MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Shane Jones	**Portfolio**	Resources
Title of Cabinet paper	Potential for Crown cornerstone stake in new gas field developments to mitigate sovereign risk	**Date to be published**	By 1 July 2025

List of documents that have been proactively released		
Date	**Title**	**Author**
12 May 2025	Potential for Crown cornerstone stake in new gas field developments to mitigate sovereign risk	Office of Minister for Resources
19 May 2025	Potential for Crown cornerstone stake in new gas field developments to mitigate sovereign risk CAB-25-MIN-0161.01 Minute	Cabinet Office
27 March 2025	BRIEFING-REQ- 0012016 Budget initiatives to increase gas security of supply	Ministry of Business, Innovation and Employment
8 May 2025	BRIEFING-REQ-0012880 Cabinet Paper: Addressing sovereign risk as a barrier to investment in new gas fields	Ministry of Business, Innovation and Employment
19 May 2025	BRIEFING-REQ-0014169 Meeting to discuss Budget 2025 gas supply initiatives	Ministry of Business, Innovation and Employment

Information redacted **Yes**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of international relations, free and frank opinions, legal professional privilege, and commercial information.

Budget Sensitive

Office of the Minister for Resources

Cabinet Economic Policy Committee

Potential for Crown cornerstone stake in new gas field developments to mitigate sovereign risk

Proposal

1. This paper seeks Cabinet's:

   1.1. Agreement in principle to the Government taking a cornerstone investment in new gas field developments of up to 10 to 15 per cent, with the specific aim of addressing sovereign risk and accelerating investment in new gas production.

   1.2. Agreement to state publicly on Budget Day that the Government has set aside a tagged contingency of $200 million to co-invest in new gas fields to mitigate sovereign risk and will be working through the details on how it might structure any such investments.

   1.3. Agreement to announce indicative parameters for any Crown investment, noting that these are subject to Cabinet consideration of a Business Case.

Relation to Government priorities

2. A secure and affordable supply of energy is critical to economic stability and the Government's Going for Growth agenda.

Executive summary

3. New Zealand has an energy shortage which is putting the affordability and security of gas and electricity at serious risk. Our domestic gas supply is not adequate to meet demand, and reserves are falling faster than anticipated. In 2024, gas shortages and low hydro inflows left the electricity system short of energy, leading to high prices and deindustrialisation. The reality in 2025 is that we are having to rely on imported coal, not domestic gas, to manage our dry year risk.

4. There are two primary contributing factors to our gas shortage: a significant negative perception of the risk of investing in the New Zealand petroleum sector, and poor drilling results in our aging gas fields. The previous Government's ban on new petroleum exploration beyond onshore Taranaki undermined confidence in New Zealand's stable policy settings for international investors.

5. We must now act decisively to turn the tide so that we do not prolong or perpetuate the problems. This requires taking bold steps to improve investor confidence and addressing perceptions of sovereign risk if we want to support secure and affordable energy supply.

6. Addressing perceptions of sovereign risk will help attract investment to discover and develop new fields to support an ongoing supply of gas to meet demand. This will require offshore investors.

7. Cabinet has agreed to create tagged operating and capital contingencies of up to $200 million (combined) over four years as part of the Budget 2025 package. Access to these contingencies is subject to developing an Indicative Business Case under the Better Business Case framework. I intend to return to Cabinet with an Indicative Business Case later this year.

8. However, it is important for the Government to be visibly and actively building confidence for investors in new gas fields while we undertake the Business Case. Confidence in the ability to deliver reliable and affordable energy underpins how New Zealand is seen as a place to invest and do business.

9. I plan on raising the visibility of New Zealand to investors. I intend to announce that the Government has set aside a tagged contingency of $200 million to co-invest in new gas fields and will be working through the details on how it might structure any such investments. I will be clear that this is a contingent amount and will require approval of any specific investments. I intend to state that the Government invites early market engagement on the proposal, but that any investment decisions will not be made until the completion of both the Business Case and a procurement process that meets government rules and standards.

10. Being able to state publicly that the Government has set aside funds to use as a cornerstone investor will raise New Zealand's profile and investor confidence. It sits alongside other initiatives the Government has for energy security and shows we are serious about the need for secure and affordable energy sources.

Background

Sovereign risk is creating a barrier to investment in new gas fields

11. "Sovereign risk" in this context is the risk that the Government may unexpectedly change significant aspects of policy or investment settings, particularly those affecting the legal rights or interests of investors.

