

OC220162

11 April 2022



Tēnā koe 

I refer to your email dated 9 March 2022 to Hon Michael Wood, Minister of Transport, requesting the following documents under the Official Information Act 1982 (the Act):

- *“The December 12, 2021 document “Update on Sustainable Aviation Aotearoa”, reference number OC210970*
- *“The December 20, 2021 document “Update on the alleviation of current supply chain issues”, reference number OC211018*
- *“The December 22, 2021 document “COVID-19 - Update on development of MIAC exit strategy”, reference number OC211020”*

As you were advised on 14 March 2022, your request was transferred to Te Manatū Waka Ministry of Transport for response.

Of the three documents within the scope of your request, two documents are being released to you with certain information withheld and one document is being withheld in full, under the following sections of the Act:

- | | |
|-------------|--|
| 6(a) | as release would be likely to prejudice the security or defence of New Zealand or the international relations of the New Zealand Government |
| 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)(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. |

The above information is summarised in the document schedule at Annex 1.

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.

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 website. Before publishing we will remove any personal or identifiable information.

Nāku noa, nā



Hilary Penman
Manager, Ministerial Services

Annex 1: Document schedule

Doc #	Reference	Title of Document	Decision on request
1	OC210970	Update on Sustainable Aviation Aotearoa	Withheld in full under Section 9(2)(f)(iv)
2	OC211018	Update on the alleviation of current supply chain issues	Some information withheld under Sections 9(2)(a), 9(2)(f)(iv) and 9(2)(g)(i).
3	OC211020	COVID-19 - Update on development of MIAC exit strategy	Some information withheld under Sections 6(a), 9(2)(a), 9(2)(b)(ii), 9(2)(f)(iv) and 9(2)(g)(i).

20 December 2021

OC211018

Hon Michael Wood**Minister of Transport**

cc Hon Grant Robertson

Minister of Finance

UPDATE ON THE ALLEVIATION OF CURRENT SUPPLY CHAIN ISSUES

Purpose

To outline the Government's ongoing response to help alleviate current supply chain disruption brought on as a result of the COVID-19 pandemic and next steps to address supply chain resiliency issues with Small and Medium-sized Enterprises (SMEs).

Key points

- The Ministry, alongside other agencies, continues to work on short term measures to help alleviate supply chain issues. This includes minimising regulatory barriers, clarifying information, providing advice, and working collaboratively with industry to help facilitate and ease disruption flashpoints, where appropriate.
- Officials are of the view that Government is best placed to shape the long-term supply chain horizon. Policy work also continues on developing those long-term interventions, including the National Freight and Supply Chain Strategy.
- In addition to these long-term interventions, officials are also looking at exploring interim measures that can be implemented in the new year to better support SMEs identify supply chain risks and opportunities. SMEs are most at risk in terms of weathering the impacts of supply chain disruption.
- Officials plan to develop options in early 2022 on next steps for supporting SMEs to better identify supply chain risks and opportunities. ^{s 9(2)(f)(iv) and s 9(2)(g)(i)}
 [REDACTED] This has met with successful results in test cases such as break-bulk shipping.
- ^{s 9(2)(f)(iv)}
 [REDACTED]
- Officials intend to report back to Ministers on potential options for progressing this work in due course.



Harriet Shelton
Manager, Supply Chain

..... / /

Hon Michael Wood
Minister of Transport

..... / /

Minister's office to complete:

Approved

Declined

Seen by Minister

Not seen by Minister

Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Harriet Shelton, Manager, Supply Chain	s 9(2)(a)	
Chris Barber, Senior Adviser Supply Chain	s 9(2)(a)	✓

