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Cabinet Document Details

Title:	**Cabinet Paper CAB-26-SUB-0126: Establishing a gas transition loan guarantee scheme**
Date:	**20 April 2026**
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[36] 9(2)(h) - to maintain legal professional privilege

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Office of the Minister of Finance

Cabinet

Establishing a gas transition loan guarantee scheme

Proposal

1 This paper informs Cabinet of my intention to establish a gas transition loan guarantee scheme. The scheme would support commercially viable businesses to undertake new investments to transition away from gas or reduce gas consumption.

2 As Minister of Finance, I have the power to give indemnities or guarantees under section 65ZD of the Public Finance Act 1989. Funding for this initiative will be sought from the Budget 2026 operating allowance via the Budget 2026 Cabinet paper.

Relation to government priorities

3 Ensuring reliable and affordable energy is a priority for the Government. Establishing a loan guarantee scheme could help ease gas supply pressures by supporting businesses to transition away from gas or reduce gas consumption, alleviating pressure on viable businesses, and freeing up gas for users that are harder to abate or unable to switch. This would support energy security and affordability, which underpin sustained economic growth.

Executive Summary

4 Some gas-using firms are facing pressure and potential closure as a result of faster-than-expected decline in gas supply and rising prices. While the Government is undertaking action to try to shore-up domestic gas supply, these measures are likely to take some time to take effect and in the immediate future a range of firms may face challenges securing reliable and affordable gas supply.

5 In response to rising gas prices, some firms may be able to undertake a combination of fuel switching and energy efficiency measures. However, uptake is often constrained by a range of barriers, including high upfront capital costs.

6 Recent external analysis, alongside stakeholder feedback, suggests that supporting businesses to reduce gas demand could deliver wider economic and system benefits that may not be fully realised through private investment alone. In this context, I consider that a loan guarantee scheme could help address financing barriers by improving access to finance and lowering borrowing costs for viable investment, while limiting fiscal exposure for the Crown.

7 I have directed Treasury officials to negotiate key terms with eligible lenders through April and May. Following these negotiations, Treasury will provide me with final advice, including an assessment of the public interest, to inform my final decisions on

whether to proceed with the scheme and, if so, on what terms. Subject to funding being approved via Budget 2026 Cabinet decisions, I intend to work towards an announcement at the Budget on 28 May.

Background

8 Some gas-using firms are facing pressure and potential closure as a result of faster-than-expected decline in gas supply and rising prices. Recent international gas prices would not be expected to have a direct impact on domestic gas prices, as New Zealand's natural gas is sourced domestically and is not indexed to international gas markets. Prices are therefore largely determined by domestic supply and demand conditions – this could change if LNG is progressed. While the Government is undertaking action to try to shore-up domestic gas supply, these measures are likely to take some time to take effect and in the immediate future a range of firms may face challenges securing reliable and affordable gas supply.

9 In response to rising gas prices, some firms may be able to undertake a combination of fuel switching and energy efficiency measures. This may include switching some processes to alternative energy sources, such as electrification or biofuels, alongside investments that improve energy efficiency. Together, these responses could reduce overall gas demand and enable gas to be reallocated to other uses or to firms for which switching is more difficult.

10 However, uptake is often constrained by a range of barriers, including high upfront capital costs, long asset lives and replacement cycles, uncertainty about future energy prices and regulation, limited access to suitable financing, and – in some regions – constraints on electricity or alternative fuel infrastructure.

11 The proposed scheme would sit alongside a broader cross government programme of work related to the gas transition, which is primarily focused on supply side interventions. Key elements include the Ministry of Business, Innovation and Employment’s gas security work programme, Resource Management reforms, and the Electricity Authority’s work to streamline electricity grid connections and reduce barriers to new connections.

The case for government intervention

12 As a general principle, I consider that government intervention should be targeted to circumstances where markets may not deliver acceptable outcomes, or where there is a compelling case for government action to support broader economic objectives.

13 Recent external analysis, alongside stakeholder feedback, suggests that supporting businesses to reduce gas demand could deliver wider economic benefits that may not be fully realised through private investment alone. In particular, a transition by industrial gas users could help to ease supply pressures, improve energy affordability and security, and reduce the risk of more disruptive economic adjustment as domestic gas supply declines.

