



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Associate Energy
Title of Cabinet paper	Amending the Petroleum or Engine Fuel Monitoring Levy for Marine Fuel Monitoring	Date to be published	16 July 2025

List of documents that have been proactively released

Date	Title	Author
May 2025	Amending the Petroleum or Engine Fuel Monitoring Levy for Marine Fuel Monitoring	Office of Hon Shane Jones
26 May 2025	Amending the Petroleum or Engine Fuel Monitoring Levy for Marine Fuel Monitoring CBC-25-MIN-0013 Minute	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 commercial information.

In Confidence

Office of the Associate Minister for Energy

Office of the Minister of Commerce and Consumer Affairs

Cabinet Economic Policy Committee

Amending the Petroleum and Engine Fuel Monitoring (PEFM) Levy for marine fuel monitoring

Proposal

- 1 To amend the Petroleum and Engine Fuel Monitoring Levy (**PEFM Levy**) so that it can fund marine fuel monitoring required to comply with the International Convention for the Prevention of Pollution from Ships (**MARPOL**).

Relation to government priorities

- 2 This is a routine operational adjustment that requires Cabinet approval.

Executive Summary

- 3 Since 2022, New Zealand has had obligations to monitor the quality of marine fuels to comply with international commitments. Monitoring of marine fuel sold in New Zealand has been led by the Ministry of Business, Innovation and Employment (**MBIE**) Trading Standards, with time-limited Crown funding from Budget 2022 and a reprioritisation of MBIE's funding.
- 4 This funding is due to run out at the end of this financial year. We seek Cabinet approval to use the PEFM levy as the long-term funding source for Trading Standards' marine fuel monitoring programme. We do not anticipate this proposal would affect the price of any other fuel products because marine fuels would be levied at the same rate as other products. The levy rate would not need to change.
- 5 This activity aligns with the intent of the PEFM levy. However, to use the PEFM levy to fund MBIE Trading Standards' marine fuel monitoring programme requires:
 - a) expanding the scope of the PEFM levy to apply to all marine fuels, with consequential changes to the *Energy (Petrol, Engine Fuel and Gas) Regulations 2017 (the Levy Regulations)*¹
 - b) increasing the funding allocation cap for fuel quality monitoring.
- 6 Recent targeted consultation, with persons or organisations that represent the persons affected by the levy, showed broad support for this proposal from stakeholders. We seek Cabinet approval to make the required amendments to legislation to come into

¹ Minor technical adjustments to fuel definitions in other legislation are also required to clarify which products the PEFM levy applies to.

force from 1 July 2025, to enable the PEFM levy to fund marine fuel monitoring from the 2025/26 financial year.

Background

- 7 Since 1998, New Zealand has had obligations under MARPOL, an international agreement covering prevention of pollution of the marine environment by ships from operational or accidental causes.
- 8 In 2022, New Zealand acceded to Annex VI of MARPOL, which relates to pollution and climate change impacts resulting from greenhouse gases emitted from ships. Acceding to Annex VI required updates to New Zealand's fuel standards, the *Engine Fuel Specification Regulations 2011 (EFSR)*, to set limits on sulphur oxide and nitrogen oxide emissions from ship exhausts and prohibit deliberate emissions of ozone depleting substances.
- 9 Following the introduction of new fuel standards in the EFSR, in 2022, the Crown expanded its fuel monitoring regime to encompass marine fuels to comply with MARPOL requirements. Marine fuel monitoring is delivered jointly between MBIE Trading Standards, which is responsible for regulating marine fuel sold in New Zealand, and Maritime New Zealand, which is responsible for regulating the obligations of ship operators.
- 10 Trading Standards' marine fuel monitoring costs approximately \$1.078 million annually. Since 2022, this has been funded by time-limited Crown funding from Budget 2022 and a reprioritisation of MBIE's funding. This funding has been sparingly used but will run out by 30 June 2025. From 1 July 2025, Trading Standards will not have the funding source to deliver the marine fuel monitoring programme.
- 11 If the Crown does not monitor the quality of marine fuels, New Zealand will become non-compliant with our international commitments under MARPOL. This could result in reputational damage and undermine our position in international negotiations, particularly those relating to shipping and energy. There is also a risk that fuel suppliers would import higher emitting fuels with detrimental health and environmental impacts.

