

# Oil Emergency Response Strategy

## Government Response to an Oil Supply Disruption



July 2008

**Note:** this document has been prepared for the purpose of informing the government's options for responding in an oil emergency only. The measures contained in this strategy would only be considered in a severe oil supply disruption and only when an industry response is considered insufficient. This document outlines a range of measures designed to respond to varying types and degrees of supply disruptions. Only in the most severe and prolonged situations would measures such as allocation rationing be considered.

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*Ministry of* **Economic  
Development**   
*M a n a t ū Ō h a n g a*

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## Purpose of the Strategy

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The Oil Emergency Response Strategy (the Strategy) sets out the broad policy and operational aspects that underpin the government's response to a disruption of oil supplies, either to fulfil New Zealand's obligations as a member of the International Energy Agency (IEA) or to ensure that the effects of an oil supply disruption on New Zealand in a non-IEA declared oil emergency are minimised.

- Part 1 provides an overview of the Strategy.
- Part 2 allocates roles and responsibilities for action, including review and deactivation.
- Part 3 summarises the key oil emergency measures government could use to respond to an oil supply disruption.
- Part 4 sets out the communications plan.

The Strategy contributes to New Zealand's transport resilience, one of the key themes of the New Zealand Energy Strategy, by ensuring short term oil security, and to the world-class infrastructure objective of the economic transformation agenda. Measures contained in the Strategy would only be considered in a severe oil supply disruption and would not be considered where the primary purpose is to manage prices or to assist particular suppliers.

### Next Steps

- The oil emergency measures in part 3 will be further developed as part of an ongoing work programme to provide guidance on their implementation, including the drafting of regulations where necessary. This work will ensure that the government has a range of measures in place for rapid decision making and response in an oil emergency situation.
- The Ministry of Economic Development (MED) will develop a detailed handbook with guidelines and processes for the implementation of the measures. This handbook will primarily be for the use of decision makers during an oil supply disruption.
- MED will review the Strategy on a regular basis in light of changes in the oil security environment.

*In the Strategy the term 'oil' refers to all engine fuels.<sup>1</sup>*

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<sup>1</sup> At the time of writing, the Biofuel Bill was still before the House. It proposed extending the scope of the International Energy Agreement Act 1976 and the Petroleum Demand Restraint Act 1981 to include "engine fuels".

## Part 1 – Strategy overview

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### 1. Introduction

- 1.1 The Strategy will assist the government as necessary to respond to both international and national oil supply disruptions. The overall objectives of the Strategy are:
- to ensure that New Zealand is able to meet its obligations as a member of the IEA; and
  - to ensure that the effects of an oil supply disruption on New Zealand are minimised.
- 1.2 The Strategy addresses short term oil supply disruptions only. Mid to long term energy and transport goals are covered by the New Zealand Energy Strategy, the New Zealand Energy Efficiency and Conservation Strategy and the forthcoming New Zealand Transport Strategy. Over time these initiatives will help reduce reliance on oil, thereby increasing New Zealand's resilience to disruptions in the oil market.
- 1.3 If an oil supply disruption were part of a broader national emergency, the arrangements in this Strategy would be implemented in coordination with the all-of-government response using the system of domestic and external security co-ordination (DESC).<sup>2</sup>
- 1.4 In September 2006 the Minister of Energy released a discussion paper entitled *Options for Government Response to an Oil Supply Disruption*, which sought feedback on key aspects of an oil emergency response strategy.<sup>3</sup>
- 1.5 The submissions received have been considered in developing this Strategy. One of the principal concerns was that the arrangements in the Strategy need to integrate with other oil contingency plans under development in New Zealand. This issue is discussed later in the document.
- 1.6 Given the need for a high degree of flexibility to respond to specific scenarios, the details in the Strategy will necessarily remain relatively high-level.

### New Zealand's IEA oil emergency response obligations

- 1.7 The IEA was founded after the 1973/1974 oil crisis to coordinate measures amongst oil importing countries in times of oil supply emergencies. As a member

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<sup>2</sup> For more information on the DESC system, see section 3.4 of the Guide to the Civil Defence Emergency Management Plan available at: [http://www.civildefence.govt.nz/memwebsite.nsf/Files/National%20CDEM%20Plan%202005/\\$file/Section3.pdf](http://www.civildefence.govt.nz/memwebsite.nsf/Files/National%20CDEM%20Plan%202005/$file/Section3.pdf).

<sup>3</sup> The discussion paper is available at: <http://www.med.govt.nz/upload/4000/oers-discussion-document.pdf>.

of the IEA, New Zealand may be called upon to participate in the IEA's oil emergency response procedures.