14 In this context, I consider that a loan guarantee scheme could help address financing barriers by improving access to finance and lowering borrowing costs for viable investment, while limiting fiscal exposure for the Crown.

15 The key advantage of a loan guarantee scheme (as opposed to alternatives such as providing funding directly to firms) is that it supports a market led approach, retains lenders' commercial discipline, and targets government involvement at easing financing constraints, rather than substituting for private investment. My intention is that this scheme will complement, rather than replace existing green lending products. Similar loan guarantee instruments were used to support businesses during COVID-19 and the North Island Weather Events.

Designing and implementing a loan guarantee scheme

16 To be effective and well-targeted, the scheme needs to balance the following objectives:

16.1 **Supporting businesses** that continue to be viable to reduce reliance on natural gas, with a focus on those that are more exposed to gas use.

16.2 **Easing gas supply pressures** by freeing up gas for users that are harder to abate or unable to switch.

16.3 **Targeting support where it is most needed**, by avoiding, where possible, assistance to firms that are unlikely to face material barriers or that could proceed without government involvement.

16.4 **Minimising administrative complexity** to support efficient delivery and uptake.

17 To deliver on these objectives, the table below outlines my current policy design preferences for a loan guarantee scheme. These settings are indicative only and will be finalised following negotiations with lenders.

Project eligibility	Fuel switching or efficiency projects. Projects must be expected to achieve a minimum reduction in gas usage of at least 15%, with reduction not being the result of decreased production or output.
	Fuel switching projects that switch from gas to a more emissions intensive fuel source, (e.g. coal) are excluded.
	Eligible projects may include other costs and expenses which are directly related to the project (e.g. connection upgrades, technical support/consultancy).
Eligibility criteria	Borrower must be a current user of New Zealand natural gas with annual gas consumption of at least 5,000 GJ.
	Borrower must be considered by the relevant Lender to be viable under the relevant Lender's Supported Loan Policies, Practices and Processes.
Maximum borrower limit	Maximum value of Supported Loans per borrower is $20 million of new lending.

Maximum lender limit	To be allocated on a per lender basis based on exposure, market share, and lender type.
Crown guarantee	Guarantee 80% of each Supported Loan. Bank feedback indicates that this level strikes an appropriate balance between maximising impact and maintaining lender incentives, while avoiding moral hazard. This is the same level of guarantee as for previous schemes.
Availability period	The scheme would be available for a period of 3 years.
Maximum Tenor	Loans could be repaid over a period of up to 10 years.
Type of financing	The scheme should be limited to new investment only (no refinancing).
Benefit pass-through	The scheme will have a general requirement for lenders to pass on lower interest rates, reflective of the benefit provided by the guarantee. The guarantee should complement, rather than replace existing green lending products.
Fee to offset risk	There will not be a fee to access the Crown guarantee.

18 While estimating the number of firms that will engage with the scheme is difficult, feedback from most stakeholders to date indicates that uptake is likely to be modest. If uptake is higher than expected, lenders will be required to manage total lending within a pre-determined funding envelope.

19 I am also exploring options to consider adjusting the 5,000 GJ annual gas consumption threshold for borrowers, and to increase or remove the $20 million maximum borrower limit. These changes would impact the reach and impact of the scheme, as well as the fiscal cost.

20 [36]

21 Non-bank lenders will be excluded from the scheme. Experience from previous Crown backed loan guarantee schemes indicates that lending through non-bank lenders has been associated with disproportionately higher default and claim rates. Limiting participation to registered banks will therefore help manage fiscal risk.

22 To ensure that this scheme has maximum impact, I consider there is benefit in providing wrap around support for firms engaging with the scheme. The Energy Efficiency & Conservation Authority (EECA) has advised that an effective wrap around support package would include building awareness of the scheme, supporting early-stage project development, assisting lenders with scheme alignment and eligibility verification, and undertaking ongoing programme analysis and reporting.

23 In regard to timeframes, I have directed Treasury officials to negotiate key terms with eligible lenders through April and May. Following these negotiations, Treasury will provide me with final advice, including an assessment of the public interest, to inform my final decisions on whether to proceed with the scheme and, if so, on what terms. Subject to funding being approved via Budget 2026 Cabinet decisions, I intend to work towards an announcement at the Budget on 28 May, with the scheme becoming available from June or July 2026.