Proposal to use the Petroleum and Engine Fuel Monitoring Levy for marine fuel monitoring

- 12 We propose to use the existing PEFM levy to fund MBIE Trading Standards' marine fuel monitoring programme to ensure compliance with MARPOL Annex VI requirements. This activity aligns with the intent of the PEFM levy, which already funds all other fuel monitoring MBIE Trading Standards carries out for land-based fuels.
- 13 An alternative approach would be to create a new levy specific to marine fuels to fund this activity. We do not favour this approach. The disproportionate administrative burden imposed by developing a new levy would make it inefficient and unsuitable.
- 14 We also considered whether we should investigate using the Maritime Levy, which is paid by commercial ships operating in New Zealand waters, and the funding source

for Maritime New Zealand's 'ship side' fuel monitoring programme. However, placing the cost of monitoring fuel supplied in New Zealand on fuel importers is considered the most appropriate funding source for the 'supply' side fuel monitoring programme, as fuel suppliers are responsible for meeting New Zealand's fuel standards and control the fuel supply chain.

Changes required to use the PEFM levy

- 15 Using the PEFM levy to fund MBIE Trading Standards' marine fuel monitoring programme requires:
 - a) changes to the *Energy (Petrol, Engine Fuel and Gas) Regulations 2017 (the Levy Regulations)*
 - b) an increase to the funding allocation cap for fuel quality monitoring.

Changes required to the Levy Regulations

- 16 We propose increasing the scope of the PEFM levy to cover all marine fuels. This would involve amending the Levy Regulations.
- 17 The primary shipping fuels used in New Zealand include diesel for marine use (which is the same as what is sold at petrol stations) and residual fuel, a heavier oil that is thicker, darker and more viscous than diesel. The PEFM levy currently applies to all diesel (including diesel for marine use) but not to residual fuels, which account for around one quarter of marine fuels used in New Zealand.
- 18 It would be inequitable to use the PEFM levy to fund the new marine fuel monitoring programme without expanding its scope. All marine fuel users benefit from the programme through fuel quality assurance, but the programme cost would not be shared equitably among them. Users of diesel would effectively be cross-subsidising the monitoring of residual fuels.
- 19 Minor technical adjustments to fuel classifications and definitions across Customs' *Excise and Excise-equivalent Duties Table (the Duties Table)* and *the Tariff* are also required to clarify which products the levy applies to. Those changes may require consequential amendments to the *Climate Change (Liquid Fossil Fuel) Reporting Regulations 2008*. We are not proposing to introduce any new tariff or excise rates and intend to conform with New Zealand's international obligations for Tariff amendments.

Increase to funding allocation cap

- 20 We seek Cabinet approval to increase the funding allocation cap for monitoring to \$4.178 million from \$3.100 million to reflect the costs of marine fuel monitoring activity.
- 21 Funding for MBIE Trading Standards' fuel quality monitoring comes from the fixed rate component of the PEFM levy, capped at \$3.100 million per year. Marine monitoring requirements associated with Annex VI obligations have increased the cost of monitoring activity by \$1.078 million annually.

Industry broadly supports the proposed changes

- 22 Due to the technical nature and limited impact of the proposed changes, consultation was targeted to stakeholders most impacted by the proposal. This included all five fuel importers and key residual fuel consumers (ferry and cruise line representatives).
- 23 The majority of the stakeholders expressed broad support, citing the inequity of using the PEFM levy as the funding source under the status quo, where diesel for marine use is levied but residual fuel oil is not, despite both benefitting from the monitoring regime and other measures the PEFM levy funds. The one fuel company importing residual fuel oil, bp, raised some minor concerns which were not considered to necessitate changes to the proposal.

