

Hon Dr Megan Woods

MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation



Naomi James
Chief Executive Officer
Refining New Zealand
By email: naomi.james@refiningnz.com

Dear Naomi

Thank you for your letter of 5 June 2020 setting out the matters you are seeking input on from the Government concerning Refining New Zealand's strategic review.

I have discussed your letter with colleagues and my response is informed by their views. My response does not represent Government policy, but it signals some policy options that might be considered depending on the direction and outcome of your strategic review.

Strategic importance

I acknowledge the important role Refining New Zealand plays in the supply of petroleum fuels in New Zealand, including refining and distributing the refined products. I consider the maintenance of domestic refining capacity has strategic importance to New Zealand, including its contribution to fuel supply security, industrial gases, and to the potential development of new domestic industries producing low emission fuels.

Contribution to IEA obligation

I understand closure of the refinery would likely result in less commercial stock, in aggregate, being held in New Zealand. Under current policy settings, the Government would need to procure additional stock, or options on offshore stock, to maintain compliance with the IEA stockholding obligation. This cost would be passed on to fuel users.

I believe a material reduction in domestic stocks could also warrant a review of the Government's stockholding policy, including the costs and benefits of holding minimum levels of stock from a fuel supply resilience perspective. Domestic stocks can help mitigate the impacts of significant supply disruptions, both global and domestic.

I cannot predict the outcome of any such policy review at this stage, but I note that some mechanism would be needed to incentivise fuel companies to hold more stock in New Zealand if that were considered desirable. In that case, domestic stockholding could provide a potential revenue stream for Refining New Zealand or other companies that can provide it.

Pipeline Inquiry and independent control of fuel infrastructure

The Government has not yet decided on its response to the Inquiry's recommendations, but at this stage I do not expect the response to include proposals that would necessarily encourage or facilitate independent control of New Zealand's fuel infrastructure.

Cost of electricity and gas

The Government has little ability to influence directly the costs of electricity or natural gas to Refining New Zealand. I encourage to continue engaging directly with suppliers in those markets to address your concerns about energy costs.

Industrial allocations under the ETS

I acknowledge that Refining New Zealand faces some uncertainty about its future emissions costs under the ETS, due to the review of the industrial allocation settings. I cannot anticipate any outcomes from the review, but I would emphasise that the purpose of the industrial allocation mechanism is to mitigate the risk of emissions leakage and the review will not change this.

Transition to lower carbon fuels future

I am aware that Refining New Zealand's assets and personnel capabilities could play a future role in New Zealand's transition to lower carbon fuels. However, it is challenging at this stage to identify precisely when or how that role might emerge.

The Government is committed to reducing emissions and is actively exploring the possibility of domestic production of low emission fuels through initiatives focusing on bio-economy, forest industry transformation and low emission transport. However, the Government is not in a position yet to propose or introduce any new policy to accelerate development of low emission fuels before the conclusion of Refining NZ's strategic review.

If Refining New Zealand decides to retain its refinery operations, I encourage you to engage with MBIE's Provincial Development Unit to explore green fuels opportunities that could make best use of your company's strategic assets and skills.

Employment and economic contribution

In closing, I want to acknowledge the significant role Refining New Zealand plays in the local economy. Maintaining refining capacity would mean the retention of many highly skilled and highly paid jobs, which would be particularly welcome at a time when the Northland region and many other regions expect to face high rates of business failure and unemployment.

I look forward to learning about the outcomes and next steps of Refining New Zealand's strategic review.

Yours sincerely



Hon Dr Megan Woods
Minister of Energy and Resources