Improving our diesel resilience

October 2024

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Te Kāwanatanga o Aotearoa
New Zealand Government

Ministry of Business, Innovation and Employment (MBIE)
Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders. MBIE combines the former Ministries of Economic Development, Science and Innovation, and the Departments of Labour, and Building and Housing.

More information

Information, examples and answers to your questions about the topics covered here can be found on our website: www.mbie.govt.nz or by calling us free on: 0800 20 90 20.

Disclaimer

This document is a guide only. It should not be used as a substitute for legislation or legal advice. MBIE is not responsible for the results of any actions taken on the basis of information in this document, or for any errors or omissions.

ISBN: 978-1-991316-35-6 (Online)

October 2024

Contents

Improving our diesel resilience 0
Minister's foreword 2
Executive summary 3
Introduction 4
Status quo 7
Problem definition 7
Objectives 8
Options to improve New Zealand's diesel resilience 10
Implementation and evaluation 18
Questions for consultation 20

Minister's foreword

Fuel security is a priority for this Government. We are acutely aware of how important engine fuels are to our economy and the impacts that a fuel disruption would have on New Zealanders. New Zealand imports nearly all of our engine fuels, making us particularly vulnerable to international and domestic supply disruptions.

Ensuring New Zealand holds enough reserve stocks to ride out disruptions is a key pillar of fuel security. It is a critical insurance policy needed to safeguard against the low probability, but potentially devastating impacts that a severe and sustained fuel disruption might have.

The minimum stockholding obligation will commence on 1 January 2025, requiring fuel importers to hold 28 days' cover for petrol, 24 days' for jet fuel and 21 days' for diesel. I am not satisfied that 21 days' cover is enough to keep as reserve stocks for diesel. It is our most important fuel and we need to hold enough diesel onshore to keep essential goods moving through the country and essential services running, even if fuel supply chains have been disrupted.

This discussion document seeks your feedback on options that would increase our diesel reserves from 21 to 28 days' cover – roughly 70 million litres of additional diesel. Increasing our diesel reserves to 28 days' cover would allow our essential services to operate for four months, with rationing at 25 per cent.

I welcome your feedback on the options in this paper to increase our diesel reserves. Please provide feedback on the proposals to gasfuelpolicy@mbie.govt.nz by 6 December 2024.

Hon Shane Jones

Associate Minister for Energy

Executive summary

For the foreseeable future, diesel will continue to be our most strategically important engine fuel. Diesel plays a critical role in food production, transporting essential goods around the country, for emergency services, electricity generation and other essential services.

Despite its importance for our economy, the days of cover of diesel that we hold in reserve is low compared to jet fuel and petrol. On 1 January 2025, the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* will require fuel importers to hold, on average, 21 days' cover for diesel, 24 days' cover for jet fuel and 28 days' cover for petrol. If there was a major disruption to supply chains, there could be significant harm to our economy if we do not hold enough onshore diesel to ride out disruptions.

The intention at the time of developing the *Fuel Industry (Improving Fuel Resilience) Amendment Act* was to increase our diesel reserves to 28 days. Last year, the government began the process of investigating Crown procurement and storage of 70 million litres of diesel – roughly equivalent to seven days' cover and bringing New Zealand's diesel reserves to 28 days. However, because of the high capital costs involved, Government decided to stop work on Crown procurement so that it could have a thorough understanding of the benefits and costs of other options.

We are now consulting on options that would increase our reserves to 28 days. These options range from placing the obligation to hold extra reserve diesel solely on fuel importers, through to the Crown being responsible for holding reserves, with a hybrid option of Crown offering other support.

All options will increase costs to consumers at the pump to differing degrees. Holding reserve stocks is expensive. But this needs to be weighed against the consequences of not having enough diesel during a supply disruption, which could be catastrophic to our economy.

We ask a series of questions through this document. Your answers and any additional information you can provide will help us determine what is the best option to ensure New Zealand's diesel resilience.

Consultation closes 6 December 2024.

Introduction

A secure fuel supply is critical to our economy and way of life

Having a secure and resilient supply of engine fuels is critical to our economy. Liquid fuels – petrol, diesel, and jet fuels – are our largest source of transport energy. A significant and sustained supply disruption of our engine fuels would cripple industry and cause significant hardship to New Zealanders.

Holding fuel stocks onshore for use in an emergency is a key part of building our fuel security. The higher the level of fuels that are held onshore, the more likely we will be able to weather any significant disruptions to our fuel supplies, such as a closed border event. Internationally, it is common for countries, particularly members of the International Energy Agency (**IEA**) and members of the European Union, to maintain government-owned stocks or place obligations on fuel industry participants to hold minimum stock levels in order to build their resilience.

In 2020, Refinery NZ (now Channel Infrastructure) announced that it intended to close the Marsden Point Refinery. Closing the refinery meant New Zealand would move from refining about 70 per cent of our refined engine fuels (from imported crude oil) to being fully reliant on refined fuels imported from overseas refineries.

