MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Options for mitigating fuel shortages

Date:	14 March 2026	**Priority:**	High
Security classification:	Sensitive	**Tracking number:**	0029255

Action sought		
	Action sought	**Deadline**
Hon Nicola Willis **Minister of Finance**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Chris Bishop **Minister of Transport**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Todd McClay **Minister for Trade and Investment** **Minister of Agriculture**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Simon Watts **Minister for Energy**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Shane Jones **Associate Minister for Energy**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Brooke van Velden **Minister of Internal Affairs**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026
Hon Scott Simpson **Minister of Commerce and Consumer Affairs**	**Indicate** if you would like advice on mitigations in recommendation e.	17 March 2026

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Justine Cannon	General Manager, Energy Markets	Privacy of natural persons	✓
Dominic Kebbell	Manager, Gas and Fuel Policy		

The following departments/agencies have been consulted
The Treasury, Ministry of Transport, Ministry of Primary Industries, and Ministry of Foreign Affairs and Trade were consulted in the preparation of this briefing. DPMC were informed.

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- ☐ Withdrawn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 provide you with advice on demand and supply side mitigations that could be used to address fuel shortages arising from the interruption of shipping in the Strait of Hormuz, including the promulgation of regulations under the Petroleum Demand Restraint Act 1981.

Executive summary

New Zealand's fuel industry is well placed to deal with the supply uncertainties created by the effective closure of the Strait of Hormuz. The National Fuel Plan (NFP) developed jointly by MBIE, NEMA and the fuel industry provides a framework and accompanying set of mitigations to deal with situations like the current situation in the Middle East.

MBIE's view is that our healthy onshore and enroute fuel stocks mean we are not yet at the point where the stronger mitigations outlined in the NFP (e.g. a restricted purchasing scheme) are necessary. Decisions on these mitigations are likely to be at least three to four weeks away based on our current fuel stocks and what is on the way. Additionally, implementing these kinds of mitigations now could be counterproductive as New Zealand does not have the fuel storage capacity to deal with a large-scale curtailment in demand while we still have significant levels of fuel onshore and enroute.

While our advice is that market pricing mechanisms remain the most appropriate way of managing the current fuel market conditions, there is a reasonable chance that we will reach a point where prices alone are not sufficient to ensure fuel reaches our most critical users. As a consequence, this briefing sets out the full range of potential mitigations that are available to the Government. It is intended as the first of a series of briefings that provide you with advice on the available mitigations and key decision/trigger points.

We are working at pace with industry to build a picture of the range of the potential scenarios and their likelihood of occurring. Our aim is to provide you with the best possible information to inform your decisions on which mitigations to employ, and when. Early indications are that these scenarios will revolve around three key variables:

- How long the Strait of Hormuz remains closed to shipping
- Whether the Asian refineries that supply our fuels can gain access to alternative supplies of crude oil
- Whether New Zealand fuel importers can gain access to alternative supplies of finished fuels.

Fuel suppliers are likely to know 15-25 days in advance when stocks are going to be most constrained, so Ministers are likely to have advance warning of when the stronger mitigations set out in the NFP may need to be implemented. In the meantime, there are some 'least regrets' actions that could be taken to maximise the amount of fuel available to New Zealand businesses and households. These are:

- Widening the range of fuel specifications that can be used in New Zealand. This would be over and above widening the specifications to allow the new Australian specification that the Associate Minister for Energy is taking to Cabinet on 16 March, and could include fuels that meet standards set by countries like the USA and India
- Exploring options for New Zealand suppliers to coordinate with Australian and Singaporean industry participants to secure additional supplies of fuel
- Exempting relevant parties from the Minimum Stockholding Obligations to allow them to utilise available stocks if the need arises.

We stand ready to provide you with further advice on these potential actions, and will also provide you with a briefing mid-next week on the emerging scenarios together with our early estimates of their likelihood of occurring.

Recommended action

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

a **Note** that the National Fuel Plan provides the Government with a framework of mitigations to reduce the potential impact of fuel shortages

b **Note** that this briefing provides the Government with initial advice on the range of potential mitigations using the framework provided by the National Fuel Plan, with further briefings to follow as MBIE works at pace with the industry to firm up scenario and probabilistic modelling

c **Note** that MBIE considers Ministers are likely to have three to four weeks before decisions on the strongest mitigations will need to be taken, and in the meantime market pricing mechanisms remain the most appropriate way of managing the current fuel market conditions

d **Note** on Monday 16 March 2026, there will be a Cabinet oral item seeking agreement to allow Australian-spec fuel to be supplied in New Zealand, but we do not recommend following the Australian Government's decision to temporarily relax the sulphur limit for petrol

e **Indicate** if you would like further advice on implementing any of the following 'least regret' mitigations:

i. Further widening the range of fuel specifications that can be used in New Zealand e.g. allowing fuels that meet USA and India standards to be used here

Yes / No

ii. Exploring options for New Zealand to coordinate with Australian and Singaporean fuel industry participants to secure additional supplies of fuel

Yes / No

iii. Exempting relevant parties from the Minimum Stockholding Obligations to allow them to utilise available stocks if the need arises

Yes / No

f **Note** MBIE will provide you with a briefing mid-next week on the emerging scenarios together with early estimates of their likelihood of occurring.

Privacy of natural persons

Dominic Kebbell
Manager, Gas and Fuel Policy
Buildings, Resources and Markets, MBIE

14 March 2026

Hon Shane Jones
Associate Minister for Energy

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Background

1. The Middle East conflict and associated closure of the Strait of Hormuz has caused interruptions to the global supply of oil and fuel at a level not seen since the oil shocks of the 1970s. The IEA notes that the Strait blockage has already led to more than 10 million barrels per day (mb/d) of crude oil (close to 10% of global daily demand) to be blocked as well as 5 mb/d of refined fuels.

2. In 2025 around 15 mb/d of crude transited through the Strait of Hormuz. Most of this (~13 mb/d) went to Asian refineries. South Korea and Singapore supply the majority of New Zealand's refined fuels. This is supplemented by Malaysia (mainly petrol), Japan (primarily diesel) and India (mix) with minor volumes from China, Brunei and Oman.

3. The reduction in supply of fuel is being reflected in higher prices as expected. Brent Crude surged to over $100USD which is a 25% increase since the conflict began. Prices of products have increased by more with diesel up 60% and jet fuel up 70%.

Current situation

4. New Zealand's minimum stockholding obligations (MSO) provide for the following fuel levels:

    a. 28 days' cover of petrol

    b. 24 days' cover of jet fuel

    c. 21 days' cover of diesel.

