



BRIEFING

Government-led fuel supply options

Date:	28 March 2026	Priority:	Urgent
Security classification:	Restricted	Tracking number:	BRIEFING-REQ-0030100

Action sought		
	Action sought	Deadline
Hon Nicola Willis Minister of Finance	Note and agree to the recommendations	29 March 2026
Hon Shane Jones Associate Minister for Energy	Note and agree to the recommendations	29 March 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		
James Hartley	Acting Deputy Secretary, Building, Resources and Markets		

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

Minister's office to complete:

- Approved
- Noted
- Seen
- See Minister's Notes

- Declined
- Needs change
- Overtaken by Events
- Withdrawn

Comments



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Purpose

To brief you on supply options to manage the risk of a material reduction in imports of fuel supply to New Zealand and get agreement for government agencies to work with fuel suppliers to keep fuel flowing.

A Government-led Strategy to bolster fuel supply

- New Zealand is facing a material risk of fuel shortage because of the closure of the Strait of Hormuz.** Refineries in Asia where New Zealand gets most of its fuel will run low on feedstock of crude oil from April to May.
- Our government goal is to avoid ever getting to response phase three or four of the fuel plan.** We have already begun work under the National Fuel Plan to prepare ourselves for what we can do to manage supply as the situation evolves. While our fuel supply outlook remains secure over the near term, the longer this war goes the worse the impacts will be.
- The Government has already been in discussion with local and international fuel suppliers to help source additional cargoes as needed to keep our nation moving.** However, this work does not yet have the pace and urgency and commercial approach that the situation demands.
- We are proposing that the Government takes insurance out against any future fuel supply chain disruptions.** This paper proposes an enabling framework for commercial decisions that directs government agencies to work with fuel suppliers to keep fuel flowing.
- The economic and social costs of significant reduction in supply that require us moving to quantitative restrictions will be high.** It is prudent in this case to explore all insurance options available to the Crown to secure additional supply that could mitigate this risk.
- Discussions with oil importers indicate that the supply issues are manageable.** Supply chains are still functioning, and importers are exploring alternative sources of supply to Asia. However, there is a risk that the companies' assessment is incorrect given the potential supply constraints and moves by other countries, including Australia, to secure supplies.
- The Government's risk appetite and incentives will differ from those of fuel importers.** Even if the companies' assessment is correct, their risk appetite and incentives will differ from the Government's, with the Government having a lower tolerance for disrupted supply due to negative impacts on the wider economy. This may justify intervention even if markets are currently functioning. Other Governments – like Australia – are moving rapidly to underwrite additional cargoes and other vital strategic reserves.
- The proposed objective is to ensure sufficient fuel supply to meet demand given prevailing prices, taking into account demand reduction, subject to cost and the Government's assessment of the acceptable level of risk of non-supply.** This

intervention is focused on immediate supply concerns, although some options might support medium-term resilience (e.g. exercising our IEA tickets).

9. **Officials have canvassed the full range of options in Annex 1 based on existing information.** We have focused on priority options that work with industry partners to leverage their capability, deliver at pace, and manage the potential costs and risks. Further legal advice will be required throughout the development and execution of commercial options.
10. **The key policy challenge is to design arrangements that deliver additional fuel supply without overpaying for this 'insurance value'.** Securing additional supply now does involve a risk that New Zealand has purchased too much fuel at too high a cost. This can be considered the premium we are willing to pay to reduce the risk of potential supply disruptions. Poorly designed interventions may be gamed by fuel importers to extract profits.
11. **We recommend the following option be pursued immediately:** Government seeks proposals for NZ refined fuel imports on arrangements that would support additional purchase of stocks to June. This may involve unsolicited proposals ^{Commercial Information}
Commercial Information
Options may include support for shipping costs, storage arrangements and costs, or downside risks. The preference is for financial arrangements that share risk with the market.
12. **We considered a range of other options, including simply increasing the minimum supply obligations (MSO), that we don't recommend pursuing now.** The MSO mechanism is not designed for crisis management; given the current situation, companies are likely to oppose increases to the MSO in a way that may render the increase ineffective. There may be merit in bringing the planned increase in the diesel MSO forward – however this is likely to face similar challenges.
13. **Officials will provide advice on a clearer definition of scale and timing of interventions in the coming week to inform discussion with commercial providers.** This will require advice on the scale and timing of any additional buffer. You have received advice on selection of expert advisors to help shape these discussions.
14. **Any arrangement developed will pose commercial and legal risks we need to manage.** This may include the need to give indemnities, guarantees or loans to reach agreement. The Minister of Finance can provide indemnities and guarantees and has a duty to consider whether these mechanisms are necessary in the public interest, which requires balancing commercial risks against public benefit. A direct loan would require Cabinet agreement to a new appropriation. The Minister can agree in principle approval of indemnities, guarantees or loans within parameters of her choice, which will aid negotiation of commercial arrangements. Any indemnity or guarantee valued at more than \$10m needs to be tabled in Parliament.
15. **Commercial and fiscal risks need to be managed carefully.** Any proposal will need to be assessed by the Minister of Finance and delegated Ministers to ensure that it:
 - delivers additional fuel security over and above minimum supply obligations – this excludes any arrangement to support existing holdings
 - manages fiscal costs and risks by providing support only where risks are too high for private suppliers to source on commercial terms without government support
 - supports the medium-term direction on security of supply.

