



Regulatory Impact Statement: Maintaining domestic cement manufacturing in New Zealand

Decision sought	Whether to support FBL/GB's continued domestic cement manufacturing, and if so, how.
Agency responsible	Ministry for the Environment (MfE) Consulted with Ministry of Business Innovation and Employment (MBIE), New Zealand Treasury (TSY), Ministry of Foreign Affairs and Trade (MFAT), Department of Internal Affairs (DIA), Ministry for Regulation (MfR), Inland Revenue Department (IRD)
Proposing Ministers	Hon. Simon Watts
Date finalised	23 April
Appendices	Appendix one: NZ ETS explainer Appendix two: Approach to fiscal costings
Glossary	<i>Industrial allocation policy is a technical area that involves terms that may not be familiar. Those used frequently in this RIS are set out below.</i> New Zealand Emissions trading scheme (NZ ETS) – the NZ ETS prices emissions using market fundamentals of supply and demand. NZ ETS participants, such as emitting firms, must report their emissions and surrender one New Zealand unit (NZU) per tonne of carbon dioxide equivalent (t CO₂e) to the government. Pricing emissions makes them relevant to firms' business decisions and investments. Industrial allocation (IA) - An industrial allocation is an allocation of New Zealand Units (NZUs) given to businesses carrying out activities that are emissions-intensive and trade-exposed. Allocative baselines - Allocative baselines are a key input in determining the amount of IA a firm receives (multiplied by the total production volume during a calendar year and the level of IA assistance). Each allocative baseline represents the emissions per unit of product made. For example, an allocative baseline of 1.5 means that there are 1.5 tonnes of CO₂-e associated with every 1 tonne of product made.

	Emissions-intensive – An activity is emissions-intensive if the emissions generated from an activity relative to its revenue meets defined thresholds: • moderately emissions-intensive (emissions are equal to or greater than to 800 t but less than 1,600 t CO₂-e /\$1 million revenue) • highly emissions-intensive (emissions equal to or greater than 1,600 t CO₂-e/ \$1 million revenue). Trade-exposed - An activity is considered trade-exposed if there is international trade of the activity output (the product). Phase-out rate – the phase-out rate is the amount by which the level of IA assistance reduces each year. The current phase-out rates are: 1 percentage point in the 2030s, 2 percentage points in the 2040s, and 3 percentage points in the 2050s and 2060s. In 2026 the level of assistance for moderately emissions-intensive firms is 54 percent, and for highly emissions-intensive firms it is 84 percent. Emissions leakage – Competition with businesses in other countries could lead to New Zealand businesses relocating to countries which do not have equivalent climate policies that price emissions. Relocation would see a loss in production in New Zealand and may also increase global emissions – this is called emissions leakage. Decarbonisation – for allocative baselines, this means an investment that reduces a firm’s emissions intensity – their industrial process becomes more efficient and creates less emissions per unit of product.
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Briefly explain the Minister’s proposal

This paper seeks Cabinet’s agreement to temporarily suspend Fletcher Building’s ETS surrender obligations for a period of 10 years to support Golden Bay’s Portland cement plant in Whangārei to continue manufacturing cement.

Summary: Problem definition and options

What is the policy problem?

New Zealand’s only domestic cement manufacturer, Golden Bay Cement (GB), a subsidiary of Fletcher Building Limited (FBL), faces viability challenges due to a combination of emissions costs under the NZ ETS, competition from imports that do not face equivalent emissions pricing, and limited near-term options to abate industrial process emissions. These factors are creating an ‘un-level playing field’ for GB.

FBL/GB have asked the Government to provide it with certainty about an enduring solution to the un-level playing field before its May 2026 board investment decision. If this certainty is not provided, the FBL board advises that it intends to decide in May to shift GB to an import-only model by 2030. It needs to make this decision within the next few months due to the s 9(2)(b)(ii) lead time needed for the investment required to make the shift. FBL has indicated it could delay the decision, but only until July 2026 at the latest and then only if it had received a strong indication that the Government was considering solutions.

MfE agrees that the decision to cease domestic production is being driven largely by the un-level playing field

- Deloitte and MfE have identified that GB's competitors do not face the same emissions costs, GB cannot pass these costs on to consumers and the Industrial Allocation (IA) phase out means support to help meet them is reducing. This is what is meant by the 'un-level' playing field. These costs are preventing GB from meeting its target return on invested capital (ROIC) for investment in domestic production.
- FBL's domestic production investment decision does not account for the economic, supply chain resilience, and environmental benefits of its decisions for New Zealand. Intervention may recognise these wider benefits instead.

Other costs influencing GB's viability are not part of the policy problem, as they are not related to the un-level playing field.

Whether to intervene, or not, depends on careful balancing of the expected outcomes

Closure of domestic production would be expected to lead to emissions leakage, create a risk for supply chain resilience, job losses with flow on regional economic impacts in Northland, and reduce waste diversion.

These impacts must be carefully balanced with the potential downsides of intervention, which include undermining the NZ ETS, higher fiscal costs, and setting a precedent of providing support to individual firms (worsening these impacts) see 'Options', and 'costs and benefits' below.

What is the policy objective?

The FBL board needs certainty to make its investment decisions by July 2026. The Minister of Climate Change (the Minister) has also directed officials to provide options to ensure continued domestic cement manufacturing within this context.

The objective therefore has two parts:

- **Intervene or not:** determine whether intervention is warranted, by making a qualitative judgement on the overall balance of positive and negative effects of continued domestic production versus an import-only model, including supply chain resilience, regional economic, fiscal, and environmental consequences.
- **Intervention method:** If the government decides to intervene, provide an option that is likely to retain domestic production and mitigate, to the extent possible, the negative consequences of intervention.

What policy options have been considered, including any alternatives to regulation?

The options have been assessed against the objectives/ criteria in the same table and in comparison to the status quo.

All options have fiscal implications.

Intervene or not

- **Status quo: Do not intervene**

GB transitions to an import-only model.

- a. TSY, MBIE and MFAT provided feedback in support of not intervening. Agencies considered that not intervening would avoid creating a precedent for similar firms. This benefit outweighs the avoided supply chain risks, emissions leakage (which is uncertain) and regional economic impacts (which are likely temporary) caused by GB's shift to an import-only model. MfR did not oppose intervention in the current context but recognised the precedent risk.
- b. MfE recognises that there are risks both from intervening and not intervening, and considerable uncertainty. On balance, MfE considers that not intervening would have the least negative consequences, but that a different conclusion is possible with a different weighting of the pros and cons.

Intervention method

Options to intervene either remove GB's NZ ETS costs (eg, NZ ETS suspension) or provide support to meet these costs (eg, direct funding, additional NZUs). Either pathway improves GB's ROIC for domestic production, supporting this investment over the proposed import-only model.

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA. [Minister preferred]

This option involves suspending surrender obligations for producing clinker from Part 4 Schedule 3 of the CCRA from 2031

- The suspension would take place from 2031 to 2040, with a review after five years (by 2036).
- Industrial allocation settings would also be updated so FBL does not receive industrial allocation for the emissions it no longer needs to surrender emission units for.
- GB agrees to decarbonise, continue domestic production, s 9(2)(j).
- The suspension ends should a level playing field emerge from overseas or domestic policy developments.

Option two: Amending the CCRA to allow further reductions in IA phase out from 2031.

- There are two versions of this option in the Cabinet paper. Officials have condensed and provided the most effective/ impactful of these (Amend the CCRA to allow further reductions in IA phase out rates if specific criteria are met from 2031).
- Remove Climate Change Commission (CCC) advice requirements from the CCRA 2002 to give immediate effect to the change.
- Remove provisions preventing a greater decrease or pause. This enables a much slower, likely negative phase out rate to provide GB with greater allocations and for longer.

- Minister of Climate Change makes new phase out rate regulations.

Option three: Direct funding to support Golden Bay's decarbonisation investment

- Budget 2026 bid for cash to support GB's investment in emissions reductions and continued domestic production
- Long-term contract with conditions

Options not progressed including non-regulatory

Other, non-regulatory options were considered but did not progress. For example, investigating other funding opportunities (eg, Regional Investment Funding (RIF) or Environmental Investment Fund (EIF)). Funding might support affected persons to manage the transition, and regional economic recovery, beyond existing safety nets/ Crown investments, or support GB in reducing their operating costs/ decarbonising.

- *Funding for GB from existing funding streams:* GB did not meet the eligibility criteria of the EIF/RIF, s 9(2)(g)(i).
- *Funding to minimise negative impacts of closure:* Other funding opportunities may be investigated if the Government decides not to intervene.

Preferred option - is the Minister's preferred option in the Cabinet paper the same as the RIS?

There are risks associated both with intervening, and with not intervening. There is considerable uncertainty, particularly related to the risks of not intervening (eg, supply chain risks, emissions leakage, regional economic impacts). On balance, officials consider the negative consequences of intervention outweigh the benefits, so officials' preferred option differs from the Minister.

However, this is an on-balance judgement, and we recognise a different conclusion is possible with a different weighting of the pros and cons. Officials also advised on an option to support continued domestic production of cement if Ministers judged intervention to be appropriate.

Intervene or not

Officials judge the benefits of intervention to be modest. Supply chain disruption risks are currently assessed as low, as cement and clinker are widely traded commodities and domestic production would not cease until around 2030. However, recent events in the Middle East have brought into focus the economic security risks of reliance on imported inputs, and the risk-mitigation value of some domestic production capacity. Intervening will also help to mitigate a modest amount of emissions leakage, estimated at around 200,000 tCO₂e per year (about 0.3% of New Zealand's current total gross emissions), help mitigate risks to Northland's employment and economy, and maintain waste diversion schemes associated with domestic cement production.

Intervention, particularly through the ETS/IA is likely to significantly impact the ETS market by undermining confidence in the scheme and reducing NZU demand. It will also set a precedent of the Government intervening for other firms/sectors, in respect of their emissions obligations, s 9(2)(j).

MfE recognises that the preferred option is a matter of judgement and depends on the weighting of the different costs and benefits. The Minister has a different assessment of the relative costs and benefits of intervention, discussed in the next section.

Intervention method

Officials have provided intervention options in the event that Ministers, on balance, consider intervention to be warranted.

Officials' assessment is that direct funding (Option Three) best balances a range of criteria, particularly minimising impact on integrity of the ETS. It can effectively level the playing field (with funding calibrated to meet the company's ROIC threshold) but we understand this option is not preferred by FBL. The fiscal costs of this option are unclear without further negotiation with FBL, but are expected to be lower than Option One, particularly if funding is made available in the near-term. Without the constraints of urgency, officials consider further testing of this option (and Option Two) with FBL may have been fruitful.

s 9(2)(ba)(i)

In that context, officials consider that Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA best meets the Minister's objectives, albeit with higher risks for ETS integrity and a higher fiscal cost.

An ETS suspension:

- Provides the greatest certainty to FBL and removes the un-level playing field.
- Has conditions ensuring environmental and economic benefits for New Zealand, and a sunset clause for when an even playing field might emerge.
- An even playing field might emerge as a result of:
 - i. *Border Carbon Adjustment (BCA)*. The Minister previously decided to wait until Australia and other jurisdictions' BCA equivalents progressed, before considering a BCA for cement in NZ.
 - ii. *Overseas ETS'*. Imported cement is expected to face increasing emissions costs in the next 5-10 years (eg, in Japan and Vietnam).
- Would support continued domestic production of materials that are critical to the economy (cement).
- This option would mitigate the risk of emissions leakage and a corresponding increase in global emissions. It would also support continued waste diversion. However, these emissions are expected to be a small proportion of global emissions, and these environmental benefits may be offset by the NZ ETS impact of reducing future demand placing downward pressure on NZU prices.
- This option risks setting a precedent for other emissions-intensive trade exposed firms, which may seek similar government intervention. This adds to views about weakening climate ambition and may undermine ETS market confidence in the near-term.