5. New Zealand has onshore and enroute supplies to cover 50 days of use at usual levels.

6. Of the three fuels, diesel is important because of its role in critical transport services and supply chains that support human life e.g. supermarket supply chains. However, because one third of diesel is used in light passenger and commercial vehicles, this demand could be the focus of any diesel reduction so that industry, manufacturing, agriculture and heavy transport are not impacted. Petrol is overwhelmingly used for residential/private vehicle use. Petrol shortages would have a significant impact on the day-to-day lives of New Zealanders.

7. The Asian refineries are looking to access supplies via other routes but there could be a delay. Fuel companies will also look to source fuel from other refineries but these are likely to involve longer shipping times.

8. If the supply challenges continue, there may come a point where higher prices are not enough to ensure that sufficient fuel is getting the most essential users and other mitigations may be required. It is our view that we are not yet at the point where these mitigations are necessary. Proceeding with mitigations ahead of when they are needed may also be counter-productive as New Zealand does not have excess storage capacity so a sharp reduction in usage could result in insufficient storage being available for product enroute.

9. This briefing provides you with initial advice about the type of potential mitigations to limit the impact of fuel shortages on New Zealanders. A critical aspect will be the conditions or triggers that would signal that it was appropriate to start using some of the mitigations. Further advice on those conditions/triggers is planned for mid next week. It will incorporate inputs from other workstreams collating supply data and seeking input from users and fuel companies.

Pricing is playing an important role in market management

10. The price of fuel is an important rationing device. It is an important signal for all users to manage and prioritise their fuel use. There have been calls for the fuel tax to be reduced to relieve the pressure of rising fuel costs on households. Such a universal reduction in the price of fuel would undermine mitigation measures put in place to ration fuel.

11. If the price of fuel becomes so high that it will create financial challenges for some households or essential services (e.g. ambulance services), we would recommend alternative measures be used to directly support essential services or household budgets, rather than reduce the fuel price.

12. A key policy question is the point at which price becomes inadequate as a rationing device. This could occur when supply is low because of differences in buying power and user behaviour. Users who can afford to do so could start to stockpile which reduces supplies available for potentially higher priority users. This is a key rationale for regulating the distribution and sale of fuel – to ensure fuel supply outlets do not run dry as a result of surge buying, so that priority users maintain unrestricted access to fuel.

13. The role of price versus other rationing options is likely to vary by type of fuel. Jet fuel demand is expected to be more responsive to price than petrol or diesel, to the extent that non-price rationing may not be warranted to mitigate disruptions to jet fuel supply. There could be a case for supply prioritisation, to ensure unrestricted supply for priority air services.

What are the potential scenarios and potential disruption that could occur?

14. The key factor for fuel supply in New Zealand is the length of time that the Strait of Hormuz remains closed. We have drawn on information from contacts in the IEA to illustrate a few potential scenarios for how the current blockage in the Strait of Hormuz might play out.

Scenario 1: the Strait gradually opens from tomorrow

15. Limited disruptions beyond those caused by temporarily high prices as supplies and shipping adjust. This assumes that emergency stock releases are sufficient to bridge the gap before normal supplies resume. There would be a month or so of adjustment, but prices should drop quickly and physical oil supplies back to normal by mid-May.

Scenario 2: the Strait gradually reopens from the end of March (2.5 weeks more of closure)

16. During the closure period global crude oil supplies will be short by 8mb/d and oil products will be down 5mb/d. This can be covered through industry and government stock drawdowns and minor demand destruction. After reopening, supply volumes could return to normal by the end of June.

17. The real pressure during this closure period will be felt in Asian product markets, which are very dependent on direct shipments and processing Gulf crude imports (China is the largest purchaser of Gulf oil by volume, but Japan and Korea are the most dependent, importing 85% and 71% of their crude from Gulf states respectively). Asia will set the global price for diesel and jet fuel as companies bid each other up to secure new supplies, with shipping being diverted from Europe.

18. This supply scenario would be manageable, albeit with high prices. The IEA stock releases and the large reserves held in Japan and the US, plus the large quantities of previously-sanctioned Russian oil that are currently at sea, should be sufficient to temporarily bridge the gap.

19. However, prices would continue to track higher each day, to reflect a risk premium that the Strait reopening might still be some way off.

Scenario 3: the Strait remains closed through April and beyond (1.5+ months of closure)

20. If the Strait is still closed through to late April and beyond, there is unlikely to be sufficient global reserve stocks being released to cover the loss of oil supplies.

21. Major Gulf oilfields will run out of storage so will need to shut-in their fields, which would necessitate a much longer reopening period and provides a signal to the market that there will not be a short-term solution. The supply shortage would be exacerbated in refining markets, with the prospect of refiners outside of the Gulf declaring force majeure on contracts as they struggle to source necessary volumes of crude and have to cut production. The IEA would likely look to coordinate another reserve release at some point, although countries may be reluctant to give up reserves if the conflict remains open-ended.

22. Prices would continue to climb until there is sufficient demand reduction that there is some form of new equilibrium. The generally accepted view is that there would be meaningful global demand reduction as prices approached $USD130-$USD150/barrel, which could happen by the end of April. Diesel and jet fuel will face the highest price increases.

23. At some point there would be supply shortages for many countries, particularly when producer countries decide to prioritise their domestic consumers and put in place export controls on crude and refined products.

24. NZ would need to pay a premium to secure available refined products ahead of other Asian markets, and there is a possibility this could be challenging if other countries restrict exports. Many emerging countries (particularly in Asia and Africa) would be highly likely to see fuel shortages and have to introduce rationing.

Modelling from Envisory provides more detail of potential effects for New Zealand of Scenario 3

25. MBIE has commissioned modelling by fuel consultancy Envisory (see Annex 1 for modelling by fuel type). They model the impact of a 50% disruption to New Zealand's supply chains from Asia for petrol, diesel and jet fuel. Disruption in New Zealand is assumed to start after 24 days from today to reflect that 24 days is the current stock days on water, including in ships around New Zealand waiting to unload.

26. Envisory assumes, for the purposes of their scenario, that no substitute cargoes are available in Asia, and that New Zealand will block any potential replacements from India if sourced from Russian oil. Note that this scenario has been modelled for the purposes of illustrating potential impacts on NZ fuel supplies. It is not a forecast.

