MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Shane Jones	Portfolio	Associate Energy
Title of Cabinet paper	Improving our diesel resilience	**Date to be published**	14 May 2025

List of documents that have been proactively released		
Date	**Title**	**Author**
April 2025	Improving our diesel resilience	Office of the Associate Minister for Energy
2 April 2025	Improving our diesel resilience ECO-25-MIN-0044 Minute	Cabinet Office
26 March 2025	Regulatory impact statement: Increasing the minimum stockholding obligation for reserve diesel	MBIE

Information redacted **YES** / **NO** *(please select)*

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Some information has been withheld for the reason of commercial information.

[In Confidence]

Office of the Associate Minister for Energy

Cabinet Economic Policy Committee

Improving our diesel resilience

Proposal

1 This paper seeks decisions to increase the minimum stockholding obligation (**MSO**) for diesel to 28 days and to draft regulations to that effect.

Relation to government priorities

2 The National-New Zealand First Coalition Agreement has a commitment to commission a study into New Zealand's fuel security requirements and establish a Fuel Security Plan. The fuel study identified that the current levels of diesel held onshore may not be sufficient to manage a supply disruption and that one of the most cost-effective strategies for enhancing our fuel resilience is to increase on-shore diesel storage.

Executive Summary

3 A secure and resilient supply of engine fuels is critical to our economy. A major 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 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 The MSO requires fuel importers[1] to hold 21 days' cover for diesel, 24 days' cover for jet fuel and 28 days' cover for petrol. Because diesel's days' cover is lower than that for other fuels, New Zealand is particularly vulnerable to a diesel supply disruption.

6 I propose to develop regulations that would increase the MSO for diesel from 21 to 28 days. These regulations would commence on 1 July 2028, giving fuel importers enough time to determine how to incorporate additional diesel into their networks and if necessary, to build or refurbish existing tanks (which can take 18-24 months).

7 I am confident that our three largest fuel importers – Z Energy, bp and Mobil – could meet an increased obligation. However, an increased obligation could create a risk of

[1] The obligation falls on fuel importers that import a type of obligation fuel (petrol, jet fuel or diesel) and own, operate, or have the right to draw that type of obligation fuel from a bulk storage facility. These persons are referred to 'obliged person' in Part 4 of the *Fuel Industry Act 2020* but for simplicity are referred to 'fuel importers' in this paper.

reduced competition, as smaller importers or new entrants could find it disproportionately more difficult and expensive to comply.

8 The government began to collect stock levels and other fuel security information from fuel importers from 1 January 2025. The first reports have come in, but I want further information before imposing an obligation on smaller fuel importers.

9 I therefore propose to impose the increased MSO on those fuel importers with a diesel market share of above 10 per cent in the interim. I intend to review the diesel MSO settings and report back to Cabinet by April 2026 to determine whether and, if so, when the increased MSO could be expanded to smaller fuel importers.

10 Improving our diesel resilience is not a costless exercise. Requiring fuel importers to hold an extra seven days' cover for diesel would likely be passed on to consumers at the pump. Officials estimate it would cost 0.7 cents/litre, assuming no other costs or margins are passed on. This estimate is conservative and assumes that seven new 12 million litre (ML) tanks will need to be built. Fuel importers will likely choose the lowest cost option to comply, which could include taking advantage of existing spare tank capacity, scheduling more frequent shipments, or by sharing larger tanks with other fuel importers.

Background

11 A severe supply disruption to our fuel would have a significant impact on our economy and society. Holding stocks of fuel onshore is critical during a disruption as they provide time to rearrange supply chains or a buffer while infrastructure is repaired.

12 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]. This policy package was in response to a fuel security review instigated by the closure of the Marsden Point oil refinery.

13 As part of the package, the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* (the **Act**) introduced a minimum fuel stockholding obligation. From 1 January 2025, fuel importers of a type of obligation fuel that own, operate, or have the right to draw from a bulk storage facility that holds that obligation fuel are required to hold, on average, 28 days' cover for petrol, 24 days' cover for jet fuel, and 21 days' cover for diesel. In addition, the Act requires fuel importers to disclose information about fuel stocks that allows the government to monitor compliance and have better oversight of New Zealand's fuel resilience.

