



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Associate Energy
Title of Cabinet paper	Jet fuel stockholding at Auckland Airport	Date to be published	31 January 2025

List of documents that have been proactively released

Date	Title	Author
November 2024	Jet fuel stockholding at Auckland Airport	Office of the Associate Minister for Energy
25 November 2024	Jet fuel stockholding at Auckland Airport CAB-24-MIN-0458.01 Minute	Cabinet Office

Information redacted

NO

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In Confidence

Office of the Associate Minister for Energy

Cabinet Economic Policy Committee

Jet fuel stockholding at Auckland Airport

Proposal

- 1 This paper seeks agreement to introduce a location-specific minimum stockholding obligation requiring fuel companies to store a specified number of days' jet fuel at or near Auckland Airport.

Relation to government priorities

- 2 The National-New Zealand First Coalition Agreement has three priorities related to fuel:
 - 2.1 Commission a study into New Zealand's fuel security requirements.
 - 2.2 Investigate the reopening of the Marsden Point oil refinery. This includes establishing a Fuel Security Plan to safeguard our transport and logistics systems and emergency services from any international or domestic disruptions.
 - 2.3 Plan for the increased use of transitional low carbon fuels, including the infrastructure needed to increase the use of methanol and hydrogen to achieve sovereign fuel resilience.

Executive Summary

- 3 All jet fuel to Auckland Airport is transported from the Marsden Point import terminal through the 170km Ruakākā to Auckland pipeline (**RAP**) to the Wiri Terminal near the airport. Jet fuel is then transported through the 6km long Wiri to Auckland Airport pipeline (**WAP**) to the Joint User Hydrant Installation (**JUHI**)¹ before it is pumped into aircraft.
- 4 In 2017, the vulnerabilities of the Auckland jet fuel supply chain were highlighted when the only pipeline that supplies jet fuel to the airport, the RAP, was ruptured by a digger and jet fuel could not be transported through the pipeline to the airport for 10 days. Airlines had to limit jet fuel consumption to 30 per cent of their usual usage and over 270 flights were disrupted.
- 5 In 2019, the Government Inquiry into the Auckland Fuel Supply Disruption (the **Inquiry**) investigated the incident and found that the jet fuel supply chain to the airport was not sufficiently resilient. It recommended that the fuel sector “make

¹ JUHI is a fuel terminal at the airport that feeds fuel to planes, through both airport trucks and an underground hydrant system.

I N C O N F I D E N C E

investment decisions without delay” and that the jet fuel storage capacity at the Wiri Terminal and the JUHI should be sufficient to provide 10 days of cover for operations at 80 per cent of peak operations.

