

Proactive Release

Date: 9 November 2022

The following Cabinet paper and related Cabinet minutes have been proactively released by the Associate Minister of Foreign Affairs

Title	Reference
<i>Report of the Cabinet External Relations and Security Committee: Period Ended 23 September 2022</i>	CAB-22-MIN-0401
<i>Vanuatu Development Programme: Vanuatu Inter-island Shipping Support Programme</i>	ERS-22-MIN-0045
<i>Vanuatu Development Programme - Vanuatu Inter-island Shipping Support Programme</i>	

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Withholding grounds:

- 6(a): to avoid prejudicing the international relations of the New Zealand Government



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet External Relations and Security Committee: Period Ended 23 September 2022

On 27 September 2022, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 23 September 2022:

ERS-22-MIN-0045 **Vanuatu Development Programme: Vanuatu
Inter-Island Shipping Support Programme**
Portfolio: Foreign Affairs

CONFIRMED

Rachel Hayward
Acting Secretary of the Cabinet



Cabinet External Relations and Security Committee

Minute of Decision

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Vanuatu Development Programme: Vanuatu Inter-island Shipping Support Programme

Portfolio Foreign Affairs

On 20 September 2022, the Cabinet External Relations and Security Committee:

- 1 **noted** that:
 - 1.1 Aotearoa New Zealand has contributed NZ\$23.2 million to date to the Vanuatu Inter-island Shipping Support Programme (VISSP);
 - 1.2 the Vanuatu Government has requested further New Zealand support;
 - 1.3 a further contribution would reduce the Vanuatu Government's requirement to borrow to complete the construction of wharves through this project;
- 2 **noted** that increasing support for VISSP strongly aligns with the government's Pacific engagement priorities, specifically the principle of Whāia te Taumata Ōhanga, aiming to achieve lasting resilience through support for economic and social development;
- 3 **agreed** that up to NZ\$10 million further funding from the International Development Cooperation appropriation within Vote Foreign Affairs from the current triennium core allocation for Vanuatu be directed towards VISSP, bringing Aotearoa New Zealand's total contribution to date to NZ\$33.2 million.

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson
Hon Kelvin Davis
Hon Chris Hipkins
Hon Andrew Little
Hon David Parker
Hon Nanaia Mahuta (Chair)
Hon Peeni Henare
Hon Michael Wood
Hon Kiri Allan

Officials present from:

Office of the Prime Minister
Officials Committee for ERS

In Confidence

Office of the Minister of Foreign Affairs

Cabinet External Relations and Security Committee

Vanuatu Development Programme – Vanuatu Inter-island Shipping Support Programme

Proposal

- 1 This paper seeks approval for Aotearoa New Zealand to provide further funding of up to NZ\$10 million to the Vanuatu Inter-island Shipping Support Programme (VISSP) for the construction of shipping infrastructure in Vanuatu. This funding will come from the International Development Cooperation appropriation core allocation for Vanuatu.
- 2 This would bring Aotearoa New Zealand's total funding for VISSP to NZ\$33.2 million and therefore within Cabinet's delegation.

Relation to government priorities

- 3 Aotearoa New Zealand has an enduring interest in a peaceful, stable, prosperous and resilient Pacific, in which New Zealand operates as a reliable and genuine partner collaborating in shared stewardship of Te Moana nui a Kiwa. Continuing Aotearoa New Zealand's support for VISSP strongly aligns with our Pacific engagement priorities, particularly supporting long-term economic, social and climate resilience, as well as demonstrating our commitment as a reliable partner for Vanuatu.
- 4 VISSP plays a central role in Vanuatu's economic and social development. Construction of climate change-resilient wharves throughout the country will improve inter-island connectivity supporting access to better opportunities for those living in the outer islands, and facilitating economic development by allowing transport of goods between islands.

Background

The Vanuatu Inter-Island Shipping Support Project

- 5 VISSP is a Vanuatu Government managed project, delivered with support from the Asian Development Bank (ADB) and New Zealand, to upgrade Vanuatu's port facilities and expand shipping services to remote islands. With a population of 314,000 scattered across 60 islands, inadequate interisland shipping services mean that people in remote and rural parts of Vanuatu remain cut off from access to markets (a major issue when most agricultural production takes place in rural communities), health, and education services.
- 6 To date, VISSP has successfully:
 - 6.1 established the Office of the Maritime Regulator and provided regulatory reform support (to help build maritime safety oversight capacity);

- 6.2 introduced a shipping subsidy scheme to develop and improve services to non-commercial destinations – over 150 voyages have so far been carried out under this scheme;
- 6.3 completed construction of two wharves on the islands of Tanna and Malekula; and
- 6.4 completed detailed designs for a further three wharves.