What consultation has been undertaken?

Consultation to date

- This is a **Classification** issue, so public consultation has not been possible.

- Ministers Watts and Jones separately have met with FBL. Officials have also engaged extensively with FBL.
- MfE has consulted with other agencies eg, MBIE, the Treasury, MFAT, DIA, and IRD.

Further consultation

- The Minister's preferred option for intervention- Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA, does not require further consultation other than that already undertaken with FBL.
- Because of the commercial sensitivities and time constraints, officials consider that further engagement with NZ ETS stakeholders or the public is not possible. Wider consultation would have, however, been beneficial as this a matter of significant public interest (particularly supply chain impacts) and for understanding alternative options and broader impacts of intervention.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031-2040 by amending the CCRA

Monetised:

- Fiscal cost: Net negative operating balance before gains and losses excluding ACC (OBEGAL) impact of s 9(2)(j) from 2031-2040. Fewer units available for auction decreases cash proceeds by s 9(2)(j) for 2031-35 (based on NZ ETS cap reduced).

Non-monetised:

- Indirect:
 - Risks undermining confidence in the integrity of the NZ ETS, the government's principal climate mitigation policy under a market-led strategy.
 - Likely negative ETS market response. Downwards NZU price pressure. Affects firms in the NZ ETS across the economy, as foresters will profit less from planting trees, and emitters are less incentivised to reduce emissions. Therefore, reducing the effectiveness of the NZ ETS mechanism as the Government's key emissions reductions policy.
 - Signals that NZ ETS rules will be changed to suit individual firms, possibly resulting in requests for further suspensions. This would be a shift in ETS system incentives.
- Direct:
 - Administrative cost of implementing and monitoring the suspension, including legislative processes. This cost increases if more firms are provided similar suspensions in future.

Note: officials have made comments in the assessment table on the weighting/overall assessment of cost and benefits from our perspective. Our preferred option is not to intervene (status quo).

Benefits (Core information)

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031-2040 by amending the CCRA

Monetised:

- There is no fiscal benefit to the Crown, except indirectly (via growth/tax revenues etc)
- Avoiding reduced GDP in Northland, Golden Bay currently contributes around 9% of Whangārei Districts GDP¹.

Non-monetised:

- Direct:
 - i. Avoids emissions leakage and a modest increase of global emissions of 200,000 tonnes CO₂e per annum (about 0.3% of New Zealand's gross emissions)
 - ii. Avoids regional job losses of ~160 FTEs (direct)
- Indirect:
 - i. Avoids low risk to supply chain resilience, providing security of cement supply in case of international economic shocks
 - ii. Modest reduction in global emissions contributes to less global warming, and reduced harm to communities, businesses, people

Note: officials have made comments in the assessment table on the weighting/overall assessment of cost and benefits from our perspective. Our preferred option is not to intervene (status quo).

Balance of benefits and costs (Core information)

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031-2040 by amending the CCRA

- Addresses the un-level playing field for GB in the requisite timeframe
- Has modest environmental benefits by avoiding increased global of 200,000 tonnes CO₂e per annum
- Avoids low risk to supply chain resilience
- Undermines ETS system integrity in the long term and introduces new incentives outside of market fundamentals
- Sets a precedent of suspensions for other large industrials at best, and at worst, extends to other firms struggling with ETS costs/ other costs
- Likely to negatively impact ETS market sentiment (uncertain for how long), s 9(2)(g)(i)

A lower NZU price results in weakened emissions reduction incentives across the system.

Minister's overall judgement

- The Minister prioritises securing the supply of a critical resource (cement), over other considerations. An NZ ETS suspension has been signalled by FBL as the only option it will consider and so this option best meets the Minister's objectives.

MfE's overall judgement

- MfE prioritises minimising negative environmental effects arising from an NZ ETS suspension by removing a major emitting activity from primary legislation, particularly impacts that affect trust and confidence in the NZ ETS. However, we recognise that the judgement is an on-balance one, and there is a valid case for intervention if

¹ MBIE

supply chain, emissions leakage and/or employment impacts are weighted more heavily in the judgement.

Implementation

Option one: Suspend ETS surrender obligations for clinker emissions from 2031-2040 by amending the CCRA

Removing the production of clinker from Part 4, Schedule 3, in the CCRA 2002.

Negotiate the scale, timing and conditions of suspension with FBL and finalise this in a long-term agreement.

Limitations and Constraints on Analysis

- **Urgency.** FBL's expected timeframe for decisions has compressed the policy analysis and created urgency. FBL has advised that its board will soon decide to either continue domestic cement production or shift to an import only model and that it could not delay the timing of this decision any further. Urgency has prevented a fuller and measured testing of alternative intervention options with FBL, such as direct funding.
- **We have taken a narrow focus.** We have not looked at emissions leakage at large, across other sectors of the economy². Officials make some judgements as appropriate on precedent risk. A policy decision has already been sought and made on another option to address FBL's concerns, known as a Border Carbon Adjustment (BCA) mechanism. Consideration of a BCA was not within the scope of the options to address this issue.
- **Commercial sensitivity.** No targeted consultation (beyond GB/FBL) or public consultation. Tyrewise and its representatives have not been consulted. Officials do not have access to the financial information, especially the return on invested capital, for the GB import-only business model. The restricted consultation means there may be some options or impacts that have not been considered.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature:



Kirsty Flannagan
General Manager Markets
23/04/2026

² Previous policy work on a Border Carbon Adjustment did consider at a high-level potential sectors that might benefit from a BCA to avoid issues such as emissions leakage, however this work is outside the scope of options due to previous decisions in late 2025 by Minister of Climate Change to not progress a BCA at this stage, at to reconsider when there are further policy developments on the issue in Australia and elsewhere.

Quality Assurance Statement

Reviewing Agency:

QA rating: Partially meets

Panel Comment:

A quality assurance panel from the Ministry for the Environment and the Ministry for Business, Innovation and Employment has reviewed the Regulatory Impact Statement (RIS): Maintaining domestic cement manufacturing in New Zealand. The Panel considers that the RIS partially meets the Ministry's Quality Assurance criteria.

The Panel considers that the RIS is complete in scope, identifying a policy problem, objectives, options, and key limitations of the analysis. It is generally well written and concise, pitched at an appropriate level to support Cabinet decision making, and demonstrates that appropriate consultation has been undertaken.

However, the Panel considers that the RIS does not provide sufficiently convincing analysis to support decision making. While it identifies a range of risks and uncertainties, including the impact of an unlevel playing field and the risk of carbon leakage facing Golden Bay Cement, it does not sufficiently assess the likelihood, materiality, or implications of these risks. Nor does it convincingly analyse the impacts of the intervention options, leaving key judgements insufficiently supported. The Panel also notes a disconnect between the front and back sections of the RIS (from page 29 onwards), where the rationale for intervention and the assessment criteria used appear to differ.

The Panel recognises that these limitations reflect the challenging circumstances in which the RIS was developed, including the need to proceed at pace to meet urgent timelines. While the scale of analysis completed in the time available is considerable, the impacts of these constraints are evident and have affected the clarity, structure, and convincingness of the advice.

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

The Government has an opportunity to intervene to ensure that New Zealand's only domestic cement manufacturer does not cease domestic production

2. FBL, the owner of New Zealand's only domestic cement manufacturer, Golden Bay cement (GB), has indicated that unless it is provided certainty that its concerns around an un-level playing field and hard-to-abate emissions from cement manufacturing are addressed (eg, relief from emissions costs), it will cease domestic production by 2030 and transition to an import-only model. A government decision is needed by May 2026 (July at the latest) to provide this certainty, given the s 9(2)(b)(ii) times required for investments to either continue production or cease domestic cement production.
3. We describe the role of the New Zealand emissions trading scheme (NZ ETS) and industrial allocation (IA) in terms of how this relates to GB's viability arising from an 'un-level' playing field. The Ministry for the Environment (MfE) and Deloitte's validation of FBL's concerns are discussed in 'defining the problem' of section one below.
4. In determining whether the effects of these systems are desirable, a range of economic (incl. supply chain resilience), environmental and fiscal consequences must be balanced. The final judgement depends on the priorities of the decisionmaker. The relative pros and cons are discussed below, and a final judgement is provided in section two against criteria.

Context

The NZ ETS prices-in an externality

5. Emissions are an externality – their costs to people, communities and the environment are not usually reflected in the prices of goods and services. The NZ ETS prices domestic emissions to internalise this cost. Emitting firms must manage emissions costs, such as reducing emissions, or passing costs to consumers.
6. Pricing emissions through the NZ ETS creates an incentive to reduce them through investments, when the cost of doing so is less than the cost of emissions (the NZU price). This 'marginal incentive' applies when firms assess the costs and benefits of their investment, including investments to reduce emissions. Investing to reduce emissions can be profitable for firms, as this avoids future emissions costs.

GB has significant emissions cost impacting their business, not faced by international competition

7. GB is a fully owned trading entity of FBL and operates the Portland Cement Plant in Whangārei, which is New Zealand's only fully integrated cement manufacturing plant, following the closure of Holcim (NZ)'s Westport plant in 2016.

8. Cement production is an included activity in the NZ ETS.³ GB emits approximately 0.56 Mt CO₂e/year. Approximately ~65% of these emissions come from the industrial process of manufacturing clinker, a binding agent used in cement. To produce clinker, limestone must be heated to very high temperatures, resulting in both CO₂ emissions from the chemical process, and from combustion of fuels. The remainder of emissions are from thermal energy used to make clinker. Electricity used to grind and package the cement is a small fraction of its overall emissions profile. GB's emissions from clinker are about 0.5% of New Zealand's total gross emissions.
9. Producing cement is an emissions-intensive, trade-exposed activity. Producing cement has high emissions costs relative to the revenue a firm makes from selling its product, and the cement price is set by imported products without an equivalent carbon cost. This means that GB has high emissions costs impacting its viability, and it cannot alleviate these costs by passing them on to consumers as their cement would be more expensive than other products. If GB passed on its ETS costs, consumers are likely to choose the cheaper, imported cement, and GB would lose market share.
10. s 9(2)(ba)(i)

Currently, these countries do not have an equivalent carbon cost for cement manufacturing, or have more generous industrial allocation equivalents, although progress is being made. s 9(2)(ba)(i)

GB receives industrial allocation, but support is reducing

11. GB receives support through industrial allocation (IA), in recognition that the NZ ETS may affect the competitiveness of its business. IA is intended to prevent emissions leakage by reducing the cost impact of the ETS for these firms to be more closely in line with their international competition. Firms are provided with New Zealand Units (NZUs) according to three main variables (see glossary).⁴
12. Further, IA maintains the NZ ETS' marginal incentive for firms to reduce their emissions, set by the NZU price, unless IA support is reduced following the investment.⁵
13. However, industrial allocation is being phased out slowly by 2060 for firms like GB. The phase out is given effect through a legislated reduction in the level of assistance, starting at 1 percent decreases per year until 2031, then increasing to 2 percent until 2041, and then 3 percent until

³ Main sources include a chemical reaction known as limestone calcification and burning coal and other materials for heating during this process. These are hard to abate emissions with few viable technologies to reduce them.

