



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Title of briefing	Fuel Resilience Policy Package	Date to be published	10 November 2023

List of documents that have been proactively released

Date	Title	Author
October 2022	Fuel Resilience Policy Package	Office of the Minister of Energy and Resources
October 2022	Regulatory Impact Statement: Fuel resilience policy package	MBIE
19 October 2022	Fuel Resilience Policy Package DEV-22-MIN-0243 Minute	Cabinet Office

Information redacted

YES / NO

Any information redacted in this document is redacted in accordance with MBIE's and MFAT's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of national security or defence, commercial position, constitutional conventions, and negotiations.

Restricted

Office of the Minister of Energy and Resources

Cabinet Economic Development Committee

Fuel resilience policy package

Proposal

- 1 This paper seeks agreement to the final high-level design of a proposed fuel resilience policy package to enhance New Zealand’s economic security, following public consultation, which includes:
 - 1.1 improving fuel resilience monitoring;
 - 1.2 dedicating additional resources to update and implement the National Fuel Plan;
 - 1.3 amending the statutory purpose of the petroleum or engine fuel monitoring levy to fund onshore fuel resilience initiatives;
 - 1.4 streamlining the decision-making process for the release of reserve oil stocks;
 - 1.5 government procurement of reserve fuel stocks; and
 - 1.6 introducing a minimum onshore fuel stockholding obligation on fuel importers/wholesalers.

Relation to government priorities

- 2 Reliable and resilient fuel supplies and transport systems are essential enablers for a productive, sustainable and inclusive economy, a central objective of the Government’s Economic Plan.
- 3 Fuel resilience is essential to maintaining the wellbeing of New Zealanders, as it enables us to connect with each other and the rest of the world. Freight operation, public transport services, emergency services, and building and construction activities are dependent on fuel supplies.

Executive Summary

- 4 A review of New Zealand’s fuel resilience policy was instigated by Refining NZ’s strategic review, which started in 2020 and culminated in the closure of the Marsden Point oil refinery (the Refinery). In September 2021, Cabinet noted the review’s finding that closure of the refinery is expected to have little impact on fuel supply resilience and that there was not a strong case to keep the Refinery on fuel security grounds. In fact, advice from MBIE officials, fuel

companies, and independent experts have concluded that the Refinery's closure actually improves New Zealand's fuel supply resilience in some respects¹.

- 5 Since the review, a public consultation on onshore fuel stockholding options was held earlier this year. When finalising the design of the fuel resilience package, the following developments were considered:
 - 5.1 The amount of refined fuel products available onshore is estimated to decrease by about 100,000 tonnes (equivalent to five days of fuel consumption) after the Refinery's closure, taking into account the feedstock that used to be held and processed at the Refinery.
 - 5.2 The COVID-19 pandemic and the Russia-Ukraine war highlight the risk of international supply chain issues and the flow-on impacts on business certainty and economic stability, even though international fuel tankers continue to deliver fuels to New Zealand reliably.
 - 5.3 Demand for petrol and diesel is peaking and starting to decline, thereby limiting incentives to invest in fuel infrastructure.
- 6 Despite New Zealand's clean energy transition, fuel supply resilience remains critical to business operations across the economy and social connections. Contingency arrangements need to be in place to adequately manage fuel supply risks and price hikes, which may result from uncertainties in international oil and fuel markets, natural disasters or infrastructure failures.
- 7 Earlier this year, the Ministry of Business, Innovation and Employment (MBIE) consulted on a range of policy options including:
 - 7.1 a proposal to introduce a minimum onshore fuel stockholding level similar to that proposed in Australia, i.e. 28 days' cover for diesel and 24 days' cover for petrol and jet fuel (in terms of daily consumption of these fuels); and
 - 7.2 options for achieving a target level of onshore fuel stocks, including a minimum onshore fuel stockholding obligation on fuel wholesalers, procurement of tickets for onshore fuel stocks, and establishing a stockholding agency for administering the obligation.
- 8 Following the consultation, I propose a package of measures that will improve New Zealand's fuel supply resilience and economic security by enabling us to take an adaptive approach to adopting fuel resilience measures over time and ensuring adequate onshore fuel stocks. This package comprises:
 - 8.1 Better monitoring and information collection to provide clear government oversight over fuel stocks and potential vulnerabilities in the fuel supply chains for New Zealand at a granular level.

¹ For example, it removes the "single point of failure" risk associated with an outage of the Refinery and fuel companies deliver fuels to New Zealand in more frequent shipments from more diverse sources.

- 8.2 Dedicating additional resources to update and implement the National Fuel Plan, which provides the framework for fuel emergency planning and response.
 - 8.3 Amending the statutory purpose of the petroleum or engine fuel monitoring levy (the levy) to enable the levy to recover the costs of promoting onshore fuel resilience.
 - 8.4 Streamlining the Government's decision-making process for the release of reserve oil stocks held under oil tickets in light of the speed of the International Energy Agency's (IEA) collective actions this year.
 - 8.5 Government procurement of reserve fuel stocks, with an initial aim to increase onshore diesel stocks by at least 70 million litres (roughly seven days of cover) to achieve 28 days' cover for diesel. The procurement would involve the Government entering into a long-term lease agreement for new diesel storage capacity and owning or tendering periodically for onshore reserve stock contracts. This could be funded through the levy at its current rate, and therefore would not cause an increase in the price of petrol and diesel at the pump.
 - 8.6 Requiring fuel importers/wholesalers with bulk storage facilities to hold stocks of diesel, petrol and jet fuel at levels based on the expected national average commercial stockholding level after the Refinery's closure, in terms of days' cover. The minimum stockholding level for fuel importers/wholesalers — 28 days' cover for petrol, 24 days' cover for jet fuel and 21 days' cover for diesel on a three-month rolling average basis — will be prescribed in primary legislation initially and may be replaced by regulations.²
- 9 Together, the proposed reserve fuel stock arrangement and minimum stockholding obligation on fuel importers/wholesalers will allow us to align closely with the onshore stock level proposed in Australia and ensure we exceed the level of useable diesel held onshore compared to before the Refinery's closure.
- 10 With the proposals in place, our onshore stockholding levels for diesel, petrol and jet fuel would be equivalent to 28, 28 and 24 days of consumption respectively. Before the Refinery's closure, our onshore stockholding levels for diesel, petrol and jet fuel were equivalent to 20, 26 and 17 days of consumption respectively, and the crude oil and intermediate products that used to be held for the Refinery's operation would translate to useable fuel stocks equivalent to an extra five days of consumption. In short, the proposals will raise onshore diesel stocks, and this reflects that diesel is the most important fuel for the operation of critical services, such as emergency services and deliveries of food and essential goods.

² Modelling suggests that the onshore stockholding levels for diesel, jet fuel and petrol would be equivalent to about 21 days, 24 days and 28 days of consumption on average respectively after the closure of the Marsden Point oil refinery. MBIE will need to collect more data from the fuel industry to confirm this.

- 11 The minimum stockholding obligation will ensure that commercial fuel stockholding level would not deteriorate over time, while avoiding potential adverse impacts on compliance costs and market competition that would result from requiring fuel companies to hold significantly more stocks than usual.
- 12 The detailed design of the minimum stockholding obligation will sit in regulations. These regulations will prescribe more specific rules about the interpretation of the minimal stockholding level that fuel importers/wholesalers will have to meet, and the criteria for exemptions. To develop these regulations, officials will request data from the fuel importers/wholesalers to investigate variability in their onshore stock levels within each month, and consider how regulations could be designed to minimise the risks associated with fluctuations in stocks and allow smaller fuel importers/wholesalers to be on an even playing field.
- 13 Early next year, I will report back to Cabinet on the design of the regulations. I will also report back to Cabinet on the financial and contractual options for the reserve fuel stock arrangement, once officials have investigated them further with the relevant parties.

Background

- 14 A review of New Zealand's fuel resilience policy was instigated by Refining NZ's strategic review, which started in 2020 and culminated in the Refinery's closure.

No clear case for retaining the Refinery on fuel security grounds

- 15 As per Cabinet's previous discussions on the Refinery and onshore fuel stockholding last year, the Refinery's closure improves New Zealand's fuel supply resilience in some respects. Industry and independent expert advice is that a 100 per cent fuel import model is more resilient to domestic disruption scenarios than having a domestic refinery, as there is no longer a 'single point of failure risk' associated with refining. Also, fuel companies deliver fuels to New Zealand in more frequent shipments from more diverse sources, and there is more flexibility to redirect international fuel tankers to respond to local fuel disruptions.
- 16 Moreover, retaining the Refinery would not make New Zealand self-sufficient in a closed border event, as the Refinery was configured to refine heavier imported crude oil rather than domestic crude oil from Taranaki, and crude imports had to be delivered here by international tankers. Both before and after the Refinery's closure, our fuel resilience depends on the functioning of international oil and fuel supply chains.
- 17 Advice from Refining NZ indicates that should the refinery be forced to use only Taranaki crude oil to produce refined fuels in a closed border scenario, the Refinery would need to start up and run for very short periods before shutting down again. Its production might only meet 3-5 per cent of normal New Zealand demand for fuels and only 3 per cent for diesel. As refineries are

designed to be continuous operations, the stop-start mode of operation would be highly risky from a safety perspective, and could damage the refinery equipment, and eventually prevent the Refinery from operating. There would also likely be staffing and fuel quality issues in that scenario. Some other inputs essential to the refining process could also be in short supply in a closed border scenario.