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UPDATE ON THE ALLEVIATION OF CURRENT SUPPLY CHAIN ISSUES

- 1 The Ministry has provided regular briefings and situation reports on the ongoing supply chain disruption brought on as a result of the COVID-19 pandemic. While the acuteness of supply chain disruption has abated somewhat, officials still anticipate that congestion issues will continue throughout 2022.
- 2 Previous briefings from the Ministry have also outlined a range of levers at the government's disposal to address continued supply chain disruption, including **(i) investment levers; (ii) regulatory levers; (iii) economic incentives & education; (iv) influencing the international environment; and (v) monitoring, oversight & persuasion.**
- 3 Agencies are already implementing a range of feasible short-term interventions, but these are limited to mitigating the impacts of supply chain congestion and cannot resolve the underlying drivers of congestion itself. Further proposals for short term interventions have been explored by agencies but deemed infeasible or impractical due to the scale of the global supply chain problem (para 10 refers)
- 4 The conclusion was that Government intervention was more likely to be effective in the medium to longer term – as such, for example, investment in freight infrastructure and review of policy settings around labour markets. Some of these longer-term settings are being investigated under the National Freight and Supply Chain Strategy.

Officials continue to work on short term measures to help alleviate supply chain issues

- 5 In the short term, the Government's response is focussed on minimising regulatory barriers, clarifying information, providing advice, and working collaboratively with industry to help facilitate and ease disruption flashpoints, where appropriate.
- 6 Measures undertaken to date include facilitating the Ports of Auckland's applications to bring in skilled workers to raise productivity, and granting international shipping lines exemptions from cabotage laws to allow more operational flexibility.
- 7 Officials have also facilitated critical imports, reported on global developments, and provided businesses access to supply chain management experts. The Government has also brought industry together to discuss potential collaboration to address congestion challenges.
- 8 For example, a break-bulk shipping workshop led by MPI and Seafood NZ in August 2021 resulted in industry collaborating on joint bulk charters. This was done by industry stakeholders themselves, with their feedback stating that no Government interventions were required or appropriate given that industry had found its own solutions.
- 9 Other agencies are working to assist importers and exporters as part of their 'business as usual' work programmes:
 - 9.1 MPI continues to facilitate border clearance of urgent or essential goods (where appropriate), assist primary sector businesses to navigate immigration and MIQ processes, provide updates on overseas market access requirements arising

from COVID-19, and help shipping and forestry companies understand New Zealand's biofouling regulations.

9.2 MFAT and NZTE continue to provide practical assistance to exporters through their overseas networks.

10 s 9(2)(f)(iv) and s 9(2)(g)(i) [Redacted]

10.1 s 9(2)(f)(iv) and s 9(2)(g)(i) [Redacted]

10.2 s 9(2)(f)(iv) and s 9(2)(g)(i) [Redacted]

10.3 s 9(2)(f)(iv) and s 9(2)(g)(i) [Redacted]

Officials continue to progress work on medium to longer term measures

11 As previously mentioned, officials are of the view that Government is best placed to shape the long-term supply chain horizon. In addition, to progressing the business-as-usual work identified above, policy work also continues on developing those long-term interventions.

12 This includes exploring options to improve supply chain resiliency and efficiency through coastal shipping. Waka Kotahi recently released the Coastal Shipping Investment Approach State-of-Play report, the first of three reports to assist Waka Kotahi on how best to invest the \$30 million in funding that has been allocated to coastal shipping. It is intended to provide Waka Kotahi with an up-to-date view of the sector's shape and the key challenges and opportunities.

13 The Ministry is developing an issues paper, identifying long term policy options to improve supply chain resiliency under the National Freight and Supply Chain Strategy.

14 s 9(2)(f)(iv) [Redacted]

Officials are exploring medium term options to support Small and Medium-sized Enterprises (SMEs)

15 As officials develop these longer-term options, the Ministry, alongside a range of agencies, are also looking at exploring interim measures that can be implemented in

the new year to better support SMEs identify supply chain risks and opportunities. SMEs are most at risk in terms of weathering the impacts of supply chain disruption.

- 16 Recently, Maersk, the largest shipping line operating in New Zealand, announced that it will no longer accept long-term contracts from freight forwarders in any of their global markets, forcing them to rely on the spot price for shipping rates.

s 9(2)(g)(i)

- 17 Work is already underway in this space. In engaging private sector external supply chain expertise, NZTE has undertaken supply chain reviews that have been well received by customers in its focus portfolio.¹ NZTE is currently uploading supply chain content onto its myNZTE website and is expanding this online offering to provide regular updates, information, and practical tools and resources applicable to a customer's export stage.