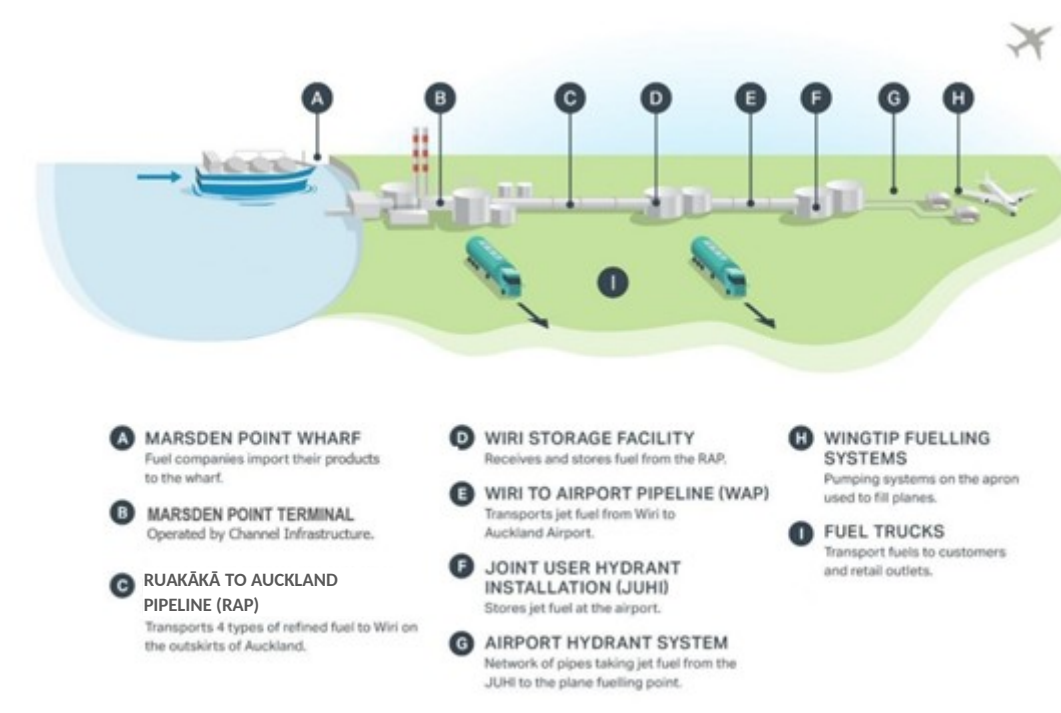
- 6 The Inquiry also recommended that the Government should intervene if the fuel sector failed to make sufficient progress by June 2020 (ie 10 months after the recommendations were made).
- 7 Following the COVID-19 pandemic with the associated border restrictions, investment decisions were put on hold. Jet fuel demand is back to pre-COVID levels and storage is already falling short of the Inquiry’s recommended 10 days of cover.
- 8 I had expected that the Auckland Jet Fuel Supply Resilience Group (the **Group**), formed of bp, Mobil and Z Energy, would have committed to investment decisions by now. Continual delays have convinced me of the need to intervene to ensure that they commit to investment without any further delay – noting that it takes up to two years for storage to come online.
- 9 I therefore seek Cabinet agreement to make regulations under sections 58(2)(a), 63 and 69 of the *Fuel Industry Act 2020*² to require:
 - 9.1 fuel companies to hold a minimum amount of jet fuel at or near Auckland Airport
 - 9.2 fuel companies to disclose information on fuel stockholding at Wiri Terminal as a separate facility.
- 10 I propose that the regulations referred to in paragraph 9.1 require persons (**obliged persons**) with the right to draw jet fuel from the JUHI at Auckland Airport (currently bp, Mobil and Z Energy) to hold 10 days of cover at 80 per cent of operations of jet fuel at the Wiri Terminal or the JUHI.
- 11 Subject to your approval, I will issue drafting instructions to the Parliamentary Counsel Office giving effect to the proposals in this paper.

Background

- 12 Auckland Airport (**the Airport**) is New Zealand's international gateway. Any disruption to jet fuel supply to the Airport would have significant impacts on flights, travellers, freight and the wider economy.
- 13 All jet fuel for the Airport is transported from the Marsden Point import terminal through the 170km Ruakākā to Auckland pipeline (**RAP**) to the Wiri Terminal near the Airport. Fuel is then transported primarily through the 6km long Wiri to Auckland Airport pipeline (**WAP**) to the Joint User Hydrant Installation (**JUHI**) before it is pumped into aircraft. The two jet fuel storage facilities by the airport, the Wiri Terminal and the JUHI, are controlled through joint ventures between the three major fuel companies: bp, Mobil and Z Energy.

² This section was inserted into the *Fuel Industry Act 2020* by the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* and comes into force on 1 January 2025.

- 14 Because of the distance and volumes of jet fuel involved, it is not possible to meet demand by trucking jet fuel from Marsden Point to the Airport. However, jet fuel can be trucked from the Wiri Terminal to the JUHI, although not at a level to fully meet demand. The diagram below shows the jet fuel supply chain.



- 15 In 2017, the RAP was ruptured and jet fuel could not be transported through the pipeline to the Airport for 10 days. Airlines had to limit jet fuel to 30 per cent of their usual usage, with over 270 flights being disrupted. The direct economic impact of the 2017 incident was estimated to be about \$25 million. More recently, there have been smaller rationing incidents caused by imported jet fuel not meeting quality standards.