- 18 In light of this, Cabinet noted that there was not a strong case to maintain refinery operations on the basis of fuel security alone. Rather, Cabinet agreed that officials investigate the option of increasing minimum levels of fuel stock held in New Zealand. A public consultation on onshore fuel stockholding was subsequently held earlier this year.

Other developments were taken into account in finalising policy package

- 19 Feedback from the public consultation and the following developments were considered in finalising the design of the fuel security policy package discussed in this paper:
- 19.1 The amount of refined fuel products available onshore is estimated to decrease by about 100,000 tonnes (equivalent to five days of our fuel consumption) after the Refinery's closure, taking into account the feedstock that used to be held and processed at the Refinery.
 - 19.2 The COVID-19 pandemic and the Russia-Ukraine war highlight the risk of international supply chain issues and the flow-on impacts on business certainty and economic stability, even though international fuel tankers continue to deliver fuels to New Zealand reliably.
 - 19.3 Demand for petrol and diesel is peaking and starting to decline, thereby limiting incentives to invest in fuel infrastructure.
- 20 Notwithstanding the clean energy transition New Zealand is undergoing, fuel supply resilience remains critical to the national economy. Mineral-based liquid fuels will continue to be an important energy source for transportation in the period to 2040, despite the rise of electric vehicles (EVs). In particular, diesel is the key fuel for heavy vehicles and therefore the operation of critical services, such as emergency services and deliveries of food and essential goods.
- 21 Uncertainties in international oil and fuel markets, geopolitical uncertainties, natural disasters and infrastructure failures could result in fuel price hikes and even fuel shortages in more serious cases. Fuel price hikes would affect business and household costs across the economy, while severe fuel shortages would affect business operations and economic output. Contingency arrangements need to be in place to adequately manage these fuel supply risks.

The Government currently contributes to meeting IEA obligations through procuring oil tickets

- 22 New Zealand is a member of the International Energy Agency, which means New Zealand must hold oil or fuel stocks equivalent to at least 90 days of net oil and fuel imports of the previous calendar year. The Government currently contributes to meeting this obligation by purchasing tickets for reserve oil and fuel stocks (commonly known as oil tickets), while commercial oil and fuel stocks are also counted towards this obligation.
- 23 Oil tickets give the Government the right to purchase oil and fuel stocks at market prices in the event of an IEA-declared oil supply emergency. Most of the oil tickets the Government buys relate to oil stocks held offshore. Less than one per cent of the tickets relates to onshore stocks, as fuel companies have not offered many tickets, which is likely due to constraints on local fuel storage facilities. Offshore oil tickets are useful for our contribution to managing international fuel supply disruptions, such as Russia's invasion of Ukraine, but not as useful as onshore fuel stocks for responding to local fuel disruptions.

Consultation on onshore fuel stockholding

- 24 In December 2021, Cabinet agreed to release a public consultation document on onshore fuel stockholding. Cabinet invited the Minister of Energy and Resources to report back on the outcome of the consultation and the final proposals in the second half of 2022 [DEV-21-MIN-0278 refers].
- 25 Between January and February, MBIE consulted on the following options for improving onshore fuel supply resilience:
- 25.1 a proposal to introduce a minimum onshore fuel stockholding level equivalent to 28 days' cover for diesel and 24 days' cover for petrol and jet fuel (in terms of daily consumption of these fuels); and
 - 25.2 options for achieving a target level of onshore fuel stocks, including minimum onshore fuel stockholding obligation on fuel wholesalers, procurement of tickets for onshore fuel stocks, and establishing a stockholding agency to manage the relevant monitoring, compliance and enforcement activities.
- 26 During the consultation, MBIE received 21 submissions, mainly from the fuel and transport sectors. Many of them provided feedback not only on these options, but also broader comments on the fuel supply risks New Zealand faces. Key themes from the submissions are summarised in Appendix One.

Analysis

Why focus on fuel resilience?

- 27 Having resilient fuel supply is fundamental to our economy and individuals' wellbeing. Liquid fuels, particularly diesel, underpins a wide range of

economic activity, including the transport sector and those heavily reliant on freight, such as food manufacturing, construction and logging.

- 28 A significant disruption to the supply of fuel would affect all sectors of the economy and would be likely to cost the economy hundreds of millions to billions of dollars, depending on the duration of the disruption. It could result in sharp increases in fuel prices or fuel shortages, thereby preventing businesses from operating and households from accessing basic amenities. This would threaten our economic stability and social cohesion. For example, in a long-term disruption to the Marsden Point to Auckland Pipeline affecting fuel supply for up to four months, Market Economics Ltd.'s modelling indicates that Gross National Disposable Income (GNDI) would be \$1 billion or 0.4 per cent lower over a year. Significant international fuel supply disruptions lasting for months are likely to cost the economy billions of dollars.
- 29 There are measures for mitigating the impacts of fuel disruption, such as investing in fuel storage and back-up distribution facilities. In theory, to objectively assess how much we should invest in these mitigation measures, we need to know the probability of different fuel disruption scenarios and the expected impacts in those scenarios. The higher the probability of a fuel disruption scenario, the bigger its expected impacts, the more we should invest in the measures for mitigating those impacts.
- 30 However, the probability of significant fuel disruptions is very low and hard to [REDACTED] National security or defence [REDACTED] [REDACTED] Modelling by independent fuel experts Hale and Twomey indicates that if the onshore fuel stock level is equivalent to about 20 days of fuel consumption and 50 per cent of fuel imports was disrupted, fuel prices would be expected to peak sharply for a few days and there could be localised service station out-of-stock events.³ These modelling results indicate that the impacts of a partial fuel import disruption would be manageable, assuming that fuel companies hold 20 days' cover of onshore stocks.
- 31 It is important to note that there is no objective measure for the "right" level of fuel resilience. Ultimately, it comes down to a balance of the risk of fuel disruption against the costs of the mitigation measures. The difficulty in estimating the probability of fuel disruption scenarios makes it challenging to assess the risk objectively, and how much should be invested in the relevant mitigation measures.

Proposed fuel resilience objectives

- 32 Recognising the difficulty in assessing a single 'right' level of fuel resilience, I propose the following objectives to inform Cabinet's decision-making on fuel resilience measures:

³ Hale & Twomey. (2020). Fuel Security and Fuel Stockholding Costs and Benefits. MBIE. Page 17.

- 32.1 New Zealand is well set up to take an adaptive approach to fuel resilience measures over time.
- 32.2 New Zealand's fuel resilience does not decline over time (for as long as we remain reliant on liquid fuels for our wellbeing), notwithstanding the likely declining commercial incentives to invest in resilience measures.
- 32.3 Onshore stockholding levels are sufficient to respond to plausible disruption scenarios, and mitigate the impacts of the disruptions on consumers and the economy adequately.
- 32.4 Costs to consumers and compliance costs on the sector are minimised.

Proposed package

- 33 To achieve the objectives above, I propose a fuel resilience package, comprising:
 - 33.1 An improved ability to take an adaptive approach and implement necessary fuel resilience improvements over time through:
 - 33.1.1 better information collection and monitoring to inform adaptive approach to fuel resilience measures over time;
 - 33.1.2 dedicating additional resources to update and implement the National Fuel Plan;
 - 33.1.3 amending the purpose of the petroleum or engine Fuel monitoring levy (the levy) to enable the levy to recover the costs of promoting onshore fuel resilience; and
 - 33.1.4 streamlining the process for reserve stock release for IEA collective actions.
 - 33.2 Steps to ensure adequate onshore fuel stocks through:
 - 33.2.1 government procurement of services for storing and managing reserve diesel stocks;
 - 33.2.2 minimum onshore fuel stockholding obligation on fuel importers/wholesalers, based on the expected national average commercial stockholding level across the industry after the Refinery's closure in terms of days' cover.

An adaptive approach to fuel resilience measures over time

Better monitoring to inform adaptive approach to fuel resilience measures over time

- 34 At present, there are some information gaps to be filled to provide clear government oversight over fuel stocks and potential vulnerabilities in the fuel

supply chains for New Zealand at a granular level. While MBIE collects onshore fuel stock and sales information from the fuel companies at the end of each month, the information collected is at a national level and inconsistencies in data provided by different fuel companies arise from time to time. As a result, MBIE does not have clear visibility over:

- 34.1 a breakdown of fuel stocks and storage capacity by region or bulk storage facility;
 - 34.2 the quantity of stock on water in transit to New Zealand;
 - 34.3 movements of international fuel tankers delivering fuels to New Zealand and their implications for the peaks and troughs of onshore fuel stockholding level at both national and regional levels;
 - 34.4 diversity of fuel supply sources, particularly which refineries we import fuels from; and
 - 34.5 backup options available to fuel importers during international and domestic fuel disruptions.
- 35 While there are some powers under the Fuel Industry Act 2020 and the International Energy Agreement Act 1976 that would allow the Minister of Energy and Resources to collect some information from fuel industry participants, these powers are not broad enough to allow me to collect such detailed information. There is therefore an insufficient evidence base to establish whether different fuel importers/wholesalers have peaks and troughs in their inventory cycle at similar times, whether the absolute minimum level of onshore stockholding is significantly lower than MBIE's monthly data indicates, how much fuel stock is held in a particular region, and how quickly stocks can be diverted and distributed to that region in adequate amounts during a disruption. It is therefore challenging to ascertain whether fuel supply would remain resilient at all times, and whether further investments are needed to improve resilience in particular regions.
- 36 In light of this, I propose that a regulation-making power be created to enable the Minister of Energy and Resources and MBIE to collect detailed information from fuel importers/wholesalers on fuel stocks at both national and regional levels, international supply chains and contingency arrangements. The purpose of collecting such information is to assess New Zealand's fuel resilience, identify opportunities to improve fuel resilience, and monitor compliance with the proposed minimum onshore fuel stockholding obligation, which is discussed further below. This will help us develop an adaptive approach to fuel resilience measures and maintain New Zealand's fuel resilience over time.
- 37 I expect that regulations for the minimum onshore fuel stockholding obligation, which are to be developed between now and early next year, will set out the detailed information disclosure requirements for monitoring fuel resilience.

