MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Selection of preferred provider for providing reserve fuel supply

Date:	22 April 2026	**Priority:**	Urgent
Security classification:	Restricted	**Tracking number:**	BRIEFING-REQ-0031537

Action sought		
	Action sought	**Deadline**
Hon Nicola Willis **Minister of Finance**	**Note** recommendations (a) to (i), (k) to (m), and (o) to (s) **Agree** that terms of a final binding agreement be finalised with Z Energy only **Approve** the proposed key terms set out in the non-binding Letter of intent for supply of additional fuel by Z Energy at Annex 1 **Agree** in principle that it appears to be necessary or expedient in the public interest for the Crown to: (a) enter into a derivative with, Z Energy involving the pricing mechanism for the fuel; and (b) Commercial Information [redacted]	22 April 2026
Hon Shane Jones **Associate Minister of Energy**	**Note** recommendations (a) to (i), (k) to (m), and (o) to (s) **Agree** that terms of a final binding agreement be finalised with Z Energy only **Approve** the proposed key terms set out in the non-binding Letter of intent for supply of additional fuel by Z Energy at Annex 1	22 April 2026

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Ray Smith	Chief Executive, Fuel Response	Privacy of natural persons [redacted]	
Chris Bunny	Deputy Secretary, The Treasury		
Iain Cossar	Chief Operating Officer, Fuel Response		

Andrew McGavin	Commercial Lead, Fuel Response	Privacy of natural persons	✓
Alistair Dixon	Policy Director		

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

Minister’s office to complete: ☐ Approved ☐ Declined

☐ Noted ☐ Needs change ☐ Seen

☐ Overtaken by Events ☐ See Minister’s Notes ☐ Withdrawn

Comments

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Purpose

To brief you on commercial proposals for supporting fuel supply and to recommend a preferred supply of additional physical fuel supply.

Executive summary

On 31 March 2026, Cabinet agreed an urgent strategy to strengthen fuel supply resilience, including seeking additional fuel supply and additional diesel storage at Marsden Point. MBIE issued a request for proposals from New Zealand fuel importers for additional fuel supply on 2 April Commercial Information [redacted]

On 13 April 2026, Cabinet (CAB-26-MIN-0121) directed officials to negotiate with Z Energy and continue discussions with other suppliers, and authorised the Minister of Finance and Associate Minister of Energy to enter a supply agreement (including funding decisions) once satisfied with terms. On 16 April, the Fuel Response Ministerial Oversight Group directed officials to undertake parallel negotiations with Z Energy Commercial Information [redacted] for physical diesel to be stored at Marsden Point, and a separate process to identify call options with major trading houses Commercial Information [redacted]. Best and final offers were requested from Z Energy Commercial Information [redacted] by 9am on 22 April; Z Energy met the deadline Commercial Information [redacted]

Negotiations with Z Energy Commercial Information [redacted] have been guided by two ministerial requirements: (1) diesel must be delivered to New Zealand and stored at Marsden Point; and (2) the Crown's exposure to backwardation (the risk of the purchase price of the fuel exceeding the final sale/exit price at the conclusion of the agreement) must be capped. Commercial Information [redacted]

Commercial Information [redacted]

Officials recommend Ministers agree to execute a non-binding letter of intent with Z Energy and proceed to a fully termed contract, aiming to conclude negotiations around 11 May. The contract would cover 90 million litres of NZ-specification diesel (about 550,000 barrels) over up to two shipments, stored in refurbished Channel tanks, with the Crown controlling release (subject to increasing constraints near contract end). The Crown's main costs are the locked-in backwardation exposure (if the fuel is not used) and funding Z Energy's cost of capital; the Crown also remains exposed to potentially material Commercial Information [redacted]

Officials will seek agreement to establish an appropriation under Vote Business, Science and Innovation – Energy to fund the additional fuel supply. The final contract is expected to require a Crown indemnity and use of derivative under section 65ZD of the Public Finance Act 1989 to enable the transaction on acceptable commercial terms. This briefing seeks the Minister of Finance's agreement in principle to providing this indemnity. Officials will provide Ministers with final advice on financial implications under delegated authority from Cabinet before 30 April.