The Government Inquiry and its recommendations

- 16 In 2019, the Government Inquiry into the Auckland Fuel Supply Disruption (**the Inquiry**) investigated the 2017 incident. The Inquiry found that the jet fuel supply chain to the Airport is not sufficiently resilient and recommended that the fuel companies “make investment decisions without delay” and for the Government to intervene if they failed to make sufficient progress by June 2020 (ie 10 months after the recommendations were made).
- 17 The Inquiry concluded that the jet fuel resilience standards for the Airport should be:
- 17.1 storage capacity at the Wiri Terminal and the JUHI sufficient to provide 10 days of cover for operations at 80 per cent of peak demand, and
 - 17.2 input capacity to the JUHI of 110 percent of peak day demand (the Wiri to Auckland Airport pipeline is nearing capacity).
- 18 Following the Inquiry, the three major fuel companies (bp, Mobil and Z Energy) formed the Auckland Jet Fuel Supply Resilience Group (**the Group**) to progress work on the Airport’s jet fuel resilience and to provide periodic updates to the government.

The Minimum Stockholding Obligation

- 19 In October 2022, the previous government agreed to implement a fuel resilience policy package to improve fuel supply resilience and economic security in New Zealand, by ensuring New Zealand holds enough reserve fuel stocks onshore [DEV-22-MIN-0243 refers]. This policy package was in response to a fuel security review instigated by the closure of the Marsden Point oil refinery.
- 20 As part of the package, the *Fuel Industry (Improving Fuel Resilience) Amendment Act 2023* (the **Amendment Act**) was passed last year,³ which amended the *Fuel Industry Act 2020* (the **Act**). The Amendment Act imposes a minimum fuel stockholding obligation (**MSO**), under which fuel importers that have access to bulk storage facilities will be required to hold, on average, 28 days' cover for petrol, 24 days' cover for jet fuel, and 21 days' cover for diesel⁴ from 1 January 2025. This fuel can be held in bulk storage facilities around the country or in ships that are within our exclusive economic zone and are destined for a New Zealand port.
- 21 There are significant stockholdings of jet fuel at Marsden Point import terminal, with lesser quantities at Christchurch, Wellington and Dunedin. Recently, Z Energy announced it would double its jet fuel storage at Marsden Point, with additional storage coming online in 2027.
- 22 The Amendment Act inserts regulation-making powers into the Act that prescribe stockholding obligations for specific fuels at specific locations and to require fuel importers to disclose information. The *Fuel Industry (Fuel Resilience) Amendment Regulations 2024* (the **Amendment regulations**) give effect to the Amendment Act's information disclosure provisions and will come into force on 1 January 2025.

Analysis

- 23 It has been over five years since the Inquiry recommended that the fuel sector invest in new fuel storage infrastructure at the Airport.
- 24 When the COVID-19 pandemic hit and border restrictions were put in place, jet fuel demand plummeted, and the Group put jet fuel infrastructure investment decisions for the Airport on hold. However, jet fuel demand is already back to pre-COVID levels and is projected to rise by between 25 and 85 per cent by 2035. Jet fuel storage is already falling short of the Inquiry's resilience measure of at least 10 days' storage at 80 per cent peak operations.
- 25 In recent months, the Group has been looking into options to increase jet fuel storage at the Wiri Terminal. However, it is yet to make investment decisions, which require consensus between the members.
- 26 In its last progress update to me in October 2024, the Group indicated that members have agreed on an option to convert one of the large 20 million litre (**ML**) petrol tanks at the Wiri Terminal to jet fuel but have not yet committed to investment. They had also considered constructing a new tank. The Group have not indicated timeframes on

³ The Amendment Act has staggered commencement dates. The provisions of that Act that concern stockholding obligations come into force on 1 January 2025.

⁴ I am currently consulting on options to increase New Zealand's diesel stocks to 28 days.

making investment decisions but have indicated that additional jet fuel storage at the Wiri Terminal could be in place in the second half of 2026.

