

THE ROLE OF THE SMALL INVESTOR IN PETROLEUM EXPLORATION.

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Abstract

The "small investor" in petroleum exploration has the essential role of being a source of risk capital; this is so whether the "small investor" is an individual investor in a petroleum exploration company, a small petroleum exploration company or a company which takes a small or minor participation in a petroleum prospecting joint venture. In New Zealand the individual investor has played and continues to play an important role in this regard as investors in for example New Zealand Oil and Gas Ltd, Southern Petroleum, New Zealand Petroleum and Fletcher Challenge.

Indeed, in practice, the role of small investor in petroleum exploration is to be at the forefront of petroleum exploration. The small investor is not as risk adverse as major investors. Hence, the small investor (either as a shareholder in the small corporate or the corporate itself) will undertake exploration that a major investor would not; although the major will be prepared to farm in to explorations which have shown prospects and to pay a premium accordingly. Thus, the small investor is the catalyst between petroleum exploration in New Zealand (or the particular host country) and the international capital market.

The listing requirements of the New Zealand Stock Exchange facilitates the role of the private investor. Similarly, the legislative regime in New Zealand for the small (in market capitalisation terms) petroleum exploration company imposes no practical impediments; the listing on New Zealand Stock Exchange has provided a means for raising capital; the legislative procedures under the Petroleum Act 1937 (or those proposed under the Crown Minerals Act) for applying for or farming into prospecting licences are effective. Likewise, the acquisition of minority interests in prospecting or mining licences is not impeded by the Petroleum Act 1937 (nor likely to be impeded by the Crown Minerals Act) or by the provisions of Joint Venture Operating Agreements standard in New Zealand.

Introduction

The "small investor" in the petroleum exploration industry has the essential role of being a source of risk capital. This role is manifested in two main forms:

- (i) Individual investors/shareholders in a petroleum exploration company.
- (ii) The small petroleum exploration company which acquires an interest in a petroleum prospecting licence (usually with other small companies in a joint venture operation), conducts relevant geological and geophysical testing on the licence area to define prospects and then seeks to attract a major investor (particularly overseas companies) into the operation to provide capital for a drilling programme and ongoing development.

In this paper, I analyse the role of the small investor as outlined above. I outline examples of investment and discuss the effect of the Stock Exchange listing requirements and the legislative regime governing petroleum prospecting on the role of the small investor. My discussion of the legislative regime will include relevant provisions of the Crown Minerals Act 1991, which was enacted on 22 July 1991 and comes into force on 1 October 1991.

Individual Investor/Shareholder

The ability of the individual investor to participate directly in petroleum exploration is limited by the requirements for the granting of a petroleum prospecting licence under the Petroleum Act 1937 and the Petroleum Regulations 1978(1), i.e., in the written application the applicant must give details of technical qualifications, ability and experience to carry out the proposed exploration programme and following approval of a prospecting licence, a deposit/bond of NZ \$250,000 must be lodged within four months with the Secretary of Commerce before the licence is granted. The requirements will be similar under the Crown Minerals Act 1991 (and regulations)(2).

However, individual investors play an important role in the petroleum exploration industry as minor shareholders (in terms of percentage of total shareholding) in petroleum exploration companies. In this role, individual investors are a source of risk capital for the exploration activities of the company and allow the company to spread the risk of petroleum exploration. In many cases, petroleum exploration and mining companies are directly dependent upon the initial and subsequent capital subscriptions by individual investors to fund their operations. For example, in 1981,

New Zealand Oil and Gas Ltd and CUE Energy were floated on subscription largely by small/individual investors. In 1962, New Zealand Petroleum Company Limited began exploration work which was funded by the issue of a prospectus for 1,200,000 five shilling, partly paid, ordinary shares raising £300,000. By mid 1962, the company was listed on the New Zealand Stock Exchange(3).

The significance of individual investors in the petroleum industry is revealed by their substantial exposure to companies (involved in the petroleum industry) that are listed on the New Zealand Stock Exchange. In terms of market capitalisation, the following companies involved in the petroleum industry were ranked in the top forty as at 16 August 1991: Fletcher Challenge (2); Fay Richwhite (16); Southern Petroleum (34) and NZ Oil and Gas (35) (New Zealand Petroleum Company was 68th).

