How to submit this form

Submission form: Consultation on Onshore Fuel Stockholding

The Ministry of Business, Innovation and Employment (MBIE) would like your feedback on the proposal to require minimum onshore fuel stockholding levels similar to what has been proposed in Australia, and the options on how to achieve these minimum levels. Please provide your feedback by **5pm, 28 February 2021.**

When completing this submission form, please provide comments and supporting explanations for your reasoning where relevant. Your feedback provides valuable information and informs decisions about the proposals.

We appreciate your time and effort taken to respond to this consultation.

Instructions

To make a submission you will need to:

1. Fill out your name, email address, phone number and organisation. If you are representing an organisation, please provide a brief description of your organisation and its aims, and ensure you have the authority to represent its views.
2. Fill out your responses to the discussion document questions. You can answer any or all of these questions in the discussion document Consultation paper: Onshore fuel stockholding. Where possible, please provide us with evidence to support your views. Examples can include references to independent research or facts and figures.
3. If your submission has any confidential information:
    i. Please state this in the email accompanying your submission, and set out clearly which parts you consider should be withheld and the grounds under the Official Information Act 1982 (Official Information Act) that you believe apply. MBIE will take such declarations into account and will consult with submitters when responding to requests under the Official Information Act.
    ii. Indicate this on the front of your submission (e.g. the first page header may state “In Confidence”). Any confidential information should be clearly marked within the text of your submission (preferably as Microsoft Word comments)
    iii. Note that submissions are subject to the Official Information Act and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

How to submit this form

4. Submit your feedback:

i. As a Microsoft Word document by email to **energymarkets@mbie.govt.nz** with the subject line: *Consultation: Onshore Fuel Stockholding*

ii. By mailing your submission to:

Consultation: Onshore Fuel Stockholding
Energy Markets Policy
Building, Resources and Markets
Ministry of Business, Innovation and Employment
PO Box 1473, Wellington 6140
New Zealand

Submitter information

MBIE would appreciate if you would provide some information about yourself. If you choose to provide information in the section below, it will be used to help MBIE understand how different sectors view the proposals and options for requiring and achieving minimum onshore fuel stockholding. Any information you provide will be stored securely.

Your name, email address, phone number and organisation

Name:	John Harbord
Email address:	execdirector@nzsf.org.nz
Phone number:	027 683 8983
Organisation:	New Zealand Shipping Federation

☒ The Privacy Act 1993 applies to submissions. Please tick the box if you do **not** wish your name or other personal information to be included in any information about submissions that MBIE may publish.

☐ MBIE may upload submissions and potentially a summary of submissions to its website, **www.mbie.govt.nz**. If you do **not** want your submission or a summary of your submission to be placed on either of these websites, please tick the box and type an explanation below:

I do not want my submission placed on MBIE's website because… [insert reasoning here]

Please check if your submission contains confidential information

☐ I would like my submission (or identifiable parts of my submission) to be kept confidential, and **have stated** my reasons and ground under section 9 of the Official Information Act that I believe apply, for consideration by MBIE.

Onshore fuel stockholding

Fuel security risk assessment

1. Do you agree with the description of fuel supply disruption risks in the consultation paper on *Onshore Fuel Stockholding*? What other disruption scenarios or types of risk should be considered?

☐ Yes ☒ Yes, with changes ☐ No ☐ Not sure/No preference

Please explain your views.

The consultation paper states on page 9 that 'a 100 per cent fuel import model will be more resilient to domestic disruption scenarios than having a domestic refinery, because there will no longer be a 'single point of failure risk' associated with refining. This implies New Zealand did not import refined product while the refinery was in operation and ignores the fact that with an operating refinery, New Zealand had a combination of imports and domestically refined product. The idea that being 100% reliant on one source of fuel (imports) is less risky than having two sources of fuels seems, on the surface, flawed. One option spreads the risk, the other does not.

The consultation paper is focused on external risks. It does not adequately extrapolate global impacts in the event of a global shock that might endanger fuel supply to New Zealand. If there is a global shock, global suppliers and distributors will prioritise their largest and most strategically important markets. A small, geographically distant market at the very end of global supply chains will not be a priority.

The current war in the Ukraine is an example. Given statements by the United States, the United Kingdom and Europe, fuel sanctions will likely be imposed. Germany has already closed the gas pipe connecting Russian to Western Europe.

Global fuel shipping companies are expected to prioritise ensuring sufficient supply of fuel into Europe. That would mean fewer fuel ships being available to supply the rest of the world, including New Zealand.

The consultation paper does not adequately discuss the increased vulnerability resulting from the closure of refining at Marsden Point. It is one thing to have adequate reserves in tanks, it is another to ensure fuel can get into storage tanks, or be distributed from storage tanks.

With the closure of refining at Marsden Point, domestic coastal shipping of fuels will no longer be available to move fuel from deep water ports in the upper North Island to the lower North Island and the South Island.

New Zealand is moving towards a 'hub and spoke' model for ports, where a small number of large ports are import/export terminuses, with smaller regional ports ensuring distribution from these 'hub' ports to regional New Zealand. This requires road, rail and coastal shipping. With fuels, coastal shipping support will disappear meaning fuels will need to be transported even more by road, with resulting wear-and-tear on roads, road safety risks and harm, increased road maintenance costs, and harmful environmental impacts such as increased carbon emissions.

Importantly, international fuel ships have limited options on where they can initially berth. They need to berth in Whangarei or Tauranga to offload fuel, in order to reduce their displacement. Only then can they get into shallower ports around the country. It therefore makes sense for any increased storage to be at either Whangarei or Tauranga.

