



Coastal Bulk Shipping Ltd: Application for Coastal Shipping Funding as part of the National Land Transport Programme 2021 – 2024 (NLTP):

Criteria 1 – 6 No Pricing.

Date: 6th April 2022

Contact details:

Project title: Increased Coastal Shipping Capacity

Name of applicant(s): Coastal Bulk Shipping Ltd
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Coastal Bulk Shipping's Proposal:

Coastal Bulk Shipping's (CBS) proposal is for the NLTP to provide funding as per Criteria 7 as a grant for section 9(2)(b)(ii) for the acquisition and placing into service on the New Zealand coast of a 2,000 DWT bulk and general cargo vessel, as an addition to the CBS fleet.



Criteria 1: Alignment with Activity Class (Weighting 35%):

Demonstrate your commitment to delivering the objectives of the activity class and how the proposal will contribute to increasing mode share and delivering a positive market impact.

Criteria 1 – CBS Response:

Company Background and Vision:

Coastal Bulk Shipping Ltd (CBS) are the owners and operators of the New Zealand registered general cargo ship MV Anatoki, which can carry up to 800 tonnes of cargo. This vessel moves cargoes around the New Zealand coast efficiently and cost effectively. CBS has been in operation since 2008. Due to its size, the MV Anatoki can successfully and safely navigate shallow harbors such as Whanganui, Westport and Greymouth. This allows the MV Anatoki to pick up / discharge its cargoes closer to their source / destination, providing clients with efficiencies through moving their cargoes by sea.

The ASP Ships Group (who also manage in excess of 100 vessels internationally as well as coastal vessels in New Zealand) took a 50% shareholding in CBS in April 2020 and has since been working to expand the business and its service offerings.

CBS's Vision is to be the "Preferred Coastal Shipping operator, providing a sustainable and competitive service to all stakeholders".

Idea for Assessment:

section 9(2)(b)(ii)

Given recent disruptions to supply chains and increasing costs, customers are also looking for improvement in their supply chain at lower costs. Such objectives can be met in most instances by use of coastal shipping.

CBS are now at the stage whereby to meet increased customer demand we are in the advanced stages of seeking to acquire a further vessel with increased capacity (ability to carry approx. 2,000 tonnes per voyage) to supplement that currently carried by MV Anatoki. This vessel would be New Zealand flagged and operate on the Coastal trade, much the same as MV Anatoki has done since she commenced operations in 2008.



It is the addition of this vessel that is the idea supporting CBS's application for coastal shipping funding as part of the National Land Transport Programme 2021 – 2024 (NLTP).

Alignment with Activity Class:

a). Increasing the use of coastal shipping as an alternative to road freight (and rail) transport:

Since inception in 2008, CBS has encouraged the use of Coastal shipping as a preferred mode of transport to road and rail. CBS, as a bulk shipper, provides a service that since 2008 has shipped in excess of ^{section 9(2)(b)(ii)} tonnes, taking some ^{section 9(2)(b)(ii)} x 30 tonne payload truck/trailer equivalents from the road. This reduced not only emissions, but also increased the resilience of the supply chain, reduced wear and tear on the roads and contributes to lowering the risk of road accidents. The use of CBS' vessel Anatoki by these bulk cargo owners indicates that financially it is preferable to use coastal shipping rather than road or rail, and therefore is a benefit to the New Zealand economy.

Over the past 12 months, CBS has also worked with some of New Zealand's largest freight forwarding companies who also own and operate their own trucking fleets. Following discussions on the benefits of CBS and our coastal shipping services, we are now periodically transporting some of their coastal cargoes.

We estimate that our new and larger vessel will be able to carry in the order of ^{section 9(2)(b)(ii)} tonnes of cargo over a 12-month period (this is approximately ^{section 9(2)(b)(ii)} x 30 tonne truck/trailer loads off the road per annum).

b). Embedding mode neutrality and choice for freight transporters:

The "go to" choice for most cargo shippers in and around the New Zealand coast is either road or rail. CBS has embarked on an educational campaign through our marketing over the past few years to ensure shippers have a further choice and understand the benefits of coastal shipping, which goes beyond just the price of moving their freight from door to door.