Given the magnitude of the change, the refinery's closure prompted government to review New Zealand's fuel resilience policy. The review found that our total onshore fuel stocks would likely reduce as a result.[i]

In 2022, the Government introduced a fuel resilience policy package that responded to the findings of the review. It included measures to improve the government's oversight over our fuel security, improvements to how we manage and fund our IEA oil tickets, and a commitment to updating the National Fuel Plan.[ii]

Changes were also made to the statutory purpose of the *Petroleum or Engine Fuels Monitoring Levy* (the **Levy**) so that the Levy could be used to recover the costs of promoting onshore fuel resilience, such as government procurement of reserve fuels, resourcing the work to operationalise and update the National Fuel Plan, and funding tools and programmes to improve monitoring and collecting information on fuel resilience.

A key component of the package focused on building resilience in our fuel supply by ensuring we have sufficient reserves of fuel onshore.

Last year, the *Fuel Industry (Improving Fuel Resilience) Amendment Act* was passed. This legislation introduces a minimum stockholding obligation (**MSO**) that, from 1 January 2025, requires fuel importers to hold, either onshore or on ships in New Zealand's EEZ:

- 21 days' cover for diesel
- 24 days' cover for jet fuel
- 28 days' cover for petrol.

The minimum stockholding levels that were chosen for diesel, jet fuel and petrol broadly reflect the average stockholding levels that the fuel industry would hold regardless of government intervention. This approach aimed to minimise the need to significantly increase fuel storage capacity, keeping

[i] Hale and Twomey, *Fuel Security and Fuel Stockholding Costs and Benefits 2020*, 16 December 2020 – available at: https://www.mbie.govt.nz/dmsdocument/15257-fuel-security-and-fuel-stockholding-costs-and-benefits-2020.

[ii] More information about the fuel resilience policy package is available on the MBIE website.

compliance costs and therefore flow-on impacts on fuel prices relatively low. While the minimum stockholding levels do not immediately improve fuel security over the status quo, the levels ensure that fuel security does not deteriorate.

The minimum stockholding levels are also similar to the refined fuel stockholdings that were in place while the Marsden Point refinery was operating. When the refinery was operating, our diesel stockholding was on average 20 days' supply. However, the refinery also held feedstock that could be processed into refined fuels that represented an additional five days' supply of diesel.

Despite it being a more strategically important fuel, diesel's minimum stockholding level (at 21 days' cover) is lower than that for petrol or jet fuel. To increase diesel's stockholding levels to 28 days, the government decided that it would investigate procuring 70 million litres of diesel - roughly equivalent to seven days' extra cover, as part of the 'reserve diesel arrangement'.

In June 2024, Cabinet agreed to stop work on investigating government procurement of reserve diesel and to investigate other options to bolster our diesel reserves. As procuring additional reserve diesel carries significant capital costs, Cabinet wanted to have a robust understanding of options and their impacts before making decisions.

We are consulting again on how we increase our diesel reserves

We previously consulted on onshore fuel stockholdings in early 2022. Overall, we received 21 submissions, mostly from the fuel and transport sectors. Many submissions noted the importance of fuel resilience and onshore stockholding while some emphasised the particular importance of diesel for emergency and essential services.

The consultation document covered a number of options for onshore fuel stockholding policies, and indicated that the following options were preferred:

- a minimum onshore fuel stockholding level higher than the status quo and similar to that proposed in Australia, namely 28 days of cover for diesel, and 24 days of cover for petrol and jet fuel
- the introduction of a minimum stockholding obligation for fuel wholesalers.

Nine out of 21 submitters agreed that there should be a minimum onshore fuel stockholding obligation on fuel wholesalers. Two submitters agreed in part, five disagreed, and five did not have a clear view.

Fuel importers/wholesalers opposed the option of requiring them to hold fuel stocks above their normal commercial stockholding level. They submitted that:

- New Zealand fuel supplies will remain resilient under the new 100 per cent fuel import model.
- An increase in stockholding would likely require increased investment in infrastructure with flow-on costs through the supply chain. The fuel sector's comments on the relevant costs are discussed in this RIS.
- The costs of increased stockholding would exceed the benefits.
- If the Government wishes to have more onshore fuel stocks, it should fund the onshore storage of reserve fuel stocks and the fuel sector can manage the turnover of reserve fuel stocks.

The previous consultation gave us a good understanding of submitters' views on onshore fuel stockholding, but that consultation was for petrol and jet fuel, as well as diesel. We want to reconsult on how to increase our diesel reserves as the benefits and costs of options may differ when just applied to diesel compared to also considering petrol and jet fuel.

Diesel resilience continues to be our focus

New Zealand has never had a severe and sustained fuel disruption, which could be caused by events like a large-scale natural disaster, geopolitical conflict or infrastructure failure. But a severe and sustained fuel disruption would have a profound impact on our economy and could lead to significant hardship. It will take time to convert tanks in order to fill them with reserve diesel and we need to take action to reduce the risks to New Zealand.