However, these ports are geographically constrained and do not necessarily have the scope to house increased fuel storage facilities to hold any increase in reserves (let alone the ability to get a resource consent to increase fuel storage facilities, especially in Tauranga). Already, even while the refinery has been operational, we have seen in different ports fuel ships sitting at sea unable to offload fuel because

the fuel storage tanks onshore at the ports are full. Those ships cannot offload fuel, and therefore cannot travel elsewhere in New Zealand to offload fuel in shallower ports. We have seen situations where ports down the supply chain from Tauranga and Marsden Point have experienced low reserves.

In this context, the consultation paper gives insufficient attention to domestic distribution risks resulting from the closure of refining at Marsden Point.

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

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Please explain your views.

See above, in answer to question 1.

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?

☐ Yes, I agree ☐ I agree in part ☒ No, I don't agree ☐ Not sure/no preference

Please explain your views.

Both petrol and diesel require increased infrastructure to maintain a satisfactory level of fuel supply resilience. The exact amounts, and which types of fuel, vary by port. Wellington, for example, arguably has sufficient diesel infrastructure but insufficient petrol infrastructure.

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 the membership of the International Energy Agency (IEA))? If so, how much more and why?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

New Zealand needs to maintain reserves more than the minimum, given the increased vulnerability of moving to 100% reliance on imports as discussed above in answer to question 1.

Objectives and evaluation criteria

5. Are the evaluation criteria used for assessing options for onshore fuel stockholding the right ones? What other criteria should be considered?

☐ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☒ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

What level of onshore stocks should be held?

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

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

New Zealand cannot rely on holding 'tickets' for offshore fuel in order to comply with its IEA obligations. In the event of a global shock or disruption, it is far from certain ships will be available to make the long journey to New Zealand to deliver offshore stocks.

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

☐ Status quo

☐ Option 1 (current level or 20 days of cover for meeting daily fuel consumption)

☐ Option 2 (24-28 days of cover similar to the Australian level)

☒ Option 3 (40 days of cover)

☒ Option 4 (60 days of cover similar to EU countries)

☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Australia retains refining capacity, therefore has greater domestic resilience than a country like New Zealand that will be 100% reliant on imports. Therefore, to ensure a comparable level of resilience overall with Australia, we should hold a greater level of stockholding.

Achieving the target level of onshore stocks

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?

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Only to the extent that such biofuels can be readily used by the wider vehicle fleet. If such biofuels can only be used by a smaller subset of vehicles, then no.

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?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Yes. New Zealand cannot rely on holding 'tickets' for offshore fuel in order to comply with its IEA obligations. In the event of a global shock or disruption, it is far from certain ships will be available to make the long journey to New Zealand to deliver offshore stocks.

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

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

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

☒ Yes ☐ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

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

☒ Yes ☐ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

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?

☐ Yes, I agree ☐ I agree in part ☒ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

In the event a stockholding agency is required, this should be able to be done within existing government agencies, such as MBIE.

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?

☒ Yes ☐ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

Onshore fuel stockholding

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?

☒ Yes ☐ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

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?

☐ Yes ☒ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Fuel wholesalers should continue to bear responsibility for ensuring New Zealand has sufficient storage and distribution facilities.

17. If a stockholding agency is established, should it be government-funded, industry-funded or co-funded by government and industry?

☐ Government-funded ☒ Industry-funded ☐ Co-funded by Government and industry ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

What should be the share of government funding if a stockholding agency is established and co-funded by government and industry?

[insert response here]

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?

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Government should be mindful of the cumulative impact of levies, taxes, and any other forms of revenue raising it ultimately imposes on consumers.

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?

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

There is little evidence of close coordination in the past as government has largely been hands-off, so some level of improvement from a very low baseline should be inevitable.

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

[insert response here]

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

☒ Yes ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Closer coordination with Australia. New Zealand could use one or more of the existing domestic coastal fuel ships to ensure secure supply of fuel from Brisbane (and to have reliable, ongoing imports from Australia).

Amending levy formula

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, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

This would be the most transparent approach.

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, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

It should be variable to account for changes and unforeseen circumstances over time. And matters of national strategic importance that involve potentially significant disruption to citizens lives, livelihoods and the economy should a negative scenario come to pass should be in the hands of elected officials.

Implementing minimum stockholding obligations (if required)

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

☐ Yes, I agree ☒ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

Regular returns should be required. This does not necessarily mean monthly. It could be quarterly.

25. 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??

Transparency is critical, so information disclosure should be comprehensive.

26. 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?

☒ Yes, I agree ☐ I agree in part ☐ No, I don't agree ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

What matters is whether the amount of fuel stockpiled in New Zealand meets or exceeds the required level, not which company holds it. As long as the total volume meets stockholding obligations.

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

☐ Yes ☒ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

In the face of a potential global disruption, if New Zealand imposes restrictions on fuel availability and use because minimum stockholding obligations were not complied with, the harm to the economy and peoples' livelihoods is likely to run into the billions of dollars. Penalties need to be sufficient to cover egregious or negligent non-compliance. Given the revenue of the fuel companies, it is arguable the proposed penalties are too low for serious non-compliance.

In a model where New Zealand is 100% reliant on imports from global fuel companies, those companies could well make the rational decision to withhold supply to New Zealand in order to minimise the impact elsewhere, e.g., Europe or the United States. The proposed penalties are arguably insufficient to deter such decision-making.

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

☒ Yes ☐ To some extent ☐ No ☐ Not sure/no preference

Is there anything you would like to tell us about the reason(s) for your choice?

[insert response here]

29. Any other comments?

[insert response here]