14 A second component of the package was the 'reserve diesel arrangement'. Cabinet agreed to increase diesel's cover to 28 days through government procurement of an additional seven days' worth of diesel. However, because of fiscal constraints, last year Cabinet agreed to stop work investigating the procurement of additional diesel and to explore alternative options [ECO-24-MIN-0093].

15 In September 2024, Cabinet agreed to release a discussion document seeking feedback on four options [ECO-24-MIN-0207]:

15.1 The status quo (ie diesel reserves to remain at 21 days)

15.2 Increase the MSO to 28 days, placing the obligation fully on fuel importers

15.3 Government procurement of diesel and its storage

15.4 A hybrid option of increasing the MSO to 28 days but providing financial support from government (ie through the use of grants).

16 My officials received 11 submissions, predominately from the fuel sector but also from major diesel users (Foodstuffs and Transporting New Zealand) and individuals. Most fuel companies did not agree that there was a need to increase our diesel reserves, pointing to their flexible and secure supply chains. If the Government was determined to increase reserves, they preferred options that placed the onus on Government. In contrast, Z Energy supported increasing our diesel reserves and preferred increasing the MSO. Foodstuffs and Transporting New Zealand agreed that diesel reserves should be increased.

Analysis

17 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. Our demand for diesel is increasing, increasing our economy's reliance on the fuel.

18 However, despite diesel's importance to our economy, its MSO of 21 days' cover is lower than that for petrol and jet fuel.[2] New Zealand's diesel MSO is significantly lower than Australia's minimum diesel stockholding of 32 days' cover, even though we are further away from export refineries.

19 In February 2025, I released a Fuel Security Study, prepared pursuant to the coalition agreement between National and New Zealand First. It found that holding a minimum of 21 days' cover for diesel may not be enough for us to manage a foreseeable supply disruption. Some examples of possible sources of fuel disruptions are (noting that we live in a period of heightened geopolitical tension):

19.1 A large fuel tanker arrives with contaminated fuel (the largest tankers can hold 11 days' supply)

19.2 A regional conflict results in export nations instead stockpiling fuel for their own use

19.3 A major shipping route is disrupted because of a regional conflict or a typhoon.

[2] The MSO levels were chosen to reflect the stockholding levels at the time so that compliance costs could be minimised and to maintain the current levels of fuel security. Average diesel stockholding was lower than the other two fuel types when the required days' cover was set.

20 The study considered that an extra seven days of diesel "would sufficiently improve our resilience". Even the more likely scenario of a large tanker arriving with contaminated diesel could see our diesel reserves being 'tight' and retail sites running out of diesel.

21 In contrast, the study found the stocks level for petrol and jet fuel to be either satisfactory or expected to improve following the imposition of the MSO.

22 In 2024, Z Energy undertook its own analysis of the resilience of New Zealand's fuel supply chain. It modelled the impact if we lost supply from North Asia (which supplies 40 to 60 percent of our fuels) and the time it would take to reestablish supply from new markets. Z Energy's conservative estimates suggest it would take 49-68 days to establish new flows from the USA, India or the Middle East to account for the loss of fuel from North Asia.[3]

23 While our diesel reserves remain at a minimum of 21 days, we are vulnerable to supply disruptions that could devastate our economy and have a profound impact on our communities. It is difficult to estimate the costs on our economy given our reliance on diesel. If our fuel supply was reduced by 50 per cent, the study estimated that the combination of shortages and higher fuel prices for petrol and diesel would cost $1.5 billion until supply was reestablished.

Increasing the minimum stockholding obligation for diesel

24 I propose increasing the MSO for diesel from 21 to 28 days for fuel importers that have greater than 10 per cent market share for diesel.

25 The simplest approach to increasing our diesel reserves is to increase the MSO. We can do this by developing regulations under the *Fuel Industry Act 2020* that change the MSO for diesel from 21 to 28 days.

26 Increasing the MSO for diesel makes fuel importers responsible for holding reserves. I prefer this option over government procurement of diesel as fuel importers are in the business of importing fuel. I expect fuel importers will be able to import, store and manage diesel more efficiently than government as they will be best placed to consider how to hold extra diesel within their existing networks.

27 To meet their stockholding obligations, fuel importers can count diesel that is on ships that are within our Exclusive Economic Zone (**EEZ**) and scheduled for delivery to a New Zealand port. Counting stock on the water gives fuel importers more flexibility in how they meet the MSO and can help to minimise compliance costs.