⁴ Allocative baseline x production x level of assistance

⁵ IA firms can be incentivised to reduce emissions like other firms where doing so achieves a positive return (although part of this benefit relies on the continued provision of IA following an investment). Reviews of allocative baselines introduced in 2023 would reduce the expected benefit of a firms' investments (see below).

IA is fully phased out. The current level of assistance for highly emissions intensive firms is 84% in 2026.

14. The IA phase out supports increasingly achieving emissions budgets over time and is meant to account for emissions reductions across the system (eg, greater use of electricity from renewables). The phase out policy shows that IA is temporary until international jurisdictions have equivalent emissions pricing, and reduces its downsides such as fiscal costs, creating problems for meeting emissions budgets (the 'net zero' problem⁶) and because it can distort the ETS' intended incentives.⁷

Border Carbon adjustment was not progressed this term

15. A study into the feasibility of an alternative to industrial allocation, known as a Border Carbon Adjustment mechanism (BCA), was completed (unpublished) in 2025 by MFE. The purpose was to explore alternative ways to manage leakage risk, given the issues with IA. A key finding from this study was that the cement sector was at risk of emissions leakage in the near-term, due to cement importers not facing an equivalent (or an) carbon price to domestic cement manufacturers.
16. A BCA imposes a carbon cost on importers equivalent to that faced by domestic producers and aims to remove the need for industrial allocation. Its primary objective is to reduce carbon leakage where local producers face higher emissions mitigation costs than international competitors.
17. The study found that a level playing field achieved through a BCA would likely address most/all of the issue of uneven emissions costs across the cement sector. The BCA could also support other sectors to avoid emissions leakage s 9(2)(f)(iv) eg, iron and steel. However, implementing BCA has trade-offs and the Minister of Climate Change decided in late 2025 not to undertake further policy work on a BCA. MCC chose instead to closely monitor whether Australia implements a BCA following a review of its Safeguard Mechanism in 2027. For this reason, we did not consider this a viable option for achieving the policy objective and have not carried out a full analysis in this RIA.

The status quo means the likely closure of GB's Whangārei site

18. To somewhat mitigate the effects of IA's phase-out, GB can invest to reduce some of its emissions and avoid future NZ ETS costs. Generally, GB cannot reduce emissions from the clinker process, but it can replace higher emission fuels such as coal with processed waste tyres or wood waste. It is also proposing substituting a proportion of clinker per tonne of cement produced with other materials, such as slag, a by-product of other industrial processes (therefore having no additional emissions), to reduce its overall emissions from clinker.

s 9(2)(b)(ii)

⁶ Because the government provides NZUs for the industrial sector, so long as these NZUs are provided, it is difficult for NZ to meet its net zero emissions targets, as emissions in these sectors will continue and must be offset with carbon removals.

⁷ The 'distortion' refers to how the IA system may alter the incentives of firms receiving IA, compared with other ETS firms that do not receive IA, such as the statutory reviews above.

s 9(2)(b)(ii)

19. Despite some decarbonisation being possible, FBL has advised the Government that the un-level playing field (GB's increasing emissions costs not faced by competitors) means that investment in domestic emissions reduction is not currently viable. Without intervention, the status quo is expected to see FBL decide in Mid-2026 to transition GB from domestic cement manufacturing at Whangārei to an import only model from 2030. This would involve alternative investment in an import terminal and staff in Auckland.
20. MfE analysis, and the open book process commissioned by MfE on behalf of the Minister and undertaken by Deloitte (below) has confirmed the FBL board will likely decide to transition to an import-only without government intervention. Officials have also tested the materiality of FBL/GB's concerns and discuss the likely impacts of the closure versus intervention below.

What is the policy problem or opportunity?

MfE has determined, with evidence from Deloitte, that the un-level playing field and FBL's exclusion of wider benefits from the investment proposition is driving emissions leakage

21. The impact of an 'un-level' playing field on GB's viability remains unaddressed:
- a. GB faces emissions costs under the NZ ETS, which it cannot easily manage, and its competitors do not face.
 - b. IA's phase out means that GB's emissions costs will increase in the future.
 - c. The Government's in-principle changes to IA settings as part of proposed changes to the Climate Change Response Act (reducing disincentives to decarbonise) only partially address these concerns.
22. Investing in domestic production is not currently profitable for FBL, despite the wider benefits to New Zealand:
- a. The business case to maintain production in New Zealand and invest in emissions reductions, under current NZ ETS/IA settings, does not meet shareholder's internal target hurdle rate for investments.
 - b. However, FBL's investment decision does not need to account for:
 - i. National economic benefits, primarily through improved supply chain resilience; and

- ii. National/global environmental benefits, primarily through avoiding emissions leakage (higher global emissions from production moving offshore to more emissions intensive sources) and supporting waste reduction.
- c. Other costs that may influence GB's viability, eg labour costs/overheads, are not part of the policy problem, as they are not related to the un-level playing field. These other costs are not unique to GB.

Validation of the problem

23. FBL has longstanding concerns with IA and NZ ETS settings. Below is an assessment of FBL's concerns, alongside MfE's. Deloitte verified FBL's financial modelling and claims of viability with respect to emissions pricing.

Table 1. Summary of Deloitte open book process findings and MfE assessment.

GB/ FBL issue	MfE assessment (based on BCA study, Deloitte [below])
Highly trade exposed. Imported cement is a viable and readily available product in New Zealand.	§ 9(2)(b)(ii) Due to the commodity nature of cement and the viable and scalable import alternative for customers, GB's cement pricing is constrained by the import price, and it cannot pass through costs to customers.
Highly emissions intensive. Cement is a relatively low value good with high emissions intensity. When emissions are priced, they make up a relatively high proportion of the finished good cost. Hard-to-abate emissions. GB cannot easily reduce its emissions as they primarily relate to an industrial chemical process, the calcination of limestone, which produces carbon dioxide as a byproduct. Very high temperatures, usually from burning coal, are also required for this chemical reaction.	FBL is eligible under the CCRA to receive IA, as a highly emissions intensive trade exposed firm. The national greenhouse gas inventory also reports emissions from both the industrial process of clinker production and energy use in this process. Clinker emissions are internationally understood to be hard to abate.⁸ The clinker production process is fundamentally linked to limestone calcination, and there are currently limited viable alternatives to substitute for clinker in the process of making cement.
Un-level playing field/ cannot pass through costs means domestic production investment is unviable. Competition from imports prevents GB	Classification : Deloitte's analysis confirmed that GB investment in domestic

⁸ For example the International Energy Agency (IEA) [Cement – Analysis - IEA](#)

GB/ FBL issue	MfE assessment (based on BCA study, Deloitte [below])
from shifting its emissions costs to consumers through increased prices. Imported cement does not have an emissions cost through the NZ ETS and is produced in overseas jurisdictions without equivalent emissions pricing. Overall, the NZ ETS creates cost pressure on GB that it cannot avoid by reducing emissions or passing on to consumers. This cost pressure is not faced by importers, creating an un-level playing field.	production would not meet its target ROIC of s 9(2)(b)(ii) when carbon costs are included.] MfE's BCA feasibility study assessed the carbon pricing of cement produced in overseas jurisdictions.
Disincentives to decarbonise (re-baselining). FBL was concerned that reviews of key IA variables added in 2023, such as the allocative baseline and eligibility reviews, reduced its expected return on investments, therefore discouraging investment in emissions reductions.	To address the disincentives of current IA settings, the Government has agreed in principle to remove the Ministers ability to review allocative baselines in most cases, and eligibility altogether.
IA phase out means IA is not effective overall for FBL. IA is slowly reducing to zero over the next 40 years. As IA reduces, GB is exposed to greater emissions costs above IA, impacting its viability. Current IA settings do not fully offset its future NZ ETS costs, and so an un-level playing field will emerge from 2030 once GB has exhausted its current stockpile of NZUs.	In light of FBL/GB's concerns, the Minister has considered alternative approaches to managing emissions leakage, and addressing the un-level playing field, such as a BCA. This work has not addressed FBL's concerns within the timeframes it requires - given the lead time required in its investment decisions to either move to an import-only model or retain cement manufacturing in New Zealand.

Deloitte confirmed that the un-level playing field is partly causing domestic closure

24. Overall, Deloitte's findings confirm that without government intervention, the FBL Board would most likely decide to close its GB plant and switch to an import-only model. The process has also confirmed that GB's assumptions regarding the investment are reasonable and comparable to similar firms.
25. **Classification** Deloitte's analysis of the information FBL provided in the open book process showed that GB faces increasing emissions costs due to IA's phase out and the exhaustion of its NZU stockpile by 2030. Carbon costs are forecast to increase from s 9(2)(b)(ii) of revenue in s 9(2)(b)(ii) Excluding carbon costs, FBL's proposed investment would meet its target ROIC s 9(2)(b)(ii) and would continue to increase thereafter. Including carbon costs (based on FBL's relatively high carbon price assumption), the ROIC reaches s 9(2)(b)(ii) remains within a range of s 9(2)(b)(ii), broadly comparable to its current ROIC s 9(2)(b)(ii)

26. However, there are some important caveats, although these do not change the overall assessment that FBL are likely to decide to switch to an import-only model absent intervention:

- a. **Classification** GB target ROIC was determined by Deloitte to sit at the higher end of comparable ROICs but was judged reasonable. Through Government discussions with FBL, the s 9(2)(b)(ii)
- b. GB's ROIC was s 9(2)(b)(ii) and is forecast to range between s 9(2)(b)(ii). That is, the GB facility is already below the FBL threshold. Or put another way, the investment in domestic emissions reductions achieves a similar ROIC s 9(2)(b)(ii) to that achieved by GB recently.
- c. Further, FBL modelled a higher future carbon price than MfE's official projections (which were also used in the BCA study), which increases the expected impact of the ETS on their domestic viability. Using the lower official price projection, the target ROIC s 9(2)(b)(ii) achieved in s 9(2)(b)(ii), only a year later than if carbon prices are excluded. While officials judge this lower price to be more realistic, based on the structure of the NZ ETS and role of exotic forestry within it, FBL might reasonably be expected to base its investment decisions by taking a conservative approach to carbon costs.]
- d. Officials did not have access to FBL's ROIC for its import-only model for comparison.

What objectives are sought in relation to the policy problem?

27. The FBL board needs certainty to make its investment decisions by Mid-2026, given the s 9(2)(b)(ii) lead time for investments to move to an import-only model. The Minister of Climate Change has also directed officials to consider options to ensure continued domestic cement manufacturing. The objective is therefore outlined below in two parts:

- e. **Intervene or not:** determine whether intervention is warranted, by making a qualitative judgement on the overall balance of positive and negative effects of continued domestic production versus an import-only model, including supply chain resilience, regional economic, fiscal, and environmental consequences.
- f. **Intervention method:** If the government decides to intervene, provide an option that is likely to retain domestic production and mitigate, to the extent possible, the negative consequences of intervention.

28. Within the context of Ministerial direction, the objective must provide options to support continued domestic production of cement until an international level playing field exists, while balancing trade-offs between economic (incl. supply chain), environmental, and fiscal impacts. However, the objective also preserves the balance of options including the status quo, enabling Cabinet to consider the full range of options.

What consultation has been undertaken?