Funding requirements

- 7 Aotearoa New Zealand has been involved with VISSP since 2012 and has contributed NZ\$23.2 million in funding. The project is co-financed by ADB and the Vanuatu Government and total cost to date is approximately US\$36 million (NZ\$58 million).
- 8 Additional funding is now required to complete construction of wharves in three locations – the South Paray wharf in the capital Port Vila, Simonsen wharf in Luganville (the second largest urban centre in Vanuatu), and a wharf on the island of Malekula. The total cost of construction for works on the remaining wharves and associated infrastructure is estimated at US\$58 million (approximately NZ\$93 million). Vanuatu is working with ADB to agree an additional loan to complete the project. The Government of Vanuatu has requested further funding from Aotearoa New Zealand to help reduce the size of the loan required.
- 9 The Vanuatu core allocation is currently fully-programmed (i.e. we have proposed or committed to activities to spend all of our allocation). We had originally forecast NZ\$5 million to go towards VISSP. We consider this to be the minimum credible amount to provide as additional funding.
- 10 However, one year into the triennium we have yet to contract approximately NZ\$21 million worth of proposed activities. Some of these proposed activities have experienced delays (due to impact of COVID-19, supplier difficulties or because Vanuatu Government has yet to confirm its interest). Where activities have yet to be designed and contracted (i.e. uncommitted), we have flexibility to re-phase proposed funding (e.g. by pushing some proposed spend out until next triennium). This could allow us to allocate an additional \$5 million, bringing the total up to NZ\$10 million to VISSP.
- 11 VISSP is a priority project in Vanuatu programme and the project is ready to receive funding now. Given the alignment of VISSP with Aotearoa New Zealand and Vanuatu's strategic priorities, we consider that additional funding for VISSP is the best use of uncommitted funds.

Alignment with Aotearoa New Zealand and Vanuatu Government priorities

- 12 Increasing Aotearoa New Zealand's support for VISSP aligns with our Pacific engagement priorities, particularly supporting long-term economic, social and climate resilience, and demonstrating our commitment to be a reliable partner for Vanuatu.
- 13 VISSP is a key part of Vanuatu's economic and social development strategy and the Government has identified it as a priority infrastructure project. Improving transport infrastructure across Vanuatu through VISSP will better enable agricultural producers

to transport goods for sale, and to take advantage of entry into PACER Plus. With all infrastructure designed to withstand storm damage and sea-level rise, VISSP also supports Vanuatu's resilience to climate change.

- 14 In addition to providing support for Vanuatu's economic growth, further funding from Aotearoa New Zealand will reduce the debt that Vanuatu will need to take on in order to complete VISSP. This is consistent with Aotearoa New Zealand's policy position on debt dynamics in the Pacific, which highlights our strong interest in promoting fiscal stability and sustainable economic development. While we do not have significant funding available to support the project, any reduction on the size of the loan required will have an impact on Vanuatu's overall debt burden and will be a strong demonstration of our partnership approach with Vanuatu.

Risk and risk management

Past issues – governance and procurement

- 15 The infrastructure components of VISSP have experienced significant issues. Construction on the flagship domestic shipping wharf in Port Vila (South Paray) was halted in late 2017 when major problems with the original engineering and design work were identified during the construction phase.

16 s6(a)

17 s6(a)

- 18 In 2019, Aotearoa New Zealand contributed NZ\$2.2 million for Beca to assess the incomplete works and develop new designs. This work was completed in late 2021. Fletcher Organisation (Vanuatu) Ltd. has now been contracted by Government of Vanuatu to carry out construction. Beca has been contracted by the ADB to provide engineering supervision.

- 19 MFAT has confidence in the quality of the re-design work done by Beca and companies contracted to complete construction. Nonetheless we will closely monitor progress and work with both the Vanuatu Government and ADB to ensure that appropriate governance remains in place.

Increasing costs

- 20 There is some risk that Aotearoa New Zealand will be asked to provide further funding (beyond the additional NZ\$10 million requested here) at a later stage,

particularly if final construction costs exceed the new estimates. s6(a)

21 s6(a)

Financial Implications

22 Approving this request will have no impact on the Crown's operating balance. This Activity uses existing funding allocated to Vanuatu from the International Development Cooperation allocation within Vote Foreign Affairs, and does not require any reprioritisation within baselines.

Legislative Implications

23 This paper has no legislative implications.

Impact Analysis

Regulatory Impact Statement

24 N/A

Climate Implications of Policy Assessment

25 N/A

Population Implications

26 N/A

Human Rights

27 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

28 Treasury has been consulted in the preparation of this paper.

Communications

29 The Minister of Foreign Affairs could announce this contribution s6(a)

Proactive Release

30 This paper will be released proactively within 30 days including any redactions as appropriate under the Official Information Act 1982.

Recommendations

The Minister for Foreign Affairs recommends that the Committee:

- 1 **note** that Aotearoa New Zealand has contributed NZ\$23.2 million to date to the Vanuatu Inter-island Shipping Support Programme (VISSP); that the Vanuatu Government has requested further New Zealand support; and that a further contribution would reduce the Vanuatu Government's requirement to borrow to complete construction of wharves through this project.
- 2 **note** that increasing our support for VISSP strongly aligns with our Pacific engagement priorities, specifically the principal of Whāia te Taumata Ōhanga aiming to achieve lasting resilience through support for economic and social development.
- 3 **agree** that up to NZ\$10 million further funding from the International Development Cooperation (IDC) appropriation within Vote Foreign Affairs from the current triennium core allocation for Vanuatu to be directed towards VISSP, bringing Aotearoa New Zealand's total contribution to date to NZ\$33.2 million.
- 4 **note** that increasing the total amount of funding for this project above NZ\$25 million brings this into the delegation of Cabinet.

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Foreign Affairs / Minita Take Aorere

Proactively released by the Minister of Foreign Affairs