

[Security classification – In Confidence]

Office of the Minister of Finance

Office of the Minister for Energy and Resources

Office of the Minister of Transport

Office of the Minister of Customs

Cabinet

Taking action on fuel prices: reducing petrol excise duty and road user charges for three months and supporting the uptake of public transport

- 1 This paper proposes reductions to the rates of petrol excise duty and road user charges for three months and temporarily reducing public transport fares to alleviate household costs and support the uptake of public transport.

Relation to government priorities

- 2 The Government is committed to improving the well-being of New Zealanders, including by improving economic security. This includes sheltering households and businesses from external adverse events. This is especially important while New Zealand continues to respond and recover from the COVID-19 pandemic, which is also impacting households and businesses.

Executive Summary

- 3 Over the last few weeks, the price of petrol and diesel has increased substantially across the world. The recent surge in prices has been driven by international factors, specifically Russia's invasion of Ukraine (a modest oil producer) and subsequent sanctions and boycotts of Russia (a significant oil producer). Despite most refined oil in New Zealand coming from Asia (specifically Korea and Singapore), fuel prices in New Zealand have been impacted.
- 4 Higher fuel prices in recent weeks have put pressure on businesses and households, and it is likely this will continue over the next few months.

Reducing the rates of petrol excise duty and road user charges for three months

- 5 I am seeking agreement to reduce the rates of petrol excise duty and road user charges to assist households and businesses with the record increase in fuel prices seen at the pump in recent weeks. I am proposing the reduction last for three months.
- 6 Using our fuel excise tax system is the most efficient way of providing support in a timely manner, as it allows changes to be made almost immediately. Changing other

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aspects of the tax system generally requires several months to make system changes.

- 7 The paper sets out four reduction options (ranging from 10.5 cents to 25 cents), and equivalent reductions to road user charges. The cost ranges from \$150 million to \$350 million. I ask Cabinet to choose its preferred option.
- 8 It is proposed that the reduction to petrol excise duty will come into effect tonight. The reduction to road user charges will come into effect at a later date. The difference in time will not disadvantage road users as the 3-month duration will apply from the coming into force date.
- 9 Fuel excise duty and road user charges are essential sources of revenue for our land transport priorities. In consultation with the Minister of Finance, I seek a Crown grant to top up the National Land Transport Fund for any revenue shortfall over the three months. This is to ensure our transport agenda remains funded.

Temporarily reducing public transport fares

- 10 Alongside reductions in fuel excise duty and road user charges, I consider that it is necessary to provide direct financial support to public transport operators to encourage greater public transport usage during this period of high fuel prices. A failure to do so could risk the proposed approach to excise duty and road user charges reductions being viewed as inconsistent with the Government's broader policy work to address climate change and promote decarbonisation in the transport sector.
- 11 I am seeking Cabinet's agreement in principle to its preference on the fare reductions (half price or free fares) and the time period (three or six months), with associated fiscal implications, estimated as ranging from \$25 million - \$160 million. In practice, local authorities set public transport fares and will be reimbursed to compensate for lost fare revenue.

Introduction

- 12 Over the last few weeks, the price of petrol and diesel has increased substantially across the globe. The recent surge in prices has been driven by international factors, specifically Russia's invasion of Ukraine (a modest oil producer) and subsequent sanctions and boycotts of Russia (a significant oil producer). Despite most refined oil in New Zealand coming from Asia (specifically Korea and Singapore), fuel prices in New Zealand have been impacted.
- 13 The Dubai Fateh spot crude price has increased from around NZD \$114 to \$141 per barrel as at week ended Friday 4 March. That is around a 23 percent increase from the start of the year to March. Over the same time period, the main port price of diesel has gone from \$1.86 per litre to around \$2.28 (a 22 percent increase) and the main port price of petrol (namely 91) has gone from \$2.61 to \$3.03 per litre (a 15 percent increase). Many households and businesses across the country will be

paying more than those amounts, given in recent days prices have increased further.

