Ia Ara Aotearoa Transporting New Zealand submission on The Ministry of Business, Innovation & Employment's (MBIE) consultation paper on Onshore Fuel Stockholding

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1. Representation

1.1. Ia Ara Aotearoa Transporting New Zealand (Transporting New Zealand) is made up of several regional trucking associations for which Transporting New Zealand provides unified national representation. It is the peak body and authoritative voice of New Zealand's road freight transport industry which employs 32,868 people (2.0% of the workforce), and has a gross annual turnover in the order of $6 billion.

1.2. Transporting New Zealand members are predominately involved in the operation of commercial freight transport services both urban and inter-regional. These services are entirely based on the deployment of trucks both as single units for urban delivery and as multi-unit combinations that may have one or more trailers supporting rural or inter-regional transport

1.3. According to Ministry of Transport research (National Freight Demands Study 2018) road freight transport accounts for 93% of the total tonnage of freight moved in New Zealand

2. Introduction

2.1. Transporting New Zealand provides sector leadership and believes we all need to operate in an environment where the following must be managed and co-exist:

- The safety and wellbeing of our drivers and other road users; our drivers are our most valuable asset
- The impacts of transport on our environment
- The transport of goods by road is economically feasible and viable and it contributes the best way it can to benefit our economy.

2.2. Transporting New Zealand welcomes the opportunity to comment on The Ministry of Business, Innovation & Employment's (MBIE) Onshore Fuel Stockholding proposals.

2.3. In September 2021, Cabinet asked officials to investigate the option of increasing minimum levels of fuel stock held in New Zealand in order to improve our fuel security in the event of a fuel disruption. This review of fuel security was prompted by the significant change in the fuel supply chain after the move by Refining NZ to switch to an import-only terminal and end refinery operations at Marsden Point. The preferred option for minimum onshore fuel stockholding levels is similar to what has been proposed in Australia, namely 28 days of cover for diesel and its biofuel equivalent, and 24 days of cover for petrol and jet fuel.

2.4. With factors such as geo-political instability, climate change, and New Zealand's susceptibility to seismic events and other natural disasters all influencing our

potential supply of fuel, it is very important for us to have a clear strategy in place to be resilient to a disruption in the supply of fuel.

3. Scope

3.1. This consultation paper covers topics which are beyond Transporting New Zealand's policy scope. Therefore, this submission will be limited to issues which will directly impact our industry, or that we feel we have otherwise valuable insight into.

4. Summary

4.1. Transporting New Zealand is in favour, in principle, of Aotearoa New Zealand increasing its onshore fuel stocks. We support government procuring tickets and imposing minimum obligations on wholesale suppliers. An increase will bring us closer in line to global standards. This will increase New Zealand's resilience to any events which affect our international supply of fuel.

4.2. Transporting New Zealand rejects the notion that a new stockholding agency needs to be set up. We believe this is unnecessary, as wholesale fuel suppliers can efficiently manage stock with minimal oversight from existing government agencies. We agree that "*the fuel supply industry is good at managing most logistical challenges that periodically occur in the fuel supply chain"* (p.8). While we agree that additional resilience to significant disruptions must be developed, we believe it should be done by building on the skills and experience of those already managing these logistics challenges.

5. Fuel security risk assessment

5.1. *Q1: Do you agree with the description of fuel supply disruption risks in the consultation paper on Onshore Fuel Stockholding?*

5.1.1. We agree with the description of fuel supply disruption risks.

5.1.2. Transporting New Zealand supports the realistic approach to the uptake of EVs and biofuels. Neither contributes enough to the market demand for vehicle propulsion to make an impact on this decision. Also, the majority of essential and emergency services will likely continue to use diesel in the near future. We believe upcoming reviews should keep an eye on developments in biofuel use in New Zealand.

5.1.3. Transporting New Zealand also agrees with the clarifications that this is not being set up to mitigate small scale disruptions or spikes in fuel prices.

5.2. *Q2: 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?*

5.2.1. We agree with the fuel security assessments risks by Hale and Twomey.

5.2.2. The closing down of Marsden Point provides an opportune time to raise these issues. However, we believe that closing down the refinery will likely improve New Zealand's net resilience, due to a reduced single point of failure risk, and more stable supply markets. Previously, if a disaster occurred which put Marsden Point out of action our supply would have been significantly disrupted for a short period of time, with nowhere to receive and process crude. Now we would be able to receive the processed fuel at another port. By importing processed fuel, we are open to a wider range of exporters than if we were relying on crude exporters.

5.3. *Q3: 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?*

5.3.1. To be able to answer this question, we would need to know: What are the plans for distribution of fuel in a significant disruption event? This planning should precede decisions on where stock should be held, and then if current infrastructure is sufficient.

5.3.2. Transporting New Zealand believes more thought and planning needs to go into how regional distribution would occur in an emergency, particularly if most of the fuel is stored in Northport and if regional coastal shipping services have finished.