Dedicating additional resources to update and implement the National Fuel Plan

- 38 I also propose that more resource be dedicated to updating and implementing the National Fuel Plan, which provides for the framework for the Government and the fuel industry to coordinate with each other to plan for and respond to fuel disruptions. However, MBIE notes that it will not be able to absorb the costs of the proposed additional work in relation to the National Fuel Plan within existing baselines. Unless Crown funding is made available now, this work will likely need to be delayed until the proposed amendment to the statutory purpose of the levy comes into effect.
- 39 Under the National Fuel Plan, the Fuel Sector Coordinating Entity (SCE) is the national body for such coordination. The core members of the Fuel SCE, including MBIE (Chair), the National Emergency Management Agency, the Ministry of Transport and fuel importers/wholesalers, meet periodically to discuss issues relating to fuel emergency management. It is a key forum for government agencies to gather information on the fuel sector's contingency arrangements for managing fuel disruptions.
- 40 The latest version of the National Fuel Plan was published in 2020, and was written at a time when the Refinery supplied the majority of New Zealand's fuel supplies and New Zealand relied on coastal tankers rather than international tankers to deliver fuels across the country. Before the Refinery and coastal tankers were decommissioned, based on advice from MBIE officials and independent fuel experts, Cabinet noted that there was not a strong case for retaining the Refinery and coastal tankers on fuel security grounds. Fuel companies also stressed that New Zealand was effectively fully dependent on international shipping for its petroleum for a long time before the Refinery's closure.
- 41 Nevertheless, it is necessary to update the National Fuel Plan to set out clearly how the Government should coordinate with the fuel sector and international tankers to manage fuel disruptions under the new 100 per cent fuel import model. This means that MBIE needs to dedicate extra resources to engaging with the fuel industry to gain insights into the industry's contingency arrangements under the new model and update the National Fuel Plan accordingly.

Amending the statutory purpose of the Petroleum or Engine Fuel Monitoring Levy

- 42 The proposed information collection and monitoring regime help to identify any weaknesses in fuel supply chains, and what further investments would need to be made to improve New Zealand's fuel resilience.
- 43 To help fund these investments, I propose that the statutory purpose of the fuel levy be amended to enable the money collected through the levy to be used to recover the costs of promoting onshore fuel resilience. This will ensure that we have the financial mechanism in place to support the achievement of the objective of taking an adaptive approach to fuel resilience measures over time.

- 44 At present, under section 14(2)(ba) of the Energy (Fuels, Levies, and References) Act 1989, one of the levy's statutory purposes is to meet reasonable costs of complying with the IEA 90-day reserve commitment obligation. While domestic fuel resilience measures might contribute to New Zealand's fulfilment of the IEA obligation, there is a question over whether the levy can currently be used for funding such initiatives. For example, if a measure that aims to boost onshore fuel stockholding is more expensive than purchasing offshore oil tickets, the cost of the measure may not be deemed to be reasonable and therefore the use of the levy for funding this initiative may not be consistent with the purpose for which the levy is collected.
- 45 The proposed amendment to the statutory purpose of the levy will allow the Government to use the levy to fund measures that are more useful to New Zealand's onshore fuel resilience than purchasing offshore oil tickets. Such measures may include:
- 45.1 government procurement of services relating to storage and management of reserve fuel stocks;
 - 45.2 facilities that would be useful for mitigating the impacts of local fuel disruptions or distributing fuels in an emergency, such as mobile fuel distribution facilities⁴;
 - 45.3 fuel emergency planning activities, including tasks associated with the implementation of the National Fuel Plan, regular emergency response exercises and regional studies of fuel resilience gaps and options to address them; and
 - 45.4 tools and programmes for improving monitoring and collecting information on fuel resilience.
- 46 The use of the levy for these projects is justifiable in the sense that both the levy payers, namely the fuel importers, and the fuel consumers, to whom at least some of the levy costs are passed through, benefit from the extra resilience these initiatives can bring.
- 47 As the accumulated surplus in the account of the levy is projected to grow each year in the forecast period to 2025/26, there is room for directing some of the levy towards facilitating investments in onshore fuel resilience measures. As described further below, I am proposing that in the first instance the levy would fund the proposed reserve stock arrangement.

IEA stock release for collective action

- 48 I also propose to streamline the Government's decision-making process for the release of reserve oil stocks held under oil tickets to take part in IEA

⁴ Refining NZ suggested in 2019 that an emergency facility including four containerised fuel truck loading facilities costing up to Commercial Information in total could ensure jet fuel supply to Auckland Airport remain fully resilient during an outage of the Marsden Point to Auckland Pipeline. These facilities could be used to load trucks with fuel products at an Auckland wharf, and then the trucks could then deliver the fuel products to the Wiri terminal or the Joint User Hydrant Installation at Auckland Airport.

collective actions. Our nimbleness in this process will help us achieve the objective of taking an adaptive approach to fuel resilience measures in the international context.

- 49 New Zealand has taken part in two IEA collective actions this year, arising from the global implications of Russia's invasion of Ukraine. In both of these actions, New Zealand released reserve oil stocks, held on our behalf under oil tickets in Europe by commercial operators. The release of these stocks, under the tight deadlines required for the IEA's decision process, has highlighted a need to reconsider the process that should be followed for future collective release requests.
- 50 In 2006, Cabinet delegated authority to the Ministry of Economic Development, which has been passed to MBIE, to manage New Zealand's IEA 90-day reserve stockholding obligation. MBIE manages this process by purchasing oil tickets predominantly in Europe. In the event of an IEA-declared collective action, the stocks under these tickets can either be released to the market or purchased at market prices for delivery to New Zealand.
- 51 No Cabinet instruction governs how New Zealand should participate in the IEA's collective action decision-making process, but MBIE's documented procedures assume that Cabinet would confirm New Zealand's agreement to an IEA collective action.
- 52 The IEA collective actions this year involved some decisions that were developed within a week and finalised over a weekend. This demonstrated that it is not always practical to follow the standard Cabinet process before New Zealand's decision is conveyed to the IEA within the IEA's timeframe.
- 53 To clarify and streamline the future IEA decision-making process, I recommend that Cabinet authorise the Minister of Energy and Resources, on MBIE's advice, to agree to an oil stock release as part of the IEA collective action in the future. Nevertheless, the Minister is expected to provide an oral update to Cabinet following the release. I note that the release of oil stocks to the market comes at no fiscal cost to the Crown, as it releases these contracts from payment.
- 54 A Cabinet paper will still be required if my recommendation is to purchase this oil, rather than release it to the market, as there is currently no standing budget allocated for such a purchase. A purchase would involve a number of steps to arrange for the delivery of fuel stocks required for New Zealand. Some form of tendering or allocation process would be needed to on-sell the stocks for fuel companies operating in New Zealand, and temporary relaxation of fuel specifications may also be needed. The whole process for purchasing and on-selling the stock would likely take more than a month.

Adequate onshore fuel stocks

- 55 The above proposals to improve monitoring and amend the statutory purpose of the levy will enable us to identify the areas where our fuel resilience can be

strengthened with a view to making any necessary investments in the next two to five years to improve our fuel resilience in the period to 2040. Meanwhile, as discussed below, I recommend more immediate changes to onshore fuel stockholding requirements to ensure adequate fuel resilience.

Options around days of cover

56 As discussed, there is no objective measure for determining the ‘right’ level of fuel resilience, including what would be the optimal level of onshore fuel stockholding for mitigating the risk of international fuel disruptions. Nevertheless, we can use the following yardsticks to determine the target onshore fuel stockholding level:

56.1 New Zealand’s onshore fuel stocks before the Refinery’s closure;

56.2 Australia’s proposed minimum stockholding level; and

56.3 modelling results suggesting that the impacts of a partial fuel import disruption would be manageable, should there be 20 days’ cover of fuels.

57 A comparison between the onshore fuel stockholding level after the Refinery’s closure and those yardsticks is as follows:

	How often are the estimated days’ cover to be met?	Days of cover (in terms of fuel consumption)		
		Petrol	Jet fuel	Diesel
Expected onshore fuel stocks in New Zealand after the Refinery’s closure without intervention	On average	28	24	21
Onshore fuel stocks in New Zealand before the Refinery’s closure (excluding crude oil and intermediate products)	On average	26	17	20
Additional usable fuel stocks that could be produced from the Refinery’s feedstock before its closure ⁵	On average	+5	+5	+5
Australia’s proposed minimum stockholding level (excluding stocks on water within Australia’ Exclusive Economic Zone)	Minimum met fortnightly (up to June 2024)	24	24	20 (up to June 2024)
	Minimum met weekly (from July 2024)			28 (from July 2024)

⁵ This takes into account the feedstock that used to be held at the Refinery and how much refined fuel stocks can be produced from the feedstock.