- 14 The price of petrol and diesel impacts households and businesses. Oil remains the predominant source of fuel for many vehicles in New Zealand. This includes private motor vehicles, most of the public transport fleet (buses) and the freight sector. While the transport sector is particularly exposed to changes in the price of fuel, the cost of fuel and transportation costs are also significant inputs into the production process of many goods and services, meaning high fuel prices flow through the economy. Higher fuel prices in recent weeks have put pressure on businesses and households, and it is likely this will continue over the next few months.
- 15 The price of fuel has three main components.
- 15.1 The cost of the fuel itself, either crude or refined - this cost is set mainly on the international market.
- 15.2 Import costs – shipping, distribution and retail costs.
- 15.3 Taxes and levies – New Zealand, like most other countries, has taxes and levies on fuel, including to help fund our land transport system.
- 16 New Zealand’s taxes and levies on fuel are not exceptionally high when compared internationally. Work by the International Energy Agency shows that New Zealand is broadly in the middle of the pack in terms of taxes on fuel in proportion to the price. Despite this, given the price increases, many New Zealanders have been seeing very high prices at the pump in recent weeks, and I have considered what action the government can take immediately to assist.
- 17 While the prices have increased substantially, New Zealand’s access to the physical supply of petrol and diesel remains secure. New Zealand does not import refined fuels nor crude oil from Russia or Ukraine, with the vast majority of product coming from Singapore, South Korea and Japan. Fuel companies have advised that they have onshore holdings of fuel, with more arriving every two days. [REDACTED]
s 9(2)(f)(iv) [REDACTED]
[REDACTED]
- 18 We do need to recognise that petrol prices are expected to continue to rise. The Russian invasion of Ukraine is continuing to undermine and de-stabilise global energy markets and, added to the other inflationary pressures the world has due to COVID supply chain disruptions have, this is not over yet. That is why we will review the situation over the coming months. s 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]

I propose to temporarily reduce the rates of petrol excise duty and road user charges

- 19 Given the significant price rises, I have sought to re-consider the rates of petrol excise duty and road user charges. Reducing the rates of petrol excise duty and road

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user charges is a way the Government can take immediate action to alleviate some of the pressure on New Zealand households and businesses.

- 20 Reducing petrol excise duty is the quickest and most efficient way of using the tax system to address the impact on New Zealanders. It means we can take action within days, rather than the many months it typically takes to make changes to other aspects of the tax system, like GST.
- 21 It is important to note that any rate reduction is not intended to fully and completely offset the increases or the current high prices. It is a way the Government can take across-the-board action for households and businesses struggling with higher fuel prices. Importantly, reducing the rates would not mean that the cost of petrol and diesel does not continue to increase. The purpose of any reduction is to help offset further increases that occur in the market.
- 22 It is likely over the coming months there will be continued pressure on fuel prices. Officials will closely monitor the situation over the three months § 9(2)(f)(iv)
[REDACTED]
[REDACTED]
- 23 It is the Government's strong expectation reductions to petrol excise duty rates flow through to retail prices at the pump quickly. Officials understand that oil companies price petrol on its replacement value, so would expect a fall in retail prices soon after any rate reduction occurs relatively quickly. Transport officials will work with the Ministry of Business Innovation and Employment to explore ways to ensure the pass through to consumers occurs.
- 24 The Minister of Energy and Resources will write to the fuel companies today to set out her clear expectation that the full amount of tax reduction will be passed on to consumers at the pump. She will also ask fuel companies to provide detailed information to the Minister and Ministry of Business, Innovation and Employment setting out how the reduction in petrol excise is being passed on to consumers. The Minister will also consider making regulations under the Fuel Industry Act 2020 to ensure the reduction is not subsequently recouped through increased margins.

I recommend any rate reduction is temporary and has a fixed duration

- 25 I recommend rates be reduced temporarily for three months. I am recommending three months because changes in the price of petrol and diesel are notoriously difficult to accurately predict. A three-month reduction will assist households (many households may refuel once a week) and businesses (may refuel at least once a week). Three months will provide around 12 weeks of lower rates and some cost savings.
- 26 The three-month period will apply from the date when the reductions come into effect.