The significance of individual investors can also be shown by an analysis of the shareholding of some of the public petroleum companies:

New Zealand Petroleum Company Limited (as at 31 June 1991)(4)

- 99.27 % of the shareholders had holdings of under 10,000 shares, representing 11.28 % of the total shareholding.

New Zealand Oil and Gas Limited(5)

- As at 26 October 1990, the company had on issue a total of 125,425,956 fully paid ordinary 50c shares.
- As at 2 October 1990, 96.6 % of the shareholders had holdings of less than 10,000 shares, representing 16.16 % of the total shareholding.
- As at 2 October 1990, over 90% of the shareholders had holdings of under 5,000 shares, representing 12.35% of the total shareholding.

Southern Petroleum (No Liability) (as at 30 September 1990)(6)

- The company had on issue a total of 148,441,950 45c paid contributing shares.
- 90.4% of the shareholders had holdings of up to 5,000 shares, representing 5.9% of the total shareholding.
- 66% of the shareholders had holdings of between 0 and 1,000 shares, representing 2.8 % of the total shareholding.

However, a Fletcher Challenge Limited subsidiary now owns 76% of issued share capital with the rest held by about 9,000 small shareholders.

In addition, many of the major shareholders in these companies are institutional investors such as life insurance companies and superannuation companies. These institutional investors represent an accumulation of the investment funds/savings of individual investors. For example, amongst the top 20 shareholders in New Zealand Oil and Gas Limited are(7): The National Mutual Life Association of Australasia Limited (No. 3); Government Insurance Office of New South Wales (No. 12); Sun Alliance Life Limited (No. 14); Colonial Mutual Life Assurance Society Limited (No. 19).

New Zealand Stock Exchange Listing Requirements

The listing requirements of the New Zealand Stock Exchange facilitate the role of the individual investor/shareholder in that they impose rules on issuers wishing to have their securities traded through the Stock Exchange which are designed to facilitate the efficient operation of the market. It is considered that the market works best when buyers and

sellers are fully responsible for the quality and consequences of their decisions to buy and sell. In order to make decisions, however, buyers and sellers must have access to relevant information about the companies in which they are investing, and this is one of the main objectives of the listing requirements. Some features of the listing requirements are:

- detailed requirements cover listing and quotation on the Stock Exchange, and the issue of securities;
- obligations are placed on issuers to disclose to market participants as much relevant information as can be disclosed without material damage to the interest of the issuer and to take reasonable steps to minimise the risk of materially unequal distribution of information by taking account of the channels through which information is released;
- they attempt to minimise the risk of market prices being materially influenced by false or misleading information;
- they provide for information to be widely disseminated when it becomes available to outsiders who would be free to trade in the issuers' securities with the benefit of that information; and
- they attempt to minimise the risk of non-compliance by issuers, by providing compliance and enforcement provisions, and also facilitating direct pursuit by participants of remedies for breaches affecting them.

The requirements also contain a section dealing specifically with mining companies(8) i.e., companies principally engaged in the exploration or the extraction of a mineral, oil or natural gas. Because of the highly specialised and speculative nature of the minerals exploration industry, there is a need for market participants (and potential participants) to have access to additional information on a more regular basis. In particular, the value of shares in a mining company may be significantly affected by the results of geological testing, drilling and other exploration activities undertaken by the company. The additional obligations placed on mining issuers in this section of the requirements are, *inter alia*:

(i) Additional pre-requisites for listing i.e., the issuer has available working capital of at least \$400,000; exploration work must have commenced, and the application must be accompanied by a report verified by both an independent qualified accountant and a geologist on the expenditure on such work and results obtained to date(9).