Financial Implications

24 Under the indicative parameters outlined above, the scheme will have a maximum value of supported loans in the range of $800 million to $1.2 billion. The use of a range reflects that the Treasury has not yet commenced negotiations with banks and therefore needs to retain headroom to accommodate new information on expected uptake and portfolio composition. The Treasury's current assessment is that the final scheme size is likely to be closer to the lower end of the range.

25 The expected credit loss of $48 million from providing a guarantee on the scheme has been calculated using the upper limit of the range, at an assumed default rate of 5 percent, and reflects the Crown's 80 percent guaranteed share of each supported loan. These assumptions are informed by experience with similar schemes and are intended to conservatively manage fiscal risk. An operating expense and corresponding provision will need to be recognised during the scheme eligibility period, as qualifying lending arrangements are established.

26 While final costings will depend on the terms negotiated with lenders, I expect that the scheme's final face value and expected credit loss will be no higher than these figures. The scheme's face value will give rise to a contingent liability that will be disclosed in the Financial Statements of the Government, with no impact on the operating balance or net core Crown debt.

27 A provision for the expected credit losses would be managed within the Budget 2026 operating allowance. Decisions on this would be sought via the Budget 2026 Cabinet paper. Treasury estimates one off establishment costs of $50,000 and ongoing costs up to $400,000 per annum, which will be managed from within baselines.

Cost-of-living Implications

28 This scheme will support New Zealanders with the cost-of-living by supporting businesses and jobs, enabling a smoother transition to more efficient and renewable energy technology.

International relations

29 [36]

[36]

30

Legislative Implications

31 As the Minister of Finance, I will be responsible for determining whether the granting of indemnities and/or guarantees to lenders appears to be expedient or necessary in the public interest under section 65ZD of the PFA. No guarantees can be granted until I have made this determination.

Impact Analysis

Regulatory Impact Statement

32 A Regulatory Impact Statement is not required for this paper.

Climate Implications of Policy Assessment

33 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. While the core objective is addressing supply and affordability challenges, and the direct and indirect emissions impacts are below CIPA's quantitative threshold, the proposal is expected to reduce emissions in a way that materially helps the achievement of Emissions Budget (EB) 2. This policy is consistent with other actions in Emissions Reductions Plan 2, particularly this government's focus on responding to broader affordability and security challenges and "the role of gas in an affordable, low-emissions" energy system.

34 Modelling undertaken by EECA estimated the direct and indirect emissions impact of the proposal. Direct emissions impacts are reduced gas usage in the industry sector and a smaller offsetting increase from additional electricity consumption. Indirect impacts are from the increased use of the displaced natural gas elsewhere in New Zealand, including combustion in boilers and in industrial production of chemicals.

35 In the central scenario in which 20% of projects in the eligible pool are converted, the net emissions impact is -0.25 $MtCO_2e$ in EB2, -0.37 in EB3, and -0.11 in EB4. This would help the achievement of EB2, with the Ministry for the Environment's central projection currently 4 $MtCO_2e$ under the budget. Less likely scenarios, with project conversion rates of 35%, could see net emissions reductions around -1.23 $MtCO_2e$ across EB2, EB3, and EB4, indicating an upside opportunity for more emissions reductions.

36 The emissions affected by this proposal are in the Emissions Trading Scheme (ETS), however the modelling analysis does not include any impacts arising from changes in the demand or supply of ETS units. In the long run, we expect the ETS cap to be the key driver of New Zealand's total emissions covered by the scheme.

Population Implications

37 This proposal will not have direct impacts on any population group.

Human Rights

38 This policy does not raise any inconsistencies with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

39 This paper has been prepared by the Treasury in consultation with the Ministry of Business, Innovation and Employment, the Ministry for the Environment, the Ministry of Foreign Affairs and Trade, and the Reserve Bank. The Energy Efficiency & Conservation Authority was consulted on policy design and undertook analysis on emissions impacts.