While we are considering how best to increase our diesel reserves, we are also considering broader risks to our fuel security. Work is underway on a study into New Zealand's fuel security that will, among other things, identify risks to our fuel supply chains and investigate how we could improve sovereign fuel resilience. This study will be completed in early 2025 and be followed by a fuel security plan to address the issues identified by the study. Any findings from the study can be incorporated into making final decisions on diesel.

Structure and scope of this paper

This paper outlines the problem, our objectives, and options to address the problem.

We ask a series of questions throughout the document. Answers to these questions will help us identify preferred options that will build resilience, are workable, and minimise costs to consumers. A collated list of questions is at the end of the document.

Submissions close 6 December 2024.

Status quo

On a day-to-day basis, New Zealand's diesel supply is resilient. Diesel arrives on most fuel shipments into New Zealand. There is also more flexibility to relax standards for diesel quality compared to other fuels, so shipments into other countries can be more easily diverted to New Zealand in the case of a domestic shortage.

In 2020, MBIE commissioned Hale and Twomey (now Envisory) to assess national fuel supply risks and options to mitigate the impact of disruption events.[iii] The report found that New Zealand would, on average, have 15 to 20 days' cover of refined fuel in the country (including petrol, jet fuel and diesel) with a drawable stock range of 10 to 20 days' cover. This was deemed reasonable for managing the impacts of a partial fuel import disruption, considering it would take around 25 days for a fuel shipment to arrive from Singapore's refineries after an order is made (New Zealand gets the majority of our refined fuel products from Singapore).

The average level of diesel stock held at month end is estimated to be roughly 20 to 30 days' cover, based on recent data that MBIE collects.[iv] However, there are daily fluctuations in the volume of stock held throughout the month and there are periods where stock levels fall significantly below the average volume.[v]

While the risk of a sustained supply disruption is low, the consequences would be devastating for New Zealand at the current stockholding levels. Social unrest could result from difficulties in delivering goods and services, and the adverse economic impact could be in the order of billions of dollars for a disruption lasting more than several weeks. Such a disruption is therefore a low probability but very high consequence event, which justifies government intervention. Another example of a low probability but high consequence event was the COVID-19 pandemic. The impacts the pandemic had on international supply chains underscored New Zealand's reliance on imports and the fragility of our supply chains.

1. Do you agree with this characterisation of the status quo? If not, please provide evidence to support your views.

Problem definition

There is little commercial incentive for fuel companies to invest in infrastructure to increase their diesel stockholding levels, especially beyond the 21 days' cover[vi] they will be obligated to hold from 1 January 2025. Any additional stockholding can be difficult to justify from a commercial perspective

[iii] Hale and Twomey, *Fuel Security and Fuel Stockholding Costs and Benefits 2020*, 16 December 2020 – available at: https://www.mbie.govt.nz/dmsdocument/15257-fuel-security-and-fuel-stockholding-costs-and-benefits-2020.

[iv] MBIE currently collects fuel stock data from fuel importers once a month, based on the stock level on the last day of each month. Stock levels are calculated as "days of stock" based on average consumption (including for international transport) over this period.

[v] The *Fuel Industry (Fuel Resilience) Amendment Regulations 2024* will require fuel importers to disclose certain information about their fuel stockholding, which will give the government better oversight over our domestic fuel security. These regulations will commence on 1 January 2025.

[vi] The 21 days' cover was broadly based on the average amount of stock expected to be held by fuel companies in New Zealand in the absence of a domestic refinery, the amount of time for reordering fuel shipments from a different country, and the minimum stockholding obligation in Australia. The intent was to prevent deterioration in stockholding level over time.

because it can reduce efficiency of business operations and national interest is not typically a key consideration in business decisions.

However, what is efficient for the market does not necessarily build New Zealand's overall fuel and diesel resilience. Diesel will continue to be our most strategically important engine fuel for the foreseeable future. It plays a critical role in food production, transporting essential goods around the country, for emergency services, emergency electricity generation and other essential services. But despite its importance for our economy, our diesel reserves are lower than that for petrol or jet fuel.

With 21 day's cover of diesel stocks onshore, our essential services could operate for three months if stocks were immediately rationed (which would involve prioritising certain fuel users, such as providers of essential goods and services). New Zealand is particularly vulnerable to international supply disruptions, given our distance from the rest of the world and because we import nearly all of our engine fuels. It is in New Zealand's interests to bolster our diesel reserves to minimise the impacts of a major supply disruption where it would take time to reestablish the supply chain.

This problem is recognised internationally, and many other countries hold significantly larger reserves – our diesel reserves are low by international standards. For example, Australia has recently increased its minimum stockholding obligation for diesel to 32 days.

2. Do you agree with our problem definition? If you don't, what would you suggest changing?

Objectives

Increasing diesel reserves is one way of mitigating fuel supply disruption risks. Other mitigation options, such as reestablishing domestic refining capacity, are being investigated as part of the fuel security study but are outside the scope of this consultation.

There are two main objectives for the reserve diesel workstream. They are to:

- Improve diesel resilience in New Zealand by increasing diesel reserves to an average of 28 days' cover as soon as practicable.
- Provide a cost-effective solution that minimises costs to consumers.