27. In Envisory's model, New Zealand fuel companies seek alternatives suppliers from further afield (e.g. the US). It is an assumption that it will be possible to access these supplies but Envisory are trying to get more information from suppliers about the potential availability of USGC crude or finished fuel stocks.

28. If these supplies are available, Envisory estimate a period of 52 days before replacement cargoes arrive to compensate for the loss of Asian shipments. Consequently, the effective duration of the gap is 28 days, accounting for additional voyage time as well as the logistical arrangements required to secure cargoes and shipping.

29. Envisory consider that the forecast fuel shortage, in this scenario, can largely be covered (totally for jet fuel) by allowing companies to draw down on stocks below the Minimum Stockholding Obligation level. Suppliers will know 15-25 days in advance when stocks are going to be at their lowest point, so the government will need to work closely with suppliers to

assess if any fuel saving mitigation measures will be required (i.e. it is much easier to manage if a small saving is made for a period in advance rather than taking action when the short is occurring).

What do these scenarios suggest for the need for Government action?

30. In Scenario 1 and 2, the supply impacts are manageable, but the price increases could still have economic impacts in Scenario 2.

31. The outcomes in Scenario 3 will depend on the behaviour of other countries. If supplies are available from further afield as in the Envisory modelling, then any supply challenges may be temporary and could be overcome with use of the MSO. However, if countries prioritise domestic use, there could be limited supplies available on the market with greater resulting supply challenges.

32. This hierarchy of scenarios suggests that action on mitigations is not needed right now. However, monitoring market activity closely over the next weeks will be critical to understand what actions are appropriate for the unfolding conditions.

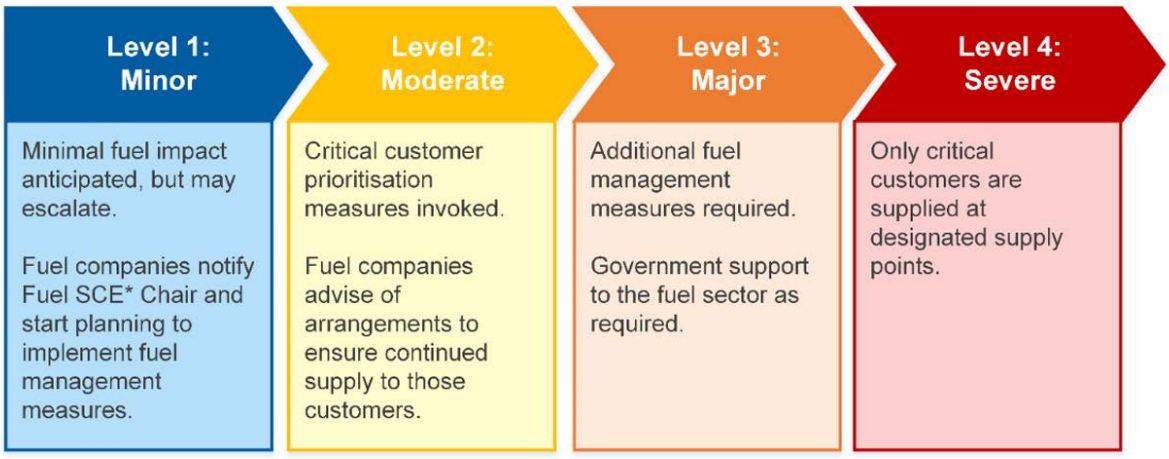
Planning for a fuel supply interruption has been underway for many years

The National Fuel Plan sets out a range of possible mitigations

33. The publicly available National Fuel Plan (NFP) sets out clear guidance for how government and fuel companies work together if global conditions worsen. It sets out a range of different measures that could be used to manage disruptions. Some measures are applicable for nation-wide disruptions while others are suitable for more localised disruptions, such as during storms.

34. Communicating the approach set out in the NFP to the public is likely to be important to instil confidence that the government has a plan and that panic buying and/or stockpiling is counterproductive.

35. The NFP contains a ‘response level’ framework. We currently consider that we are in Level 1, but that escalation to Level 2 and Level 3 may occur rapidly, due to the uncertain and fast changing nature of fuel disruption. MBIE will provide advice to Ministers on response level and escalation. The response levels are:



SCE: Sector Coordinating Entity

36. Section 5 of the National Fuel Plan outlines the specific measures available to the Government and the fuel sector to manage the quality and quantity of fuel during supply

disruptions. The Fuel Sector Coordinating Entity has already been convened and is meeting twice weekly (and daily with a sub-group of the 5 fuel importers).

37. In addition, MBIE has prepared various planning documents outlining the key process steps and judgements expected to be required when selecting and implementing measures in response to a fuel supply disruption of the kind we are facing. This documentation is not public.

There is a key strategic choice between trying to reduce demand slowly and progressively, or taking firmer action to reduce demand faster and harder

38. The table below describes our initial thinking about potential measures for this response at each level. It orders them in terms of things to do now, and things to do if and when our fuel supply deteriorates. For the latter actions, we are undertaking preparatory work so we can act fast if needed. Table 1 provides a high-level summary of the demand and supply side mitigations.

Table 1: Potential Mitigations	**Demand Side Mitigations**	**Supply Side Mitigations**
Level 1 of the NFP – Minor Impact (current level)	• Allow fuel prices to reflect market conditions and consumers to adjust their use according to their willingness to pay • Information campaign to inform consumers how they can reduce fuel use. This could include: o car pooling o removing unnecessary items/weight from private vehicles o checking tyre pressures o reducing speed where this is safe to do so	• Seek better information from fuel importers (e.g., fuel shipments, refinery outputs) - this is underway • Talk to importers about the possible design of relaxing fuel specs – this enables us to import fuel from a wider number of sources (underway) • Amend the Engine Fuel Specifications Regulations 2011 to allow fuel importers to import any available fuels that meet USA and potentially other standards • Explore options to coordinate with Australia and Singapore to secure additional supplies of refined fuels
Level 2 of the NFP – Moderate Impact	• Information campaign to drive larger reductions in fuel use. This could include encouraging: o employers to allow employees who can, to work from home o increased use of public transport o private diesel vehicles	

	not being used • Direct public service departments to allow any employees who can work from home to do so	
Level 3 of the NFP – Major Impact	• Promulgate regulations under the Petroleum Demand Restraint Act that restrict the sale of fuels to non-essential consumers	• Exempt relevant parties from the Minimum Stockholding Obligations to allow suppliers to utilise available stocks if the need arises
Level 4 of the NFP – Severe Impact	• Tighten regulations under the Petroleum Demand Restraint Act to restrict sales for any use that does not support or sustain human lives consumers	

Public communications will play a critical role in managing fuel shortages

39. The communication of any mitigations implemented is critical to ensuring consumer confidence and discouraging panic buying to ensure an orderly fuel market. Other countries have seen demand for fuel increase even though usage hasn't changed. This behaviour could worsen the supply challenges.