28 Mobil, bp and Gull opposed increasing the MSO for diesel. Z Energy supported increasing the MSO as it considered that option would be the most efficient and effective way of increasing diesel reserves.

[3] Z Energy estimated it would take 49-68 days to establish supply from the US Gulf Coast, 53-60 days from India and 55-64 days from the Middle East.

There are potential cost and competition implications of increasing the MSO

29 All options to hold additional diesel in reserve come at a cost.

30 The Fuel Security Study estimated that holding seven days' cover would cost NZ$27.3 million per annum, assuming this additional diesel was held in seven 12ML tanks.

31 With around four billion litres of diesel sold every year, building seven new tanks could see a diesel price increase of slightly less than 0.7 cents/litre.

32 This figure assumes that fuel importers choose to store the extra fuel in new tanks. In reality, fuel importers will choose the lowest-cost option to comply with an increased obligation, which could include taking advantage of existing storage capacity or by scheduling more frequent shipments. They may also decide to convert existing tanks to diesel or share much larger tanks with other fuel importers.

33 The cost of increasing the MSO for diesel needs to be considered alongside the potential economic and social impacts of a supply disruption. As noted above, a 50 per cent reduction in New Zealand's petrol and diesel supply could cost $1.5 billion until supply was reestablished. Z Energy has conservatively estimated it would take a minimum of 49 days to reestablish supply from an alternative market. The social costs of our population not having access to essential goods like food because there is not enough diesel also need to be factored in.

34 New Zealand has five fuel importers. The 'three majors' – Z Energy, bp and Mobil – import around Comme per cent of New Zealand's diesel. Gull's market share is about Commerc per cent and Timaru Oil Services Ltd (**TOSL**) is Commerc per cent.

35 Until recently, the government lacked good information about fuel stocks, shipments and tank capacities. Last year, I put in place regulations that require fuel importers to start disclosing that information from 1 January 2025. The first reporting for the January 2025 period, which was received 21 February 2025, indicates that Commercial Information could meet an increased obligation without a large disruption to their business model, Commercial Information

36 Because shipments of fuel occur infrequently and are of significant volumes, we need more reporting to determine trends and the extent to which fuel importers could meet an increased obligation. Because the indicative data suggests Commercial Information, I am reluctant to impose an increased obligation on our smallest fuel importers at this point.

37 I therefore propose to require only those fuel importers that have more than 10 per cent of the market share for diesel to be subject to the increased obligation. Fuel importers with less than 10 per cent market share will continue to be required to hold 21 days' cover.

38 I recognise that this places a burden on our three largest fuel importers but not our two smallest. I have weighed this up against the risks of decreased competition if an increased obligation meant a smaller fuel importer found it disproportionately more expensive and difficult to comply and the impact this could have on consumers.

39 I intend to review the diesel settings in early 2026 to determine whether and, if so, when the increased MSO could be expanded to all fuel importers. I intend to report back to Cabinet in April 2026 with my recommendations.

Commencement date

40 I propose that the increased obligation for diesel commence 1 July 2028.

41 During consultation, fuel importers said they would need time to decide how to incorporate additional diesel into their networks and to undertake work to increase tank storage. Refurbishing a fuel storage tank will take at least 18 months. A new build would likely take longer, with a tank roof alone needing to be fabricated offshore requiring a lead-in time of 12-18 months.

42 However, I will continue to monitor the monthly MSO reporting data. I will recommend an earlier commencement date to Cabinet before the regulations are finalised if the data indicates that date can be met. I anticipate that the regulations will be finalised by October 2025.

Penalties and non-compliance

43 There are existing mechanisms under the Act that allow fuel suppliers to seek exemptions in certain circumstances such as natural disasters. Should an exemption be granted, the relevant obliged person would have temporary relief from the minimum stockholding requirements imposed by the proposed regulations. I will consider applications for exemptions on a case-by-case basis.

44 Part 4 of the Act contains a civil pecuniary penalty provision, which would apply to these proposed regulations. The Chief Executive of the Ministry of Business, Innovation and Employment may accept enforceable undertakings.