12. The policies of the previous Government, including the ban on new oil and gas exploration, the 100 per cent renewable electricity target and the Lake Onslow project, have done two things:

    12.1. Reduced the incentive to explore for new oil and gas fields.

    12.2. Created a perception that investment in the New Zealand petroleum sector is risky.

13. The policies have created a significant barrier to investment which in turn is reducing our energy security. This barrier needs addressing because a lack of gas to meet demand is contributing to New Zealand's energy shortage and increased energy prices.

New Zealand's energy shortage is putting the affordability and security of gas and electricity at serious risk

14. Gas will be a key part of New Zealand's economy for some time. It is critical to many industrial and commercial operations as well as the choice of many for residential heating and cooking. Despite this utility, the demand for gas has been declining as prices increase and supply shrinks - total gas use has declined by around a third since 2020.

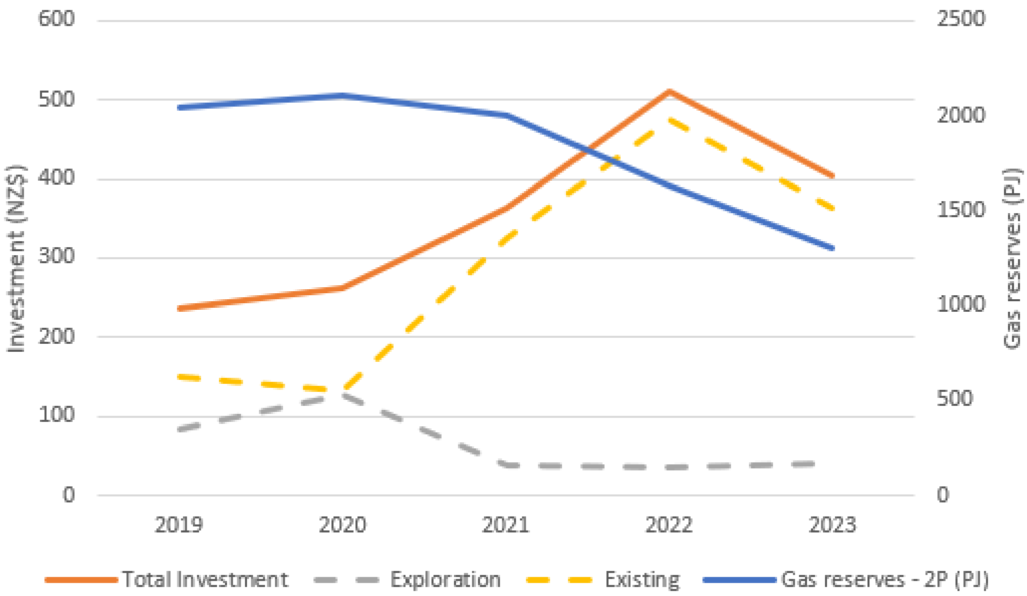
15. While it is impossible to say exactly how long gas will be a needed as the incentives to move away from gas are different for different groups of users, it is clear that some gas will be needed as a transition fuel for at least the next 20 years, and more likely for longer. The pace and scale of change will also depend on the price and availability of newer technology which is also difficult to predict.

16. In 2024, there was extreme stress in our gas and electricity markets. Declining gas supply impacted electricity prices, economic activity and export receipts. The stress has harmed the economy and contributed to job losses.[1] The reality is that in 2025 we are having to rely on imported coal, not domestic gas, to manage our dry year risk.

Gas reserves are falling and drilling existing fields has yielded disappointing results

17. Our gas outlook continues to be below forecast, with 2023 and 2024 delivering 12.5 per cent and 17 per cent less, respectively, than forecast. This problem is not going to go away. Data from the Gas Security Response Group shows a pattern for gas production for winter 2025, which is similar to winter 2024, whereby demand (if unconstrained) will exceed supply.

18. Our existing gas fields are aging and drilling results have been disappointing. $1.5 billion of investment in existing fields over the last five years has failed to halt the decline in reserves. Recent drilling at Tariki, Turangi, Mangahewa and Pohokura is welcomed, but gas volumes will not be enough to offset the decline.



[1] Examples are the closure in September 2024 of the paper recycling mill in Penrose, Auckland at a loss of 75 jobs; the closure in October 2024 of the Kariori Pulp Mill and Tangiwai Sawmill at a loss of 230 jobs; and the confirmation in February 2025 of the closure of certain operations at the Kinleith Mill at a loss of approximately 230 jobs.