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I am asking Cabinet to consider four potential rate reduction options

- 27 I am asking Cabinet to consider a range of possible reductions to petrol excise duty (and equivalent reductions to road user charges) and for Cabinet to select its preferred option.
- 28 The table below sets out four options. The reductions range from 10.5 cents per litre to 25 cents per litre. The table shows each option's associated revenue impacts (reduced revenue to the National Land Transport Fund and to the Crown). The reduction in revenue ranges from \$150 million to over \$352 million over the three months. The revenue reduction figures are merely initial estimates. The actual amounts of lost revenue may be higher or lower, resulting from changes in travel (due to COVID, working from home, people isolating) and changes in purchasing behaviour.

Options	Level reduction (cents per litre)	Temporary rate of petrol excise duty (currently 70.024 cents per litre)	Crown cost ¹	Savings to road users / households / businesses (non-GST registered ²)	
			Reduced revenue to the National Land Transport Fund over 3 months	Potential savings on petrol excise duty on 40 litres	Potential savings on petrol excise duty on 60 litres
Option one	10.5	59.524	\$150 million	\$4.83	\$7.25
Option two	15	55.024	\$210 million	\$6.90	\$10.35
Option three	20	50.024	\$280 million	\$ 9.20	\$13.80
Option four	25	45.024	\$350 million	\$11.50	\$17.25

¹ Actual revenue losses may be greater as customers take advantage of a temporary decline in the rate and pre-purchase so the saving lasts beyond the three month period with a corresponding impact on the NLTF beyond that three month period.

² If someone is GST registered then they would not get 15% of this saving given they would have been able to claim the GST paid on their GST return. Savings also assume that full amount is passed on from fuel companies for FED.

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- 29 I suggest to Cabinet either option 2 or 3 should be preferred. This because that anything lower than what is set out in option 2 may not be enough to ensure any relief for consumers is meaningful given the likelihood that oil prices will continue to fluctuate.
- 30 The Minister of Finance will provide a Crown grant to the National Land Transport Fund could offset any reduced revenue. The Crown topping up the National Land Transport Fund would assure no reduction or cuts in planned transport expenditure over the three months.
- 31 As in the table above, the higher the reduction, the greater the cost to the National Land Transport Fund (and likely subsequently the Crown). But, the higher the reduction, the more relief to households and businesses.
- 32 Should Cabinet elect for an option at the higher end (for example, 20 or 25 cents) it will mean a more significant increase at the end of the 3-month period (to reinstate current rates). This could be difficult, especially if fuel prices continue to increase or be high. Fuel prices are volatile and difficult to predict. It is not known whether prices would have decreased or increased in three months. § 9(2)(f)(iv)

I am asking Cabinet to consider when any reduced rates should come into effect – the commencement date

- 33 Given the rapid increase in fuel prices, there is urgency to move quickly.
- 34 Reducing the rate of petrol excise duty is a more straightforward than reducing the rates of road user charges. For this reason, with the Minister of Customs, I seek authorisation to recommend the rate of petrol excise duty be reduced at the next meeting of Executive Council (this afternoon).
- 35 Reducing road user charges is more complex and may take longer for two reasons:
- 35.1 there are over 80 different vehicle types and over 100 rates of road user charges. Reduced rates will need to be calculated and transport officials will move as quickly as possible, it is not an instantaneous process.
- 35.2 section 85 of the Road User Charges Act states that any rate change only comes into force 42 working days (six weeks) after being notified in the *New Zealand Gazette*.
- 36 Due to the complexity and the extended mandatory notice period, rates of road user charges may not be reduced until mid or late May.
- 37 The time difference between rate changes will not mean road users with vehicles subject to road user charges would be disadvantaged. No disadvantage would result because the 3-month period will apply from when the order comes into effect. It will

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just mean that owners of petrol vehicles will receive rate reductions before owners of diesel vehicles (which includes all trucks over 3.5 tonnes).

