at least one sailing per month. If there is sufficient demand for services, these 14 return sailings minimum will gradually increase to 17 return sailings per year by the beginning of the fourth full calendar year following the commencement of services.
- Once 44 South achieves the minimum of 17 return sailings per year, service frequency will continue to be reviewed by 44 South and the Ministry and increased in line with demand, provided the service continues to be commercially sustainable.
- 44 South will be able to request longer periods between sailings if demand for the Chathams service is low and it can demonstrate that the Island has enough critical supplies. This will be subject to Ministry of Transport approval.
- The vessel will sail to both Napier and Timaru and will be required to visit each port a minimum of four times each annually, unless an exception is approved in writing by the Ministry of Transport. 44 South will be able request changes to the ports served and/or the minimum annual frequency for each port, but this is subject to Ministry of Transport approval.
- 44 South will also be required to make a minimum of four trips to Pitt Island each year (unless exceptions are approved in writing by the Ministry of Transport).

- 44 South will publish a forecasted sailing schedule three months prior to the beginning of each calendar year that will outline the anticipated sailings to each port as well as estimated dates the vessel will begin each sailing.
- No later than 10 days from the date of each published scheduled sailing, 44 South will confirm the earliest and latest days the vessel will be available to load cargo (known as the Loading Window), provided that the last day of the Loading Window is no earlier than the date of the published scheduled sailing and no later than five days after the date of the published scheduled sailing. No later than five days from the beginning of the Loading Window, 44 South will publish the expected date the vessel will begin loading (subject to weather conditions and operational factors).
- 44 South may adjust the final loading date of a sailing to accommodate weather, port congestion, freight demand, or other operational considerations. When doing so, 44 South will provide a minimum of two business days' notice to all customers booked on the sailing if there is a change in the loading date to earlier than the confirmed loading date. Any adjustment outside the agreed loading window will need Ministry of Transport approval and be communicated to customers by email and published on the 44 South's website.
- The funding agreement also allows 44 South to use the vessel for other shipping services (it is not solely dedicated to the Chatham Islands). In doing so, 44 South must ensure that it delivers its scheduled Chatham Islands services and ensures that the Islands have enough stock of critical supplies (for example, fuel and food) to last until the next sailing. 44 South can use an alternative vessel to ensure these critical supply levels are maintained (subject to Ministry of Transport approval).

Scope of services

- In delivering shipping services, 44 South will also be responsible for the loading and unloading of all cargos at mainland and Waitangi ports as well as ship to ship transfers for the Pitt Island service. This will include freight aggregation services such as managing bookings, drop offs and customer queries.

Freight rates

- To prevent price shocks for the community, 44 South has agreed that freight rates when the service begins will not exceed the applicable published freight rates of the current service at the date of execution of the funding agreement, adjusted for inflation (using the index for PPI for Cargo Handling Services (PPI029AA)) as required.
- If the current service has increased the rates between the date of execution of the funding agreement and the operational commencement date, then 44 South may only increase the freight rates to those latest rates after providing sufficient evidence of its costs.
- The rates will be reviewed annually and 44 South may adjust them for inflation from 1 April each year following the operational commencement date (using the above index).
- 44 South will not need the Ministry's approval to adjust the freight rates for inflation but must notify the Ministry in writing when they do so.
- Freight rates will also be subject to a fuel adjustment factor (FAF), calculated monthly, to account for movement in the price of fuel, a mechanism that is consistent with industry practice (including by Chatham Islands Shipping Limited). The FAF adjustment for each month will be calculated following the end of the month (when the necessary data is available) using the average price of diesel fuel for the month just concluded

compared with the previous month. For example, freight rates in December would be adjusted using a FAF adjustment calculated using data from November compared with October.

Booking system

- 44 South will provide an online booking system capable of web-based, email and telephone interfaces for booking and enquiries.
- The system will allow customers to:
 - create, modify and cancel bookings online, or through assisted channels (such as contacting 44 South staff);
 - pick which cargo type is required for transport along with its related dimensions, weight, packaging, and handling requirements;
 - book livestock using a dedicated module that captures:
 - animal type, number, and weight class;
 - consignor/consignee details; and
 - compliance checks for animal welfare and transport regulations;
 - nominate a first, second, and third preference sailing for cargo/livestock;
 - review and accept the terms and conditions of 44 South's services.
- The booking system will enable secure electronic payment options, including bank transfer, debit/credit card and approved account invoicing.
- The booking system will be available 24 hours a day, seven days a week except for periods of planned maintenance (44 South will provide 48 hours' notice of any upcoming maintenance).
- Customer support will be available during standard business hours and during active sailing or cargo operations, except on public holidays.

Animal welfare

- 44 South has designed the vessel specifically as a livestock transportation vessel with three holds capable of safely transporting livestock with an appropriate ventilation system to ensure animal welfare standards. The holds will have penning arrangements and animal density in line with New Zealand Maritime Rules part 24C.
- The vessel crew will all undergo mandatory stockmanship training and will include a dedicated stockperson who is sufficiently trained, capable, and knowledgeable in the welfare of livestock on board.
- 44 South will meet regularly (at least annually) with the Ministry for Primary Industries to ensure its operating procedures for transporting livestock remain effective.

Performance measures: KPIs and PIs

- The new service will be measured against a range of performance measures consisting of Key Performance Indicators (KPIs) and Performance Indicators (PIs).
- There are two Key Performance Indicators (KPIs), the Reliability KPI (does the vessel complete the scheduled number of return sailings?) and the Booking Completion KPI (does a customer's cargo make it on the sailing on which it was originally scheduled?)

