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(Piper, D., 2022)

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Why is Marsden Point oil refinery closing and should we care?

Denise Piper · 05:00, Apr 24 2022

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A protest organiser, Brad Flutey, talks to Stuff reporter Denise Piper about the Dig In At Marsden protest (video first published in April)



Zealand's only oil refinery is being decommissioned. Will it affect us at the turn? Denise Piper investigates.

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The significance of oil to our economy has seen protesters line up outside Northland's Marsden Point oil refinery, hoping to stop its decommissioning, for the sake of securing fuel supply.



VIV TROUNSON/STUFF

The Marsden Point refinery has been refining oil in Whangārei for 58 years. (File photo)

P But Labour MPs and the refining company argue fuel supply has always relied on imports, and closing the refinery will not make New Zealand any more vulnerable than it always has been.

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The company – now called Channel Infrastructure but still partly owned by oil companies BP, Mobil and Z Energy – has stopped refining after a strategic review.

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On March 8, the refinery took its last shipment of crude oil from the ship Torm Ingeborg, and the site changed to an import fuel terminal.

Will New Zealand's fuel security be at risk?

Dig In At Marsden protesters say the refinery should be secured for energy independence.

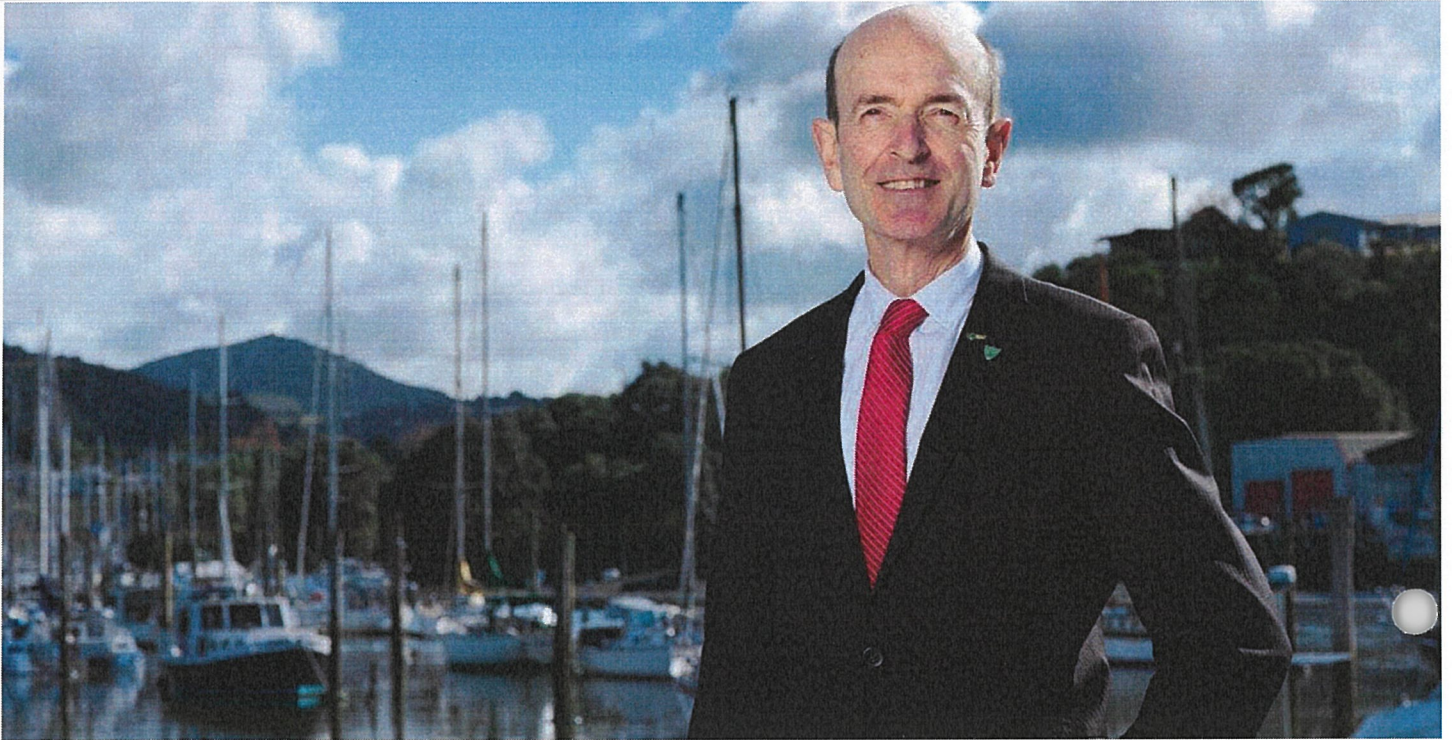
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The country should not rely on international refineries, which can come under geopolitical unrest, said organiser, Brad Flutey.