- 38 I have been informed by officials the intent or purpose of section 85 of the Road User Charges Act was to prevent rate changes (namely rate increases) at short notice. The notice period was sought by industry to allow freight operators to factor rate changes into pricing decisions. It is unlikely the purpose or intention of the provision was to delay any reductions, so an amendment could be beneficial in aligning the provision with its intent; however, this does not need to be done as a matter of urgency. This perhaps could be considered in the review of the road user charges act currently out for public consultation.

Existing refund and surrender provisions will operate unchanged for pre-purchased road user charges

- 39 Road user charges are purchased in advance of travel in 1,000 multiples. Some, but not all, road users purchase many thousand of kilometres at a time, in part, to minimise the transaction fee.
- 40 The focus of the proposals in this paper is to reduce the rates of road user charges over three months. The proposals would mean those who purchase road user charges in this timeframe will pay less. The focus is not on providing refunds for prior purchases. Off road users will still be able to claim and all other existing refund and surrender provisions will remain unchanged.
- 41 I have considered whether to put in place additional arrangements for pre-purchased road user charges. I consider it would be too administratively difficult and costly. It would likely require substantial resourcing and potentially given existing operational constraints, require a new system and substantive legislative change, which will delay action.
- 42 Even if a new refund system and provisions were put in place, I suspect many road users may find the claim process (providing the necessary documentation, bank account details) a source of frustration. The Road User Charges Act also prescribes a minimum refund amount of \$20. It is possible many refund claims (particularly those for light vehicles) would not exceed this minimum.
- 43 Not putting in place extra refund entitlements will mean that some roads users, particularly those who have purchased large quantities of road user charges may not benefit from reduced rates. However, this could be considered analogous to a person who refuels their vehicle or buys a substantial quantity of petrol prior to the rate of petrol excise duty reducing. Such a person would similarly not be entitled to a refund of petrol excise duty if used in a vehicle.
- 44 Waka Kotahi has indicated the reduced rates may change behaviour that impact the National Land Transport Fund. Some road users may purchase increased distances to take advantage of reduced rates. This could cause a revenue lag beyond the three months. I acknowledge there is a risk some operators may purchase amounts of road user charges whilst rates are reduced. This can be prevented through the operation

of section 86 of the Road User Charges Act, which states a heavy licence is invalid one month after road user charges rates are increased. This means at the end of the 3-month period, when rates are increased, any bulk purchase amounts will become invalid within a month.

Reducing public transport fares

- 45 Alongside reductions in FED and RUC, I consider that it is necessary to provide direct financial support to public transport operators to encourage greater public transport usage during this period of high fuel prices. I consider that a failure to do so could risk the proposed approach to FED and RUC reductions being viewed as inconsistent with the Government’s broader policy work to address climate change and promote decarbonisation in the transport sector.
- 46 I propose a short-term reduction in public transport fares nationwide and I seek a decision from Cabinet as to its preferred option.
- 47 Cheaper public transport fares can directly reduce transport costs for households who are encouraged to substitute their current car travel for public transport that is readily accessible, and households who currently use public transport. Reducing public transport fares likely provides households with more money to manage rising living costs (eg, food prices), which will also be impacted by fuel prices.

Options to temporarily reduce public transport fares nationwide

- 48 I propose a short-term reduction in public transport fares nationwide and I seek a decision from Cabinet as to its preferred option, from the table below. This proposal would accompany the § 9(2)(f)(iv) for reduced fare revenue due to covid-19 that I am seeking through Budget 2022 (as discussed from paragraph 54 below) and would be administered via Waka Kotahi in a similar way.

Option	Description – reduced public transport fares	Fiscal cost
1	Half price fares, 3 month duration	\$25-\$40m
2	Half price, 6 month duration	\$50-\$80m
3	Free, 3 month duration	\$50-\$80m
4	Free, 6 month duration	\$110-\$160m

- 49 My preference is to implement half price fares for six months, possibly starting from 1 April 2022. Firstly, it has a lower fiscal cost than free fares, while still large enough to encourage greater public transport usage and offer real savings to households. Compared to three months, six months provides more time for mode-shift habits to be formed. Mode-shift is a critical component of achieving our emissions reduction goals³.

