



MTA Submission

To the
**Ministry of Business, Innovation and
Employment**

on
Onshore Fuel Stockholding

4 January 2023

Dear Sir / Madam

Submission: Onshore Fuel Stockholding

This submission is from:

Motor Trade Association (Inc)
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Thank you for the opportunity for MTA to provide comment on onshore fuel stockholding regarding the views of and its effect on the automotive industry.

Yours sincerely,



Greig Epps
Advocacy & Strategy Manager

Introduction

The Motor Trade Association (Inc) (MTA) was founded in 1917 and in 2017 celebrated 100 years of trust with the NZ motoring community. MTA currently represents approximately 3,800 businesses within the New Zealand automotive industry and its allied services. Members of our Association operate businesses including automotive repairers (both heavy and light vehicle), collision repair, service stations, vehicle importers and distributors and vehicle sales. The automotive industry employs 60,000 New Zealanders and contributes around \$3.5 billion to the New Zealand economy.

Consultation questions

- 1. Do you agree with the description above of fuel supply disruption risks? What other disruption scenarios or types of risk should be considered?*

MTA agrees in principle; however, we are concerned this paper does not cover contingency planning for local natural disaster events that disrupt local stockholding. The discussion document refers to jet fuel supplies held elsewhere in the country not being able to mitigate disruption such as the Wiri Terminal supply. As with other fuel supply planning around bulk terminal outages, supplies are sourced from other terminals during the outage. It is not clear why such planning wouldn't mitigate jet fuel supply disruptions?

Referring to a similar study in 2012 completed by the New Zealand Institute of Economic Research (NZIER)¹ that built on a prior 2005 study, we now must focus on understanding what the loss of local refining capacity means. Understanding what our fuel security needs are and how these needs will be met in the event of domestic supply disruptions seems to be the right direction to take.

As the NZIER study points out, in relation to the 90-day stocks held pursuant to International Energy Agency (IEA) requirements, it matters little where these stocks are held as there are stocks that can be accessed to respond to an IEA intervention (not necessarily a local disruption).

MTA is concerned whether this discussion document fully recognises other Government policy initiatives relating to reducing reliance on fossil fuels and whether demand requirements factor in changes to the vehicle fleet moving to lower emission fuel uses. The discussion on the uptake of electric vehicles (EVs) appears to contradict other Government commentary on the role EVs and other low emission vehicles will play in the future (notably, MOT's consultation on its long-term plan and the call for input into the Emissions Reduction Plan²).

¹ NZIER, New Zealand Oil Security Assessment Update, (2012)

² Noting that we are still yet to see any detail of the Government's ERP as it has only ever called for suggestions from the public. There needed to be more explicit alignment of the proposals in this paper with Government proposals in other policy areas that will impact on fuel demand (and thus fuel supply).

We note that IEA recommend energy supply diversification and development of alternative energy technologies as emergency response measures.

It is also not clear what the circumstances are that trigger the operation of an IEA emergency response, and if such a response brings into play access to New Zealand's IEA fuel stock reserves. If the fuel supply disruption scenario described in this document does indeed invoke an IEA emergency response allowing access to our 90-day reserves, wouldn't this likely alleviate any domestic supply constraints, without the need to hold additional stocks?

It is somewhat flawed to calculate the number of days cover required by using average daily consumption of fuel in the previous two calendar years; this is especially so given the recent impact of Covid-19 on fuel supply and consumption in New Zealand. Similarly, it does seem that the planning for fuel supply disruptions discounts any predicted reduction in fossil fuels resulting from the Government's aspirational vision of increased EV uptake. Placing the burden of increasing onshore fuel stockholding on fuel suppliers while other policy initiatives mean they face uncertainty around long-term viability of liquid fuel industry seems unfair.

Lastly, in terms of New Zealand operating under a closed border situation where tanker discharges were not allowed seems to be too severe. Perhaps establishing how tanker discharges take place safely under a closed border situation would be a better option.

2. *Do you agree with the fuel security assessments above (and in the 2020 Hale & Twomey report), including the implications of the Marsden Point Refinery's closure? If not, why not?*

MTA agrees in principle with the recommendations made in section 9.0 of this report.

3. *Do you consider that regional ports other than Northport at Marsden Point have sufficient infrastructure to maintain a satisfactory level of fuel supply resilience? If not, which fuels may need better storage and distribution facilities at those regional ports and why?*

Without understanding the current configuration of the New Zealand coastal tanker fleet in comparison to what future international tankers delivering fuel directly to New Zealand ports, there may be limitations on what type (capacity) of vessel would be able to berth at our ports. Perhaps an adjustment to maritime cabotage rules might be beneficial and allow fuel importers to take advantage of importing larger quantities of fuel direct to port storage facilities that can accept these larger vessels.