29. Ministers and officials have been engaging closely with FBL and GB on their concerns with NZ ETS and IA settings:

- a. **BCA feasibility study.** Last year MfE engaged with the cement industry groups, GB and FBL, as part of the process of developing the BCA Feasibility study in 2025. Work on a BCA has not progressed. Discussions with cement importers, as part of undertaking the BCA feasibility work, showed support for options to level the playing field.
 - b. **Reducing disincentives to decarbonise due to IA settings.** MfE engaged with GB/FBL, and other significant IA recipient firms, on the effect of Ministerial reviews of key industrial allocation variables and whether these reviews were affecting firms' investment incentives.
 - c. **Options to maintain domestic cement manufacturing.** Most recently, officials have consulted FBL on other options to provide FBL with certainty to invest in domestic production. We did not engage with other industry representatives.
30. MfE has also engaged extensively with Agencies on these issues. The consultation is detailed in section two below, after the intervention options.

Section 2: Assessing options to address the policy problem

How options have been considered against the two-part objective

31. Deciding whether to intervene requires careful judgement about the potential precedent risks and to the NZ ETS market versus the anticipated economic and environmental benefits of intervention.
32. Officials consider there are merits to not intervening in part due to low materiality of environmental and economic impacts. Intervention would also create precedent risks, with associated fiscal risks. Intervening could also risk undermining confidence in the credibility of the NZ ETS market. It is likely to further undermine short-term market confidence in the ETS s 9(2)(i)
[REDACTED] For this reason, not intervening (status quo) is MfE and other agencies' preferred option. However, this is an on-balance judgement, and a different conclusion could be drawn if objectives, including supply chain objectives, were weighted more heavily.
33. Given the Ministerial direction to provide options to intervene that retain domestic cement manufacturing, officials considered that the primary rationale for intervention is to support the resilience of supply of cement, a material that is critical to New Zealand's economic functioning and delivery of essential infrastructure. Officials considered direct funding (option 3) best balances trade-offs within the intervention direction. s 9(2)(j)
[REDACTED]
[REDACTED] It is also unclear what the fiscal impact of a direct funding option would be, as this would depend on further negotiation with FBL. This leaves an ETS suspension (option 1) as the most viable option to retain domestic cement manufacturing. This is also the Minister's preferred option.

What criteria will be used to compare options to the status quo?

34. Officials have considered options against four main criteria (table 2 below), informed by our understanding of the most relevant considerations from consulting with agencies, FBL/GB, and Ministerial direction.
35. There are some key differences with criteria used in recent advice to Ministers. These other criteria necessarily focused on risks, and certainty to FBL. Here, MfE has explicitly recognised the wider environmental and economic impacts to be balanced with other criteria.

Table 2. Regulatory impact statement assessment criteria

Criteria	Description
Effectively addresses the un-level playing field	Enables GB to invest in domestic production
Minimises negative environmental impacts	- Environmental: - Domestic emissions/budgets and emissions leakage. - Implications on waste diversion going to GB
Minimises negative economic impacts	- Economic: - Regional economic and employment impacts, including supply chain resilience implications
Minimises fiscal cost	Fiscal implications
System impacts/ Feasibility <i>Compatibility with current legislation / administrative, implementation risks, precedence, ETS system</i>	- Ability to meet CCRA statutory requirements - Complexity to implement eg, legislative amendments required, associated costs and risks - NZ ETS system impacts incl. on NZU supply and demand, which affects emissions reduction incentives (above). - Precedent effect of providing support

What scope will options be considered within?

36. The options are considered within a constrained but balanced scope.
37. The two-part objective provides in the first instance the opportunity to consider whether the Government should intervene or not to balance and/or minimise economic and environmental consequences of the status quo. The second part of the objective considers the preferred approach to intervention, to address the un-level playing field while still balancing economic and environmental consequences.
38. To meet the second part of the objective, options (options 1-3) provide financial benefit to FBL. Options enable FBL to meet its ROIC for domestic investment (at around the same point this would be met without its increasing carbon costs). This includes avoiding emissions costs by removing them, providing more IA, or Budget funding.
39. About s 9(2)(j) of GB's expected emissions costs need to be avoided s 9(2)(j) to meet, but not exceed, GB's ROIC – avoiding a financial windfall to GB (its investment has growing benefits over time). Conditions can be added by agreement, to ensure emissions reductions and continued domestic production outcomes are achieved. Conditions are detailed in the preferred option section below.

Is intervention warranted, on balance, to minimise negative consequences of GB closure?

40. Under part one of the objective, the status quo/base case outlines the benefits and trade-offs/risks of intervening or letting market forces play out. This is the only option considered under part one of the objective due to constraints (time and Ministerial direction).

Status Quo / Counterfactual

41. Under the status quo, no government intervention is undertaken and GB transitions from domestic cement manufacturing to an import-only model. This will involve the disestablishment of operations at its Whangārei site and development s 9(2)(b)(ii). Details of status quo are explored in section one above.
42. Precedent risks, such as creating the expectation that suspensions can be created for firms facing rising carbon costs, especially those with hard to abate emissions, would be avoided. It continues a principled approach by enabling market forces such as the NZ ETS to operate without interference. This approach also avoids creating new incentives within the NZ ETS system outside of market fundamentals.
43. Environmental impacts are balanced and are under the status quo, as most of the NZ ETS impacts would be avoided. However, the following implications would arise:
- a. Through future NZ ETS settings work, Minister and officials would need to consider whether the NZ ETS' emissions cap should be reduced to account for the emissions avoided domestically through GB shifting to import-only.
 - b. There is likely to be some NZ ETS market reaction to GB announcement to transition to an import-only terminal. s 9(2)(g)(i)
44. The status quo is feasible to implement, as it does not require primary or secondary legislative amendment or further funding, unless the Minister considers other interventions to manage undesirable effects. Officials have previously advised the Minister that economic and employment impacts could be managed through business-as-usual support.
45. The general impacts of intervening, or not, are described in table 3 below. The overall assessment against criteria is in section two.

Table 3. Pros and cons of intervention vs not intervening to maintain domestic cement manufacturing in New Zealand.

Intervene	Do not intervene
- Avoid loss of critical resource manufacturing capability. Domestic cement manufacturing capacity (~55% market share) would remain onshore. This provides some supply chain resilience benefit in the event of a global supply chain disruption.	- Increased, but low supply chain risk. The risk of a major supply disruption is relatively low. Cement and clinker are widely traded commodities and suppliers have incentives to manage supply chain risks. - Although the current geopolitical situation highlights the risks of import reliance, it has not yet significantly disrupted Asian shipping routes used for New Zealand's current cement imports and GB would not be shutting down its domestic operations until 2030. However, there are some reports of cement price increases and supply tightness, including from Thailand and Australia. - An import only model would increase exposure to global shipping conditions and input price volatility. Noting- impacts from this specific shock would not be a factor in FBL's decision as domestic production would not cease until around s 9(2)(b)(ii) if it elected to move to an import-only model.
- Avoid impacts to Northland regional economy. GB employs 380 FTE total, including contractors, and around 160 FTE direct employees at the Whangārei site. Employment opportunities from GB would remain if domestic production remained. - The workforce is s 9(2)(b)(ii)) and concentrated in operational, shift-based roles that reflect deep, site-specific technical and process skills. Many core production skills are unlikely to be able to be directly redeployed in an import model, which would typically require fewer operational staff. - s 9(2)(b)(ii)	- May delay labour reallocation. Preserving existing jobs may slow the reallocation of labour toward more productive and lower-emissions activities. Some activity and employment may shift to an import terminal, but substantially less than at the Whangārei site. - Impacts would be concentrated locally rather than nationally, and investment and economic benefits would move from Whangārei toward import infrastructure s 9(2)(b)(ii) . - Jobseeker support and other safety nets are available. The Government is investing heavily in Northland via the Regional Infrastructure Fund (RIF) and the Northland

Intervene	Do not intervene
s 9(2)(b)(ii) Whangārei's unemployment rate is currently low (4.1%), but the region has historically higher unemployment and higher deprivation index than the national average, increasing the risk of adverse social impacts. s 9(2)(b)(ii) may reduce willingness or ability to relocate to employment opportunities outside the region, intensifying social impacts.	Corridor, which may generate employment opportunities for displaced workers. - This effect is likely temporary. To an extent some of the broader economic impacts (eg, to GDP) may be offset by Government regional investment and co-funding of infrastructure in the region.
- Avoids increased global emissions and warming. GB's market share for cement in NZ would likely be replaced with higher-emission imported cement in the near-medium term. The additional emissions that may be expected from this importer increase of market share, would increase global net emissions by about 200,000 Mt CO₂e per annum to 2050 (MfE's unpublished BCA study, 2025). Officials judge this as likely an upper bound for emissions leakage and actual leakage might be considerably smaller. - Highly likely adverse ETS market reaction to intervention. - Sets precedent that firms with rising carbon costs, especially those with hard to abate emissions, could seek suspensions, if they can meet certain thresholds/criteria.	- Reduce domestic emissions. Domestically, reported emissions would fall as GB's production (and emissions) shifts offshore. This is estimated to be approx. 0.55 Mt CO₂e per annum, or around 5.5Mt over 2031-2040. Whether all or some of these emissions reductions are realised depends on future decisions by the Minister, as to whether to tighten the ETS cap to lock them in. - The potential to reduce the projected shortfall to meeting EB3 by around 2.8 Mt CO₂e if ETS settings are adjusted to account for GB's closure in the short term. - Market reaction is much less substantial than intervention option. - Avoid setting precedent and creating additional incentives within the NZ ETS system.

Intervene	Do not intervene
- Continue diversion of tyre and wood waste. GB uses around 140kt of diverted waste (75kt Tyres, 65 kt wood waste) as a thermal fuel for running clinker kilns. This is used as a lower-emissions alternative to coal. - Export of waste tyres will be required once GB leaves market removing this resource for domestic manufacturing from economy. This may impact achievement of the scheme's waste diversion targets.	- Investigate other options to support waste management system. Additional policy development and Government investment could be provided to mitigate impacts of GB's closure on the Tyrewise scheme, although the cost of this is unquantified.
- Impacts prior Crown investments and cost recovery (Tyrewise). The loss of future benefits from Waste Minimisation Fund (WMF) co-investments of \$16m direct and \$26m indirect (ie, investment in other businesses supplying/processing waste products). GB closure will increase tyre exports and increase Tyrewise costs due to needing an expensive process to verify overseas markets, putting pressure on Tyrewise budget (A non-departmental crown expense) The tyre stewardship fee rate may need to be reviewed. Future Crown revenue from NZ ETS auctions (minimal impact) is also reduced.	- Not providing support sets a strong precedent for not providing support to individual firms.

If intervention is warranted, which option addresses GB concerns and provides certainty to GB, while balancing trade-offs

46. The second part of the objective considers three approaches to intervention, to address the un-level playing field while still balancing economic and environmental consequences. Two options use NZ ETS levers, and one option utilises a non-ETS, non-regulatory lever. These are outlined below.
47. All options come with tradeoffs to carefully balance. Judgements ultimately depend on how decisionmakers consider and weight criteria and any other factors, discussed in the preferred option section below.

