



## COVERSHEET

<b>Minister</b>	Hon Shane Jones	<b>Portfolio</b>	Energy
<b>Title of Cabinet papers</b>	Approval to consult on options to improve our diesel resilience, and Fuel Industry (Fuel Resilience) Amendment Regulations 2024.	<b>Date to be published</b>	12 November 2025

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
September 2024	Approval to consult on options to improve our diesel resilience	Office of the Associate Minister for Energy
25 September 2024	Options for Improving New Zealand's Diesel Resilience: Release of Consultation Document ECO-24-MIN-0207	Cabinet Office
September 2024	Fuel Industry (Fuel Resilience) Amendment Regulations 2024.	Office of the Associate Minister for Energy
26 September 2024	Fuel Industry (Fuel Resilience) Amendment Regulations 2024 LEG-24-MIN-0200	Cabinet Office

### Information redacted

**YES**

Any information redacted in this document is redacted in accordance with MBIE'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 reason of legal professional privilege.

**[In-Confidence]**

Office of the Associate Minister for Energy

Cabinet Economic Policy Committee

**Approval to consult on options to improve our diesel resilience**

**Proposal**

- 1 This paper seeks agreement to release a consultation document on options to increase New Zealand's diesel stocks. It also provides an update on Auckland's jet fuel resilience.

**Relation to government priorities**

- 2 The National-New Zealand First Coalition Agreement has three priorities related to fuel:
  - 2.1 Commission a study into New Zealand's fuel security requirements.
  - 2.2 Investigate the reopening of the Marsden Point oil refinery. This includes establishing a Fuel Security Plan to safeguard our transport and logistics systems and emergency services from any international or domestic disruptions.
  - 2.3 Plan for the increased use of transitional low carbon fuels, including the infrastructure needed to increase the use of methanol and hydrogen to achieve sovereign fuel resilience.

**Executive Summary**

- 3 A secure and resilient supply of engine fuels is critical to our economy. A severe and sustained supply disruption would impact industry and cause significant hardship to New Zealanders. It is important that New Zealand holds enough domestic fuel stocks in reserve to ride out any disruptions.
- 4 Diesel is New Zealand's most strategically important fuel. It is essential for food production and distribution, emergency electricity generation and the movement of essential goods and services.
- 5 From 1 January 2025, the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* will require fuel importers to hold 21 days' cover for diesel, 24 days' cover for jet fuel and 28 days' cover for petrol. These levels reflect the stockholding that would occur in the absence of government intervention, and the levels were chosen to minimise the flow on costs to consumers.
- 6 Because diesel has fewer days of cover than other fuels, the previous Government agreed that the Crown would investigate procuring additional reserve diesel stocks. This would be equivalent to an additional seven days' cover.
- 7 Procuring additional reserve diesel carries significant cost both for the fuel and its storage. Consequently, Cabinet invited me to report back to the Economic Policy

Committee with a consultation paper on alternative options to securing onshore reserve diesel stocks [ECO-24-MIN-0093].

## Background

- 8 A secure and resilient supply of engine fuels is critical to our economy. We import nearly all of our engine fuels, making us vulnerable to international and domestic disruptions, including geopolitical conflicts, natural disasters or extreme weather events. The consequences of a severe and sustained disruption would be significant. Ensuring we hold enough reserve stocks of engine fuels to ride out disruptions is key to our fuel security.
- 9 In October 2022, the previous Cabinet agreed to implement a fuel resilience policy package to improve fuel supply resilience and economic security in New Zealand, by ensuring New Zealand holds enough reserve fuel stocks onshore [DEV-22-MIN-0243 refers]. This policy package was in response to a fuel security review instigated by the closure of the Marsden Point oil refinery.
- 10 As part of the package, the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* (the Act) was passed last year. The Act gives effect to two parts of the package:
- 10.1 The minimum fuel stockholding obligation (MSO), under which fuel importers that have access to bulk storage facilities will be required to hold, on average, 28 days' cover for petrol, 24 days' cover for aviation kerosene (jet fuel), and 21 days' cover for diesel from 1 January 2025.
- 10.2 Information disclosure requirements to improve monitoring and information collection on fuel stocks and potential supply chain vulnerabilities for New Zealand, with regulations able to be made from 1 July 2024.
- 11 A third part of the package was government procurement of reserve diesel stocks, in addition to those held by fuel importers. The reserve diesel arrangement would involve the Crown purchasing 70 million litres of diesel (roughly seven days of cover) and paying for its storage. Together with the MSO of 21 days for diesel, this would have brought New Zealand's total reserves to an average of 28 days' cover.
- 12 Diesel is New Zealand's most important fuel. It is essential for food production, the distribution of freight to our towns and cities, emergency electricity generation and other essential services. With 28 days' cover and with rationing at 25 per cent, our essential services could operate for four months, better enabling us to ride out any severe and sustained supply disruptions and avoiding severe hardship.
- 13 However, procuring 70 million litres of diesel is expensive. At the current import price, it would cost \$70 million.<sup>1</sup> Operational costs would be around an additional \$10-12 million a year. Given the costs, I considered it prudent to re-evaluate options to increase our diesel reserves.

