

Cement Industry Carbon Border Adjustment Mechanism (CBAM)

Key messages

1. The purpose of this briefing is to seek your agreement on an initial programme of work to examine the potential merits of a CBAM, starting with cement as a test case.

Context

2. Recent years have seen an increasing level of interest around the world in using CBAMs as a tool to incentivise emissions reductions in imported goods and to manage emissions leakage risk.¹ A CBAM is being implemented in the EU and UK. Australia is also exploring a CBAM through its Carbon Leakage Review, with the review making a strong case for burnt lime, clinker and cement to be considered for a CBAM. A decision on next steps is expected after the federal election on 3 May.
3. Concrete NZ wrote to you on behalf of the three major suppliers of cement in New Zealand (Golden Bay Cement (GBC), Holcim and HR Cement) signalling in-principle support for policy work to develop a cement industry CBAM, or similar measure, as a replacement to industrial allocation (IA). When meeting with you on 20 February, GBC also requested an indication of your intent before its Board decides, in late May, whether to continue with local manufacturing or move to an import only model.

Advice

4. Officials propose to undertake a feasibility study on a CBAM, using cement as a test case, given the potential net benefits for New Zealand, and the need to keep pace with international developments, particularly in Australia. Having a well-informed view about the risks and opportunities of CBAM measures will ensure that New Zealand is well positioned to be a fast follower of Australia and to respond to their next steps.
5. Undertaking work now would also ensure that the Government is responding effectively to the issues raised by industries, including those that are important to regional New Zealand economies, such as Northland.
6. Potential benefits of a CBAM include positive fiscal impacts, better incentivisation of decarbonisation and a reduced risk of emissions leakage. A CBAM may also be a possible solution to addressing long-term issues with the IA scheme, especially in industries where current technology means that their emissions are hard to abate. New Zealand has a strong interest in avoiding emissions leakage in the cement sector given that maintaining New Zealand manufacturing reduces the risk of supply chain disruptions and diverts significant domestic waste from landfill.
7. This study would ensure that the Government has a well-informed view of the potential risks of CBAMs. s 9(2)(g)(i)

¹ Emissions leakage is where manufacturers move overseas and produce higher emissions products, increasing global emissions.

s 9(2)(g)(i)

. Consumer cost, supply-chain and foreign policy risks also need careful evaluation.

Way forward

8. We would aim to complete a short and focussed feasibility study, partnering with the industry on firm-level impacts, in Q4 2025. This would enable Cabinet to decide whether to publicly consult on the study and/or undertake detailed policy design work on a CBAM in early 2026, alongside assessing other possible options and solutions for other sectors.

s 9(2)(f)(iv)

9. Careful communication of this proposal would be needed to position the scope of using cement as a test case, following calls from the industry. s 9(2)(g)(i)
10. We recommend gauging interest and comfort from your Cabinet colleagues on this proposal, given the proposal spans several portfolios. We recommend sharing a copy of this briefing and the correspondence from Concrete NZ with relevant Ministers, along with an invitation to discuss the proposal. Following this, you will have the opportunity to make a final decision about whether to take this proposal to Cabinet.
11. If you are supportive, we will include a recommendation to undertake a feasibility study on a CBAM, using cement as a test case, as part of the forthcoming Cabinet paper covering industrial allocation reform. Draft Cabinet paper content is included as appendix 2. We welcome your feedback on this content.
12. Concrete NZ have written to you and requested a meeting to discuss their proposal. You have agreed to meet them. We will work with your office to confirm a timing for this in light of your feedback on this paper. We also recommend responding to Concrete NZ's letter once you have had the above discussions with your colleagues.
13. Ministry for the Environment officials have consulted with counterparts in other agencies. Relevant agencies including the Ministry of Business, Employment and Innovation, Ministry of Foreign Affairs and Trade and the Treasury are supportive of the proposed approach.

Recommendations

We recommend that you:

- a. **Note** that you have been approached by the cement sector to undertake work on a cement industry CBAM.
- b. **Note** that there are benefits and risks associated with this proposal that span several Ministerial portfolios beyond the climate change portfolio.
- c. **Indicate** if you have feedback on the proposed approach to this work now.

Yes | No

d. **Indicate** if you have feedback on the draft Cabinet paper content included in appendix 2.

Yes | No

e. **agree** to forward this briefing and letter from Concrete New Zealand to Ministers with portfolio interests to seek feedback on the proposed approach.

Yes | No

Signatures



Mark Vink
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15 April 2025

Hon Simon WATTS
Minister of Climate Change

Date

Cement Industry Carbon Border Adjustment Mechanism

Purpose

1. This briefing seeks your agreement on an initial programme of work to examine the potential merits of a CBAM, starting with cement as a test case.