40 The Treasury has engaged with the major banks, energy gentailers and the Centre for Sustainable Finance to inform advice on the potential design of a gas transition loan guarantee scheme. Stakeholders expressed a view that demand side intervention is needed to support businesses facing rising gas costs and declining supply, and were generally supportive of a time limited loan guarantee as a low regrets option.

Communications

41 Subject to final decisions on the scheme, I intend to work towards an announcement at the Budget on 28 May, with the scheme becoming available from June or July 2026.

Proactive Release

42 I intend to proactively release this Cabinet paper and associated advice after the scheme has been announced and implemented.

Recommendations

The Minister of Finance recommends that Cabinet:

1 **note** that the Minister of Finance considers that a loan guarantee scheme could address financing barriers for viable businesses to undertake new investments to transition away from gas or reduce gas consumption.

2 **note** that the Scheme could reduce overall gas demand and enable gas to be reallocated to other uses or to firms for which switching is more difficult.

3 **note** the authority to give a guarantee and/or indemnity under section 65ZD of the Public Finance Act 1989 rests with the Minister of Finance if it appears to the Minister of Finance to be necessary or expedient in the public interest.

4 **note** that, following negotiations with lenders, the Treasury will provide final advice (including an assessment of the public interest) to inform the Minister of Finance's consideration of whether to use her power under the Public Finance Act 1989

5 **note** that, should the Minister of Finance decide to proceed with the Scheme, she will make final decisions under the Public Finance Act 1989.

6 **note** that the Minister of Finance will seek decisions on managing the Scheme's $48 million expected credit losses against the Budget 2026 operating allowance via the Budget 2026 Cabinet paper.

Authorised for lodgement.

Hon Nicola Willis

Minister of Finance

Climate Implications of Policy Assessment: Disclosure Sheet

Note: this document presents a condensed version of a more detailed disclosure sheet.

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Supporting the fuel switching of commercial and industrial gas users through a loan guarantee scheme
Agency responsible for the Cabinet paper:	The Treasury, CIPA assessment led by the Energy Efficiency & Conservation Authority
Date finalised:	25 March 2026
Short description of the policy proposal:	Proposal to provide Government loan guarantees to private lenders (e.g. banks) funding energy efficiency and fuel switching projects.

Section 2: Greenhouse gas emission impacts

Estimation of the direct emissions impact of the programme shows a significant reduction in emissions from reduced gas usage in industry, with a small offsetting increase in emissions from additional electricity consumption (in adopting energy efficiency and fuel switching technologies).

Total direct impacts given in Table 1 add up to a reduction of 1.7 million tonnes of CO2 equivalent, which represents approximately 8% of the total emissions reduction policies proposed in ERP2 for EB2 and EB3.[1]

[1]New-Zealands-second-emissions-reduction-plan-202630.pdf, Figure 0.5 on page 8.

Table 1: Direct emissions impact (Central uptake case)

	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2-e)						
Sector & source	**2022–25**	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Electricity	0	14,306	22,972	9,351	0	0	46,629
Transport							
Industry		-501,069	-878,430	-377,361			-1,756,860
Waste							
Agriculture							
Land use, land use change and forestry							
Total	0	-468,763	-855,458	-368,010	0	0	-1,710,230

Estimation of the indirect emissions impacts of the programme shows a significant offsetting increase in emissions, arising from combustion in boilers, and production of industrial chemicals (net 0.979 million tonnes of CO2 equivalent). These results are highly sensitive to assumptions and should be treated as indicative only.

Combining the direct and indirect impacts gives a reduced but still significant net reduction in overall emissions (0.730 million tonnes of CO2 equivalent, which represents approximately 3.5% of the total emissions reduction policies proposed in ERP2 for EB2 and EB3). Noting the uncertainty in estimation of indirect emissions, it is likely that actual overall net impacts could see the programme deliver a larger net reduction in emissions that stated below. However, this modelling does not account for the function of the Emissions Trading Scheme and the potential for increased activity in the rest of the covered sector.