Increasing New Zealand's diesel reserves to an average of 28 days' cover will benefit the public through increased fuel resilience. In the event of a severe and sustained fuel disruption, essential services will be able to operate for a month longer than the status quo (assuming rationing at 25 per cent). These essential services would include food production and distribution, emergency services and emergency electricity generation.

We welcome your views on whether 28 days' cover is the right level. There is no objective measure for determining the 'right' level of fuel resilience, but in selecting 28 days' cover we factored in:

- our onshore fuel stocks before the Refinery's closure (roughly 20 days' cover for diesel in the country plus five days' cover for crude oil for the Refinery's operation)
- Australia's minimum stockholding level for diesel (20 days initially, increasing to 32 days on 1 July 2024 for importers)
- modelling results that suggested the impacts of a partial fuel import disruption (which is more plausible than a closed-border event cutting off New Zealand from the rest of the world) would be manageable, should there be 20 days' cover of fuels.

3. Have we identified the correct objectives?
4. Is 28 days' cover the right level? Should we have more or less? Why?

Between now and the time it takes to get additional reserve diesel stocks into tanks, New Zealand's exposure to the impacts of such a disruption remains elevated. It is therefore prudent to favour options that can minimise this risk as quickly as possible.

Fuel resilience comes at a cost, which would be passed on to consumers at the pump. Options should strike a balance between improving diesel resilience in New Zealand, and therefore mitigating the impacts that would be felt by New Zealanders in a sustained fuel disruption, and minimising costs to the public.

Options to improve New Zealand's diesel resilience

We have identified three options to increase New Zealand's diesel reserves to 28 days' cover. These range from placing the responsibility on fuel importers to the Crown being fully responsible, with varying flow on cost impacts to consumers. The options are for the government to:

1. Do nothing.
2. Increase the stockholding obligation for diesel from 21 days' cover to 28 days' cover through regulations.
3. Government procurement of 70 million litres of diesel stock and access to storage (equal to 7 days' cover), either through the Petroleum or Engine Fuels Monitoring Levy, general taxation or a combination.
4. Increase the stockholding obligation for diesel as in Option 2 but the government supports additional storage.

In addition to these options, we also considered sharing the responsibility of increasing our diesel reserves between fuel importers and government. For example, fuel importers hold 24 days' worth of stocks and government procures the remaining four days. We discarded this option as it would impose high costs to both the government and to fuel importers, potentially compounding price increases at the pump. Previous engagements with terminal operators indicate that the reserve diesel storage costs would be much higher on a per-litre basis, should the government rent less storage space than option 3. Given these disadvantages, it would make more sense to provide financial support (Option 4) to reduce the cost and administrative burden on fuel importers and achieve the intended effect of alleviating price increases at the pump.

We have not identified a preferred option. We welcome feedback on each option, including the potential impact on consumers and on competition in the fuel industry.

5. Are there any other options that we have not considered?

Key limitations on analysis

In May 2024, Cabinet decided to do no further work investigating the detailed commercial arrangements for government procurement of 70 million litres of reserve diesel stock. Instead, Cabinet decided to explore other options to increase New Zealand's diesel reserves from 21 to 28 days' cover.[vii] This consultation is focused solely on increasing our diesel reserves from 21 to 28 days' cover.

A major constraint on our ability to assess the potential impacts of the options examined in this document is that we are not privy to commercially sensitive information or detailed breakdowns of fuel companies' operational costs, how they optimise their stock management practices, and the underlying evidence base for their assessment of the implications of holding more stocks than the normal commercial stockholding level.

There is also uncertainty about how much the Levy rate might need to increase if the preferred option relied on Levy funding (**Options 3** and **4**). The price of diesel is highly volatile and at any given

[vii] https://www.mbie.govt.nz/dmsdocument/28889-reserve-diesel-and-wider-fuel-resilience-work-policy-decisions-proactiverelease-pdf

time may be higher or lower than the import price that we have used for our estimates. The surplus in the Levy may also be lower than forecast if the cost of IEA oil tickets increases[viii].

We lack information on the benefits of our proposals. MBIE periodically commissions studies into our fuel security, including considering particular disruption scenarios. The most recent was in 2020[ix] with a new fuel security study to be completed early next year. While we have a good understanding of the risks, we are not able to quantify the benefits of having essential services continue to operate during a severe and sustained supply disruption.

Multi-criteria analysis

We have used following five criteria to compare the options to the status quo:

- **Overall objective** – would this option increase diesel reserves in New Zealand to an average of 28 days' cover?
- **Impacts on competition** – would this option negatively impact competition in the fuel sector?
- **Cost impact** – what are the cost impacts to consumers and taxpayers?
- **Administrative efficiency** – are compliance costs to industry and the government minimised?
- **Timing** – how soon would the option result in an average of 28 days' cover (ie diesel in tanks)?

There is a trade-off between cost impact and timing. Placing the obligation on fuel importers would likely mean diesel is in tanks quicker than a government-led approach. However, fuel importers have commercial drivers and would pass on all costs to consumers, whereas a government-led approach would alleviate flow on costs. This is explored in more depth below.

