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.

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Budget initiatives to increase gas security of supply

Date:	27 March 2025	**Priority:**	Urgent
Security classification:	Budget - Sensitive	**Tracking number:**	BRIEFING-REQ-0012016

Action sought		
	Action sought	**Deadline**
Hon Chris Bishop **Associate Minister of Finance**	**Agree** to include the following initiatives for inclusion in the draft Budget 2025 package for Budget Ministers consideration: • Accelerate tax deduction for petroleum development expenditure • Address sovereign risk by taking a commercial stake in new field developments	1 April 2025
Hon Shane Jones **Minister for Resources**	**Forward** this briefing to the Minister of Revenue for his information.	1 April 2025

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Hannah Keat	Manager, Resources Policy	Privacy of natural persons	✓

The following departments/agencies have been consulted
Inland Revenue, Treasury, Ministry of Foreign Affairs and Trade

Minister's office to complete:

☐ Approved
☐ Declined
☐ Noted
☐ Needs change
☐ Seen
☐ Overtaken by Events
☐ See Minister's Notes
☐ Withdrawn

Comments

BRIEFING

Budget initiatives to increase gas security of supply

Date:	27 March 2025	**Priority:**	Urgent
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Purpose

To seek agreement to include the following initiatives in the draft Budget 2025 package that are likely to increase domestic natural gas production for electricity generation:

- Action 1: Accelerate deductions for petroleum development expenditure from the current 7-year straight line method to either 3 years or immediate deduction.
- Action 2: Put aside a tagged contingency to fund Crown investment in a cornerstone stake in new gas field developments, with spending subject to the outcome of a business case for investment.

Recommended action

The Ministry of Business, Innovation and Employment recommends that the Associate Minister of Finance:

Action 1: Accelerate tax deduction for petroleum development expenditure

a **Agree** to include in the draft Budget 2025 package either**:**

i. Deductions spread evenly over three years from the income year the petroleum development expenditure is incurred; OR

Agree / Disagree

ii. Immediate deductions for petroleum development expenditure in the income year it is incurred (recommended)

Agree / Disagree

b **Note** that, assuming capital expenditure of over a billion dollars, the estimated fiscal impacts of recommendation (a) above are:

a. $254 million over the forecast period for a three-year deduction

b. $398 million over the forecast period for immediate deductions (recommended)

Noted

c **Note** that the estimated fiscal costs of recommendation (a) would reverse within 9 and 11 years as the companies would have less deductions available to them in future years so would pay more tax, meaning this initiative would neutralise over time.

Noted

d **Note** that recommendation (a) above would only apply to petroleum permits and licences supplying natural gas to the New Zealand market.

Noted

e **Note** that recommendation (a) above would apply to development expenditure incurred on or after 1 July 2025 and before 30 June 2028 (a three-year period).

Noted

f **Note** that Action 1 would provide a greater benefit than the Budget 2025 investment boost initiative, but is time limited.

g **Note** that if you agree to recommendation (a) above, officials will work together to ensure there is no double benefit to be obtained by the petroleum sector during the 3-year period, but that the sector can take the benefit of the Budget 2025 investment boost initiative, once recommendation (a) has been exhausted.

Agree / Disagree

h **Note** that recommendation (a) above requires amending the Income Tax Act 2007, which could be achieved on Budget night.

Noted

Action 2: Address sovereign risk by taking a commercial stake in new petroleum field developments

i **Agree** to include in the draft Budget 2025 Budget package:

a. That the Government is open to proposals to take a cornerstone investment in new petroleum field developments to address sovereign risk and accelerate the investment in gas that we will need over the next 20 years.

b. Work will advance on a business case for Crown investment in new developments.

j **Agree** to set aside $200 million as a tagged operating and capital contingency (expiring on 30 June 2029) at Budget 2025 to support recommendation (i).

Agree / Disagree / Discuss

k **Note** that Treasury officials will reflect the above decisions in the draft Budget package for discussion at a Budget Ministers' meeting.