- 1.8 The IEA's oil emergency response mechanisms were set up under the 1974 Agreement on an International Energy Program (IEP Agreement). The IEP Agreement requires IEA countries to hold oil stocks equivalent of at least 90 days of net imports of the previous calendar year and, in the event of a major international oil supply disruption, to release oil stocks, restrain demand, switch to other fuels, increase domestic production and share available oil, if necessary.
- 1.9 To supplement the mechanisms defined in the IEP Agreement, the IEA has elaborate flexible arrangements for co-ordinated use of stockdraw, demand restraint and other measures that could be implemented in response to a disruption in oil supplies.
- 1.10 IEA collective response actions are designed to mitigate the negative impacts of sudden international oil supply shortages by making additional oil available to the global market through a combination of oil emergency response measures, which include both increasing supply and reducing demand.<sup>4</sup>

### **Fulfilling New Zealand's IEA 90 day obligation**

- 1.11 To fulfil part of the 90 day obligation, commercial stocks are held within New Zealand (owned by the oil companies). In addition, the government holds contracts for reserve oil stocks. During 2008 these reserves are held in Japan, Australia, the Netherlands and the United Kingdom, whereby the government has an option to purchase oil in the event of an IEA declared emergency.
- 1.12 Criteria governing the release of reserve stocks ensure that the stocks may only be released to meet New Zealand's obligations to the IEA. Releasing the stocks would be part of a concerted IEA member release onto the international market to improve global supply.<sup>5</sup>
- 1.13 Oil companies remain responsible for ensuring that adequate commercial stock levels throughout New Zealand are maintained.

## **2. Triggering a government response**

- 2.1 The measures outlined in the Strategy would only be used if required to either fulfil New Zealand's obligations under the IEA, or respond to a disruption to oil supplies in New Zealand in circumstances where an industry response is unlikely to be

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<sup>4</sup> For more information on the IEA's response system see:  
[http://www.iea.org/textbase/nppdf/free/2007/fs\\_response\\_system.pdf](http://www.iea.org/textbase/nppdf/free/2007/fs_response_system.pdf).

<sup>5</sup> For more information of how New Zealand fulfils its 90 day obligation see:  
[http://www.med.govt.nz/templates/StandardSummary\\_12619.aspx](http://www.med.govt.nz/templates/StandardSummary_12619.aspx).

sufficient. The measures in the Strategy would not be activated where the primary purpose is price management or to assist any particular supplier.

- 2.2 It is difficult to list all the scenarios that could trigger government activation of the measures in the Strategy. In general, oil companies will have the initial role in responding to an oil supply disruption. However, if the severity of situation warranted it, the government could assist industry and intervene using the legislative and non-legislative measures contained in the Strategy and/or civil defence powers. A description of the measures available for government to respond to an oil supply disruption is outlined in Part 3.

### **IEA declared emergencies**

- 2.3 For IEA declared emergencies, declaration by the IEA of an oil emergency is sufficient for a government response.