Table 2: Combined Direct and Indirect emissions impact

	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2-e)						
Sector & source	**2022–25**	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Electricity	0	-26,466	-17,800	9,351	0	0	-34,916
Transport							
Industry		-227,540	-347,815	-120,274			-695,630
Waste							
Agriculture							

	Changes in greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2-e)						
Sector & source	**2022–25**	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Land use, land use change and forestry							
Total	0	-254,007	-365,615	-110,924	0	0	-730,545

These estimates are driven by projected uptake of finance to progress energy efficiency and fuel switching projects. The potential for these projects has been identified by EECA's Regional Energy Transition Accelerator (RETA) dataset which covers approximately 87% of business gas usage in NZ. The pool of potential projects has been filtered to exclude those that would fall outside the proposed funding criteria (specifically >$20m per borrower/project)

Table 3: Eligible projects

	Energy efficiency eligible projects	Fuel switching eligible projects
Capex	$568,660,837	$1,773,504,547
Gas GJ	3,979,123	12,095,289
Electricity GJ	279,324	1,703,697
Biomass GJ	-	687,006

Table 4: Assumptions on scheme uptake and funding needed

Scenario	Project conversion (% of eligible pool)	Funding needed ($M)
Low	15%	351
Central	20%	470
High	25%	582
Very High	35%	818
Super High	50%	1177
Max	100%	2349

In estimating indirect emissions, we assume that 'freed up' gas is still used. We modelled a number of scenarios about how this gas is used, and the figures in Table 2 reflect our 'central' scenario for freed up gas below:

Table 5: Utilization of freed up gas

'Central' scenario

Usage	Percentage of freed up gas used	Percentage of alternative fuel displaced
Combustion	60%	20% replaces Diesel,20% replaces LPG, 60% additional
Urea production	20%	50% replaces Gulf sourced urea/50% Chinese sourced
Methanol production	20%	50% replaces gas derived methanol/50% replaces coal sourced
Power generation	40% (1 year out of 5, in place of urea and methanol)	100% replaces coal

The below table summarises emissions impacts under different scheme uptake scenarios. Based on experience with previous policies, we consider that an uptake rate higher than 35% is unlikely.

Table 6: Emissions reductions under each scenario (excluding offshore emissions)

Total (tco2-e)	Project conversion (% of eligible pool)	Direct emissions impacts	Indirect (inside NDC)	Combined (inside NDC)
Low	15%	-1,280,230	751,309	-528,921
Central	20%	-1,710,230	979,685	-730,545
High	25%	-2,178,506	1,244,535	-933,972
Very high	35%	-2,982,630	1,749,231	-1,233,400
Super High	50%	-4,293,032	2,457,610	-1,835,422
Max	100%	-8,566,506	5,024,020	-3,542,486

Relevant ERP2 policies

- Responding to broader affordability and security challenges
- The role of gas in an affordable, low emissions energy system

Section 3: Additional information

Additional information

Section 4: Quality assurance

Quality assurance
The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal. While the core objective is addressing supply and affordability challenges, and the direct and indirect emissions impacts are below CIPA's quantitative threshold, the proposal is expected to reduce emissions in a way that helps the achievement of Emissions Budget 2. This policy is consistent with other actions in Emissions Reductions Plan 2, particularly this government's focus on responding to broader affordability and security challenges and "the role of gas in an affordable, low-emissions" energy system. The emissions affected by this proposal are in the NZ Emissions Trading Scheme (ETS). Modelling undertaken by EECA estimated the direct and indirect emissions impact of the proposal. Direct emissions impacts are reduced gas usage in the industry sector and a smaller offsetting increase from additional electricity consumption. Indirect impacts are from the increased use of the displaced natural gas elsewhere in New Zealand, including combustion in boilers and in industrial production of chemicals. In the central scenario in which 20% of projects in the eligible pool are converted, the net emissions impact is -0.25 MtCO2e in EB2, -0.37 in EB3, and -0.11 in EB4. This would help the achievement of Emissions Budget 2, with MfE's central projection currently 4 MtCO2e under the budget. Less likely scenarios with project conversion rates of 35% could see net emissions reductions around -1.23 MtCO2e across EB2, EB3, and EB4, indicating an upside opportunity for more emissions reductions. The emissions affected by this proposal are in the NZ Emissions Trading Scheme, however the modelling analysis does not include any impacts arising from changes in the demand or supply of Emissions Trading Scheme units. In the long run, we expect the Emissions Trading Scheme cap to be the key driver of emissions covered by the scheme.