Noted

l **Note** that Budget Ministers will discuss and confirm the final Budget package that will be considered by Cabinet.

Noted

Hannah Keat
Manager, Resources Policy
Building, Resources and Markets, MBIE

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Hon Chris Bishop
Associate Minister of Finance

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Hon Shane Jones
Minister for Resources

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Background

1. New Zealand has an energy shortage which is putting the affordability and security of gas and electricity at risk, as we transition to Net Zero in 2050. 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.

2. 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.

3. This paper recommends two actions, one to increase development activity in the short term and therefore the likelihood of more gas production, and the other to address the perception of sovereign risk to maintain gas supplies in the long term. Both have fiscal impacts and will require funding in Budget 2025.

Action 1: Accelerate tax deduction for petroleum development expenditure

4. De-risking capital investment is key to the gas sector shifting the dial on future production. While there are encouraging signs of activity, with recently announced drilling campaigns, the Government could do more to shift the economics of production and free up capital for gas producers to re-invest. One way to achieve this is through the tax system.

5. Petroleum development expenditure can currently be deducted in two ways:

   a. On a straight-line method spread over seven years from the year the expenditure is incurred; or

   b. Using the reserve depletion method.

6. For permits held after 1 April 2008, petroleum miners can choose between the two methods, but this choice can only be made once in the first year of production and is irrevocable. Those on older permits must depreciate over seven years.

7. Action 1 would further accelerate tax deductions for development expenditure from the current seven-year spread, which is concessionary as most fields have a productive life of more than seven years. Deductions could either be spread evenly over a three-year period (instead of seven) or allowed immediately in the income year the expenditure is incurred. Accelerated deductions could be available for expenditure incurred within a given period, for example over three years.

8. Some countries, including Norway and the United Kingdom, allow up-front deductions for petroleum development expenditure. But this is typically combined with relatively high marginal tax rates specific to the petroleum industry (e.g. 78 per cent in the United Kingdom and Norway).

9. Action 1 requires amending the Income Tax Act 2007, which could be achieved through Budget night legislation.

Relationship with other Budget 2025 tax initiatives

10. We note that Action 1 would provide a greater benefit than the Budget 2025 investment boost initiative.

11. Inland Revenue would recommend including petroleum development expenditure in the Budget 2025 Investment Boost initiative and not separately providing accelerated deductions under Action 1. However, we understand that Action 1 provides a stronger incentive, which is required to drive increased investment in drilling.

12. If you do choose to provide accelerated deductions under Action 1, officials will work together to ensure there is no double benefit to be obtained by the petroleum sector during the 3-year period, but that the sector can take the benefit of the Budget 2025 Investment Boost initiative, once the petroleum development expenditure initiative expires.

Action 1 could cost between $254 million and $398 million over the forecast period

13. Initial estimates suggest that a three-year spread would have a fiscal cost of $254 million over the forecast period, while an immediate deduction would have a fiscal cost of $398 million over the forecast period. This assumes over a billion dollars in base and incremental capital expenditure over three years. Expenditure could be higher or lower than these assumptions.

14. Provided that the fields continue to operate profitably, this fiscal cost would reverse within 9 and 11 years as the companies would have less deductions available to them in future years so would pay more tax. The benefit to companies of Action 1 is a time value of money benefit.

15. Action 1 could have an impact on tax rebates for decommissioning if fields are decommissioned before the tax benefit of the immediate or earlier deductions has reversed.

16. There are fiscal upsides. If investments result in gas production, the Crown can expect to receive increased revenue in the form of royalties (up to 20 per cent of accounting profits) and the Energy Resources Levy ($0.45 per gigajoule of gas from two fields only).

17. The sector has advocated for the immediate deduction option because it would have the most material and beneficial impact on balance sheets. Given this proposal equalises over time and the significance of the risk of energy shortage, we recommend it should be adopted.

18. The three-year spread option requires a smaller upfront Crown cost, however we would expect it to have a less material impact on drilling activity.