RESTRICTED

Onshore stocks deemed sufficient for ensure that impacts of partial fuel import disruptions are manageable	At all times	20	20	20
------------------------------------------------------------------------------------------------------------	--------------	----	----	----

Note: The amount of stocks on water in transit to New Zealand is estimated to be equivalent to approximately 17 days' cover for all refined fuels both before and after the Refinery's closure.⁶

- 58 In the absence of government intervention, New Zealand is expected to have sufficient onshore stocks to manage the impacts of partial fuel import disruptions adequately on average, but the days' cover for diesel could be low on some days, given the troughs of the inventory cycle and the potential for two or more suppliers have low stocks at the same time.⁷ New Zealand's average stockholding would be able to meet the target days' cover for petrol and jet fuel proposed in Australia, while New Zealand's average days' cover for diesel would fall short of Australia's July 2024 target by about seven days.
- 59 I therefore propose we take action now to increase stockholding of diesel by at least 70 million litres (roughly seven days of cover) to achieve 28 days' cover for diesel. This would ensure that our onshore diesel stock level would be at least on par with the diesel stock level before the Refinery's closure and the proposed minimum level in Australia, and would be sufficient for us to weather the impacts in plausible fuel import disruption scenarios, namely scenarios where fuel import supplies are partially disrupted.
- 60 An alternative would be to increase onshore stockholding level for all refined products — diesel, jet fuel and petrol — by five days of cover. This would allow us broadly to match the pre-Refinery's-closure average stock level across all major fuels. However, I recommend prioritising onshore diesel stocks, given diesel's criticality and the relatively low days of commercial stock cover for diesel. I consider the case for increasing onshore petrol and jet fuel stocks to be less strong, as petrol and jet fuel are less important to critical services and can be rationed at much lower levels during an emergency. Also, the commercial stockholding levels for petrol and jet fuel are relatively high compared to that for diesel and are expected to match the minimum level proposed in Australia.
- 61 Diesel is the most important fuel for the economy, as it is expected to remain the main fuel for heavy vehicles that are used for critical services, ranging from delivery of food and other essential goods to emergency services in the period to 2040. With 28 days' cover of diesel stock onshore, if diesel is rationed at 25 per cent in a closed border event, onshore diesel stocks will last for nearly four months before they are substantially depleted and critical services will continue to function during that period. If the stocks on water in transit to New Zealand (equivalent to about 17 days of normal consumption

⁶ This takes into account how much refined fuel products could be produced from the crude oil stocks on water before the Refinery's closure.

⁷ The days' cover for diesel could fall below 20 days on some days in the absence of government intervention. In the event of a partial fuel import disruption, having 20 days' cover would enable us to avoid significant stockouts while fuel companies realign their fuel import supplies and replenish onshore stocks. With less than 20 days' cover, stocks ordered in the last minute from regions further away, such as Europe and the US, may not arrive in New Zealand in time; stockouts will subsequently occur while the stocks are still in transit on water.

level) arrive and are then rationed at 25 per cent, the total diesel stocks available to New Zealand during the disruption will last about six months. Generally speaking, stocks on water are expected to arrive in New Zealand safely, as they are owned by the fuel importers, shipping companies are likely to avoid areas affected by international conflicts, and it is unlikely that all shipping routes would be affected at the same time.

Government procurement of services for storing and managing reserve diesel stocks

- 62 I propose that the Government procure the storage and management of the above reserve fuel stocks. This will minimise market distortions that would otherwise result from requiring the fuel sector to hold significantly more stocks.
- 63 Should the fuel importers/wholesalers be required to increase their diesel stockholding by a third from 21 to 28 days of cover, all of them would need to expand their storage capacity significantly and/or increase the frequency of import shipments. The necessary increase in operating costs and/or storage capacity could disproportionately affect small participants or new entrants operating from a single bulk storage facility, such as Gull and Tasman Fuels. This could reduce their competitiveness relative to incumbents with large and diverse bulk storage infrastructure.
- 64 Small participants could face disproportionately high shipping costs and capital costs associated with storage investments, as they face tighter constraints on storage capacity, and they do not have existing agreements with fuel import terminals that have spare tanks to be converted for fuel storage. The cost of converting existing tanks is lower than the cost of building brand new tanks.
- 65 Furthermore, the additional cost of holding reserve stocks and the consequential increase in fuel prices would be lower if the additional stockholding cost is incurred by the Government (and recovered by levy) rather than incurred by fuel companies. Fuel companies require a higher rate of returns on investments in fuel storage infrastructure than the Government, as they need to deliver profits for their shareholders to remain viable. The expected fall in petrol and diesel demand in the period to 2040 also means that the fuel industry would require relatively high annual rate of returns from fuel storage investments to compensate for the limited asset life.
- 66 Should fuel importers/wholesalers choose not to invest because of the risk of stranded assets, they could reduce their throughput to meet the minimum stockholding level. This could affect the ability of fuel distributors to secure fuels at competitive prices in the wholesale markets, particularly in regions where there is only one bulk storage facility run by one major fuel importer/wholesaler.
- 67 Government procurement of the storage and management of reserve fuel stocks is expected to involve:

- 67.1 entering into a long-term lease agreement (e.g. with Channel Infrastructure) for new diesel storage capacity (e.g. at Marsden Point, using re-purposed crude tanks)⁸; and
- 67.2 tendering periodically for reserve diesel stock to be held in the leased storage tank(s), by way of an onshore reserve stock contract similar to the existing oil/fuel stock ticket contracts with oil companies, which give the Government the option to purchase and release the stocks during an emergency; or
- 67.3 procuring and owning reserve fuel stock, held in leased or Government-owned tanks.
- 68 Any reserve fuel stock arrangement would allow the stocks, which need to be turned over regularly to maintain quality standards, to be integrated into commercial fuel supply chains. This kind of arrangement is adopted by many countries and is in line with some of the major fuel importers/wholesalers' submissions that the Government should procure the reserve stocks, rather than requiring the industry to hold reserve stocks above their commercial stockholding level.
- 69 The operational and financial details of the arrangement will need to be developed further through negotiations with the fuel sector and tendering. I would therefore like to seek Cabinet's agreement to give officials the mandate to enter into negotiations on behalf of the Crown. I will report back to Cabinet on the details of the arrangement and the associated costs, once my officials have investigated the options.
- 70 Assuming that the volume of reserve diesel stocks is 70 million litres, the indicative cost of this proposed arrangement is in the range of Negotiations [redacted]. The levy can be used to cover this cost once the levy's purpose has been amended — around Negotiations [redacted] of the levy funding would be needed for this arrangement but no change to the levy rate would be needed.

Minimum onshore fuel stockholding obligation on fuel importers/wholesalers, based on current or recent commercial stockholding level

- 71 Complementing the proposed reserve fuel stock arrangement, I recommend proceeding with introducing minimum onshore fuel stockholding obligation on fuel importers/wholesalers that have bulk storage facilities for diesel, petrol and jet fuel in New Zealand, including Z Energy, BP, Mobil, Gull, and Tasman Fuels. This will minimise the risk of commercial fuel stockholding deteriorating over time. As discussed, the peaking and expected decline in petrol and diesel in the next twenty years means that there is little commercial incentive to invest in maintaining or improving fuel resilience.

⁸There may be sufficient redundant crude tankage at Marsden Point to be converted to store an additional 300 million litres of fuel stocks beyond the above 70-million-litre proposal.

⁹ Negotiations [redacted]

- 72 Although biofuels can be counted towards the stockholding obligation, existing biorefineries in New Zealand are not expected to be obligated parties, as they only produce a small amount of ethanol and biodiesel and most biofuels are expected to be blended with mineral-based fuels by fuel importers/wholesalers here or overseas before being sold to consumers. The Government, as a potential owner of rights over reserve fuel stock, is not expected to be an obligated party under the forthcoming biofuel obligations or the existing 'terminal gate pricing' regulations.
- 73 The minimum stockholding level that fuel importers/wholesalers will have to meet will be based on the expected national average commercial stockholding level after the Refinery's closure, as well as the market share of each obligated party. As such, the impacts of the minimum stockholding obligation on compliance costs and flow-on effects on fuel prices should be minimal.
- 74 The minimum stock level that each fuel importer/wholesaler will need to achieve is expected to be based on the following formula, which is subject to further refinement during the regulation-making process:

$$A=B \times C \times D$$

where

A is the obligated party's minimum average stockholding level for the past three months for the fuel type (measured in thousands of litres).

B is the required national average stockholding level for fuel importers/wholesalers for the fuel type, i.e. minimum days of cover for the fuel type (measured in days of cover for meeting fuel demand).

C is the obligated party's market share, based on historical fuel sales (measured in percentage terms).

D is the expected daily consumption of the fuel type concerned for the quarter in New Zealand, taking into account on historical and/or forecast levels (measured in thousands of litres per day).