Cost-of-living Implications / Financial Implications

45 The possible cost-of-living impact is not known, but increasing our diesel reserves to 28 days is likely to be passed on to consumers at the pump. Based on the Fuel Security Study’s estimates for holding an extra seven days of diesel, this could be 0.7 cents/litre.

46 There are no financial implications for the Crown.

Legislative Implications

47 To give effect to the proposals in this paper, regulations would need to be made under section 69 of the *Fuel Industry Act 2020.* Before I can recommend regulations, I have to consider several statutory prerequisites in section 58(3):

47.1 I have had regard to the resilience of supplies for each type of obligation fuel, and diesel in particular, as set out in the Fuel Security Study (s58(3)(a));

47.2 I have had regard to the current or recent commercial stockholding levels for diesel, having been in receipt of information disclosed under the MSO regulations (s58(3)(b));

47.3 I consider that the proposed stockholding level would adequately meet demand and manage the impacts of a plausible fuel supply disruption scenario and that the economic costs of complying are not disproportionate (s58(3)(c)).

48 I also consider the tests in section 69 have been met. I consulted with the fuel industry participants I considered likely to be significantly affected by these regulations, and I am satisfied that the regulations are necessary and desirable, after having regard to the purpose of Part 4 of the Act and the relevant costs and benefits.

Regulatory Impact Statement / Climate Implications of Policy Assessment

49 A MBIE Quality Assurance review panel has reviewed this Regulatory Impact Statement (RIS) and considers that the information and analysis summarised in the RIS meets the Quality Assurance criteria.

50 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met. Emissions from fuels are counted based on consumption, and the proposals in this paper increases the amount of diesel reserve.

Population Implications

51 The proposal does not have any population implications. Nevertheless, if regulations are legislated, the population would likely benefit from increased diesel resilience given the significant adverse effects that would result from a severe supply disruption.

Human Rights

52 The proposal is consistent with the *New Zealand Bill of Rights Act 1990* and the *Human Rights Act 1993*.

Use of External Resources

53 No external resources have been used for the development of this proposal.

Consultation

54 The following departments were consulted on this paper: National Emergency Management Agency, Ministry for Regulation, Ministry of Transport, New Zealand Transport Agency, Ministry for the Environment, the Treasury, and the Commerce Commission. The Department of the Prime Minister and Cabinet was informed.

55 Officials consulted on the discussion document *Improving our diesel resilience* from October to December 2024. Eleven submissions were received, from a mixture of fuel companies, fuel consumers and individuals.

Communications

56 I intend to announce Cabinet decisions as soon as practicable.

Proactive Release

57 I intend to proactively release the Cabinet paper within 30 business days after Cabinet has made a decision, subject to the appropriate redactions consistent with the *Official Information Act 1982*.

Recommendations

The Associate Minister for Energy recommends that the Committee:

1 **note** that in September 2024, Cabinet agreed to public consultation on options to increase New Zealand's diesel reserves and to report back to Cabinet in early 2025 to seek policy decisions;

2 **agree** to amend the *Fuel Industry Regulations 2021* to increase the diesel minimum stockholding obligation from 21 to 28 days' cover for certain fuel importers;

3 **agree** that this increase in the diesel minimum stockholding obligation will apply to any person that imports diesel and owns, operates, or has the right to draw from a bulk storage facility that stores diesel and who has 10 per cent or more market share;

4 **note** that the increase in the diesel minimum stockholding obligation will in practice apply to Z Energy, Mobil and bp;

5 **agree** that the increased diesel minimum stockholding obligation for fuel importers with a market share above 10 per cent will commence on 1 July 2028;

6 **note** that fuel importers with a market share below 10 per cent will continue to have a minimum stockholding obligation of 21 days' cover for diesel;

7 **note** that the Associate Minister for Energy will review the diesel settings to consider applying the increased diesel minimum stockholding obligation to fuel importers with a market share below 10 per cent;

8 **invite** the Associate Minister for Energy to report back by April 2026 on his review of diesel settings;

9 **authorise** the Associate Minister for Energy to issue drafting instructions to the Parliamentary Counsel Office giving effect to the policy proposals in this paper;

10 **authorise** the Associate Minister for Energy to further clarify and develop policy matters relating to the above proposals in a manner not inconsistent with the policy intent of the paper.

Hon Shane Jones

Associate Minister for Energy