Background

2. A CBAM is a trade tool aimed at reducing global emissions by creating incentives to reduce emissions in imported goods. It also mitigates against emissions leakage by levelling the playing field between firms that face domestic emissions costs and those that face no or less emissions costs (importers). CBAMs overseas seek to impose a levy on imports equal to the difference between the carbon cost overseas and the domestic cost.
3. On 20 February you met with GBC where they asked for the Government's direction on a cement industry CBAM. You indicated that the Government was yet to form a view on this. GBC have requested a direction of travel on this work in late May to inform decisions on their operating model going forward, including whether to move to an import only model.
4. You also received a letter from Concrete NZ, on behalf of GBC, Holcim and HR Cement.² The letter signals in-principle support for policy work on a cement industry CBAM, or similar measure, as a replacement to IA and expresses a willingness to participate in an iterative process to progress this work (see appendix one).
5. There have been recent international developments on CBAMs. The EU and UK are implementing a CBAM, entering into force in 2026 and 2027 respectively.
6. Australia has recently completed a two-year detailed review of emissions leakage to support their consideration of whether to implement a CBAM. Australia assessed the sectors at highest risk of emissions leakage before assessing which sectors a CBAM might be workable for. Their review made a strong case for a CBAM for some sectors, starting with lime, clinker and cement. A decision on whether to undertake detailed design of a CBAM is not expected until after the federal election on 3 May.
7. The Climate Change Commission sees merit in investigating alternatives to IA, including a CBAM, in response to known long-term challenges with IA, such as IA remaining above zero post-2050. The Commission recently provided this view in response to a

² In 2021, GBC made up 62% of New Zealand's cement supply, with Holcim making up 31% and HR Cement 7%. Since then, a relatively new player, New Zealand Imported Cement also makes up a small percentage of supply, however, they are not associated with Concrete NZ.

petition at the Environment Select Committee to rapidly phase out IA. It is possible that you or the Government will be asked to formally respond to this petition.

Analysis and advice

International developments in alternatives to IA

8. As more countries enact CBAMs, New Zealand may be at greater risk of resource shuffling. This is where overseas manufacturers send their more emissions intensive products to countries without CBAMs or comparable measures.³
9. Exploring a CBAM now enables New Zealand to keep pace with emerging climate policy. Having a well-informed view about the risks and opportunities of CBAM measures will ensure that New Zealand is well positioned to be a fast follower of Australia and to respond to their next steps.

There is support from the majority of the cement sector to undertake this work

10. Concrete NZ has written to you on behalf of the three major suppliers of cement in New Zealand (Golden Bay Cement (GBC), Holcim and HR Cement) signalling in-principle support for a cement industry CBAM, or similar measure, as a replacement to IA.
11. Their letter describes a 'lose-lose' situation where domestic manufacturer's carbon costs continue to increase compared to importers because of the phase out of IA, increasing emissions leakage risk, and importers are disincentivised from supplying low emissions products. Concrete NZ considers that a policy process now would help to navigate the trade-offs and risks of a CBAM, both for the Government and the sector.
12. GBC considers a CBAM, as a replacement of IA, as necessary to remaining economically viable as a manufacturer beyond ~2035. This is because their hard to abate emissions and lack of competitiveness with importers mean that they are increasingly unable to absorb ETS costs as IA is phased out.
13. Officials have not engaged with a relatively new cement supplier, New Zealand Imported Cement, who is the only remaining supplier. Officials intend on engaging with this stakeholder in due course. Officials have not sought views from other sectors.

There are benefits and risks to a cement industry CBAM

14. There are potentially significant benefits to a cement industry CBAM:
 - a) A cement industry CBAM as a replacement to IA is likely to generate significant fiscal benefits. There would be a reduction in the fiscal expenses associated with industrial allocation, and a levy on imported cement would provide a new source of fiscal revenue. The extent and timing of fiscal impacts would be determined by

³ For cement specifically, we know that New Zealand's main importer for cement imports from one market. According to the Infrastructure Commission, in 2021, the main cement providers were Japan, Singapore and Vietnam. Further analysis is required on the extent of the resource shuffling risk for this sector.

implementation design choices. For reference, GBC's IA in 2023, at a cost of \$64/tonne of CO2 is approximately \$38m.

- b) Assuming that a CBAM would increase the likelihood of GBC maintaining domestic manufacturing, this would have further benefits:
 - i) Cement is a critical part of the construction sector supply-chain and diverts significant domestic waste from landfill. Maintaining New Zealand manufacturing reduces the risk of supply chain disruptions. Further work is required to understand the possible impacts that a CBAM may have on competition.
 - ii) Maintaining manufacturing at GBC's Northland site supports Northland's regional economy. According to GBC, their operations provide 550 direct and indirect jobs and contribute over 9% of Whangarei District's GDP.
- c) A CBAM provides market opportunities for low emissions cement. Concrete NZ advise that a CBAM could accelerate the uptake of low emissions supplementary cementitious materials because of the increased economic incentive of doing so.
- a) There are known long-term challenges with IA including that IA volumes are currently forecast to remain above zero in 2050 and to eventually exceed the ETS cap. A CBAM may be at least one of the tools available to address this.