Note: There was an error in calculations for this information that was not identified before the material went to Cabinet. The correct figures should read wholesale (25 per cent) industrial (19 per cent) commercial (8 per cent) and residential (3 per cent).

Low gas production exacerbates other security of supply problems and drives high prices

19. Tight gas supply reduces the availability of gas-fired electricity generation. Gas prices have risen steeply in recent years. In 2024, commercial prices rose by 58 per cent, wholesale by 48 per cent, industrial by 44 per cent and residential by 17 per cent.

20. The price of electricity contracts has almost doubled over the last five years, averaging under $100/MWh prior to 2021 and then between $150/MWh and $200/MWh since March 2022.[2] Industrial users who buy electricity through the spot market, rather than forward contracts, faced average prices of $469/MWh across August 2024, peaking at $808/MWh for the week to 11 August 2024.

We need investment in new gas fields

21. The Government is removing the offshore oil and gas ban. However, we also need to address perceptions of sovereign risk to ensure we get the investment we need.

22. In the last 25 years, New Zealand has developed new fields such as Pohokura, Kupe, Mangahewa and Turangi. These fields are now the mainstay of our gas market alongside Maui. As stated above, we expect to need gas as a transition fuel for at least the next 20 years, and more likely for longer. To enable this, it is likely that we will need new fields to come on stream as current fields mature. The development of new fields requires substantial – likely offshore – capital.

23. Two examples of new fields that have the potential to be developed with additional investment are:

    23.1. Karewa: Todd Energy has an exploration permit for the Karewa gas find - a new field that could be developed. The field is offshore from Raglan, well north of existing fields but close enough that it could be tied back to existing Taranaki infrastructure Commercial Information

    23.2. Toutouwai: This is an exploration permit in the Taranaki basin. The permit holder, OMV, drilled a successful well that established a resource and was poised to undertake further appraisal drilling before the COVID-19 pandemic. The permit is now held 70 per cent by OMV and 30 per cent by Total (the large French petroleum company). Free and frank opinions While the field is regarded as largely an oil field, there is potential for gas as a secondary output.

24. In addition, investment in new acreage will be possible later this year once the reversal of the offshore ban is passed.

25. Investors will be able to identify areas both onshore and offshore and propose work programmes to gain new permits. As I have done with minerals, I will be ramping up the visibility of New Zealand investment opportunities for petroleum. The perception of sovereign risk is the number one issue raised by potential offshore investors.

[2] Almost all households, businesses and industrial electricity users' power bills are based on long-dated forward contracts, rather than spot prices.

26. The fact that the New Zealand government is prepared to take a strategic stake will be a powerful message and will give New Zealand a positive story to tell alongside the reversal of the offshore ban, the availability of new acreage, a more nuanced approach to decommissioning, and the general pro-investment fast-track regime.

I seek Cabinet's in principle agreement to take a commercial stake in new field developments to encourage investment

27. One way to counter sovereign risk perceptions and encourage offshore investment in new fields would be for the Crown to take on some of the risk. This could take the form of a fully commercial cornerstone stake in a new field like Karewa or Toutouwai. Such an investment could convince other investors that the Government is committed to increasing the supply of gas and may create a perception that, as a direct shareholder, a future Government may be less inclined to take actions that would impact on the value of its investment(s).

28. Taking a strategic stake on a commercial basis could prove to be the most cost-effective way to provide assurance on sovereign risk and accelerate the large-scale investments in new gas fields that the country needs. Alternative approaches are discussed below.

29. Cabinet has agreed to create tagged operating and capital contingencies of up to $200 million (combined) over four years as part of the Budget 2025 package. To be effective, we need to move with pace. At the same time, additional work on the scope and cost of such investments needs to be refined through the Better Business Case process.

30. I recommend that the Government takes a public position that it is open to taking a cornerstone stake in new field developments. I consider a 10-15 per cent stake[3] (subject to market testing) could be at a level that demonstrates a strong Crown commitment to the project, but recognises that investment in petroleum is an inherently risky business and projects need to be commercially sound.

31. It is critical that we actively rebuild confidence in New Zealand for both investors in gas production and gas consumers. It will be important that the Government is proactive with its plans and this Budget 2025 initiative will be an important part of my messaging to investors and the sector.

32. As part of the announcement, I intend to say that the Government invites early market engagement on the proposal, but that any investment decisions will not be made until the completion of both the Business Case and a procurement process that meets government rules and standards. Insights on potential opportunities will help inform the Better Business Case process.

