



BRIEFING

Selection of preferred approach for supporting fuel supply

Date:	15 April 2026	Priority:	Urgent
Security classification:	Restricted	Tracking number:	BRIEFING-REQ-0030971

Action sought		
	Action sought	Deadline
Hon Nicola Willis Minister of Finance	Note and agree to the recommendations	16 April 2026
Hon Shane Janes Associate Minister of Energy	Note and agree to the recommendations	16 April 2026

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Nic Blakeley	Chief Executive	Privacy of natural persons	✓
Chris Bunny	Deputy Secretary, The Treasury	Privacy of natural persons	
Andrew McGavin	Commercial Lead, Fuel Response	Privacy of natural persons	
Alistair Dixon	Policy Director	Privacy of natural persons	

The following departments/agencies have been consulted
The Treasury was involved in preparation of this briefing.

- Minister's office to complete:
- | | | |
|--|---|------------------------------------|
| <input type="checkbox"/> Noted | <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Overtaken by Events | <input type="checkbox"/> Needs change | <input type="checkbox"/> Seen |
| | <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comments



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Purpose

To brief you on commercial proposals received ^{Commercial Information} Z Energy ^{Commercial Information} for supporting fuel supply and to seek agreement to.

Executive summary

Ministers are asked to confirm their preferred approach for securing additional fuel supply to strengthen New Zealand’s fuel resilience, following Cabinet direction on 13 April 2026 to progress negotiations with Z Energy and continue discussions with other suppliers.

Cabinet agreed on 31 March 2026 to urgently bolster fuel supply resilience and to seek commercial proposals from importers; only Z Energy provided a substantive proposal by 7 April 2026. MBIE has since received proposals from ^{Commercial Information} in addition to Z Energy. These proposals fall into two broad approaches – the purchase of a *physical supply* of fuel (Z Energy ^{Commercial Information}) and *call options*, which give the right but not the obligation to purchase fuel (^{Commercial Information}).

Physical supply proposals provide higher certainty but carry higher fiscal exposure (including price-risk/backwardation on eventual sale). Indicative total costs of proposals, based on current prices, exchange rates, etc, are:

Commercial Information

Call option proposals (^{Commercial Information}) are lower cost and more flexible but provide relatively less certainty and require a pathway to integrate supply into the New Zealand market if exercised.

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Commercial advisers consider call options can achieve an acceptable level of certainty at lower ongoing cost than physical stockholding; officials therefore recommend commencing a commercial process to identify the most viable call option from major fuel trading houses ^{Commercial Information} that can provide high certainty of supply.

In parallel, officials recommend completing a framework agreement with Z Energy and commencing negotiations on a framework agreement ^{Commercial Information} to preserve the option of physical supply. This approach would mean major costs are only triggered if supply is called. ^{Confidential advice}

Next steps (subject to Ministers' direction) are to complete a framework agreement with Z Energy and commence a framework agreement ^{Commercial Information} to preserve the option of physical supply, and to run procurement and negotiations for call options and report back with preferred supplier(s) and commercial terms.

Recommended action

The Ministry of Business, Innovation and Employment (the Ministry) recommends that you:

a **Note** that on 13 April 2026 Cabinet:

- ^{Commercial Information}
- agreed that officials progress commercial negotiations with Z Energy.
- agreed that officials continue discussions with other fuel suppliers who also may be able to offer additional fuel stockholdings ^{Commercial Information}
- authorised the Minister of Finance and Associate Minister of Energy to enter into a supply agreement with Z Energy, or any other supplier, on behalf of the Crown once they are satisfied with commercial terms and that government procurement requirements have been met.
- authorised the Minister of Finance and Associate Minister of Energy to approve appropriation and funding implications.

Noted

b **Note** that proposals for additional fuel supply have been received from ^{Commercial Information} ^{Commercial Information}

Noted

c **Note** that the proposals consist of two main approaches to securing additional fuel supply:

- i Securing physical fuel supply stored in New Zealand ^{Commercial Information} or in storage overseas ^{Commercial Information}
- ii A call option (option to purchase) on a nominated volume of fuel supply from offshore ^{Commercial Information}

Noted

d **Note** that option (i), physical supply, provides relatively greater certainty of supply and would be integrated into the local market via established importers but has higher potential fiscal cost

Noted

e **Note** that, except for costs involved in refurbishment of the Channel Infrastructure storage, the fiscal costs of option (i) will only be incurred upon product purchase but the ability to secure

physical supply will be obtained via completion of a framework agreement with a preferred supplier

Noted

- f **Note** that option (ii), call option, provides relatively less certainty of supply and uncertainty on how, if exercised, fuel would be integrated into the local market, but has a lower potential cost and is potentially more flexible, e.g. could involve higher volumes and be readily applied to other fuels, such as jet fuel