³ The draft Emissions Reduction Plan commits to reducing light vehicle kilometres travelled (VKT) by 20 percent by 2035.

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- 50 In practice, local authorities set public transport fares and will be reimbursed to compensate for lost fare revenue. We are unable to directly set fare reductions. But can significantly influence fares set through our decisions to reimburse local councils for reduced fare revenue.
- 51 The fiscal costs in the table above represent the cost to the Crown of reimbursing Waka Kotahi and local councils for the reduced fare revenue. It would not be reasonable to expect local councils or Waka Kotahi to absorb these costs themselves. If they are asked to absorb these costs, this risks our intended fare reductions not being provided by local authorities and will come at the cost of delays to other transport projects.
- 52 If Cabinet's preference is to offer free fares, we would need to undertake further work to understand the implications of free fares on the collection of patronage information. Patronage information is needed to plan and monitor services and in some cases, it is used to compensate local councils for the cost of running public transport services with less fare revenue (ie, as is the case with the SuperGold card).
- 53 Whichever option we decide, the funding is likely to be allocated 51% to Waka Kotahi and 49% to the Public Transport Authorities (PTAs). This reflects the way that additional costs will be split between Waka Kotahi and the PTAs because of reduced fare revenue. I expect Waka Kotahi will establish monitoring and oversight of the funding to ensure PTAs reduce fares and use the funding to compensate for the reduced fare revenue. Payments to PTAs would be administered by Waka on a quarterly basis to cover actual costs.
- 54 Agreeing to one of the four options to reduce public transport fares may require a delay to the Community Connect Auckland pilot, which is due to start in July 2022. The Community Connect pilot will offer a 50 percent concession on public transport for Community Services Card (CSC) holders in Auckland. All options presented in this paper offer public transport users, including CSC holders, a minimum of a 50 percent concession.
- 55 A decision to reduce public transport fares needs to be taken in the context of existing fare revenue shortfalls due to Covid-19. I am currently seeking § 9(2)(f)(iv) in Budget 2022 to partially compensate Waka Kotahi and local government for the increased costs they both face in providing public transport services, estimated at about \$92 million over 2021/22.⁴
- 56 Prior to Covid-19, annual fare revenue from public transport users was about \$300 - \$400m, which made up about one third of the cost of running public transport services. The remaining two thirds were split, broadly evenly, between Waka Kotahi, and local government. Patronage and fare revenue have declined significantly over recent months, while the cost of providing public transport services has increased. This has required greater levels of investment from Waka Kotahi and not, increasing

⁴ Where the \$92 million represents the foregone fare revenue less any reduced costs of running public transport services.

overall costs of running public transport services faced by Waka Kotahi and local councils.

- 57 By significantly supporting Waka Kotahi and local government with these increased costs, we are mitigating the risks of service cuts and reductions in other transport investments. These risks are real and are already being felt as councils reduce service levels in response. [REDACTED]
[REDACTED]
[REDACTED] A continuation of this could put at risk achieving our ambitions under our Road to Zero strategy and emissions reduction targets.

Links to longer-term policies to make public transport more readily accessible

- 58 Lower public transport fares only benefit households in areas where public transport is available, reliable, and frequent. There are many places in New Zealand where this is not the case. Evidence also suggests the quality of public transport is critical to uptake. This highlights the criticality of two budget bids I have submitted for consideration in Budget 2022 that aim to improve the frequency, reliability, and accessibility of public transport services:

58.1 *Delivering mode-shift and reducing VKT in New Zealand's main urban areas* - this bid seeks to stand-up a contestable process for prioritising investments and activities that target VKT reduction by prioritising non-car transport modes (such as walking, cycling and public transport) and making them safer and more convenient. § 9(2)(f)(iv)

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

58.2 *Building a sustainable skilled workforce to support upscaling of bus networks* – this bid would fund an uplift in bus driver wages and conditions to stabilise the public transport workforce. It aims to address immediate bus driver shortages and enable bus operators to recruit and retain sufficient drivers to deliver the services currently contracted.

