



Briefing 6457: CBAM Feasibility Study – Letter of Reply to Cement Sector Group and Terms of Reference

Date submitted: 4 July 2025

Tracking number: BRF-6457

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	Sign the attached response letter to the Cement Sector Group Note the finalised terms of reference for the carbon border adjustment mechanism feasibility study	16 July 2025

Actions for Minister's office staff
Send the attached letter to the Cement Sector Group Return the signed briefing to the Ministry for the Environment (advice@mfe.govt.nz).

Appendices and attachments
Appendix one: Draft Response Letter to the Cement Sector Group Appendix two: Letter from the Cement Sector Group Appendix three: Carbon Border Adjustment Mechanism Feasibility Study Terms of Reference

Key contacts at Ministry for the Environment			
Position	Name	Cell phone	First contact
Principal Author	Tabitha McMaster		
Chief Advisor	Jane White	s 9(2)(a)	✓

Minister's comments

Briefing 6457: CBAM Feasibility Study – Letter of Reply to Cement Sector Group and Terms of Reference

Purpose

1. Attached to this briefing is a response letter for you to review, sign and send to the Cement Sector Group regarding their request for the Government to undertake a carbon border adjustment mechanism feasibility study. This follows the meeting you had with the Group on 9 June 2025.
2. The terms of reference for the feasibility study into a carbon border adjustment mechanism are also attached to this briefing, for noting.

Background

3. On 24 March 2025, the Cement Sector Group, representing all the suppliers of cement in New Zealand, wrote to you expressing in-principle support for policy work to develop a CBAM, or similar measure, for the cement sector. Their letter is attached as appendix two.¹
4. On 9 June, you met with the Cement Sector Group to confirm you have directed officials to undertake a feasibility study into a CBAM for the cement sector. During this meeting you set expectations about collaboration between officials and the Cement Sector Group and the scope and timing of the study. You also noted that no formal announcements would be made.
5. During this meeting, you also committed to writing a formal letter of response to the Cement Sector Group. The response letter is attached for your review and signature as appendix one.

Progress to date

6. Since the meeting on 9 June, we have been working with relevant agencies and the Cement Sector Group to finalise the terms of reference for the study. We recommend attaching the finalised terms of reference to the letter to the Cement Sector Group. It is attached as appendix three.
7. We have had several engagements with cement sector representatives. This has included discussing a framework for collaborating on the feasibility study and the approach to the analysis of sector-specific impacts.

¹ The Cement Sector Group represents Golden Bay Cement, Holcim, HR Cement and New Zealand Imported Cement.

Next steps

8. The Cement Sector is setting up a Cement Working Group to support the analysis of sector impacts. The Ministry of Foreign Affairs and Trade will undertake analysis of the trade implications, and the Ministry for the Environment and Ministry of Business, Innovation and Employment is leading analysis of the environmental and economic impacts.
9. Officials will keep you updated on progress and raise any issues in a timely manner. We expect to have a draft feasibility study for your review by the end of November.

Recommendations

We recommend that you:

- a. **Sign** the attached response letter to the Cement Sector Group.

Yes | No

- b. **Note** the attached terms of reference for the study, which have been agreed to by agencies and the Cement Sector Group

Yes | No

Signatures



Jane White
Chief Advisor
Markets, Ministry for the Environment

Date: July 2025

Hon Simon WATTS
Minister of Climate Change

Date:

Appendix one: Draft Response Letter to Cement Sector Group



Rob Gaimster
Cement Sector Group Convenor

angelique@concretenz.org.nz

CORM-3672

Dear Rob, Ben, Michael and Gary,

Thank you for the letter received on 24 March 2025 from the Concrete New Zealand Cement Sector Group regarding your in-principle support for policy work to develop a carbon border adjustment mechanism (CBAM), or similar measure.

I am aware of the risks of carbon leakage and the challenges the industrial allocation settings pose in terms of increasing costs for domestical manufacturing, given the sector's hard to abate emissions. I also acknowledge the difficulty for importers to financially justify sourcing lower emissions cement and clinker given the disparities between New Zealand carbon costs and that of our trading partners.

Thank you for making the time to meet with me on 9 June to further discuss these challenges and the potential for a CBAM to address them. I acknowledge that a CBAM is a potential replacement to the industrial allocation regime in the long run and, as such, is something we need to consider. I am also watching with interest developments in Australia and decisions that may be made regarding a CBAM.