Subject to Ministers' agreement, next steps are to execute the non-binding letter of intent (target 23 April 2026), negotiate and approve the fully-termed contract, then order cargo once the contract is signed (5 May 2026), with delivery expected in late June/early July.

Commercial Information [redacted]

Possible public announcement points include:

a. After executing the non-binding letter of intent with Z Energy (23 April)

b. After signing the fully-termed agreement and ordering cargo (target 5 May)

c. When the cargo arrives at Channel / in New Zealand (late June/early July)

Recommended action

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

a Commercial Information [redacted]

Noted

b Commercial Information [redacted]

Noted

c **Note** that on 16 April 2026 the Fuel Response Ministerial Oversight Group directed officials to:

- i complete negotiations on a framework agreement with Z Energy Commercial Information [redacted] to secure additional physical diesel supply to be stored in the tanks being refurbished by Channel Infrastructure at Marsden Point
- ii Commence a commercial process to identify the most viable call option from major fuel trading houses Commercial Information [redacted] that can provide high certainty of supply.

Noted

d **Note** that the commercial process in relation to Commercial Information is ongoing, and officials will brief you separately on potential alternatives to secure physical product offshore and synthetic options to purchase into the future

Noted

e **Note** that commercial negotiations have been substantially advanced on letters of intent with Z Energy Commercial Information to secure additional physical diesel supply to be stored in the tanks being refurbished by Channel Infrastructure at Marsden Point

Noted

f **Note** that negotiations have reflected two key requirements set by Ministers:

(i) that an agreement should involve physical supply of diesel to New Zealand and stored in the refurbished Channel Infrastructure tanks at Marsden Point; and

(ii) setting the level of financial exposure the Government would be assuming in relation to backwardation risk (the risk of the purchase price of the fuel exceeding the final sale/exit price at the conclusion of the agreement) to a fixed amount

Noted

g **Note** that, as at the time of writing, Z Energy's proposal provides the greater certainty on addressing the backwardation requirement (ii) Commercial Information

Noted

h **Note** that the proposal from Z Energy involves two limbs:

- Commercial Information
- Commercial Information

Noted

i **Note** Commercial Information

Noted

j **Agree** that terms of a final binding agreement be finalised with Z Energy only

Agree / Disagree

k **Note** the proposed key terms set out in the non-binding letter of intent for supply of additional fuel by Z Energy attached at Annex 1

Noted

l **Note** that the proposed terms require accepting the risks listed in paragraph 17 of this briefing but this is still subject to negotiation

Noted

m **Note** the proposed key terms set out in the non-binding Letter of intent for supply of additional fuel by Z Energy at Annex 1, current as at 9.30am 22 April 2026

Noted

n **Approve** the proposed key terms set out in Annex, subject to any further revisions resulting from ongoing negotiations today (Wednesday 22 April 2026, which will be advised at the Ministerial Oversight Group meeting at 8pm this evening)

Approved / Not approved

o **Note** that if the contract were executed today, the cost of fixing the backwardation risk would be Commercial Information [redacted] and that the actual cost of this will be different depending on forward prices at the time the agreement is executed

Noted

p **Note** officials will need to model the additional costs including Commercial Information [redacted]

Noted

q **Note** that officials will provide final advice on financial consequences, fiscal treatment and accounting treatment to the Minister of Finance and Associate Minister of Energy for decisions under delegated authority from Cabinet before 30 April

Noted

Minister of Finance

r **Note** that the final agreement terms for additional fuel supply are expected to include the Crown: (a) Commercial Information [redacted]

Noted

s **Note** officials' recommendation, based on the advice in paragraphs 48 to 56, that you agree in principle at this stage with providing an indemnity and entering into a derivative with Z Energy

Noted

t Commercial Information [redacted]

Agree / disagree

Privacy of natural persons [redacted]

Iain Cossar
Chief Operating Officer, Fuel Response
MBIE

___ / ___ / 2026

Hon Nicola Willis
Minister of Finance

___ / ___/ 2026

Hon Shane Jones
Associate Minister of Energy

___ / ___/ 2026

Background

2. On 31 March 2026, Cabinet agreed a strategy to bolster fuel supply resilience, including urgently assessing commercial proposals from existing importers for additional fuel supply and progressing additional diesel storage at Marsden Point.