Shippers will have more choice of transport modes through our introduction of a larger capacity coastal vessel.

c). Enhancing the sustainability and competitiveness of the domestic sector:

The introduction of a larger capacity coastal vessel will meet this objective through:

- Providing increased capacity and therefore availability of an alternative mode of transport to the current main mode choice of road, rail and/or air;
- Provide resilience in the overall New Zealand supply chain through being available during times of natural disasters or other disruptions to the supply chain, i.e. pandemics, floods, road closures, bridge outages, etc.;
- Improved service levels through an increase in coastal shipping capacity;



- Less reliance on international ships to move coastal cargo; and
- More competition. A larger vessel will improve the competitiveness of freight costs on a \$/tonne basis, given the economies of scale of a larger capacity vessel.

d). Understanding the challenges facing coastal shipping and working to address them:

Some of the challenges faced by coastal shipping are:

- Being competitive against road and rail who receive subsidies whereas to date coastal shipping has received minimal subsidies;
- A lack of port and cargo infrastructure for small ships;
- Unjustified high port costs for coastal ships;
- Difficulty in securing timely access to ports for regular coastal operators; and
- Working with the Regulator (Maritime New Zealand) to update rules and regulations in relation to small coastal ships.

section 9(2)(b)(ii)

By way of some examples of our achievements to date, CBS has:

- Developed infrastructure and cargo handling methods suitable and sustainable for small coastal vessels;
- Promoted and used small regional ports as alternatives to larger ports. Some of the smaller ports regularly used are Whanganui, Westport and Greymouth;
- Increased trade through Whanganui, whereby we estimate we will achieve approximately section 9(2)(b)(iii) tonnes of cargo in/out of the port this year. This improves the ports viability and employment for Port/Council staff. This development has led to Whanganui being approached by other companies to use the port.

The port of Onehunga would also be a very logical port call for CBS vessels, should this port be reopened to coastal shipping into the future. For example, the distance for Nelson to Auckland cargoes (such as timber for the construction industry), by sea via Onehunga is only 520 km, compared with 875 km by road and ferry. This would transfer freight off road and considerably reduce emissions. It would also provide an option for repositioning containers and provide some added resilience in the event of a major issue with the Waitemata port.

With the focus on road and rail, a lot of port infrastructure, particularly in regional ports, has become redundant. CBS continues to work with these ports and our customers to improve the port infrastructure in order to provide an improved service and lower overall transport costs.

Through the introduction of a new vessel, CBS will continue to work with all stakeholders (port, customers, government, etc.) to improve the service to ensure wider benefits of



infrastructure development, transport mode choice, services levels and competitiveness flow through to the wider community.

High Level project Risks and Mitigation Strategies:

There are a minimal number of risks for the introduction of an additional coastal vessel as a project. Most risk comes from the day-to-day operations once the vessel is in service and CBS and our shareholders have significant experience in operating vessels internationally as well as on the New Zealand coast. At a high level, we see the major project risks and the risk mitigation strategies as follows:

| High Level Project Risk | Mitigation Strategy |
|----------------------------|---------------------|
| <p>section 9(2)(b)(ii)</p> | |



Criteria 2: Co-investment (Weighting 10%):

Demonstrate the level and certainty of financial co-investment that can be provided (by applicant or other sources).

Criteria 2 – CBS Response:

CBS propose that our direct co-funding contribution is ^{section 9(2)(b)(i)} of the cost of acquisition and placing into service of our additional vessel. Details are outlined in our estimated project cost at the end of this proposal. ^{section 9(2)(b)(ii)}

section 9(2)(b)(ii)

CBS has demonstrated in the past, through the introduction of our current vessel, MV Anatoki, that we have the ability to bring ships to market and operate them on the New Zealand coast. In April 2020, the ASP Ships Group acquired a 50% stake in CBS. Through this shareholding, CBS has access to the skills and expertise to acquire an additional vessel and to operate it in a highly regulated market.

The ASP Ships Group are an Australian owned international ship management company, with 12 offices in 10 countries, including in Wellington, where ASP's wholly owned subsidiaries Silver Fern Shipping, ASP Ship Management NZ Ltd and Mount Bunkering are operated from. ASP has a long history of vessel owning, chartering and operating tonnage to a strong and highly reputable client base. By way of example, the ASP Ships Group arranged project financing with the Commonwealth Bank of Australia (CBA) and stood by the detailed design, specification, building and commissioning of our own new-build MR tanker vessel, MT Kokako, entering service in New Zealand in January 2018. Kokako is a bespoke vessel, specifically designed and built for New Zealand conditions and trade.

CBS will use our own expertise in coastal shipping and leverage off our shareholders expertise to secure co-investment for this project. CBS has in the past secured part funding for the introduction of the MV Anatoki and all the required conditions were met at that time, with some of the funds not utilised being returned to government.