Option One – Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA

48. This option suspends GB's obligation to surrender ETS units for emissions from clinker production. This refers to the mandatory activities in Part 4, Schedule 3 of the CCRA 2002, relating to manufacturing clinker. GB would not have to surrender NZUs (MfE estimates a net cost to GB of s 9(2)(b)(ii) , after IA and assuming domestic production continues) for these emissions and therefore does not face these emissions costs for the duration of the suspension.
49. The Ministers preferred lever to give effect to this policy is temporarily removing the activities from Schedule 3 of the CCRA 2002. This option involves primary legislative amendment to the CCRA. Careful drafting (at pace) is needed to ensure the change can be reversed according to agreed conditions.
50. A suspension would require a corresponding reduction in GB's IA. Removing the Schedule 3 activity would require a phase out review and appropriate decrease, or an exception to Cabinet's in-principle changes preventing reviews of allocative baselines.⁹

Option two- Amending the CCRA to allow further reductions in IA phase out from 2031

51. There are two versions of this option in the Cabinet paper. Officials have condensed and provided the most effective of these (Amend the CCRA to allow further reductions in IA phase-out rates if specific criteria are met from 2031).
52. This option would amend the IA phase out rate for producing clinker, providing more IA and for longer. GB would remain an ETS participant and surrender NZUs. The same conditions would need to apply here as with other options, alternatively via a contract or regulations.
53. This option offsets but does not fully address the un-level playing field caused by the NZ ETS. However, managing leakage risks is one of the purposes of IA (it is one of the main legislative tests), and adjustments to the level of support can be made via the phase-out review.
54. There are two significant legislative hurdles to be met before adjusting the phase out rate:
 - a. Firstly, the Climate Change Commission (CCC) must recommend a decreased phase-out rate. The CCC has advised that additional resources may be required to complete an assessment this year. Existing work on this topic would not speed up the assessment.
 - b. Secondly, the phase out rate can only be reduced by a further one percent each year per decade, from the current level. The amount of support GB requires before 2040 would require a negative phase out rate (an increase rather than a decrease), which is not possible.
55. To provide certainty, the CCRA 2002 would need to be changed to waive the CCC consultation requirements due to evidence of leakage risk, with clear conditions on when this might occur,

⁹ The CCRA Amendment Bill currently projected for a first reading before the election removes the ability to review and update allocative baselines but retains and strengthens phase out review provisions. These changes were designed to address concerns of firms such as FBLs.

and a new ability to provide a more flexible phase out rate (ie, enable increases in the level of assistance).

Option Three - Direct funding to support Golden Bay's decarbonisation investment

56. This option provides direct cash funding to GB through Budget 26 to support investment in decarbonising the cement manufacturing process. GB would remain an ETS participant and surrender NZUs.
57. An agreement is needed to place conditions on the funding (securing ongoing benefits for the Crown) and therefore it is reasonably straightforward to implement.
58. However, s 9(2)(j) it is unclear what the fiscal cost of this option would be without further negotiation with the firm.

Agencies preferred not to intervene

59. MfE has consulted with other agencies below. Agencies' feedback overall supported not intervening.

Table 4. Agency feedback

Agency	Feedback
Ministry of Foreign Affairs and Trade (MFAT).	MFAT previously provided input through the BCA feasibility work. A BCA is not being considered in this RIA. In general, MFAT does not support government intervention to support domestic production. s 9(2)(g)(i) MFAT notes that with the un-level playing field being part of the rationale for intervention, any intervention should be accompanied by careful monitoring of overseas carbon pricing s 9(2)(ba)(i) which may affect GB's competitiveness over time, with further changes possible before 2030. s 9(2)(h)
Ministry of Business Innovation and	MfE and MBIE provided joint advice to Ministers late last year, and once again, prior to these decisions. MBIE expressed that the main rationale for intervening is for resilience reasons - to ensure NZ retains some domestic production of materials critical to the economy (cement). While avoiding negative regional economic impacts is

Agency	Feedback
Employment (MBIE).	desirable, these are secondary, as the workforce is expected to transition with status quo support. s 9(2)(j) [REDACTED] [REDACTED] In the joint advice, MBIE agreed with MfE about the un-level playing field partly causing the GB's shift to an import-only model.
The Treasury (TSY).	On balance, TSY did not consider the case for intervention to be strong and noted that a suspension would likely have the greatest potential for downsides. It advised that Ministers should consider a range of options, beyond legislation (ie, direct funding), and the likely impacts of options on NZ ETS market integrity and confidence, and precedent risk. TSY has provided advice/quality assurance on the fiscal impacts of options.
Ministry for Regulation (MfR)	In general, MfR expressed concerns that the proposal focused on one firm, which is not very dissimilar to other firms, both large emitters and others experiencing viability concerns. This would be an ad hoc response. Taking into account the costs of undermining the NZ ETS, intervention does not appear to have the lowest overall cost to New Zealand. Emissions leakage was seen as uncertain, as technology and climate policy evolves. MfR is comfortable with the proposed suspension provided there is a strong effort to mitigate the precedent risk, and the effects of acting in an ad hoc manner. It recognises a systemic solution cannot be put in place during the current timeframe. A temporary and conditional suspension addresses many of the risks, while reflecting the need to address the un-level playing field.

60. Informed by agency feedback, MfE has completed the Multi Criteria Analysis (MCA) table assessing the intervention options versus the status quo against the criteria.

Table 5. How do the options compare to the status quo/counterfactual?

Part 1 of the objective considers whether the Government should intervene or not- this is represented in the status quo column of the table below.

Part 2 of the objective considers how to intervene if its warranted- this is represented in options 1-3.

	Status Quo / Counterfactual <i>[Agency preferred option]</i>	Option One – Suspend ETS clinker obligations suspension <i>[Minister’s preferred option]</i>	Option Two – Amend CCRA to further reduce IA phase out rates	Option Three – Direct funding for decarbonisation investment
Effectively addresses the un-level playing field	0 <i>Domestic cement production likely ceases, and GB competes equally as an importer</i>	++ <i>Highly likely to retain domestic cement production GB supports this option</i>	+ ¹⁰ <i>May not be sufficient to incentivise domestic production to remain GB does not support this</i>	+ ⁹ <i>May not be sufficient to incentivise domestic production to remain GB does not support this</i>
Minimises negative economic impacts	0 <i>Lost employment Small increase in supply chain resilience risk</i>	+ <i>Avoids negative employment impact Does not increase supply chain resilience risk</i> s 9(2)(h)   	+ <i>Same as option one if domestic production is maintained</i> s 9(2)(h)  	+ <i>Largely same as option one if domestic production is maintained and also avoids ETS impacts</i> s 9(2)(h)    

¹⁰ Both of these options can effectively level the playing field (with funding/allocation calibrated to meet the company’s ROIC threshold) but officials understand this option is not preferred by FBL. Officials consider that further testing with GB may have resulted in these options being assessed as more effective.

	Status Quo / Counterfactual <i>[Agency preferred option]</i>	Option One – Suspend ETS clinker obligations suspension <i>[Minister's preferred option]</i>	Option Two – Amend CCRA to further reduce IA phase out rates	Option Three – Direct funding for decarbonisation investment
Minimises negative environmental impacts	0 <i>Emissions leakage (modest)</i> <i>Negative impact on waste diversion scheme</i> <i>Avoids NZ ETS impacts</i>	0 <i>Avoided emissions leakage</i> <i>No impact on waste diversion scheme</i> <i>Downwards pressure on NZU prices</i>	0 <i>Same as option one if domestic production is maintained</i> <i>Likely less downward pressure on NZU prices</i>	+ <i>Largely same as option one if domestic production is maintained</i> <i>Avoids NZ ETS impacts</i>
Fiscal	0 <i>Reduced IA expense</i>	-- <i>Reduced NZ ETS revenue</i> <i>Reduced IA expense</i> <i>Foregone auction cash</i>	- <i>Increased IA expense</i> <i>Foregone auction cash</i>	- <i>Direct fiscal cost to Crown</i>
System impacts/ Feasibility	0 <i>Preserves NZ ETS system integrity</i> <i>Avoids setting precedent</i> <i>No legislative amendment required</i>	-- <i>Sets NZ ETS change precedent</i> <i>Risks undermining confidence in the integrity of the ETS</i> <i>Primary legislation amendment</i>	- <i>Sets ETS change precedent</i> <i>Risks undermining confidence in the integrity of the ETS</i> <i>Primary legislation amendment</i>	0 <i>Preserves NZ ETS system integrity</i> <i>No legislative change</i>
Overall assessment	0	-	--	0/+

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

61. The section below sets out the pros and cons of the government intervening to support GB. Deciding whether to intervene requires careful judgement about the potential risks to precedent and the NZ ETS market versus the anticipated economic and environmental benefits of intervention.

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA [Minister preferred]

62. An NZ ETS suspension removes the un-level playing field at the source. It is the most efficient from a business point of view (as opposed to later offsetting these costs with IA), and directly addresses FBL's range of concerns, as legislative change occurs immediately (but the suspension takes place in 2031).
63. Option one and two are similar in terms of effectiveness, however option two was unable to be negotiated with FBL, as the firm preferred the suspensions' ability to directly address concerns immediately.
64. **Classification** The full lists of conditions for suspension are in the 'implementation' section below but include but are not limited to commitments to continue domestic manufacturing, reduce emissions intensity, and for the suspension to end once a level playing field exists.]

Suspension avoids eroding critical supply chain resilience

65. The primary rationale for intervention is to support the resilience of supply of cement, a material that is critical to New Zealand's economic functioning and delivery of essential infrastructure. The suspension option achieves this. Cement is a critical input in housing construction, transport networks, water infrastructure, energy assets, and post-disaster recovery.
66. Maintaining some domestic production reduces New Zealand's exposure to global supply chain disruptions, shipping constraints, price volatility, and geopolitical risk. In the absence of domestic production, New Zealand would be more reliant on offshore suppliers, with limited ability to respond to supply shocks or surges in demand, particularly during emergency or recovery periods. Supply disruption risks are currently assessed as low, as cement and clinker are widely traded commodities and domestic production would not cease until around 2030. GB will continue to be competitive with importing firms, and supply of cement is likely to be secure in the future.
67. However, recent events in the Middle East have brought into focus the economic security risks of reliance on imported inputs, and the risk-mitigation value of some domestic production capacity.

Suspension balances economic and most environmental impacts

68. A suspension would avoid disruption to Northland's regional economy and employment. Intervening would help maintain regional GDP and maintain up to 160 direct jobs.

69. **Classification** Environmental impacts through a suspension include negotiated decarbonisation, avoiding emissions leakage and increased global emissions of 200,000 tonnes per year.¹¹ This option recognises there are limited technological options currently available to abate cement process emissions. Through negotiated conditions with FBL/GB it has agreed to investment in decarbonisation. As part of this process FBL/GB plans to invest in replacing some clinker with slag (a byproduct of other overseas industrial processes). Slag is reported to reduce emissions by replacing a portion of clinker used per tonne of cement. There is some uncertainty around the scale of GB's emissions and emissions reductions over the entire period, as further capital expenditure planning and decisions still need to be made.]
70. Despite the uncertainty in estimated exact scale and timing of avoided leakage, the overall effect of avoiding increases in global emissions and warming (even if only for a short period of 5-10 years), is a non-monetised benefit of the suspension for a variety of groups. There is also uncertainty around the emissions intensities of imported cement in the future due to anticipated emissions pricing policies by NZ's main international suppliers.
71. Other environmental impacts avoided include major disruption to waste diversion schemes. GB use waste tyres as fuel instead of coal, which have fewer emissions per tonne and a similar energy profile. If GB transitioned to an import-only terminal the Tyrewise scheme that supplies GB with Tyres would be significantly impacted.

Fiscal impacts of suspension are balanced

72. A suspension has increased fiscal costs compared with the status quo. IA would continue to be provided for the emissions not exempted. Exempting a firm or an activity from the NZ ETS reduces the number of New Zealand Units (NZUs) that can be auctioned.
73. While this does not immediately reduce OBEGAL (due to the way auctioned NZUs are accounted for) it does reduce cash proceeds, which could otherwise be used to fund public investment/ services and/ or reduce core Crown debt. Over the long run, the reduction in NZUs sold at auction does negatively impact OBEGAL.

