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Fuel markets to become more resilient, sustainable and competitive



HON DR MEGAN WOODS(/MINISTER/HON-DR-MEGAN-WOODS)

Energy and Resources (/portfolio/labour-2020-2023/energy-and-resources)

The Government is strengthening New Zealand's fuel sector through a suite of initiatives to increase supply resilience and sustainability, and to encourage more competition, the Energy and Resources Minister Dr Megan Woods has announced.

"These improvements will pave the way for a more stable, low-emissions fuel supply, greater choices for consumers, and a more competitive wholesale fuel market with the power for the Commerce Commission to regulate prices, if required," Megan Woods said.

"We know many households are struggling with the increased cost of living, so we are pulling back on any potential extra costs on consumers as a result of the biofuels obligation.

"This supports a range of actions we have taken to ease the pressure on families, alongside the extension to our fuel tax cut, reduced road user charges and half price public transport until January 2023.

Improving our fuel supply resilience

"We are improving New Zealand's fuel supply resilience with onshore fuel stocks obligations for the fuel sector as well as Government-procured diesel storage.

"The Government has agreed to a package of actions to ensure sufficient fuel stocks are held onshore to further improve our fuel supply resilience and economic security.

“Having a sufficient supply of onshore fuel stocks will help shield us from major disruptions to international oil and fuel markets, natural disasters and infrastructure failures. And while the risk of a major disruption to our fuel supply is very low, the impacts would be significant and felt across the economy,” Megan Woods said.

“Fuel importers and wholesalers with bulk storage facilities will be required to hold minimum levels of onshore stocks of petrol, jet fuel, and diesel. Minimum fuel stockholding levels for them will equate to approximately 28, 24 and 21 days’ worth of petrol, jet fuel and diesel respectively.

“The Government will also procure additional onshore storage of reserve diesel stocks of at least 70 million litres of diesel, providing approximately seven days’ cover.

“The focus on diesel for additional stockholding reflects the importance of diesel for the operation of critical services, such as emergency services and deliveries of food and essential goods. Transport fuels currently underpin the day-to-day running of our economy and it’s vital we manage our fuel resilience well.

“New Zealand’s fuel supply has always been reliant on imports, as the refinery was configured to refine imported heavier crude oil. The difference now is that we no longer import crude oil, instead we import refined fuel products from a range of overseas refineries. The additional onshore storage of diesel stocks will also boost our contingency supply,” Megan Woods said

An independent review of national fuel security was done when New Zealand’s refinery signalled it would transition to an import-only terminal for storing fully refined fuels.

The review found the refinery’s closure improved the overall resilience of our fuel supply chain in the sense that we no longer face the risk of a single point of failure associated with an unplanned refinery outage, and fuel companies now deliver fuels to New Zealand in more frequent shipments from more diverse sources.

Sustainable biofuels to help reduce emissions

“While we recognise fossil fuels will continue to play an important role in our transport system for some time, we are setting in motion other actions to help us reach our emissions budgets.

“The Sustainable Biofuels Obligation has a significant role in supporting this and delivering the Government’s Emissions Reduction Plan (ERP); it will prevent around one million tonnes of emissions from cars, trucks, trains and ships over the first two years and up to nine million tonnes by 2035.

“We are moving the start date for the obligation for fuel wholesalers to deploy biofuels into their fuel supply, out to 1 April 2024 instead of next year, to allow the sector more time to prepare. This will allow wholesalers to get the necessary infrastructure in place, and to source high quality feedstocks.

“It’s also reducing any extra potential costs consumers could face; while biofuels will account for a very small part of the overall fuel price, we recognise that motorists don’t need any extra costs in the current cost of living crisis.

“Fuel wholesalers will need to meet emissions intensity reduction targets of 2.4% for 2024 and 3.5% for 2025. Provisional targets will be set for 2026 and beyond, increasing up to 9.0% by 2035, with adjustments on the intensity targets in the intervening years to make up for the year’s delay in implementation.