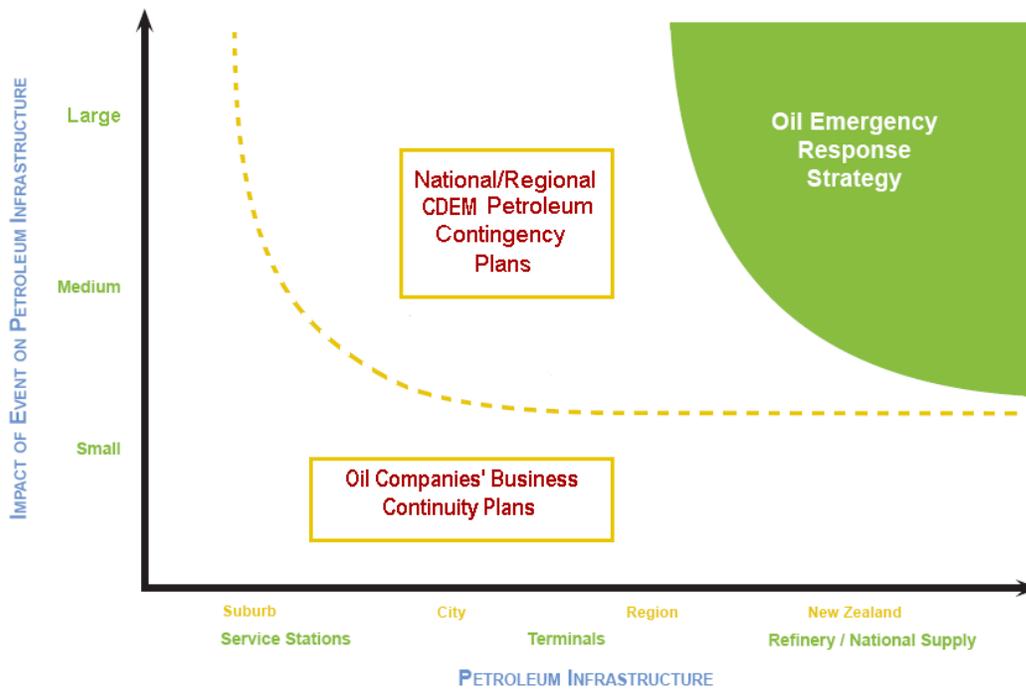
### **Non-IEA declared emergencies**

- 2.4 For non-IEA declared emergencies, an event's impact on oil infrastructure dictates the need for government response. Generally speaking, this would be for an event that significantly impacts on national supply, and when an industry response alone is likely to be insufficient.
- 2.5 The Strategy partly overlaps with oil companies' contingency plans and response arrangements in Civil Defence Emergency Management (CDEM) plans<sup>6</sup>, which could be activated at a national, regional or local level depending on the nature of the event. Figure 1 below broadly illustrates the various response arrangements for the oil sector and government in a non-IEA declared oil emergency (this illustration is not prescriptive).

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<sup>6</sup> Such as those detailed for *Lifelines* and *Cluster* arrangements in sections 33-39 of the National CDEM Plan Order 2005 available at:  
[http://www.civildefence.govt.nz/memwebsite.nsf/Files/National%20CDEM%20Plan%202005/\\$file/NatCDEMPlanOrder\\_43191.pdf](http://www.civildefence.govt.nz/memwebsite.nsf/Files/National%20CDEM%20Plan%202005/$file/NatCDEMPlanOrder_43191.pdf).

**Figure 1: Response arrangements for the oil sector in non-IEA event <sup>7</sup>**



- 2.6 While oil companies have sole responsibility for response in certain localised or minor disruptions, they will remain significantly involved when a government response is required.
- 2.7 The Strategy's focus on national oil supply dovetails with the National CDEM Petroleum Contingency Plan (under development), which, when completed, is expected to outline and integrate oil companies' contingency plans and set out a framework for how these plans would be supported by the CDEM sector in a civil defence emergency that materially impacts on regional oil distribution.
- 2.8 Some local and regional authorities are also developing CDEM petroleum contingency plans. The government expects that these plans will be able to be effectively integrated with, and support, the National CDEM Petroleum Contingency Plan and this Strategy as necessary.

### 3. Legislative powers

- 3.1 The two key pieces of legislation that currently provide government with emergency powers in the event of an oil supply disruption are the International Energy Agreement Act 1976 and the Petroleum Demand Restraint Act 1981.

<sup>7</sup> National/Regional CDEM Petroleum Contingency Plans are only applicable for CDEM events.

- 3.2 The International Energy Agreement Act 1976 provides for maintaining a minimal level of reserve oil supplies. It does this by providing for the making of emergency regulations and Ministerial directions to control the production, acquisition, distribution, supply, or use of petroleum. Such measures can only be taken after the Governor-General has considered New Zealand's IEA obligations require the taking of emergency measures and issued a proclamation of an oil emergency accordingly.
- 3.3 The Petroleum Demand Restraint Act 1981 authorises regulation-making for the purpose of restraining demand, reducing consumption, or ensuring the equitable distribution of processed petroleum products in New Zealand. Under this Act, the government may make these regulations if petroleum products are or are likely to be in short supply in New Zealand.
- 3.4 With regard to petroleum production, there are also powers under the Crown Minerals Act 1991 to direct a permit holder to refine or process petroleum in New Zealand, and to prohibit its export.
- 3.5 The Civil Defence Emergency Management Act 2002 provides a range of specific powers to authorised officers in a civil defence emergency. Some of these powers, such as the power to conserve essential supplies and regulate traffic, could assist in dealing with certain types of oil supply disruptions.

## Part 2 – Roles and responsibilities

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### 4. Introduction

- 4.1 This part outlines the roles and responsibilities for the initial decision on whether government involvement is necessary, subsequent decisions on the emergency measures for implementation, and the appropriateness of an ongoing response. The key entities are:

- **Ministry of Economic Development (MED)**

MED would be the lead government agency in the event of an oil supply disruption. MED's key functions would be to convene and lead NESO (see below), liaise with the IEA (if necessary), consult with relevant government departments, collect information from industry, provide advice to the Minister of Energy, and where necessary coordinate the implementation of response measures.