- 18 Officials plan to develop options in the new year through interagency consultation on next steps for supporting SMEs to better identify supply chain risks and opportunities.

s 9(2)(f)(iv) and s 9(2)(g)(i)

- 19 Officials intend to report back to Ministers on potential options for progressing this work in due course.

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¹ NZTE's "Focus" cohort of approximately 1400 exporters are those who receive the most intensive level of support.

22 December 2021

OC211020

Hon Michael Wood**Minister of Transport**

COVID-19 - UPDATE ON DEVELOPMENT OF MIAC EXIT STRATEGY

Purpose

The purpose of this briefing is to provide you with an update on the development of the exit strategy for the Maintaining International Air Connectivity (MIAC) scheme. The briefing sets out the work completed to date and provides an overview of the current thinking and options for the development of the exit framework.

Key points

- The Ministry of Transport has developed a Terms of Reference for the MIAC exit strategy work in consultation with the Treasury and the Department of Prime Minister and Cabinet. A range of other agencies are also involved in the development of advice for the exit strategy.
- The Ministry considers that Reconnecting New Zealanders creates a good opportunity to put in place a smooth exit framework from the MIAC scheme. Advice will be provided to Ministers which contains a range of options and trade-offs.
- A key determinant of MIAC exit strategy decisions will be the forecast passenger numbers based on the Reconnecting New Zealanders strategy. Given the significant uncertainty in timing of Reconnecting New Zealanders, and the further uncertainty in how these decisions will impact passenger travel demand; the Ministry anticipates recommending an exit framework that is capable of managing this uncertainty with exit being determined by actual passenger numbers.

This is a noting briefing and has no recommendations – but please advise us if you wish to discuss further.



Brent Lewers
Programme Manager, Reconnecting
New Zealanders
22 / 12 / 2021

Hon Michael Wood
Minister of Transport
..... / /

Minister's office to complete:

- Approved
- Declined
- Seen by Minister
- Not seen by Minister
- Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Brent Lewers <i>Programme Manager, Reconnecting New Zealanders</i>	s 9(2)(a)	✓
Hayden Berkers <i>Senior Advisor, Transport Connectivity</i>	s 9(2)(a)	

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COVID-19 - UPDATE ON DEVELOPMENT OF MIAC EXIT STRATEGY

Background

- 1 MIAC was established in May 2021, with current MIAC contracts with airlines set to expire on 31 March 2022 (with the exception of the trans-Tasman routes which are funded separately, and currently expire in January 2022¹).
- 2 On 22 September 2021 [DEV-21-MIN-0186], Cabinet invited the Minister of Transport to report back to Cabinet in February 2022 with a strategy for exiting the MIAC scheme, incorporating the Reconnecting New Zealanders approach and forecast traveller scenarios.
- 3 This briefing provides an update on how the exit strategy is being developed, including an overview of key considerations that will frame the exit strategy.

The Ministry has developed a Terms of Reference in consultation with Treasury and DPMC

The Terms of Reference sets out the key path for developing the exit strategy

- 4 In line with Cabinet expectation [DEV-21-MIN-0186] the Ministry of Transport (the Ministry) has developed a Terms of Reference for the MIAC exit strategy. This Terms of Reference has been consulted with the Treasury, the Department of Prime Minister and Cabinet (DMPC) – and was also provided for comment by the Ministry of Foreign Affairs and Trade (MFAT), the Ministry of Business, Innovation, and Employment tourism (MBIE), New Zealand Trade and Enterprise (NZTE), and the Ministry of Primary Industries (MPI).
- 5 The Terms of Reference outline the scope for developing the exit strategy, particularly through the establishment of the problem definition. In particular, the following key settings form the basis for the exit strategy development:
 - Reconnecting New Zealanders will open borders, and that will deliver increased passenger numbers, therefore flights, and freight capacity which can be sold at rates which freight customers can be expected to pay without government support, but not necessarily at pre-COVID levels;
 - Those increased passenger numbers (and the consequences outlined above) will be delivered progressively, over time, with considerable variation between routes; and
 - There is unavoidable uncertainty around the timetable for those border openings and the resultant increased freight capacity.