(ii) Additional requirements in relation to the contents of a prospectus, i.e., maps and reports on mining tenements, appropriate geological maps or cross-sections (in relation to oil ventures), qualified engineer's report as to description, state and suitability of equipment which the issuer uses, schedules giving details of all mining tenements in which the issuer has an interest, detailed statement giving details of vendor where the issuer has acquired an interest or has entered into an agreement to acquire an interest in a mining tenement, details of asset valuations, particulars of any royalty payments or compensation to landowners to be paid(10).

(iii) A mining issuer must provide the Stock Exchange with a quarterly report giving full details of production development and exploration activities and expenditure incurred including a balanced interpretation of any exploration results(11).

(iv) A mining issuer which has an interest in the drilling of a petroleum exploration well is required to provide additional information to the Stock Exchange on a daily and weekly

basis in relation to details of the well and any hydrocarbon indications observed while drilling(12).

(v) A no liability mining issuer is required to include additional information in its notice to security holders upon whom a call is made relating to the amount expended on exploration and administration since the date of the last audited accounts, and full details of the use to which the funds raised will be put(13).

(vi) A mining issuer must give notice to the Stock Exchange of any option or other agreement entered into to acquire a significant interest in a mining tenement immediately such option or agreement becomes unconditional(14).

Minority Shareholder Rights

As discussed above, the individual investors primary role in oil exploration companies is as a source of risk capital. However, individual investors may also have a subsidiary "watchdog" role with regard to the business activities of a company and the management of those activities by the directors and officers. This role is facilitated by the provisions of the Companies Act 1955 (and the Companies Bill (as currently drafted) which is proposed to come into force in early 1992).

Section 209 of the Companies Act 1955 provides that any member of a company who complains that the affairs or acts of the company have been, or are being, or are likely to be conducted in a manner that is oppressive, unfairly discriminatory or unfairly prejudicial to him (whether in his capacity as a member or otherwise) may apply for relief under the section. The scope of the section is very wide, however, the section is essentially concerned with providing a remedy for unjust detriment to a member's interests. Section 209(2) gives the Court complete freedom to make such order as it thinks fit, if it is of the opinion that to make an order would be just and equitable. However, certain types of order are specified although they do not limit the generality of the Court's power. These are:

(i) The Court may make an order regulating the conduct of the company's affairs in the future(15), i.e., appointment or removal of directors, reduction of capital, the alteration of the articles and the calling of meetings and, in some cases, major reorganisation of the company's management structure(16);

(ii) The Court may require the company to refrain from doing or continuing an act complained of by the member, or to do an act which the member has complained that it has omitted to do(17). That is, the Court can compel the payment of dividends, or order the company not to carry into effect a proposed alteration to the articles.

(iii) The Court may order the purchase of a member's shares by other members or by the company itself(18).

(iv) The Court may direct the company to conduct Court proceedings or may authorise a member or members to do so in the name and on behalf of the company(19).

Examples of typical situations giving rise to allegations of oppressive or unfairly prejudicial treatment of the minority are(20):

- exclusion of a minority shareholder from participation in the affairs of the company;

- non-payment of a dividend even when the company is in a strong financial position (may be particularly relevant to shareholders in oil exploration companies which seek to avoid payment of dividends until they have established a stable earnings base from petroleum production);

- payments, transfer of assets or business opportunities which confer benefits on the controllers in some other capacity and which the minority shareholders do not share;

- disputes between members relating to the affairs of the company;

- biased changes to the company constitution.

Other sections of the Companies Act 1955 which are relevant to individual investors are:

(i) Section 217(da) - application to have the company wound up if directors have acted in the affairs of the company in their own interests, rather than the interests of the company or in some other manner which is unfair or unjust to any member of the company;

(ii) Section 217(f) - application to have the company wound up on the ground that it is just and equitable.

(iii) Sections 168/169 - appointment of inspector/s to investigate the affairs of the company.

Under the Companies Bill 1990 (as currently drafted), minority shareholders have increased powers with regard to participating in and monitoring the activities of the company. Some of these increased powers are:

(i) Clause 87 of the Bill provides that a shareholder is entitled to question, discuss, or comment on the management of a company at a meeting of shareholders of the company.