3. On 2 April 2026, MBIE issued a request for proposals from New Zealand fuel importers to provide additional fuel stockholdings to increase New Zealand's resilience to supply chain disruption. Commercial Information [redacted]

4. 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 Commercial Information [redacted]

   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.

5. On 16 April 2026 the Fuel Response Ministerial Oversight Group (MOG) directed officials to complete negotiations on a framework agreement with Z Energy and commence negotiations on a framework agreement Commercial Information [redacted] secure additional physical diesel supply to be stored in the tanks being refurbished by Channel Infrastructure at Marsden Point (reserve diesel supply).

6. Officials have been negotiating with Z Energy Commercial Information [redacted] This briefing updates Ministers on the state of negotiations and recommends a preferred provider.

7. On 16 April 2026 the MOG also directed officials to commence a commercial process to identify the most viable call option from major fuel trading houses Commercial Information [redacted] that can provide high certainty of supply. This process is ongoing. Officials will brief you on the outcome of this separately once the process is complete.

Letter of intent for supply of diesel to be stored at Marsden Point

Approach to negotiation

8. Officials have been negotiating with Commercial Information [redacted] Z Energy for supply of diesel to be stored at the refurbished Channel Infrastructure storage at Marsden Point (Channel storage) using a

framework similar to the deals struck between the Australian government and fuel companies. This involves terms that provide for fuel companies to purchase additional fuel but the government taking on the financial risk of shipments that might otherwise be “too expensive”.

9. This reflects that fuel companies do not have incentives to purchase additional fuel above their Minimum Stockholding Obligations (MSO) but the Government considers additional fuel is required as insurance against adverse economic outcomes. The financial support is required because the fuel would be purchased at a time of high prices but with a risk, reflected in current futures prices, that prices will have fallen when the fuel is sold (‘backwardation’).

10. Negotiations have reflected two key requirements set by Ministers:

    a. that an agreement should involve physical supply of diesel to New Zealand and stored in the refurbished Channel Infrastructure tanks at Marsden Point.

    b. setting the level of financial exposure the Government would be assuming in relation to backwardation risk to a fixed amount.

11. As at the time of writing, Z Energy’s proposal provides the greater certainty on the backwardation requirement (b) Commercial Information However, the Crown is still exposed to Commercial Information

12. In addition, Z Energy have been able to provide better flexibility for potential early releases of the fuel and have greater ability to absorb the fuel if the Government does not use it.

13. Commercial Information officials recommend proceeding with exclusive negotiations with Z Energy.

Before approving the terms it is important to bear in mind that lower cost alternative approaches are available

14. Given Ministers’ preference for physical supply, storing the fuel at the Channel tanks involves the Crown assuming additional risks relating to fuel quality because the tanks are refurbished, which is discussed further below, although officials consider this risk is manageable.

15. The risks associated with the Channel tanks could, however, be avoided by storing the fuel offshore in dedicated diesel storage and importing the fuel when required, which we may consider for jet fuel. However, storing the fuel offshore means the fuel is not in New Zealand’s territorial control, might not be accessible in the event of significant supply disruption, and would not provide the New Zealand public as much confidence that the fuel was available if needed.

Overview of letter of intent with Z Energy

16. The proposed letter of intent with Z Energy is attached at Annex 1. An overview of the letter of intent is set out in the following table:

	Non-binding terms agreed with Z Energy (Z)
Duration	Date of execution to 31 December 2026.
Volume	Approximately 90 million litres (or 550,000 barrels) of NZ specification diesel over one or two shipments.
Ownership and control	Z will procure, own and manage volumes acquired under this arrangement. Commercial Information [redacted] If not released, Z progressively takes the fuel into its business as usual stocks from November through to January.
Commercial Information [redacted]	

Commercial Information [redacted]

Summary of risks in draft Z Energy letter of intent

17. The terms of the draft Z Energy letter of intent propose the Crown accept the following risks:

    a. Commercial Information [redacted]

    b. Commercial Information [redacted]

    c. Commercial Information [redacted]

    d. Commercial Information [redacted]

    e. Commercial Information [redacted]

    f. Commercial Information [redacted]

    g. Commercial Information [redacted]

18. The exact distribution of risks is subject to negotiation and will only be confirmed in negotiations on the fully termed agreement.