16. **Officials will deepen engagement with commercial operators and develop a process to track and assess proposals.** Attached at Annex 2 is an example of potential commercial structures and proposals.

Annexes

Annex 1: Analysis of Supply options

Annex 2: Examples of commercial approaches to government support

Annex 3: Further information on Oil tickets

Recommended action

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

- a **Agree** that the objective is to ensure sufficient fuel supply to meet demand given prevailing prices, taking into account demand reduction, subject to cost and the Government's assessment of the acceptable level of risk of non-supply.
Agree / Disagree
- b **Agree** to urgently progress commercial proposals with existing fuel importers that support the procurement of additional fuel supply for New Zealand.
Agree / Disagree
- c **Note** that Government has been approached by several parties with unsolicited proposals that could increase supply.
Noted
- d **Direct** officials to assess unsolicited proposals with urgency and provide responsible Ministers with recommendations on whether to proceed.
Yes / No
- e **Agree** that any proposal will need to be assessed by the Minister of Finance and delegated Ministers to ensure that it:
- delivers additional fuel security over and above minimum supply obligations
 - manages the financial cost and risks to the Crown
 - supports the medium-term direction on security of supply
- Agree / Disagree*
- f **Agree** in principle that indemnities, guarantees or loans to support commercial arrangements may be necessary in the public interest and can be included in commercial arrangements if necessary to achieve agreement, subject to any parameters and conditions the Minister of Finance considers appropriate.
Agree / Disagree
- g **Agree** that measures in the short-term should contribute to NZ's longer-term MSO and fuel security.
Agree / Disagree

h **Direct** officials to develop an oral item for Cabinet on Monday based on Ministerial decisions and develop a statement to reflect that decision.

Yes / No

James Hartley
Acting Deputy Secretary
Building, Resources and Markets, MBIE

..... / /

Hon Nicola Willis
Minister of Finance

..... / /

Hon Shane Jones
Associate Minister of Finance

..... / /

Annex 1: Analysis of supply options

Context

1. As a result of the closure of the Strait of Hormuz, there is a risk that the refineries in Asia where New Zealand gets most of its fuel – Singapore and South Korea – will run low on feedstock of crude oil from April to May. This paper reflects the Most Likely Scenario in the Treasury advice - potential reduction in refined product landing in New Zealand from late May to June. It is not clear how large a reduction would be, how long it would last, and for which fuels.
2. Other sources of supply may fill that gap but we will be in global competition for fuel products¹. Even if fuel can be accessed from other sources, it is uncertain whether this will be sufficient to meet New Zealand's needs. Any shortage could be of one or more fuel type (ie jet fuel, petrol, diesel and fuel oil).
3. Significant fuel disruptions will result in high economic cost. Treasury has advised that prolonged conflict that results in severe disruption to supply could reduce Q4 on Q4 growth for 2026 to 0.1% compared to 3% in the base.
4. Action can be taken now to provide insurance against this gap and widespread fuel disruptions and to prevent New Zealand moving to phase 3 and 4 of the national fuel plan. However, there is a limited timeframe to take action.
5. On Saturday 28 March the Australian government has announced it will take on the financial risk of importing essential products affected by the war in the Middle East to get additional supplies of petrol, diesel, and fertiliser into the country. The Australia government will introduce amendments to Australia's export finance laws on Monday that will allow the government to use public funds to underwrite the purchase of additional shiploads of fuel, fertiliser, and "other essentials".
6. The commercial situation is evolving. Unsolicited offers are being received to fill the gap. For example [REDACTED] **Commercial Information** [REDACTED] Officials will ensure unsolicited proposals are properly considered alongside other options to ensure New Zealand's interests are best supported.
7. Several options are available to provide alternative sources of supply to meet the supply gap, which are set further in the Annex to this briefing. The alternative of demand restraint is covered separately in the Cabinet paper Fuel response plan 2026.