40. There are a number of voluntary restraint measures such as education about ways to make more efficient use of fuel which could emphasise the impact on reducing the impact of fuel costs on household budgets but will also have the effect of reducing the use of fuel.

Key strategic policy choices

41. There are a number of key strategic choices:

    a. The timing of shifting away from price as the rationing mechanism. Is there a critical supply level or price where there is a risk that supply is not getting to users needing fuel to maintain essential economic activity?

    b. Which mitigation measures should be deployed and in what order? There is a choice on whether to:

        i. slowly implement progressively tighter demand mitigation measures (beginning with public messages to support voluntary fuel conservation) that preserves flexibility to adapt to evolving fuel market conditions while maintaining economic and societal activity; OR

        ii. implement stronger demand mitigation measures earlier to maintain fuel stockholdings at higher levels but with higher detriments to economic and societal activity.

42. These choices will depend on which scenario we think we are in and what expectations of future supply quantities are. Given the evolving situation and the current supplies either on

shore or enroute, we think there is time to monitor the market situation on a week-by-week basis which can help to inform those policy choices.

Potential mitigations that could be implemented quickly

43. This section discusses potential mitigations that could be implemented quickly with relatively limited impacts.

Further relaxation of fuel specifications

44. The Engine Fuel Specifications Regulations 2011 set out the fuel specifications for New Zealand. Fuel specifications set the minimum technical requirements that petrol, diesel and biofuels must meet when supplied in New Zealand. Some are designed for engine performance, while others are in place to minimise vehicle emissions. The overall fuel specifications ensure that fuel products have the quality that would be compatible with our vehicle fleet, provide adequate consumer protection, and achieve desired emissions and public health outcomes.

45. Different jurisdictions may have slightly different fuel specifications, depending on factors, such as their climatic conditions and the stringency of their vehicle emission standards. Every refinery is designed differently, and some do not have the infrastructure to produce fuels that would meet the latest specifications adopted by some countries. When there are significant international fuel supply constraints, government could consider relaxing its fuel specifications to provide more flexibility in sourcing fuels from a wider range of refineries.

46. New Zealand usually imports its refined fuel products from Asian refineries, which traditionally rely heavily on imports from the Middle East. During this conflict, we may wish to import more from jurisdictions beyond Asia, such as the US. Aligning our fuel specifications with larger jurisdictions, such as Australia, may make New Zealand a more attractive market to overseas refineries.

Key design choices

47. To determine whether and how to relax our fuel specifications, we would need to consider:

48. which fuel specifications could be changed without any material impact on engine performance

    a. whether it would be acceptable to relax a particular fuel specification if it could have adverse impacts on emissions and public health, and whether those impacts would be outweighed by fuel security benefits

    b. whether we should accept another jurisdiction's fuel specifications fully, taking into account the similarities and differences in their fuel specifications, the underlying drivers for differences (such as climatic conditions).

Pros and cons

49. Aligning our fuel specifications more closely with other jurisdictions could allow fuel importers to source fuel from more refineries and lower the risk that otherwise suitable cargoes are excluded during periods of tight supply.

50. On the other hand, relaxing certain fuel specifications could have adverse impacts on greenhouse gas and noxious emissions. The trade-off between those impacts and fuel security benefits would need to be considered carefully to minimise cost and risk.

Seeking Cabinet agreement to accept Australian specifications on Monday

51. On Monday 16 March 2026, there will be a Cabinet oral item seeking agreement to allow Australian-spec fuel to be supplied in New Zealand, except that we do not recommend

following the Australian Government's recent decision to temporarily relax the sulphur limit for petrol.

52. We understand the Australian decision is an emergency measure to allow the fuel produced at its Brisbane refinery to be used rather than exported. This refinery produces high sulphur fuel that would not meet Australia's pre-relaxation limit, pending an upgrade to the refinery. We do not expect Australia would export this fuel to New Zealand, so relaxing our sulphur standard to match this change would not help. Meanwhile, there are environmental and other reasons to keep stringent sulphur limits.

53. We have commissioned further technical advice on fuel specifications in other jurisdictions. Should we identify further jurisdictions that have fuel specifications acceptable to New Zealand standards, we will provide further recommendations to recognise their fuel standards.

MSO relaxation

Context - what is the MSO?

54. A minimum stockholding obligation (MSO) for fuel importers commenced on 1 January 2025, applying to petrol, diesel and jet fuel. MSO schemes are common in OECD and some other countries as a means of mitigating the impact of fuel supply disruptions. In the current context, Australia and the UK have said they will respond to the IEA collective action by temporarily relaxing their MSO levels. In Australia's case, we understand the MSO may reduce to 'minimum viable levels' (around 14 days of cover) being the minimum working inventory to maintain normal operations.

55. In circumstances where meeting the obligation is beyond the reasonable control of an importer, obligations under the MSO may be relaxed or removed. Any relaxation would be temporary, until the disruption is ended and the importer is once again able to meet the MSO.

56. The Fuel Industry Act provides for the Minister to exempt fuel importers from their stockholding obligation by notice. An exemption can be granted to a single fuel importer or a class of fuel importers, and apply to any type of fuel.

57. The Minister can only grant the exemption if there are exceptional circumstances beyond the reasonable control of the fuel importer, such as a natural disaster or a crisis that has affected international shipping routes (note these two examples are given in legislation). The Minister can grant the exemption with or without conditions, and the Minister must publish the notice and the reasons why the exemption has been granted.

Key design choices

58. Key choices for MSO relaxation are:

    a. When to grant an exemption relative to the date an importer expects to become non-compliant. A fuel importer requesting an exemption could be required to explain the need date and provide evidence in support.

    b. Whether to relax the MSO for only one importer, or to relax it by different amounts and at different times for different importers.

    c. When an exemption should be lifted, to restore the full MSO.

59. These choices should be considered in discussion with fuel importers.

International engagement

60. There may be potential for New Zealand fuel suppliers to cooperate with Australia and Singapore industry participants to act as a larger buying block in seeking to secure scarce crude or finished oil products. Australia is an important regional LNG exporter, and this position could be used as leverage if oil exports are cut.