Noted

- g **Note** that option (ii) is similar to International Energy Agency (IEA) tickets but can be more readily converted quickly to physical supply

Noted

- h **Note** that the options are not mutually exclusive and Ministers could choose either or both options

Noted

- i **Note** that if option (ii) was exclusively chosen, Ministers still have the option of not proceeding with the full Channel Infrastructure proposal **Confidential advice to Government**

Noted

- j **Note** that the Fuel Response's commercial advisors collectively consider that option (ii), call option, can achieve the level of certainty for security of supply at lower cost and greater flexibility than option (i), physical supply

Noted

- k **Note** that regulating to increase the Minimum Stockholding Obligation (MSO) would also increase additional supply but is not recommended as it is unlikely to achieve this in the time required given the expected time needed to consult with importers, who are likely to resist an increase, and for importers to secure additional supply

Noted

- l **Direct** officials to:

- i Complete negotiations on a framework agreement with Z Energy **Commercial Information**

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Yes/No

AND

- ii Commence a commercial process to identify the most viable call option Commercial Information
Commercial Information that can provide high certainty of supply.

Yes/No

- m **Direct** officials to report back with recommendations on a preferred supplier or suppliers, subject to Ministers' decisions on recommendation (l).

Yes/No

Privacy of natural persons

Andrew McGavin
Commercial Lead, Fuel Response
 MBIE

___ / ___ / 2026

Hon Nicola Willis
Minister of Finance

___ / ___ / 2026

Hon Shane Jones
Associate Minister of Energy

___ / ___ / 2026

Background

1. On 31 March 2026, Cabinet agreed a strategy to bolster fuel supply resilience, including urgently assessing commercial proposals from existing importers and progressing additional diesel storage at Marsden Point. On 2 April 2026, MBIE sought proposals from fuel importers to provide additional fuel stockholdings to increase New Zealand's resilience to supply chain disruption.
2. The response from fuel importers was limited **Commercial Information**
3. On 13 April 2026 Cabinet [CAB-26-MIN-0121]:
 - a. agreed that officials progress commercial negotiations with Z Energy.
 - b. agreed that officials continue discussions with other fuel suppliers who also may be able to offer additional fuel stockholdings, including **Commercial Information**
 - c. authorised the Minister of Finance and Associate Minister of Energy to enter into a supply agreement with Z Energy, or any other supplier, on behalf of the Crown once they are satisfied with commercial terms and that government procurement requirements have been met.
 - d. authorised the Minister of Finance and Associate Minister of Energy to approve appropriation and funding implications.
4. Ministers are also receiving advice alongside this brief which sets out a range of scenarios that New Zealand might see in respect of a supply disruption. The most likely scenario is that New Zealand either does not see supply disruptions or sees one cargo cancelled which can then be replaced on the market (albeit with a delay in arrival to New Zealand). Ministers should consider the options in this brief alongside that advice.
5. Officials have progressed commercial negotiations with Z for a fuel security arrangement. Officials have also received proposals for additional fuel supply from **Commercial Information**
6. This briefing discusses the proposals and the approach to selecting a preferred supplier or suppliers.
7. In parallel, the Treasury is developing a high-level framework to assess the economic costs and benefits of entering into an agreement to procure additional fuel for New Zealand. The framework will involve identifying scenarios representing possible future fuel supply outcomes, an assessment of the likelihood of each scenario occurring, and the likely costs and benefits of the operation of the additional reserve for each scenario. This work will take into account the advice discussed in paragraph 4 above.
8. MBIE and Treasury are also developing advice on the appropriation and fiscal impacts of a commercial arrangement as well as public interest considerations under the Public Finance Act. This advice, and Treasury's high-level framework, are intended to be delivered at the same time as MBIE advice seeking Ministerial agreement to final commercial arrangements.