Framework for assessing options

Proposed objective

8. The proposed objective for any supply option is:
 - To ensure sufficient fuel supply to meet demand given prevailing prices, taking into demand reduction, subject to cost and the Government's assessment of the acceptable level of risk of non-supply.

¹ The main source of this supply is from the Gulf of Mexico. Shipments to New Zealand would take longer than from Asia as they must come via either the Panama Canal, which is congested, or around Cape Horn, which adds additional time. American refineries do not normally refine fuel to New Zealand specifications, meaning the product will need to be blended or refined to our specifications

9. Key to this objective is Ministers' assessment of the acceptable level of risk. Since New Zealand is reliant on importing fuel there is a possible risk of reduced supply under all scenarios, e.g. because of refinery problems, supply chain issues, etc, but in normal operational conditions this is low. Even under constrained operation, the oil industry is able to respond quickly to disruptions and maintain supply. The key judgement here is to what extent Ministers are prepared to rely on the industry to continue to maintain supply under current settings.

Avoiding a reduction in supply can be framed as what is the right level of 'insurance'

10. The decision on whether and to what extent action should be taken to avoid a reduction in supply is about what is the appropriate level of 'insurance' to minimise this risk and the 'premium' the Government considers is appropriate to avoid a shortage of fuel.
11. Depending on the magnitude and duration of the shortage, the economic impact of a supply shortage is potentially very large. This suggests it makes sense to be willing to pay a larger premium, subject to fiscal constraints and risk preferences.
12. The Government's assessment of what is the appropriate balance of risk should also influence the size of the premium it is willing to consider: options providing greater certainty are likely to incur a higher premium and the more certainty required the greater the premium that is appropriate.
13. The provision of government support to the fossil fuel industry may garner the domestic and international attention of some non-government organisations. International reputational risks relate to whether the action is consistent with the IEA framework, New Zealand's international obligations, and the maintenance of good relations with other countries.

Distortions to market signals should be minimised so importers continue have incentives to maintain supply

14. Prices are normally sufficient to ensure fuel importers have the right incentives to match supply with demand. This means maintaining (or minimising distortions to) efficient market signals so that the market is able to continue to respond effectively to these signals.
15. Government intervention in the market is likely to be more appropriate when the market is unable to provide assurance about achieving the objective to the level of certainty Ministers consider is appropriate.

Proposed criteria for assessment of options

16. We propose options should be assessed according to the extent to which they:
 - maintain incentives on fuel importers to continue to supply product to New Zealand to meet New Zealand demand
 - minimise distortions to efficient market signals, including prices
 - limit government involvement to when the market is unable to achieve the objective and/or government involvement is necessary to achieve the objective, given the Government's view on what level of risk it is prepared to tolerate
 - provide the level of certainty to avoid a supply shortage Ministers consider is appropriate
 - avoid excessive fiscal and commercial risks to the Crown
 - minimise complexity and time required to arrange

- match the timing of any supply shortage
- are competitively neutral.

Options available to reduce the risk of non-supply

17. There are three main supply options that the Government could use to reduce the risk of non supply (in order of increasing government intervention):
- *Increasing the obligation on importers to hold more stock (increasing the Minimum Stockholding Obligation (MSO):* The Government extends the regulated period of time that importers' holdings of fuel in New Zealand must cover
 - *Government support:* The Government underwrites and covers the costs for additional fuel reserves in New Zealand
 - *Government purchase:* The Government purchases product cargoes (fuel in tankers)
18. Under supporting or purchasing there are a variety of options available.
- There have been a number of unsolicited offers to the government.
 - The Government exercises 'tickets', which are purchase option contracts New Zealand holds under the IEA Treaty for holdings of fuel and crude oil in the US and Japan, to support additional fuel volume into New Zealand. A detailed description of tickets is provided in Annex 3.