Proposal to introduce jet fuel stockholding requirements specific to Auckland Airport

- 27 In May 2024, I wrote to bp, Z Energy and Mobil expressing my disappointment in their lack of progress and my expectation that they commit to investment in storage.
- 28 I had expected that the Group would have committed to investment decisions by now – noting that it takes up to two years for storage to come online – but continual delays have convinced me of the need to intervene to ensure that they commit to investment without any further delay.
- 29 I therefore seek agreement to develop location-specific regulations under sections 58(2)(a) and 69 of the Act to require any person who draws fuel from the JUHI hold 10 days of cover at 80 per cent of operations of jet fuel at Wiri and JUHI.
- 30 These regulations would act as a regulatory backstop to ensure investment decisions and construction will occur as promised. They would also ensure that investment in storage infrastructure will keep pace with projected increases in jet fuel demand.
- 31 I have considered other options, including an option that would place the obligation for jet fuel resilience on the Airport, as a beneficiary of enhanced resilience. I discounted this option as jet fuel infrastructure is not core business for the Airport and would need a new legislative regime to implement.
- 32 The focus on jet fuel storage addresses the first of the Inquiry’s resilience measures outlined in paragraph 17.1 above. There is an outstanding issue of whether the daily input capacity into the JUHI is sufficient. This issue will not be addressed by the proposals in this paper. The Airport is considering whether to relocate the JUHI from outside the domestic terminal to another location. It is therefore premature to consider the throughput capacity until decisions about relocating the JUHI are made.

Framework for the regulations

- 33 I seek agreement to the following elements for the regulations.

Commencement date

- 34 I propose that the regulations commence in early 2027. Converting fuel storage tanks will take at least 18 months and the proposed commencement date allows for some flexibility. The Group has confirmed that this is an achievable timeframe.

Person to whom the obligation applies

- 35 I propose that the obligation apply to those persons who have the right to draw fuel from the JUHI. Currently, these are the three major fuel companies (bp, Mobil and Z Energy) who also import the jet fuel into the country. All stakeholders who commented during consultation agreed to this approach.

IN CONFIDENCE

- 36 There was no support for making the Airport the obliged person. Nor was there support for placing the obligation on one of the joint ventures that control part of the jet fuel supply chain.

Location where stock is counted

- 37 I propose that jet fuel stock held at the Wiri Terminal and the JUHI can be counted towards meeting the obligation.
- 38 Focusing on the Wiri Terminal and the JUHI will exclude parts of the Auckland jet fuel supply chain such as the RAP and the WAP. The RAP, considered in its entirety, is not 'near' the Airport as it starts at Marsden Point. The WAP can hold approximately 130,000 litres of jet fuel. However, the WAP can only operate if there is fuel at the Wiri Terminal. If the Wiri Terminal is dry, any fuel in the WAP is not useable (and should not therefore be counted towards the 10 days stockholding obligation).

Number of days cover

- 39 I propose that the regulations require a jet fuel stockholding of 10 days' cover at 80 per cent of operations. This reflects what was recommended by the Inquiry and has been the basis on which the fuel companies have been planning investment.
- 40 The three major fuel companies told officials that if a higher level were chosen, they would need to reconsider their investment decisions, with their agreed option of converting the petrol tank to jet fuel (see paragraph 26) being immediately ruled out. One fuel company estimated that this would cause a delay of six to 12 months and cost 30-40 per cent more.
- 41 Air New Zealand and the Board of Airline Representatives of New Zealand (**BARNZ**) advocate for a higher stockholding level for the following reasons:
- 41.1 Short and medium haul aircraft can tanker in extra fuel for the return journey but this increases the weight of the aircraft, burns more fuel, and can create supply shortfalls for other airports.
- 41.2 Long haul carriers need a full allocation of fuel to reach their destinations. Airlines can make a 'tech stop' to pick up fuel on route but this can cause issues for passengers if that tech stop is in a country that requires visas.
- 42 Officials also consulted with the International Air Transport Association (**IATA**), who consider that a level of 10 days at 80 per cent operations to be reasonable.
- 43 A higher level of stockholding will not guarantee that flights will be able to operate uninterrupted if there was a significant disruption. If the RAP was ruptured in a manner or location that made repairs difficult, it could take longer than 10 days to repair the pipeline, recommission it and for fuel to arrive at the Wiri Terminal and settle for use in aircraft. This is a risk that we will need to trade-off against the additional costs and delays that a higher stockholding level would involve.

