



Briefing: Carbon Border Adjustment Mechanism – Feasibility Study Next Steps

Date submitted: 22 May 2025

Tracking number: BRF-6259

Sub Security level: Classification

MfE priority: Standard

Actions sought from Ministers		
Name and position	Action sought	Response by
To Hon Simon WATTS Minister of Climate Change	Agree to proposed next steps for the carbon border adjustment mechanism work programme Forward this briefing to relevant Ministers	26 May 2025

Actions for Minister's office staff
Forward this briefing to: Minister of Finance, Minister of Foreign Affairs, Minister for Trade and Investment, Minister for Regional Development, Minister of Customs, Minister for Building and Construction, Minister of Energy and Minister of Revenue. Return the signed briefing to the Ministry for the Environment (advice@mfe.govt.nz).

Appendices and attachments
s 9(2)(g)(i)

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Tabitha McMaster		
Responsible Manager	Simon Mandal-Johnson	s 9(2)(a)	✓
General Manager	Mark Vink		

Minister's comments

Carbon Border Adjustment Mechanism – Feasibility Study Next Steps

Purpose

1. The purpose of this briefing is to seek your agreement on the next steps for the carbon border adjustment mechanism (CBAM) work programme.

Context

2. We provided a briefing to you on 16 April setting out a proposed approach to undertake a feasibility study into a CBAM, using cement as a test case [BRF-6051 refers]. This briefing was forwarded to your Ministerial colleagues seeking their views. Based on this consultation, you have support from your colleagues to undertake this work, with particular attention paid to potential trade, foreign affairs and building and construction sector impacts.
3. In addition, the proposal was also included in a draft Cabinet paper containing proposals for the forthcoming Climate Change Response Act amendment bill. The CBAM proposal was ultimately not considered by Cabinet, however, you have since provided direction to proceed with this proposal, aiming for consideration by Cabinet by the end of the year.

Advice

Feasibility study proposal

4. As set out in BRF-6051, there are potential benefits and risks to a CBAM as a replacement for industrial allocation that require further analysis before Cabinet can consider the merits of this policy for New Zealand. Undertaking this work now will enable New Zealand to have a well-informed view about the risks and opportunities of a CBAM, as well as alternative policy interventions. This will ensure that New Zealand is well positioned to respond to Australia's next steps.
5. Conducting a feasibility study will enable the Government to form an evidence-led position, on:
 - a) The relative merits of a CBAM mechanism for managing emissions leakage compared with status quo arrangements and other potential alternatives, using the cement sector as a case study.
 - b) The extent to which there would be merit in considering a CBAM for other sectors, in addition to cement.
6. The feasibility study will enable a report back to Cabinet in December 2025 for Cabinet to consider taking an in-principle decision to progress a CBAM policy. We will also consider whether an interim report back to Ministers is required.

Next steps

7. Given the large number of Ministerial portfolios that this proposal falls under, we will establish a cross-agency working group, led by MfE, with representation from the Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, Treasury, Inland Revenue and Customs.
8. To date, we have had support from all relevant agencies for the proposed work programme. We are also currently working with agencies to finalise the analysis required from respective agencies and to develop draft terms of reference, which we aim to finalise in mid-June.
9. We recommend that you forward this briefing to relevant Ministers to update them on the proposed approach. An excerpt of the previous draft Cabinet paper is appended to provide further context. This also provides Ministers with an opportunity to discuss this work programme before we engage with the cement sector and international counterparts.
10. s 9(2)(g)(i) [Redacted]
11. In early June, officials intend on communicating your decision to Concrete New Zealand and sharing draft terms of reference for their input, noting that this will not be publicly announced. We are seeking your agreement to this proposed approach. Your office is also scheduling a meeting between you and Concrete New Zealand in June which we will brief you separately on.
12. In light of Golden Bay Cement's (GBC) continued interest in this proposal in the context of decisions around their operating model moving forward, we recommend that you call GBC to update them on the next steps. Alternatively, officials can update them separately following any further feedback from Ministers.
13. s 6(a) [Redacted]
[Redacted]
[Redacted]. However, we welcome any initial views you have on engaging with international counterparts.
14. A timeline of next steps is below:

Milestone	Date
Briefing shared with relevant Ministers	26 May 2025
Any further feedback from Ministers received	2 June 2025
Draft terms of reference provided and decision from Minister communicated to Concrete NZ and GBC	5 June 2025
Terms of reference finalised	12 June 2025

Recommendations

We recommend that you:

- a. **agree** to the proposed approach to work and engage with the cement sector.