As noted during our meeting on 9 June, I have directed officials to undertake a feasibility study into a CBAM for the cement sector. The aim of the study is to provide an initial assessment of whether a CBAM could be a more effective policy instrument than industrial allocation (or other alternatives) for the cement sector.

The study will have a focus on mitigating emissions leakage, supporting decarbonisation, and providing for a level playing field with respect to emissions pricing and industry competitiveness, while also having regard to alignment with the Government's wider economic, fiscal and trade objectives. The study will consider, at a high-level, the implementation requirements of a CBAM.

Attached are the finalised terms of reference for the study, which I understand members of the Cement Sector Group have contributed to. As you are aware, I am not committing to taking any CBAM policy recommendations to Cabinet at this stage. The findings of the feasibility study will enable Ministers to consider whether further, more detailed policy analysis should be undertaken.

I understand a Cement Working Group is being convened to undertake analysis of the sectoral-specific impacts for the feasibility study as well as provide input into the analysis of broader economic, environmental and trade impacts. I appreciate the Cement Sector's collaborative efforts with officials to date and look forward to seeing the outcome of this work.

Yours sincerely

Hon Simon Watts

Minister of Climate Change

Appendix two: Letter from Cement Sector Group

Refer to attached letter



24 March 2025

Hon Simon Watts
Minister of Climate Change
Parliament Buildings
Private Bag 18888
WELLINGTON 6160

Hon Nicola Willis
Minister of Finance
Associate Minister of Climate Change
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Email: s.watts@ministers.govt.nz

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Dear Ministers

ESTABLISHING A LEVEL PLAYING FIELD FOR THE CEMENT SECTOR

We are writing as Concrete New Zealand's Cement Sector Group, comprised of Golden Bay Cement, Holcim New Zealand, and HR Cement. Together we represent 100% of New Zealand's domestic cement production and the majority of its cement imports.

We are writing to express our shared in-principle support for policy work to develop a carbon border adjustment mechanism (CBAM), or similar measure, for the cement sector to create a level playing field on carbon costs for all participants in Aotearoa.

We would welcome an opportunity to meet with you and/or your officials to discuss this further.

Long-term Alternatives to Industrial Allocation

Carbon leakage risk arises because of uneven implementation of carbon pricing between jurisdictions. New Zealand currently addresses this risk through industrial allocation (**IA**) under the NZ ETS.

As the rate of IA support phases out and the price of carbon rises, the situation becomes more 'lose-lose' over time: domestic production faces a higher marginal cost of production than import, and import is disincentivised from supplying lower-emissions products. This is particularly acute in the cement sector, where analysis has found that there is a heightened risk of carbon leakage¹. As the Global Cement and Concrete Association has pointed out, similar free allocation regimes have been seen in recent years to be insufficient to avoid carbon leakage where the carbon pricing disparity is very large, which is why border mechanisms are increasingly being explored.

The first Emissions Reduction Plan signalled policy work to explore a longer-term solution that would progressively replace IA with a mechanism to address carbon leakage risk while also incentivising efficient emissions reductions and market competition. We support reopening this work, retaining its initial focus on the cement sector as a 'test case'.

¹ Resource Economics report commissioned by the Ministry for the Environment, available [here](#).

CBAMs Are Gaining International Momentum

The European Union has already implemented a CBAM for cement (among other sectors) on a reporting basis, with first payments starting in 2026.

Importantly, Australia is actively progressing a Carbon Leakage Review which has found that cement and clinker are subject to “potentially material carbon leakage risk²”. Cement and clinker have been identified by this review as the first commodities to be considered for a CBAM on the basis that they:

- Are energy and emissions intensive.
- Have a high ratio of carbon costs to product price.
- Have relatively simple supply chains (which facilitates ease of monitoring and reporting).

Australia is not currently considering a CBAM on exports and we are not suggesting this either. We acknowledge carbon leakage risks for export-oriented sectors in New Zealand are much more complex and may require a different approach.

A Policy Process Would Help to Navigate the Trade-offs and Risks

We acknowledge the design of a CBAM is complex because there are significant trade-offs to consider.

The primary purpose, and benefit, of a CBAM would be to send a consistent price signal to incentivize least-cost emissions reduction in the cement sector, regardless the product's country of origin. A CBAM would also enable the accelerated phase-out of IA, reducing the Crown's fiscal exposure, while addressing the risk of emissions leakage.

A CBAM could have trade implications, though we note that:

- Treating domestic and import suppliers on a level basis should minimize these risks.
- New Zealand would not be alone in implementing a CBAM, and moving in alignment with Australia would further minimize these risks.