5.3.3. Transporting New Zealand does not have an opinion on how this is done, but for clarity's sake we are referring to things such as, but not limited to, improving storage capabilities in other docks; maintaining some form of coastal shipping service; and having a fuel-efficient system in place to distribute limited fuel.

6. Objectives and evaluation criteria

6.1. *Q5: Are the evaluation criteria used for assessing options for onshore fuel stockholding the right ones? What other criteria should be considered?*

6.1.1. Cost should also include the cost to the end-line consumer, namely through increases to the Petroleum or Engine Monitoring Fuel Levy (PEFML), both directly and indirectly (through supply chain costs).

7. What level of onshore stocks should be held?

7.1. *Q6: Do you agree that the minimum onshore fuel stockholding level should be above the current level?*

7.1.1. We agree that the minimum onshore fuel stockholding should be higher, to be closer aligned with good practice internationally and improve our resilience.

7.2. *Q7: Which option for minimum onshore stockholding level do you consider to be the best? Why do you choose that option?*

7.2.1. Option 2 - We believe diesel should be further weighted as a priority over petrol, particularly due to its importance as the fuel of choice for most emergency and essential services.

7.2.2. We understand it is likely beyond the scope of this paper, but we would like insight into the rationing plans of diesel in an emergency, particularly on what services would be prioritised and why. It is important to know this in advance of an emergency situation. We expect this would have been part of the 50% security/resilience calculations.

8. Achieving the target level of onshore stocks

8.1. *Q8: 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?*

8.1.1. The emergency fuel stock should represent the demand for fuel type. If there is a high demand for biofuel then yes, biofuel could make up some of the stocks. This should be done in a way that does not interfere with the desired end result (i.e., there should be adequate fuel to power essential and emergency services in a significant disruption event). Over time, as synfuels integrate into the market, this should also be considered in the context of stockholding obligations.

8.2. *Q9: 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?*

8.2.1. We agree that the Government should procure oil tickets for onshore fuel stocks. It is more prudent to have these stocks held in New Zealand rather than Australia to ensure resilience in a major disruption event.

8.3. *Q10: Do you agree that fuel wholesale suppliers should be required to meet minimum onshore stockholding level?*

8.3.1. We agree that fuel wholesale suppliers should meet minimum stockholding levels. We believe that wholesale fuel suppliers are well placed to manage the logistics of an increased onshore fuel reserve, and they should simply be held accountable to meeting these minimum levels.

8.4. *Q11: Do you consider that there should be minimum stockholding requirements specific to the type of fuel?*

8.4.1. Yes. As mentioned above (7.2.1) and pointed out in the consultation paper, emergency and essential services rely primarily on diesel. The minimum stockholding requirements should reflect the needs in an emergency.

8.5. *Q12: Do you consider that there should be minimum stockholding requirements that apply to specific locations?*

8.5.1. See 5.3.1. Disaster risk planning, in particular distribution modelling, should answer the question of where stocks should be held.

8.6. *Q13: 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? (also Q:14, 15, 16, 17, 19, 20)*

8.6.1. We do not agree with setting up a stockholding agency, as outlined in 4.2.

8.6.2. Responsibilities (such as but not limited to: managing IEA compliance, managing responses to fuel disruptions and contingency planning, and developing resilience mitigation measures) can continue to be managed by existing government agencies and fuel distributors. Creating a new agency will only increase the costs to the end-line consumer, and remove agency from the fuel wholesale distributors who already have systems in place and ample experience to effectively manage fuel stock.

8.7. *Q18: 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?*

8.7.1. The fuel stockholding agency should not be set up. If it is, and then funded by the PEFM levy, this should be reflected in table 4, as C1's cost would be worse than the status quo.

8.7.2. We do however see it being pragmatic that other increases in costs (i.e., procurement of tickets) be covered by the PEFM levy.

8.8. *Q21: Are there any other options for meeting the target level of onshore stockholding?*

8.8.1 We believe as part of the government's fuel security strategy it should be promoting the domestic development of biofuel.

9. Amending levy formula

9.1. *Q22: 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)?*

9.1.1. We agree that the PEFM levy should include IEA related costs. As outlined earlier, we disagree with the creation of a stockholding agency.

9.2. *Q23: 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?*

9.2.1. We agree with that review time period and process.

10. Implementing minimum stockholding obligations (if required)

10.1. *Do you agree that fuel wholesale suppliers be required to meet minimum onshore fuel stockholding obligations? (Question in consultation paper but not submission form)*

10.1.1. We agree that fuel wholesale suppliers be required to meet onshore fuel stockholding obligations.

11. Other comments

11.1. Transporting New Zealand believes it would be beneficial if MBIE also explained in the event of a significant disruption event, how will stock be brought to New Zealand from Australia?