- The Reliability KPI will require the service to have a performance target level of 100% of scheduled sailings in a calendar year, with a performance minimum level of the greater of:
 - meeting 100% of the mandatory minimum return sailings per year (14–17, depending on the year of the contract); or
 - 85% of all scheduled sailings in a calendar year (e.g. if the service has 20 scheduled sailings for the year, then it would need to complete 17 (85%) of these to meet the minimum).
- If a scheduled service did not depart its origin and/or did not arrive at its destination (except for force majeure reasons such as weather) then this would constitute a Reliability Failure (RF). The Reliability KPI will be calculated by the number of scheduled sailings less the RFs divided by the number of scheduled sailings for the calendar year.
- The Booking Completion KPI measures 44 South's performance in transporting customer cargo on the sailings that customers have booked. If 44 South fails to complete a booking (except for scenarios where the booking cannot be completed due to events outside 44 South's control such as bad weather) the affected customer will be paid a rebate per unit of cargo deferred to a later sailing.
- When customers book cargo/livestock on the vessel, 44 South's booking system will allow customers to nominate a second and third preference sailing if the cargo/livestock cannot be taken on the sailing initially booked. Should this happen, customers will be entitled to a rebate calculated as follows:
 - 5% of the freight charge per cargo unit delayed to the second preference sailing (plus GST if any);
 - 15% of the freight charge per cargo unit delayed to the third preference sailing (plus GST if any);
 - 50% of the freight charge per cargo unit delayed to a sailing later than the third preference sailing (plus GST if any).
- For clarity, a cargo unit is a single identifiable item of freight or livestock that is booked on the service, for example, one pallet, one container, one livestock animal, one item of breakbulk cargo etc.
- Rebate payment can be made either as a credit to a customer's account with the service or a direct refund if requested.
- There are also a range of other PIs. Failure to meet performance minimum levels for performance measures will constitute material breaches.

Reporting

- 44 South will be required to provide quarterly updates to the Ministry on how it is meeting the KPIs and other performance measures. These reports will also include reporting on;
 - Schedule planning
 - Cargo volume and utilisation
 - Maintenance
 - Customer complaints
 - Animal welfare

- At the end of the financial year, 44 South will provide the Ministry with a report on the year's performance.
- 44 South will also be required to publish their performance against the KPIs on their website at the end of the financial year.

Protections

- To ensure the success of the service, the agreement with 44 South includes several protections upon which the Crown can call on in the event of a performance failure. Whether or not these rights are exercised will be at the Ministry's discretion, considering the materiality of the failure, the impact on the community, and the likelihood that the failure would otherwise be rectified. These include the ability for the Ministry to step in to run the business in an event of default, and the Ministry holding a call option over the vessel.

Step In

- If an event of default occurs (including an unremedied material breach that includes, but is not limited to, failing to provide two consecutive scheduled sailings or failing to meet performance measure minimums), then the Ministry can "step-in" and run the services until the events giving rise to the exercise of the step-in is resolved. This might result in the Ministry;
 - acting on behalf of 44 South to remedy a breach including running specific parts of the services;
 - taking possession of and utilising assets used in the provision of the services, including the new vessel;
 - procuring the provision of shipping services using a third party or nominating a third party to run the service.
- Once the events that gave rise to the exercise of step in rights have been resolved and the Ministry is satisfied that 44 South has taken measures to prevent a repeat incident, the Ministry will then "step out" and return full operations to 44 South to continue the services.

Call Option

- In the event of a total service failure that results in the agreement between 44 South and the Ministry being terminated, the Ministry has the option to purchase the vessel and any vessel related equipment necessary for the operation of the services. This would involve payment for the portion of the vessel and any vessel related equipment funded directly by 44 South. This will enable the Ministry to secure the vessel for use on the Chatham Islands and lease the vessel for this purpose to a new operator.
- The Call Option is also available for any termination of the agreement (including due to an event of default or total loss of the vessel) or if the agreement is not renewed for the additional 5 year extended term.

Maintenance and insurance

- 44 South will be responsible for keeping the vessel in good working order and in a good state of repair, ensuring it remains fully operational for its intended purpose and able to meet all service requirements under the funding agreement (including implement contingency arrangements using an alternative vessel if necessary to ensure continuity of the shipping service). 44 South must also maintain all insurance policies required by

law or good industry practice for the duration of the agreement, including (but not limited to) Hull and Machinery, Protection and Indemnity, and Pollution insurance. The Crown must be named as an additional insured on these policies to protect the Crown's interest in the vessel.

Employment opportunities

- 44 South has committed to using all reasonable endeavours to employ Chatham Islanders to undertake logistics management and co-ordination roles for the shipping service.
- This will also include working in conjunction with the Chatham Islands Council and Chatham Islands Enterprise Trust to prioritise hiring and training residents and implementing youth employment pathways in maritime operations, logistics, and aquaculture.
- 44 South will offer two cadetships to Chatham Islanders in connection with the shipping service.
- Additionally, 44 South will work with education providers and maritime institutions to support local skill development on the Chatham Islands in areas such as animal handling, navigation, and vessel operations.

Emergency assistance

- 44 South recognises that the service is a lifeline utility (as defined in the Civil Defence Emergency Management Act 2002) in relation to its ability to supply the Islands with fuel for essential services and will ensure that it complies with the duties of a lifeline utility under the Civil Defence Emergency Management Act.
- Separate to its lifeline utility duties, 44 South will (on request) provide additional sailings (above the mandatory minimum and scheduled sailings) in the event of other emergency scenarios. The Ministry or other Crown agency will pay the applicable Freight Rates in these circumstances.

Next steps

- Once construction of the vessel is underway. We intend to provide regular updates to the community on the build progress and expected start dates for the new service. This will be done via the Ministry website and through local communication channels such as the Council website and local newsletters.