There is also some overlap between the criteria. The cost impacts could also be greater if competition between fuel importers was reduced or the compliance burden was high. While there is overlap, we consider these criteria to be sufficiently important so have kept them separate.

6. There is a trade-off between cost impact and timing. Options that have a higher cost impact are quicker. Do you prefer an option that is fast but more costly or slow and cheaper? Can you explain your answer?

Table 1 below provides a high-level summary of our provisional view of how each of the options weigh up against the status quo, using the below key. The sections below set out more detail about how each option has been assessed against the criteria. The document asks a series of questions that we will use to refine our analysis.

++	much better than the status quo
+	better than the status quo
0	about the same as the status quo
-	worse than the status quo
- -	much worse than the status quo.

[viii] More information about IEA tickets is available here: https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/international-engagement-on-energy/new-zealands-participation-in-the-international-energy-programme

[ix] Fuel Security and Fuel Stockholding Costs and Benefits 2020 (mbie.govt.nz)

Table 1: Multi-criteria analysis table for reserve diesel options

Criteria	Option 1: Do nothing	Option 2: Increase diesel MSO from 21 days to 28 day's cover	Option 3: Government procurement of reserve diesel. Funded by the Levy or general taxation	Option 4: Increase the stockholding obligation for diesel as in Option 2 but the government supports additional storage
Increases diesel reserves to 28 days' cover	- - Does not achieve.	+ + Achieves.	+ + Achieves.	+ + Achieves.
Impacts on competition	0	- Could reduce competition as smaller fuel importers with access to only one fuel terminal may find it more difficult to comply. Relative to major importers, those smaller importers have less capacity to take more frequent cargoes, have more fluctuations in stock level and might have to invest more in storage capacity.	0 Negligible.	- Could reduce competition but smaller fuel importers could be supported through grants. Impact may be less than Option 2.
Cost impact	0	- - Fuel importers would face more costs associated with extra import shipments and storage investments. Costs passed on to consumers. Likely to be highest fuel price increase as fuel importers have commercial objectives.	- Minimal cost impact on fuel importers. Small fuel price increase (via Levy)	- - Fuel importers could face more cost associated with extra import shipments, while Government would provide grant for storage investments. Costs passed on to consumers. However, impact is expected to be less than Option 2 but higher than Option 3.
Administrative efficiency	0	- • Can implement via regulations enabled by the Fuel Industry (Improving Fuel Resilience) Amendment Act 2023. • Would increase the burden on industry, who would need to acquire additional storage and decide how to incorporate the extra stock into their business.	- - • Increase Levy rate via regulation. • Requires separate procurement process. Crown would have to manage storage contracts.	- - • Can implement via regulations enabled by the Fuel Industry (Improving Fuel Resilience) Amendment Act 2023. • Government would have to establish and administer a grant scheme.
Timing (diesel in tanks)	0	+ + 2026/2027	+ 2027/2028	+ 2027/2028
Overall assessment	**0**	**0**	**0**	- -

Option 1: Doing nothing beyond the current MSO settings

This is the status quo. Relying on the current minimum stockholding obligation settings for diesel will leave New Zealand with an average of 21 days' cover, equivalent to three months' supply for essential services with rationing. Fuel importers are unlikely to hold surplus stock beyond what is required for the MSO from 1 January 2025 because there is no commercial incentive to do so.

This option does not meet the objectives. It would leave New Zealand vulnerable to a sustained supply disruption despite diesel being a critical fuel.

7. There are risks to New Zealand if we experience a severe and sustained supply disruption. Do you agree that doing nothing isn't acceptable? If you prefer this option, please tell us why.

Option 2: Increase the stockholding obligation for diesel from 21 days' cover to 28 days' cover

The MSO will require fuel importers to hold, on average, 21 days' cover of diesel from 1 January 2025. The stockholding levels can be adjusted through regulations – either up or down – for particular fuels. Under this option, the MSO for diesel would increase from 21 to 28 days' cover. Fuel importers would need to increase their diesel stockholding to meet the increased obligation, putting the onus of improving diesel resilience fully on fuel importers.

Impacts on competition

Larger fuel importers would likely find it easier to comply with an increased obligation. As they have access to more sites with more storage options, they have more capacity to take more frequent fuel cargoes and therefore smooth out their stock fluctuations. These larger fuel importers also have some existing shared fuel storage infrastructure, while smaller fuel importers could find it challenging to enter into agreements to access such infrastructure. During public consultation in 2022, the fuel sector raised concern about the impacts of a significantly higher minimum stockholding obligation on competition in the fuel markets.

8. If we increased the MSO for diesel to 28 days, how can we maintain competition in the fuel industry?

Cost impact

This is a low-cost option for the Crown but is likely to be the highest cost option to consumers at the pump. Fuel importers will likely pass on the costs of additional diesel and its storage. Disproportionate impacts to smaller players could also reduce competition in the sector and cause higher costs to consumers overall.