61. MFAT posts are tracking developments and policy responses in other markets, prioritising Australia, Singapore, South Korea and Japan. MBIE and MFAT could work together to approach priority markets to explore options to coordinate of fuel supply.

Possible additional actions

Voluntary demand restraint

62. Voluntary demand restraint measures involve Government and the fuel sector encouraging reduced fuel use. This could include encouraging more efficient driving and vehicle use, fewer discretionary trips, greater use of shared and alternative transport modes, and voluntary changes to working and business operations, such as working from home where practicable. Public transport subsidies could also be considered as a supporting measure.

63. Most voluntary measures could be activated by MBIE, as Fuel SCE Chair, through a coordinated public communications campaign led by EECA.[1] Ministerial direction for these measures is not required in the NFP, but we would expect to seek Ministerial agreement ahead of any campaign. Expectations for public servants to work from home could be made by the Minister for the Public Service. Cabinet decisions would be needed for funded public transport subsidies.

64. Research by the IEA suggests that that voluntary demand restraint measures (such as using public transport and car-pooling) could reduce fuel consumption by up to 5 per cent. This is consistent with what we observed at the start of the Russian-Ukraine war in 2022 when fuel consumption fell slightly in the absence of fuel rationing in countries like Germany. Our experience during the COVID level 4 lockdown was that petrol use reduced by 75-80% while diesel use reduced by around 60-70%.

Key design choices

65. The main design choices are which conservation measures to promote and how to target them. Communications could focus on lower-disruption actions likely to deliver early but small savings or extend to measures with larger potential effects but greater economic or distributional impacts, such as working from home.

66. Measures could be aimed broadly at the public or targeted to higher-use groups, particular regions, or specific fuel types. We have suggested three levels of voluntary measures could be pursued:

67. An information campaign to inform consumers how they can reduce fuel use without significantly impacting economic or societal activity. This could include encouraging:

68. car-pooling,

69. removing unnecessary items/weight from private vehicles,

70. checking tyre pressures,

71. reducing speed where this is safe to do so.

[1] EECA are currently preparing a draft campaign, to be ready if required.

72. An information campaign targeting greater reductions in fuel use with a commensurate higher impact on economic and societal activity. This could include encouraging:

73. employers to allow employees who can, to work from home,

74. increased use of public transport,

75. private diesel vehicles not to be used.

76. Directing public service departments to allow public servants to work from home where this can be accommodated without impact departmental outputs.

Pros and cons

77. Voluntary measures are a low-regret first step to reduce demand that are quick to implement, relatively low-cost and less intrusive than mandatory restrictions. The main drawback is that their effectiveness is uncertain and relies on public and business cooperation. If introduced when supply is already tight, they could contribute to panic buying as well as having uneven flow-on effects across the economy (e.g. increases in working from home may change urban vs suburban expenditure patterns).

Possible stronger actions if the fuel situation worsens

Mandatory demand restraint regulations require difficult prioritisation decisions and should be seen as a last resort

78. The Petroleum Demand Restraint Act 1981 provides for measures retaining the demand for petroleum products, and ensuring their equitable distribution. The Petroleum Demand Restraint Act 1981 authorises restrictions to limit demand, and methods of allocating fuel to highest value uses. These include restrictions on both sales of fuel and use of fuel.

79. Regulations are made by the Governor-General in Council, following a Cabinet decision. The regulations can delegate the power to order many of the restrictions and make exemptions to the Minister or another person.

80. Regulations can only be made if available petroleum supplies are, or are likely to be, insufficient to maintain New Zealand stocks at normal prudent levels.

Key design choices

81. The Petroleum Demand Restraint Act authorises a very wide range of measures. These can include:

    a. requiring fuel retailers to prioritise certain types of customers (e.g. allocating certain service stations or lanes for priority users)

    b. limiting the quantities of fuel purchased and what can be filled (e.g. only allowing for filling of motor vehicles rather than containers)

    c. limiting fuel retailer sites and opening hours

    d. rationing through tradable or non-tradable vouchers

    e. vehicle use restrictions.

Pros and cons

82. Any demand restrictions would have significant economic and social costs. Mandatory demand restriction measures should be considered as a last resort in case of physical shortages that cannot be adequately addressed through market mechanisms. As a general

principle, any mandatory restraints should be targeted to the scarcest fuels and the most valuable uses.

83. Mandatory demand restrictions are likely to be significantly more effective than voluntary restraint in limiting demand. They also address potential coordination failures in which fuel companies are not willing or able to agree to prioritise critical users, or otherwise agree to limit supply, e.g. due to concerns about prohibitions on anti-competitive behaviour in the Commerce Act.

84. However, there are likely to be significant costs from any form of rationing, including economic distortions associated with centralised allocations, queues, hoarding, etc and compliance costs. More restrictive settings would restrain freedom to travel, affecting the ability of businesses and individuals to connect with each other and access services.

85. There will also be significant difficulties in implementing and enforcing restrictions on sales and purchase at retail outlets. For example:

    a. Many retail outlets are unmanned, and would need to be closed or staffed to enforce restrictions, e.g. distinguishing priority users from the general public.

    b. Staff at retail outlets could face aggressive behaviour when enforcing restrictions.

How could the government prioritise fuel to critical customers?

86. Fuel prioritisation classifies fuel users and uses by importance, then applies measures to ensure priority groups can keep accessing fuel with minimal disruption.

87. During a declared state of emergency under the CDEM Act (2002), prioritisation can be implemented by a Controller. When no state of emergency is in place, prioritisation can be enabled through regulations made by Order in Council under the Petroleum Demand Restraint Act 1981

Key design choices

88. Determining eligibility criteria for priority or different levels of priority (critical services and essential supply chains) would require careful design and may require periodic revision it remains appropriate. Design could be informed by precedents such as COVID-19 Alert Level permissions and Regional Fuel Plans.

89. There is also a choice of how to give effect to priority and how this is scaled. Where shortages are moderate this could include priority lanes and dedicated retail outlets for priority users, whereas severe shortages may require restricting sales primarily or solely to priority users.

90. Other design choices include whether prioritisation applies uniformly across fuel types or differs by fuel (e.g., petrol vs diesel), whether eligibility is automatic (criteria-based) or application-based, and how prioritisation interacts with any other mandatory measures.

Pros and cons

91. Prioritising use allows meaningful rationing while protecting essential services. A tiered approach (different priority levels and escalating interventions) supports a targeted and proportionate response.