- 75 The primary legislation for the minimum stockholding obligation will prescribe the initial minimum days of cover, i.e. the required national average stockholding level for fuel importers/wholesalers. The minimum days of cover for fuel importers/wholesalers will initially be set at 28 days for petrol, 24 days for jet fuel and 21 days for diesel on a three-month rolling average basis¹⁰, which reflects the expected commercial stockholding level after the Refinery's closure.
- 76 However, the initial minimum days' cover may be replaced by regulations for the minimum stockholding obligation later. Once officials have collected more detailed fuel stock data from the fuel sector, these regulations will be developed.

¹⁰ A three-month moving average is proposed, as smaller fuel importer/wholesalers sometimes do not have fuel cargoes coming to New Zealand for more than a month.

- 77 The other key design features of the minimum stockholding obligation are summarised as follows:
- 77.1 Fuel importers/wholesalers will be able to trade with others to meet the minimum fuel stockholding obligation through entitlement agreements¹¹ between them. Once the right to count an amount of fuel stocks for the purpose of complying with the minimum stockholding obligation is transferred under an entitlement agreement, only the buyer of the right can count this amount for compliance.
 - 77.2 The minimum onshore fuel stockholding obligation on fuel importers/wholesalers will be subject to Ministerial powers to grant exemptions, suspend obligations temporarily, and terminate obligations for fuel importers/wholesalers exiting the New Zealand market. The Minister of Energy and Resources is expected to grant exemptions and suspensions in exceptional circumstances only, taking into consideration the nature and level of challenges in managing international and domestic fuel supply chains, and the potential impacts of such exemptions and suspensions on the fuel markets and the population in New Zealand.
 - 77.3 Fuel importers/wholesalers will be required to submit monthly returns, which will provide key information on onshore stocks, stocks on water, arrival dates of fuel import shipments, peaks and troughs of stock level, trading of stocks for compliance with the minimum stockholding obligation, fuel supply sources, and contingency supply arrangements.
 - 77.4 The maximum pecuniary penalty for failure to achieve the minimum stockholding level will be the greater of \$5 million or three times the financial gain from the breach.
 - 77.5 The maximum fine for breaches of accounting, reporting and auditing requirements associated with the minimum fuel stockholding obligation will be \$100,000 for an individual and \$500,000 for an organisation. Such breaches include failure to submit monthly returns, provision of false or incomplete information in monthly returns, and signing a false or misleading entitlement agreement for trades in fuel stocks.
 - 77.6 The minimum onshore fuel stockholding obligation on fuel importers/wholesalers will come into effect from 1 July 2024, subject to the passage of the relevant legislation and regulations.
 - 77.7 The minimum fuel stockholding obligation will be reviewed within five years after they come into effect, subject to the Minister of Energy and Resources' discretion to bring forward the review where necessary.

¹¹ The detailed documentation requirements for these entitlement agreements are expected to be prescribed in regulations. At a minimum, fuel importers/wholesalers with minimum stockholding obligation are expected to keep records of these entitlement agreements, similar to the record-keeping requirements for tax administration and emissions trading purposes. When fuel importers/wholesalers with minimum stockholding obligation submit monthly returns, they will be required to include information on these entitlement agreements, including the amount of fuel traded, the dates of these agreements and parties to these agreements.

78 The rationale for these features and the relevant submitters' comments are discussed in Appendix Two.

Implementation

79 MBIE will be responsible for improving the fuel resilience monitoring regime, administering levy funding for onshore fuel resilience measures, negotiating and managing the reserve fuel stock arrangements with the fuel sector, as well as administering minimum onshore fuel stockholding obligation on fuel importers/wholesalers.

80 During public consultation, the majority of submitters indicated preference for MBIE to take on the responsibilities for administering minimum onshore fuel stockholding obligation if introduced, and did not support the creation of a standalone stockholding agency for managing reserve fuel stocks.

81 Once the proposed amendment to the statutory purpose of the levy comes into effect, MBIE will use the levy to cover the administrative costs associated with the minimum stockholding obligation and the reserve fuel stock arrangements, as well as the costs associated with:

81.1 assessing the case for providing funding for projects that aim to improve onshore fuel resilience, such as mobile skid facility for responding to fuel emergencies, as well as administering the funding arrangements for qualifying projects; and

81.2 fuel emergency planning activities, including tasks associated with the implementation of the National Fuel Plan.

82 MBIE will work with the fuel industry and relevant stakeholders to develop funding proposals to support opportunities for improving onshore fuel resilience. These funding proposals will be considered on a case-by-case basis using the following evaluation criteria:

82.1 improving regional fuel supply resilience;

82.2 encouraging competition in fuel wholesale and retail markets;

82.3 durability and usefulness of investment in the long term (with a view to minimising the risk of stranded assets); and

82.4 value for money.

83 Cabinet approval will be sought before any onshore fuel resilience initiatives are funded.

84 The indicative timeframe for implementing the proposals in this paper, which is dependent on Cabinet and parliamentary processes, is summarised in the table below.

Activity	Timeframe
----------	-----------

Legislative and regulations-making processes for the fuel resilience policy package	November 2022 – December 2023
Investigating financial and contractual options for reserve diesel storage arrangements at Marsden Point, and report back to Cabinet on these options	November 2022 – March 2023
Entering into contract for reserve fuel storage arrangement	Negotiations
Commencement of minimum onshore fuel stockholding obligation	July 2024

Financial Implications

85 The indicative additional costs associated with the proposals to the Government are summarised in the table below. See discussion below regarding uncertainty of timing of expenditure.

	\$m				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Cost associated with negotiating and finalising contracts for reserve diesel stock arrangement	1.383	-	-	-	-
Procurement of services relating to storage and turnover of reserve stocks	-	-	Negotiations	[Redacted]	[Redacted]
Government administration for minimum fuel stockholding obligation and other fuel resilience initiatives, including review and implementation of the National Fuel Plan	0.290	-	1.400	1.400	1.400
Total	1.673	-	Negotiations	[Redacted]	[Redacted]

Financial implications for 2022/23

86 The expenditure for the 2022/23 financial year includes:

- 86.1 \$1.673 million for investigating financial and contractual options for the reserve fuel stock arrangement, including procurement of external legal and auditing services.¹²
- 86.2 \$0.290 million for additional MBIE resources for updating and implementing the National Fuel Plan, which cannot be funded within existing baselines.

¹² The estimate of the negotiation costs was based on previous negotiations for other agreements between the Crown and the industry, but the actual expenditure may differ from this estimate, depending on the complexity of the negotiation process and the relevant contractual arrangements.

- 87 The estimate of the costs associated with investigating contractual options is based on previous negotiations for other agreements between the Crown and the industry.
- 88 As MBIE is not able to absorb these extra costs for 2022/23 within existing baselines, I recommend that the relevant operating expenses be charged against the between-Budget contingency, and the relevant departmental capital injection be charged as a pre-commitment against the Budget 2023 capital allowance.

Financial implications beyond 2022/23

- 89 The cost of the reserve diesel stock arrangement is dependent on the outcome of negotiations with the fuel sector. I will report back to Cabinet on these costs by March 2023, once MBIE has investigated the financial and contractual options.
- 90 As discussed above, once the amendment to the statutory purpose of the levy comes into effect, MBIE will use the levy to cover the proposals in this paper.

Constitutional conventions

Levy implications once the statutory purpose is amended

- 91 Assuming that the statutory purpose of the levy is amended as proposed and comes into effect at the start of 2024/25 or earlier, based on the current levy rate, the levy balance is forecasted to be high enough to cover the costs associated with the proposals in 2024/25 and 2025/26. The accumulated surplus in the levy account was \$48.558 million as at 30 June 2022, and will continue to increase in the forecast period to 2025/26, assuming no policy changes and no significant change in the future cost of offshore reserve stocks.¹³
- 92 If the proposals in this paper were not implemented, the levy rate could be reduced by **Negotiations** per litre of petrol and diesel in the forecast period to 2025/26 without compromising our ability to cover the costs of procuring oil tickets for IEA compliance. Reducing the levy rate by **Negotiations** could translate to a reduction in petrol and diesel prices by **Negotiations** a litre if the fuel importers pass on the reduction in the levy cost fully to consumers.
- 93 As I propose to fund a wider range of initiatives with the levy and there is a broader question about whether the levy's calculation method remains fit for purpose, I will direct my officials to undertake a comprehensive review of the levy's regulations, once the statutory purpose of the levy is amended.

¹³ The surplus has accumulated in the levy account, as the Covid-19 pandemic resulted in lower oil ticket costs.