Estimates from one fuel importer during the 2022 consultation suggested costs to consumers at the pump could increase by an additional 0.4 – 2 cents per litre. We have not independently verified these estimates. In addition, the cost of increased diesel stockholding and storage is likely to be different for each fuel importer depending on how they decide to meet the increased obligation. This makes it difficult to estimate flow on costs.

9. Do you have any information on how much an increased MSO for diesel could cost consumers? Please provide details and explain how any estimates have been arrived at (if applicable).

Administrative efficiency and timing

This option is consistent with the MSO regime and avoids the complexity of establishing and administering a parallel solution. It is a low burden option for the Crown. We would need to adjust the MSO, but that can be done relatively easily and quickly via regulations.

However, there would be a higher burden on fuel importers. While importing and storing fuel before it is sold is a fuel importer's core business, fuel importers would need to decide how to incorporate the additional stock into their day-to-day business. They would also need time to acquire additional storage, either through new build or by converting existing tanks.

Figure 1 illustrates an indicative timeline for this option. Assuming a decision is made by the beginning of 2025, a further 18 months to two years would be available for fuel importers to access additional storage. Therefore, we estimate that tanks could be filled with diesel to meet the increased obligation from mid-2026.

Figure 1: Indicative timelines for Option 2

10. How quickly could fuel importers meet an increased MSO? What could be done to get diesel in tanks earlier than 2026?
11. We have assumed that fuel importers will begin planning for an increased MSO as soon as it is announced, rather than wait until regulations are made. Is this a fair assumption?

Option 3: Government procurement of 70 million litres of diesel (equal to 28 days' cover)

This option would involve the government entering into a long-term lease agreement for new diesel storage capacity and procuring up to 70 million litres of onshore reserve diesel stocks.

We anticipate that, similar to the former 'reserve diesel arrangement', the government would seek requests for proposals for storage before procuring diesel. This could allow the government to take a strategic view of where diesel reserves are sited, potentially enhancing our domestic resilience.

We are considering whether it is appropriate for the Levy to fund the initial procurement of diesel as well as operational costs, or whether we rely on funding from general taxation for the procurement of diesel with the Levy funding ongoing operational costs. The latter was what was envisaged as part of the reserve diesel arrangement.

We had previously discounted using the Levy to fund the entirety of an increased diesel reserve as the Auditor-General's best practice guidance on setting fees and levies states that it is generally not appropriate to include capital expenditure, ie purchasing diesel, when calculating a levy. Recovering capital costs in the year they were incurred can treat current and future levy payers inequitably because one group would pay for something they may not get the benefit of.

On further consideration, equity issues are unlikely to be a significant concern given the very large number of levy payers (ie all fuel consumers). We also consider that the benefit the extra resilience could bring to all fuel consumers, potentially justifying a deviation from the Auditor-General's guidance.

Impacts on competition

This option would minimise the market distortions that would otherwise result from requiring fuel importers to hold more stocks in addition to the MSO requirements.

Cost impact

Crown procurement is likely to have the least cost impacts to consumers at the pump. Fuel companies require a higher rate of returns on investments and face a higher cost of capital than Government, as they need to deliver profits for their shareholders to remain viable.

This option also gives the Government the most certainty and control over the costs being passed down to consumers.

Based on preliminary numbers from stakeholders, we estimate that storage lease (excluding turnover costs), could cost the Crown between $150,000 to $250,000 per million litres of diesel annually, over 15 years.

If we were to use Levy funding to fund the procurement of reserve diesel as well as operational costs, the Levy rate would likely need to increase, as set out in *Table 2* below.

Initially, the Levy rate would need to increase an estimated 0.4 – 0.5 cents per litre for the first three years. This would cover the cost of diesel procurement and storage lease costs (including both capital and operational expenditure). The increase would drop down to around 0.25 cents per litre thereafter to cover ongoing storage lease costs, stock turnover and other management costs.

Table 2: Levy rate increase over time

Year	2025/26	2026/27	2027/28	2028/29 and onwards
Levy rate increase (cents per litre)	0.4 – 0.5			0.25

These numbers reflect our current estimates. The exact cost (and therefore Levy impact) would depend on the costs of tank storage and stock management, fluctuation of diesel costs, and any smoothing of the Levy rate increase. We have assumed that we can build up a surplus in the Levy over three years so we could procure the diesel while minimising impacts to consumers.

An increase in onshore stockholding would mean New Zealand would not need to purchase so many IEA oil tickets. It is possible the Levy rate increase could be lower but we have not factored this in.

If we were to rely on general taxation, most of the costs of diesel procurement would fall on taxpayers, as opposed to fully using the Levy, which would impose the cost on fuel consumers only. We consider this could also be appropriate as all New Zealanders will benefit from improved diesel resilience in the case of a supply shortage/emergency. In addition, this option is likely to be fiscally neutral over time. As diesel is a non-depreciating asset, the initial cost of diesel procurement could be recovered when the diesel is sold.

12. Do you have a preference about whether the government uses Levy funding or general taxation if option 3 was adopted?

Administrative efficiency and timing

This option is likely to take longer than simply increasing the MSO for diesel as it would require the government to progress another procurement process. We would expect diesel in tanks by 2027 – 2028.