Key terms of letter of intent

Volume of fuel

19. The letter of intent provides for importation of 90 million litres (550,000 barrels) of diesel. This is sufficient to fill the Channel Infrastructure tanks, which have a total volume of 93 million litres. The fuel can be supplied in one or two shipments. As Treasury noted in their recent report to the Minister of Finance (Treasury report T2026/786 refers), two shipments with a month or so delay between shipments is one possible way to reduce the backwardation cost.

Pricing

20. Commercial Information

21. Commercial Information

22. Commercial Information

23. Commercial Information

24. Commercial Information

25. Commercial Information

Ownership and control

26. Z owns the diesel throughout the process, including while the diesel is in the Channel tanks. The Crown controls the sale of this diesel, with some limitations. Although they should be noted by Ministers, we do not consider these limitations materially impact policy objectives.

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Financial implications

Overview of financial implications

38. The Crown's primary financial cost is the backwardation exposure locked in upon execution of the agreement and the cost of financing Z Energy's working capital.

39. The actual amount will be set based on market prices when the final contract is executed. If the contract were executed today, based on current forward prices Commercial Information

40. A breakdown of these costs is show in the table below.

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41. Commercial Information

42. Commercial Information

Commercial Information

43. Commercial Information

Proposed letter of intent requires an indemnity under the Public Finance Act

44. The draft terms sheet specifies that the Government bears the financial risk associated with changes in fuel prices over the period of the agreement. This is because the only way that the backwardation risk can be fixed is via a derivative – bearing in mind the very broad definition of derivative in the Financial Markets Conduct Act 2013 that applies in the Public Finance Act 1989 (PFA).

45. In addition, the structure of the transaction proposed requires the fuel to be owned by the fuel importer. Commercial Information Z Energy have been very clear that they are willing to purchase the fuel, ship it to NZ and store it in the tanks until required by the Crown (or to take it back at the end of the term if not required by the Crown) but only on the basis that they are protected for certain risks. Commercial Information

46. The Crown may only enter into such arrangements with the Minister of Finance's approval under sections 65G (for a derivative) and 65ZD (for an indemnity) of the PFA. In each case, the Minister must consider it appears necessary or expedient in the public interest to give the indemnity and/or enter into the derivative. These arrangements may be agreed on any terms and conditions the Minister thinks fit.

47. To progress the transaction, the Minister of Finance could agree in principle now to provide the indemnity and derivative subject to the final transaction achieving satisfactory commercial terms and conditions. The specific terms of the actual indemnity and derivative would then be negotiated, documented, and provided at the time that the transaction was executed.

48. The following paragraphs set out factors that officials consider are relevant to that assessment. The Minister of Finance may choose not to take these factors into account, or to take into account other factors the Minister considers relevant, and the Minister may give such weight to the factors referred to below as she deems fit. If the Minister of Finance considers other factors not covered in this report, we recommend she document these as a record of her decision. The Minister of Finance should make an independent decision and is not bound to accept the assessment below. However, the Minister's decision must be based on reasonable grounds.

Public interest assessment of proposed indemnity

49. The PFA does not define 'the public interest'. However, it is generally accepted that the public interest is broadly equivalent to the concept of the public good and can cover a wide range of values and principles relating to the public good, or what is in the best interests of society. In the context of the PFA, the public interest should be viewed in a New Zealand context, that is, in the interest of the New Zealand public.

50. In our view, the transaction is in the public interest, if it can be executed on satisfactory commercial terms. There is a strong policy rationale for Government intervention to improve fuel resilience and to minimise the risk of shortages if there is disruption in international fuel markets. Fuel shortages would generate significant economic costs and these costs are unlikely to be internalised in the decision making of fuel importers. Examples of these costs include economic scarring such as business closure, loss of export relationships, spoilage, or costly restart frictions.

51. The Government requires fuel importers to maintain fuel inventories above their MSO and can apply financial penalties for non-compliance. Macroeconomic modelling undertaken as part of the 2025 Fuel Security Study estimated the total economic cost of fuel supply disruption could be reductions in GDP between $118 million and $2.4 billion depending on the severity of the disruption. That study also concluded that the existing diesel MSO of 21 days was likely insufficient to provide assurance for more significant disruptions. Subsequently, the Government decided to increase the diesel MSO to 28 days from 1 July 2028 [ECO-25-MIN-0044 refers].