15. There are, however, risks associated with a CBAM that require careful consideration:

s 9(2)(f)(iv)



- c) There are also consumer cost risks associated with a CBAM, which would increase if IA was removed.
 - i. Concrete NZ estimate that, assuming a price of ~\$63/tonne of CO2e, the carbon cost of cement would make up ~0.06-0.07% of the total cost of a new house build (~\$270 - \$330). Officials have not reviewed these calculations.
 - ii. Australia's second Carbon Leakage Review paper estimates that carbon cost share of concrete would be 0.1-0.2% if a CBAM were implemented in 2030. This accounts for less than 0.01% of an average residential house construction cost.

s 9(2)(f)(iv)



The case for starting with the cement sector

16. Cement is a suitable starting point for exploring a CBAM because:

- a) The sector includes hard to abate emissions for which technology is unlikely to be implemented in time to avoid the exit of New Zealand's only cement manufacturer. Agencies have established that while IA is mitigating this risk in the short-term, other options may better incentivise decarbonisation and reduce the risk of emissions leakage.
 - b) There is broad support from the sector and cement is one of the industries targeted in the EU and UK CBAM and has been signalled as a sector of interest in a potential Australian CBAM.
 - c) The makeup of the sector is relatively simple as there are a small number of firms, low amounts of exported cement and because cementitious products are easily identifiable at the border.
17. s 9(2)(g)(i) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] the proposed study seeks to use cement as a test case to inform any potential development of solutions to emissions leakage more broadly.
18. While this proposal advances work on a CBAM for one sector, it will be important to avoid ruling out other solutions for the sector and to signal an openness to working with other sectors on solutions to emissions leakage. Careful communication of this proposal will be needed to position the scope of using cement as a test case, whilst also acknowledging that a CBAM is not suitable for all sectors, particularly exporters.

Feasibility study proposal

19. If you would like to undertake a feasibility study, MfE propose to lead a short and focussed cross-agency feasibility study consisting of:
- a) Partnering with the cement industry to assess firm level impacts including on their emissions (including energy demand), costs (and relative consumer cost risks) and emissions leakage risk.
 - b) Building an evidence base, with input from relevant government agencies, on the potential wider impacts of a CBAM on Crown accounts, supply-chains, trade law and policy, emissions targets and budgets and the ETS. The wider building and construction sector would also need to be consulted on broader supply chain impacts.
 - c) Identifying possible implementation options and complexities.
20. s 9(2)(g)(i) [REDACTED]
[REDACTED].
21. To manage expectations from other sectors, it would also be important to note a broader commitment to work alongside industries to find solutions to emissions leakage in the long term. As such, Ministers could undertake targeted consultation with other IA sectors on the feasibility study to test how the impacts of a CBAM may differ for them.
22. The study would enable Cabinet to assess the trade-offs of a CBAM on the cement sector and to decide whether to undertake detailed policy design work on a CBAM,

alongside assessing other possible options and solutions for other sectors. We estimate that this study would take around 6 months to complete, pending confirmation from the industry regarding their comfort with this timeframe.

Other considerations

Consultation and engagement

23. We have engaged with relevant agencies including the Treasury, Ministry of Business, Innovation and Employment and the Ministry of Foreign Affairs and Trade on the proposed approach. All agencies support the proposed approach, noting the potential risks with implementing a CBAM. The Ministry of Regulation were also consulted but did not provide a view of whether this work should proceed.
24. We will engage with relevant agencies in the development of the Cabinet paper.
25. We will also engage with the cement industry, in-confidence, to gain an initial understanding of what the terms of reference for their involvement might consist of. Other stakeholders, such as the building and construction industry will also need to be engaged with as part of the study.

Next steps

26. We will provide support for any discussions you may have with your colleagues following this briefing being shared with them.
27. Subject to your approval, we will include a recommendation to undertake a feasibility study, partnering with the industry on firm-level impacts, as part of the forthcoming Cabinet paper covering industrial allocation reform. Following discussions with your colleagues, you will have an opportunity to confirm your decision on the recommendation to undertake a feasibility study prior to the Cabinet paper going out for Ministerial consultation. See the timeline below:

Milestone	Date
Draft Cabinet paper, with CBAM placeholders provided and informal Ministerial discussions on way forward	16 April
Updated Cabinet paper provided seeking a decision to consult on additional CBAM content	1 May
Formal Ministerial Consultation on CBAM content	1 May – 7 May
Lodgement	8 May
Cabinet ECO Committee	14 May
Cabinet	19 May

28. We will also engage with the cement industry, in-confidence, to gain an initial understanding of what terms of reference for their involvement might consist of.

29. Following any Cabinet consideration, officials will also communicate any decision back to Concrete NZ to ensure that it can be considered as part of GBC's forthcoming board meeting.

Appendix One: Letter from Concrete New Zealand

OIA note: A copy of this letter is provided in Document #29 of this response