A meeting of shareholders may pass a resolution relating to the management of the company although this will not be binding on the Board unless the constitution of the company provides that the resolution is binding (however, such a resolution is likely to be of persuasive value).

(ii) Clause 88 provides for a minority shareholder to require the company to purchase his/her shares where the shareholder votes against alterations to the company through amalgamation, transactions involving major assets, removal of restrictions on company powers or liquidation.

(iii) Clause 139 (derivative actions) provides that on the application of a shareholder or director of a company, the Court may grant leave to that shareholder or director to bring proceedings in the name and on behalf of the company or any of its subsidiaries.

(iv) Clause 143 provides that a shareholder may bring an action against a director for breach of a duty owed to him or her as a shareholder.

(v) Clause 144 provides that on the application of a shareholder of a company, the Court may if it is satisfied that it is just and equitable to do so, make an order requiring a director of the company to take any action that is required to be taken by the directors under the constitution of the company or the Act.

(vi) Clause 145 provides that a shareholder of a company may bring an action against the company for breach of a duty owed by the company to him or her as a shareholder.

(vii) Clause 146 provides that on the application of a shareholder of a company, the Court may if it is satisfied that it is just and equitable to do so, make an order requiring the company to take any action that is required to be taken by the constitution of the company or the Act.

(viii) Clause 147 provides that where a shareholder of a company brings proceedings against the company or a director, and other shareholders have the same or substantially the same interest in relation to the subject matter of the proceedings, the Court may appoint that shareholder to represent all or some of the shareholders having the same or substantially the same interest (representative actions).

(ix) Clause 148 is very similar to the present Section 209. Clause 149 provides that failure to comply with certain sections of the Act is conduct which is deemed to be unfairly prejudicial for the purposes of Clause 148.

Small Petroleum Exploration Company

In relative terms, many New Zealand based oil exploration companies are "small investors" in the industry in comparison with the major international oil companies, i.e. New Zealand Oil and Gas Limited, Southern Petroleum (No Liability), New Zealand Petroleum Limited. However, these "small investors" occupy a very important strategic position at the forefront of petroleum exploration as the catalyst between petroleum exploration in New Zealand and the international capital market.

These small corporates are not as adverse to risk as the major companies, and they will undertake exploration that the major companies would not. However, the major investor will be prepared to farm-in to explorations which have shown prospects and to pay a premium to the initial joint venturers accordingly. The small corporates obtain acreage (usually as part of a joint venture operation with other small companies) and develop that acreage through seismological testing to the stage where prospects are adequately defined for a drilling programme to proceed. The small corporates then endeavour to attract a major investor into the operation through a farm out/in arrangement to fund the drilling programme and ongoing development of the prospects. Many major oil companies will not consider investing in any onshore drilling activity in New Zealand because the likely discovery of reserves are too small. For example, AMOCO targets large prospects (500 million barrels or greater) which in New Zealand are found offshore. Therefore, in order to be successful in attracting a major investor into an exploration operation, it is important that the small corporates are aware of the potential of prospects and target appropriate investors.

In this way, the small corporate operates as a vehicle of risk capital in the petroleum exploration industry, undertaking valuable work for the risk adverse major investor and providing a base for the next stage in the exploration process. This is a vital role in the industry because it attracts substantial investment capital into New Zealand and ensures that a reasonable level of exploration activity is undertaken and prospects with potential oil reserves are adequately explored.

As indicated earlier, New Zealand Oil and Gas Limited and Southern Petroleum (No Liability) have been examples of New Zealand based companies which can be categorised as "small investors" and vehicles of risk capital for major oil companies. Recent examples of their involvement in this role are outlined below:

(i) NZOG holds an interest in PPL 38451 in the North Taranaki Basin. Several prospects in this licence area have been evaluated over the last two years and these prospects are now adequately defined for drilling to proceed. The main prospect is the Kahawai Prospect with a potential oil reserve in the event of discovery of several hundred million barrels of oil. In August 1990 the company reached an agreement with Sun International Exploration and Production Company Limited (Sun) whereby Sun will fund NZOG's cost through the drilling of the Kahawai prospect and will acquire half of NZOG's interest in PPL 38451. The agreement with Sun also provided that further wells may be drilled on other

prospects in PPL 38451 (and adjacent licences in which NZOG has an interest) during 1991(21).