CBS has also had initial discussions with local banks in New Zealand and we are confident that we can secure funding through one of the major banks. This will represent a proportion of our co-funding.

CBS is an existing business, and this project is a logical strategic expansion. CBS will continue in business well beyond the June 2024 end of the existing NLTP funding. We confirm that we can continue to operate / run the project on an ongoing basis so benefits can be fully realised.

CBS has the support of shareholders for this project, which includes access to capital via major banks.

This is further endorsed by CBS's General Manager signing this application.



Criteria 3: Ability to deliver in desired timeframe (Weighting 15%):

Demonstrate you have, or will allocate, the resources required to create a well-supported, multi-disciplinary team that has the skills and expertise to implement the project in the desired timeframe. Demonstrate how the project can be delivered by June 2024.

Include a summary of how monitoring and evaluation of the project will be completed post implementation to inform benefits realisation.

Criteria 3 – CBS Response:

The project to acquire and introduce a larger vessel to the New Zealand Coastal trade has been “approved in principle” by the CBS Board as part of the CBS business plan in May 2020 and the project as such is already underway.

CBS has determined the type and size of vessel to meet the current increased customer requirements with a view also to their future coastal shipping requirements. We have determined that a larger vessel of between 1,500 – 2,000 tonnes cargo capacity will meet these requirements and enable the vessel to be flexible enough to be able to still call at the smaller “river” ports, thus providing increased cargo throughput and employment opportunities at these ports.

CBS has gone to market and identified over ten (10) potential vessels and have selected a “preferred candidate”, a small vessel currently in the Coastal trade in Japan.

ASP’s Technical team (on behalf of CBS) are currently working through the vessels trading status in Japan and are undertaking a gap analysis to ensure this ship can be transitioned to New Zealand coastal service. In addition, the technical team is also developing a specification of vessel upgrades that will be required for the delivery voyage ex Japan to New Zealand as well as modifications required to enable the vessel to work on the New Zealand coast.

ASP will provide the technical and operational support required by CBS to support this project through to full implementation. ASP has experience in bringing a wide range of vessels into service throughout their global offices, each vessel having different requirements to meet the international shipping regulations along with those of the area they are intended to trade in, if on a coastal trade.

The project is being overseen by section 9(2)(a) CBS’s General Manager, who also oversaw the introduction of MV Anatoki in 2008. Given the importance of this project and to support section 9(2)(a) a project team has already been formed given this project is already underway and comprises:

- CBS’s General Manager;
- CBS’s Operations Manager;
- 2 x CBS Directors (ASP Shareholders);



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Hornby South,
Christchurch, 8042, NZ

- 1 x ASP Commercial Manager; and
- ASP's Technical team (on an as required basis).

This team will be supplemented with other staff as required for the different phases throughout and up until delivery and operation into the coastal trade.

Post implementation, CBS will invite relevant stakeholders (including Waka Kotahi representatives) to a function onboard our new vessel to show first-hand the benefits of the vessel. In addition, a separate report will be provided by CBS to Waka Kotahi post implementation to confirm the actual v's expected outcomes. Should it be required, CBS would be pleased to have such a report prepared and verified by an independent source.

Summary of Key Milestones:

| Task | Estimated timeframe to complete |
|--|--|
| Market search for suitable vessel(s). | Completed. |
| Identify preferred vessel. | Completed. |
| Undertake a Ship Inspection. | Completed. |
| Carry out a Technical Gap Analysis. | Underway – aim to complete mid-April 2022. |
| Prepare a specification of required modifications. | Underway – complete end April 2022. |
| Make a formal offer to purchase the vessel. This will be done contemporaneously with financing and CBS Board approval. | May 2022. |
| Finalise vessel purchase. | June 2022. |
| Take delivery of the vessel. | July 2022. |
| Carry out vessel modifications in a suitable ship repair yard. | August 2022. |
| Sail the vessel to New Zealand. | October 2022. |
| Introduce the vessel into service (following NZ crew familiarisation). | November 2022. |
| Carry out a post implementation review. | February 2023. |

Should the preferred vessel no longer be available as the above milestones progress, CBS will then revert to one of the other vessel options arising from our market search as well as carry out a further and updated search. Given this is a current project and the above typical timelines, we are confident that the vessel will be introduced into New Zealand Coastal service by the end of 2022, well and truly prior to June 2024.