Legislative Implications

- 94 The proposals will require both primary legislation and regulations. A bill on onshore fuel stockholding is on the Legislation Programme. Drafting instructions are expected to be provided to the Parliamentary Counsel Office as soon as practicable after Cabinet's approval.
- 95 The bill on onshore fuel stockholding will also involve amendments to existing legislation. MBIE officials will have discussions with Parliamentary Counsel Office and the Office of the Clerk when they consider the best form for the Bill. MBIE anticipates that the new policy changes may mean changes to one or more of the Energy (Fuels, Levies, and References) Act 1989, the Fuel Industry Act 2020 and the International Energy Agreement Act 1976. MBIE's initial view is that an omnibus bill will not be needed, but Parliamentary Counsel Office and the Office of the Clerk will also have views that will be taken into account.
- 96 Amendments to the Energy (Fuels, Levies, and References) Act 1989 will be needed to ensure that the levy can be used for a broader range of initiatives for improving onshore fuel supply resilience. The Energy (Fuels, Levies, and References) Act 1989 sets out the requirements for a range of levies in the Energy and Resources portfolio, so it remains the appropriate vehicle for prescribing the requirements for the levy.
- 97 To give effect to the minimum onshore fuel stockholding obligation, the bill on onshore fuel stockholding may also include amendments to the Fuel Industry Act 2020 or International Energy Agreement Act 1976, depending on the advice of the Parliamentary Counsel Office. Alternatively, a separate, new piece of legislation could be created to prescribe the statutory requirements for the obligation so that it is fit for purpose. This could be easier than amending the existing legislation, which has purposes that are different from, and may not completely align with, that of a minimum onshore fuel stockholding obligation. A key part of the bill on onshore fuel stockholding will be to provide for the regulation-making powers to set the minimum stockholding levels and other detailed requirements of the minimum onshore fuel stockholding obligation. The matters that are expected to be prescribed in regulations include:
- 97.1 rules for assisting the interpretation of the minimum stockholding level for diesel, petrol, jet fuel and their biofuels equivalent for obligated parties;
 - 97.2 details of the accounting, auditing and reporting requirements for monitoring fuel stockholding and more broadly fuel resilience;
 - 97.3 documentation requirements for trading between fuel importers/wholesalers for compliance with the minimum fuel stockholding obligation; and
 - 97.4 criteria and procedural matters relating to exemptions from, and suspensions and terminations of minimum stockholding obligation.

- 98 To develop these regulations, officials will consult with the fuel sector further, including calling for detailed fuel stock data from the sector.

Impact Analysis

Regulatory Impact Statement

- 99 The regulatory impact analysis requirements apply to this proposal. A regulatory impact statement has been prepared and is appended to this paper.
- 100 MBIE's Regulatory Impact Analysis Review Panel has reviewed the attached Impact Statement prepared by MBIE. The panel considers that the information and analysis summarised in the Impact Statement meets the criteria necessary for Ministers to make informed decisions on the proposals in this paper.

Climate Implications of Policy Assessment

- 101 The Ministry for the Environment has been consulted and confirms that the Climate Implications of Policy Assessment (CIPA) requirements do not apply to proposals relating to fuel stockholding, as the threshold for significance is not met.
- 102 Emissions associated with fuels are counted when they are consumed. The proposals discussed in this paper would affect the amount of stocks stored in New Zealand, rather than the amount of fuels consumed in New Zealand.
- 103 The storage and distribution infrastructure for liquid fossil fuels is the same as that for advanced drop-in biofuels. In that sense, the proposals in this paper are not a barrier to New Zealand's shift towards low-emissions fuels.

Population implications

- 104 There are no significant impacts on equity between different communities and social groups. Some communities in remote areas could benefit from projects that aim to improve regional fuel resilience, should the Government decide to use the levy to fund these projects in the future.

Human Rights

- 105 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 at this stage. A final view on the consistency of the proposals contained in this paper with the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 will only be possible once the legislation has been drafted.

Consultation

- 106 The following agencies were consulted in the development of this paper: the National Emergency Management Agency, Te Manatū Waka Ministry of

Transport, Waka Kotahi New Zealand Transport Agency, the Civil Aviation Authority, the New Zealand Customs Service, the Ministry of Justice, the Ministry for the Environment, Maritime New Zealand, the Ministry of Foreign Affairs and Trade, and the Treasury. The Department of Prime Minister and Cabinet has been informed.

Communications

- 107 I intend to issue a press release on the fuel resilience policy package, once this Cabinet paper is proactively released.

Proactive Release

- 108 The paper will be proactively released with any necessary redactions, no later than 30 working days after Cabinet's decisions are confirmed.

Recommendations

The Minister of Energy and Resources recommends that the Committee:

- 1 note that Cabinet invited the Minister of Energy and Resources to report back on the final proposals on onshore fuel stockholding in the second half of 2022 after public consultation [DEV-21-MIN-0278 refers].

Better monitoring to inform adaptive approach to fuel resilience measures over time

- 2 note that there are some information gaps to be filled to provide a clear government oversight over fuel stocks and potential vulnerabilities in the fuel supply chains for New Zealand at a granular level;
- 3 agree that a regulation-making power be created to enable the Minister of Energy and Resources and the Ministry of Business, Innovation and Employment to collect detailed information on fuel stocks from fuel importers/wholesalers at both national and regional levels, international supply chains and contingency arrangements;
- 4 note that regulations on the detailed information disclosure requirements for monitoring fuel resilience will be developed between now and early next year;

Dedicating additional resources to update and implement the National Fuel Plan

- 5 note that the Fuel Sector Coordinating Entity is the key forum for the Government and the fuel industry to coordinate fuel emergency management and response;
- 6 note that the Ministry of Business, Innovation and Employment requires extra funding to undertake engagements with other members of the Fuel Sector Coordinating Entity, and update the National Fuel Plan to ensure that the

national framework for fuel emergency management reflects the new 100 per cent fuel import model;

Amending statutory purpose of the petroleum or engine fuel monitoring levy

- 7 agree that the statutory purpose of the petroleum or engine fuel monitoring levy be amended to enable the levy to recover the costs of promoting onshore fuel resilience;
- 8 note that the proposed amendment to the statutory purpose of the petroleum or engine fuel monitoring levy will allow the levy to be used for:
 - 8.1 government procurement of services relating to storage and management of reserve fuel stocks;
 - 8.2 facilities that would be useful for mitigating the impacts of local fuel disruptions or distributing fuels in an emergency, such as mobile fuel distribution facilities;
 - 8.3 fuel emergency planning activities, including tasks associated with the implementation of the National Fuel Plan, regular emergency response exercises and regional studies of fuel resilience gaps and options to address them; and
 - 8.4 tools and programmes for improving monitoring and collecting information on fuel resilience.
- 9 note that if the calculation method and the statutory purpose of the petroleum or engine fuel monitoring levy remains unchanged, the accumulated surplus in the levy account (\$48.558 million as at 30 June 2022) is expected to continue to increase in the forecast period to 2025/26;
- 10 direct the Ministry of Business, Innovation and Employment to undertake a comprehensive review of the regulations for the petroleum or engine fuel monitoring levy, particularly its calculation method, after the statutory purpose of the levy is amended;

IEA stock release for collective action

- 11 note that no Cabinet instruction was ever issued regarding the decision-making process for New Zealand's participation in IEA collective action, and recent experience indicates that it is not practical to follow the standard Cabinet process before a decision is made and conveyed to the IEA within the IEA's timeframe;
- 12 note that the release of oil stocks under oil tickets as part of the IEA collective action does not result in any fiscal cost to the Crown;
- 13 authorise the Minister of Energy and Resources, on the advice of the Ministry of Business Innovation and Employment, to agree to an oil stock release as

part of an IEA collective action in the future, with the Minister expected to provide an oral update to Cabinet following the release;

- 14 note that a Cabinet decision will be sought for any purchase of oil under an oil ticket for delivery to New Zealand;

Days of cover

- 15 note that, based on modelling completed in 2020, the average commercial stockholding levels for petrol, jet fuel and diesel are estimated to be equivalent to 28 days, 24 days and 21 days of consumption;
- 16 note that the onshore commercial fuel stockholding level fluctuates over time, potentially falling below 15 days of normal fuel demand at times and reaching well above 20 days of cover on others;
- 17 note that the loss of crude oil and intermediate products at the Refinery is estimated to translate to five days of cover for petrol, jet fuel and diesel stocks onshore, taking into account how much refined fuel can be produced from the feedstock;
- 18 note that MBIE consulted on the option of requiring fuel importers/wholesalers to increase their onshore fuel stockholding to a level similar to that proposed in Australia, which means that the minimum onshore stockholding level for petrol, jet fuel and diesel would be equivalent to 24 days, 24 days and 28 days of daily consumption respectively;

Government procurement of services for storing and managing reserve fuel stocks

- 19 note that officials consider government procurement of reserve fuel stocks would likely have lower cost and less adverse impact on fuel market competition and prices than a regulatory obligation on the industry to materially increase fuel stock levels;
- 20 agree that the Government procure the storage of onshore reserve fuel stocks, as well as introducing a minimum fuel stockholding obligation on fuel importers/wholesalers based on their commercial stockholding level, with a view to broadly match the stock level proposed in Australia and the diesel stock level before the Refinery's closure;
- 21 note that diesel is more important to critical services than petrol and jet fuel, and the commercial stockholding levels for petrol and jet fuel are higher than that for diesel in terms of days' cover;
- 22 agree that the Government investigate detailed commercial arrangements to procure the storage and management of reserve fuel stocks, with an initial aim to increase onshore diesel stocks by at least 70 million litres (roughly seven days of cover) to achieve 28 days' cover for diesel;

- 23 note that the storage and management of 70 million litres of reserve diesel stocks is indicatively estimated to cost **Negotiations**
- 24 note that the proposed reserve fuel stock arrangement involves:
- 24.1 entering into a long-term lease agreement for new diesel storage capacity; and
 - 24.2 tendering periodically for reserve diesel stock to be held in the leased storage tank(s), by way of an onshore reserve stock contract; or
 - 24.3 procuring and owning reserve fuel stock, held in leased or Government-owned tanks;
- 25 agree that the Ministry of Business, Innovation and Employment will be responsible for investigating and managing the reserve diesel stock arrangements with the fuel sector;
- 26 agree that the Minister of Energy and Resources report back to Cabinet on the financial and contractual options for the reserve fuel stock arrangement by March 2023, once the Ministry of Business, Innovation and Employment has investigated them with the relevant parties;