33. While the initiative is being refined through the Better Business Case process, I propose that the Government is public on its willingness to act as a possible co-investor with the following indicative parameters for any Crown investment (noting that these are subject to Cabinet consideration of a Business Case).

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[3] This stake could involve becoming a permit participant or purchasing shares in a company that holds a permit. The exact form of investment would be case specific and would be resolved through the Business Case process.

34. The indicative parameters are that any Crown investment will:

34.1. Be in the region of a 10 to 15 per cent stake in the field, either through a becoming a permit participant or purchasing shares in a permit participant.

34.2. Be made on a fully commercial basis (eg the Crown should participate on the same basis as other investors and would not be offering concessionary financing).

34.3. Target new fields that will bring gas to the domestic market (but that this could include fields that produce both petroleum as well as gas).

34.4. Not involve the Crown becoming a permit operator (ie being responsible for running the day-to-day running of the permit (drilling, production etc)).

34.5. Be limited to investment at the exploration or mining permit stage rather than prospecting, on the basis that prospecting is generally a lower risk, less costly activity and so does not require Crown investment.

34.6. Be entered into with the aim of selling down at an appropriate time if the investment proves successful. This would enable either the recycling of funds into other projects or return of funds to the Crown. Free and frank opinions [redacted]

Implementation

35. This decision would not bind the Government to any investment decisions. I seek agreement in principle, subject to an Indicative Business Case to be considered by Cabinet, followed by Detailed Business Cases considering the benefits, risks and mitigations of any proposed cornerstone investments. This will require expertise and analysis from across government including The Treasury, the Ministry of Business, Innovation and Employment, and commercial and legal expertise from consultants and external advisors. As part of the Indicative Business Case process, there may be some initial market engagement on the proposed approach.

36. It will be important to ensure that any investment is implemented in such a way that there is no conflict with the government's regulatory function (from New Zealand Petroleum and Minerals). This conflict could be managed through either a Ministerial shareholding or a Schedule 4A company set up under the Public Finance Act 1989.

37. Schedule 4A companies are established when the objectives sought (which could be a mixture of social and commercial objectives) might be best supported by joint ownership. A schedule 4A company would be a transparent vehicle for any investment into a particular permit making the company a permit participant. Such an ownership vehicle would allow for selling down or selling out over time.

38. Work on the best implementation mechanism will progress as part of the Indicative Business Case.

Risks and mitigations

39. Free and frank opinions [redacted]

This would not address some broader concerns about sovereign risk

40. This proposal would not address some broader concerns about perceived sovereign risk, especially of operators of existing fields. Some industry stakeholders have indicated they would like more direct protections against sovereign risk and for those to apply to existing gas fields as well as new finds. I have considered other options that could address sovereign risk, for example through providing Crown indemnities to investors for certain losses that would result from future regulatory changes.

41. Free and frank opinions [redacted] I consider that being open to cornerstone investments for new gas fields on a commercial basis is a better way to address the perception of sovereign risk *and* accelerate investment in new gas fields we desperately need.

42. Free and frank opinions [redacted]

International obligations

43. International relations [redacted]

44. Legal professional privilege [redacted]

Cost-of-living implications

45. Overall, the proposals in this paper aim to improve energy security of supply which, if successful, should lower gas and electricity prices.

Financial Implications

46. The Crown taking a stake in a new gas field would have financial implications, but financial decisions are not sought in this paper. The investment would be on a commercial basis. The costs and benefits would be identified through further work and the preparation of Business Cases following the Better Business Case framework. This will include any fiscal risks associated with potential investments.

47. The Budget 2025 package establishes a tagged operating and capital contingencies of $200 million Commercial Information for potential Crown investment in a cornerstone stake in new gas field developments.

Legislative Implications

48. There are no legislative implications for this proposal.

Impact Analysis

49. Regulatory impact analysis is not required as this is not a regulatory proposal.

Climate Implications of Policy Assessment (CIPA)

50. There are no direct climate change implications from this paper. Should Cabinet agree to take a stake in new gas fields to facilitate their development and increase gas production in New Zealand, there will be emissions implications. There will be an opportunity for Cabinet to consider the climate implications of the proposal alongside the Indicative Business Case later this year.