Financial Implications

- 59 Reducing the rates of petrol excise duty and road user charges for three months will mean less revenue from road users in the National Land Transport Fund. We provided a \$2 billion loan to Waka Kotahi in 2021 as it was already experiencing issues with delivering on Government priorities within the existing revenue settings. Any further reductions will necessitate reductions in investment, counteracting our previous decision to provide a \$2 billion loan.
- 60 Given this, I seek Cabinet's agreement to reimburse the National Land Transport Fund for all shortfall in revenue arising from the FED/RUC reductions, by establishing

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a tagged operating contingency. This revenue reduction is expected to be in the vicinity of \$281 million; however, this is based on modelling and the actual reduction will be dependent on the level of behaviour change experienced as a result of the policy.

- 61 A policy decision to temporarily reduce FED and RUC may have small consequential impacts on GST revenue, which would be included in the tax forecasts in the Budget Economic and Fiscal Update.

Legislative Implications

- 62 Rates of petrol excise duty can be changed by Order in Council under Schedule 3, clause 20 of the Customs and Excise Act 2018. Subject to Cabinet's authorisation, with the Minister of Customs, I seek authorisation without further reference to Cabinet (or any Cabinet Committee) to submit an Order in Council (the Order) to the Executive Council to make the change to excise duty rates for petrol (motor spirits) without further reference to Cabinet (or any Cabinet Committee).
- 63 I also seek authorisation to make amendments (the Regulations) to the rate of refund of petrol excise duty in the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 without further reference to Cabinet (or any Cabinet Committee).
- 64 Rates of road user charges can also be amended by Order in Council under Road User Charges (Rates) Regulations 2015. Once the amended regulations have been prepared, I see authorisation to amend the rates of road user charges in the Road User Charges (Rates) Regulations 2015. I propose to bring the proposed amendment regulations back to Cabinet, to seek authorisation to submit to Executive Council.

Timing and 28-day rule

- 65 The timing of the reduced rates for petrol excise duty will come into effect as soon as possible, at 23.59 tonight.
- 66 I seek a waiver of the 28-day rule on the basis that the Order and amendment regulations confers only benefits on the public and that early commencement of the Regulations is necessary to avoid unfair commercial advantage being taken, or the purpose of the regulations being defeated.

Compliance

- 67 The proposed regulations comply with each of the following:
- 67.1 the principles of the Treaty of Waitangi
 - 67.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993
 - 67.3 the principles and guidelines set out in the Privacy Act 1993

67.4 relevant international standards and obligations

67.5 Legislation Guidelines (2018 edition).

Regulations Review Committee

68 There are no grounds for the Regulations Review Committee to draw either of the Regulations to the attention of the House of Representatives under Standing Order 319.

Certification

69 The Ministry of Transport's Chief Legal Adviser will certify the Order in Council reducing petrol excise duties under the Customs and Excise Act as being in order for submission to Executive Council.

70 Parliamentary Counsel Office will certify the regulations amending the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 as being in order for submission to Executive Council.

71 I have consulted with the Minister of Customs and she agrees to the presentation of this paper.

Impact Analysis

Regulatory Impact Statement

72 Cabinet's impact analysis requirements apply to the proposals in this paper to reduce excise duty and road user charges and to support the uptake of public transport. However, there is no accompanying Regulatory Impact Statement, and the Treasury has not exempted the proposal from the impact analysis requirements. Therefore, it does not meet Cabinet's requirements for regulatory proposals.

73 On behalf of respective Ministers, the Treasury's Regulatory Impact Analysis team and the Ministry of Transport have agreed that post-implementation assessment will be developed and provided to Cabinet in due course.

Climate Implications of Policy Assessment

74 Officials are in discussions with the Ministry for the Environment on the potential application of the Climate Implications of Policy Assessment (CIPA) as to the emissions significance of this proposal.

75 It is important to note that the purpose of both petrol excise duty and road user charges is to raise revenue for our land transport system and not explicitly to reduce emissions. Reducing the rates could reduce vehicle operating costs (if further fuel price increases do not occur) so that emissions could be impacted. However,

transport demand is relatively inelastic, and given the short duration of the reduction in rates, the emissions impact appears unclear.

