



26 January 2024

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Hon Simeon Brown

Action required by:

Minister of Transport

Thursday, 1 February 2024

APPROACH TO THE ASSESSMENT OF THE LONG-TERM REQUIREMENTS FOR A RESILIENT COOK STRAIT CONNECTION

Purpose

As a result of the cancellation of Project iRex the Government has asked the Ministry of Transport to undertake an assessment of the long-term requirements for a resilient connection across Cook Strait to connect people and enable freight movements.

This briefing seeks your endorsement of our proposed approach to this work and explains its relationship to the Ministerial Advisory Group (MAG) that will provide you independent advice around KiwiRail's ferry operations.

Key points

- With the cancellation of Project iRex there is a level of uncertainty around the reliability and resilience of the Cook Strait connection.
- Given the importance of this connection to the New Zealand transport system, the public and our freight sector, the Government wants to understand what conditions need to be in place to ensure a resilient connection once the Interislander fleet has reached its end of life.
- The Ministry intends to answer this question by considering transport connectivity between the Islands using a standard economic framework involving identification of any market failures and the range of options to address them.
- This work will also inform the MAG in its consideration of any long-term options proposed by KiwiRail. We expect this work may also raise questions around the appropriateness of relying on KiwiRail to deliver ferry services beyond 2026/2027.

Recommendations

We recommend you:

- 1 **endorse** the approach outlined in this briefing for the assessment of the long-term requirements for a resilient connection across Cook Strait to connect people and enable freight movements (Yes) / No
- 2 **agree** that the Ministry of Transport shares and consults on the contents of this briefing with the Ministerial Advisory Group, NZTA, Maritime NZ, KiwiRail, StraitNZ, CentrePort Wellington and Port Marlborough (Yes) No
- 3 **agree** that after carrying out this consultation, the Ministry of Transport will publish a finalised Terms of Reference on its website after liaising with your office (Yes) No
- 4 **refer** this briefing to the Minister of Finance and the Minister for State-Owned Enterprises for any comment on the approach. (Yes) No

Siobhan Routledge

Simeon Brown

Siobhan Routledge
Acting Deputy Chief Executive
 26/01/2024

Hon Simeon Brown
Minister of Transport
 8.13.24

- Minister's office to complete:**
- Approved Declined
 - Seen by Minister Not seen by Minister
 - Overtaken by events

Comments

Contacts

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Bev Driscoll, Manager Rail		

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Cancellation of Project iReX has led to the Government commissioning two separate, but related, processes

- 1 As a result of the cancellation of Project iReX, the Government has announced that:
 - an expert Ministerial Advisory Group (MAG) will be established to provide the Government with independent advice on KiwiRail's ferry services.
 - the Ministry of Transport will lead an assessment of the long-term requirements for a resilient connection across Cook Strait to connect people and enable freight movements.

- 2 You have received a briefing from the Treasury (T2024/74 refers) seeking your agreement to the Terms of Reference for the MAG. The purpose of the MAG is to provide Ministers with independent advice on:
 - the approach taken and independent assurance obtained by KiwiRail in relation to ongoing operations and maintenance of its inter-island ferries to meet safe and reliable service levels for the remaining life of the existing fleet (including around service configuration),
 - the Board's consideration of strategic choices it faces when deciding the scope and scale of its ferry business beyond 2026/27 (including alignment with its rail business and risk appetite),
 - the Board's consideration of the most cost-effective options to provide a reliable, resilient and safe ferry service beyond 2026/27, and
 - any additional considerations or complementary measures that could support resilience in the short- to medium-term beyond those considered by KiwiRail.

- 3 This briefing seeks your endorsement of our proposed approach to our assessment of the long-term requirements for a resilient connection across Cook Strait to connect people and enable freight movements.

Can we rely on the market to deliver a resilient Cook Strait connection?

- 4 The cancellation of Project iReX leads to the possibility that KiwiRail may not want to, or may not be best placed to, provide an Inter-islander ferry service over the medium to longer term. Given the importance of the Cook Strait connection, it is important to consider the optimal market arrangements to ensure an efficient and reliable Cook Strait connection that meets the needs of the transport system is maintained into the future.

- 5 In recent times, we have relied on market forces providing a resilient Cook Strait connection. The Interislander is owned by KiwiRail - a fully Government owned SOE – and so is required to run commercially¹. This resilience has come about both from the ability of the market to respond to changes in demand over time and by the fact that there are a range of providers and modes connecting the North and South Islands for people and freight.

¹ The Cook Strait connection market is also subject to a range of regulations that help ensure safe and reliable connections.

6 The experience with project iRex suggests that KiwiRail may no longer be able to operate interisland services without a government subsidy and this means there is a risk that KiwiRail may exit the interisland business without one. Therefore we need to explore the market dynamics underpinning inter-island services, to understand whether the current arrangements (including ownership and governance of KiwiRail's ferry services) are optimal. This work would also inform whether any subsidy is required, if supported by a robust value for money analysis, and to who and how this subsidy could apply.