¹ Note: the Ministry is currently working to gain approval to transfer funding to enable the extension of the trans-Tasman contract in line with the other agreements – this will require Cabinet approval and is the subject of a separate briefing to the Minister of Transport

6 Based on the above, the key problem definition for the exit strategy to solve is stated as: *Given the context above, what is the best framework for exiting the MIAC scheme?*

7 To support this, the Terms of Reference also outline a set of key questions to be answered in the advice to Ministers. These are:

- What is an acceptable minimum level of connectivity? (Note that this should be considered for each route / market)
- What changes could or should be expected from the aviation sector? What are the risks, and where does the risk sit?
- What is the potential impact of a return of widespread passenger travel in the rest of the world on New Zealand's connectivity? In particular, how does the opening of the Australian market impact New Zealand exporters / importers?
- How does seasonality of passenger demand align with export demand?
- Are there other important market considerations which are outside MIAC scheme control / influence?
- Ultimately, what is an appropriate level of government intervention and how and when should the MIAC scheme wind down?

8 Additionally, the Terms of Reference also outline a range of out-of-scope areas for consideration. These areas generally refer to other support options beyond the MIAC, noting that the intention of the exit strategy development is not to undertake a first-principles review of the MIAC, but to outline the framework within which MIAC support is best turned off.

9 s 9(2)(g)(i)

10 s 9(2)(g)(i)

The Terms of Reference also cover the timeline and expected stakeholder engagement

11 The Terms of Reference provide a clear timeline for the development of the exit strategy. More detail on the timeline and relevant factors is provided at the end of this briefing.

12 There is a wide range of agencies who will be consulted in the development of the exit strategy. Comments from each agency are expected to be included in the final advice provided to Ministers. Additionally, the Ministry will engage, in a limited manner, with industry participants as needed to inform the exit strategy.

13 In line with this approach, the Ministry has already commenced engagement with the key agencies – including through a workshop to provide a base understanding to each agency of the current situation of the MIAC scheme (particularly noting recent trends and projections in the airfreight / air passenger markets). This workshop was also designed to test some early Ministry thinking regarding key considerations of the framework.

14 s 6(a) [Redacted]

Ensuring the exit strategy can respond to complexity and uncertainty is a key focus for the Ministry’s advice

The MIAC scheme has needed flexibility to operate effectively

15 The MIAC has focussed on ensuring a minimum level of airfreight connectivity is maintained with key markets for New Zealand exports and imports. While difficult to objectively determine the Ministry estimates that this level is around 10-20% of pre-COVID flight levels. This is the current level of air freight availability², of which the MIAC scheme is responsible for supporting approximately 50% (the remainder is provided by operators outside of the MIAC scheme).

16 s 9(2)(b)(ii) [Redacted]
[Redacted] As borders are opened and passenger demand increases (passengers provide significantly more revenue to operators), we would expect to see a significant reduction and then elimination in funding required on MIAC routes.

17 s 9(2)(b)(ii) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

18 These mechanisms provide a good ability for the MIAC to manage volatile market conditions and ensure that where support remains in place as passenger numbers start to recover, the Crown is not at risk of paying support for flights that are commercially viable.. s 9(2)(b)(ii) [Redacted]
[Redacted]
[Redacted] Flight capacity was able to be maintained in the following period when Quarantine Free Travel was suspended.

Passenger recovery will differ across different markets

19 While the MIAC utilises a core set of principles and similar contractual terms across every supported market, each market is highly complex and impacted by its own set

² Note: due to the much lower availability of airfreight, there is currently significantly higher freight rates than pre-COVID – around 2-3 times the pre-COVID prices.

of external factors. In particular, the passenger demand for each market depends on both the New Zealand border settings and dynamics (e.g. willingness to travel) and the border settings and dynamics within the other market.