Increase the MSO

19. This option uses regulation as the mechanism to increase on-shore stocks of fuel by putting an obligation on fuel companies².
20. In short, regulations may provide for any change to the MSO, for any fuel, following consultation, provided that Ministers are able to form the necessary views. This would however be able to be challenged by fuel companies, and they may seek an exemption from any such increase which Ministers would be required to consider.
21. The key design choices for increasing the MSO include:
- To what fuels should the increase apply? Officials assume the focus will be diesel.
 - What national future stock level should be targeted? This is due to go to 28 days with diesel in 2028 and this obligation could be brought forward.
 - What fuel storage capacity is available to importers within the timeframe contemplated? For example, the additional storage at Channel Infrastructure could be utilised for this.
 - Which importers reasonably be expected to meet an increased MSO?
22. However, importers will be unable to meet an increased MSO unless they can secure additional fuel orders, or unless their fuel demand falls materially below their feasible re-supply levels (e.g. they are able to hold back and store more fuel). In addition, an increase in the MSO requires importers having adequate storage but our understanding is that their current domestic storage on land is at capacity. Floating storage would be an option.

² Section 58 of the Fuel Industry Act 2021 provides for regulations relating to the MSO.

Advantages

23. Increasing on-shore stocks could also be seen as a reasonable effort to improve NZ's resilience to further/late disruptions, even if temporary, as it could soften the hard landing that will come should diesel demand restraint (non-price rationing) be required in the months ahead.
24. Although this option imposes additional costs on importers it provides incentives on them to comply in the least cost way, if they can.
25. If an increase in the MSO applied to all importers it would be competitively neutral – although the ability of importers to comply may vary. Commercial Information
26. This option avoids imposing costs on the Crown but imposes costs on importers. Importers should be able to recover those costs through domestic sales.

Disadvantages

27. Increasing the MSO is likely to increase the cost and therefore the price of fuel, given the increased amount of fuel that must be purchased and the increased period of time it must be held.
28. It may be perceived as hoarding and could be seen as inconsistent with NZ's recent agreement to join the IEA collective action to release emergency reserve stocks. In principle, seeking to increase stocks at a time when global supply is significantly short will exacerbate the shortage and raise prices. These criticisms potentially apply to all options aimed at increasing New Zealand's holdings of fuel.
29. An importer's ability to secure sufficient fuel supplies to meet an increased MSO is critical to the success of this measure. If an importer cannot secure sufficient supplies, then it will be unable to meet an increased MSO and will be forced to seek an exemption from the MSO sooner than it otherwise would. The risk of non-compliance could incentivise an importer to restrict drawings from its bulk storage facilities, which could result in localised shortages and/or interfere with Government efforts to prioritise essential services.
30. It may also create practical difficulties in seeking to take action against fuel importers non compliance with their MSO obligations.
31. In discussions with importers they have indicated they are likely to strongly object to a proposal to increasing the MSO. It involves imposing increased requirements at a time of market stress and importers have indicated their likely natural trajectory is a reduction in their holdings rather than an increase. This increases the risk of unintended consequences, eg non-cooperation by importers at a time when their support is crucial.
32. Fuel importers may legally challenge any decision to increase the MSO. The likelihood of success of any challenge will in part depend on the reasonableness of the views taken by Ministers in making the necessary regulations.

Government support

33. This involves the Government supporting one or more importers in providing *additional* supply in New Zealand. The importer would procure and own the additional supply and the Government would support any additional costs incurred, eg storage, demurrage (holding/parking a ship) and, possibly, losses, e.g. if a change in the market meant the product had to be sold at a loss. Government support could be in the form of underwriting or direct funding.

