



1 June 2022

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2122-4601

Hon Dr Megan Woods
Minister of Energy and Resources

Hon Michael Wood
Minister of Transport

Action required by:
Wednesday, 1 June 2022

JOINT BRIEFING: TAKING ACTION ON FUEL PRICES - DRAFT CABINET PAPER EXTENDING THE REDUCTIONS TO PETROL EXCISE DUTY, ROAD USER CHARGES AND MONITORING ARRANGEMENTS FOR TWO MONTHS

Purpose

To provide the Minister of Energy and Resources and the Minister of Transport with a draft Cabinet paper to put in place the reductions to petrol excise duty, road user charges and the monitoring arrangements.

Key points

- On 11 April 2022, Cabinet has agreed to extend the 25 cents per litre reduction to petrol excise duty and the 36 percent reduction to road user charges for two months [CAB-22-MIN-0130 refers].
- To monitor the pass through of the petrol excise duty reduction, Cabinet has also agreed that fuel companies must continue to provide information to the Ministry of Business, Innovation and Employment (MBIE) until four weeks after the Order in Council giving effect to the fuel excise reduction expires or is revoked [DEV-22-MIN-0064].
- To put in place the extensions, instruments need to be submitted to the Governor-General, which requires Cabinet approval. Attached is a draft Cabinet paper for the Minister of Energy and Resources and the Minister of Transport to take to Cabinet on 7 June 2022 to seek this approval. The draft Cabinet paper also contains a proposal to reimburse the track user charges for two more months, to align with the reductions to road user charges.
- The draft Cabinet paper also seeks some technical amendments to the Cabinet minute that records Cabinet's agreement to the fuel excise and road user charges reduction extension [CAB-22-MIN-0130 of 11 April 2022]. These proposed amendments are to a minute relating to a paper in the name of the Minister of Finance. The Minister of Energy and Resources and the Minister of Transport may wish to consider presenting this paper jointly with the Minister of Finance.

- This paper also notes potential pathways to recommencing or phasing back to full petrol excise duty and road user charges rates, and possible engagement with stakeholders on this issue.

Recommendations

Officials recommend you:	Minister of Transport	Minister of Energy and Resources
1 copy this paper to the Minister of Customs (who has responsibility for excise matters)	Yes / No	
2 agree to consult your ministerial colleagues and caucus on the draft Cabinet paper (starting 26 May 2022; ending 30 May)	Yes / No	Yes / No
3 agree to consult with fuel industry participants likely to be significantly affected by an extension to the petrol excise reduction monitoring arrangements		Yes / No
4 agree to lodge the final Cabinet paper on 2 June 2022 for Cabinet on 7 June 2022	Yes / No	Yes / No
5 indicate whether you wish to discuss the draft Cabinet paper with Ministry of Transport officials on 30 May 2022	Yes / No	
6 request advice from the Ministry of Business, Innovation and Employment on potential pathways to re-introduce the full rates of petrol excise duty		Yes / No
7 request advice from the Ministry of Transport on potential pathways to re-introduce the full rates of road user charges	Yes / No	
8 agree that officials from the Ministry of Business, Innovation and Employment (Energy Markets) may engage with industry and stakeholders on potential pathways to re-introduce the full rates of petrol excise duty		Yes / No
9 agree that officials from the Ministry of Transport may engage with transport sector stakeholders on potential pathways to re-introduce the full rates of road user charges	Yes / No	



Marian Willberg
Manager, Demand Management and Revenue, Ministry of Transport
1/06/2022.....



Gareth Wilson
Acting Manager, Energy Markets Policy, Ministry of Business, Innovation and Employment
 ..01 / ..06 / 2022

Hon Michael Wood
Minister of Transport
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Hon Dr Megan Woods
Minister of Energy and Resources
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- Minister's Office to complete:**
- Approved
 - Declined
 - Seen by Minister
 - Not seen by Minister
 - Overtaken by events

Comments

Contacts

Name	Telephone	First contact
Marian Willberg, Manager, Demand Management and Revenue Team	s 9(2)(a)	✓
Gareth Wilson, Acting Manager, Energy Markets Policy, Ministry of Business, Innovation and Employment		

TAKING ACTION ON FUEL PRICES - DRAFT CABINET PAPER EXTENDING THE REDUCTIONS TO PETROL EXCISE DUTY & ROAD USER CHARGES

Attached is a draft Cabinet paper for review and feedback

- 1 On 11 April 2022, Cabinet agreed to extend the reductions to petrol excise duty, and road user charges for two further months [CAB-22-MIN-0130 refers].
- 2 The attached draft Cabinet paper:
 - 2.1 seeks authorisation to submit the proposed legislative instruments to Executive Council to extend the current reductions to petrol excise duty and road user charges (and associated refund regulations), and monitoring arrangements. It
 - 2.2 asks Cabinet to amend a previous minute relating to some technical matters.
- 3 Officials propose the Minister of Energy and Resources and the Minister of Transport go straight to Cabinet on 7 June 2022 (rather than to Cabinet Legislation Committee). The Cabinet Legislation Committee is not a policy committee and is not best placed to consider amending a policy decision in a Cabinet minute (outlined further below). It would be more efficient to ask Cabinet directly to make the amendments and consider the extension to the monitoring arrangements simultaneously. This means Cabinet can deal with the matter once, as a package, rather than multiple times.