Cost-of-living Implications

- 24 There are no anticipated cost-of-living implications for this proposal. Commercial Information
- If the levy cost were passed on to customers, we expect the price of residual fuels would increase by the same amount as the levy rate (0.71 cents per litre). Given the small size and international nature of customers (primarily international cruise liners and ferry operators), we do not expect this proposal will impact other fuel prices.

Financial Implications

- 25 This proposal does not include an increase in the PEFM levy. The indicative rate² of the PEFM levy for the 2025/26 financial year is 0.71 cents per litre of fuel (GST exclusive). This consists of a fixed rate of 0.50 cents per litre covering the cost of monitoring fuel quality and compliance, and a variable rate set by the Energy Efficiency and Conservation Authority (EECA) annually to fund its work on low-emissions transport. The majority of the PEFM levy (around \$33.500 million in 2024/25) goes towards procurement of oil tickets for compliance with International Energy Agency obligations for fuel resilience and security. The increased volume of fuel subject to the PEFM levy could lead to a decrease in the variable levy rate, though due to the expected volumes this will likely be minimal.
- 26 Applying the PEFM levy to residual fuel oil is estimated to generate additional reforecast revenue for cost recovery ranging between \$0.835 million to \$1.00 million per annum. This range is based on the 167 million litres of residual fuel oil imported in 2024 and bp (the sole fuel company importing residual fuel oil) advising us during consultation of their intention to import more than 200 million litres in 2025. Actual cost recovery will depend on the actual import volumes of residual fuel oil in future years. Commercial Information

² The indicative 2025/26 PEFM Levy rate is forecasted by MBIE based on expected fuel use volumes and EECA's 2025/26 funding request for the variable portion of the Levy. The final PEFM Levy rate for 2025/26 will be calculated and gazetted in May 2025.

- 27 We do not anticipate this proposal would affect the price of any other fuel products because the PEFM levy rate would not need to change. Nevertheless, there is uncertainty in the forecast levy revenue account balance, which is heavily influenced by oil ticket prices and liquid fuels demand. Should the movement of oil ticket prices deviate significantly from the current forecast, the levy rate might need to be adjusted to ensure adequate levy revenue.

Legislative Implications

- 28 The Levy Regulations will need to be amended to expand the scope to all marine fuel oils. For consistency with the Levy Regulations and the EFSR, Customs will also need to update the Duties Table and *the Tariff*.
- 29 Amendments to the Levy Regulations and the Excise Duties Table would need to come into force from 1 July 2025, to enable the PEFM levy to fund marine fuel monitoring from the 2025/26 financial year.

Impact Analysis

Regulatory Impact Statement

- 30 The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor economic, social or environmental impacts.

Climate Implications of Policy Assessment

- 31 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 any emissions impact would be indirect and difficult to quantify.

Human Rights

- 32 The proposals are consistent with the *New Zealand Bill of Rights Act 1990* and the *Human Rights Act 1993*.

Population Implications

- 33 This proposal is not expected to have any impacts on specific population groups as the key stakeholders impacted are marine fuel suppliers and customers, using products that are not currently levied. Based on feedback through consultation, this market is narrow and primarily consists of international customers.

Consultation

- 34 The Ministry for Transport, Ministry for the Environment, Environmental Protection Authority, Parliamentary Council Office, Customs New Zealand, Maritime New Zealand and the Treasury have been consulted on and agreed with the policy proposals.
- 35 The Department of Prime Minister and Cabinet has been informed.

Proactive Release

- 36 We propose proactively releasing this Cabinet paper, subject to any necessary redactions. This will be done within 30 business days following confirmation of Cabinet's decisions.

Recommendations

The Associate Minister for Energy and Minister of Commerce and Consumer Affairs recommend that the Committee:

- 1 **note** New Zealand began monitoring marine fuels in 2022 to meet new international commitments under Annex VI of the International Convention for the Prevention of Pollution from Ships (**MARPOL**);
- 2 **note** there is currently no long-term funding source for MBIE Trading Standards' marine fuel monitoring programme, as time-limited Crown funding provided in Budget 2022 will run out by 30 June 2025;
- 3 **note** that expanding the scope of the Petroleum or Engine Fuel Monitoring Levy (**PEFM levy**) is not expected to affect the price of any other fuel products because marine fuels would be levied at the same rate as other products and the levy rate would not need to change;
- 4 **agree** to amend the *Energy (Petrol, Engine Fuel, and Gas) Levy Regulations 2017* to allow the PEFM Levy to apply to all marine fuels by 1 July 2025;
- 5 **agree** that the PEFM levy be used as the long-term funding source for MBIE Trading Standards marine fuel monitoring;
- 6 **note** that implementing recommendation 5 above will require:
 - 6.1 expanding the scope of the fuels subject to the PEFM levy to include all marine fuels; and
 - 6.2 increasing the cap of levy funding available for fuel monitoring by \$1.078 million to reflect the costs of marine fuel monitoring;
- 7 **agree** to expand the scope of the fuels subject to the PEFM levy to include all marine fuels;
- 8 **agree** to increase the cap of levy funding available for fuel monitoring by \$1.078 million to reflect the costs of marine fuel monitoring;
- 9 **agree** to increase spending to provide for costs associated with the policy decision with regard to marine fuel monitoring in recommendations 4, 5, 7 and 8 above, with the following impacts on the operating balance and net core Crown debt:

IN CONFIDENCE

	\$m – increase/(decrease)				
Vote Business, Science and Innovation	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Operating Balance and Net Core Crown Debt Impact	-	0.160	0.160	0.160	0.160
Operating Balance Only Impact	-	-	-	-	-
Net Core Crown Debt Only Impact	-	-	-	-	-
No Impact	-	0.918	0.918	0.918	0.918
Total	-	1.078	1.078	1.078	1.078

- 10 **approve** the following changes to appropriations and departmental capital injections to give effect to the policy decision with regard to marine fuel monitoring in recommendations 4, 5, 7 and 8 above:

	\$m – increase/(decrease)				
Vote Business, Science and Innovation Minister of Commerce and Consumer Affairs	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Departmental Output Expense: Commerce and Consumer Affairs: Trading Standards (funded by revenue Crown)	-	1.078	1.078	1.078	1.078

- 11 **note** the following changes in the non-tax revenue reforecast as a result of the decision in recommendation 4, 5, 7 and 8 above:

	\$m – increase/(decrease)				
Vote Customs Minister for Customs	2024/25	2025/26	2026/27	2027/28	2028/29 & outyears
Non-Tax Revenue: Customs and Excise Duty on Refined Motor Spirit	-	0.918 ³	0.918	0.918	0.918

- 12 **note** should the levy revenue prove inadequate in the future, the levy rate can be adjusted in future years to maintain fiscal neutrality;
- 13 **note** implementing this proposal may require fuel classifications and definitions across the *Excise and Excise-equivalent Duties Table*, the *New Zealand Tariff* and the *Climate Change (Liquid Fossil Fuel) Reporting Regulations 2008* to be updated for

³ The best estimate fiscal impact of the proposal is \$0.918 million per annum. This represents the mid-point between actual import volumes of residual fuel oil in 2024 and the fuel industry's intended imports for 2025 (see paragraph 26). Actual cost recovery will depend on the actual import volumes of residual marine fuels in future years.

I N C O N F I D E N C E

consistency with the *Engine Fuel Specifications Regulations 2011*, and to give effect to this proposal;

- 14 **invite** the Associate Minister for Energy to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above decisions;
- 15 **authorise** the Minister of Customs to direct the New Zealand Customs Service to draft the amendments to the *Excise and Excise Equivalent Duties Table* that are needed to implement these decisions;
- 16 **authorise** the Minister of Commerce and Consumer Affairs to direct the New Zealand Customs Service to draft the amendments to the *New Zealand Tariff* that are needed to implement these decisions; and
- 17 **authorise** the Associate Minister for Energy, Minister of Commerce and Consumer Affairs, Minister of Customs, Minister of Climate Change to make further decisions consistent with the policy in this paper, including any legislative amendments required to give effect to this proposal as referenced in recommendation 13.

Hon Shane Jones

Associate Minister for Energy

Hon Scott Simpson

Minister of Commerce and Consumer Affairs