Advantages

34. This option bolsters existing supply chains leveraging existing market actors – Z (and Ampol), Mobil (and ExxonMobil), BP (and BP Global), TSOL (and Vitol) and Gull's supply networks to improve current holdings. It involves relying on the market to support the Government's security of supply objectives, while removing some of the barriers that may exist to importers procuring and holding additional supply. Preliminary discussions with importers indicate they are open to this option.
35. This option is also flexible and could be used in conjunction with an increase in MSO requirements.

Disadvantages

36. It involves adding supply to the market that would not be under normal circumstances, so may alter the incentives and behaviour of market participants. This would, however, only be for the period of time the support was in place and the supply was in the market.
37. If the option was applied to a single or a minority of importers, who could benefit from the support, it may not be competitively neutral. It would therefore be important to ensure that the additional supply was accessible by all retailers.

Government purchase

Description

38. This option involves the Government acquiring cargoes of refined product that is stored and available for supply. Cargoes could be held onshore (most likely in new storage capacity), on ship, or in storage offshore, e.g. Singapore. The product would be procured via the global broker/supplier market. Details on how this approach could be applied are set out in paragraphs 78-85.
39. In effect, this option involves a judgement that the market is not able to meet the Government's expectations about security of supply, even with additional government support.

Advantages

40. This option allows the Government to exercise control of supply and ensure that supply is available to the whole market.
41. Subject to internal New Zealand logistics, eg shipping supply from Marsden Point to the lower North Island and South Island, the supply would be available to the whole market so it is also competitively neutral.

Disadvantages

42. This option involves material Government intervention in the market so disincentives importers to solve supply change challenges themselves. It also introduces distortions to the market through adding supply that the market was not expecting so there is a risk that importers will adjust their own supply levels in response.
43. This option involves the highest fiscal costs, involving at least the costs of acquiring and shipping the cargo and, potentially, storage costs, eg demurrage if onshore or offshore storage cannot be found. Commercial arrangements with an onshore storage provider, eg Channel, may allow storage costs to the Crown to be minimised.
44. There is also a risk of the Crown incurring losses if the product is acquired at a high price but needs to be sold to the market at a low price.

Oil Tickets

45. One lever that could be used by the Crown, or to support private purchase is New Zealand exercising purchase options we hold for refined products and crude oil in the United States and crude oil in Japan. The tickets are held to support our compliance with New Zealand's reserve fuel holding obligations under the IEA Treaty. Further detail is in annex 2 about how this would work.
46. Except for jet fuel and fuel oil (for ships), the refined product does not meet New Zealand specifications. If tickets were exercised for crude, the crude would need to be refined, which involves additional lead time of at least 6 weeks before the product could be shipped to New Zealand.
47. Notification requirements in our contracts also add additional time (up to 18 days)
48. Exercising tickets likely requires leveraging existing supply chain actors to put together a deal, with the Government releasing holdings to a refiner or trader to create and/or source product usable in New Zealand. Some New Zealand importers (Mobil) could do this end to end with our US tickets, while others would need to enter into third party arrangements.
49. Importers have all said this option would only be desirable in the face of known supply constraints.

Advantages

50. Tickets involve utilising existing rights to product New Zealand holds and suppliers have guaranteed. It may be possible to deliver in a relatively cost neutral way.
51. We hold tickets for all main products so this option can be used to meet shortages of individual products. Tickets for crude provide added flexibility as these can be converted to whatever form of fuel is needed.

Disadvantages

52. This option has the longest lead time given the requirement to notify host countries., enter into commercial arrangements and refine products.
53. It is also the most commercially complex option as it may require contracts with multiple parties. In addition, the tickets may need to be swapped for other product if the ticket is not for New Zealand specification product.
54. Ticket volumes may not match New Zealand needs.
55. Tickets involve a (probably low) risk that either host country does not allow the ticket to be exercised or prevents export of product or the contract for supply is not honoured.
56. There is some uncertainty whether exercise of tickets is consistent with New Zealand's participation under the IEA March collective action and whether this will limit our ability to exercise purchase options on the tickets we hold (although we think this risk is likely to be manageable). In addition, any exercise of tickets will limit New Zealand's ability to participate in subsequent collective actions.
57. As with other options to lift supply, this option risks distorting the market. Depending on how the option is implemented, there is a risk it may not be competitively neutral.