The main trade-offs are the likely impact on the ETS market, and NZU price, and setting a precedent

74. The temporary suspension of GB's NZ ETS obligation would reduce demand for NZUs. This would place downwards pressure on NZU prices without a corresponding change in NZU supply. Reducing or 'tightening' the NZ ETS cap would reduce supply, offsetting this effect. The NZ ETS cap and unit supply can be managed through the ETS settings decisions, although there is only a limited window to use this policy before auctions cease in the mid-2030s.
75. An ETS suspension is very likely to be perceived by the public and the market as impacting the NZ ETS' integrity, which would impact NZ ETS market confidence, s 9(2)(g)(i). At best, a suspension will put downward pressure on prices over the medium to longer term. Lower NZUs prices means the incentive to reduce emissions is also weakened for all participants.

¹¹ Modelling through BCA study on the effect of offshore relocation for emissions.

76. Suspending surrender obligations of GB, a major emitter, would also create a precedent for other firms with hard-to-abate emissions.¹² Introducing the opportunity for firms to seek suspensions, if they demonstrate evidence of emissions leakage and emissions reduction if granted, creates new incentives within the NZ ETS system outside of market fundamentals.
77. The general scope of the precedent is that a likely firm/sector must:
- a. Face import (or in export markets) competition without carbon costs (highly trade exposed)
 - b. Have supply chain/ resilience importance (a subjective judgement by Government)
 - c. Be non-substitutable (no viable alternative products for consumers)
 - d. Have limited cost effective abatement options (eg, electrification)
78. It is normal operating practice for industry to monitor peer behavior and to adopt where possible to reduce their own costs. If suspensions are made available, several similar sectors may respond to the signal. These appear to be aluminum, steel, burnt lime, and glass as these all have significant process emissions.
79. It is also possible this signal could be received by a wider audience. Other sectors with interlinked sectoral activities with regional employment importance face unavoidable NZ ETS costs from large energy uses, such as the remainder of significant emitting firms receiving IA. These include, but are not limited to market pulp, wood processing, paper and packaging, tissue paper, reconstituted wood products. This risk is reflected in their status as firms eligible for IA. MfE does not have total visibility on emissions costs and therefore likely impact of the NZ ETS on these firms' viability. These firms report emissions from industrial processes, but other emissions inputs from coal and gas use are passed on to these firms and the reporting is done by suppliers.
80. Mandatory compliance participants, such as the ones above, form a critical core of the NZ ETS market buying activity. The prevailing NZ ETS secondary market has ample supply; removing core buyers (even temporarily) will change market dynamics. There have been several periods over the last two years where buyers have been absent from the market and sellers have pushed prices materially down.
81. A non-ETS option, like direct funding, would be less likely to impact on the NZ ETS market, as it is not tied to the NZ ETS. Direct funding scored highly in feasibility and has both environmental and economic benefits, but it was unable to be negotiated with FBL. The fiscal cost of this option is also unclear without further negotiation.

A temporary suspension of obligations is feasible but challenging under current timeframes

82. This option involves removing this activity from Part 4, Schedule 3 of the CCRA via primary legislative amendment. Careful drafting (at pace) is needed to ensure the change can be reversed according to agreed conditions.

¹² s 9(2)(g)(i)

83. Once the amendment is progressed further work a corresponding reduction in GB's IA is required to be progressed. Removing the Schedule 3 activity would require a phase out review and appropriate decrease, or an exception to the Government's in-principle changes to IA preventing allocative baseline reviews¹³
84. The conditions for the temporary suspension also have ongoing monitoring and resourcing implications influencing the feasibility of this option.

s 9(2)(h)



¹³ The CCRA Amendment Bill currently projected for a first reading before the election removes the ability to review and update allocative baselines but retains and strengthens phase out review provisions. These changes were designed to address concerns of firms such as GB's.

¹⁴ s 9(2)(h)



s 9(2)(h)

88. However, this needs to be balanced against an overall consideration of the national interest.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

89. Note: Quality assurance of inputs into analysis has been undertaken, particularly data inputs. Data was provided primarily by Deloitte via the open book exercise, but other sources included MfE in terms of modelling emissions, NZU price, and the likely effect of a BCA, which has been repurposed here (a separate CIPA assessment).

Table 6. Marginal costs and benefits of the preferred option

Classification

Affected groups	Comment	Impact NZU prices from Deloitte/MfE (flagged)	Evidence Certainty
Additional costs of the preferred option compared to taking no action (status quo) <i>[Suspend NZ ETS surrender obligations for clinker emissions from 2031 by amending the CCRA]</i>			
Regulated groups - Golden Bay Cement - Other ETS participants	- GB loses IA (revenue) ongoing from date of suspension Either: - If NZ ETS cap is adjusted down for GB exit, the impact on other ETS participants is neutralised - If NZ ETS cap is not adjusted, waterbed effect¹⁹ occurs via lower NZ ETS prices	Monetised - MfE estimates s 9(2)(b)(ii) in lost IA revenue for GB (either automatically adjusted with allocative baseline update or phase out decrease) - This is offset by reduced emissions costs over period s 9(2)(b)(ii) - Net impact on GB: increased operating profits of s 9(2)(b)(ii)	- GB loss of IA is high certainty – depending on suspension lever - NZ ETS cap adjustment affect is medium certainty, adjustment are made via the separate NZ ETS settings process
Regulators - NZ Government/ agencies - ETS system design / regulatory framework	- Foregone future NZ ETS auction revenue - Ongoing change to the incentives of the NZ ETS/ system design - Ongoing impact on domestic emissions budgets; GB's share of emissions continues	Monetised: - Assuming a suspension was agreed the expected impact would be: - A reduction in projected NZ ETS auction cash proceeds of s 9(2)(b)(ii) from 2031-2035 (ie, beyond the Budget forecast period)	- High certainty of foregone future auction revenue, adjustment are made via the separate NZ ETS settings process - High certainty of altering the NZ ETS system; however avoided global emissions

¹⁹ The waterbed effect arises when emissions reductions in one area are offset by increases elsewhere within the ETS covered sectors, leaving total emissions unchanged.

²⁰ These estimates are based on MfE official NZU price projection. Using the higher price assumption from Golden Bay's analysis yields a net impact s 9(2)(b)(ii)

Affected groups	Comment	Impact <i>NZU prices from Deloitte/MfE (flagged)</i>	Evidence Certainty
	Ongoing administrative cost for monitoring the suspension conditions/contract. Legislative change(s) have MfE resourcing implications	- o s 9(2)(j) reduction in OBEGAL over 2031-2040 Non-monetised: • High impact on ETS system: - o Emissions reductions achieved through bespoke negotiated suspensions, rather than market forces/marginal incentives - o Strong precedent created for other firms to seek bespoke arrangements - o General weakening of the ETS architecture • Low impact from increased share of emissions budgets allocated to non-ETS covered sectors/firms (and partly accounted for by the foregone auctions above). However, continued suspension will contribute to the challenge of meeting 2050 net zero target.²¹ • Low impact on monitoring costs	• Low certainty on impacts of new incentives created by the precedent
Others (eg, wider govt, consumers, etc.) Wider NZ ETS market (including	Negative NZ ETS market response causing downward NZU price pressure, decreasing likelihood/scale of viable decarbonising investments,	Non-monetised: • Medium impact on decarbonisation incentives if market response leads to	• Low certainty on NZ ETS market/ NZU price impact. s 9(2)(g)(i) is being driven by non-price factors. MfE has made a cautious

²¹ As significant volume of long lived green house gases will be outside of the ETS. Refer to separate CIPA assessment.

Affected groups	Comment	Impact NZU prices from Deloitte/MfE (flagged)	Evidence Certainty
forestry and traders) - Construction industry/ supply chain - Waste diversion end markets - The public	forester decisions to provide more supply of removals. Possibly ongoing for upwards of a year. - No impact on consumers. Cement users (construction industry) and downstream users (the public) will face similar cement pricing, as the cement price will continue to be set by imports - No impact on waste diversion	lower NZU prices. Applies across the NZ ETS market, not only for cement sector	assessment of the likely impacts of this decision. Officials' consider that legislative changes to the fundamental rules of the NZ ETS would contribute to this s 9(2)(g)(i).
Total monetised costs		s 9(2)(b)(ii) from 2031-2035 (foregone auction revenue)	High certainty
Minister's non-monetised costs		Medium	Medium certainty
Agency's non-monetised costs		High – greater weighting on ETS market risks informs overall assessment	Medium
Additional benefits of the preferred option compared to taking no action			
Regulated groups - Golden Bay cement - Other NZ ETS participants	- GB has ongoing reduced emissions surrender obligations / costs - Precedent has a likely ongoing benefit to NZ ETS participants with surrender obligations as there is now a greater incentive to seek a suspension if there is evidence of leakage	Monetised: - MfE estimates the net impact on GB: increased operating profits of s 9(2)(b)(ii) from s 9(2)(b)(ii) - Additional benefits from its investment by decreasing operating costs (not related to emissions) (not quantified here)	- High certainty that GB will benefit from a suspension of surrender obligations, although the exact amount is less certain, as this must be projected until 2040. - Low certainty on the likely effect of the precedent for other firms.

Affected groups	Comment	Impact <i>NZU prices from Deloitte/MfE (flagged)</i>	Evidence Certainty
		Non-monetised: • High benefit for FBL. GB will continue domestic manufacturing and will continue to be NZ's only domestic cement manufacturer • Creating precedent has low to medium benefit for other emitting firms. While almost all emitting firms in the NZ ETS will have an increased incentive to seek bespoke arrangements within the NZ ETS, comparatively few will be able to make as strong a case for intervention as GB	
Regulators • NZ Government/agencies	• Ongoing benefit of avoided increase in global emissions • Crown's previous waste investments continue delivering ongoing benefits (below)	Monetised: • Indirect financial benefits through cement supply security, waste diversion/management. Not quantified. Non-monetised: • Medium benefit from avoiding increased global emissions. Avoided increase is minor (~200,000 tonnes CO₂e per annum), but nevertheless an increase • Medium benefit from avoiding short-term economic harm. This would likely be temporary, with the regional economy adjusting. Supply chain risk of domestic closure would be low, but nevertheless these negative outcomes are avoided	• Low certainty of avoiding global emissions increase • High certainty of avoiding other negative environmental impacts

Affected groups	Comment	Impact <i>NZU prices from Deloitte/MfE (flagged)</i>	Evidence Certainty
		Waste investments worth \$26m continue delivering non-monetised benefits (GB emissions reductions, remains domestic manufacturing, end-market growth and resource utilisation, not landfill)	
Others (eg, wider govt, consumers, etc.) - ETS market (including forestry and traders) - Construction industry/supply chain - Waste diversion end markets - The public	- Waste sector and consumers experience ongoing benefits through continued diversion of waste tyres from landfill to more productive uses. GB is the main source of domestic demand for waste tyres. Provides time for other end-markets to develop. - Avoided one-off economic disruption to Northland's GDP and GB employees - Ongoing cement supply chain resilience	Non-monetised - Indirect benefit to waste diversion end markets, and sector, including Tyrewise and their funding recipients and participants. - Indirect benefit to the public through supply chain resilience for cement, less exposure to international shocks - Low impact on global emissions benefits the public at large due to less warming	Low-medium certainty. Unclear of likely benefits of tyre waste diversion beyond supply to GB. Tyrewise is exploring future opportunities but none currently provide as much demand for processed waste tyres as GB. Cannot predict future international cement market shocks and shortages. A portion (c.45%) of cement is still supplied by importers.
Total monetised benefits		Neutral at national level s 9(2)(b)(ii) increase in GB operating profits from s 9(2)(b)(ii) is a transfer from the Crown	Medium-high
Minister's non-monetised benefits		Medium	Low-medium
Agency's Non-monetised benefits		Low. MfE considers the emissions leakage and supply chain impacts less material	Low-medium

Section 3: Delivering an option

How will the proposal be implemented?