- **National Emergency Sharing Organisation (NESO)**

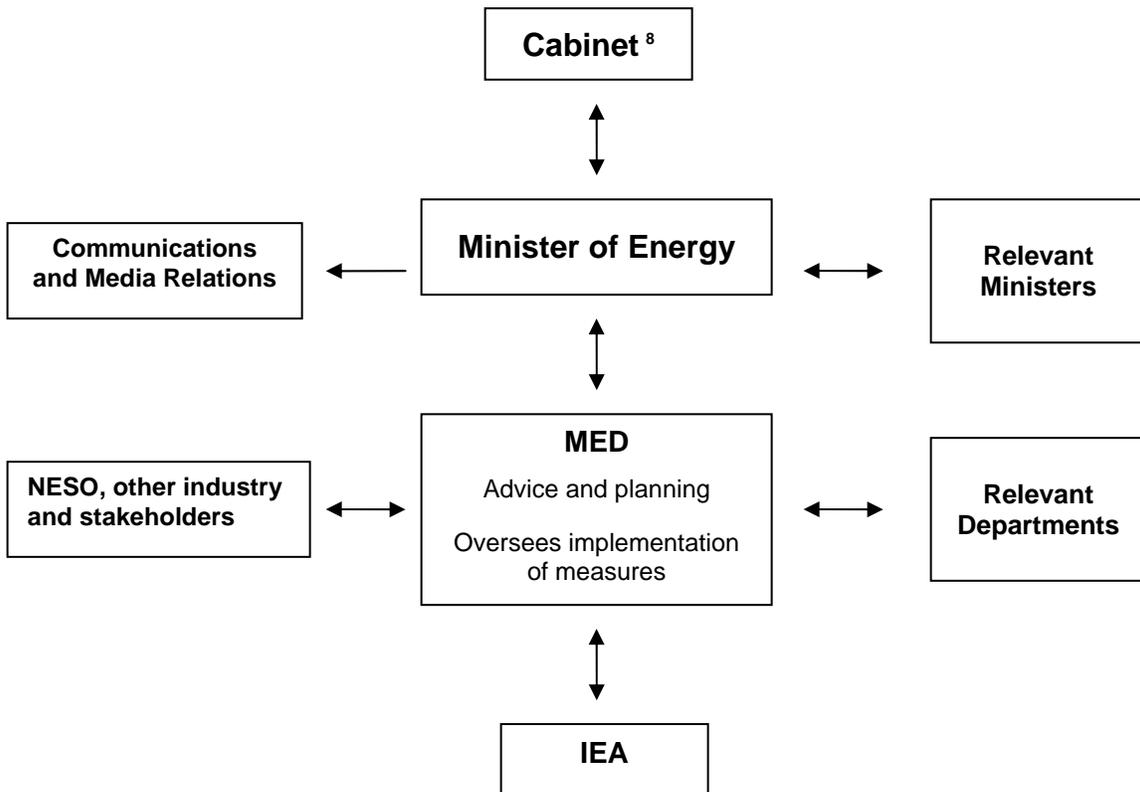
NESO is an existing committee of oil company representatives chaired by MED. NESO would be vital for providing essential information for, and assisting with, a government response to an oil supply disruption.

- **Minister of Energy**

The Minister of Energy possesses statutory powers for making decisions on a government response to an oil supply disruption. The Minister of Energy also has a responsibility to consult with ministers and seek any necessary decisions from Cabinet.

Figure 2 below summarises the overall framework for response.

**Figure 2: Overall framework for response**



## **5. Initial decision on government involvement**

- 5.1 If the IEA declared an oil emergency, this would be sufficient to invoke a government response. In this situation MED would liaise with the IEA throughout the declared emergency.<sup>9</sup>
- 5.2 In the event of a non-IEA declared emergency, depending on the nature and scale of the supply disruption, the oil companies have the initial response role. MED would convene and work with the NESO to help determine whether government involvement is necessary.
- 5.3 MED may also consult with other industry organisations and stakeholders as necessary.

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<sup>8</sup> In the event of a severe petroleum supply disruption it is likely to be the Cabinet Committee on Domestic and External Security Coordination (DESC).

<sup>9</sup> The IEA and its member countries have an ongoing responsibility to exchange information in the event of an emergency. The IEA provides information on the nature of the disruption to member countries and involves them in the decision making on the declaration, and member countries have a reporting obligation.

- 5.4 MED would consult with senior officials from other government departments in deciding whether government involvement is required. As noted in Figure 3 below, if cohesive inter-departmental coordination is required, MED may set up a Senior Officials Coordination Team.
- 5.5 Based on these consultations, MED would make recommendations to the Minister of Energy about whether government involvement is necessary. Ultimately, it is the Minister, in consultation with Ministerial colleagues as necessary, who has the responsibility for making decisions on the government's response.

## **6. Subsequent decisions on oil emergency measures**

- 6.1 Where the Minister of Energy considers that a government response is necessary in addition to a response from industry, MED would oversee its implementation, with support from NESO and relevant government departments. Specifically, MED would:
- continue to convene and chair NESO, which would have the lead role in providing essential information for developing and coordinating an appropriate response to an oil supply disruption;
  - decide whether officials and communications teams need to be set up and confirm the roles and responsibilities of each team;
  - provide advice to the Minister of Energy on measures to be implemented;
  - if necessary, take the necessary steps to implement response measures;
  - continue to consult with relevant industry, stakeholders, government departments and the IEA where necessary, and;
  - coordinate the collection of information from NESO and government officials on the ongoing supply situation.