Treaty Impact Analysis

51. Any Treaty impacts will be assessed as part of the Business Case process.

Population Implications

52. There are no population implications arising from this paper.

Human Rights

53. There are no human rights implications arising from this paper.

Use of External Resources

54. No external resources have contributed to this paper. It will be necessary to contract specific commercial expertise as part of the Business Case development process.

Consultation

55. The Treasury and Ministry of Foreign Affairs and Trade were consulted on a draft of this paper. The Department of Prime Minister and Cabinet was informed.

Communications

56. I intend to announce as part of a Budget press release, that the Government has set aside a tagged contingency of $200 million to co-invest in new gas fields to mitigate sovereign risk and set out our indicative investment parameters, while noting we will be working through the details on how it might structure any investment which will require Cabinet approval.

Proactive Release

57. I intend to release this paper with appropriate redactions after Budget Day.

Recommendations

The Minister for Resources recommends that the Committee:

1 **Note** that the 2018 offshore oil and gas ban created a significant negative perception of the risk of investing in the New Zealand petroleum sector.

2 **Note** there are examples where previous exploration has resulted in a technical discovery, but additional investment is needed to convert these discoveries into a commercially producing field.

3 **Note** as part of the Budget 2025 package, Cabinet has agreed to create the following tagged contingencies:

	$m - increase/(decrease)				
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Operating Contingency	-	Commercial Information			
Capital Contingency	-				
Total	**-**				

4 **Note** as part of the Budget 2025 package, Cabinet also agreed to the following additional recommendations regarding the use of the tagged contingencies:

4.1. **agree** that the expiry date for the above tagged operating and capital contingencies be 31 March 2027;

4.2. **invite** the Minister for Resources to report back to Cabinet on the following matters:

4.2.1. with an Indicative Business Case with options for potential government investment, and

4.2.2. to seek Cabinet agreement to start market engagement; and

4.2.3. to seek Cabinet agreement to draw down on the operating tagged contingency to undertake a Detailed Business Case.

4.3. **invite** the Minister for Resources to report back to Cabinet with a Detailed Business Case for approval on the Government's preferred way forward with robust cost benefit analysis, subject to Cabinet approval of the matters in recommendation 4.2 above;

4.4. **authorise** the Minister for Resources and Associate Minister of Finance (Hon Chris Bishop) (Joint Ministers) to jointly approve the Implementation Business Case; subject to Cabinet approval of the Detailed Business Case;

4.5. **authorise** Joint Ministers to jointly draw down the tagged operating and capital contingencies above, subject to their approval of the Implementation Business Case;

4.6. **agree** that draw down of the tagged operating contingency will only be for the amount necessary for the design and implementation approved;

4.7. **agree** that draw down of the tagged capital contingency will only be for the amount necessary for the specific proposal(s) being approved.

5 **Agree in principle,** subject to the outcome of appropriate Business Cases, to the Government taking a cornerstone investment in new gas field developments of up to 10-15 per cent[4], with the specific aim of addressing sovereign risk and accelerating investment in new gas production.

6 **Agree** to announce on Budget Day that the Government has set aside a tagged contingency of $200 million to co-invest in new gas fields to encourage investment in this industry due to our ongoing need for gas, and in doing so mitigate sovereign risk and will be working through the details on how it might structure any investment.

7 **Agree** to announce the following indicative parameters for any Crown investment, noting that these are subject to Cabinet consideration of a business case. Any Crown investment will:

7.1. Be in the region of a 10 to 15 per cent stake in the field, either through a becoming a permit participant or purchasing shares in a permit holder;

7.2. Be made on a fully commercial basis (eg the Crown should participate on the same basis as other investors and would not be offering concessionary financing);

7.3. Target new fields that will bring gas to the domestic market (but that this would include fields that produce both petroleum as well as gas);

7.4. Not involve the Crown becoming a permit operator (ie being responsible for running the day-to-day running of the permit (drilling, production etc));

7.5. Be limited to investment at the exploration or mining permit stage rather than prospecting, on the basis that is generally a lower risk, less costly activity and so does not require Crown investment;

7.6. Be entered into with the aim of selling down at an appropriate time if the investment proves successful. This would enable either the recycling of funds into other projects or return of funds to the Crown.

8 **Note** that public statements on this proposal will be part of a broader communications and engagement strategy to promote investment in domestic gas production and other proposals to ensure energy security.

Hon Shane Jones

Minister for Resources

[4] This stake could involve becoming a permit participant or purchasing shares in a company that holds a permit. The exact form of investment would be case specific and would be resolved through the business case process.