90. The Minister is seeking agreement from Cabinet to temporarily suspend FBL NZ ETS surrender obligations by amendment to the CCRA from 2031-2040.

91. To enable this, the Minister will seek authority to issue drafting instructions for amending primary legislation.

92. An agreement between FBL and the Government will be developed concurrently, outlining agreeable terms and conditions for both parties. Conditions agreed between FBL and the Government as part of this would need ongoing monitoring by MFE/Ministry for Cities, Environment, Regions and Transport (MCERT).

Legislative amendment Part 4- schedule 3 (producing clinker)

93. The Minister's preferred approach to implementing the suspension is through temporarily suspending the clinker production activity from Part 4, Schedule 3 of the CCRA. This requires an amendment to primary legislation.

94. The Minister has recommended to Cabinet that any agreement with FBL contain the following conditions (which FBL supports), these provide guarantees to Crown and help lower precedence risk.

Negotiated conditions [Classification] under negotiation]	
1.	Commitment to continued domestic manufacturing for the duration of the suspension
2.	Investment in continued optimisation and maintenance of the clinker manufacturing capability, decarbonisation and firm expansion of at least \$150m, s 9(2)(b)(ii), in aggregate. This includes providing a roadmap for the investment. The timing of this investment will be subject to caveats including market factors, consumer behaviour and available technologies
3.	Suspension from ETS clinker emissions surrender obligations to run from 2031 to 2040, with a review of conditions 1 and 2 in 2036
4.	Suspension of ETS clinker emissions surrender obligations to cease if (and for so long as) a policy change (either domestic or international) is implemented that results in the majority of clinker and cement importers (assessed by volume) facing carbon costs that are reasonably comparable (including as to incidence, quantum and price effects) to those faced by domestic cement producers under the ETS
5.	An agreement to run down the stockpile by 2031 s 9(2)(j)
6.	Continued reporting of all greenhouse gas emissions
7.	s 9(2)(j)

s 9(2)(j)

Implementation risks

95. There are several risks associated with temporarily suspending obligations for GB emissions from the NZ ETS, these are presented alongside potential mitigations in the table below.

Table 7. Implementation risks

Risk	Description	Mitigation
FBL chooses to transition to an import-only terminal anyway	There is a risk that even with Government intervention FBL chooses at some point to transition to an import only terminal anyway	The negotiated conditions between the Government and FBL help ensure that FBL continues domestic cement manufacturing.
NZ ETS market risks	There is likely to be a negative NZ ETS market reaction to exempting GB emissions from the NZ ETS. This is likely to result in downward price pressure and reduced confidence in the NZ ETS overall.	The Government can mitigate risks to the NZ ETS by maintaining stable, predictable system settings that align emissions budgets, auction volumes, and unit supply. Clear policy signals and forward visibility support investor confidence, while ongoing monitoring and targeted, evidence-based adjustments can support orderly market functioning and reduce volatility that could weaken emissions reduction incentives. Other mitigations regarding NZ ETS market confidence include clear communication and rationale regarding the decision. Key points would be communicated via a press release that will focus on the following points: - Clinker process emissions currently represent about 1.3% of gross emissions (for ETS covered emissions), and 1.9% of net emissions. By 2035, the share of gross emissions lifts marginally to 1.7%, while the share of net emissions increases to 7.9%. This is because NZ ETS covered net emissions are reducing overall, while FBL's clinker emissions are largely static. - There is a high risk of emissions leakage without intervention, as closure of Golden Bay's domestic operations will increase global emissions. - The suspension is temporary to level the playing field with cement importers and

Risk	Description	Mitigation
		while supply-side decarbonisation capability matures. - The Government remains committed to climate targets and international obligations, which is why the Government has required a commitment to decarbonise as part of the deal. - While this approach may reduce the likelihood of an adverse market response, there is potential for residual negative sentiment. Other mitigations include negotiated conditions that help to avoid GB having windfall gains as a result of relief eg, running down/returning NZU's and not selling in open market.
Implementation under urgent timelines	Details of a suspension are being progressed under considerably tight timelines, including potential legislative amendments, which creates an opportunity for issues to arise. The terms and conditions of any agreement between GB and the Government have also been worked through under a short timeframe. There is a possibility that once in effect material new information, issues or other factors come to light that were not previously known and that may have changed the nature of terms and conditions	To mitigate these issues, several actions have been undertaken - to mitigate drafting issues; ensuring the lever for providing relief to GB has a clear mandate and the policy intent and purpose is clear negotiating under tight timelines; negotiating bottom lines with FBL to ensure that outcomes and benefits sought by Government including (but not limited to) retaining critical resource capability and securing decarbonisation long term are both clear and agreed to. - negotiating under tight timelines; ensure that there are agreed pathways for the Government to review and assess whether conditions are being met and in light of new information. Officials would have preferred more testing with GB/FBL on the suitability of direct funding approaches for addressing the un-level playing field; this was prevented by urgency, limiting the only effective option for GB to be an ETS suspension.

Risk	Description	Mitigation
Risk of acting on invalid claims	Substantial claims around financial viability were made by GB.	To mitigate the risk that Government provides relief based on invalid or unsubstantial claims, MfE carried out the following: - At the request of the Minister of Climate Change, officials investigated the claims of GB and the causes behind them, including through commissioning an open book process conducted by Deloitte. This process also considered key assumptions, workings and other factors and relevant context. - Officials undertook further quantitative and qualitative analysis of several key impact areas to identify both costs and benefits, as well as direct and indirect implications of these decisions, including consulting other agencies eg, on fiscal and trade implications.
Risk that GB increases overall emissions	There is a risk that GB increases overall emissions as they are no longer constrained by NZ ETS price on production inputs.	The implication of being outside the ETS is that the company can (by improving efficiency while increasing output) increase its overall emissions and there is no policy lever in place to control for this. That would be a material, although small issue for future emissions budgets and targets. However, CIPA analysis based on current modelling project a reduction in emissions due to investment in decarbonisation. Further, FBL commits to investment in decarbonisation as part of the agreement.

How will the proposal be monitored, evaluated, and reviewed?

Suspension terms and conditions

96. As discussed above there will be a negotiated agreement between FBL/GB and the Government outlining the terms and conditions of any Government intervention and support.

97. The following table outlines where MfE/MCERT, the Government or FBL have an implementation monitoring or reporting responsibility as per the agreement. Given time constraints, further work into the details of monitoring or reporting will need to be developed over the next few months.

<i>Negotiated conditions</i> Classification under negotiation]	<i>Implementation</i> <i>responsibility</i>	<i>Monitoring/reporting</i> <i>responsibility</i>
1. Commitment to continued domestic manufacturing for the duration of the suspension	FBL/GB	MCERT- Review ongoing and in 2036
2. Investment in continued optimisation and maintenance of the clinker manufacturing capability, decarbonisation and firm expansion of at least \$150m, s 9(2)(b)(ii), in aggregate. This includes providing a roadmap for the investment. The timing of this investment will be subject to caveats including market factors, consumer behaviour and available technologies	NZ Government	
3. Suspension from ETS clinker emissions surrender obligations to run from 2031 to 2040, with a review of conditions 1 and 2 in 2036	FBL/GB pre- agree benchmark	MCERT in discussion with relevant agencies, regular assessment
4. Suspension of ETS clinker emissions surrender obligations to cease if (and for so long as) a policy change (either domestic or international) is implemented that results in the majority of clinker and cement importers (assessed by volume) facing carbon costs that are reasonably comparable (including as to incidence, quantum and price effects) to those faced by domestic cement producers under the ETS	FBL/GB	MCERT monitoring ongoing
5. An agreement to run down the stockpile by 2031 or s 9(2)(j)	FBL/GB	MCERT monitoring ongoing
6. Continued reporting of all greenhouse gas emissions	NZ Government	MCERT/FBL monitoring ongoing
7. s 9(2)(j)		

s 9(2)(i) [Redacted text]		
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Monitoring international policy developments

98. One of the likely triggers for restarting surrender obligations is international policy developments for the cement sector. In particular:

- e. s 9(2)(ba)(i) [Redacted text].
- f. BCA is introduced in Australia or other international jurisdictions that New Zealand looks to for policy harmonisation.
- g. Officials are monitoring international developments as they arise, to understand the progress on these issues. This work will continue for the foreseeable future.

Appendix one: NZ ETS explainer

The NZ ETS requires emitters to surrender NZUs

The CCRA requires participants conducting defined activities like mining coal and cement production to report emissions each year (by the end of April) and surrender emission units (by the end of June). Most sectors of the economy are included, except emissions from agriculture and non-municipal waste.

Such firms face financial costs from meeting the NZ ETS statutory obligation to surrender NZUs. These costs are from buying emission units from other participants (the secondary market). Emitters must therefore manage these costs by either:

- investing in technologies or processes that reduce their emissions to reduce future costs of purchasing NZUs
- absorbing the cost within their business, or
- transferring all or some of these costs to consumers through product prices, for example coal, electricity, and natural gas.

The ETS adjusts the cost of goods across the economy to include the costs of emissions that may otherwise not be reflected (a negative 'externality'¹). Its purpose, set out in the Climate Change Response Act 2002, which reflects the Paris agreement, is to assist with meeting international and domestic emissions targets to manage the effects of climate change.

NZUs permit unit holders' emissions

As one NZU permits one tonne of emissions under NZ's climate change legislation, NZUs have value to both firms and government.

The NZUs available are a liability to the government because they permit emissions. The liability is reduced when units are surrendered. Units may be 'stockpiled' or set aside for future surrenders.

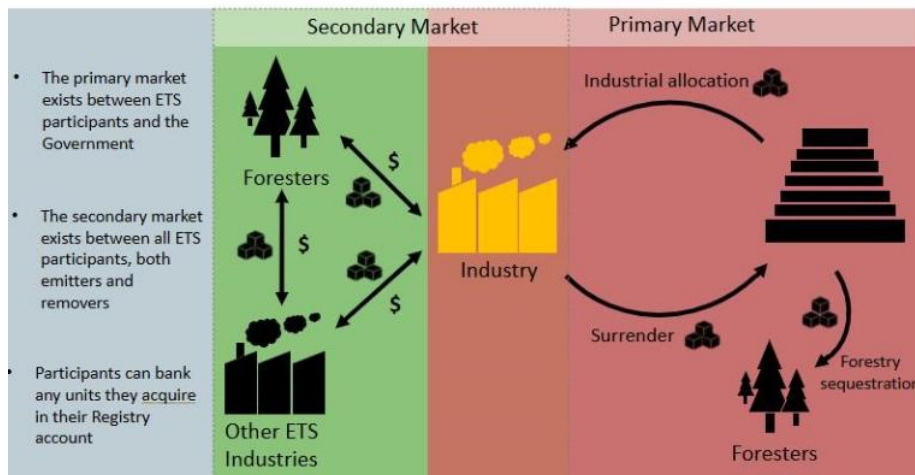
The cash value of NZUs is determined by the supply and demand of NZUs on the market

- Demand is created through surrender obligations.
- Supply meets this through units provided to participants for carbon removals (forestry), and industrial allocations (below).
- Currently, the Government also supplies NZUs through auctions, but recent auctions have not provided additional NZUs to the market due to the NZU price on the secondary market being below the Government's lowest price (the auction price 'floor').