## **7. Appropriateness of ongoing response**

- 7.1 MED would review on an ongoing basis the appropriateness of any measure(s) implemented as part of the oil emergency response, and advise the Minister of Energy accordingly. A measure would only remain in place in order to fulfil New Zealand's obligations to the IEA or if oil products are, or are likely to be, in continuing short supply in New Zealand.
- 7.2 Once the Minister decides that a measure is no longer necessary, the Minister would then take necessary steps for deactivation. In summary, measures contained in the Strategy may be activated (and deactivated) using the process set out in Figure 3 below.

**Figure 3: Strategy activation and measure implementation**

	<b>Roles and responsibilities</b>	<b>Information from industry</b>	<b>Oil emergency response measures</b>	<b>Communications with public and stakeholders</b>
<b>Initial Decision</b>	MED consults with industry and government departments to assess need for government response. Advice is given to the Minister of Energy who decides in consultation with Ministerial colleagues.	Industry provides information to MED on size of disruption/supply situation and possibility of industry response/need for government intervention.		
<b>First Steps</b>	MED convenes NESO, which takes the lead in providing essential information for managing the response. MED also consults relevant government departments before liaising with the Minister. If cohesive inter-departmental coordination is required, MED may set up a Senior Officials Coordination Team.  The Minister of Energy, in consultation with Ministerial colleagues, makes any necessary decisions (e.g. use of regulatory powers).	Information collection from industry (particularly through NESO) to determine appropriate response.	Analyse full range of response options. Begin implementation of measures.	Communications plan developed to support emergency response. Timely and accurate information conveyed to public.
<b>Next Steps</b>	MED, in consultation with relevant industry (particularly NESO) and government departments, reviews on an ongoing basis the appropriateness of any measure(s) implemented as part of the emergency response. MED keeps Minister of Energy informed.	Ongoing information collection from industry to assess appropriateness of response and ongoing need for response.	Measures adjusted in light of information collection and the changing situation.	Communications plan reviewed for appropriateness on an ongoing basis. Timely and accurate information conveyed to public throughout the emergency response.
<b>Deactivation</b>	The Minister of Energy, in consultation with Ministerial colleagues, decides when the measures in the Strategy are no longer necessary, based on advice from MED in consultation with relevant industry and government departments.	Ongoing information collection from industry to assess appropriateness of response and ongoing need for response.	Measures deactivated.	Minister of Energy to communicate the deactivation of the emergency response measures.

## **Communications team**

- 7.3 Communications during the event of a supply disruption would be primarily led by the Minister of Energy's office.
- 7.4 A communications team (if convened) would comprise communications officials from the Minister of Energy's office, MED and other government departments, as appropriate.
- 7.5 The key function of the communications team would be to develop and implement a communications strategy to support the agreed plan of action, particularly for measures where public understanding and voluntary action is important.
- 7.6 Part 4 sets out high level objectives for communications in the event of an oil supply disruption. Given the need for a high degree of flexibility to respond to specific scenarios, the communication details will also necessarily remain relatively high-level.

## Part 3 – Oil emergency response measures

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### 8. Introduction

- 8.1 This part sets out the oil emergency response measures that are available to respond to an oil supply disruption. It is important to note that the measures would not be activated where the primary purpose is price management or to assist any particular supplier.
- 8.2 The government's view is that the primary responsibility lies with industry to respond; however, if on the basis of industry and interdepartmental consultation, a need for government intervention is required this would be commensurate with the scale of the disruption.
- 8.3 The Strategy does not provide strict rules prescribing the measures that will be implemented in response to specific situations. Rather, it outlines the range of measures that will be available to respond to an oil supply disruption.
- 8.4 The potential response measures are not mutually exclusive and may be implemented in conjunction with each other where appropriate.
- 8.5 The Strategy provides a high level overview of the measures that will be further developed by MED as part of an ongoing work programme. It is the intent that the measures will be developed to the point where they can be used in a sufficiently timely manner, while still flexible enough to be useful in varying situations.
- 8.6 Some possible design features, including a cost benefit analysis of these measures, are set out in the Covec and Hale & Twomey report prepared for MED in June 2005 entitled *Oil Demand Restraint Options for New Zealand*.<sup>10</sup>
- 8.7 In principle, there are two broad categories of measures available for the government to respond to an oil supply disruption: measures to improve supply and measures to restrain demand. Figure 4 below illustrates the range of potential measures, which will be further developed to provide guidance on their implementation, including drafting regulations where necessary.