Minimum onshore fuel stockholding obligation

- 27 agree to proceed with introducing minimum onshore fuel stockholding obligation on fuel importers/wholesalers that have bulk storage facilities for diesel, petrol and jet fuel in New Zealand;
- 28 agree that if the Government enters into the proposed reserve fuel stock arrangement, the Government be exempt from minimum onshore fuel stockholding obligation and the requirements under the Fuel Industry Act 2020 and the associated regulations;
- 29 note that the fuel sector expressed concern that requiring them to hold reserve stocks above their normal stockholding level would result in significant compliance costs and adverse outcomes for market competition;
- 30 agree that the minimum onshore fuel stockholding level that obligated parties will have to meet will be based on their market shares and the expected national average commercial stockholding levels for diesel, petrol, jet fuel and their biofuels equivalent after the Refinery's closure, taking into account the impacts of the Covid-19 pandemic, in terms of days of cover for meeting daily fuel consumption;
- 31 agree that the required national average stockholding level for fuel importers/wholesalers will initially be set at 28 days of consumption for petrol, 24 days of consumption for jet fuel and 21 days of consumption for diesel on a three-month rolling average basis;

- 32 note that the primary legislation for the minimum fuel stockholding obligation will prescribe the initial required national average stockholding level for fuel importers/wholesalers;
- 33 note that the initial required national average stockholding level for fuel importers/wholesalers in the primary legislation may be replaced by regulations;
- 34 note that the Ministry of Business, Innovation and Employment will request detailed fuel stock data from the fuel importers/wholesalers to develop regulations for the minimum onshore fuel stockholding obligation;
- 35 agree that the minimum fuel stockholding obligation, including the minimum onshore fuel stockholding level for obligated parties, be reviewed within five years after they come into effect;
- 36 agree that the Minister of Energy and Resources may bring forward the review if there are substantial changes in the international context that would justify an earlier review, or if deemed necessary in light of the continuing inter-agency work to identify options to strengthen the resilience of New Zealand's supply chains for access to essential goods and services;
- 37 agree that the review of the minimum stockholding obligation will take into account the following considerations:
- 37.1 the Government's emissions budget and emissions reduction plan;
 - 37.2 fuel demand in New Zealand;
 - 37.3 fuel mix for transport fleet;
 - 37.4 any relevant data and findings on the resilience of supply chains, such as national and regional fuel stocks data and reports on resilience of international and domestic fuel supply chains; and
 - 37.5 domestic fuel production capacity;
- 38 agree that obligated parties will be able to trade with others to meet the minimum fuel stockholding obligation through entitlement agreements between them;
- 39 agree that the minimum onshore fuel stockholding obligation be subject to Ministerial powers to grant exemptions in exceptional circumstances, suspend obligations temporarily, and terminate obligations for fuel importers/wholesalers exiting the New Zealand market;
- 40 agree that fuel importers/wholesalers, with a minimum onshore fuel stockholding obligation, will be required to submit monthly returns, in line with regulations on information disclosure requirements for monitoring fuel resilience, which are to be developed between now and early next year, as noted under recommendation four;

RESTRICTED

- 41 agree that the maximum pecuniary penalty for failure of obligated parties to achieve the minimum onshore fuel stockholding level be the greater of \$5 million or three times the financial gain from the breach;
- 42 agree that maximum fine for breaches of accounting, reporting and auditing requirements associated with the minimum fuel stockholding obligation will be \$100,000 for an individual and \$500,000 for an organisation. Such breaches include failure to submit monthly returns, provision of false or incomplete information in monthly returns, and signing a false or misleading entitlement agreement for trades in fuel stocks;
- 43 note that the minimum onshore fuel stockholding obligation on fuel importers/wholesalers are expected to come into effect from 1 July 2024, subject to the passage of the relevant legislation and regulations;
- 44 agree that the Ministry of Business, Innovation and Employment will be responsible for administering minimum onshore fuel stockholding obligation on fuel importers/wholesalers;

Financial implications

- 45 agree to increase expenditure to provide for the additional resources required for implementing the National Fuel Plan, and investigating financial and contractual options for the reserve fuel stock arrangement, with the following impacts on the operating balance and net debt:

Vote Business, Science and Innovation	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Operating Balance and Net Debt Impact	1.639	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	0.034	-	-	-	-
Total	1.673	-	-	-	-

- 46 approve the following changes to appropriations and departmental capital injections to provide for the costs described in recommendation 45 above, with a corresponding impact on the operating balance and net debt:

Vote Business, Science and Innovation Minister of Energy	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears

RESTRICTED

and Resources					
Multi-Category Expenses and Capital Expenditure: Policy Advice and Related Services to Ministers MCA					
Departmental Output Expenses: Policy Advice and Related Services to Ministers - Energy and Resources	1.639	-	-	-	-
Vote Business, Science & Innovation Ministry of Business, Innovation and Employment - Capital Injection	0.034	-	-	-	-
Total Operating	1.639	-	-	-	-
Total Capital	0.034	-	-	-	-

- 47 **agree** that the proposed changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
- 48 **agree** that the expenses incurred under recommendations 45 and 46 above be charged against the between-Budget contingency established as part of Budget 2022;
- 49 **agree** that the capital expenditure incurred under recommendations 45 and 46 above be charged as a pre-commitment against the Budget 2023 capital allowance;
- 50 **invite** the Minister of Energy and Resources to report back on detailed information on the cost of the reserve diesel stock arrangement, and time required to develop reserve fuel storage facilities by March 2023;

Legislative implications

- 51 note that the information collection regime for monitoring fuel resilience, the change to the statutory purpose of the petroleum or engine fuel monitoring levy, the reserve fuel stock arrangement and the minimum onshore fuel stockholding obligation will be given effect through a bill and regulations;

- 52 note that the bill will include amendments to the Energy (Fuels, Levies, and References) Act 1989, and may include amendments to the Fuel Industry Act 2020 and the International Energy Agreement 1976, depending on the advice of the Parliamentary Counsel Office;
- 53 agree that a regulations-making power be created to prescribe the detailed requirements of the minimum onshore fuel stockholding obligation, including:
- 53.1 the minimum stockholding level for diesel, petrol, jet fuel and their biofuels equivalent for obligated parties in terms of days of cover;
 - 53.2 details of the accounting, auditing and reporting requirements for monitoring fuel stockholding and more broadly fuel resilience;
 - 53.3 documentation requirements for trading between fuel importers/wholesalers for compliance with the minimum fuel stockholding obligation; and
 - 53.4 criteria and procedural matters for exemptions from, and suspensions and terminations of minimum stockholding obligation;
- 54 invite the Minister of Energy and Resources to report back to Cabinet on the design of the regulations on minimum onshore fuel stockholding obligation, as well as the design of the bill, by March 2023;
- 55 invite the Minister of Energy and Resources to issue drafting instructions to the Parliamentary Counsel Office to give effect to the recommendations relating to the information collection regime for monitoring fuel resilience, the statutory purpose of the petroleum or engine fuel monitoring levy, and the minimum onshore fuel stockholding obligation;
- 56 agree that the Minister of Energy and Resources be authorised to further clarify and develop policy matters relating to the proposals in this Cabinet paper in a manner not inconsistent with the policy recommendations contained in the paper.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Energy and Resources

Appendix One: Key themes from submissions

- 1 During public consultation, the fuel importers/wholesalers with bulk storage facilities in New Zealand (abbreviated as “fuel importers/wholesalers” in this paper) stressed that its onshore fuel stock level fluctuate over the month. While the monthly average onshore stockholding level for New Zealand is roughly 20 days of fuel consumption, the stockholding level for some of the major fuel importers/wholesalers can be below 15 days of cover on some days and well above 20 days of cover on some days. The fluctuations in the daily stockholding level for the smaller fuel importers/wholesalers can be even bigger. The fluctuations in the diesel stock level also tend to be higher than those in the petrol stock level.
- 2 In light of their normal stockholding level, fuel importers/wholesalers consider that the minimum onshore fuel stockholding level proposed in the consultation paper would require them to adopt less efficient operational practices and/or invest in more onshore fuel storage, which would have flow-on costs through the supply chain. Some indicated that if New Zealand requires a minimum stockholding level as proposed in the consultation paper, the upfront capital costs associated with new tankage for meeting the requirement could be in the order of Commercial Information (depending on location, land access and other factors). Alternatively, without additional tankage, the industry would face additional operational costs (potentially more than Commercial Information a year for a major fuel importer) due to additional port calls and demurrage costs.
- 3 Fuel importers/wholesalers considers that the costs of increased onshore fuel stockholding would exceed the benefits, and New Zealand fuel supplies will remain resilient under the new 100 per cent fuel import model in the absence of minimum stockholding obligation.
- 4 All fuel industry participants, including independent distributors, expressed concerns about the potential adverse impact of a stockholding obligation on wholesale and retail competition. This is due to several factors. One is that a large wholesaler would be able to meet an obligation more easily than a small wholesaler with only one import terminal. Another factor is that wholesale market shares are not consistent with bulk storage market shares. As a result, costs would not fall evenly across the industry and would generally have a negative impact on competition by raising costs and/or limiting choices for new entrants and independent suppliers.
- 5 Several submitters, mainly from the transport sector, consider that resilience to local fuel distribution disruptions (e.g. pipeline failure) is at least as important as resilience to fuel import disruption; there is a need for fuels to be distributed efficiently between ports in New Zealand.
- 6 Many submissions noted the importance of fuel resilience and onshore stockholding. Some emphasised the particular importance of diesel, while airlines and airports emphasised the importance of jet fuel.
- 7 Submissions from airlines support that minimum onshore stockholding level for jet fuel be set at current commercial levels, and consider there is not a

strong economic case for higher levels. They also emphasise the importance of fuel distribution resilience, noting the experience in 2017 when jet fuel was rationed at Auckland Airport for nine days due to the rupture of the Refinery-to-Auckland pipeline.