Overview of proposals

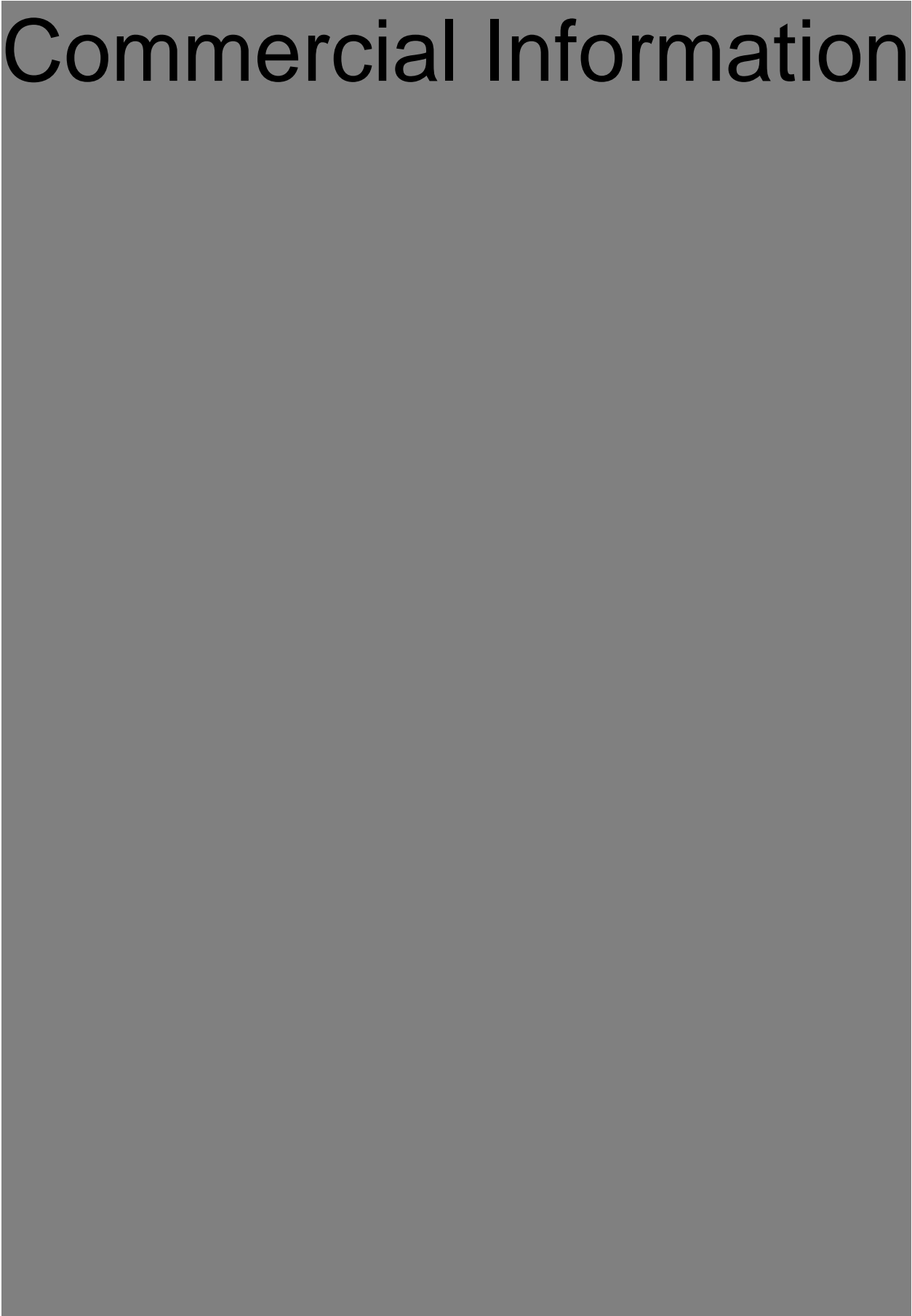
Overview

9. The proposals offer two approaches to securing additional supply:
 - i Additional physical supply, either in New Zealand (Z Energy Commercial Information) or offshore in **Commercial Information**
 - ii 'Call' options (option to purchase), similar to IEA tickets, for nominated volumes of fuel Commercial Information
10. The proposals are summarised in Table 1.

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Commercial Information

11. It is important to note that before any of the above proposals are finalised they would need to be subject to detailed commercial negotiations so some of the terms could change, eg the extent to which the Crown would take on exposure or be able to manage financial risks.

Proposals can be executed consistent with procurement requirements

12. The approach taken to the request to New Zealand importers for additional fuel supply gives the framework for Government to move to execution of a contract with all the physical supply options.
13. Call options have been provided through a series of discussions to establish how Government could de-risk the fuel supply while limiting financial burden. Officials will consider the most effective market approach to provide a balance of effectiveness, transparency and fairness to the market to find the best offer for call options.

Decision on approach requires balancing certainty of additional supply and cost

Additional physical supply provides more certainty but is high cost

14. The approaches to providing additional supply have different advantages and disadvantages.
15. Additional physical supply stored in New Zealand provides certainty of fuel supply when needed (although, like all options, this is subject to any fuel quality issues arising from transport and storage).
16. Physical supply stored overseas also provides a similar level of certainty but is subject to the risk arising from the need to access it from another country and transport it to New Zealand.
17. The main disadvantage of physical supply as reflected in the proposals from Z Energy Commercial Information is that the Crown would take on the risk of the price of the fuel at sale/release to the market being lower than its purchase price ('backwardation'). Current futures prices suggest this is a likely outcome if the fuel is purchased in the next few months. If 90 million litres of diesel were purchased and the price per litre fell by \$1, this cost would amount to a cost of \$90 million.
18. Entering into a framework agreement with a supplier would mean that the cost is only triggered when the Government requests the additional supply.