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<sup>10</sup> This report can be found at <http://www.med.govt.nz/upload/26394/report.pdf>.

**Figure 4: Summary of potential oil emergency response measures**

**Measures to improve supply**

Drawdown of Stocks	Surge Production	Specification Relaxation
Stocks from New Zealand's petroleum reserve offered to the market.	New Zealand's domestic production increased.	Petroleum Products Specification Regulations 2002 relaxed to improve the supply of petroleum products.

**Measures to restrain demand**

Voluntary Demand Restraint	Mandatory Demand Restraint	Fuel Switching
Appeals made to public, via a public information campaign targeting voluntary savings, to reduce demand.	Government compulsion used to restrain demand, to prevent hoarding, or to distribute a limited amount of petroleum.	Petroleum substituted with alternative fuels where possible.

**9. Measures to improve supply**

**Drawdown of stocks**

- 9.1 As discussed in paragraphs 1.11 to 1.13, oil stocks held within New Zealand are owned by the oil industry, and, in order to fulfil New Zealand's IEA 90 day obligation, the government holds contracts for reserve stocks off-shore.
- 9.2 In the event of a non-IEA declared oil emergency the government could work with oil companies, through NESO, to monitor the drawing down of commercial stocks within New Zealand. While the government could use legislative powers to compel oil companies to draw on their stocks, it is expected that oil companies would do this without government compulsion.
- 9.3 In the event of an IEA declared emergency, in addition to a commercial stock drawdown, the government may be required to release its reserve stock onto the international market as part of a concerted IEA response to improve global supply.

## **Relaxation of fuel specifications**

- 9.4 In an oil supply disruption, New Zealand could respond by relaxing specific parameters within the Engine Fuel Specification Regulations 2008. The relaxation of specifications has the potential to improve the availability of oil supplies by increasing the likelihood of oil from offshore being acceptable for sale in New Zealand, or to provide greater scope to alter the composition of refined product produced from the New Zealand refinery.
- 9.5 Options to relax fuel specifications would be investigated at the time of an oil supply disruption. MED in consultation with industry and relevant government departments would identify what specification, if any, may be restricting the supply of products to New Zealand. Once specifications have been identified, MED, in consultation with industry and relevant government departments, in particular the Ministry of Health, the Ministry for the Environment and the Ministry of Transport, would ascertain the likely effects (both positive, in terms of increased supply, and adverse, in terms of environmental, health, safety, and operational effects) of relaxing the relevant regulations and provide advice to the Minister of Energy on whether the relaxation of those parameters is appropriate.

## **Surge production**

- 9.6 In an oil supply disruption, there could be some scope for increasing domestic oil production, reserving production and in extreme circumstances increasing the supply of domestically produced oil to the New Zealand refinery.
- 9.7 Options to 'surge production' would be investigated at the time of an oil supply disruption in consultation with the oil production industry. Full consideration would be given to the physical, financial and contractual implications of this measure. A voluntary market response would be preferred.

## **10. Measures to restrain demand**

- 10.1 The government could implement measures to restrain demand in response to an oil supply disruption. Note that the some reduction in demand is likely to occur in a fuel supply disruption due to high fuel prices.
- 10.2 It is intended that measures that encourage voluntary restraint are introduced initially, moving to mandatory requirements only if the severity of the situation required it. The main exception to this is that an immediate requirement for quantity rationing scheme could be considered if there was a risk of panic buying causing a supply disruption to escalate into severe physical shortages.

## **Voluntary demand restraint**

### **Information campaign**

- 10.3 In an oil supply disruption, the government could respond by introducing an information campaign targeting voluntary savings to reduce demand.

- 10.4 The Energy Efficiency and Conservation Authority (EECA) would most likely be the government agency responsible for delivering the communications campaign to encourage the public to undertake a number of measures to restrain demand, including changes to driving behaviour, fuel substitution and shifting modes. More specifically the campaign is likely to focus on proven common themes such as reducing speeding on the open road, carpooling, telecommuting, ensuring correct tyre pressure, compressed/flexible work week, dropping unnecessary trips, and encouragement to walk, cycle, use public transport and more fuel efficient cars. EECA has already undertaken some planning on this campaign.<sup>11</sup>
- 10.5 In the event of an oil supply disruption it is likely that the price of oil would be relatively high and consumers would be seeking ways of reducing their oil consumption regardless of government action.

### **Fuel switching**

- 10.6 Theoretically, an additional measure to restrain demand voluntarily is fuel switching. Fuel switching refers to the capability to switch from oil to an alternative fuel within a short time frame. Examples of fuel switching include switching a dual fired power station to run on its non-oil fuel source (not currently an option in New Zealand), and partially replacing conventional fuels, such as petrol and diesel, with biofuels.
- 10.7 Currently the potential for fuel switching in New Zealand is minimal, so it remains a voluntary measure. If, for example, biofuel products and flexi-fuel vehicles become more widespread, its usefulness may increase and there could be scope in the future to introduce some type of fuel switching as a mandatory measure. Options for fuel switching would be investigated at the time of an oil supply disruption.