Yes | No

- b. **Indicate** whether you would like to call Golden Bay Cement to provide an update on this work programme.

Yes | No

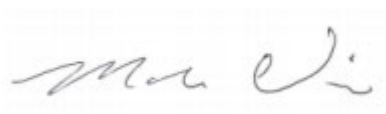
- c. **indicate** whether you have any initial views on engaging with international counterparts on this work programme.

Yes | No

- d. **agree** to forward this briefing to relevant Ministers.

Yes | No

Signatures



Mark Vink
General Manager
Markets

21 May 2025

Hon Simon WATTS
Minister of Climate Change

Date

Appendix one: excerpt of draft Cabinet paper material

Context

15. CBAMs are being implemented in the UK and EU. Australia is exploring a CBAM through its Carbon Leakage Review, with possible next steps being detailed policy design to inform policy decisions.
16. A CBAM imposes a carbon price on imported goods, determined by the difference between domestic and international carbon prices. They are aimed at reducing global emissions by incentivising emissions reductions in imported goods. A CBAM also mitigates against emissions leakage. In New Zealand industrial allocation is being progressively phased out and is forecast to reach zero shortly after 2050. A CBAM could be a long-term solution to managing emissions leakage given IA is being phased out.
17. Concrete New Zealand, representing the three major suppliers of cement in New Zealand, has recently written to me, seeking a commitment to undertake work on a cement industry CBAM. GBC have told me that that they view a CBAM as a replacement of IA as necessary to remaining economically viable as a domestic manufacturer beyond ~2035 and are seeking a clear signal from the Government on its desired direction of travel.

Analysis

18. A short and focussed feasibility study on a CBAM, using cement as a test case, will support the Government to keep pace with international developments and to have an informed position on relative benefits and risks of this policy to respond to any decision from Australia. Undertaking work on a CBAM now would also reflects the Government's responsiveness to industry.
19. A CBAM as a replacement to IA is likely to be fiscally positive if IA is phased out faster and because of new revenue from importers. A CBAM may be a more effective tool at managing emissions leakage in the long term than IA. Domestic cement manufacturing currently supports the diversion of ~30,000t p/a of end-of-life tyres from landfill and contributes to employment and GDP in the Whangarei District. A CBAM could also make low emissions cement more price competitive.
20. s 9(2)(g)(i) [REDACTED]
[REDACTED] . s 6(a) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] A CBAM could increase cement prices (see cost-of-living section). If enacted too rapidly, resulting in significant price increases, there could be flow on impacts on the delivery of infrastructure projects. This could be mitigated by providing a transition period.

Proposal

21. I propose to complete a short and focussed feasibility study, to be completed within the next 6 months, on the potential impacts and implementation options of a cement industry

CBAM. s 9(2)(g)(i)

22. The cement sector is a suitable starting point given the industry's support, the risk of emission leakage is well established, cement is a sector targeted in the EU CBAM and identified by Australia in its review, and the makeup of the sector is simple.
23. The study would consist of partnering with the cement industry to assess firm level impacts, working across agencies on the potential wider economic and socio-economic impacts of a CBAM, and identifying possible implementation options.¹
24. Findings from the study would support decisions on whether to undertake further work on CBAM, including potential approaches to other sectors. Any legislative process would likely occur in the next term of government, outside of the CCRA Bill.
25. To manage expectations from other sectors, it will be important to carefully communicate this work, noting that a CBAM is unsuitable for some sectors, (e.g. exporters). I intend on making a broader commitment to work alongside other industries to find solutions to emissions leakage in the long term, such as, future targeted consultation with industries on how CBAM impacts may differ for them.

¹ Relevant Government agencies include Ministry for the Environment, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment, Treasury, Inland Revenue and Customs.