20 This is likely to lead to significant discrepancies in the return of passenger travel between different markets. For example, given the priority of Australia under the Reconnecting New Zealanders strategy and the significant number of New Zealanders travelling to and from Australia, it is expected that the Australian market will recover rapidly. s 9(2)(g)(i)

21 To ensure that sufficient connectivity is able to be maintained overall, the Ministry considers that decision-making regarding MIAC support arrangements is best made on the individual market basis, rather than at the aggregate level. s 9(2)(g)(i)

This information will be a key consideration in the advice on the exit strategy.

22 s 9(2)(g)(i)

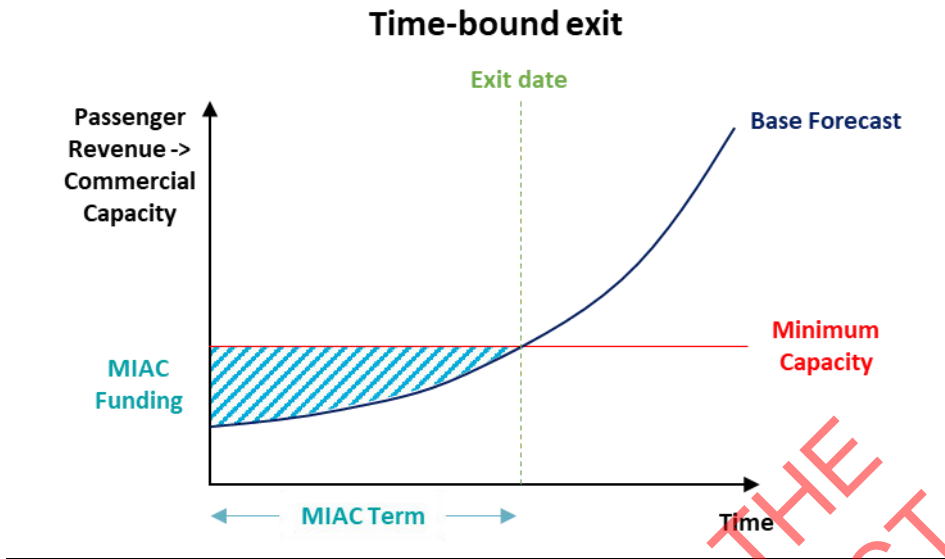
The exit strategy will provide options to Ministers on how to respond to this uncertainty

23 The Ministry's advice on the exit strategy will outline a framework for exiting the MIAC based on the return of passenger revenue. Within this framework, the Ministry's advice will include a range of options to managing risks across the MIAC exit.

24 One key dimension of options within the exit strategy will be whether decisions are based on an exit date or will be 'recovery-driven'. In the absence of a date-based exit strategy, the Ministry will recommend a clear back-stop date, which will allow sufficient time for a further review of MIAC settings and policy objectives. This review will be focussed the management of fiscal risk to the Crown and potential market distortions from long-term government intervention in the air freight market.