There may be cost implications of a CBAM because both domestic and import cement products could potentially pass on carbon costs to New Zealand consumers. We note that this would bring cement in alignment with essential goods and services – such as fuel, electricity, etc. – that are already subject to a carbon price, but we appreciate this means a transition would need to be carefully planned and communicated.

We believe the overall cost implications are manageable. To put this in perspective, based on the current NZU price of $\$9(2)(b)(ii)$, the carbon cost of a concrete slab for a new house build would be $\$9(2)(b)(ii)$. This represents just $\$9(2)(b)(ii)$ of the $\$9(2)(b)(ii)$ cost of a standalone house in NZ³. CBAM design could also consider a phased implementation to smooth out this impact.

² [See here.](#)

³ The 2024 average floor area of a standalone house consented in New Zealand is 175m² ([source](#)) which requires a slab containing ~22m³ of ready-mix concrete and ~6,100kg of cement. There is ~4,300-5,300kg CO₂e emitted during production of this cement.

Next Steps

As a sector, we are keen to engage constructively and collaboratively with the Government and officials to navigate the challenge of decarbonizing the industry in a manner that creates a level playing field on carbon costs for all participants in Aotearoa and in a fiscally appropriate manner. While the Cement Sector Group has not established a shared view on the detailed design parameters of a potential CBAM, we are in-principle ready to engage in an iterative process to push this policy process forward.

We look forward to your response at the earliest opportunity with an indication of the Government's intent in this space. Representatives of the signatories look forward to meeting with you and/or your officials to discuss this proposal in further detail.

Yours faithfully

s 9(2)(a)

Ben Marsh
General Manager
GOLDEN BAY

s 9(2)(a)

Michael Miller
Executive General Manager
HOLCIM (NEW ZEALAND) LIMITED

s 9(2)(a)

General Manager
HR CEMENT LIMITED

s 9(2)(a)

Rob Gaimster
Cement Sector Group Convenor
CONCRETE NEW ZEALAND INC.

cc Mark Vink, General Manager - Markets, Climate Change Mitigation & Resource Efficiency,
Ministry for the Environment

Simon Mandal-Johnson, Manager - ETS policy, Ministry for the Environment



Appendix three: CBAM Feasibility Study Terms of Reference

Carbon Border Adjustment Mechanism Feasibility Study Terms of Reference

Purpose

To provide an initial assessment of whether a CBAM could be a more effective policy instrument than industrial allocation (or other alternatives) for the cement sector.

The study will have a focus on mitigating emissions leakage, supporting decarbonisation, and providing for a level playing field with respect to emissions pricing and industry competitiveness, while also having regard to alignment with the Government's wider economic, fiscal and trade objectives. The study will consider, at a high-level, the implementation requirements of a CBAM.

The study will focus on the cement sector but will draw out learnings and insights relevant for other sectors. It will also enable the Government to keep pace with international developments on carbon border adjustment mechanisms.

Context

CBAMs are gaining traction globally as a tool to address carbon leakage. The EU and UK are implementing a CBAM (in 2026 and 2027 respectively), and Australia and Canada are exploring one.

The Concrete NZ Cement Sector Group (on behalf of all suppliers in New Zealand i.e. Golden Bay, Holcim, HR Cement and NZIC) has written to the Minister of Climate Change expressing in-principle support for policy work on a cement industry CBAM or similar measure as a replacement for industrial allocation. The Group has offered to work with officials to progress a feasibility study.

The Climate Change Commission has also indicated support for exploring alternatives to industrial allocation, including a CBAM. This is in response to known long-term challenges with industrial allocation, including it exceeding the ETS cap and remaining above zero post-2050.

Ministers have agreed to undertake an initial exploratory study of the feasibility of a CBAM for the cement sector. This study will not get into details of policy design or recommendations and no decisions will be taken in terms of implementing a CBAM.

Scope

This is an initial exploratory study to consider whether a CBAM for imports of cement is likely to be economically, legally, and administratively feasible (exports are excluded).

The study will consider the viability of alternative or complementary policy instruments to address carbon leakage risk for the cement sector. This could include, but not be limited to, strengthening the existing industrial allocation framework within the ETS or providing other forms of targeted support for an industry at high risk of carbon leakage.

