MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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For:	In Confidence	**Signed out by:**	Justine Cannon

Rural Fuel Distribution Issues and Phase Two Readiness

Purpose

1. This note provides an update on regional fuel distribution issues, and outlines what work is being done with the fuel sector to reduce risks of similar problems if there is another surge in demand.

Context

In March there was a surge in demand for fuel ...

2. This was triggered by both:

    a. seasonal demand peaks for fuel (e.g. for harvests), and

    b. some 'panic buying' driven by rising prices and concerns about future fuel security. (This appears to have been more acute among regional fuel users with capacity for additional storage such as farm tanks).

3. The surge in demand occurred over a very short period (1 - 2 weeks), limiting distributors' ability to adjust delivery schedules, reallocate tanker capacity, or rebalance supply between terminals in real time.

4. Demand increases were uneven geographically, with stronger pressure emerging earlier in some rural regions compared with metropolitan centres, reducing the effectiveness of standard distribution planning.

5. Independent and rural distributors serving agriculture (dairy and horticulture) during peak seasonal demand have been particularly impacted, especially in regions reliant on constrained terminals such as Nelson (services top of the South Island), Napier and Seaview (services the lower North Island).

... and some of the industry responses failed to mitigate the disruptions

6. Fuel importers responded by tightening risk-management settings at terminals. This included moving from monthly to weekly fuel *terminal allocation* settings (limits on how much product a distributor can uplift from a terminal in a given period). This was intended to help

manage shipping schedules, protect terminal operations, and reduce the risk of overcommitment of limited terminal throughput capacity during a period of heightened market volatility.

7. While these settings support system stability, they reduce distributors' short-term flexibility to respond to demand across the month, particularly when there are sudden regional spikes. As a result, distributors have been prioritising customers at risk of running dry, deferring or partially fulfilling other orders, and increasing inter-terminal trucking.

8. These pressures have been further compounded by weather-related disruptions and shipping delays. These have constrained delivery windows and increased congestion at some terminals during the period of highest demand. Communication challenges also emerged, as rapid operational changes and frequent price movements contributed to customer uncertainty and heightened sensitivity to perceived supply risks. This reinforced precautionary ordering behaviour in some areas.

9. While overall national fuel supplies remain adequate, localised surges in demand and system changes can temporarily reduce flexibility and increase regional distribution pressures, particularly for rural and commercial customers outside main centres.

Distributors run a complex network to get fuel from terminals to retail sites and commercial customers

10. Across the distributor market, an estimated 73% of diesel is supplied to commercial customers[1] and 27% through distributors' own retail sites. This increases distributors' sensitivity to logistics constraints and surge behaviour among commercial users.

11. Across distributor liftings, diesel uplift is split at roughly 54% in the North Island and 46% in the South Island. This highlights that distribution resilience needs to be maintained in both islands, and that constraints at specific terminals can quickly translate into regional delivery pressure, even when national supply is adequate.

12. Higher and uneven diesel demand, combined with tighter allocation settings, has increased inter-terminal trucking, led to partial fulfilment of some orders, and contributed to localised supply disruptions. This is despite easing retail demand and no evidence of an underlying national supply shortage.

13. Therefore, even with adequate national stock, rural and commercial users can experience local run-dry risk due to distribution constraints. This can disrupt forestry and harvests and create public concern about perceived shortages.

We have engaged extensively with regional fuel distributors

14. MBIE has engaged with the fuel importers and with majority of independent and regional fuel distributors, including Fern Energy, NPD, Allied, McFall Fuel, Waitomo and RD Petroleum. These companies account for about 90% of the distribution market.

15. Most retail outages and commercial users that ran dry were only left without fuel for short periods of time (often only a few hours). There were some farmers that reported longer term

[1] Commercial customers include farms, forestry crews, construction sites and transport operators, many of which rely on scheduled bulk deliveries to on-site storage and have limited ability to source fuel at short notice if deliveries are disrupted.

outages but we consider those exceptions. Generally distributors have prioritised spreading fuel supplies around and getting fuel to customers that were closest to running dry.

16. For those customers who received less fuel than they ordered, distributors have been working through a backlog of deliveries since the March peaks. Some noted that seasonal demand is easing because harvests have now concluded and farms are requiring less fuel for harvesting and associated on-farm activities.

17. Distributors consider themselves financially resilient but noted increasing downstream credit risk. This risk has been driven primarily by the rapid increase in diesel prices, which raised the absolute value of invoices and credit exposure. Distributors noted that most commercial customers, particularly in the primary sector, continue to prioritise fuel payments due to operational reliance, although some sectors facing cost pressure are deferring activity where possible.

18. Mitigations are in place to address this risk, including tighter credit settings, and April payment cycles are expected to be a key test point. Farmers were generally reported to prioritise fuel payments due to operational reliance on fuel supply.

Key factors affecting the fuel distribution system

Terminal allocation settings are key methods for managing throughput and system flexibility

19. Monthly terminal allocations are a standard contractual and operational mechanism used by fuel importers. These allocations manage how much product can be uplifted from a terminal over a given period, taking account of terminal capacity and shipping schedules. Changes to short-term allocation settings to manage shipping delays or operational disruption are a normal part of system management.

20. Fuel importers are continuing to manage tighter fuel supply through terminal allocation settings. However, rather than the rigid seven-day allocations used earlier, allocations are now more often being managed on a ship-by-ship basis.

21. Distributors generally consider this approach more workable and transparent, as it improves their ability to respond to market demand, such as seasonal demand variation. Importers have also shown some flexibility, including allowing limited allocations to be brought forward from future weeks to support continuity of supply.

22. We have heard anecdotally that patterns have also shifted over time. South Island demand is temporarily exceeding the North Island, forestry and harvesting continuing where unavoidable, and some construction demand easing in response to cost uncertainty.