7 We propose dividing the work into two phases as set out in the table below:

<p>Proposed Scope — Assessment of the long-term requirements for a resilient cook straight connection for passengers and freight.</p> <p>Context: Given the importance of the Cook Strait connection to New Zealand, the Government wants to understand the conditions that need to be in place to ensure an efficient and resilient Cook Strait connection that meets the needs of the transport system once the current Interislander fleet has reached its end of life</p>
<p>Phase one: Identification of market failures (February – April 2024, with report to Minister in May 2024)</p> <p>This phase would identify any significant impediments or “market failures” that would prevent the market responding to a hypothetical exit of KiwiRail in a timely manner to maintain a resilient connection.</p> <p>Amongst others, specific questions that would be investigated include:</p> <ul style="list-style-type: none"> • What is the minimum level of service required across the Cook Strait to meet the needs of New Zealand’s transport system and support the national economy? What is the current state of the infrastructure to support this level of service? • Are there any barriers to entry that would prevent the entry of new operators in a timely manner? What landside infrastructure could the ports make available on commercially viable terms to new entrant(s) who wanted to provide ferry services for passengers and freight? • What is the ability of StraitNZ or other potential participants or the other modes (such as coastal and international shipping) to provide more capacity over the Cook Strait to respond to changes in demand and supply in a timely manner? • What would the consequences be for the transport system of having no rail enabled ferries? <p>Note this review is not responsible for assessing any options that KiwiRail may develop for replacing its fleet beyond 2026/27</p>
<p>Phase two: Option Analysis (May – July 2024, with report to Minister in early August 2024)</p> <p>This phase will identify options for ensuring an ongoing resilient connection beyond 2026/27. The focus of this work will be different depending on the results of phase one, but could include:</p> <ul style="list-style-type: none"> • If significant impediments or market failures are identified, what potential options are available for Government to address these?

- If no significant market failures are identified, how does this reconcile with KiwiRail's need for a subsidy for Project iReX? How are our findings consistent with the options KiwiRail is now preparing for a ferry service beyond 2026/2027?
- Does the analysis in phase one, and any relevant consideration from the MAG raise any questions about the appropriateness of relying on KiwiRail to deliver ferry services beyond 2026/2027?

- 8 In completing this work, the Ministry will consider a range of passenger and freight demand forecasts, possible market responses (including other North-South Island connections that can substitute for Cook Strait connections), relevant international experience, and impacts on the wider transport system.

Alignment with the MAG

- 9 The Ministry work will not directly support the MAG in providing independent advice in relation to KiwiRail's current fleet, but it will be directly applicable to the MAG consideration of the options KiwiRail is preparing in terms of ferry service beyond 2026/2027. For example, if we find that ports can provide infrastructure that would support ferries (of the current size and non-rail enabled) at a reasonable fee, then this would provide valuable insight for the MAG's consideration of the choices KiwiRail is making.
- 10 We intend to prepare a report for you on our findings of phase one in May 2024. We intend to keep the MAG informed of any useful insights we find as we go. We will also update you on progress via the weekly report.
- 11 We also propose that at the completion of phase one we reconfirm our approach to phase two, in light of what we have found in phase one, and to ensure that our work is aligning well with what the MAG is doing (especially as the focus of the MAG moves from issues around the short term resilience and reliability of KiwiRail's current ferry fleet to consideration of long term options proposed by KiwiRail).

Completing a Terms of Reference and establishing project governance and stakeholder engagement

- 12 The approach outlined in this briefing will form the basis of a Terms of Reference (TOR) for the work. We are seeking your endorsement of this approach so that we can take the next steps in developing a final TOR. This will also include developing a governance structure for the work. We will develop this governance structure in discussion with the MAG, Treasury, NZTA and Maritime NZ. The governance structure will ensure clear oversight, alignment of this work and the work of the MAG, and provide for high levels of information sharing.
- 13 With your agreement, we will share the approach outlined in this briefing with KiwiRail, StraitNZ, CentrePort Wellington and Port Marlborough. This will help us finalise the TOR. We propose that the TOR will be made available on the Ministry's website.
- 14 As the work commences the Ministry intends to engage with a range of stakeholders including KiwiRail, StraitNZ, Wellington City Council, CentrePort Wellington,

Marlborough District Council, Port Marlborough and relevant freight and supply chain industry associations.

Ministerial oversight

- 15 Under authority given to you by Cabinet you are working with the Minister of Finance, and the Minister for State-Owned Enterprises on setting up the MAG (CAB-23-MIN-0503 refers). However, there are no Cabinet directions in relation to you working with these Ministers on this work.
- 16 We recommend you forward this report to the Minister of Finance and the Minister for State-Owned Enterprises to give them an opportunity to provide any comments and confirm with them the nature of their ongoing involvement in this work.
- 17 Joint Ministers may want to report back to Cabinet on both the outcomes of the MAG and our assessment of the long-term requirements for a resilient coast straight connection for passengers and freight.

PROACTIVELY RELEASED BY
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