92. However, defining priority groups will be contentious and difficult to calibrate. De-prioritised users are likely to react negatively and lobby for access. There are also risks of non-compliance, enforcement burden, and “gaming” of eligibility. Determining eligibility could be informed by precedents such as COVID-19 Alert Level permissions and Regional Fuel Plans.

Next steps

93. This briefing sets out the range of mitigations for managing fuel supply risks using the established framework provided by the National Fuel Plan. Consistent with our view that existing supplies provide some time to monitor market developments before any of those measures need to be implemented, we are planning further advice on trigger points for employing specific mitigations (mid next week). MBIE will also work with other agencies to prepare advice on the macro-economic effects of potential supply scenarios and impacts of potential mitigations (end of next week).

Annexes

Annex One: Envisory Scenario Modelling

Annex Two: How Fuel is used in NZ

Annex One: Envisory Scenario Modelling

What does Envisory model for the impacts on different fuel grades?

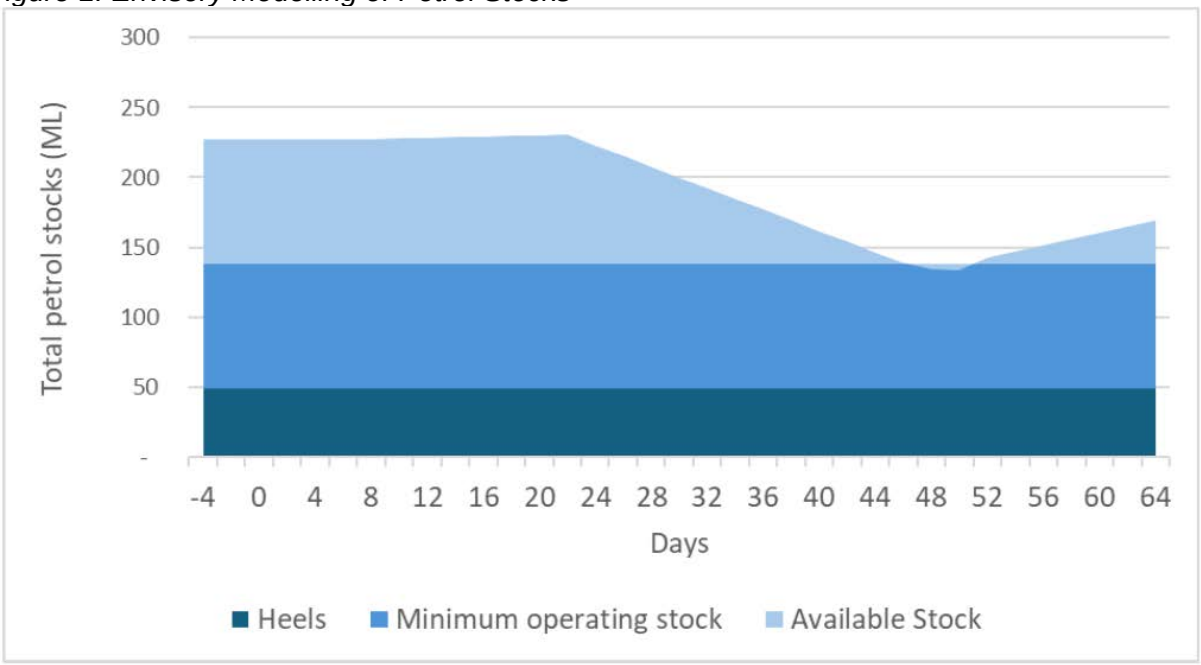
Petrol

1. Petrol demand is expected to fall around 3% following market price increases. The cut in cargoes to 50% of normal supply impacts after 24 days from which time suppliers have to draw down stocks to cover the loss. Envisory's model shows stocks getting very tight with companies needed to dip into minimum operational stock (about 20 days after that).

2. In practice suppliers could manage this with tactics like running down average service station stock levels. However, there would likely be sporadic stock outs but nothing wide-spread. Suppliers would have additional costs such as more port calls to distribute the available stock to all ports (less efficient logistics).

3. Envisory estimates it would only take another 4% saving (so a total reduction of normal demand of 7%) to avoid any short. Fuel companies can model the expected stock level around 15-25 days in advance so can work with the government on whether saving campaigns are needed well before the low points occur. Based on the assumptions laid out by Envisory, the forecast for petrol stocks is set out in figure 1 below. This analysis assumes companies are allowed access stocks below the MSO level given it is a supply disruption.

Figure 1: Envisory Modelling of Petrol Stocks

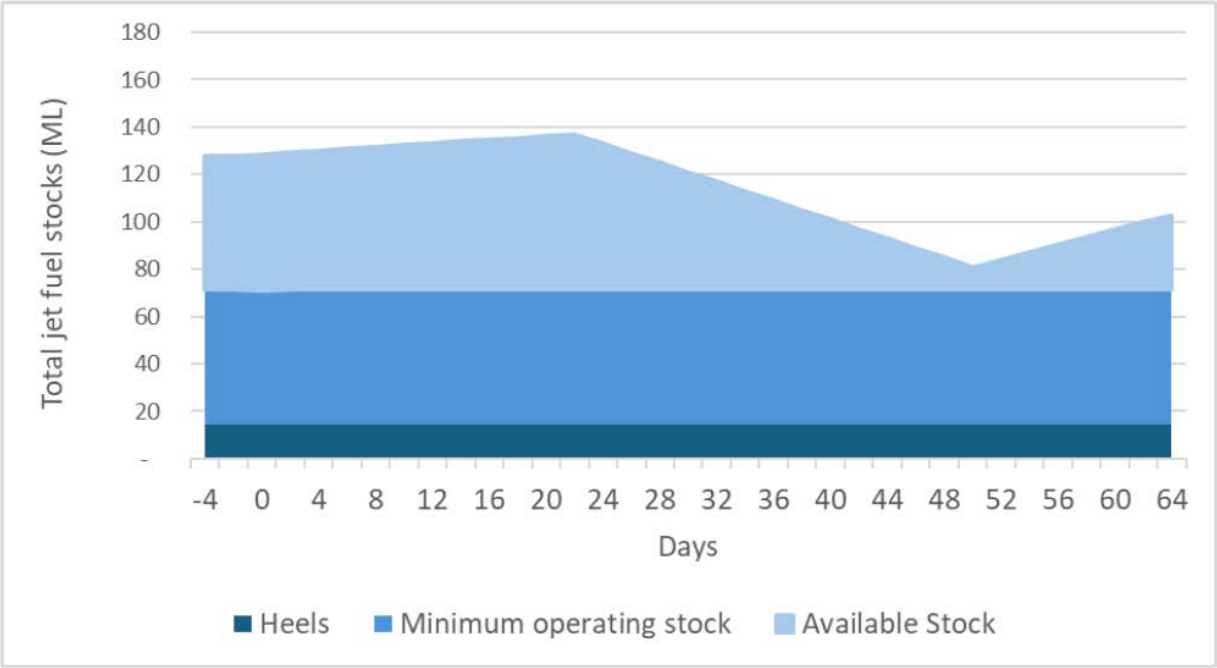


Jet fuel

4. Rising prices are already impacting jet fuel demand with Air New Zealand announcing they are planning to cut 1,100 jet flights.

