21 November 2024
Hon Shane Jones

Minister of Resources

> ***Key messages***
>
> - *the Crown Minerals Amendment Bill 2024 was a missed opportunity to reverse many of the poor policy decisions and amendments introduced over the previous two terms*
> - *the issue of sovereign risk remains, and we see no clear path to resolving this issue*
> - *further, deeper reforms are necessary to achieve the necessary balance to encourage investment whiles managing the financial risks to the Crown*

An acknowledgement

1. We wish to acknowledge your substantial efforts championing our sector on our behalf to your Cabinet colleagues and the wider public. We hope that very soon, we will have visibility of the overall package of changes required to reinject sufficient confidence in the sector which will lead to activity on the ground.

The Crown Minerals Amendment Bill is a missed opportunity and insufficient on its own

2. In our 5 November letter we outlined our ongoing concerns with the changes proposed in the Crown Minerals Amendment Bill 2024. *All permit holders* have consistently advised you and officials that the changes to the CMA are:

   a. insufficient, and embed changes which should have been removed or heavily ameliorated; and

   b. do not address the extreme sovereign risk faced by investors, both incumbent and potential offshore investors. [1]

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1 It is not just permit and license holders who hold these views. We encourage you to read New Plymouth Mayor Neil Holdon's recent opinion piece in The Post, available at: https://www.thepost.co.nz/environment/360484193/what-mountain-coal-tells-us-about-our-messed-energy-situation

Addressing sovereign risk

3. Of highest concern is that the critical issue of sovereign risk, which remains unresolved. Again, we have canvassed these issues with you and your officials' numerous times. Put simply, with opposition parties signalling they will repeal these reforms; current and future permit holders do not have the comfort needed to be secure in their investments.

4. Our discussions with officials have led us to believe that an 'adverse regulatory change' clause via a contractual (non-legislative) mechanism would be a feasible way forward. Termination clauses are not uncommon, but we have no visibility on what is being considered. *Regardless of the changes in the Bill,* such a mechanism is the 'keystone' to unlocking the investment required and firm future plans cannot be made without it.

Changing the economics of exploration, appraisal and development

5. The third element of a package involves changing the economic equation. In the current environment, substantial investment in new gas is hard to justify, especially with the elevated level of sovereign risk.

6. It is not uncommon for governments to adjust regulatory settings to encourage exploration, appraisal, and development activity. We understand officials are actively considering a range of options_+. Without further investment in the sector further reserves downgrades are expected.

7. The evolution of our energy mix is already happening, at an ever-increasing pace. For New Zealand it is happening through deindustrialisation as high energy prices and tight availability impacts the economic viability of our businesses. These economic impacts and the ongoing erosion of our skills base are being felt most acutely in the regions, such as Taranaki.

Next Steps

8. With further, necessary changes to the Bill unlikely, we turn our attention to operationalising the legislative amendments and assessing any package of initiatives that might emerge. We want to work collaboratively with you and your officials to:

    a. develop an overall coherent and robust package to encourage further appraisal and exploration activity as a way to unlock the investment that protects and rebuilds our reserves;

    b. formulate sensible and pragmatic regulations and guidelines to operationalise the legislative amendments; and

    c. schedule a series of government and industry workshops to develop changes to the Petroleum Programme 2013.

9. Finally, it is important that you hear directly from investors considering New Zealand's petroleum sector. We strongly encourage travel to Australia, Southeast Asia, and Europe to meet with potential investors, and we extend the offer to develop a suitable itinerary for you.