19. Any additional physical supply would eventually need to be released into the local market, either because of interrupted imports or because the backup supply was no longer required. Because of the quantities involved this is likely to impact on the efficiency of local fuel suppliers' operations so would need to be managed carefully. However, since the proposals for additional physical supply are from local importers Commercial Information Commercial Information the supply should be able to be readily integrated into the local market.

Call options provide relatively less certainty but are lower cost and more flexible

20. Call options provide relatively less certainty about access to physical supply. Just like IEA tickets, the options would provide the ability to purchase fuel located in another country, in this case Singapore or Malaysia. These countries are the nearest usual sources of fuel supply for New Zealand, so the time from actioning the option to physical delivery in New Zealand is relatively short (16-18 days to ship to New Zealand plus time to assemble stock).
21. The major uncertainty with call options is around whether the fuel will be available when required. Both Commercial Information and other potential providers such as Commercial Information are major international suppliers so the probability of call options not being honoured is low. The value of the option rests on our confidence that it can be called at a time when fuel importers cannot secure supply.
22. Call options are, however, likely to be lower cost. Until exercised, the only cost is a monthly cost to retain the option, which is expected to be in the order of \$3-5 million per month, depending on commercial negotiations. Call options give the Crown the right – but not the obligation – to purchase between 48 million Commercial Information and 80 million litres Commercial Information for 6 months until the end of October 2026. When exercised, the cost of the cargo would be incurred, including from order to delivery, but this need not be borne by the Crown if the option was transferred to a New Zealand importer.
23. The option is also flexible. It provides the ability to leave exercising the option until a problem requiring additional supply has been identified. It can be applied to any fuel so could also be applied to jet fuel or petrol as well as diesel. It can also be applied to any type of fuel and chosen volume.
24. If exercised, the supply would need to be integrated into the local market so is likely to require delivery to a local importer, which would need to be negotiated at the time. On the other hand, there would be no disruption to the local market unless the option was exercised.
25. While call options have similarities to IEA tickets, they can be more readily converted into physical supply. In particular, they carry no requirement to notify the host country before exercising them and no limitations on their use beyond those set out in the option contracts.
26. Tickets could potentially be swapped for call options, although they also could potentially be swapped for physical cargoes providing additional supply.
27. If Ministers decided to only pursue call options, the additional storage capacity being provided by Channel Infrastructure at Marsden Point may no longer be needed. The call options would apply to volumes of fuel offshore. Given the relatively short lead times from exercising an option additional storage would not be required if an option was exercised.

The options are not mutually exclusive

28. Choosing the option of securing additional physical supply does not preclude procurement of call options and vice versa. Ministers also have the option of choosing one or more providers, e.g. securing physical supply in New Zealand from Z Energy and executing a call option with **Commercial Information**

A framework agreement for physical supply plus procuring call options would provide necessary insurance but contains fiscal cost

29. **Commercial Information**

30. At the same time, completing a framework agreement for physical supply preserves optionality but does not incur fiscal cost, except the costs involved in refurbishing the Channel Infrastructure storage, should Ministers consider additional physical supply in New Zealand may be appropriate. Officials therefore recommend completing framework negotiations with Z Energy and commencing negotiations on a framework for physical supply **Commercial Information** with a view to identifying a preferred supplier.

Increasing the MSO would provide additional supply but is unlikely to be sufficiently timely

31. Both options involve the Crown securing additional fuel supply and incurring the costs of this. The alternative is to require the importers to do this through a regulatory requirement to increase their MSO, e.g. bringing forward the increase in the diesel MSO to 28 days from 1 July 2028. As we have previously indicated to you, this would require consultation and time for the importers to assemble the additional supply. Imposing a quick increase in the MSO would force the importers to bear the backwardation risk at a time of market stress so they are likely to strongly resist this. They are also likely to argue that increasing the MSO is unnecessary as they are able to access adequate fuel supply. In addition, they would need to identify additional storage, although the additional Channel Infrastructure storage is one possibility for this.
32. Given these issues, we do not recommend achieving additional storage through increasing the MSO

Next steps

33. Should Ministers agree with the recommendations, the next steps are to:
 - a. Complete framework negotiations with Z Energy and commence negotiations on a framework for physical supply **Commercial Information** with a view to identifying a preferred supplier

- b. Commence a commercial process to identify the most viable call option from major fuel trading houses, including Commercial Information that can provide high certainty of supply.