Proactive Release

Consider for release with redactions.

MIN-4056 Bitumen review outcome

20 January 2023

Providing the Minister of Transport with an update on the bitumen strategic review outcome ahead of a public announcement planned in February 2023.

Waka Kotahi NZ Transport Agency's response:

Waka Kotahi NZ Transport Agency has now completed a strategic review of the bitumen supply chain. It has accepted assurances that the bitumen supply chain is and will continue to operate competitively, including the potential for new market players to begin importing.

Background

- Bitumen is an essential, strategic commodity for Waka Kotahi and other road authorities, who together account for over 90 percent of all bitumen that is used in New Zealand.
- Prior to the cessation of the domestic onshore manufacturing at Marsden Point, bitumen has been sourced both from domestic and imported sources and subject to a robust quality monitoring framework.
- Following the cessation Marsden Point and the announcement in 2022 that current majority importer Z Energy is exiting the import market on 30 June 2023, Waka Kotahi undertook a strategic review of the bitumen supply chain.
- This included releasing an RFI (Request for Information) to the market, the development of an initial report that recommended Waka Kotahi takes a more active role, a commercial in confidence market engagement that sought to gain further knowledge about current and future market conditions and look at a range of different potential import options, and further engagement with the industry on the evolving future supply chain.

The outcome

- The review has provided Waka Kotahi with sufficient comfort, including through observation of the market and direct reassurances from industry, that the four outcomes Waka Kotahi requires from a future bitumen supply chain will be met.
- Specifically, Waka Kotahi requires the supply chain to provide security of supply of bitumen for Waka Kotahi and Councils, reliable and consistent quality of supply, efficient supply and pricing, and fair access to bitumen for all users.
- Waka Kotahi is not aware of any quality issues with imported products. The switch to the 100 percent import model in 2021 has been smooth.

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- The operation of imports to date has given confidence in the security of supply of bitumen under the new full import market model. Waka Kotahi is also confident in the ability to monitor quality and trace it through the supply chain, given the mandatory quality standard Waka Kotahi has in place.

- The review also heard assurances from the bitumen supply chain that an open market model will continue to provide competitive pricing and fair access to product held in storage tanks here in New Zealand by the importers. This is supported by observations of the supply chain and related markets since the switch to the import model.

- On this basis, Waka Kotahi will continue to source bitumen indirectly from its suppliers, via its contracts for roading.

- To ensure that the outcomes Waka Kotahi and its council partners require from the market are delivered, Waka Kotahi will continue to monitor and review how the supply chain is operating. This will be ongoing with a review point within three years.

- Waka Kotahi will also increase its current activities of sampling and auditing the quality of product at the storage tank gates.

- Waka Kotahi will also shift to an updated index-based Price Adjustment Mechanism (PAM) to manage volatility in bitumen pricing within its contracts, and to assist in verifying and checking variations in pricing on product purchased for use on New Zealand roads and state highways. The index mechanism will be based on an international benchmark bitumen index.

- The new PAM needs to be developed because the current contract price adjustment mechanism is based on the Z Energy list price, which will no longer be applicable once Z Energy exits the market.

- The new PAM will replace the existing mechanism currently used in contracts. It will be developed through consultation with industry over the next few months with the aim of transitioning to it before Z Energy exits the market mid-year.

- Waka Kotahi will lead the development of the new PAM and make it available to all other Road Controlling Authorities (RCAs) and bitumen users. This reflects the Waka Kotahi leadership position as the largest bitumen end-user in the country.

Next steps

- Waka Kotahi is updating all of the key players in the supply chain and partners in central and local government over the next few weeks, ahead of publicly confirming the outcome of the review (anticipated in February 2023).

- Waka Kotahi will then undertake a targeted consultation with industry to contribute to Waka Kotahi finalising the details of its new PAM and how it will be applied to contracts .

- This leadership role of making the PAM available for RCAs to use on their own contracts aligns with our procurement framework and standards leadership role for the sector.

- Bitumen tanks around New Zealand continue to be well stocked and quality bitumen is readily available to work sites around the country. The needs of the current summer roadworks season, which includes the largest ever programme of renewals on the state highway network, are expected to be met.

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