Beyond the procurement of storage and stock, the Crown would have to manage ongoing storage and stock management contracts. The government holding such a large asset comes with its own risks.

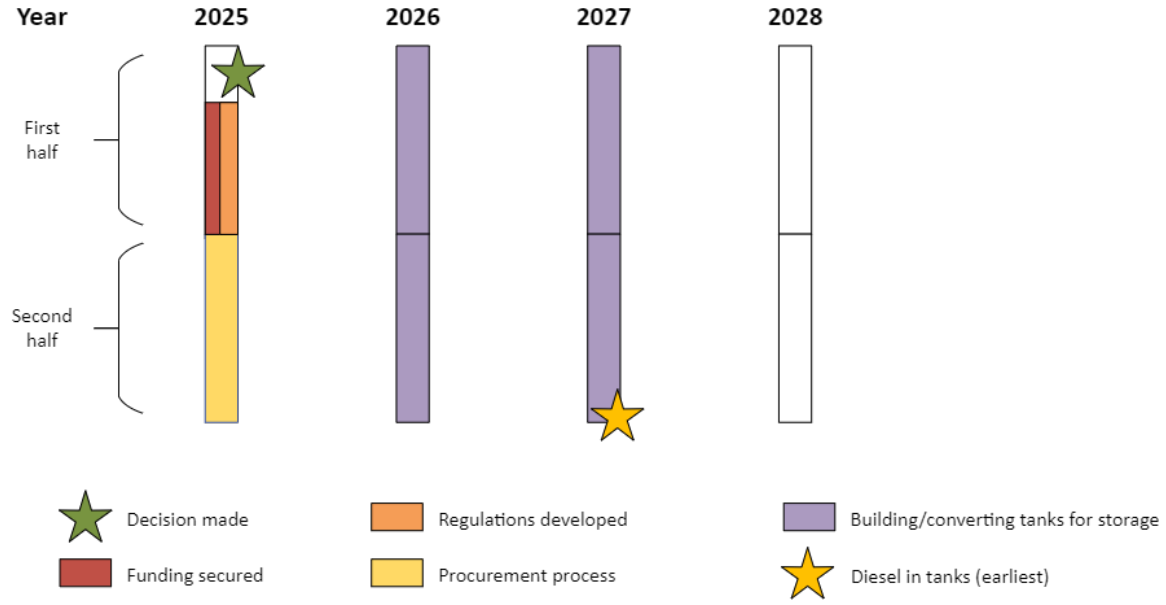

Figure 2: Indicative timelines for Option 3

Diesel tanks could be available from 2027 if a decision were made in early 2025, assuming that existing tanks would take two years to be converted to diesel and government secures funding for the procurement contracts.

13. Given the government has already investigated procuring storage, are our timeframes realistic? What could we do to speed it up?

Option 4: Increase the stockholding obligation for diesel as in Option 2 but the government supports new additional storage

As with **Option 2**, under this option the MSO would increase to 28 days. However, under **Option 4**, the government would provide financial support to the industry to help alleviate flow on costs to end consumers. Project proposals would have to meet certain criteria to ensure they are aligned with the overall objectives of the fuel resilience policy package.

This is the approach Australia took. Australia provided matching grants (up to 50 per cent for each project) totalling AU$227 million for eight additional storage projects through its ‘Boosting Australia’s Diesel Storage Program’. Approved projects were required to be completed by 30 June 2024.

Impacts on competition

This option could also reduce competition, as smaller fuel importers have less capacity to take more frequent fuel cargoes at least until they invest in extra storage. Grants or other financial support could help smaller fuel importers invest and meet an increased MSO. It is also possible that smaller fuel importers could find it more challenging to find new storage sites, while major fuel importers have readily available opportunities to build extra storage at Marsden Point.

Cost impact

The main benefit of this option is that it would likely reduce costs to consumers by alleviating costs to the fuel sector. The Government would also have better oversight of the commercial details of projects it funds, providing more information about what drives fuel prices.

In terms of costs to the Government, we could explore options to fund a grant programme under this option. This could include using the Levy funds, which would be paid for by consumers of fuel (the Levy partially makes up the fuel price). The Levy rate may or may not have to be raised, depending on the future cost of the financial support for diesel storage projects and other Levy-funded programmes (which is uncertain due to fluctuations in the cost of IEA oil tickets). We could seek separate funding for the scheme, which would involve paying for it out of general taxation. This could also be appropriate given all New Zealanders would benefit from improved diesel resilience in the case of a supply shortage or emergency, not just a smaller group of Levy payers.

Administrative efficiency and timing

As with **Option 2**, the MSO can be adjusted relatively easily and quickly via regulations. The Government would need to secure funding to provide financial support for diesel storage projects. Once a grant scheme is set up, the Government would have to assess project proposals and award funding.

A further year and a half to two years would be required for fuel importers to access additional storage, potentially longer if new build tanks are required. Therefore, we estimate that tanks could be filled with diesel to meet the increased obligation from 2027 – 28.