Evaluation of options

58. An evaluation of the options against the criteria is set out in the following table.

<i>Criteria</i>	Increase the MSO	Government support	Government purchase	Tickets
Provide certainty of supply	Some improvement in certainty	Improves certainty	Improves certainty	Should improve certainty
Maintain incentives on importers	Increase	Some reduction	Reduction	Reduction
Minimise market distortions	Some increase	Increase	Increase	Increase
Limit government involvement in the market	Government involvement limited to regulation	Some government involvement	Government involvement	Some government involvement
Avoid excessive fiscal and commercial risks to the Crown	No risk to Crown	Some fiscal cost, minimal ongoing risk	Large fiscal cost, ongoing risk	Possible short term cost, which should be recoverable
Minimise complexity	Requires industry consultation potential risk of legal challenge.	Limited complexity.	More complex.	Complex as requires discussions identifying importers, contracts with companies holding options and refining campaigns
Minimise time required	Estimated two months to implement	Could be implemented immediately.	Could be implemented immediately	Likely 3 months plus to implement.
Match timing to supply needs	Timing should match likely initial supply constraint	Can match supply constraint	Can match supply constraint	May match supply constraint
Competitively neutral	Depends on coverage	Some risk to competitive neutrality	Yes	Some risk to competitive neutrality

59. The options that best provide certainty of supply are government support or government purchase. Of these two options government support involves lower cost, lower government involvement, less complexity and lower risk. It is the least regrets option but it does carry risks of some distortion to the market as the support would be limited to those importers acquiring product, which could in turn reduce competitive neutrality.

60. Increasing the MSO should provide certainty of supply as the penalties for non compliance are substantial: up to \$5m or three times the commercial gain. However, importers have

indicated they strongly object to this option. Not all importers may be able to comply in a very constrained market.

Timing considerations across the options

61. Any intervention will take time to deliver, and we won't have time to wait until supply is cut off before Government needs to decide to intervene (this will need to occur well ahead of time).
62. This is because there are lead times to secure fuel, depending on where it is held (e.g. East Coast of the US, South East Asia), and or whether intermediate steps need to occur (e.g. refining of product).
63. Our advice from one importer is that a trigger point will be when orders they are making in April for late July delivery begin not to be filled. In normal market circumstances, there is a typical 50-75 day window between order and ship leaving port.
64. In addition, the picture will be different for different importers based on their different supply chains. **Commercial Information**
65. Officials should be able to continue preparatory work with importers on any option Ministers favour now, so that as soon as a trigger point arrives, Government can formally intervene.

Financial implications and commercial strategy to support the NZ market to secure additional supply

66. The cost of government support for a single cargo of fuel on a large tanker, which would provide 7-10 days' supply of a single product, is unlikely to significantly exceed \$50m (subject to final commercial negotiations and agreements). This tentative estimate is based on preliminary discussions with the industry. The cost of the fuel itself would be borne by the importer.
67. High level estimates of support costs depend on precise commercial arrangements, but include:
 - \$1.2m / month to recommission and lease tanks at Marsden by Government, with peppercorn sublease to oil supplier as incentive.
 - Demurrage costs (dependent on vessel size, length of time at berth)
 - Other costs to be confirmed, eg Government coverage of losses due to market changes.
68. Costs would need to be confirmed.
69. The overall commercial strategy to implement the government support option is set out in the following table:

High level commercial strategy for government:

1.	Commission storage	Execute offer from Channel to bring additional storage online at Marsden. Commercial Information Commercial Information
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2.	Secure supply	Leverage NZ market to secure supply and lead time, offering 'free' or low cost storage for 2026 Number of vessels should meet maximum storage in the recommissioned tanks at Marsden – estimated at 9 days Diesel supply to NZ
3.	Cover gap	Government covers gap by paying costs on ship if storage facilities are not ready. Demurrage cost dependent on ship size / number of ships
4.	Deliver and store Marsden storage	Product is held in the new storage at Marsden, released only in consultation with Government. Conditional use of product in dedicated tanks by approval of Government only Accessible at market rate to any supplier in need / falling below minimum levels. Cost recovery of storage costs if used. Note: there may need to be product transfer to ensure no degradation of quality.
5.	Post crisis	Product released to market. If no usage, Government covers full cost of storage. Consideration of the ongoing impact – possible losses covered through increased prices for a period, or government covering any product loss.