5. Envisory's modelling suggests an 8% reduction in demand, although they consider it could be larger. They do not see any critical shortages occurring.

Figure 2: Envisory Modelling of Jet Fuel Stocks

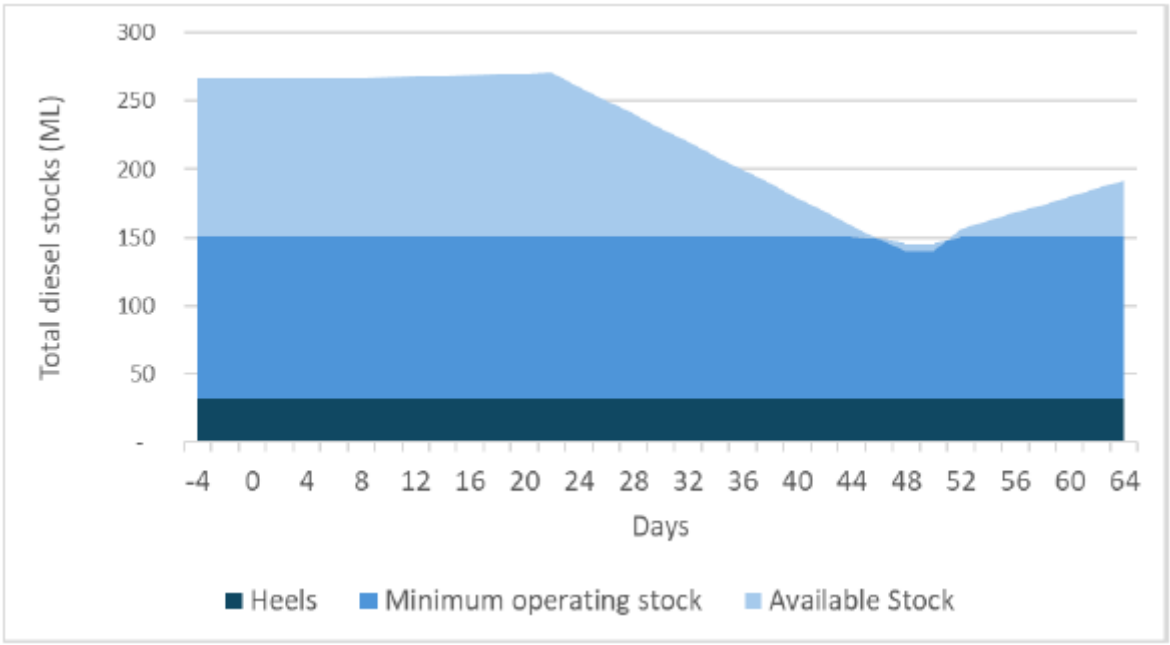


Diesel

6. For diesel, Envisory estimate a 2.6% reduction in demand due to higher prices. They also forecast shortage of around 11 million litres. A total demand reduction of around 7% is needed to avoid this shortage. This is more difficult to do than petrol, although with over a third of diesel used by light passenger and commercial vehicles, there is room for reducing demand without impacting industry, manufacturing and heavy transport.

7. As with petrol and jet fuel, the industry will need to dip into the MSO levels to maintain diesel supply.

Figure 3: Envisory Modelling of Diesel Fuel Stocks



Annex Two: How fuel is used in NZ

1. Liquid fuels support many different services in NZ, though predominantly transport.

2. **Jet fuel** is used entirely for air transport services, including passenger transport and air freight. It also supports emergency services including helicopters for air ambulance and search & rescue. Most jet fuel (75-80%) is used for international flights. A very small amount of aviation gasoline (similar to petrol) is used in light planes.

3. **Petrol** is primarily used in light passenger vehicles, most of which are for personal transport.

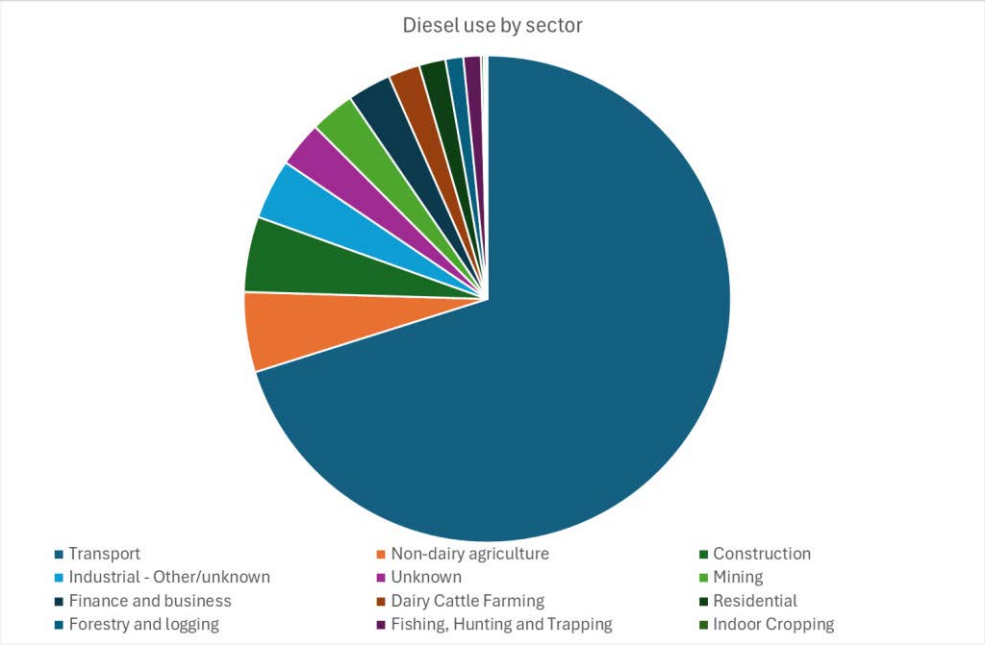
4. **Diesel** has a wide range of uses, including long-haul freight, short-haul freight, light commercial and personal transport, public transport, as well as off-road use in farming, fishing, forestry, and mining.