Within scope is the following:

- Critical design choices for assessing the impact of a CBAM on cement e.g. scope of coverage, carbon pricing benchmark, emissions measurement, comparison with other options including the status quo of no change.
- s 6(a), s 9(2)(g)(i)
- s 6(a), s 9(2)(g)(i)
- Overview of how a CBAM would be practically applied, including possible changes to industrial allocation, timing and transitional options.
- Likely required legislative provisions for a CBAM.

Approach

International scan and literature review

A literature review will be undertaken to gain initial insights into the key matters that should be considered in the feasibility study and how other countries have considered these matters.

Analysis

We will analyse the impacts of a cement industry CBAM compared with other alternatives (particularly changes to industrial allocation) and consider the following impacts:

Sector-specific impacts

Government officials will work collaboratively with the cement industry to estimate the impacts on production costs, availability of cement (including low-emissions cement) and other products and supply-chain impacts (including the impact on concrete prices and its competitiveness against other materials). The study will also assess the carbon leakage risk for transportable finished goods like precast concrete products. This will include possible market and policy reactions, and a high-level assessment of regulatory readiness. This will be considered in the context of the Net Zero Carbon Concrete Industry Roadmap to 2050.

Economic analysis

Government officials, in collaboration with the cement industry, will lead the analysis of economic impacts including changes in consumer prices, employment effects, market competition dynamics and the fiscal impacts on the Crown.

Alignment with climate change goals and targets

This will be led by the Ministry for the Environment, with the cement industry playing an advisory role. This will include considering alignment with New Zealand's emissions profile and consistency with domestic and international climate targets, and opportunities for low-emissions transitions across the wider economy, including innovation and investment pathways.

Trade implications

The Ministry of Foreign Affairs and Trade (MFAT) will lead the assessment of trade-related impacts, in close coordination with relevant agencies and with the cement industry playing an advisory role. This will include considering risks to s 9(2)(g)(i), s 6(a)

[REDACTED]

The Ministry of Foreign Affairs and Trade will also lead consultation with international counterparts on the potential implications of a CBAM.

Implementation options and implications

We will consider how a CBAM could be practically applied. This will consider, at a high level, design options, transitional support, and other administrative considerations. This will include analysis of the potential scale of administrative burden, compliance costs and operational adjustments for both government and private firms.

The study will also explore, at a high level, opportunities to align a CBAM with international best practice, particularly the mechanisms being implemented or considered in Australia, the UK and the EU to minimise trade friction and compliance complexity.

Other sectors

A high-level desktop analysis, along with targeted engagement, will be undertaken to consider the impact on sectors, other than the cement industry (e.g. steel and lime).

Peer review

The analysis (particularly the industry-level analysis) will be independently peer reviewed.

Governance

The study will be overseen by the Cross Sector Officials Group (CSOG), chaired by the Climate Change Chief Executives Board Unit. The Inland Revenue Department and Customs will be invited to attend this group when the CBAM feasibility study is on the agenda.

An agency working group will meet from time to time to agree key inputs into the study and discuss results, working closely with the cement industry. The working group will be broken into smaller groups as required for the analysis.

The cement industry, fully represented by the Concrete NZ Cement Sector Group, will convene a designated Cement Working Group to work collaboratively with government officials and oversee the industry specific analysis.

A protocol will be developed for how government agencies and the cement industry will work together, including respective roles and responsibilities. The industry will not be privy to the final advice provided to Government Ministers or Cabinet but will provide review the feasibility study report. Any material differing views may be noted in the feasibility study or Ministerial advice.

Engagement

The Minister of Climate Change has directed that no formal announcement will be made about the feasibility study. However, the cement industry can engage on a confidential basis with its members and downstream suppliers about the study, emphasising its exploratory nature and that no policy recommendations will be made at this time. The Ministry for the Environment will also undertake targeted engagement to inform the likely impacts on other sectors.

The Ministry of Foreign Affairs and Trade will lead all engagement with international counterparts on the potential implications of a CBAM, s 6(a), s 9(2)(g)(i)

Deliverables

A briefing to Ministers (most notably, the Minister of Climate Change and Minister for Trade and Investment) with the findings of the feasibility study. The feasibility study will be included as an appendix. A Cabinet paper may follow, subject to Ministerial decisions.

Timeline

June 2025: formalising governance structures, developing the analytical framework, data collection and completing the literature review.

July/August 2025: qualitative and quantitative analysis.

September 2025: drafting of feasibility study.

October 2025: finalise study with agencies and the cement sector.

November 2025: Ministerial consideration of feasibility study.