Next steps

70. The next steps depend on the option or options preferred by Ministers.
71. If Ministers prefer the option of supporting the New Zealand market to secure additional supply, the next steps are:
72. to seek market interest
73. Identify a preferred provider and approach
74. Conduct commercial negotiations.

Commercial Information

Annex 3: Further information on Oil tickets

75. New Zealand holds oil tickets (purchase option contracts) with overseas suppliers in Japan and the US. We have government to government arrangements that support these commercial contracts.
76. We use these tickets to comply with our 90 day stockholding obligation under the IEA Treaty. The Minimum Stockholding Obligation (MSO) provides the remainder of cover through domestic holdings. After the IEA agreed collective action on 11 March, the IEA obligation is paused until it is agreed by IEA members its reinstated again. This is likely to be well after the situation has resolved³
77. We can exercise these options where New Zealand's obligations under the IEA Treaty have been activated or where a domestic petroleum supply emergency is declared by the government of the country where the options are held and that country has requested New Zealand's assistance.
78. If the IEA undertakes further collective actions (which NZ would need to agree to), our tickets are our only way of complying. Eventually, we would also need to repurchase tickets when the 90 day obligation is reinstated
79. New Zealand will release 20% of our tickets (214,000 tonnes) to meet the IEA collective action. This would leave tickets equivalent to around 800,000 tonnes potentially available. When taking a decision to implement the action, it was agreed we would release US crude and diesel, however this decision can be altered (and different tickets released) should we instead wish to take up these options.

Using remaining tickets to secure fuel supplies

80. We have assessed whether Government could exercise the options we hold, convert this to products fuel importers/users want, then have importers contract to take on the supply. We will work with industry to identify the most efficient means of exercising tickets in a way that meets New Zealand's requirement. **Commercial Information**

Nature of remaining tickets

81. We hold purchase options for the following (total, not excluding our IEA obligation):

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82. Apart from jet fuel, the options we have cannot be used in New Zealand currently. They would either need further refining to New Zealand specification, or swapping for associated volumes for NZ specification product.

Broad commercial construct

83. The exact commercial construct for this option would depend on who we are dealing with and whether they can refine the product themselves Commercial Information or whether we need to find a third party to do this:
- *Crude and US based product holdings*: either exercise our purchase option and sell to a third party refinery, or assign that option to a third party refinery. NZ based importer would contract with the refinery to take on supply.
 - *US jet fuel*: assign or sell our purchase option to an importer.
84. In all situations we would expect the importer to arrange and pay for shipping.
85. The costs of doing this are highly dependent on market prices for different products at the time of exercise, and any additional costs of conversion of products. It may be possible for this to be relatively cost neutral to Government, albeit likely requiring an appropriation.

Logistics and practical considerations

86. As most of the product is in the East Coast of the United States, shipping and logistics would add time and cost. Product would come through either the Panama Canal (currently highly congested and expensive) or around Cape Horn (adding time).
87. To refine the US based product, it would be most expedient to deal with Mobil as they have indicated they have refinery infrastructure there that could produce to New Zealand specifications.
88. For the Japanese product, we understand the supplier we hold tickets with can also refine to crude to NZ specifications, but this needs confirming.

Lead times

89. Indicative lead times for the ticket option are around 4-5 months, depending on product type. This is made up of:
- Supplier and government to government notifications that we will exercise options (up to 18 days).
 - Time for commercial negotiation and contracting
 - Arranging shipping (importer led)
 - Refining time if required (minimum of 6 weeks)
 - Nomination and accrual of products at the delivery location (up to 30 days)
 - Shipping time (varies, but circa 16 days from Japan, 40 days through the Panama Canal and 50 days around Cape Horn).

Importer interest

90. We have engaged with the four fuel importers to test whether they would have interest in using the supply attached to the tickets. Their views are as follows

Commercial Information

Government-to-Government Engagement

91. If the Government were to utilise its Japanese crude holdings, we would also recommend significant Government to Government engagement (ministerial and officials level) to add weight to our contracting with the Japanese supplier we hold tickets with.

Indemnities

92. When we use the purchase options in our oil tickets contracts the Government is required to give certain indemnities. If we were to use this option approval would need to be sought from the Minister of Finance.