### **Mandatory demand restraint**

- 10.8 If it were necessary to move into a mandatory phase of demand restraint, government compulsion could be used to restrain oil demand. As discussed in part 1, legislative powers to restrain demand are available under the Petroleum Demand Restraint Act 1981 and the International Energy Agreement Act 1976.<sup>12</sup>
- 10.9 If the decision were made to implement any mandatory measures, these would most likely be in the form of rationing – either by quantity, or in extreme circumstances, by allocation. Although unlikely, the government could also respond by reducing the speed limit on the open road.

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<sup>11</sup> For the government's longer term sustainable transport objectives see the forthcoming updated New Zealand Transport Strategy, which is available at <http://www.mot.govt.nz/update-of-the-new-zealand-transport-strategy-2/>.

<sup>12</sup> The government recognises that mandatory demand restraint options are complex and there are many details that will need to be thoroughly worked through. This work will be undertaken as part of the ongoing work programme.

### **Speed limit reduction**

10.10 In the event of an oil supply disruption, the government could respond by reducing the speed limit on the open road to reduce demand for oil. The rationale for reducing the open road speed limit is that vehicles are more fuel efficient at speeds lower than 100km/h (by about 11 percent for 90km/h). Because this measure involves relatively high administration costs compared to the expected benefits, it is likely that the government would only encourage a reduction of speed on the open road via the voluntary information campaign. The government would, however, consider this as a mandatory measure, if the situation warranted it.

### **Quantity rationing**

10.11 In the event of an oil supply disruption, the government could respond by restricting the quantity of oil that can be purchased at any one time. This section outlines the broad framework for a quantity rationing scheme and will be further developed.

#### **Description**

10.12 Quantity rationing restricts all individual sales of oil to a specific or restricted amount. This restriction can be measured by either; quantity (e.g. 25 litres) or price (e.g. \$25) and could be restricted in the form of a maximum amount (e.g. no more than \$25 or 25 litres) or a specific amount (e.g. exactly \$25 or 25 litres).

10.13 Depending on the size and type of the oil supply disruption, the government could set the quantity or price as well as the type of restriction. As the situation changes, the government could adjust these restrictions.

#### **Purpose**

10.14 The purpose of quantity rationing is to reduce the demand for oil and discourage hoarding behaviour. This would help to prevent a supply disruption from escalating into physical shortages. It may also ensure a more equitable fuel supply to consumers.

10.15 A quantity rationing scheme would almost certainly be introduced as an interim measure if the government planned to implement an allocation rationing scheme. An allocation rationing scheme would need to be advertised in advance and would take time to roll-out, necessitating the immediate introduction of a quantity rationing scheme to prevent customers from hoarding petrol.

#### **Further implementation details**

10.16 A quantity rationing scheme would need to be implemented very rapidly with little or no advanced warning to the public because advance notice would create incentives for customers to fill-up quickly and hoard oil before the scheme entered into force.

- 10.17 A rationing scheme would likely include a complete ban on sales of oil in containers. This would prevent customers filling up containers and then using that fuel to top up their vehicle tanks. It would also help to minimise hazards arising from oil being stored in unsuitable containers.
- 10.18 To ensure that essential social services could continue to function, it might be necessary to implement a priority users' mechanism as part of the quantity rationing scheme. This is likely to be in the form of exemptions.

### **Allocation rationing**

- 10.19 In extreme circumstances the government could introduce an allocation rationing scheme in response to a prolonged oil supply disruption. An allocation rationing scheme restricts both the amount of fuel that can be purchased, and the frequency of purchase. The information here provides the broad framework for an allocation rationing scheme, which will be further developed.

#### **Description**

- 10.20 An allocation rationing scheme would restrict both the amount and frequency of oil purchases. This type of rationing scheme would probably require the government to allocate coupons to oil users. Each coupon would enable the recipient to purchase a specified amount of fuel over a specified period of time, such as 25 litres of oil per week.
- 10.21 Generally, allocation rationing has a much greater ability to reduce oil demand than quantity rationing. Benefits would be limited by the time taken to implement the scheme and the costs involved in its implementation.

#### **Purpose**

- 10.22 The purpose of an allocation rationing scheme would be to prevent oil products from running out and/or to distribute a limited supply of oil. Allocation rationing would only be considered if; there was a real threat of widespread and prolonged physical shortages; other measures, including price increases, were socially or economically untenable; and quantity rationing was considered insufficient to manage this threat.

