



## COVERSHEET

<b>Minister</b>	Hon Dr Megan Woods	<b>Portfolio</b>	Energy and Resources
<b>Title of briefing</b>	Fuel Resilience Policy Package	<b>Date to be published</b>	10 November 2023

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
October 2022	Fuel Resilience Policy Package	Office of the Minister of Energy and Resources
October 2022	Regulatory Impact Statement: Fuel resilience policy package	MBIE
19 October 2022	Fuel Resilience Policy Package DEV-22-MIN-0243 Minute	Cabinet Office

### Information redacted

### YES / NO

Any information redacted in this document is redacted in accordance with MBIE's and MFAT's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of national security or defence, commercial position, constitutional conventions, and negotiations.



# Cabinet Economic Development Committee

## Minute of Decision

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### Fuel Resilience Policy Package

**Portfolio**                      **Energy and Resources**

On 19 October 2022, the Cabinet Economic Development Committee (DEV):

#### Background

- 1        **noted** that on 15 December 2021, DEV:
  - 1.1      agreed to the release of a consultation document on onshore fuel stockholding;
  - 1.2      invited the Minister of Energy and Resources to report back on the outcome of the consultation and with final proposals in the second half of 2022;

[DEV-21-MIN-0278]

#### Better monitoring to inform adaptive approach to fuel resilience measures over time

- 2        **noted** that there are some information gaps to be filled to provide a clear government oversight over fuel stocks and potential vulnerabilities in the fuel supply chains for New Zealand at a granular level;
- 3        **agreed** that a regulation-making power be created to enable the Minister of Energy and Resources and the Ministry of Business, Innovation and Employment to collect detailed information on:
  - 3.1      fuel stocks from fuel importers/wholesalers at both national and regional levels;
  - 3.2      international supply chains;
  - 3.3      contingency arrangements;
- 4        **noted** that regulations on the detailed information disclosure requirements for monitoring fuel resilience will be developed between now and early 2023;

#### Dedicating additional resources to update and implement the National Fuel Plan

- 5        **noted** that the Fuel Sector Coordinating Entity is the key forum for the government and the fuel industry to coordinate fuel emergency management and response;

- 6 **noted** that the Ministry of Business, Innovation and Employment requires extra funding to:
- 6.1 undertake engagements with other members of the Fuel Sector Coordinating Entity;
  - 6.2 update the National Fuel Plan to ensure that the national framework for fuel emergency management reflects the new 100 percent fuel import model;

### **Amending statutory purpose of the petroleum or engine fuel monitoring levy**

- 7 **agreed** that the statutory purpose of the petroleum or engine fuel monitoring levy be amended to enable the levy to recover the costs of promoting onshore fuel resilience;
- 8 **noted** that the proposed amendment to the statutory purpose of the petroleum or engine fuel monitoring levy will allow the levy to be used for:
- 8.1 government procurement of services relating to storage and management of reserve fuel stocks;
  - 8.2 facilities that would be useful for mitigating the impacts of local fuel disruptions or distributing fuels in an emergency, such as mobile fuel distribution facilities;
  - 8.3 fuel emergency planning activities, including tasks associated with the implementation of the National Fuel Plan, regular emergency response exercises, and regional studies of fuel resilience gaps and options to address them;
  - 8.4 tools and programmes for improving monitoring and collecting information on fuel resilience;
- 9 **noted** that if the calculation method and the statutory purpose of the petroleum or engine fuel monitoring levy remains unchanged, the accumulated surplus in the levy account (\$48.558 million as at 30 June 2022) is expected to continue to increase in the forecast period to 2025/26;
- 10 **directed** the Ministry of Business, Innovation and Employment to undertake a comprehensive review of the regulations for the petroleum or engine fuel monitoring levy, particularly its calculation method, after the statutory purpose of the levy is amended;