Criteria 4: Leadership and support for delivery (Weighting 10%):

Demonstrate commitment to the implementation of the project.

Criteria 4 – CBS Response:

The project to acquire and introduce a larger vessel to the New Zealand Coastal trade has been “approved in principle” as part of the CBS business plan in May 2020 and is already underway, as outlined in “Criteria 3” above.

The CBS General Manager is responsible for reporting to the CBS Board on the progress of this project on a monthly basis. The CBS Vessel Project team as outlined above meet on a weekly basis to ensure that project milestones are being met and that any bottlenecks which arise are understood and dealt with in a timely manner.

As this vessel acquisition project has been approved “in principle” by the CBS Board, we do not envisage any delays with respect to governance or decision making. Further, as the Project team has 2 x CBS Directors as part of that team, decision making from senior levels are clear, timely and use the collective experience of the team.

The CBS Operations Manager is a recent appointment, which frees up time for the General Manager to work on this project. Spreading the work/project with the ASP team also ensures no one individual is over burdened with additional work.

As outlined prior, our 50% shareholder (ASP) is providing cross organisational support to this project through such matters as market research, identifying suitable vessels, developing finance options, technical advice, liaison with Classification Societies, budgets, plans for delivery, etc.

CBS has over the years developed strong support from within the associated sectors across both shipping and other transport modes. Two (2) examples being:

- Increased cargo through regional ports such as Nelson and Whanganui. Should you require an independent reference check from either of these ports, please let us know and
- Increased business with some of the major freight forwarders, whereby CBS provide an intermodal link to their supply chains and have encouraged them to use coastal shipping in lieu of road and rail for certain cargoes and trade flows.

A recent example of support from the sector is that Kiwi Rail contracted with CBS to carry oversized freight ex Auckland to Picton onboard our coastal vessel MV Anatoki.

Management envisages achieving strong sectorial and cross organisational support from shippers such as bulk and container cargo shippers and have already had a positive response.

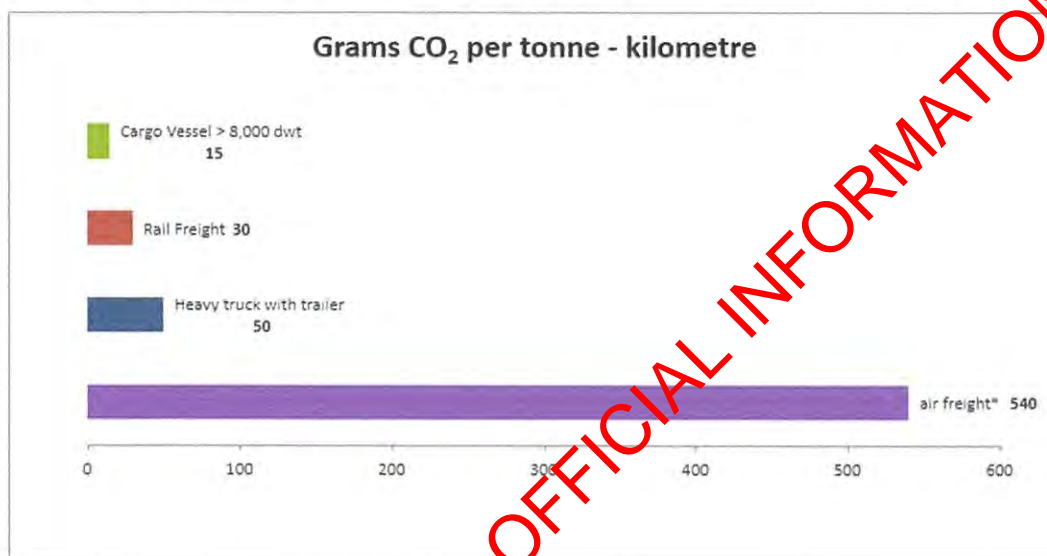


Criteria 5: Reduction in Carbon Emissions (Weighting 15%):

Demonstrate how the proposed project will contribute to reducing overall transport sector greenhouse gas emissions and improving air quality.

Criteria 5 – CBS Response:

The shipping industry is a small contributor to the total volume of atmospheric emissions compared to road, rail and air transport. In terms of CO₂ emissions per tonne of cargo transported, shipping is recognised as the most efficient form of commercial transport.



