

Bitumen Supply Chain Solution

Commercially sensitive

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Purpose

This paper sets out details of:

- Analysis of the existing bitumen supply chain that has developed in New Zealand and has met Waka Kotahi bitumen needs in the past but is believed to have now led to a high on-road cost of bitumen with large profits being made by suppliers
- The risk that, following the cessation of domestic manufacture of bitumen at Marsden Point oil refinery, the bitumen supply chain will evolve against the strategic interests of Waka Kotahi
- The resulting implications for Waka Kotahi as the ultimate end-customer and funder of the majority of bitumen used in New Zealand
- The proposed Waka Kotahi solution to protect equitable access to bitumen, sustainable and healthy markets, and long-term value for money for end-customers of bitumen in New Zealand

Recommendations

It is recommended the Board:

- **Notes** the analysis of the bitumen market and the development of various options for Waka Kotahi to mitigate risks to equitable bitumen access and price efficiency

section 9(2)(i)

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Strategic relevance

1. Road construction and maintenance activities cannot happen without bitumen and it is therefore a strategic commodity for Waka Kotahi and other road authorities.

section 9(2)(i)

Background

4. In December 2020 a paper was presented to the Waka Kotahi Investment & Delivery Committee informing of the sudden and imminent cessation of bitumen production at the Marsden Point oil refinery by Refining NZ as part of its plan to cut costs and of the intent of Waka Kotahi management to investigate the impacts for Waka Kotahi. In January 2021, bitumen production at Marsden Point ceased and all bitumen is now imported.
5. Z Energy has historically dominated supply via Marsden Point and currently imports and supplies approximately 84% (~160 kilotonnes per annum) of New Zealand's bitumen usage. Domestic storage is held at 10 port-located tanks nationally, which are almost entirely¹ owned by three Waka Kotahi roading contractors: Downer,² Fulton Hogan,³ and Higgins⁴ (together, the **Tank Owners**).
6. Z Energy has a number of Bitumen Supply Agreements (**BSAs**) in place with the Tank Owners and operates a consignment model enforced through these BSAs. Contractors

section 9(2)(b)(ii)

purchasing bitumen contract with Z Energy for the supply of bitumen and pay Tank Owners a throughput fee for access to the tanks.

section 9(2)(i)

10. Waka Kotahi operates a price adjustment mechanism whereby construction and maintenance contract pricing is adjusted for movements in the Waka Kotahi bitumen index, which is based on the List Price that Z Energy determines.

section 9(2)(i)

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