That is a message touted by Whangārei-based Social Credit leader Chris Leitch.

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Social Credit leader Chris Leitch says the refinery should be considered a nationally strategic asset. (File photo)

Leitch, backed by a petition of 18,000 signatures, argues the Government should declare the refinery a nationally strategic asset, and buy it off shareholders.

Should the unthinkable happen and fuel imports stop, the country could at least refine oil extracted from Maui to run emergency services, he argues.

But that is not reality, according to Energy and Resources Minister Dr Megan Woods, because the refinery has never been configured to refine Maui's oil, which is lighter and sweeter than imported crude.

"There is no fuel security issue with the move to a full import model and so there is no case to be made to declare the refinery a nationally strategic asset.

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ROBYN EDIE/STUFF

Minister of Energy and Resources Dr Megan Woods says New Zealand has always relied on imports, and can now get refined fuel from multiple places. (File photo)

“New Zealand’s fuel supply has always been reliant on imports ... the difference now is that we no longer import crude oil, and 100% of our refined fuel products come from overseas,” Woods says.

The company never asked for government intervention to keep its refinery going, and sourcing fuel from multiple refineries around the world can minimise risk, she said.

“Independent expert advice confirms that a 100% fuel import model is more resilient to many disruption scenarios than having a domestic refinery because it removes the ‘single point of failure risk’ associated with refining.”

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The refinery’s vulnerability was highlighted in November 2019 when a **massive power cut hit Northland**, causing the refinery to go into a safe-shutdown mode, shown by flaring at the site.

The cause of the power cut was **found to be bird droppings** on a high-voltage tower.



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The refinery at Marsden Point only went ahead and expanded with Government backing, including taking over a \$1.25b loan. (File photo)

Protesters argue the Russian invasion of Ukraine shows how geopolitical tensions can increase vulnerability of fuel supply.

The invasion, and [subsequent sanctions on Russia](#), sent global crude oil prices skywards, pushing New Zealand petrol above \$3 a litre, prompting the Government to [cut fuel taxes by 25c](#).

The International Energy Agency, which has 31 member countries including New Zealand, responded by releasing oil reserves onto the market.

New Zealand released some of its [oil reserves in March](#) and [earlier this month](#) from reserves it holds overseas.

Labour's Whangārei MP Dr Emily Henderson says the Government reassessed the country's fuel security in light of the crisis, and found there were [no concerns about fuel running out](#).

The release of stocks, and a [near return to pre-invasion prices](#), shows just how the system is designed to work, she says.

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CHRIS SKELTON/STUFF

Gull general manager, Dave Bodger, says the move to importing refined fuel will be good for New Zealand. (File photo)

Petrol prices rose at the same time the refinery took its last shipment, but the two are really just coincidental, with the price rise linked to the [international price of crude](#).

The move to importing refined fuel has the backing of [competitor Gull](#), which has been importing refined fuel since it entered the New Zealand market in 1998.

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Importing, rather than refining fuel, is a much easier way of running the business, says general manager Dave Bodger.

There are 20 to 30 large, modern refineries in the Asia/Pacific region, he says, and there will be numerous ships en route at any one time.

Another competitor, Nelson-based NPD, even say the refinery closure could [make petrol prices cheaper](#) by making the market more competitive.



The refinery is situated at the entrance to Whangārei Harbour, amongst sandy beaches and with a backdrop of Whangārei Heads (behind). (File photo)

The closure opened a small window of hope for local hapū Patuharakeke, backed by Ngātiwai, to [regain ownership of the land](#).

Known as Poupouwhenua, the land at Marsden Point was illegally confiscated and occupied by the Crown before becoming the refinery, says Patuharakeke Te Iwi Trust Board chairperson Deborah Harding.

“We have mixed feelings about the refinery closing. It has polluted our cultural landscape and harbour for over 60 years.”

While Patuharakeke is concerned about the loss of jobs and the impact on the regional economy, Harding says the hapū is talking with Channel Infrastructure about the land’s future.

“Fossil fuels were never going to be a sustainable source of energy for future generations, we have to start thinking of those other ones.”

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Whangārei Labour MP Dr Emily Henderson says there should have been a focus on what to do with the refinery 10 years ago.