4. *Should New Zealand hold fuel stock equivalent to more than 90 days of net fuel import demand (i.e more than the minimum level required by IEA membership)? If so, how much more and why?*

If the IEA consider 90 days of net fuel import demand to be appropriate, adjusting this without justification or consultation with IEA would seem inappropriate. However, MTA does agree with recommendations 5 and 6 of the H&T report and suggest ongoing meaningful discussion with fuel importers to achieve workable solutions that provide New Zealand more security in terms of fuel supplies.

5. *Are these the right evaluation criteria? What other criteria should be considered?*

MTA agrees in principle that these are the right objectives and evaluation criteria.

6. *Do you agree that the minimum onshore fuel stockholding level should be above the current level?*

In principle MTA agrees that the minimum onshore fuel stockholding level should be above current commercial stocks, but we are mindful that additional costs associated with maintaining these additional stocks will be passed through to the consumer.

7. Which option for minimum onshore stockholding level do you consider to be the best? Why do you choose that option?

Option 2 seems to be the most practical option, giving New Zealand additional cover in the event of a fuel supply disruption in the Asia Pacific region. Understanding what additional storage capacity is available to store this extra volume will need to be explored. It may be that redundant crude oil storage tankage at Marsden Point could be utilised.

Avoiding the need to build additional storage facilities should be a key consideration of this review and if there is a shortfall in existing additional volume storage, consideration should be given to counting on-water refined product in meeting the additional cover required.

Having a better understanding and confidence that the other Government policies in place or under development should achieve the desired outcomes of reducing our reliance on imported fuel and would be helpful for existing market participants in their future planning.

If the methodology for calculating fuel usage is based on looking at two years in the past, current stockholding levels, if maintained at this level into the future, would provide additional reserves if predicted fuel volume demands do reduce because of other Government policies achieve their goals of reducing our reliance on imported fuels.

As mentioned above, consideration should be given to the extra volume that is in-transit to New Zealand and that extra volume should be counted as reserve supply in the event of regional international supply disruptions. We note that a 2021 Z Energy paper states that under an import-only model there will always be three ships carrying 144 million litres of product within seven days of unloading at a New Zealand port.³

Balancing available storage capacity to manage tanker discharges and balance the availability of spare capacity to match demand is something that the fuel importers do well. Requiring fuel importers to hold additional stock in existing assets is likely to upset this fine balancing act.

8. Do you agree that any biofuel sales should be counted for the purpose of determining a wholesaler's stockholding obligation and any biofuel stocks be counted for the purposes of meeting a wholesaler's obligation?

Having biofuels stocks counted for the purpose of meeting a wholesaler's obligation would seem aligned with the Biofuels mandate policy the Government is planning to introduce.

9. Do you agree that the Government should adapt its oil ticket strategy to procure tickets for onshore fuel stocks if the fuel industry participants in New Zealand offer such tickets?

Once agreement is reached on how we calculate our fuel reserve needs, achieving these stocks through an adapted oil tickets process is equitable provided we have sufficient spare storage capacity.

³ Z Energy, Our future fuel supply (2021), p 8.

10. Do you agree that fuel wholesale suppliers should be required to meet minimum onshore stockholding level?

In principle, MTA agrees that wholesale suppliers should meet minimum stockholding levels, however current market conditions forcing the sector into a sunset situation must be taken into account. As the consultation document states, the fuel supply industry is good at managing most logistical challenges that periodically occur in the fuel supply chain and they should be consulted on how best to mitigate the supply disruption scenario discussed in this paper.

11. Do you consider that there should be minimum stockholding requirements specific to the type of fuel?

MTA agrees that there should be minimum stockholding requirements specific to the type of fuel should be considered. MTA understands that this is current practice, and fuel importers already do this based on their understanding of the New Zealand market.

12. Do you consider that there should be minimum stockholding requirements that apply to specific locations?

MTA agrees that minimum stockholding requirements that apply to specific locations should be considered. However, it is our opinion that this already occurs, and current fuel importers already do this based on their understanding of the market in New Zealand.

13. Do you agree that a stockholding agency should be set up to manage the compliance, enforcement and monitoring activities associated with the minimum stockholding obligations on the fuel wholesale suppliers?

MTA does not agree with the establishment of a stockholding agency. Given the maturity of the fuel industry in New Zealand it would be more appropriate for central Government to work closely with the sector to manage the compliance, enforcement and monitoring activities in a co-regulatory way.

Disclosure of levels of onshore stockholding could be folded into existing disclosure regulations to ensure some regulatory oversight of the stockholding activity. This requirement will impact on market activity and so can be seen as part of the information collected by the Commerce Commission on the operation of the market.

14. Do you consider that a stockholding agency (if established) should take over the responsibility for managing compliance with New Zealand's IEA obligations, including procurement of oil tickets?