- 44 The Act allows for regulations to be made to adjust the stockholding levels. My officials will be monitoring the stockholding levels, as well as any development plans at the airport that may affect storage there.

Formula for determining days' cover

- 45 I propose that the regulations would provide a formula for translating the minimum level of cover to the required minimum stockholding volume for each obliged person.
- 46 The stockholding volume would be calculated on a monthly basis, based on 80 per cent of the average daily demand in that month in the previous year.

Penalties and non-compliance

- 47 There are existing mechanisms under the Amendment Act that would allow fuel suppliers to seek exemptions in certain circumstances such as natural disasters or other exceptional circumstances. Should exemptions be granted, obliged parties would have temporary relief from the minimum stockholding requirements under the proposed regulations. I will consider applications for exemptions on a case-by-case basis.
- 48 The Amendment Act contains penalties and enforcement provisions, which would apply to these proposed regulations. In addition, the Chief Executive of the Ministry of Business, Innovation and Employment (**MBIE**) may accept enforceable undertakings in connection with matters relating to enforcement.

Information disclosure requirements relating to the Wiri Terminal

- 49 The *Fuel Industry (Fuel Resilience) Amendment Regulations 2024* (the **Amendment regulations**) treats the RAP and the Wiri Terminal as a single facility as the RAP discharges fuel to the Wiri Terminal, and the terminal can only receive fuel from the RAP.
- 50 Treating the RAP and the Wiri Terminal as a single facility would not be appropriate for the location-specific regulations for Auckland Airport. The purpose of the regulations is to ensure jet fuel is held close to Auckland Airport, and the RAP stretches from Marsden Point to Auckland.
- 51 I therefore seek agreement to make regulations under sections 63 and 69 of the Act to require, in addition to what the Amendment Regulations already provide, that the Wiri Terminal be treated as its own MSO storage facility. This would require fuel companies to disclose information specific to the Wiri Terminal under the Amendment Regulations as a separate facility.
- 52 The information would include matters such as:
- 52.1 The monthly records of fuel stocks for the purpose of stockholding obligation.
 - 52.2 The monthly disclosure of fuel stocks for the purpose of stockholding obligation.

Cost-of-living Implications

- 53 The proposal does not have any cost-of-living implications, as the regulations would set the stockholding obligation at commercial levels intended to be implemented by the fuel companies (the regulations instead put a backstop date by which time the stockholding must be in place).
- 54 Officials estimate that tank conversion would cost around \$40 million, which would likely be passed on to airlines. If all of the costs were passed on to passengers within a single calendar year, the cost would be \$1.67 per passenger – based on the 24 million people who passed through Auckland Airport in 2023. In reality, the costs are likely to be much lower, given they are likely to be spread over a number of years, and shared more widely (for example, with freight planes that are not carrying customers).

Financial Implications

- 55 The proposal does not have any financial implications.

Legislative Implications

- 56 To give effect to the proposals in this paper, regulations would need to be made under section 69 of the *Fuel Industry Act 2020*.

Impact Analysis

Regulatory Impact Statement

- 57 MBIE's Regulatory Impact Assessment Review Panel has evaluated the RIS "Introducing location-specific minimum stockholding obligation for jet fuel at Auckland Airport" and considers that it meets the quality assurance criteria. The panel is satisfied with the problem definition, options identified, analysis undertaken, and the consultation process.

Climate Implications of Policy Assessment

- 58 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal, as the threshold for significance is not met. Emissions from fuels are counted upon consumption. The proposals in this paper relate to jet fuel storage, enhancing resilience, and are not expected to change fuel consumption. The CIPA team will be updated on fuel proposals as work progresses, considering the government's future fuel priorities.

Population Implications

- 59 The proposal does not have any population implications. Nevertheless, if regulations are legislated, the population in Auckland would likely benefit from the improved jet fuel resilience at Auckland Airport—minimising the risk of jet fuel supply disruption and inconvenience caused by flight cancellations.