52. Given the Middle East crisis, we consider that the Government should intervene to directly provide increased diesel ahead of the introduction of the increased diesel MSO. The increased reserves will provide insurance against the severe economic costs that could be incurred in an extreme fuel supply disruption that cannot be managed within existing MSOs.

53. Entering the derivative and providing the indemnity are necessary or expedient to execute the transaction on satisfactory commercial terms as it is a requirement of the commercial counterparty. No fuel importer would be prepared to enter into the agreement without the Crown fully covering the pricing exposure associated with holding the fuel reserves over the contractual term. In addition, the derivative is required as it is the only way that the backwardation risk associated with the transaction can be fixed and managed.

54. Officials do not consider that climate change has any impact on the public interest assessment described above as the proposed transaction involves bringing in additional fuel to manage the risk of a shortage of supply. Emissions are not expected to increase as a result as the fuel, when used, would replace fuel that would otherwise be available in normal economic conditions. While the additional fuel may temporarily suppress prices, this would only be from already significantly elevated levels, so should not lead to increased demand and therefore emissions relative to business as usual.

55. The recommendation at this stage is for the Minister of Finance to agree in principle to provide an indemnity contingent on the final transaction achieving satisfactory commercial terms and conditions during the execution phase in line with the letter of intent attached at Annex 1.

56. Cabinet has authorised delegated authority to the Minister of Finance and the 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. As such, no further approvals from Cabinet are required but when the transaction is finalised you may choose to inform Cabinet that an indemnity has been provided.

57. Further advice will be provided by officials on whether it is open to the Minister of Finance to actually provide the indemnity and enter into the derivative once the details of the transaction have been finalised.

Reporting requirements

58. Section 65ZD of the PFA requires that if an indemnity exceeds $10m, the Minister of Finance, as soon as practicable after giving the indemnity, must present a statement to the House that the indemnity has been given.

59. A Crown indemnity is reported as a contingent liability in the Financial Statements of Government and the Minister's bi-annual certification of contingent liabilities, but otherwise has no immediate fiscal implications.

A new appropriation will need to be established to fund the fuel reserve

60. A new appropriation will need to be established under Vote Business, Science and Innovation – Energy to fund the fuel reserve.

Commercial process in relation to call options is ongoing

61. Officials are continuing to engage with major fuel trading houses on the parameters for call options. Officials will brief you separately on a proposed approach to call options once parameters have been confirmed.

Next steps

62. Should Ministers agree to the recommendations, the next steps are:

    a. The Chief Executive of MBIE will sign the non-binding letter of intent

    b. Negotiations would commence on a fully termed agreement.

63. Only once the fully termed agreement had been approved by Ministers and executed could the cargoes of diesel be ordered. As set out in the timeline below, this is expected to be in mid-May.

64. As also noted in the table below, there are several opportunities when Ministers may wish to make a public announcement about the agreement, including:

    a. Following the execution of the non-binding letter of intent

    b. Following the execution of the fully termed agreement and ordering of cargo, and

    c. When the cargo has arrived at Channel/in New Zealand.

Timeline for next steps

Task	Date completed/due
Cabinet agreed to progress procurement of additional fuel supply	31 March
Request for supply solutions sent to the five New Zealand fuel importers	2 April

Request for supply solutions close	7 April
Advice to MOG on proposed supply solutions	8 April
Ministerial agreement to progress negotiations with Z Energy Commercial Information	13 April
Advice to MOG with recommended supplier and seeking agreement to non-binding letter of intent	22 April
Execution of non-binding letter of intent (subject to Ministerial agreements) **Potential announcement**	23 April
Negotiate fully termed agreement (long-form contract)	23 April – 2 May
Advice to MOG seeking agreement to long-form contract	5 May
Sign-fully termed agreement	5 May
Order cargo **Potential announcement**	5 May
Arrival of cargo **Potential announcement**	~29 June and 10 July (depending on loading location)

Annexes

Annex 1: Proposed letter of intent with Z Energy

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