(ii) Another licence in which NZOG holds an interest is PPL 38408 (offshore) in the South Taranaki Basin. NZOG acquired a 24.5% working interest in the joint venture by contributing 50% of the cost of a seismic programme for this licence which was undertaken during 1990. Following the completion of the programme, two prospects of moderate size were established. The joint venture is now seeking farm-in partners to fund the drilling of a well in the permit during 1991(22).

(iii) Southern Petroleum (No Liability) holds an 8.9% interest in PPL 38453 (onshore and offshore Taranaki Basin) (NZOG also holds a 20% interest in this licence). During 1990, a 40% interest in the licence was farmed-out to ARCO Petroleum New Zealand Incorporated who also took over the operatorship from Petrocorp Exploration Limited. Under the terms of the farm-out, ARCO drilled the Tirua 2 well in the licence area and carried Southern's share of the costs in return for receiving half Southern's interest in the licence. The well was drilled to a TD of 2,692 metres but unfortunately failed to record any significant shows of hydrocarbons. The well was plugged and abandoned in July 1990(23).

Legislative Regime—Petroleum Act 1987/Crown Minerals Act 1991

The role of small companies in petroleum exploration in New Zealand is not impeded by the legislative regime governing this area. As discussed, listing on the Stock Exchange has provided a means for exploration companies to raise risk capital for their activities. The listing requirements facilitate the efficient operation of the securities market in the interests of all participants. The legislative procedures under the Petroleum Act 1937 (and the Crown Minerals Act 1991) for applying for prospecting/exploration licences are effective:

(i) The present procedures are set out in the Petroleum Act 1937 (Sections 6 to 11) and the Petroleum Regulations 1978. Unlike individual investors, small exploration companies do not face the same difficulties in complying with the requirements set out in the Act/Regulations. Most of the companies are able to produce detailed work programmes exhibiting knowledge of the geology of a region (and adjacent licence areas) and the technical qualifications, ability and experience to carry out the proposed exploration and fully evaluate the results. Similarly, the bond of \$250,000 is not a major impediment to these companies particularly where capital is to be raised by a public float or the bond payment is shared amongst joint venture partners.

(ii) The Crown Minerals Act 1991 introduces a new regime for the management of all Crown owned minerals. Some of the major changes to the present licence procedure are:

- the licence system is changed to a permit system(24);
- permits are required for prospecting (2 to 4 year duration), exploration (5 to 10 year duration) and mining (40 year duration) ("prospecting", "exploring" and "mining" are all defined in the Act)(25);

- the granting and extension of permits is subject to relevant minerals programmes which establish policies, procedures and provisions to be applied in respect of Crown owned minerals (particularly in relation to the efficient allocation of rights in respect of Crown owned minerals and the obtaining by the Crown of a fair financial return from its minerals)(26);

• the Minister may allocate permits by public tender(27).
(iii) Notwithstanding the major changes introduced by the Crown Minerals Act 1991 (in respect of applications for permits) and the uncertainty inherent in those changes, it is unlikely that the role of the small corporates will be significantly affected. The small corporates will still be in a position to satisfy the criteria for granting prospecting of exploration permits in terms of experience, technical qualifications and ability to carry out proposed work programmes and to comply with any increased financial requirements in terms of bonds or other payments to the Crown.

Likewise, the legislative procedures under the Petroleum Act 1937 (and the Crown Minerals Act 1991) for transferring licences or acquiring or disposing of interests in licences (i.e., farming in/out) do not impede the role of the small corporates. The procedures allow the small corporates to farm out minority interests in licences to other small (corporate) investors to provide risk capital for the prospecting stage and then farm out major interests to provide capital for ongoing exploration/ mining of prospects.

