



BRIEFING

Maintaining domestic cement manufacturing in New Zealand - draft Cabinet Paper

Date:	16 April 2026	Priority:	Urgent
Security classification:	Classificatio	Tracking number:	26-BRF-00958

	Action sought	Response by
Hon Simon Watts Minister of Climate Change	Agree that any suspension of ETS surrender obligations for clinker production should be accompanied by the conditions identified at para nine. Note s 9(2)(h) (Appendix 1) Provide feedback on draft Cabinet paper (Appendix 2) Forward the briefing and draft Cabinet paper onto Minister of Finance, Minister for Regional development and Minister for Trade and Investment	20 April 2026
Hon Nicola Willis Minister of Finance Hon Shane Jones Minister for Regional Development Hon Todd McClay Minister for Trade and Investment	Copy for your information	N/A

Action for Minister's Office staff

Forward onto Ministers copied above.

Appendices and attachments

Appendix 1: s 9(2)(h)
Appendix 2: Draft Cabinet Paper

Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Kirsty Flannagan	GM, Markets	s 9(2)(a)	
Jane White	Chief Advisor		✓
David Mead	Author		

The following departments/agencies have been consulted
The Treasury have been consulted and provided feedback on the draft Cabinet Paper

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Minister's Comments



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Purpose

1. This briefing:
 - a. advises the Minister on conditions that we recommend be included in any deal with Fletcher Building Ltd
 - b. seeks feedback on a draft Cabinet Paper, which we are expecting to be lodged on 23 April for discussion at Cabinet on 28 April.

Key points

2. Officials and your office have been discussing potential government support with Fletcher Building Ltd (FBL).
3. It is clear from these discussions that, while a range of options exist for support [refer 26-BRF-00311], the only option the company will consider is a suspension of ETS surrender obligations from 2031-2040, with a review in 2036. You communicated to the company at your meeting on 13 April that a suspension was your expected landing zone.

Suspending ETS obligations from 2031 is the preferred option for Fletcher Building

4. This option meets the company's commercial needs and is therefore likely to be effective in maintaining domestic cement manufacturing but carries significant ETS market confidence and precedent risks.
5. Suspending Fletcher Building from ETS obligations for clinker emissions will likely require legislative change. Options could include either directly suspending ETS obligations for clinker production in primary legislation or amending the statutory requirements for a section 60 exemption so that it is broader and more enabling. For example, amending the requirements for a section 60 exemption could include:
 - a. amending the consultation requirements to provide more flexibility,
 - b. amending the requirement for the Minister to be satisfied the order will not materially undermine the environmental integrity of the ETS, and

c. explicitly including emission leakage risk as a relevant consideration.

6. s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
7. The Cabinet paper recommends Cabinet authorise the Minister of Climate Change to determine the method by which Fletcher Building's clinker emissions surrender obligations are paused, including necessary legislative amendments. It also recommends Cabinet authorise the Minister of Climate Change to issue drafting instructions to PCO for the necessary amendments to the CCRA.

Conditions to attach to any option

8. Suspending the company from ETS surrender obligations is likely to generate significant discussion among stakeholders and ETS market commentators/participants. It may s 9(2)(g)(i) [REDACTED], as well signal the departure of a significant buyer from the market. This can be expected to have material market impacts. Other options also carry these same risks, to a greater or lesser extent.
9. We recommend that if the Government does wish to proceed with this option, conditions should be attached to the deal to try and mitigate, as far as possible, these risks. These conditions (which have been tested with FBL) are:
- a. A commitment to continue domestic manufacturing of cement for the duration of the exemption
 - b. Investment in decarbonisation and firm expansion s 9(2)(b)(ii) [REDACTED]
 - c. No industrial allocation should be received for clinker emissions
 - d. The ETS surrender obligation to be reinstated if there was a policy change that enabled a reasonable level playing field with respect to the carbon cost of cement emissions
10. FBL indicated broad comfort with these conditions at a meeting on 15 April. Officials are working through the details with them.

Managing negative market sentiment

11. You will also need a strong and consistent narrative that this is a timebound suspension of obligations subject to future review, that the counterfactual involved significant emissions leakage and an increase in global emissions, that a very high evidential bar (including independent review of the company's accounts) was met, and that the short-term impact on ETS market supply and demand is expected to be limited.

12. The Minister of Finance has agreed the inclusion of a tagged contingency of up to \$60m for inclusion in the Budget package, which will be agreed at Cabinet on 5 May.
13. If agreed, the suspension option discussed in this paper can be funded from this tagged contingency. This tagged contingency is also sufficient to fund a range of other options including some direct funding/co-investment, changes to IA phasedown rates and/or a one-off allocation made during the Budget forecast period.

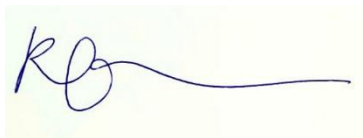
Next steps

14. We've prepared a draft Cabinet Paper (Appendix 1) on the basis of this advice – we seek your feedback on the draft. We are working towards lodgement on 23 April, for consideration at Cabinet on 28 April.
15. We have put this on the agenda for your meeting with officials on 20 April.
16. You may like to forward the briefing and attached Cabinet paper onto the Minister of Finance, Minister for Regional development and Minister for Trade and Investment.

Recommended action

The Ministry for the Environment recommends that you:

1. **Note** that a range of options for support of the company have been considered [refer 26-BRF-00311] *Noted*
2. **Note** that, based on your direction, officials have discussed a potential suspension of ETS surrender obligations for clinker emissions with Fletchers Building Ltd *Noted*
3. **Note** that any exemption carries significant ETS market confidence and precedent risks *Noted*
4. **Agree** that a suspension of ETS surrender obligations for clinker production from 2031-2040 should be accompanied by the conditions identified at para nine *Agree / Disagree*
5. **Note** s 9(2)(h) (Appendix 1) *Noted*
6. **Provide feedback** on the draft Cabinet Paper (Appendix 2)
7. **Agree to** briefing and draft Cabinet paper onto Minister of Finance, Minister for Regional development and Minister for Trade and Investment *Agree / Disagree*



Kirsty Flannagan
GM, Markets
Ministry for the Environment

16 / 4 / 2025

Hon Simon Watts
Minister of Climate Change

___ / ___ / 2025

Appendices

Appendix 1: s 9(2)(h) (attached separately)

Appendix 2: Draft Cabinet paper (attached separately)