### **International Energy Agency stock release for collective action**

- 11 **noted** that no Cabinet instruction was ever issued regarding the decision-making process for New Zealand's participation in International Energy Agency (IEA) collective action, and that recent experience indicates it is not practical to follow the standard Cabinet process before a decision is made and conveyed to the IEA within the IEA's timeframe;
- 12 **noted** that the release of oil stocks under oil tickets as part of the IEA collective action does not result in any fiscal cost to the Crown;
- 13 **authorised** the Minister of Energy and Resources, on the advice of the Ministry of Business Innovation and Employment, to agree to an oil stock release as part of an IEA collective action in the future, with the Minister expected to provide an oral update to Cabinet following the release;
- 14 **noted** that a Cabinet decision will be sought for any purchase of oil under an oil ticket for delivery to New Zealand;

**Days of cover**

- 15 **noted** that, based on modelling completed in 2020, the average commercial stockholding levels for petrol, jet fuel and diesel are estimated to be equivalent to 28 days, 24 days and 21 days of consumption;
- 16 **noted** that the onshore commercial fuel stockholding level fluctuates over time, potentially falling below 15 days of normal fuel demand at times and reaching well above 20 days of cover on others;
- 17 **noted** that the loss of crude oil and intermediate products at the Marsden Point oil refinery (the Refinery) is estimated to translate to five days of cover for petrol, jet fuel and diesel stocks onshore, taking into account how much refined fuel can be produced from the feedstock;
- 18 **noted** that the Ministry of Business, Innovation and Employment consulted on the option of requiring fuel importers/wholesalers to increase their onshore fuel stockholding to a level similar to that proposed in Australia, which means that the minimum onshore stockholding level for petrol, jet fuel and diesel would be equivalent to 24 days, 24 days and 28 days of daily consumption respectively;

**Government procurement of services for storing and managing reserve fuel stocks**

- 19 **noted** that officials consider government procurement of reserve fuel stocks would likely have lower cost and less adverse impact on fuel market competition and prices than a regulatory obligation on the industry to materially increase fuel stock levels;
- 20 **agreed** that the government procure the storage of onshore reserve fuel stocks, as well as introducing a minimum fuel stockholding obligation on fuel importers/wholesalers based on their commercial stockholding level, with a view to broadly match the stock level proposed in Australia and the diesel stock level before the Refinery's closure;
- 21 **noted** that diesel is more important to critical services than petrol and jet fuel, and that the commercial stockholding levels for petrol and jet fuel are higher than that for diesel in terms of days' cover;
- 22 **agreed** that the government investigate detailed commercial arrangements to procure the storage and management of reserve fuel stocks, with an initial aim to increase onshore diesel stocks by at least 70 million litres (roughly seven days of cover) to achieve 28 days' cover for diesel;
- 23 **noted** that the storage and management of 70 million litres of reserve diesel stocks is indicatively estimated to cost **Negotiations** annually;
- 24 **noted** that the proposed reserve fuel stock arrangement involves:
- 24.1 entering into a long-term lease agreement for new diesel storage capacity; and
  - 24.2 tendering periodically for reserve diesel stock to be held in the leased storage tank(s), by way of an onshore reserve stock contract; or
  - 24.3 procuring and owning reserve fuel stock, held in leased or government-owned tanks;
- 25 **agreed** that the Ministry of Business, Innovation and Employment be responsible for investigating and managing the reserve diesel stock arrangements with the fuel sector;

- 26 **invited** the Minister of Energy and Resources to report back to DEV on the financial and contractual options for the reserve fuel stock arrangement by March 2023, once the Ministry of Business, Innovation and Employment has investigated them with the relevant parties;