5. More detail is provided in the charts below, illustrating the kinds of activities that could be affected if fuel supply cannot meet normal demand, and what activities should or could be prioritised to match the available supply.

6. However, it is important to be aware that the distribution of use may not be even across the year, particularly in relation to some of our key export industries. For example, early June is "moving day" for the dairy sector which will involve high fuel use.

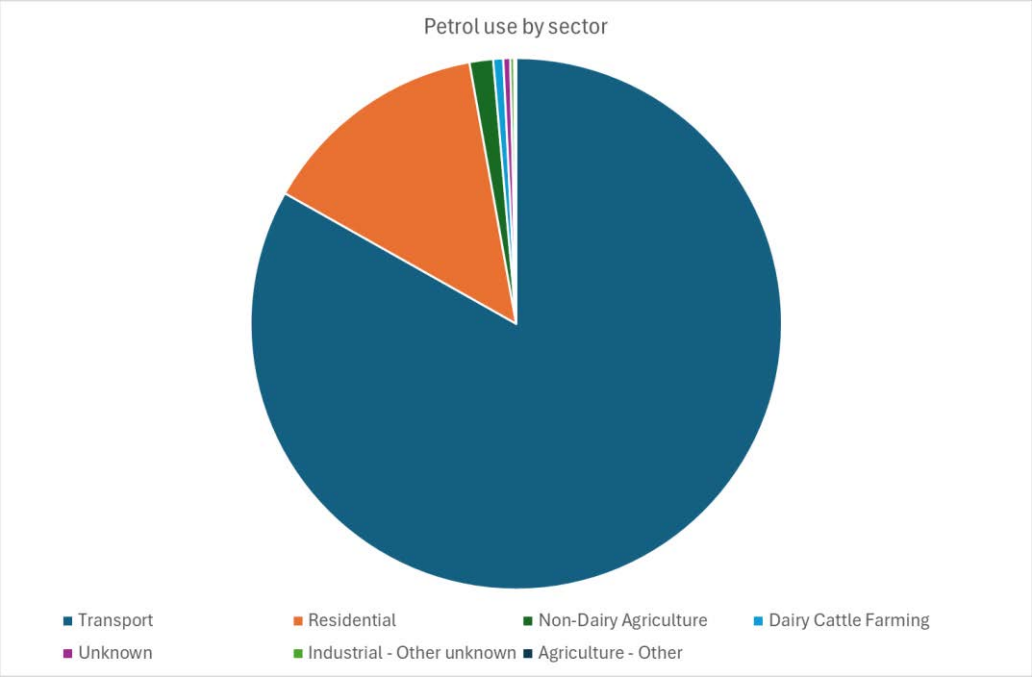
7. The charts below show diesel and petrol use by sector in 2023. Total diesel consumption was 3872.2 million litres and petrol consumption was 2929 million litres. Transport is a separate sector and dominates use of both types of fuel. Non-transport use involves fuel for other types of machinery in different sectors.

Figure 1 – Diesel use by sector in New Zealand 2023



Source: MBIE/EECA

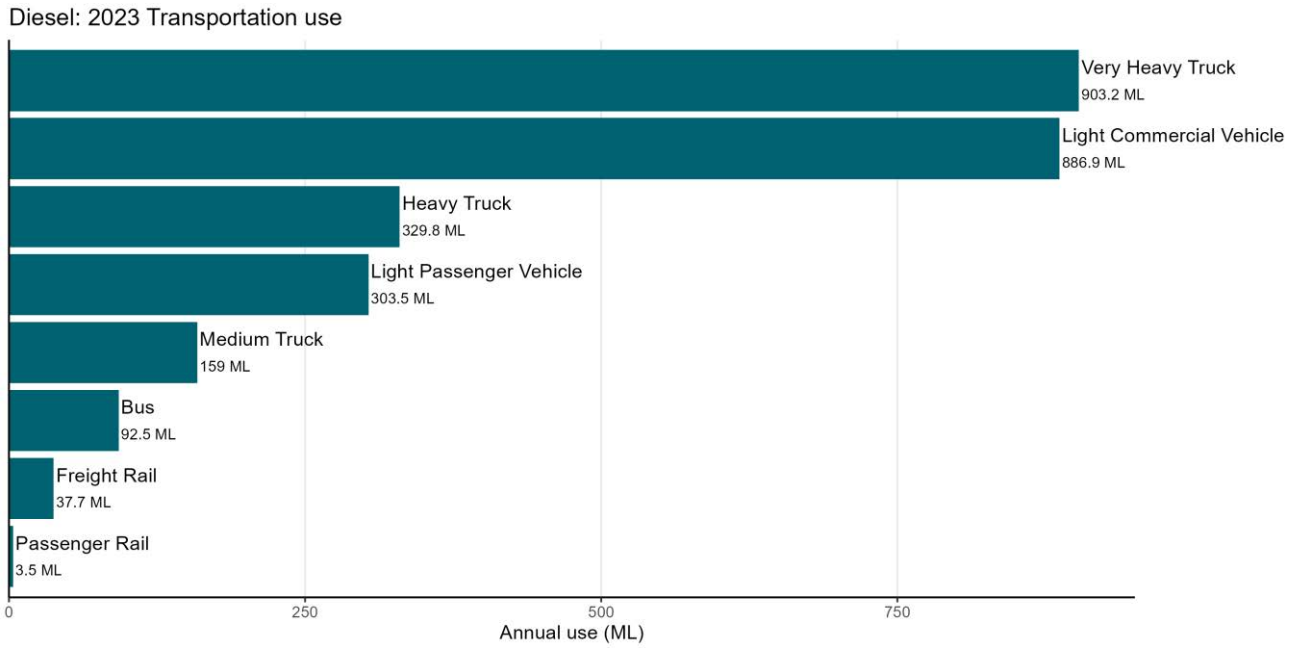
Figure 2 – Petrol use by sector in New Zealand 2023



Source: MBIE/EECA

8. We have not yet identified a source of data that shows fuel consumption for transport by sector. However, the following data illustrates diesel use by vehicle type.

Figure 3 – Diesel for transportation use by vehicle type in New Zealand 2023



Source: Ministry of Transport