Figure 3 illustrates an indicative timeline for this option.

Figure 3: Indicative timelines for Option 4

14. Do you think the government should provide fuel importers with financial support to help alleviate flow on costs to consumers? Why or why not?
15. In your opinion, what kind of financial support would be appropriate?
16. What proportion of government funding would noticeably reduce an increase to fuel prices?
17. Should the government recover the cost of financial support through raising levy from fuel consumers?

Conclusion

Options 2 and **3** stand out as the leading options for further consideration, but they have their advantages and disadvantages. **Option 2** is faster but potentially will have a higher cost at the pump while **Option 3** is slower but likely to have a lower cost impact. We seek your views on your preferred option.

18. Do you have a preferred option? Why?

Implementation and evaluation

Increasing our diesel reserves would require investment into additional storage. New tanks will need to be built or existing tanks would need to be converted and updated to meet modern standards.

All options to increase reserve diesel would need regulatory change. **Options 2** and **4** increase the stockholding obligation on fuel importers, which would require amendments to regulations made under the *Fuel Industry (Improving Fuel Resilience) Amendment Act.* **Option 3** would likely use Levy funding, which would likely require an amendment to the *Energy (Petrol, Engine Fuel, and Gas) Levy Regulations 2017* to increase the Levy rate. **Option 4** may also require an increase to the Levy rate to fund any government financial support.

It is possible to stagger implementation to reduce impacts on affected parties. For example, if **Option 2** (full obligation on industry) was preferred, we could consider increasing the diesel MSO to 24 days as an interim step before raising it to the full 28 days several years later. For **Option 3**, which would involve the Government taking responsibility for procuring diesel and its storage, tanks could be filled incrementally to avoid sharp increases in the Levy rate.

The trade off with staggering implementation is that New Zealand would be exposed to the impacts of a supply disruption for a longer period. These risks are considered to be very low, but as previously noted, the consequences could be severe.

19. Do you have a preference for how quickly we implement increasing our diesel reserves?
20. If we increase the MSO for diesel, would you prefer a staggered approach? If you are a fuel importer, would this make a difference to how you invest in additional storage?

Monitoring and Evaluation

A key component of the fuel resilience policy package was ensuring that the Government was able to collect enough information to give it a clearer oversight over New Zealand's fuel resilience. The *Fuel Industry (Improving Fuel Resilience) Amendment Act* enables regulations to be made that allow for information to be collected. These regulations will be gazetted before the end of 2024.

The regulations will allow for information to be collected from bulk storage facilities and reported to MBIE on a regular basis. The regulations will ensure that more granular data is collected, including at specific locations. MBIE will be able to monitor diesel stockholding levels at a regional level.

The fuel security study will be concluded in early 2025. It is possible that the study will identify that New Zealand needs to hold different levels of diesel reserves than the 28 days that the Government has already agreed to. MBIE will be considering the findings of the study when providing advice to the Government on final policy decisions for reserve diesel.

The *Fuel Industry (Improving Fuel Resilience) Amendment Act* requires that the Minister must review the stockholding obligation within five years of the stockholding obligation commences – meaning a review must happen before 1 January 2030.

Questions for consultation

1. Do you agree with this characterisation of the status quo? If not, please provide evidence to support your views.
2. Do you agree with our problem definition? If you don't, what would you suggest changing?
3. Have we identified the correct objectives?
4. Is 28 days' cover the right level? Should we have more or less? Why?
5. Are there any other options that we have not considered?
6. There is a trade-off between cost impact and timing. Options that have a higher cost impact are quicker. Do you prefer an option that is fast but more costly or slow and cheaper? Can you explain your answer?
7. There are risks to New Zealand if we experience a severe and sustained supply disruption. Do you agree that doing nothing isn't acceptable? If you prefer this option, please tell us why.
8. If we increased the MSO for diesel to 28 days, how can we maintain competition in the fuel industry?
9. Do you have any information on how much an increased MSO for diesel could cost consumers? Please provide details and explain how any estimates have been arrived at (if applicable).
10. How quickly could fuel importers meet an increased MSO? What could be done to get diesel in tanks earlier than 2026?
11. We have assumed that fuel importers will begin planning for an increased MSO as soon as it is announced, rather than wait until regulations are made. Is this a fair assumption?
12. Do you have a preference about whether the government uses Levy funding or general taxation if option 3 was adopted?
13. Given the government has already done work on procuring storage, is this timeframe realistic? What could we do to speed it up?
14. Do you think the government should provide fuel importers with financial support to help alleviate flow on costs to consumers? Why or why not?
15. In your opinion, what kind of financial support would be appropriate?
16. What proportion of government funding would noticeably reduce an increase to fuel prices?
17. Should the government recover the cost of financial support through raising levy from fuel consumers?
18. Do you have a preferred option? Why?
19. Do you have a preference for how quickly we implement increasing our diesel reserves?
20. If we increase the MSO for diesel, would you prefer a staggered approach? If you are a fuel importer, would this make a difference to how you invest in additional storage?