MTA does not agree, see our answer to the previous question.

15. Do you consider that a stockholding agency (if established) should take on a role in managing responses to fuel disruptions and coordinating the relevant contingency planning and emergency exercises?

MTA does not agree with an agency taking a role in managing responses to fuel disruptions. The fuel suppliers are best placed to manage fuel distribution in the event of fuel supply disruptions. It is our understanding that the Petroleum Demand Restraint Act 1981 gives powers to the Government in the event of a national emergency. Having the fuel importers work closely with Civil Defence would seem the best course to take compared to the creation of a new separate agency.

16. *Do you consider that a stockholding agency (if established) should develop or manage other fuel resilience mitigation measures, such as investments in fuel storage and distribution facilities?*

It is not clear what additional fuel storage facilities are required at this stage, but MTA wishes to highlight that the fuel supply industry is very good at managing most logistical distribution challenges that periodically occur.

17. *If a stockholding agency is established, should it be government-funded, industry-funded or co-funded by government and industry? If it is co-funded, what should be the share of government funding?*

If an agency were to be established, it should be government funded.

18. *Do you agree that the Petroleum or Engine Monitoring Fuel (PEFM) levy should be used to provide government funding for a fuel stockholding agency if it is set up?*

MTA disagrees with the PEFM funding the agency.

19. *Do you agree that a stockholding agency, if established, would improve coordination between the Government and the fuel industry in managing fuel supply resilience? If so, in what ways?*

The fuel supply industry is good at managing most logistical challenges that periodically occur in the fuel supply chain and they are best placed to manage fuel supply resilience. Why introduce another layer of engagement and complication?

20. *In your view, how much resources would be needed for the operation of a stockholding agency if established?*

As we have said, we do not believe that an agency needs to be established. At most, the monitoring and communication function could be managed within the existing MBIE energy and fuels operation and would need only a few extra resources.

21. *Are there any other options for meeting the target level of onshore stockholding?*

Yes, MTA recommends government agencies work collaboratively with fuel importers to ensure the targets are achieved. This could include building monitoring and compliance with the targets into the Fuel Industry Act monitoring.

22. *Do you agree that the PEFM levy formula should be amended to distinguish the component of managing IEA-related costs (including procurement of tickets for onshore fuel stocks and possibly funding for a stockholding agency in the future)?*

Yes, especially as our reliance on fossil fuel use diminishes.

23. *Do you agree that the PEFM levy rate for covering the IEA-related costs should be variable, subject to three-yearly review and the Minister of Energy and Resources' approval? If not, why not?*

Yes, as per our answer to the question above.

24. Do you agree that fuel wholesale suppliers be required to meet minimum onshore fuel stockholding obligations? If not, who should ensure that we have sufficient onshore fuel stocks to keep fuel supply resilient?

MTA believes that given the current environment with many other Government policies in play to reduce our reliance on imported fuel, that any additional stockholding required should be part of the wider Government emergency planning processes. This is in line with Government desire to support affected sectors through a 'just transition' moving toward a low carbon economy.

25. Do you agree that fuel wholesale suppliers should file monthly returns on onshore fuel stockholding? If not, why not?

MTA is concerned this will create duplication as this sort of reporting may already be in place through the Fuel Industry Regulation information disclosure requirements.

26. Do you have any view on the information disclosure requirements for monthly returns on onshore fuel stockholding, particularly the type of information to be provided and relevant record-keeping requirements?

See above response.

27. Do you agree that fuel wholesale suppliers should be allowed to trade with each other to meet the minimum fuel stockholding obligations through entitlement agreements between them? If not, why not?

This was in place with the old 'borrow and loan' industry arrangements, but we agree that fuel wholesalers should be able to trade with others to meet minimum fuel stockholding obligations.

28. Do you think the proposed penalties for non-compliance with minimum stockholding obligations are appropriate? If not, why?

Implementing penalties in the order of \$1.5 million seems excessively harsh. Government is asking fuel importers to hold additional stock in the event of a supply disruption event, which they all work hard daily to avoid. Also, given that there are other Government policies and initiatives under way to reduce NZ's reliance on fossil fuels this in effect is creating a sunset industry for fossil fuels. Applying the 'just transition' principles talked about by the Government would seem to be misplaced here.

That aside, for penalties of this nature there needs to be some consideration given to circumstances where fuel supplies are affected by price and as such, fuel suppliers might be forced to purchase uncompetitive supplies simply to avoid penalties. There should be some consideration of circumstances like this prior to penalties being applied.

29. Do you think the proposed penalties for knowingly providing false or incomplete information are appropriate? If not, why?

Fuel Industry Regulations likely already have a mechanism to tackle this behaviour.

MTA appreciates the opportunity to submit on onshore fuel stockholding



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