- 8 In terms of meeting the 90-day reserve stock obligation under the IEA, fuel importers/wholesalers generally support the continuation of the practice where the Government purchases oil tickets to meet the obligation and uses the Petroleum or Engine Fuels Monitoring Levy to fund these tickets. They suggested that, should the Government wish to hold more onshore fuel stocks rather than only purchasing oil tickets for the purpose of meeting the IEA obligation, the Government should consider procuring the onshore storage of reserve stocks itself and there are existing crude oil tanks in New Zealand that could be converted for such storage.

Appendix Two: Details of the proposed minimum onshore fuel stockholding obligation

Call for data to develop regulations on minimum stockholding level

- 1 In light of the lack of fuel stockholding data at a granular level, officials will call for detailed historical fuel stock data from the fuel importers/wholesalers, as they develop detailed regulations on the minimum stockholding obligation between now and early next year. These regulations will clarify the accounting and reporting requirements for the obligation.

- 2 The following information will be gathered and taken into consideration for developing the regulations:
 - 2.1 historical fuel stockholding levels of fuel importers/wholesalers;
 - 2.2 historical distribution of fuel storage capacity across New Zealand;
 - 2.3 historical fuel consumption level in New Zealand;
 - 2.4 expected fuel consumption in different regions in New Zealand;
 - 2.5 New Zealand's emergency reserve commitment under the IEA; and
 - 2.6 potential impacts on competition in the fuel markets, particularly the need to ensure that the minimum stockholding obligation does not create disproportionate cost impact on smaller fuel market players.

- 3 At this stage, minimum stockholding levels for fuel importers/wholesalers are expected to be at the national level only. However, if officials identify significant gaps in fuel resilience in certain regions through the call for data or future monitoring, the Government should consider setting minimum stockholding levels at a regional level.

- 4 During public consultation, some submitters, particularly those from the transport sector, highlighted the need to ensure regional fuel resilience in the event of natural hazards, infrastructure failure or industrial action. On the other hand, others cautioned against setting minimum stockholding level at a regional level, as this could result in inefficient investments in fuel storage facilities.

Trading for compliance with minimum stockholding obligation is allowed

- 5 Fuel importers/wholesalers will be able to trade with others to meet the minimum fuel stockholding obligation through entitlement agreements between them. These agreements will record the transfer of the right to count an amount of fuel stocks for the purpose of complying with the minimum stock, and will be signed by both parties.

- 6 This trading mechanism will help minimise compliance costs and give obligated parties more flexibility in how they meet their obligations and

respond to short-term disruptions to their fuel supply chains and to manage routine events such as tank inspection or refurbishment. During public consultation, there was broad support for this trading mechanism in light of the flexibility it offers.

Minimum stockholding obligation can be exempt, suspended and terminated in some circumstances

- 7 There are some exceptional circumstances where fuel importers/wholesalers will not be able to maintain their normal commercial stockholding level, as raised by a number of submitters during public consultation. For example, if storage facilities are damaged by a major earthquake, minimum stockholding obligation may need to be suspended. Also, if a fuel importer/wholesaler leaves the market, the minimum stockholding obligation should no longer apply to that party.
- 8 Therefore, the proposed minimum onshore fuel stockholding obligation on fuel importers/wholesalers will be subject to Ministerial powers to grant exemptions in exceptional circumstances, suspend obligations temporarily, and terminate obligations for fuel importers/wholesalers exiting the New Zealand market.
- 9 Where a fuel importer/wholesaler exits the New Zealand market, the remaining importers/wholesalers are expected to fill in the gap in onshore fuel stocks left by the exiting party. The principle is that a participant's stockholding obligation follows its wholesale market share. Regulations on the minimum onshore fuel stockholding obligation, which are to be developed, will clarify how this will take place in practice when all market shares change following an obligated party's exit or entry.
- 10 The details of the circumstances where exemptions, suspensions and terminations of obligations apply, and the relevant processes for seeking and granting these exemptions, suspensions and terminations be prescribed in regulations.

Monthly stockholding reporting

- 11 Fuel importers/wholesalers will be required to submit monthly returns, which will provide key information for monitoring compliance with the minimum stockholding obligation and more broadly New Zealand's fuel resilience. Officials will use such information for the purposes of monitoring and enforcement activities, and policy development. Officials may also use such information to prepare official publications on New Zealand's fuel resilience, but will make sure that commercially sensitive information will not be published.
- 12 Regulations on the minimum stockholding obligation, including the relevant accounting, auditing and reporting requirements, will be developed between now and early next year. Subject to further consultation with the fuel sector during the regulations-making process, the monthly returns from fuel importers/wholesalers will include, at a minimum:

- 12.1 stock information for each fuel at each bulk storage facility
 - 12.2 the highest and lowest points of each fuel importer/wholesaler's fuel stock level for the month, and the dates on which the highest and lowest points were reached
 - 12.3 information about stock on water, including expected time to discharge in New Zealand, and at which port the stock will be discharged
 - 12.4 notice of any entitlement agreement between fuel suppliers who traded fuel stocks for meeting the minimum fuel stockholding level.
 - 12.5 information on diversity of fuel supply sources, particularly which refineries we import fuels from; and
 - 12.6 contingency supply arrangements available to fuel importers during international and domestic fuel disruptions.
- 13 Requiring stockholding returns to be filed on a monthly basis, rather than more frequently, would strike the right balance between administrative efficiency and providing assurance about fuel resilience. During public consultation, major fuel importers/wholesalers submitted that the reporting requirements should be kept as simple as possible, with some preferring less frequent reporting. On the other hand, submitters from the transport sector generally consider that the obligated parties should provide sufficient information on the quantities and locations of the fuel stocks to facilitate emergency response and contingency planning. Some of these submitters suggest real-time reporting or weekly returns. MBIE already receives monthly aggregate stock reports from the fuel sector, and this proposal will build on the industry's existing reporting practices.

Penalty for non-compliance

- 14 To motivate fuel importers/wholesalers to comply with the minimum fuel stockholding obligation, the maximum pecuniary penalty for failure to achieve the minimum stockholding level is now proposed to be the greater of \$5 million or three times the financial gain from the breach.
- 15 This maximum penalty is higher than the one proposed during the public consultation, as a number of submitters, particularly those from the transport sector, suggests that the penalty needs to be higher to provide sufficient financial incentive for compliance. The maximum penalty I now recommend is based on other examples in in the Fuel Industry Act 2020 and the Commerce Amendment Act 2022.

Penalty for providing false or incomplete information

- 16 The maximum fine for breaches of accounting, reporting and auditing requirements associated with the minimum fuel stockholding obligation will be \$100,000 for an individual and \$500,000 for an organisation. Such breaches include failure to submit monthly returns, provision of false or incomplete

information in monthly returns, and signing a false or misleading entitlement agreement for trades in fuel stocks.

- 17 This level of maximum fine is the same as that for the recently proposed sustainable biofuels mandate, and not dissimilar to the penalties for breaches of a similar nature in other legislation, such as the Financial Markets Conduct Act 2013.

When minimum stockholding obligation will come into effect and will be reviewed

- 18 The proposed minimum onshore fuel stockholding obligation on fuel importers/wholesalers will come into effect from 1 July 2024 at the earliest, subject to the passage of the relevant legislation and regulations.
- 19 Officials will need to undertake further work to develop the regulations on the minimum stockholding obligation for fuel importers/wholesalers, including calling for data to set their minimum stockholding levels. I will report back to Cabinet on the regulatory proposals early next year.
- 20 The proposed minimum fuel stockholding obligation will be reviewed within five years after it comes into effect, as the fuel stockholding level may need to evolve in light of emerging trends in the liquid fuels market, such as the expected fall in demand for petrol and diesel and the expected increase in jet fuel demand.
- 21 The Minister of Energy and Resources will have the discretion to bring forward the review if there are substantial changes in the international context that would justify an earlier review, or if deemed necessary in light of the continuing inter-agency work to identify options to strengthen the resilience of New Zealand's supply chains for access to essential goods and services.
- 22 The review of the minimum stockholding obligation will take into account the following considerations:
- 22.1 the Government's emissions budget and emissions reduction plan;
 - 22.2 fuel demand in New Zealand;
 - 22.3 fuel mix for transport fleet;
 - 22.4 any relevant data and findings on the resilience of New Zealand's supply chains, such as national and regional fuel stocks data and reports on resilience of international and domestic fuel supply chains; and
 - 22.5 domestic fuel production capacity¹⁴.

¹⁴ New Zealand produces a small amount of ethanol and biodiesel. If a sizeable biorefinery is developed in the future, it will be worth examining whether the biorefinery should be subject to minimum onshore fuel stockholding obligation, and whether the minimum stockholding level for fuel importers/wholesalers should be changed.