### Minimum onshore fuel stockholding obligation

- 27 **agreed** to proceed with introducing minimum onshore fuel stockholding obligation on fuel importers/wholesalers that have bulk storage facilities for diesel, petrol and jet fuel in New Zealand;
- 28 **agreed** that if the government enters into the proposed reserve fuel stock arrangement, the government be exempt from minimum onshore fuel stockholding obligation and the requirements under the Fuel Industry Act 2020 and the associated regulations;
- 29 **noted** that the fuel sector expressed concern that requiring them to hold reserve stocks above their normal stockholding level would result in significant compliance costs and adverse outcomes for market competition;
- 30 **agreed** that the minimum onshore fuel stockholding level that obligated parties will have to meet will be based on their market shares and the expected national average commercial stockholding levels for diesel, petrol, jet fuel and their biofuels equivalent after the Refinery's closure, taking into account the impacts of the COVID-19 pandemic, in terms of days of cover for meeting daily fuel consumption;
- 31 **agreed** that the required national average stockholding level for fuel importers/wholesalers will initially be set at:
- 31.1 28 days of consumption for petrol;
  - 31.2 24 days of consumption for jet fuel;
  - 31.3 21 days of consumption for diesel on a three-month rolling average basis;
- 32 **noted** that the primary legislation for the minimum fuel stockholding obligation will prescribe the initial required national average stockholding level for fuel importers/wholesalers;
- 33 **noted** that the initial required national average stockholding level for fuel importers/wholesalers in the primary legislation may be replaced by regulations;
- 34 **noted** that the Ministry of Business, Innovation and Employment will request detailed fuel stock data from the fuel importers/wholesalers to develop regulations for the minimum onshore fuel stockholding obligation;
- 35 **agreed** that the minimum fuel stockholding obligation, including the minimum onshore fuel stockholding level for obligated parties, be reviewed within five years after they come into effect;
- 36 **agreed** that the Minister of Energy and Resources may bring forward the review if there are substantial changes in the international context that would justify an earlier review, or if deemed necessary in light of the continuing inter-agency work to identify options to strengthen the resilience of New Zealand's supply chains for access to essential goods and services;

- 37 **agreed** that the review of the minimum stockholding obligation will take into account the following considerations:
- 37.1 the government's emissions budget and emissions reduction plan;
  - 37.2 fuel demand in New Zealand;
  - 37.3 fuel mix for transport fleet;
  - 37.4 any relevant data and findings on the resilience of supply chains, such as national and regional fuel stocks data and reports on resilience of international and domestic fuel supply chains;
  - 37.5 domestic fuel production capacity;
- 38 **agreed** that obligated parties will be able to trade with others to meet the minimum fuel stockholding obligation through entitlement agreements between them;
- 39 **agreed** that the minimum onshore fuel stockholding obligation be subject to Ministerial powers to grant exemptions in exceptional circumstances, suspend obligations temporarily, and terminate obligations for fuel importers/wholesalers exiting the New Zealand market;
- 40 **agreed** that fuel importers/wholesalers, with a minimum onshore fuel stockholding obligation, be required to submit monthly returns, in line with regulations on information disclosure requirements for monitoring fuel resilience, which are to be developed between now and early in 2023, as noted under paragraph 4 above;
- 41 **agreed** that the maximum pecuniary penalty for the failure of obligated parties to achieve the minimum onshore fuel stockholding level be the greater of \$5 million or three times the financial gain from the breach;
- 42 **agreed** that:
- 42.1 maximum fine for breaches of accounting, reporting and auditing requirements associated with the minimum fuel stockholding obligation be \$100,000 for an individual and \$500,000 for an organisation;
  - 42.2 such breaches will include failure to submit monthly returns, provision of false or incomplete information in monthly returns, and signing a false or misleading entitlement agreement for trades in fuel stocks;
- 43 **noted** that the minimum onshore fuel stockholding obligation on fuel importers/wholesalers are expected to come into effect from 1 July 2024, subject to the passage of the relevant legislation and regulations;
- 44 **agreed** that the Ministry of Business, Innovation and Employment be responsible for administering the minimum onshore fuel stockholding obligation on fuel importers/wholesalers;

**Financial implications**

45 **agreed** to increase expenditure to provide for the additional resources required for implementing the National Fuel Plan, and investigating financial and contractual options for the reserve fuel stock arrangement, with the following impacts on the operating balance and net debt:

	\$m – increase/(decrease)				
<b>Vote Business, Science and Innovation</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27 &amp; outyears</b>
Operating Balance and Net Debt Impact	1.639	-	-	-	-
Operating Balance Only Impact	-	-	-	-	-
Net Debt Only Impact	0.034	-	-	-	-
<b>Total</b>	<b>1.673</b>	-	-	-	-