#### **Further implementation details**

- 10.23 For allocation rationing, the government would need to restrict the frequency with which individuals purchased oil probably through a fuel coupon scheme. Possible tools to identify users include the electoral roll, the motor vehicle registration list, or the postal addresses of each household.
- 10.24 A decision would have to be made on whether homogenous coupons or person-specific coupons would be used. Person-specific coupons would reduce the risk of theft whereas homogenous coupons would be cheaper and allow trading.

- 10.25 Tradable coupons would allow those who value oil highly the ability to purchase coupons from those who place a higher value on money. This would ensure a more efficient use of oil and minimise the economic and social impacts of an allocation rationing scheme.
- 10.26 To ensure that essential social services are able to continue, it is likely that a priority users' mechanism would accompany the allocation rationing scheme. This is likely to be in the form of extra coupons, exemptions or both.

**Comment**

- 10.27 As stated above, rationing would only be considered where there is a real threat of widespread and sustained physical shortages and all other approaches are considered insufficient to manage this threat.
- 10.28 There would be significant administrative costs associated with setting up and running an allocation rationing scheme. For example, administrative costs could include coupon printing, distribution publicity and information provision, as well as costs of increased petrol station security. There may also be an economic cost to consumers who would otherwise choose to consume more oil than their allocation. This cost would be much higher if the rations could not be traded.
- 10.29 The development of an allocation rationing scheme is a significant undertaking. MED will continue work on this measure in the ongoing work programme.

## **Part 4 – Communications during a supply disruption**

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### **11. Introduction**

- 11.1 This part outlines the high-level objectives and broad approach to communications in the event of an oil supply disruption.
- 11.2 Regardless of the response, timely and accurate communication will be important throughout the disruption to ensure that all stakeholders have accurate information on the situation and understand what the government and industry is doing to manage it. However, measures focusing on restraining demand will necessarily require more intensive communication to the public as this will require behavioural change to be successful.
- 11.3 Accordingly, this part differentiates between communications when demand restraint options are and are not part of the oil emergency response.

### **12. Oil emergency response including demand restraint measures**

#### **Voluntary demand restraint measures**

- 12.1 The communications objectives during implementation of voluntary reduction measures would be:
- to encourage oil users to make voluntary savings; and
  - to discourage panic buying or hoarding and to reassure the public that there is a plan in place to manage the situation.
- 12.2 To achieve these objectives, the overall approach is likely to include:
- running an integrated advertising and public relations campaign to encourage the public to reduce their fuel consumption, and give them specific information on how to do this. EECA would most likely be the government agency responsible for delivering this campaign;
  - identifying key spokespeople, and working closely with media, oil companies, local authorities to make sure that information flows are accurate and consistent;
  - building awareness and understanding of the oil supply disruption response strategy, especially the likely government responses if the situation should worsen; and
  - giving timely updates on the situation, and as early a warning as possible of any need to move to mandatory measures.

## **Mandatory demand restraint measures**

12.3 The communications objectives during the implementation of mandatory measures would be:

- to continue to encourage oil users to reduce fuel consumption as far as possible;
- to build awareness and understanding of the measures taken by the government to restrain fuel demand; and
- to reassure the public that there is a plan to manage the situation in place, and to minimise public concerns.

12.4 To achieve these objectives, the overall approach is likely to include:

- explaining the rationale for the move to mandatory measures, and giving clear information on the implications for the public;
- undertaking specific public information “drives” on each new measure, to ensure that the public are fully informed on what it involves, and what it requires from them;
- continuing communications on ways to save fuel and reduce car use;
- continuing to provide the media with accurate, up-to-date information on the situation via specific spokespeople; and
- continuing to work closely with key stakeholders, including local authorities, to ensure accurate and coordinated information flows to the public.

## **13. Oil emergency response not including demand restraint measures**

13.1 Where no demand restraint measures are required, the communications objectives during the oil emergency response would be to:

- build an accurate understanding about the size and nature of the oil supply disruption, its likely implications, and the government’s response to it; and
- discourage panic buying or hoarding and to reassure the public that there is a plan in place to manage the situation.

13.2 To achieve these objectives, the overall approach would be to provide timely, accurate information to the media, local authorities, industry, and other key stakeholders about the situation, any changes, and the government’s response.

## Acronyms

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<b>CDEM</b>	Civil Defence Emergency Management
<b>DESC</b>	Domestic and External Security Co-ordination
<b>EECA</b>	Energy Efficiency and Conservation Authority
<b>IEA</b>	International Energy Agency
<b>IEP</b>	International Energy Program
<b>MCDEM</b>	Ministry of Civil Defence & Emergency Management
<b>MED</b>	Ministry of Economic Development
<b>NESO</b>	National Emergency Sharing Organisation