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<sup>1</sup> This estimate assumes an import price of \$1/litre (the cost as of 3 September 2024) and that the Crown is exempt from relevant taxes, levies and charges on diesel. However, this price is highly volatile. If the Crown procured diesel in April 2024, it would have cost \$84 million.

- 14 In May 2024, I updated Cabinet on my comprehensive work programme to bolster our fuel security. As part of this, Cabinet agreed to rescind the previous Cabinet's decision to procure 70 million litres of reserve diesel. Cabinet also invited me to report back to the Economic Policy Committee with a discussion document on alternative options [ECO-24-MIN-0093].

## Analysis

- 15 I propose to consult on the discussion document *Improving our diesel resilience*, attached at Annex One. This discussion document sets out four options, three of which would increase our reserve diesel stocks from 21 to 28 days' cover:
- 15.1 Option 1: status quo, the MSO for diesel remains at 21 days' cover
- 15.2 Option 2: increase the MSO for diesel from 21 to 28 days' cover
- 15.3 Option 3: Crown procurement of diesel and its storage, either fully funded by the Petroleum or Engine Fuels Monitoring Levy (the Levy) or a mixture of Levy and capital funding
- 15.4 Option 4: increase the MSO for diesel but provide government support (eg grants).
- 16 Options 2 and 3 stand out as the best options, but there are trade-offs with the speed of implementation and price impacts that Cabinet will need to weigh up when making final decisions.
- 17 Option 2 would increase the MSO for diesel, placing the burden of increased diesel reserves on fuel importers. This option is likely to be the fastest for getting reserve diesel in tanks and reducing our vulnerability to a supply disruption. Reserve diesel could potentially be in tanks from mid-2026.
- 18 However, the trade off with speed is price. This option would likely result in the highest costs for consumers at the pump as fuel importers will pass on all costs. There is also a risk that competition could be reduced if smaller fuel importers (Gull in particular) find it difficult to comply with an increased obligation, which could also compound any impacts on fuel prices.
- 19 We do not know by how much prices might increase, as we are not privy to commercially sensitive information. During previous consultation, one fuel importer told the government that fuel prices could increase between 0.4 and 2 cents/litre.
- 20 Option 3 is similar to the original reserve diesel arrangement as the Crown would procure diesel and its storage. Option 2 would be likely to be quicker but more costly. Option 3 would be likely to be slower but impose a materially lower impact on fuel prices.
- 21 Option 3 would have the highest administrative costs for government. The Levy rate would need to be amended and the government would have ongoing stock management and storage contracts to manage. But because the government lacks commercial drivers and can take advantage of its purchasing power, the price impacts for consumers are likely to be materially lower than for Option 2.

22 Table 1 below sets out the Levy rate increase over today’s levels. For the first three years, the Levy would need to increase by 0.4-0.5 over today’s levels to fund the procurement of diesel and its storage and management. The Levy rate would decrease from 2028/29 as only storage and stock management would need to be funded.

<b>Year</b>	2025/26	2026/27	2027/28	2028/29 and onwards
<b>Levy rate increase over today’s level (cents per litre)</b>	0.4 – 0.5			0.25

23 The Levy rate would need to be adjusted so that funding is committed prior to entering into storage contracts. Advice from officials suggests that diesel could be in tanks from mid-2027, 12 months later than Option 2.

24 Depending on when the Levy was adjusted, this option may also be perceived to conflict with the Government’s commitment not to increase fuel taxes this parliamentary term. However, using Levy funding provides more certainty than relying on funding from future Budgets.

**Auckland jet fuel resilience**

25 I previously informed Cabinet that Auckland’s jet fuel resilience was an emerging issue that I was closely watching. Because of its distance from fuel import terminals and the way that the key infrastructure is owned and controlled, Auckland Airport is vulnerable to jet fuel supply issues.

26 All jet fuel for the airport is transported through the pipeline from Marsden Point to Auckland. When the pipeline was ruptured in 2017, there were significant disruptions to air services. Despite a recommendation from the 2019 Government Inquiry into the Auckland Supply Disruption that the fuel sector invest in new jet fuel storage infrastructure immediately, little has happened since.