The draft Cabinet paper asks for authorisation to submit instruments to Executive Council to put in place the extension to the reduction of petrol excise duty and road user charges, and monitoring arrangements

- 4 Cabinet has already agreed to extend the reductions for two months. It has also agreed that fuel companies must continue to provide information to MBIE until four weeks after the Order in Council that gives effect to the fuel excise reduction expires or is revoked. So, approval is not needed for the overall policy but for the instruments to be submitted to the Governor-General at Executive Council. Policy approval is needed for the technical amendments to the earlier decisions. The draft Cabinet paper also contains a proposal to reimburse KiwiRail Holdings Limited for the track user charges for two months, to align with the reductions to road user charges.
- 5 The proposed instruments extend the:
 - 5.1 25 cents per litre reduction to petrol excise duty until 15 August (instead of ending on 14 June 2022)
 - 5.2 36 percent reduction across all legislated rates of road user charges until 21 September 2022 (instead of ending on 21 July 2022)
 - 5.3 time that fuel companies must provide information about their costs and revenues until four weeks after the Order in Council giving effect to the fuel excise reduction expires or is revoked (instead of ending on 15 July 2022). The

Parliamentary Counsel Office will draft this instrument before the proposed lodgement on 2 June 2022.

- 6 The monitoring arrangements have been put in place for four weeks longer than the removal of changes to excise duty to monitor market performance. This monitoring arrangement will show whether companies are or are not raising margins alongside the removal of changes to excise duty.
- 7 The draft Cabinet paper also provides some background information about the policy and the rationale for the extension.

The Minister of Energy and Resources must consult with fuel companies on amending the monitoring arrangements

- 8 The Fuel Industry Act 2020 requires that the Minister of Energy and Resources must consult with fuel industry participants likely to be significantly affected by the regulations each time they recommend that the Governor General make regulations under the provision. ^{s 9(2)(f)(iv)}

s 9(2)(f)(iv)

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- 11 If the Minister of Energy and Resources agrees to consult with fuel companies on this proposed extension, MBIE officials will provide support to develop a consultation email to be sent Thursday 26 May 2022 for feedback by Monday 30 May 2022.

Officials will prepare advice to Ministers on pathways to re-introducing full rates

- 12 The proposed instruments specify an end date, which means full rates will apply at the end of the two-month extension.

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s 9(2)(f)(iv)

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s 9(2)(f)(iv)

- 15 Transport officials will prepare advice for the Minister of Transport on possible approaches or pathways to reinstate the full rates of road user charges. Transport officials will aim to provide this advice shortly, given that the Minister of Transport may wish to discuss it with his colleagues, and any Order to extend the road user charges reduction period beyond 21 September would need to be made by 21 July 2022.
- 16 MBIE officials will prepare advice for the Minister of Energy and Resources on possible approaches or pathways to reinstate the full rates of petrol excise duty charges.
- 17 Officials will need to engage to understand any impacts that different approaches or pathways have when reintroducing the full rates. This includes impacts on fuel companies (which MBIE will lead), government agencies (including any macroeconomic implications) and transport sector stakeholders.

17.1 **Fuel companies** – some fuel companies expressed cashflow concerns relating to the request to immediately pass on the reductions on petrol excise duty, on existing fuel stocks, including that not yet sold at retail sites that was subject to excise at a higher rate at the border or refinery. MBIE worked with fuel companies across different segments of the market to understand the scale of the cashflow concerns and coordinated government agencies to determine what action could be taken to mitigate these issues. Although the cashflow issue will be temporary, as any losses will likely be recovered at the end of the reduction period, when they can sell fuel purchased with the reduced rate, the Government moved to amend regulations to provide temporary relief to the fuel companies. The New Zealand Customs Service (Customs), which collects excise-equivalent duty at the border and excise on domestically manufactured fuel and secondary blending at coastal tank farms, can enter into payment arrangements with excise payers, i.e. the bulk fuel importers. In order to benefit from these deferred payment arrangements, the bulk fuel importers need to provide evidence that they have provided financial support to fuel retailers within their distribution networks that have suffered from short-term losses.²

17.2 **Across government** – engagement with Customs is also vital as it collects fuel excise duty and Waka Kotahi as the road user charges collector. Transport officials will also engage with the Treasury on any potential macroeconomic

¹ Waka Kotahi the NZ Transport Agency is the road user charges collector. In performing this role, it issues road user charges distance licences (through its website, call centre and counter agents) and enforces the road user charges system (via the issue of assessments for unpaid road user charges). It administers the Road User Charges Temporary Reduction Scheme and has an important regulatory oversight role in following up excessive, unreasonable or abusive purchases of road user charges whilst reduced.

