

Informal Note — Advice on the Carbon Border Adjustment Mechanism (CBAM) feasibility study, focused on the cement and clinker sector.

What implications will the feasibility study have on our international trade agreements?

- 9(2)(h), 9(2)(g)(i), 6(a)
[Redacted]
- 9(2)(g)(i)
[Redacted]
- 9(2)(h), 9(2)(g)(i), 6(a)
[Redacted]
- Considering the risks with a unilateral CBAM, our view is that the study should explore a range of policy options against their effectiveness to address the risk of emissions leakage, assess a broader range of sectors, and consider a CBAM for its climate change rationale. The study should also take into account potential trade impacts.

How progressed is the Australian proposal for their CBAM & how broad is it?

- Australia recently completed a two-year review of emissions leakage to support consideration on whether to implement a CBAM. Australia took a carbon leakage risk-assessment approach considering sectors that are not currently covered by existing climate change policies. While clinker, cement and lime were the highest risk, the review also noted ammonia and derivatives, steel, and glass at a moderate-to-high risk worthy of additional policies to address leakage, but with "less impetus for earlier action" than the first set.
- The report is being considered by Government now. Officials understand it may recommend a border carbon adjustment mechanism for cement and clinker. It is unclear when the report will be released. 6(a)
[Redacted]

Could you please provide an update on how other international CBAMs are progressing (i.e. EU and UK)?

- Some of New Zealand's closest trading partners are looking to implement multi-sector CBAMs [no country has pursued a single-sector approach]. The EU CBAM will be fully implemented from 1 January 2026 and the UK CBAM will be fully implemented from 1 January 2027. The EU CBAM covers iron and steel, aluminium, electricity, certain fertilisers, cement, and hydrogen. The UK CBAM covers similar sectors to the EU (except with the exclusion of electricity). Canada is also exploring Border Carbon Adjustments ('BCAs').
- The UK is currently seeking feedback on its draft primary legislation and will publish its draft secondary legislation and draft guidance 2025-2026, ahead of the introduction of the UK CBAM in January 2027.
- The UK will continue to engage on the detail of the UK CBAM with international stakeholders, through bilateral and multilateral forums, and the UK CBAM International Group, which New Zealand is a member of.
- In May, the UK and EU committed to linking their respective emissions trading schemes to reduce friction for cross-border trade in carbon intensive goods once both CBAM schemes are operational.
- Engagement with Australian officials has started and there are plans under way to engage with UK and EU officials. A more comprehensive international engagement plan will be needed if New Zealand decides to continue to pursue a CBAM as a trade and climate policy option.

Where is New Zealand's CBAM at with respect to industry engagement?

- Ministry for the Environment (MfE) is leading the engagement with the cement industry. The feasibility study has arisen following a direct request to the Minister of Climate Change and MfE from the cement sector.

Future trade risk

- 9(2)(g)(i), 6(a)

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