

Treasury Report: National Rail: Response to Michael Beard, Tranz Rail

Date:	11 November 2002	Treasury Priority:	High
Security Level:	Commercial Sensitive	Report No:	T2002/1513

Action Sought

	Action Sought	Deadline
Minister of Finance	Sign the attached letter to Michael Beard should you agree.	ASAP

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact

Enclosure: Yes

11 November 2002

SH-8-4

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Purpose of Report

1. Michael Beard has written to you asking that the Government resume the discussions with Tranz Rail that were underway prior to the election.
2. We have drafted a response to Mr Beard attached for your signature, should you agree.
3. Our plan is to re-engage with the company as soon as possible. We propose that the Treasury lead the discussions with support from your office and First NZ Capital. We intend to base discussions around the principles set out to you in T2002/1489 National Rail: Basis for Re-engaging with Tranz Rail.

Risks

4. As we enter into these discussions we will need to be very careful in the management of communications with the company. Should a third party approach the Government when we have re-engaged with the company, Government will be in a strong but vulnerable negotiating position. This vulnerability arises from a heightened risk of the Crown being privy to inside information. To manage this risk we propose a strategy that:
 - All communications with the company be lead by the Treasury;
 - Buddle Findlay be engaged by the Treasury to give advice on any case specific communication/legal.

Recommendation

5. It is recommended that you **sign** the attached letter to Michael Beard, of Tranz Rail.

Hon Dr Michael Cullen
Minister of Finance

Michael Beard
Managing Director
Tranz Rail Limited
Private Bag 92 138
AUCKLAND

Fax: 09 488 1267

Dear Michael

Thank you for your letter of 7 November 2002 in which you outlined your belief that Tranz Rail and the Government should resume the discussions that were underway prior to the election.

I agree it also might be helpful for us to re-engage in discussion in how Tranz Rail might work with the Government to meet its land transport strategy objectives. While I concur that the road/rail parity issue is a component of these talks I think there could also be benefit in a wide-ranging discussion. I would expect this to include touching on some of the other issues that were canvassed prior to the election. In particular, our previously expressed concern about network integrity and service coverage. We should also discuss approaches to the issues that have been raised by some major users.

I propose that the discussions focus in the first place at the high level to allow my officials to report back to me. This will allow me to consider the direction of any more detailed and substantive discussions. I invite you or your staff to get in contact with _____ at the Treasury (04) _____ to agree a process forward and timing.

Thank you for your letter, I look forward to productive discussions.

Yours sincerely

Hon Dr Michael Cullen
Minister of Finance