“Biofuels are a great way to reduce emissions without replacing existing ICE vehicles. Biofuels alone won’t get us to net zero, but they are an important part of the toolkit to help us manage a fair, inclusive and equitable transition to a low-emissions future,” Megan Woods said.

Regulatory backstop to promote competition in the wholesale fuel market

“The Government has also agreed to give the Commerce Commission the power to step in and set fair prices if needed, to encourage more competitive wholesale pricing and bed in the changes we have already made.” Megan Woods said.

A terminal gate pricing regime was one of several changes brought in under the Fuel Industry Act 2020 to improve competition at the wholesale level and increase the transparency in fuel markets. The terminal gate pricing regime requires wholesale suppliers that sell from terminals to post a daily spot wholesale price (the terminal gate price). If requested, wholesale suppliers must supply the retailer with the requested amount at the terminal gate price. This improves access to the wholesale market and provides for transparent wholesale prices, which makes it easier for new participants to enter the market and for existing fuel sellers to expand into other regions.

The regulatory backstop measure was recommended by the Commerce Commission in 2019 as part of a fuel markets study which prompted the Act.

“While the Act is already facilitating a more competitive wholesale fuel market, there are some outstanding risks to the success of the terminal gate pricing regime,” Megan Woods said.

“For example, the increased price transparency helps competition, but there’s a risk that wholesalers could co-ordinate prices, due to the greater wholesale price transparency, unless there are some disincentives built into the system.

“Following consultation with the sector in 2020 we are now pushing through on development of the backstop regime, which would allow for terminal gate prices of one or more wholesale suppliers to be price regulated if excessive terminal gate prices are found to be offered. It is expected to come into effect in mid-2023.

“This suite of measures strengthens our fuel system to make it more secure, sustainable and affordable for all New Zealanders,” Megan Woods said.

Notes to editors

Sustainable Biofuels Obligation

Biofuels are renewable, low-emissions fuels derived from biological matter such as plants, animal wastes, forest residues and other organic material. Some biofuels are more sustainable than others. The Government proposes to introduce regulations setting strict sustainability criteria such as limiting the total amount of food and feed-based biofuels and excluding feedstocks that have caused deforestation of old-growth forests such as palm oil.

The Obligation will prevent around two million tonnes of emissions from cars, trucks, trains and ships over the next three years and up to 9 million tonnes by 2035 to help us meet our climate commitments. A Bill will be introduced into Parliament in the coming weeks. More information is available on the Ministry of Business, Innovation and Employment (MBIE) Biofuels webpage (<https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-generation-and-markets/liquid-fuel-market/biofuels/>).

Fuel resiliency policy package

The fuel resiliency policy package also includes: improved fuel resilience monitoring, dedicating additional resources to update and implement a National Fuel Plan, amending the statutory purpose of the petroleum or engine fuel monitoring levy fuel resilience initiatives, and streamlining the decision-making process for the release of reserve oil stocks.

In addition to the onshore reserves, the amount of stock in transit to New Zealand at any one time is estimated to be approximately 17 days' cover for all refined fuels.

Note, the daily consumption figures represent normal demand levels. Stocks would last significantly longer if rationed in an emergency situation. More information is available on this MBIE webpage (<https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-generation-and-markets/liquid-fuel-market/fuel-security-in-new-zealand>).

Wholesale fuel engine markets regulatory backstop

The terminal gate pricing regime introduced in the Fuel Industry Act 2020 provides that wholesale suppliers that sell from terminals must post a daily spot wholesale price (the terminal gate price). If requested, wholesale suppliers must supply the retailer with the requested amount at the terminal gate price.

The backstop enables the Commerce Commission to conduct an inquiry into terminal gate pricing at particular terminals in response to concerns that excessive prices are being offered. More information about the backstop is available on this MBIE webpage (<https://www.mbie.govt.nz/business-and-employment/business/competition-regulation-and-policy/market-studies/market-study-into-retail-fuel/>).



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