- 76 In the event that officials do consider a CIPA is required, I will, consistent with Cabinet Office Circular (20)(3), further report to Cabinet on the CIPA.

Population Implications

- 77 There are no significant population-specific implications of this proposal. Officials advise lower-income households have less discretionary income than higher-income households. This means high fuel prices likely disproportionately impact lower-income families, so taking steps to reduce costs could assist low-income New Zealanders.

Human Rights

- 78 No human rights implications arise from this paper.

Consultation

- 79 Consultation has occurred with the Treasury, New Zealand Customs Service, Ministry of Business, Innovation and Employment and the Ministry of Foreign Affairs and Trade. Waka Kotahi has also been informed.

- 80 The Ministry of Foreign Affairs and Trade were consulted on this paper.

Communications

- 81 The Minister of Transport will announce the proposal in due course. The New Zealand Customs Service will also issue advisements to excise duty payers of the rate changes.

Proactive Release

- 82 I intend to proactively release this paper subject to any appropriate redactions under the Official Information Act 1982.

Recommendations

The Ministers of Finance, Energy and Resources, Transport (responsible for road user charges and overall transport policy matters) and Customs (responsible for excise matters) recommends that Cabinet:

- 1 **note** that there have been significant increases in the price of petrol and diesel over the past weeks due to international factors (namely, Russia's invasion in Ukraine)
- 2 **agree** that the rates of petrol excise duty and road user charges be reduced for a period of three months
- 3 **agree to:**

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EITHER

3.1 10.5 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option one]

OR

3.2 15 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option two]

OR

3.3 20 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option three]

OR

3.4 25 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option four]

4 **agree** that rate reductions should come into effect as soon as possible for petrol excise duty and at a later date for road user charges given the 42-day notice period for changes to the road user charges rates

5 **agree** for the Minister of Transport and the Minister of Customs to suspend and reduce the rates of petrol excise duty by Order in Council under Schedule 3, clause 20 of the Customs and Excise Act 2018

6 **authorise** the Minister of Transport and the Minister of Customs to recommend to the Governor General an Order in Council to suspend and reduce the rates of petrol excise duty at the next meeting of Executive Council

7 **authorise** the Minister of Transport and Minister of Customs, in consultation with the Minister of Finance, to make final decisions on details that arise without reference to Cabinet

8 **authorise** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to make changes to the rate of petrol excise duty refund in the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Regulations 2004 through amendment regulations and for these amendment regulations to be considered at the next meeting of Executive Council

9 **agree** to waive the 28-day rule for the Order in Council and the Land Transport Management (Apportionment and Refund of Excise Duty and Excise-Equivalent Duty) Amendment Regulations on the ground that the Order confers only benefits and early commencement of the Regulations are necessary to avoid unfair commercial advantage being taken, or the purpose of the regulations being defeated

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- 10 **authorise** the Minister of Transport to issue drafting instructions to the Parliamentary Counsel Office to give effect to the decisions relating to reducing road user charges as outlined in this paper by way of an amendment to the Road User Charges (Rates) Regulations 2015, with the Minister of Transport being authorised to clarify and develop minor and technical policy decisions in a way not inconsistent with the proposals in this paper, and that these amendment regulations are considered Cabinet before being authorised to submit to Executive Council.
- 11 **note** that recommendation 3 will result in an indicative reduction in forecast revenue to the National Land Transport Fund of up to \$281 million which, if not replaced, will likely necessitate a reduction in the level of transport investment
- 12 **agree** to top-up the National Land Transport Fund to account for the anticipated shortfall in revenue as a result of recommendations 3 and 5, subject to further work being completed on the decrease in revenue and financial recommendations being drafted, by an indicative amount of up to
- 12.1 \$150 million for 10.5 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option one]
- 12.2 \$210 million for 15 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option two]
- 12.3 \$280 million for 120 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option three]
- 12.4 \$350 million for 25 cent per litre reduction to the rate of petrol excise duty (and an equivalent reduction to road user charges) [Option four]
- 13 **agree** to establish a tagged operating contingency associated with the Vote Transport portfolio of up to the following amounts to provide for the decision in recommendation 13

	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
NLTF Crown Funding for Temporary Decrease in Petrol Excise Duty and Road User Charges – Tagged Operating Contingency	EITHER 148.000 OR 211.000 OR 281.000 OR 352.000				

- 14 **agree** that the expiry date for the tagged operating contingency in recommendation 14 above will be 1 February 2023.

