

FORMAL MESSAGE – CARBON BORDER ADJUSTMENT MECHANISM FEASIBILITY STUDY – TASKING TO POSTS TO REACH OUT TO STAKEHOLDERS

RAPŌPOTO – SUMMARY

The Ministry for the Environment (MfE) is leading a feasibility study to provide an initial assessment of whether a Carbon Border Adjustment Mechanism (CBAM) could be an effective policy instrument to mitigate the risk of emissions leakage and support industry decarbonisation compared with other alternatives (including industrial allocation).

MFAT is supporting the feasibility study through the assessment of trade-related impacts and implications for bilateral and regional trade relationships. We seek Posts assistance to reach out to officials in Australia, the EU and UK to understand their process and analysis.

HOHENGGA – ACTION

BRU, CBA, LON: See para 10 - 13 for instructions to engage with counterparts on a CBAM policy, and [attached document](#). **OIA note - Attachment is provided as Document #20**

Handling Instructions

MfE: White, McMaster, Barnett, Mellor, Gulliver, Mandal-Johnson, Coombes, Black, Guy-Meakin

PŪRONGO – REPORT

1 Many thanks for Posts' engagement so far on Carbon Border Adjustment Mechanisms (CBAMs), and for recent reporting on trade and climate issues more broadly. We note New Zealand's continued interest in this issue, and set out the next steps that New Zealand is taking in response to domestic interest and a desire to keep step with international trends.

2 Ministry for the Environment (MfE) is interested in assessing options to enhance the effectiveness of the New Zealand Emissions Trading Scheme (NZ ETS). One of these areas includes consultation on changes to improve or replace the Industrial Allocation (IA) system, which protects specific emissions-intensive and trade-exposed firms from facing the full cost that the NZ ETS would otherwise impose. One of these options is a CBAM.

3 A CBAM imposes a carbon price on imported goods, determined by the difference between domestic and international carbon prices. Concrete New Zealand, representing all four suppliers of cement in New Zealand, has written to the Minister of Climate Change seeking a commitment to undertake work on a cement industry CBAM. Under current IA settings, New Zealand's only domestic manufacturer of cement, Golden Bay

Cement, is believed to be facing a higher marginal cost of production than imports, increasing leakage risk. Current settings are also perceived to be disincentivising cement producers and importers from supplying lower-emissions products. This effect could progressively worsen given the sector's hard to abate emissions and the phase out of industrial allocation. Golden Bay Cement (GBC), New Zealand's only manufacturer of cement, has also told the Minister that a CBAM as a replacement of IA is necessary for them to remaining economically viable as a domestic manufacturer beyond ~2035.

Carbon Border Adjustment Mechanism (CBAM) Feasibility Study

4 In response, MfE will be conducting a short and focused feasibility study on CBAM's to consider the merits of this policy for New Zealand. It will be completed within six months to enable a report back to Cabinet in December 2025 for Cabinet to consider taking an in-principle decision to progress a CBAM policy. The feasibility study will enable the Government to form an evidence-based position on:

whether a CBAM could be an effective policy instrument to mitigate the risk of emissions leakage and support industry decarbonisation compared with other alternatives (including industrial allocation).

5 The cement sector is considered a suitable starting point given the industry's support, the risk of emissions leakage is well established, cement is a sector targeted in the EU CBAM and identified by Australia in its review, and the makeup of the sector in New Zealand is simple.

6 The study would consist of partnering with the cement industry to assess firm level impacts, working across agencies on the potential wider economic impacts of a CBAM, engaging with international trade partners and identifying possible implementation options and their trade law implications.

Governance of the feasibility study

7 The feasibility study will be guided by a deputy-secretary level governance group. Deputy Secretary TEG Vangelis Vitalis, or TPND Divisional Manager, will be representing MFAT alongside colleagues from MfE, Customs, Department of Prime Minister and Cabinet, Inland Revenue, Ministry of Business, Innovation and Employment, Ministry of Primary Industries, and Treasury. TPND (Jens) will coordinate MFAT's engagement internally, will attend the officials cross-agency meeting and is the primary contact for MfE at an officials level.

International engagement in the feasibility study

8 To inform the feasibility study, we are interested in learning from trade partners, namely Australia, the EU and UK, who are considering implementing a CBAM. The EU CBAM will be fully implemented by 1 January 2026 and the UK CBAM from 1 January 2027. The Australian Carbon Leakage Review expects to recommend an Australian border carbon adjustment be implemented on certain products (starting with clinker and

cement) although these findings have not yet been formally considered by the Australian government. The Minister of Climate Change is interested in opportunities to align our approach with Australia. The vast majority of countries do not have CBAMs in place, but still need to consider how to respond both to CBAMs in other jurisdictions, and to the risk of carbon leakage from their own jurisdictions.

9 MFAT's role in the feasibility study is to lead the assessment of trade-related impacts, in close coordination with relevant agencies. This will include considering risks to New Zealand's international strategic position and possible impacts on trading partners' economies. It will also include assessing consistency with World Trade Organization (WTO) obligations, and alignment with New Zealand's existing trade agreements, including potential implications for bilateral and regional trade relationships.

10 MFAT will also lead and facilitate the technical and policy consultation with international counterparts on the potential implications of a CBAM. MFAT will arrange meetings for MfE technical and policy officials to engage with their counterparts in Australia, and if required, in the EU and UK.

11 For the feasibility study, MfE would like to engage with Australia, the EU and UK. The most in-depth engagement will be with Australia given our close relationship. MfE is seeking Posts' assistance to gain insights from partner countries on:

- a) What analytical approach, including any literature review, it took to design a CBAM and from that, what can it share with New Zealand?
- b) What engagement did it have with international counterparts (governments and industry)?
- c) How best can New Zealand engage with its international partners, primarily Australia, EU and UK?

The attached document provides a list of questions that MfE would like to ask Australia. We seek CBA's assistance to arrange a meeting for MfE colleagues to engage with officials, 9(2)(g)(i) MfE has provided subject areas related to the EU and UK approach that they are interested in understanding more about. Through MfE, the cement industry has suggested individuals to engage with in the EU system.

12 Using existing relationships and mechanisms, we ask BRU, CBA and LON to gather information to support the feasibility study. Posts are welcome to speak openly about the feasibility study and its objectives (see attached the [Terms of Reference](#)). TPND (Jens) will

OIA note - Attachment is provided as Document #29

13 TPND recognises that BRU and LON have already had substantive engagement with counterparts and participate in meetings, such as the EU CBAM Experts Group and the UK CBAM International Group, that provide useful information for the feasibility study. TPND (Jens) will work with BRU and LON to collate that information in a way that is useful for MfE's study.

ENDS - MUTU