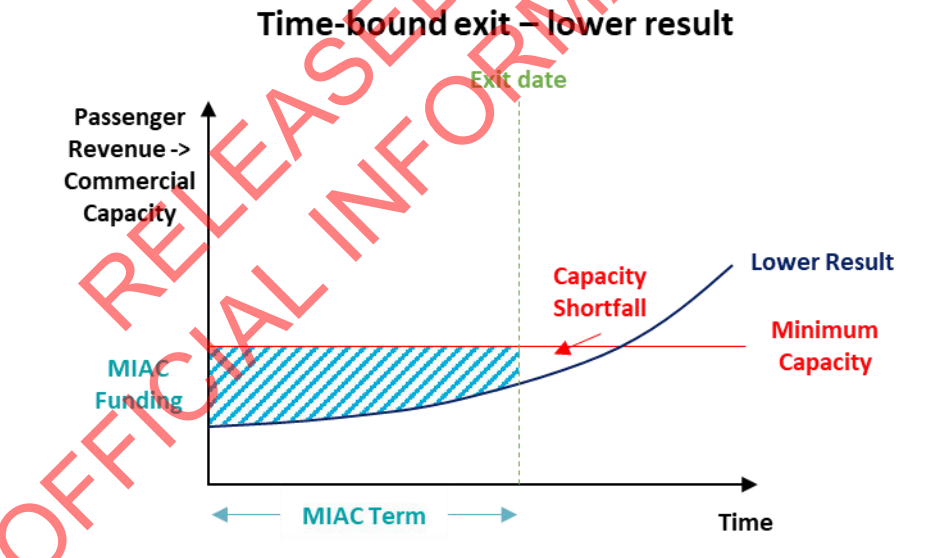
25 To illustrate the potential differences in these approaches, the Ministry has prepared a collection of theoretical diagrams. These diagrams are conceptual only and do not represent the forecast passenger demand other than reflecting the expectation of a general upward trend. For each diagram, the y-axis represents the level of passenger revenue for a market, and therefore also represents the level of commercial airfreight capacity offered. The MIAC currently provides funding (the shaded area) that adds to the commercial capacity to reach a minimum capacity.

Diagram 1: Time-bound exit



26 Under this model, a specified exit date is set at which point MIAC support ceases. The graph above shows that the date aligning perfectly with the increase in passenger revenue / commercial capacity, which means that the exit occurs at exactly the right time. Freight users will see consistent then rising freight capacity, but this is driven by increased passenger numbers so is commercially provided.

Diagram 2: Time-bound exit – passenger growth lower than forecast

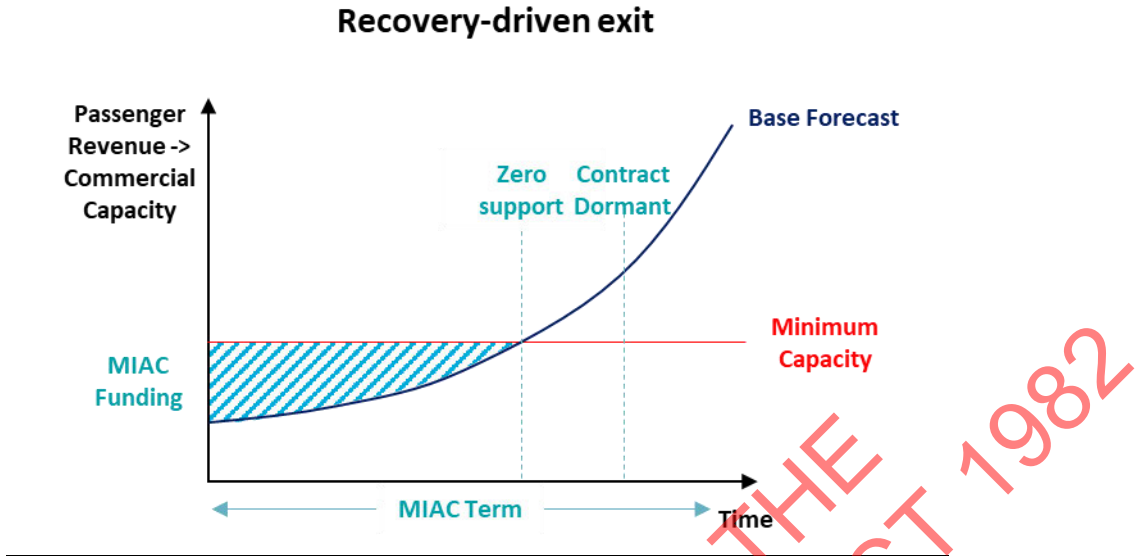


27 As with the previous scenario, an exit date was set ahead of time. However, the passenger recovery eventuated later than the specified exit date.

28 In this instance, there would be expected to be a capacity shortfall until passenger growth crosses over the previously supported minimum level.

