Review of NZ's oil security

AA submission

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NEW ZEALAND

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Dear Sir/Madam

REVIEW OF NEW ZEALAND'S OIL SECURITY

Introduction

The New Zealand Automobile Association (NZAA) welcomes the opportunity to provide comment on the oil security discussion paper.

The NZAA is an incorporated society with 1.35 million Members. It represents the interests of road users who collectively pay over $2 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. The NZAA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable, and enhancing the safety of all road users.

As our interest is primarily in the cost of and retail supply of fuel, we are not sufficiently qualified to comment on some of the infrastructure issues raised in the discussion document. However comments on the relevant questions for which we have feedback are provided below:

International oil security

Q3. Do you agree with the selection criteria used for the international oil security analysis?
The NZAA supports the five criteria, especially low cost; low avoidance; and future-proof. We also agree with the 'equity' criteria, but note that all New Zealanders, not just motor vehicle owners or drivers, benefit from the economic activity and provision of goods and services that oil security provides.

Q4. Do you agree that New Zealand should maintain its membership of the IEA and continue to meet IEA obligations?
The NZAA supports NZ remaining a member of the IEA and fully complying with the obligations that entails.

Q5. Do you agree that New Zealand should continue to meet its IEA stockholding obligations through ticket contracts rather than purchasing domestic stockholding?
The NZAA agrees that ticket contracts are the most cost-effective and practical means by which NZ can meet its stockholding obligations in the short- to medium-term. This is sufficiently flexible to allow for future changes in domestic oil production volumes and domestic storage infrastructure without committing to the more expensive option of minimum domestic stockholding levels and infrastructure which is subject to change.

That said, the NZAA is concerned that domestic storage capacity in NZ has declined in recent years, with the closure of terminals in Taranaki and Timaru (the latter since reopened). We consider there is a role for government to review long-term domestic capacity and, if necessary, to intervene to ensure its continued availability. Where underutilised storage is available and it is more cost effective than building new infrastructure, then the government should require this to be utilised for stockholding as part of NZ's IEA obligations.

Q6. Do you agree that the government should continue to procure ticket contracts rather than placing a mandate on industry?
Overall, we consider it will be more cost effective for the government to continue to purchase ticket contracts rather than impose a mandate on industry, although this should be periodically reviewed if domestic oil production volumes and storage infrastructure improve to the point that the balance of IEA stockholding requirements could be met from mandating additional domestic stockholdings instead of ticket contracts.

Q7. Do you agree that it is more equitable to recover ticket contract costs via a levy on fuel than from general taxation? Are there any other matters that the government should consider?
While we agree that fuel consumers are direct beneficiaries of oil security, all New Zealanders benefit from the economic activity and provision of goods and services that oil security provides. This is especially true in an energy crisis when fuel is likely to be restricted to essential services and not the primary funders of the oil security (ticket contracts) – fuel consumers (motor vehicle owners and drivers).

While the proposed increase in the Petroleum and Engine Fuel Monitoring Levy is modest, the NZAA considers there is a strong rationale for ticket contracts to be funded from general taxation. This is currently the case, and a change in the funding regime to a 'user pays' regime is only being considered because of estimated increases in ticket contract costs. We note that that the current $3m appropriation from Vote Energy to cover the costs of NZ's IEA obligations has not kept pace with rising commodity prices which should be factored into the budgeted appropriation.

Further, the discussion document notes that the increased levy will not be applied to jet fuel, fuel oil, and other petroleum products due to practical difficulties. If the ticket contracts are fully funded from the PEFML in future, this will lead to a cost transference from all beneficiaries to only some direct beneficiaries, and excluding other large fuel users such as the aviation sector (and passengers), which the NZAA considers to be more iniquitous than the current funding arrangement.

The NZAA proposes that ticket contracts continue to be funded from general taxation as this captures all forms of petroleum, and has a broader funding base with lower risks and volatility. But in a form of user pays, they could instead be funded from the GST revenue from fuel excise. As this is a tax on a tax, the NZAA has long argued that it should be waived, or alternatively, hypothecated into the National Land Transport Fund to benefit those road users who fund it. To apportion some of the fuel tax GST revenue to fund oil security ticket contracts would go some way towards hypothecating these funds for the direct benefit of users.

Q8. Do you agree that the PEFML is the most appropriate levy by which to recover ticket contract costs and that it should only cover petrol, diesel, ethanol, and biodiesel?
As detailed above, the NZAA believes it would be more equitable to fund ticket contract costs from general taxation or the GST from fuel excise. But as a secondary option, we accept that PEFML is the next most appropriate mechanism, and that this can only be practically applied to petrol, diesel and biofuels.

Q9. Do you agree that it is best to smooth the levy rate over three years? How much lead time is required for companies to prepare for a change in the rate?

The NZAA supports smoothing the levy over at least three years if not longer, and that an increase in the PEFML should be aligned with scheduled adjustments in fuel excise.

Q31. How viable is it to use the abovementioned trucks, are there any other trucks in New Zealand that have not been considered above, and are there any regulatory barriers to unconventional trucks being utilised in an emergency?
We don't feel sufficiently qualified to comment on the various domestic supply disruption events modelled, but in the event of an emergency response, the NZAA would support the options put forward to improve supply, including (temporarily) relaxing weight restrictions, accessing unconventional trucks and offshore trucks and drivers, and assessing and pre-approving HPMV routes.

<u>Domestic oil security</u>

Q37. Should drivers without approved handler certification still be utilised in an emergency if they are not required to physically load/unload fuel?
Q38. Should driver time restrictions be relaxed in an emergency?
The NZAA supports further investigation into these options, and assurances that temporarily relaxing these requirements in an emergency will be properly managed and will not increase risks to other road users.

Q41. Do you agree that a government campaign to encourage voluntary demand restraint in a short term disruption will be effective at minimising a short term supply shortfall?
The NZAA would support a campaign to temporarily reduce voluntary consumption although we cannot say how effective it would be. Incentives to reduce consumption should also be considered, such as promoting flexibility around working hours and telecommuting, providing free public transport to increase uptake and reduce private motor vehicle travel, and considering declaring statutory holidays to reduce travel.

Q44. Do you agree that building the RAP-WAP bypass is a reasonable 'insurance premium' to pay to avoid disruption of jet supply to Auckland Airport? Which party is best placed to cover these costs?
The NZAA considers there is merit in building a RAP-WAP bypass, but as this doesn't benefit motorists or other road users we do not consider that it should be funded from the PEFML, but could instead be primarily funded by the airline industry and Auckland Airport.

Q47. Do you agree that the construction of domestic stockholding is not an economic solution to improving domestic oil security? If you disagree, please state why?
Ultimately, in the event of an international oil supply disruption, NZ's oil security will be better served by on-shore storage than ticket contracts held for stocks overseas, or stocks in transit, both of which have the risk of being diverted despite any IEA obligations on the host country or carrier. While we concede construction of domestic stockholding may not be economic, as outlined in our response to Q5, we consider more could be done to utilise existing surplus storage infrastructure to improve domestic oil security. We also think it would be useful to indentify the barriers to building infrastructure and the reasons for increased construction costs to determine whether regulatory intervention is needed to reduce these barriers or costs in the wider economic interests of NZ.

Yours sincerely

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