Source: Maritime Industry Australia Ltd

Since 2008 CBS has shipped in excess of 500,000 tonnes using MV Anatoki, taking some x 30 tonne payload truck/trailer equivalents from the road. In 2021 alone, CBS carried tonnes, equivalent to truck and trailers coming off the road. This reduced not only emissions, but also reduced wear and tear on the roads and contributes to lowering the risk of road accidents.

A larger coastal vessel will continue to reduce the emissions through a modal switch from air, road and/or rail to coastal shipping as well as other benefits such as less maintenance required on roads.

The analysis shown in the above chart shows the significant saving of transporting cargo by sea rather than by rail, road or air. Shipping is the most cost, fuel, and carbon-efficient method of moving cargo. European Union figures indicate that, on a tonne/kilometre basis, shipping generates roughly 1/8th the carbon emissions of road transport vehicles and 3/5th those of rail.



As such, with the government's Emissions Reduction Plans, shipping has a central role to play in the response to climate change and meeting government targets of reducing emissions in the transport sector.

CBS had an emissions study carried out by Opus in 2017 (recently updated), which confirms the above. CBS would be pleased to further update this study to provide any specific information which may be required as part of your current evaluation process.

Further we highlight that most coastal ships burn fuel oil as it is one of the cheapest forms of fuel for ships. It is the intention of CBS to operate this new vessel on "Low Sulphur Diesel". The Low Sulphur Diesel improves air quality compared to Fuel Oil, through:

- An 80% - 96% reduction in Sulphur Oxides;
- A 90% reduction in Particulate Matter (i.e., black soot);
- An overall cleaner burning fuel.

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Criteria 6: Resilience (Weighting 15%):

Demonstrate how the proposed project will contribute to a more resilient freight sector.

Criteria 6 – CBS Response:

Coastal shipping is one of the most resilient forms of transport and is largely unaffected by natural disasters such as earthquakes, floods, road/bridge collapses, etc. Even with damage to port infrastructure, a ship can be loaded and/or unloaded using ship to shore and lightering methods.

A practical demonstration was following the Kaikoura earthquake wherein CBS, through our coastal vessel MV Anatoki, provided an essential service moving bulk freight from the South Island to Whanganui. This helped to keep businesses operating and people employed; such that without coastal shipping these businesses would not have operated and people would have been out of work for extended periods of time.

CBS is keen to work with stakeholders to ensure our new coastal ship is available to assist in times of disaster and is a practical, efficient and timely response. Further, CBS can carry most freight that would normally be carried by road and rail so that in the event of disruption, this freight can be transferred to our coastal shipping service. The ship that CBS is considering acquiring is a general cargo ship, meaning it can carry bulk cargo, break bulk cargo, general cargo and containers. That is to say, both our existing operation and our proposed acquisition of an additional ship would contribute to a more resilient freight sector through climate change adaptation, the potential for mode shift in times of disruption and disaster readiness.

In the past, CBS has also been used as a backup shipping service for the Chatham Islands.

CBS would be pleased to enter into a more formal arrangement with Government for the use of the vessel in times of disaster, which also demonstrates our commitment in this regard.

By increasing the capacity of coastal shipping there is less reliance on using international ships to carry coastal cargo. The more cargo carried on coastal ships in preference to international foreign owned vessels leads to increased jobs for both local ships crew and through associated services, such as ports.

Other advantages of increasing coastal shipping capacity (some of which have been mentioned herein) are:

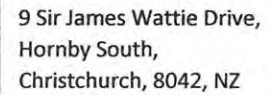
- A reduced environmental impact;
- Reduced tonne/km efficiencies for freight moved;
- Resilience to the wider freight industry;
- Support and development of regional ports; and
- Employment and training.



The New Zealand shipping industry offers limited training opportunities for individuals looking for a career at sea. As a small ship, the MV Anatoki does offer opportunities for ships crews to gain sea time, which in turn will allow them to obtain higher qualifications. One of the company's early ships Master's has gone on to obtain a Foreign Going Masters certificate and is now a trainee pilot with the Port of Marlborough. Another former employee is currently the Master of the Westport dredge Kawatiri, and a third is working as an officer with KiwiRail's Interisland Line. A further coastal vessel will increase such training opportunities for those seeking a career at sea.

The climate change adaptation and emission reductions are outlined in "Criteria 5" above.

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Two prices should be included: the total price for the project (including co-funding), and the price to be met by Waka Kotahi (the NLTF share).

Please refer to CBS's separate document which only contains a response to Criteria 7 – "Pricing".

We thank Waka Kotahi and stakeholders for the opportunity to submit this application and we look forward to progressing to the next stage.

Email