The total units available fall under the NZ ETS 'cap' - being the total number of emissions allowed in the system by the ETS settings. The Government determines NZ ETS settings annually. ETS settings must be consistent with emissions budgets and targets for the relevant period.

Figure 1. NZ ETS transactions

ETS Transactions – industry perspective



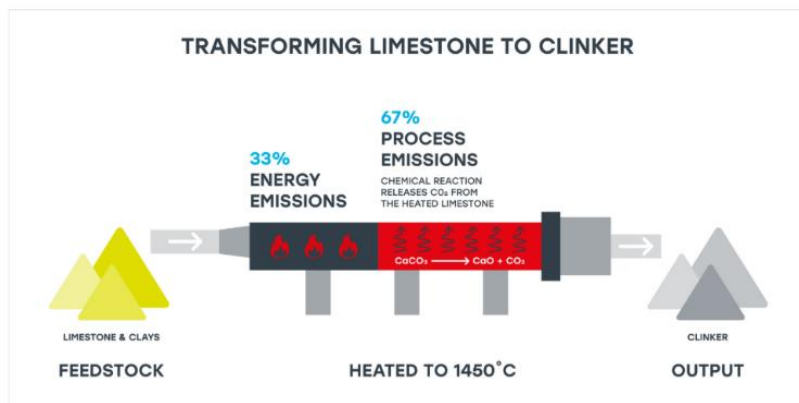
[Source: MfE internal diagram]

Certain emissions cannot easily be reduced – and therefore costs not easily avoided

Some industrial activities have emissions from chemical reactions, such as clinker production in cement manufacture. Clinker production involves the calcination of limestone, which produces large amounts of carbon dioxide. Emissions from clinker are 'hard-to-abate' as the process cannot easily be altered to lower emissions.

GB therefore has limited options to reduce hard to abate emissions (which are most of its emissions), however there are alternatives to abate their other emissions such as from energy use.

Figure 2. Generic clinker process emissions diagram (limestone calcination)



[Source: [The future ACT one - Ecocem](#)]

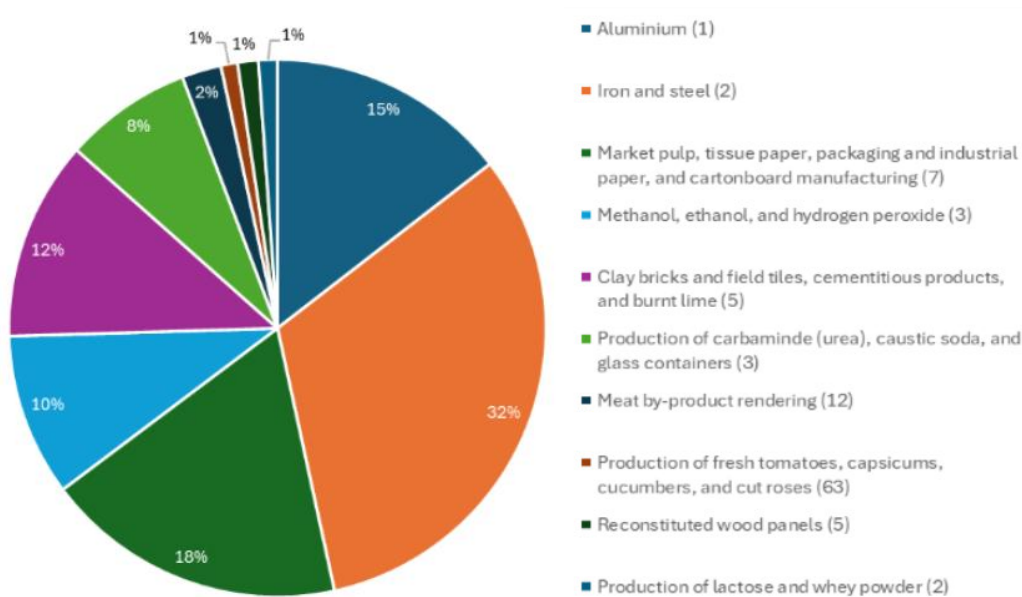
Industrial allocation is provided to firms with high emissions costs and international competitors

Industrial allocation is provided to 88 firms in 26 eligible industrial activities.

Industrial allocation means that firms like GB with large amounts of hard-to-abate emissions can surrender NZUs without incurring a high cost from purchasing NZUs from the market. If the firm has excess units, it can bank them or sell them. Selling excess NZUs can offset emissions costs from the price of coal, fuel, and electricity. If industrial allocation settings are not aligned

with a firm's emissions costs, industrial allocation may cover a greater portion of a firm's total emissions costs than targeted (overallocation).

Figure 3. Industrial allocations by activity



[Source data: [Allocation decisions | EPA](#)]

In 2020 industrial allocation was agreed through parliament, to be phased out to support meeting of domestic emission targets. IA was originally intended as a temporary measure until overseas jurisdictions could implement similar carbon pricing policy. However, in effect, IA has been in operation since 2010 and, at current phase out rates, will not cease until 2060.

The phase-out is slow initially to provide transition time. The level of assistance is decreasing by one percentage (1%) point this decade, then two percent (2%) from 2031, then three percent (3%) until the phase out is completed for each group (2060 for GB). The volume of NZUs provided to IA eligible firms will therefore gradually reduce over time.

Appendix two: Approach to fiscal costings

Fiscal accounting treatment

When an NZU is allocated via IA (and when an NZU is earned from a forestry removal), this increases the NZ ETS stockpile liability, which is recorded as an expense to the Crown. When a firm surrenders an NZU against its emissions liability, this reduce the stockpile liability and is recorded as revenue for the Crown.²²

Critically, for the purpose of these fiscal costings we have focussed on the direct fiscal impacts of the options and have not considered the second-order effects such as the impact on NZ ETS prices and therefore demand for/surrender of NZUs by other participants.

NZUs sold at auction are fiscally neutral and have no impact on OBEGAL but do generate cash proceeds. Conversely, foregone auction units reduce forecast cash proceeds. Because these are cash impacts they also impact on core Crown debt.

Summary of fiscal impacts

The estimated fiscal impact of each intervention option in the Cabinet paper, and methodology for costings, are set out below.

Fiscal impacts have been estimated using the NZU price projection from MfE official emissions projections. This price gradually rises to \$84 (in 2026 dollar terms) in 2030 before gradually falling to \$57 by 2050, reflecting the expected role of exotic afforestation in moderating ETS prices. s 9(2)(b)(ii)

Foregone auction revenue calculations assume that adjustments can only be made to the EB3 period, 2031-35. The separate annual NZ ETS unit and price control settings process underway provisionally indicates that auctions will cease in this period, likely by 2031 or 2032. For the purposes of these costings, the foregone auction revenue has been estimated using the 2031 price assumption.

²² See section 6.4 Fiscal impacts of the NZ ETS in Climate Economic and Fiscal Assessment 2023 <https://www.treasury.govt.nz/sites/default/files/2023-04/cefa23.pdf>

Table A. Estimated fiscal impacts of all intervention options (2026 dollar terms)

#	Option	Net OBGEAL Impact (2031-40)	Foregone ETS Auction Revenue (2031-35)
1	Suspend ETS surrender obligations for clinker emissions from 2031 by amending the CCRA	s 9(2)(j)	s 9(2)(b)(ii)
	Reduce industrial allocation (IA) phase-out rates to the minimum required under the current CCRA framework from 2031 <i>[not included in RIA]</i>		
2	Amend the CCRA to allow further reductions in IA phase-out rates if specific criteria are met from 2031		
3	Direct funding to support Golden Bay's decarbonisation investment (within next 4 years)	If made through 2031-40 s 9(2)(j)	n/a n/a

Option one: Suspend NZ ETS surrender obligations for clinker emissions from 2031

To calculate the impact of the suspension of clinker process emissions, officials first had to separate these emissions from the overall emissions profile of Golden Bay. Based on information provided by Golden Bay, clinker chemical process emissions per tonne of clinker were assumed to be 0.597 t CO₂e. This was then combined with projections of clinker production from the BCA study to estimate clinker process emissions over time. Finally, the statutory level of assistance was applied to estimate the portion of IA relating to clinker process emissions only. These were then multiplied by MfE's carbon price assumption to estimate values in real (2026 dollar) terms. GB continues to face the residual emissions costs from their non-clinker process emissions (ie, heating during the clinker production process and electricity during cement grinding) but receive related allocation for these emissions costs.

On this basis, the Crown is expected to receive less revenue from reduced NZ ETS liabilities (fewer surrenders), estimated at s 9(2)(b)(iii) over 2031-40. This is partly offset by a reduction in IA expense to the Crown of s 9(2)(b)(iii). This results in a net OBEGAL impact of s 9(2)(j) over 2031-40.

For the purposes of calculating foregone NZ ETS auction revenue, officials have assumed there will be a corresponding adjustment to the NZ ETS cap that reduces auction volumes by 2.23m NZUs (GB's clinker emissions would now be outside the NZ ETS). This is partly offset by 1.65m fewer IA units needing to be set aside under the NZ ETS cap. The net impact is a 0.58m reduction in units available for auction, estimated to generate around s 9(2)(b)(iii) cash revenue if sold.

Option two: Amend the CCRA to allow further reductions in IA phase-out rates from 2031

Option two was derived from analysis undertaken by Deloitte that estimated the additional NZUs that would be needed on top of the slowest possible IA phase out rate in legislation to meet Golden Bays ROIC target s 9(2)(b)(ii). The slowest phase down rate leads to an increase in the amount of NZUs the Crown would need to allocate. This increase in IA expense was valued at s 9(2)(j) over 2031-40 and has the same net OBEGAL impact as revenue is unchanged.²³ Combined with Deloitte's scenarios, this leads to a larger increase in the amount of NZUs the Crown would need to allocate, valued at s 9(2)(j) over 2031-40. This is the increase in IA expense and net OBEGAL impact.

Unlike option one there is no NZ ETS cap adjustment for option two as cement production remains fully inside the NZ ETS. The reduction in auction volume and corresponding foregone auction revenue comes from the increase in IA within the same NZ ETS cap, estimated at 0.31m NZUs for option two valued at s 9(2)(b)(ii).

Option three: Direct funding to support Golden Bay's decarbonisation investment

Option three takes a different approach again given its slightly different nature to the other options of sitting outside of the NZ ETS system.

We have assessed that there is some additional allocation of units needed for GB to get to its target ROIC s 9(2)(b)(ii) (option two above). This achieves the ROIC by reducing the company's NZU costs, thus allowing them to capture the same revenue at a lower cost. This allocation comes to a value of s 9(2)(j) from 2031-2040 (in 2026-dollar terms).

For direct funding, we have assumed that support would need to meet the same financial threshold ie, achieving the target ROIC s 9(2)(b)(ii). Additional industrial allocation (which reduces the company's NZ ETS costs) and equivalent levels of direct funding (which can be used to fund investment and/or purchase NZUs) should have the same positive impact on the company's ROIC.

We therefore assume that the same value of direct funding, transferred at the same time as when the IA would have been, would meet the firm's investment hurdle.

However, GB might want the direct funding earlier than they would want NZUs to provide them with the certainty they need to make investment decisions. s 9(2)(j)

The timing of payment could be adjusted, or spread over more years, which would alter the discounted value. The appropriate discount rate could also be tested in negotiation with the company.

There is no ETS cap or auction volume adjustment under the direct funding option.

²³ The slowest phase down rate impact is presented as option 2 in the Cabinet paper appendix two but has not been further assessed in this RIA.