The present procedures are set out in Sections 22 and 23 of the Petroleum Act 1937. Generally, the sections provide that it shall not be lawful for a licensee (or any other person) to enter into an agreement to transfer a licence, create any interest in a licence, assign or otherwise deal directly or indirectly with any interest in a licence, impose any obligation on the licensee which relates to or affects the production of petroleum from the land unless the agreement is entered into subject to the consent of the Minister and an application for such consent is made within three months after the date of the agreement. The Minister may in his discretion refuse any application for his consent or may give consent unconditionally or subject to such terms and conditions as he thinks fit to impose. The Minister may also require the production of such information relating to the agreement as he considers necessary. Agreements which are entered into subject to the Minister's consent do not have any effect unless application for the Minister's consent is made within three months and the Minister grants his consent. Any agreement (to which the sections apply) which is entered into without it being subject to the Minister's consent shall be unlawful and have no effect.

Section 22 and 23 of the Petroleum Act have been amalgamated in Section 41 of the Crown Minerals Act. The procedures are largely unchanged except in two respects:

(i) Section 41(3) states that

“...the Minister shall consent to an agreement.....on such conditions as he or she thinks fit, unless in his or her opinion special circumstances exist”. This amendment removes the emphasis on ministerial discretion that is evident in Sections 22 and 23 and requires that the Minister shall give his/her consent except in special circumstances. The amendment appears to provide more certainty that consent will be granted in most cases.

(ii) Section 41(7) states that a transfer or lease of permit (other than a permit in respect of petroleum) shall not have any force or effect until the instrument of transfer or memorandum of lease has been lodged with and accepted by the District Land Registrar. Section 41(8) states that a transfer or lease of a permit in respect of petroleum shall not have any force or effect until a notice in the prescribed form of the transfer or lease has been lodged with the Secretary

and the Minister has consented to the transfer or lease. Sections 41(9) to (13) provide for the lodging of instruments of transfer or memorandums of lease with the District Land Registrar.

Taxation/Resource Management Reforms

With regard to the recent legislative reforms in the areas of petroleum taxation and resource management, I note that there is a concern in the industry that these reforms will act as a disincentive to overseas investment in New Zealand petroleum exploration and mining. The taxation reforms are perceived to be penal and discriminatory and the resource management reforms are seen as creating uncertainty and favouring environmental groups(28). If these reforms do discourage overseas investment in the industry, this will clearly affect the role of the small corporate because it will be significantly more difficult to attract major oil companies into established operations, to provide the capital necessary for ongoing development. The Government has stated that it wishes to encourage further overseas investment in the industry and the taxation regime is currently under review(29). It remains to be seen whether the resource management reforms will in fact discourage overseas investment.

Joint Venture Operating Agreements

As discussed, the small corporate will often farm-out minority interests in a prospecting licence to other small corporates, and undertake initial development of the licence area through a joint venture operation with one of the joint venturers acting as the Operator of the licence. If the initial prospecting/ exploration shows some potential, the joint venturers may seek a major farm-in partner (or partners) to acquire a substantial interest in the licence (and the joint venture) and provide capital for ongoing development. The participation of minority interests in joint venture operations and the farming-out of major interests in licences are facilitated by the provisions of joint venture operating agreements (JVOA) which are relatively standard in New Zealand.

The JVOA establishes an Operating Committee to supervise and control all matters pertaining to the joint operations. The Operating Committee consists of one representative appointed by each of the joint venturers which holds a percentage interest of 4% or more. Any joint venturer whose percentage interest is less than 4% cannot appoint a representative, but may join with another joint venturer so that the aggregate percentage interest of those joint venturers is 4% or more, and they may appoint a representative to represent them jointly. At the meetings of the Operating Committee, each joint venturer has a voting interest equal to its percentage interest provided that such percentage interest is 4% or more. A joint venturer with an individual percentage interest of less than 4% may join with another joint venturer and those joint venturers shall have a voting interest equal to the aggregate of their percentage interests. The existence of an Operating Committee and the ability of minor participants in the joint venture to be represented on the Committee and to vote at meetings promotes the role of the minor participant in the joint venture. The minor participant is able to be involved in the major decisions affecting the joint operations and along with the other joint venturers can exercise a supervisory role over the Operator.