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- 15 **authorise** the Minister of Transport and the Minister of Finance jointly to draw down the tagged operating contingency funding in recommendation 14 above (establishing any new appropriations or changing the scope of existing appropriations as necessary), subject to their satisfaction with the outcome of the further work described in recommendation 13 above
- 16 **agree** that the tagged operating contingency in recommendation 14 above be managed outside allowances with a corresponding negative impact on the fiscal position
- 17 **agree** to reduce the size of the COVID-19 Response and Recovery Fund by the amount of the tagged contingency established in recommendation 14 above to offset the negative fiscal impact of this tagged contingency
- 18 **note** that Cabinet recently agreed to return over \$1 billion in underspends from Managed Isolation and Quarantine to the COVID-19 Response and Recovery Fund [SWC-22-MIN-0032 refers], meaning the net impact on the COVID-19 Response and Recovery Fund of recommendations 17 and 18 above is positive
- 19 **note** that the policy decisions in recommendations 3, 4 and 5 above may have small consequential impacts on GST revenue, which would be included in the tax forecasts in the Budget Economic and Fiscal Update
- 20 **agree** in principle to:
- EITHER
- 20.1 reimburse Waka Kotahi and local councils to enable public transport fare reductions of 50 percent for three months [Option one]
- OR
- 20.2 reimburse Waka Kotahi and local councils to enable public transport fare reductions of 50 percent for six months [Option two]
- OR
- 20.3 reimburse Waka Kotahi and local councils to enable public transport fare reductions of 100 percent for three months [Option three]
- OR
- 20.4 reimburse Waka Kotahi and local councils to enable full public transport fare reductions of 100 percent for six months [Option four]
- 21 **note** that the date of any proposed fare reduction will be confirmed at a later date in accordance with recommendation 25 below
- 22 **note** that the in-principle policy decision in recommendation X above would result in an indicative cost to the Crown in the order of:

IN CONFIDENCE

- 22.1 \$25 - 40 million for a 50% fare reduction for three months [Option 1]
- 22.2 \$50 - \$80 million for a 50% fare reduction for six months [Option 2]
- 22.3 \$50 to \$80 million for a 100% fare reduction for three months [Option 3]
- 22.4 \$110 to \$160 million for a 100% fare reduction for six months [Option 4]
- 23 **note** that detailed costings and implementation timing and mechanisms needed to implement any fare reductions need to be worked through
- 24 **agree** in principle to Crown funding to cover the full cost of the revenue shortfall resulting from the in-principle policy decision in recommendation 20
- 25 **agree** in principle to fund the cost of the in-principle policy decisions in recommendations 20 and 23 as a pre-commitment against [Budget 22 operating allowances / the Climate Emergency Response Fund established as part of Budget 22]
- 26 **note** that Cabinet Office Circular (20)(3) requires a Climate Implications of Policy Assessment to have been conducted where the impact on GHG emissions is likely to be equal or above 0.5 million tonnes carbon dioxide equivalent (CO₂e) within the first ten years of the proposal period (representing an annual average of 50,000 tonnes)
- 27 **note** that officials are still working with the Ministry for the Environment to determine whether the CIPA applies to this proposal
- 28 **note** that, as Cabinet Office Circular (20)(3) anticipates where a CIPA is not available for a Cabinet decision, I will, if a CIPA is needed, further report to Cabinet on the CIPA.

Authorised for lodgement

Hon Grant Robertson

Minister of Finance

Hon Megan Woods

Minister of Energy and Resources

Hon Michael Wood

Minister of Transport

Hon Meka Whaitiri

Minister of Customs