27 In May 2024, I wrote to bp, Z Energy and Mobil expressing my disappointment in their lack of progress and my expectation that they commit to investment in storage. Their latest progress report to me is encouraging. They have identified three options for additional jet fuel storage and are further investigating two of those options.

28 Even though progress is being made, I remain concerned that there will be ongoing delays. I have directed my officials to prepare a Cabinet paper seeking approval to develop regulations for a location-specific minimum stockholding obligation. This obligation would require fuel companies to store a specified number of days’ jet fuel at or near Auckland Airport. I intended to report back to Cabinet before the end of this year.

**Implementation**

29 Public consultation on the discussion document for reserve diesel will be for a minimum of six weeks.

- 30 Following consultation, MBIE will analyse the submissions and report back to me. I intend to seek Cabinet agreement to final policy proposals in the first quarter of 2025.

### **Cost-of-living Implications**

- 31 There are no cost-of-living implications for the proposal to release a consultation document. However, pursuing any of the options identified for reserve diesel will increase costs for fuel consumers. This is why consultation, and seeking feedback on options, is important.
- 32 If we do not pursue any option to improve diesel resilience, there would be significant cost-of-living implications in the case of a sustained and severe supply disruption.

### **Financial Implications**

- 33 There are no direct financial implications arising from this paper. However, there may be financial implications for reserve diesel depending on what option is pursued following consultation. This is analysed in more depth in the discussion document.

### **Legislative Implications**

- 34 There are no legislative implications at this stage. However, regulations would need to be made or amended to give effect to the preferred option. This is analysed in more depth in the discussion document.

### **Impact Analysis**

#### **Regulatory Impact Statement**

- 35 An MBIE Panel has reviewed the Discussion Document: Improving our Diesel Resilience and consider that it meets the criteria for effective consultation. The information and analysis provided as well as the questions posed will provide the team with the necessary feedback and information to support future policy decisions.

#### **Climate Implications of Policy Assessment**

- 36 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal, as the threshold for significance is not met. Emissions associated with fuels are counted when they are consumed. The proposals discussed in this paper are related to diesel fuel reserves and jet fuel storage, thus increasing resilience. This proposal is not related to fuel consumption. The CIPA team will be kept updated on proposals as further work progresses, as the government has future priorities related to fuel.

### **Population Implications**

- 37 Progressing any of the options to increase New Zealand's diesel resilience may impact fuel prices. This could have negative flow-on effects, which disproportionately affect socio-economically disadvantaged population groups. This is why it is important that Government pursues a cost-effective solution that minimises costs to consumers and taxpayers.

## Human Rights

- 38 The proposals relating to reserve diesel in this paper are consistent with the *New Zealand Bill of Rights Act 1990*.

## Use of External Resources

- 39 These proposals have been developed without the use of external resources.

## Consultation

- 40 The following departments were consulted on this paper: National Emergency Management Agency, Ministry of Transport, the Treasury, the Commerce Commission, the Infrastructure Commission (Te Waihanga), New Zealand Transport Agency and the Department of the Prime Minister and Cabinet.

## Communications

- 41 A media statement will be issued accompanying the release of the discussion document. The discussion document will be publicly available on MBIE's website.
- 42 I intend to announce that I will be seeking Cabinet's agreement to develop regulations for a location-specific minimum stockholding obligation for a certain cover of jet fuel at or near Auckland Airport.

## Proactive Release

- 43 I intend to proactively release this Cabinet paper within 30 business days after Cabinet has made a decision, subject to the appropriate redactions under the *Official Information Act 1982*.

## Recommendations

The Associate Minister for Energy recommends that the Committee:

- 1 **note** that in May 2024, Cabinet invited the Associate Minister for Energy to report back to the Economic Policy Committee with a consultation paper on options to securing onshore reserve diesel stocks;
- 2 **agree** to release the attached discussion document as a basis for public consultation on options to increase New Zealand's diesel reserves;
- 3 **authorise** the Associate Minister for Energy to make minor amendments and refinements to the discussion document before it is released;
- 4 **note** that the Associate Minister for Energy will report back to Cabinet in early 2025 on the outcome of consultation and to seek agreement to policy decisions;
- 5 **note** that the Associate Minister for Energy will report back in November 2024 to seek approval to develop regulations for a location-specific minimum stockholding obligation for jet fuel for Auckland Airport;

**IN CONFIDENCE**

- 6 **agree** that the Associate Minister for Energy proactively releases this Cabinet paper, subject to any withholdings under the *Official Information Act 1982*.

Authorised for lodgement

Hon Shane Jones

Associate Minister for Energy

**IN CONFIDENCE**