Logistics and distribution constraints

23. Across distributors, logistics rather than fuel availability was consistently identified as the key constraint. This has largely been due to truck and driver capacity, and changes in distribution routes meaning there has been congestion at some terminals. This means that delivery capacity can be constrained at the regional level, despite adequate fuel in the national system.

24. Distributors reported prioritising deliveries to customers most at risk of running dry, and most have paused new customer intake to protect supply for existing customers. Rapid and

uneven price movements were identified as a key concern, including frequent wholesale price changes, differing importer pricing windows and variable premium adjustments.

Commercial relationships and communication

25. Clear communication and strong commercial relationships between importers, distributors, and end users are key.

26. We heard that some of the challenges were worked through much more easily and pragmatically where both parties had good relationships and could trust that they would be supplied fuel as soon as it became available.

Implications for future demand surges

[redacted]

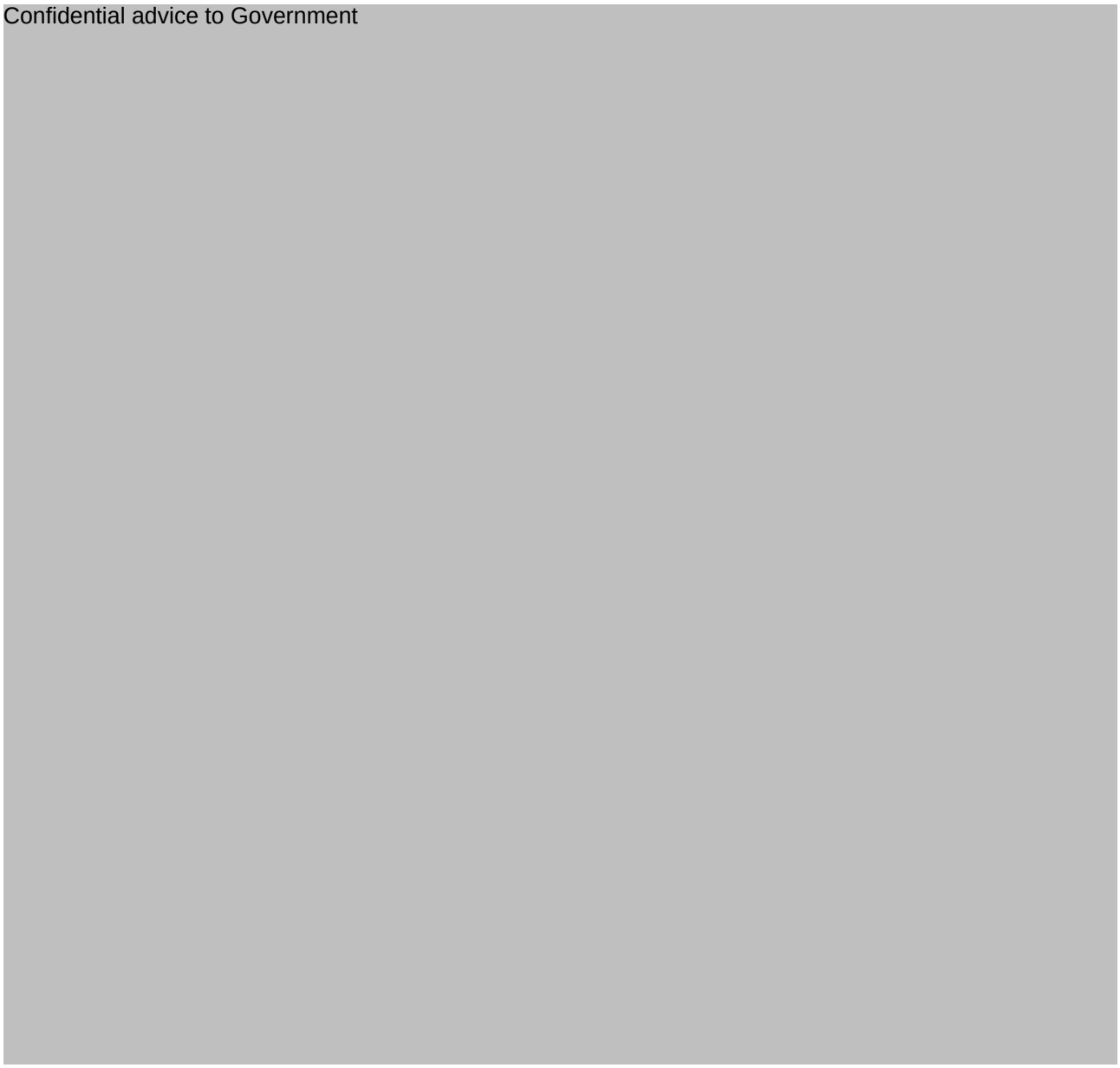
Actions to mitigate potential disruptions if demand surges occur under Phase 2

29. Working with the sector, we consider buyers, importers and distributors could take the following actions to help promote confidence in supply chains and keep fuel supply flowing to meet demand. These actions are designed to be industry-led and delivered through existing commercial relationships and operational decision-making.

30. While these actions will not completely remove all of the challenges experienced during the March demand surge, they are practical and feasible mitigations that can significantly reduce distribution impacts if a similar surge occurs again.

[redacted]

Confidential advice to Government



33. Confidential advice to Government emphasise that trucking capacity (especially trained, safety-cleared fuel drivers) cannot be surged quickly. Driver recruitment and licensing and security requirements create long lead times and increasing tankers/fleet capacity typically takes between six months to over a year.

Next steps

34. Officials will work with industry to ensure there is targeted, credible messaging to commercial users to discourage panic buying, and provide clear information on how distributors are managing their supply chains.