29 s 9(2)(b)(ii) [Redacted]

Diagram 3: Recovery-driven exit

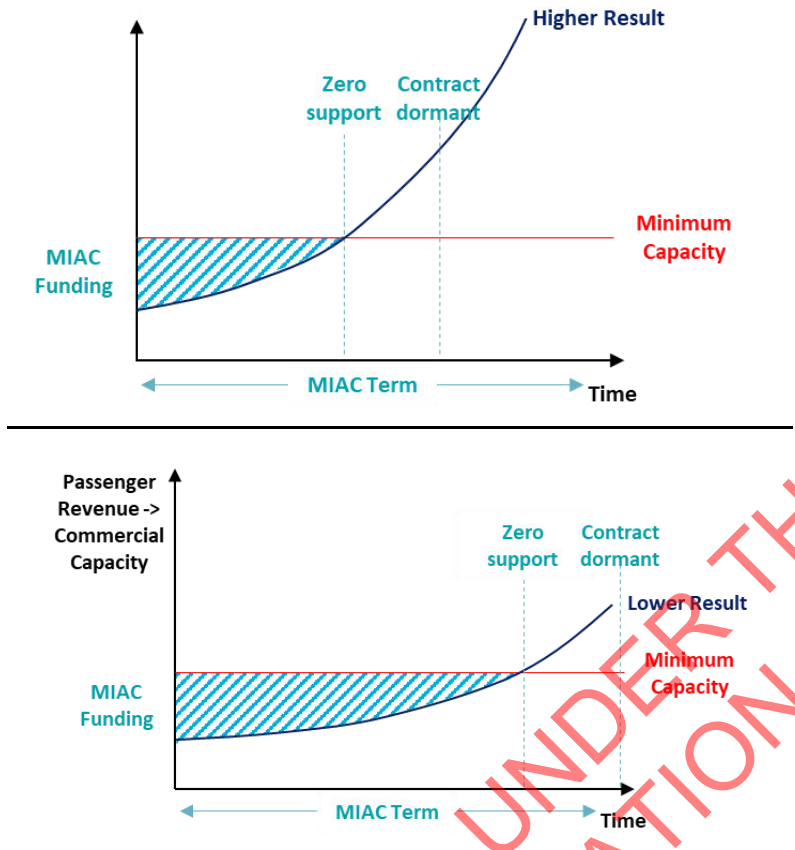


30 In this model, instead of an end date set at the expected point that support can be ceased, a 'recovery-driven' exit model is used. Under this model, the contracts are extended beyond the anticipated date of passenger recovery s 9(2)(b)(ii)

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

31 From freight users' point of view, this model will operate in the same way as the time-bound exit model in diagram 1, where the exit date is predicted accurately. Freight users will only consistent then increasing freight capacity, but that increased capacity will be delivered by the market without government support.

Diagram 4 and 5: Recovery-driven exit – passenger growth above and below forecast



32 These diagrams show the impact of different scenarios using the recovery-driven exit model. They show that under this model:

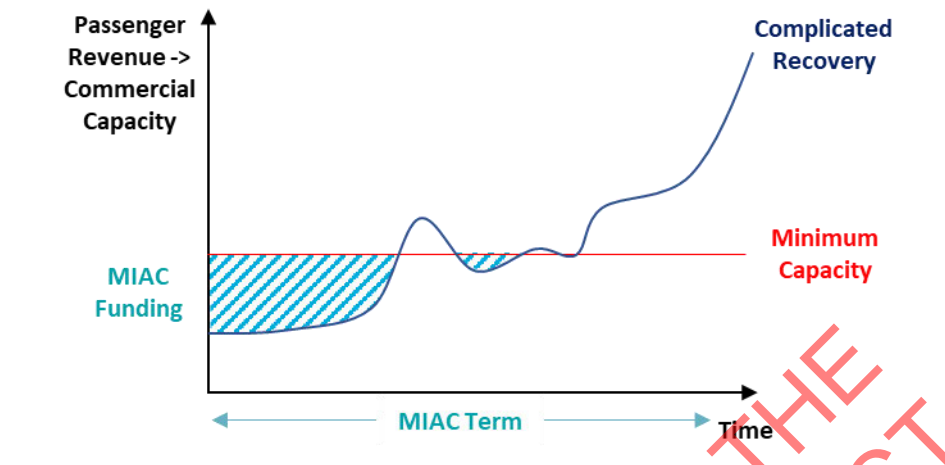
- if passenger recovery happens earlier than expected (top diagram), the government’s payment obligation finishes early, with no unnecessary amount needing to be paid
- if passenger recovery happens later than expected (bottom diagram), the government’s payment obligation continues, increasing the scheme’s cost, but no capacity shortfall arises.

