

28 February 2022

By email: energymarkets@mbie.govt.nz

Onshore Fuel Stockholding

Thank you for the opportunity to be consulted on the New Zealand Government's future policy for onshore fuel stockholding. NZ Airports welcomes the Government actively considering new requirements to hold higher levels of onshore fuel stocks, which can then be used to reduce the impact from a global or domestic fuel supply disruption.

NZ Airports is the industry association for New Zealand's airports and related businesses. NZ Airports members operate 43 airports across the country, including the international gateways to New Zealand and the domestic airports making up the national air transport network.

We endorse the submission by Auckland International Airport Ltd, which answers the consultation's questions in greater detail.

It is worthwhile to consider what is at stake if New Zealand has a shortage of aviation fuels. The necessity and value of aviation to New Zealand's economy and to New Zealanders cannot be over-stated. The economic and social cost to New Zealand if aviation was substantially restricted, or even diminished for long periods, would be immense. For example, the sharp reduction to air freight capacity caused by COVID-19 illustrates the economic necessity to New Zealand of having sufficient air capacity to allow rapid export and import of high value and/or perishable goods. The New Zealand Government has in two years (to date) committed \$737m subsidising air freight services through the International Airfreight Capacity and Maintaining International Air Connectivity schemes.

International airfreight is only part of what would be lost if aviation had to reduce its capacity because of fuel shortages. Due to its geographic isolation, small population size, and open economy, New Zealand is the OECD member most heavily dependent on international aviation services, and that those air connections remain high frequency and affordably priced. Journeys by air to the world's major population and economic centres are several hours long and many thousands of kilometres. For international travel, aviation is the only realistic timely option.

Domestic aviation is of equal importance for similar reasons. New Zealand's two elongated islands, each with substantial mountain ranges running the length of the centre, make cross-island or lengthways land transport expensive and time-consuming. Timely air transport provides the economic and social connectivity that is essential for regional New Zealand.

In comparison to the costs from reducing or temporarily ceasing air transport, NZ Airports considers the annual cost of increased onshore fuel stockholding to be sensible insurance in an increasingly unpredictable world. We note that it would be an 'insurance policy' that is eventually wound down as New Zealand reduces its dependence on fossil fuels.

NZ Airports believes that existing assumptions of a benign international rules-based system, with global stability and great security of international supply lines, cannot be considered a sound basis for estimating New Zealand's future fuel security requirements. Those assumptions should be re-built for a multipolar world, not the Pax Americana that New Zealand has benefited from

since 1945. The New Zealand Government's Defence Assessment 2021 describes a world where:

“A variety of states are now more actively seeking to advance conflicting visions for regional and global orders, and many are increasingly pursuing their interests in ways that depend less on the norms of the international rules-based system.”

The future international environment is likely to see increased unpredictability as the rules-based system is weakened, plus increasing speed of the impact from supply shocks being felt by small and exposed economies such as New Zealand's.

For these reasons, we support the Government ensuring that higher stock levels of all refined fuels be maintained onshore, but we put particular emphasis on aviation fuels. NZ Airports would support policy that mandates a minimum of 60-days' supply be held onshore by the fuel wholesale suppliers. An argument can be made for having a higher level of onshore stockholding.

The consultations paper's preferred option of matching the current Australian policy of 24 days petrol/28 days of aviation fuel and diesel is insufficiently prudent for New Zealand's circumstances. New Zealand is a small and remote market for oil company investment and commercial activity, in contrast to Australia. We note that Australia is seeking to increase its diesel fuel stockholding by 2024 and is also subsidising two oil refineries to remain open for reasons of national security.

We also submit that the fuel industry is the best placed sector to manage storage facilities and the required stock rotation of the onshore holdings as those companies have the expertise and operational capacity.

NZ Airports supports the creation of a stockholding agency to conduct the compliance, enforcement and monitoring functions outlined in the consultation paper, and to take responsibility for New Zealand meeting the IEA obligations through purchasing oil tickets (if onshore stocks are insufficient to meet the 90-day requirement). Such an agency should be funded by the Petroleum or Engine Monitoring Fuel levy.

In addition, NZ Airports suggests having a 'low-trust' model for monitoring oil company compliance. In our view, it would be far preferable to have weekly stock reports to the agency, and to only count fuel stock that is ashore in tanks, rather than allowing refined fuel that is afloat in tankers to be used for meeting the mandated stockholding level. We note that tankers can be easily re-routed to other nations, are more physically vulnerable, the fuel can be re-sold, or simply requisitioned by the exporting nation.

We also submit that the proposed fines for non-compliance and misreporting are too low for the scale of the financial gains on offer during a shortage by not complying, or the scale of economic damage to New Zealand if the actual onshore stocks held are less than required or are not in the region in which they are needed.

A major concern for NZ Airports is ensuring that the onshore fuel stocks are stored across all regions in a distribution that matches the normal distribution of their usage. As the consultation paper notes, it is insufficient to have the fuel within New Zealand; it must be distributed and stored close to where it is actually used. There is the strong possibility that the onshore storage may become overly centralised to just a few sites to maximise efficiencies and reduce cost. Difficulties gaining RMA planning approval would also incentivise having fewer but larger storage facilities. The closure of Marsden Point Refinery does remove it as 'a single point of failure' but it would be highly regrettable if that 'single point' is replaced by just a few more 'points of failure'.

NZ Airports and the wider aviation sector remain well aware of the disruption caused in 2017 by damage to the fuel pipeline from the Marsden Point Refinery to Wiri. The 2019 Final Report of the Government Inquiry into the disruption noted:

Most significantly, we found that Auckland's jet fuel supply is currently not sufficiently resilient, when assessed against the specific resilience standards we developed during our work, and from a public interest perspective.

With only a single supply chain for jet fuel, a single point of failure at any point along that chain can cause a complete disruption of supply to Auckland Airport. There is limited storage near the airport to provide cover for an outage and the number of days of cover that storage provides is decreasing as the daily demand for jet fuel grows. This means our vulnerability is increasing.

The proposed onshore fuel stockholding agency should ensure an appropriate regional distribution of fuel storage is created. The agency's creation is a perfect opportunity to address that vulnerability, and other vulnerabilities that may well exist, thus increasing New Zealand's overall resilience.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Kevin Ward', is positioned below the 'Yours sincerely,' text.

Kevin Ward
Chief Executive