That sentiment is shared by Emily Henderson – the only MP on a transition group for the refinery’s workers.

With record high unemployment and [high demand for skilled workers](#), the closure is not likely to mean mass unemployment issues in Northland, she says.

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“What I’m interested in is how we set up alternative energy projects here that accelerates and maintains the high-value jobs that the refinery has been able to create.”

What are the future options?

Woods is candid when asked about the future of the refinery, and if it could be used to create the likes of biofuels or green hydrogen.

“To date, there are still many unanswered questions as regards to whether existing refinery assets could be repurposed for producing sustainable fuels, at what cost, and in what timeframe.”

critical.

The company planned to build a \$37m solar farm in 2019 to supplement its electricity, but the project was put on hold due to Covid-19 and is now listed as “an opportunity” in the company’s sustainability report.



One Hot Minute

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Biofuels – made from the likes of corn starch – is another option. The Government is [introducing a biofuels mandate](#) which will require a percentage of biofuels to be added to petrol and diesel.

But the company does not have a good source of feedstock nearby and is unable to send fuels blended with first-generation biofuels down its pipeline to Wiri.

It favours second-generation or advanced biofuels, made from agricultural residue, wood chips and food crop waste.

Channel Infrastructure has, however, agreed to work with green energy company Fortescue Future Industries to investigate production, storage and distribution of industrial-scale green hydrogen.

The study results are expected later this year.

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Why does New Zealand have a refinery?

Historically, [New Zealand imported refined fuel](#), but in 1957 the National Government said the country should have its own refinery to save foreign currency, encourage industry development and gain security of a basic resource.

BP and Shell were invited to build it, but the international companies, focused on building plants destroyed in World War II, decided the market was too small and

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In 1961, Shell, BP, Cairtex, Europa, and Mobil were encouraged to build a refinery as a joint venture and were allocated 69% of the shares of the New Zealand Refining Company.

The Marsden Point site, at the entrance to Whangārei Harbour, was chosen because of its deep water access and large area of flat land, which was stable and not prone to earthquakes.

The refinery started production in April 1964, but had initial limitations.

To meet demand for lighter products like petrol, the imported crude oil had to be spiked with an expensive, partly refined imported fuel called naphtha.

Demand grew faster than expected, and the refinery was unable to meet it within just a few years.



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The refinery had to consider its operations in the context of larger, more efficient refineries in Asia and New Zealand's demand for fuel set to drop from 2027. (File photo)

In 1975, the Government approved an expansion which would remove the need for naphtha and would include a 170km pipeline to Auckland's Wiri.

But the oil companies did not support the project because they had surplus demand elsewhere, and were unable to finance the expansion.

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supply.

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As part of Robert Muldoon's **Think Big** era, the expansion was pushed ahead in 1980, with a Government guarantee to service a loan through petrol tax.

The project was dogged by serious labour disputes which caused delays, raised costs and threatened petrol supplies, leading the Government to pass strict, site-specific labour rules.

The project was finally completed in 1986, a year late and 20% over budget. The final cost, including the pipeline and tank farm at Wiri, was \$1.85 billion – the equivalent of \$9.4 billion **today**.