² The Customs and Excise (Refunds and Remissions) Amendment Regulations 2022 provide for compensatory interest and late payment penalties on late duty payments to be remitted or refunded subject to specified criteria for fuel companies affected by the sudden reduction in the fuel excise and excise-equivalent duty rate which came into effect at 12.01 am on 15 March 2022.

implications of different approaches (for example, any consumer price implications)

17.3 **Transport sector stakeholders** – engagement with transport stakeholders and freight industry participants to understand potential customer implications.

18 Officials seek permission to engage informally with fuel companies and transport sector stakeholders. The engagement would seek views on options to re-introduce the full rates of excise duty rates and road user charges. This outreach may go some way to remedy or respond to complaints about a lack of industry engagement or pre-notification when Cabinet agreed to the reductions on 14 March 2022.

The Cabinet paper seeks an amendment to an earlier Cabinet minute

19 When Cabinet provided policy approval for a two-month extension on 11 April 2022, the paper was prepared with limited Ministry of Transport involvement and contained some errors and omissions. The errors related to detailed and technical matters that appear to have been overlooked by officials preparing the paper. We propose you ask to correct/amend the minute.

20 Transport officials, via the Minister of Transport's Office, engaged with Cabinet Office on the ability to make the amendments immediately after the Cabinet meeting on 11 April 2022 but were advised the matter would need to be considered by Cabinet, and such revisions were not possible in the absence of a meeting.

21 Despite being technical and detailed, we think the amendments are necessary, particularly regarding the CIPA requirement. The primary objective of the CIPA is to ensure that ministers are aware of the emissions impacts and implications of any decision. Although the CIPA modelling was not available when Cabinet made its decision on 14 March 2022 (to make the reductions) or on 11 April 2022 (to extend the reductions), the Cabinet paper on 14 March 2022 records that Ministers were aware of the relevance of the CIPA requirements and had commissioned work to fulfil the requirements. The Cabinet paper on 11 April 2022 did not contain this wording.

s.9(2)(g)(i)

The amendments seek to remedy this by inserting the CIPA recommendations, thus making it clear Cabinet was aware of their relevance and their absence was merely an administrative oversight.

22 The Minister of Transport may like to consider, given the proposed amendments arise from a paper in the name of the Minister of Finance, whether he wishes to present the recommendations with the Minister of Finance. The Office of the Minister of Transport may wish to consult Cabinet Office on the presentation/format of the recommendations in the draft Cabinet paper to amend the earlier Cabinet minute.

Next steps in finalising the Cabinet paper

23 The next step is for the Office of the Minister of Transport to provide the Minister of Customs with this briefing and draft Cabinet paper. The draft Cabinet paper indicates that the Minister of Customs has been consulted, and she agrees to the paper. This is important as the petrol excise duty order is made under the Customs and Excise Act 2018, which is the responsibility of the Minister of Customs.

- 24 The next step for the Minister of Energy and Resources is to consult with fuel companies on the proposed extension to the petrol excise reduction monitoring arrangements.
- 25 All actions are set out in the table below.

Date	Your action
25 May 2022	Provide a copy of this briefing and draft Cabinet paper to the Minister of Customs
26 May – 30 May 2022 (5 days)	Begin Ministerial and caucus consultation on the draft Cabinet paper. The Office of the Minister of Transport may also wish to consult the Cabinet Office on the format of the recommendations to amend the earlier Cabinet minute
26 May – 30 May 2022 (5 days)	The Minister of Energy and Resources consults with fuel companies on the proposed extension to the petrol excise reduction monitoring arrangements
30 May 2022 (officials meeting)	Provide (if any) feedback to the Ministry of Transport and MBIE on the draft Cabinet paper
2 June 2022	Lodge the paper
7 June 2022	Present the paper to Cabinet (officials can provide talking points). If agreed by Cabinet, attend Executive Council.

- 26 The Minister of Transport will have to consider what, if any, further communication is to occur on the road user charges reductions. The Minister of Energy and Resources will have to consider what, if any, further communication is to occur on the petrol excise duty reductions. The extension of the fuel excise and road user charges reduction was announced as part of Budget 22, but there could be the opportunity to notify the making of the Orders and specific legislated end dates and, potentially, signal a pathway to full rates commencing. Officials can help prepare communications materials.
- 27 Officials from MBIE will inform fuel industry companies of an extension to the monitoring arrangements.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

