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Dear Michael

Since we last met my officials and your staff have continued the series of discussions about possible future options for the rail network in New Zealand. I thought I would use this letter to set out my expectations of where I see this process heading over the course of the next few months. I would welcome your feedback.

My office received a letter from your staff on 11 March 2002 setting out a draft proposal as a potential way forward. As I said in my subsequent discussions with you, I see such a proposal as one of a set of options that might address some of the Government's interests in the future of the rail network.

We have a view to working through these issues carefully over a longer timeframe than has been indicated by Tranz Rail. In particular, I understand the concerns expressed by both you and your staff about the Government's preference for increased competition on the rail network in the long term. It is my intention to take the next month to reflect on these concerns and discuss the options with my colleagues.

In the meantime, I understand the financial pressures you face with respect to certain lines. In response to the concerns you have put to me it may be helpful to separate this pressure from the longer-term structural issues. I invite you to consult with me well before Tranz Rail takes any further action in this area. I have an open mind as to how we may be able to progress this issue.

With a view to progressing the longer-term structural issue while I consult with my colleagues, I have asked Treasury to start taking necessary steps that may be required prior to any negotiation. Whatever the nature of any further relationship, I envisage that there may likely be a long-term contractual arrangement between the Crown and Tranz Rail. For this reason, Treasury has retained financial advisors to gain understanding of the financial issues that will impact on this relationship. I invite you to assist Treasury and these advisors in obtaining the information required. I understand that you may have some specific confidentiality expectations and I have no problem with my officials and their advisors being a party to these.

With regard to your recent letter to me about completion of the Auckland transaction. I also regret the delay in completion and can assure you that the Government is doing its best to reach a position where it can finalise the deal as soon as possible.

I trust this letter places some more certainty around the process from here. I look forward to your feedback using this as the basis for a way forward on these issues.

Yours sincerely

Hon Dr Michael Cullen
Minister of Finance