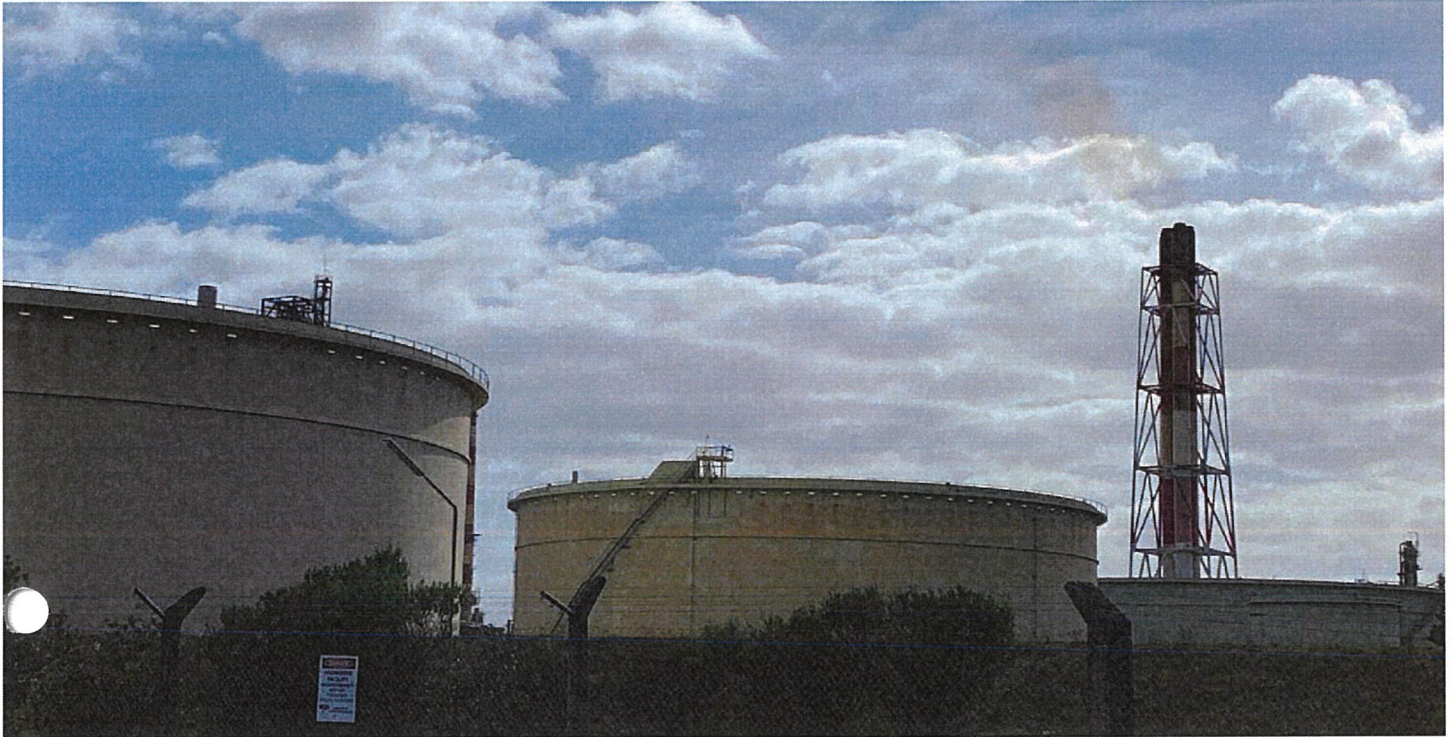
How did the refinery end up in private hands?

The refinery was always run by a stock exchange-listed private company, but the market was heavily regulated by the Government which set petrol prices and refining margins, and limited both who could import fuel and who could run service stations.

In 1984, Muldoon's National party was replaced by David Lange's Labour party, which favoured deregulation.

Meanwhile, oil prices began to fall, making the expansion less worthwhile.

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DENISE PIPER/STUFF

The decommissioning process involves removing some of the refinery's large stacks but the storage tanks could be repurposed to store refined fuel. (File photo)

Between 1984 and 1987, both officials and the refining company feared the refinery would not be competitive and closure would have a big impact on Northland's unemployment.

In 1988, the Government deregulated the market with the Petroleum Sector Reform Act.

To sweeten the deal, it paid the refinery \$85 million over three years, as well as taking over the \$US1.25 billion loan for the refinery expansion.

The refinery was able to hold its own against imports for several decades and funded several major upgrades, including some which made the refinery more efficient and reduced carbon emissions.

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Q In 2019, the refinery produced about **70% of the country's fuel needs** – including all of its refined aviation fuel – plus bitumen for roads, recovered sulphur for fertiliser and recovered carbon dioxide for the beverage industry.

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P New Zealand Refining was hit by historically low refining margins, and the business was heavily impacted by Covid-19 – both from local lockdowns stopping Kiwis driving around and flights being heavily restricted.

The company responded with a **restructure, or simplification**, which cut 100 of the refinery's 500 jobs, reduced its output and stopped the production of bitumen.

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But it only managed to break even by relying on a **minimum payment subsidy** from its customers BP, Mobil and Z Energy, which cost them \$115m from January 2020 to the end of April 2021.

Covid-19 started the ball rolling for a strategic review of the refinery – which struggled to be competitive against newer, much larger refineries in Asia, which have economies of scale and access to cheaper electricity and gas.

The company also considered New Zealand's future fuel demand, which is expected to peak in 2027 as customers move to the likes of electric cars.

On August 6, 2021, **Refining NZ shareholders voted** to stop refining and for Marsden Point to become an import terminal, with the **loss of 240 jobs and 160 contractors**.

In March, Marsden Point took its last crude oil shipment and on April 1 the company changed its name to Channel Infrastructure.

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