Mergers and acquisitions may be impacted

19. While the effect of accelerated deductions on income tax paid should balance out over the life of the field, this could make transfers or sales of permits and licences during the life of the field less attractive to prospective purchasers as they would face a higher tax burden in the future.

Investments may not achieve the outcomes we want

20. Investments may not all be successful. The risk of failed drilling is high in our mature fields. In the last five years around $1.8 billion has been invested in drilling 58 wells, and this investment has not managed to maintain or increase our gas reserves. But this is why Crown intervention is needed, to increase drilling activity and the likelihood of more gas production.

21. There is no ability to target the tax incentives to the additional investment we need. The industry could continue investing at current levels and benefit from accelerated depreciation without achieving the outcomes we want.

Action 2: Address sovereign risk by taking a commercial stake in new field developments

22. Over the long-term, gas supply in New Zealand has required the bringing on of new fields. In the last 25 years this has seen supply from new fields such as Pohokura, Kupe and Turangi. These fields are now mainstays of our gas supply. We need to ensure that, where possible, new fields are developed in addition to investment in existing fields. The development of new fields requires substantial – likely offshore – capital.

23. Market feedback is that this type of investment is unattractive because of perceived sovereign risk. For example, 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 [redacted]

24. One approach to countering sovereign risk perceptions would be for the Crown to take on some of the risk. This could take the form of a fully commercial investment in a field like Karewa. Such an investment could convince other investors that the risk is mitigated.

25. Work on the level of such an investment needs to be done through the development of a business case. However, a 10 per cent stake 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. Free and frank opinions [redacted]

26. 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 that the country needs.

27. MBIE Officials recommend that:

    a. the Government takes the position that it is open to proposals to take a cornerstone investment in new field developments of up to 10 per cent to accelerate the investment we will need over the next 20 years or more that gas will be a key part of our energy system, and

    b. work should advance on a business case for Crown investment in new field developments.

28. This decision would not bind the Government to any investment decisions. Specific business cases would need to consider the benefits, risks and mitigations of any proposed cornerstone investments. This will require expertise and analysis from across government including Treasury, the Ministry of Business, Innovation and Employment, and commercial expertise.

Action 2 will require a tagged contingency of $200 million

29. Action 2 will require a tagged contingency until a business case is completed and Cabinet makes further decisions to appropriate funding. We recommend a tagged operating and capital contingency of $200 million Commercial Information [redacted]

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

30. A 10 per cent investment in one assumed field is expected to cost Negotiations However, with the offshore ban being removed, acreage in the Taranaki basin will become available and we expect an uplift in permitting activity. We recommend that a larger pool be set aside in order that the Crown can support these potential investments. The intent would be that the pool could be spread across a number of investments, broadening its beneficial impact on both the prospecting and exploration of new fields.

31. This initiative will reduce sovereign risk and will be a key driver for increased investment.

Implementation

32. It will be important that this investment is implemented through an appropriate entity, separate from the regulator, New Zealand Petroleum and Minerals. This could be through a Schedule 4A company set up under the Public Finance Act 1989. 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. The Crown may not own all shares at the start or it may wish to reduce its shareholding in future.

33. Companies listed in Schedule 4A of the Public Finance Act 1989 are subject to the Companies Act 1993 and relevant provisions of the Crown Entities Act 2004.

34. Upon approval of this initiative we will commence work with Treasury to advance a business case and identify the best implementation mechanism.

Risks and mitigations

Legal professional privilege

Legal professional privilege

International relations

International relations

Next steps

43. The Treasury will reflect your decisions on these initiatives in the draft Budget package for discussion at the next Budget Ministers meeting.

Implementing Action 1 requires legislative change

44. If you agree to include Action 1 in the Budget 2025 package, the Budget Cabinet paper will seek agreement to introduce a bill to amend the Income Tax Act 2007 on Budget night to implement the decision. Once enacted, changes would take effect from 1 July 2025.