33 s 9(2)(f)(iv) [Redacted]

34 Other considerations for the exit strategy will include how best to manage the agreements in the likely event that passenger demand is not an easy conceptual growth such as outlined above. For example, the actual passenger revenue curve may look something like this:

Diagram 6: Complex passenger revenue

MIAC exit – variable recovery



35 s 9(2)(b)(ii)

36 Overall, the Ministry considers that the development of a suitable exit strategy will be complex and critically will require Ministers to determine the best set of trade-offs, particularly between fiscal cost risk and the risk of sustained capacity shortages.

37 While the Ministry’s advice has yet to be finalised, the expected recommendation will be for an exit strategy that utilises the existing contractual mechanisms to respond to the growth in passenger demand, while remaining flexible to support markets in the event of an uneven recovery. This is effectively the ‘capacity bound’ exit outlined in diagram 3.

38 The Ministry’s recommendations will also include specific measures taken to limit fiscal risk from the MIAC scheme, including a contract end date and review period, which can be targeted at markets that have not yet (or will not) recover in the short-medium term.

Development timeframes are tight

39 The Terms of Reference also outline the timeline for developing the MIAC exit strategy. This timeline is provided in **Appendix 1**.

40 The development timeline is challenging, driven in part by the summer holiday and the need for engagement with the other agencies. This has resulted in the final briefing and cabinet paper being expected to be lodged on 3 March 2022 – which is slightly beyond the Cabinet expectation of February 2022. However, Ministerial consultation is scheduled to occur in late February 2022.

41 This timeline could be reworked to provide the briefing and cabinet paper earlier, however this would mean that the engagement with the agencies would be more limited. As previous reviews of the MIAC scheme have found, this up-front

engagement with the agencies is critical to ensure robust and consistent advice is provided to Ministers representing all relevant interests.

- 42 If the timeline for the development and agreement of the exit strategy is not able to be met, there may need to be a short-term extension of one to two months to the existing MIAC scheme and contracts. In this situation the Ministry will prepare a brief Cabinet paper to seek agreement to the short-term extension.
- 43 It is important to note that if there are significant changes in the settings of Reconnecting New Zealanders, there will be a likely timeline impact on the development of the exit strategy s 9(2)(g)(i)

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Appendix 1

Table 1: Exit strategy development timeline

Activity	Timing	Responsibility
Briefing and Cabinet paper		
Initial workshops with Agencies	Complete	Ministry of Transport
Develop initial draft briefing	w/e 24 Dec	Ministry of Transport
Agency consultation on initial draft	w/e 21 Jan	Public Sector Stakeholders
Develop final draft briefing and Cabinet Paper	w/e 28 Jan	Ministry of Transport
Final comments from Agencies on briefing and Cabinet Paper	w/e 4 Feb	Public Sector Stakeholders
Briefing & draft Cabinet paper provided to Minister of Transport	w/e 11 Feb	Ministry of Transport
Minister advises decision	w/e 18 Feb	Minister of Transport
Updated Cabinet Paper provided to Minister's Office	Contingent on decision	Ministry of Transport
Minister's Office consultation on Cabinet paper	Through to lodging	Minister's Office
Cabinet Paper lodged	3 Mar	Minister's Office
Cabinet Committee	DEV 9 Mar	Minister of Transport
Cabinet decision	14 Mar	Minister of Transport
<i>If required: Extending contracts</i>	14 Mar – end Mar	Ministry of Transport
<i>If required: New contractual period</i>	From 1 Apr	Ministry of Transport