The JVOA provides for the assignment and encumbrance of percentage interests in the joint venture. Usually each of

the joint venturers may (subject to any necessary Ministerial consent) assign all or part of its percentage interest to an affiliate or to any other joint venturer or any third party (however, any other joint venturer or third party must reasonably demonstrate to the Operator its financial capability to meet its prospective obligations under the JVOA). Any joint venturer wishing to make an assignment must first give notice to the other joint venturers specifying details of the proposed assignment and any of the other joint venturers may, after receipt, request that the assignment of the relevant percentage interest be to it. If none of the other joint venturers request the assignment be to it, the joint venturer may proceed with the assignment to the proposed assignee.

The assignment provisions ensure that none of the joint venturers can dispose of their percentage interest to another joint venturer or a third party until specific work obligations are completed or abandoned. The provisions also ensure that any proposed assignee must demonstrate its financial capability to meet its prospective obligations under the JVOA and that any joint venturer may request that the proposed assignment of an interest be to it rather than to a third party or another joint venturer. It is clear if a joint venturer is actively seeking the involvement of a major investor, there are no impediments to assigning a percentage interest in the joint venture to such an investor.

Summary

The "small investor" in the petroleum exploration industry has the essential role of being a source of risk capital. This is so whether the "small investor" is an individual investor in a petroleum exploration company or a small petroleum exploration company which is involved in the initial prospecting/exploration of a licence area.

The involvement of individual investors allows petroleum exploration companies to spread the risk of petroleum exploration and in many cases, companies are directly dependent upon the initial and subsequent capital contributions by individual investors to fund their operations. The significance of individual investors in the petroleum industry is highlighted by their substantial exposure to public companies involved in the petroleum industry which are listed on the New Zealand Stock Exchange and can also be shown by an analysis of the shareholding of some of these public companies. The role of the individual investor in the petroleum exploration industry is facilitated by the New Zealand Stock Exchange listing requirements which seek to promote the efficient operation of the securities market in

particular, by providing for the efficient dissemination of relevant information. Although the primary role of minority shareholders in the petroleum exploration industry is as a source of risk capital, individual investors may also have a subsidiary "watchdog" or monitoring role with regard to the business activities of a petroleum exploration company and the management of those activities by the directors and officers. This role is facilitated by the provisions of the Companies Act 1955 (and the Companies Bill 1990) relating to the rights of minority shareholders. In particular, the rights of minority shareholders are significantly increased under the provisions of the Companies Bill (as currently drafted).

Small New Zealand based petroleum exploration companies occupy a very important strategic position at the forefront of petroleum exploration as the catalyst between petroleum exploration in New Zealand and the international capital market. These companies obtain an interest in prospecting licences (usually with other small corporates in a joint venture operation) and develop that licence area through geological and geophysical testing to the stage where prospects are adequately defined for drilling to proceed. The small corporates then seek to attract a major investor (usually an overseas oil company) into the operation to provide capital for the ongoing exploration/ mining of the licence area. The role of the small corporates is not impeded by the legislative regime controlling petroleum exploration in New Zealand (i.e., the relevant provisions of the Petroleum Act 1987 and the relevant provisions of the Crown Minerals Act 1991 which comes into force on 1 October 1991). In addition, the provisions of joint venture operating agreements standard in New Zealand facilitate the participation of minority interests in petroleum joint ventures and allow for major interests in the joint venture to be farmed out once the initial development stage has been completed. There is presently some concern that recent reforms in areas of petroleum taxation and resource management will act as a disincentive to overseas investment in the New Zealand petroleum exploration industry. This would clearly affect the small corporates in their role as the catalyst between petroleum exploration in New Zealand and the international capital market. The Government has stated that it wishes to encourage further overseas investment in the petroleum industry and in this regard the petroleum taxation regime is currently under review. The Resource Management Act and the Crown Minerals Act 1991 will come into force on 1 October 1991 and it remains to be seen whether they will discourage overseas investment in the industry.

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