Human Rights

60 The proposal is consistent with the *New Zealand Bill of Rights Act 1990* and the *Human Rights Act 1993*.

Use of External Resources

61 No external resources have been used for the development of this proposal.

Consultation

62 The following departments were consulted on this paper: National Emergency Management Agency, Ministry for Regulation, Ministry of Transport, the Treasury, the Commerce Commission and the Infrastructure Commission (Te Waihanga). The Department of the Prime Minister and Cabinet was informed.

63 Officials consulted with key fuel industry and aviation stakeholders - Air New Zealand, Auckland Airport, Board of Airline Representatives of New Zealand (BARNZ), bp, Channel Infrastructure, International Air Transport Association (IATA), Mobil, Z Energy and Energy Resources Aotearoa. I have discussed their feedback in the body of the paper above.

Communications

64 Subject to Cabinet agreement, I intend to announce Cabinet decisions.

Proactive Release

65 I intend to proactively release the Cabinet paper within 30 business days after Cabinet has made a decision, subject to the appropriate redactions under the *Official Information Act 1982*.

Recommendations

The Associate Minister for Energy recommends that the Committee:

- 1 **note** that in September 2017, the pipeline from Marsden Point to Wiri Terminal ruptured, causing widespread disruption to flights in and out of Auckland Airport;
- 2 **note** that in 2019, the Government Inquiry into the Auckland Fuel Supply Disruption found that the jet fuel supply chain to Auckland Airport was not sufficiently resilient and that the Government should intervene by June 2020 if the fuel sector did not make sufficient progress in building new infrastructure;
- 3 **note** that the Government Inquiry recommended jet fuel storage at or near the Airport should meet 10 days of peak demand at 80 per cent of operations;
- 4 **note** that progress on investing in new infrastructure has been delayed because jet fuel demand decreased during the COVID-19 pandemic, but that demand has now recovered to pre-COVID-19 rates;
- 5 **note** that I am not confident that the fuel companies are making, or will make, investment decisions to improve jet fuel resilience at Auckland Airport fast enough;

IN CONFIDENCE

- 6 **note** that in accordance with section 69(2)(a) of the *Fuel Industry Act 2020*, I have consulted with fuel industry participants considered likely to be significantly affected by the regulations;
- 7 **agree** to develop regulations under section 69 of the *Fuel Industry Act 2020* to impose a location-specific jet fuel stockholding at or near Auckland Airport;
- 8 **agree** that the regulations would place obligations on persons that have the right to draw jet fuel from the Joint User Hydrant Installation at Auckland Airport;
- 9 **agree** to require any person who draws fuel from the Joint User Hydrant Installation to hold 10 days of cover at 80 per cent of operations of jet fuel at Wiri Terminal and the Joint User Hydrant Installation;
- 10 **agree** that the jet fuel stockholding volume would be calculated on a monthly basis, based on the average daily demand in that month in the previous year;
- 11 **note** that the *Fuel Industry (Fuel Resilience) Amendment Regulations 2024* will require obliged persons to report jet fuel stockholding information on the Wiri Terminal in accordance with the information disclosure provisions from 1 January 2025;
- 12 **note** that:
- 12.1 the Ruakākā to Auckland pipeline and the Wiri Terminal are considered a single facility for reporting purposes under the *Fuel Industry (Fuel Resilience) Amendment Regulations 2024*;
- 12.2 treating the Ruakākā to Auckland pipeline and the Wiri Terminal as one facility for the purposes of the location-specific regulations for Auckland Airport would not enable us to determine the jet fuel stockholding levels at the Wiri Terminal itself;
- 13 **agree** that the regulations developed under section 69 of the *Fuel Industry Act 2020* will require the obliged persons to disclose information on stockholding for the Wiri Terminal as a separate facility in accordance with section 63;
- 14 **agree** that the regulations will commence beginning of 2027 to align with the fuel storage facilities' establishment timeframes and timelines provided by the fuel companies;
- 15 **authorise** the Associate Minister for Energy to issue drafting instructions to the Parliamentary Counsel Office giving effect to the proposals in this paper;
- 16 **authorise** the Associate Minister for Energy to make decisions, consistent with the proposals in these recommendations, on any issues that arise during the drafting process.

Hon Shane Jones

Associate Minister for Energy

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