46 **approved** the following changes to appropriations and departmental capital injections to provide for the costs described in paragraph 45 above, with a corresponding impact on the operating balance and net debt:

	\$m – increase/(decrease)				
<b>Vote Business, Science and Innovation Minister of Energy and Resources</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27 &amp; outyears</b>
Multi-Category Expenses and Capital Expenditure: Policy Advice and Related Services to Ministers MCA  Departmental Output Expenses: Policy Advice and Related Services to Ministers - Energy and Resources	1.639	-	-	-	-
<b>Vote Business, Science &amp; Innovation</b> Ministry of Business, Innovation and Employment - Capital Injection	0.034	-	-	-	-
<b>Total Operating</b>	<b>1.639</b>	-	-	-	-
<b>Total Capital</b>	<b>0.034</b>	-	-	-	-

47 **agreed** that the changes to appropriations for 2022/23 above be included in the 2022/23 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

48 **agreed** that the expenses incurred under paragraphs 45 and 46 above be charged against the between-Budget contingency established as part of Budget 2022;

49 **agreed** that the capital expenditure incurred under paragraphs 45 and 46 above be charged as a pre-commitment against the Budget 2023 capital allowance;

50 **invited** the Minister of Energy and Resources to report back on detailed information on the cost of the reserve diesel stock arrangement, and time required to develop reserve fuel storage facilities, by March 2023;

### Legislative implications

51 **noted** that:

51.1 the information collection regime for monitoring fuel resilience, the change to the statutory purpose of the petroleum or engine fuel monitoring levy, the reserve fuel stock arrangement, and the minimum onshore fuel stockholding obligation will be given effect through a Bill and regulations;

51.2 the Fuel Industry Amendment Bill has a category 4 priority on the 2022 Legislation Programme (to be referred to a select committee in 2022);

52 **noted** that the Bill will include amendments to the Energy (Fuels, Levies, and References) Act 1989, and may include amendments to the Fuel Industry Act 2020 and the International Energy Agreement 1976, depending on the advice of the Parliamentary Counsel Office;

53 **agreed** that a regulations-making power be created to prescribe the detailed requirements of the minimum onshore fuel stockholding obligation, including:

53.1 the minimum stockholding level for diesel, petrol, jet fuel and their biofuels equivalent for obligated parties in terms of days of cover;

53.2 details of the accounting, auditing and reporting requirements for monitoring fuel stockholding and more broadly fuel resilience;

53.3 documentation requirements for trading between fuel importers/wholesalers for compliance with the minimum fuel stockholding obligation;

53.4 criteria and procedural matters for exemptions from, and suspensions and terminations of, the minimum stockholding obligation;

54 **invited** the Minister of Energy and Resources to report back to DEV on the design of the regulations on minimum onshore fuel stockholding obligation, as well as the design of the Bill, by March 2023;

55 **invited** the Minister of Energy and Resources to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above proposals relating to the information collection regime for monitoring fuel resilience, the statutory purpose of the petroleum or engine fuel monitoring levy, and the minimum onshore fuel stockholding obligation;

56 **authorised** the Minister of Energy and Resources to further clarify and develop policy matters relating to the proposals in the paper under DEV-22-SUB-0243 in a manner not inconsistent with Cabinet's decisions.

Janine Harvey  
Committee Secretary

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**Present: (see over)**



**Present:**

Hon Grant Robertson (Chair)  
Hon Dr Megan Woods  
Hon Nanaia Mahuta  
Hon Damien O'Connor  
Hon Stuart Nash  
Hon Michael Wood  
Hon Kiri Allan  
Hon Priyanca Radhakrishnan  
Hon Meka Whaitiri  
Hon Phil Twyford  
Hon Kieran McAnulty  
Rino Tirikatene, MP  
Dr Deborah Russell, MP

**Officials present from:**

Office of the Prime Minister  
Officials Committee for DEV