



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Title of Cabinet paper	Engagement with very large emitters – investment package for significant decarbonisation proposal	Date to be published	15 June 2023

List of documents that have been proactively released

Date	Title	Author
March 2023	Engagement with very large emitters - investment package for significant decarbonisation proposal	Office of the Minister of Energy and Resources Office of the Minister of Climate Change
8 March 2023	DEV-23-MIN-0016	Cabinet Office

Information redacted

YES

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Some information has been withheld for the reasons of commercial information; confidential advice to Government, free and frank opinion, legal professional privilege, negotiations.



Cabinet Economic Development Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Engagement with Very Large Emitters: Investment Package for Significant Decarbonisation Proposal

Portfolios **Energy and Resources / Climate Change**

On 8 March 2023, the Cabinet Economic Development Committee:

- 1 **noted** that the government has been approached about an opportunity to support a substantial decarbonisation project via the installation of an Electric Arc Furnace (EAF) to process scrap steel at the Glenbrook Steel Mill, operated by NZ Steel;
- 2 **noted** that this project would result in significant emissions reductions of around 800,000 tonnes of CO₂e initially (approximately 36 percent of NZ Steel's total emissions), likely increasing over time;
- 3 **noted** that this emissions reduction is expected to contribute approximately 5.3 percent of the required emissions reductions within emission budget two (2026-2030) and approximately 3.4 percent of the total required within emission budget three;
- 4 **noted** that this is also expected to deliver approximately 13.4 percent of the emissions reductions required from the Energy and Industry sector in emission budget two and approximately 11.4 percent in emissions budget three;
- 5 **noted** that this could be the most significant opportunity in terms of both emissions quantum or related abatement costs across all other industrial process heat users;
- 6 **noted** that in addition to emission reductions, NZ Steel's installation of an EAF would have other economic, environmental and resilience benefits to New Zealand, including:
 - 6.1 continuation of employment for New Zealanders;
 - 6.2 greater economic activity than under a potential import model;
 - 6.3 greater supply chain resilience relative to a potential import model;
 - 6.4 avoidance of emissions leakage;
 - 6.5 energy grid resilience;
 - 6.6 support waste minimisation and circular economy objectives;

7 **noted** that if NZ Steel does not install an EAF, the Crown will need to allocate a significant number of New Zealand Units (NZUs) to NZ Steel under the Emissions Trading Scheme (NZ ETS) while it continues its current operations (approximately 800,000 NZUs in 2027 or \$56 million at \$70/NZU);

8 **noted** that:

8.1 if NZ Steel does install an EAF, its allocations will reduce by approximately 800,000 NZUs in 2027;

8.2 decisions on how this reduction impacts annual NZ ETS settings will be taken closer to the time of the investment;

9 Confidential advice to Government

10 **noted** that:

10.1 the BlueScope Board is meeting from 13–15 March 2023 and will decide whether or not to proceed to a full feasibility study of the EAF proposal;

10.2 the Board has indicated that a key factor in this decision will be the level of financial support available and relevant policy certainty;

11 **noted** that NZ Steel is requesting a government contribution of Confidential Information associated with the procurement and installation of an EAF;

12 **noted** that NZ Steel has proposed a transition group of government officials be established to discuss ongoing key regulatory settings and other issues associated with its transition to EAF production;

13 **noted** that:

Negotiations

Negotiations

14 **noted** that due diligence supports a Crown contribution of Confidential advice to Governm million, as being sufficient to advance the deal, and provides good public value for money;

15 **noted** that Confidential advice to Government \$140 million, the project is forecast to have a marginal abatement cost (MAC) of \$16.20 to 31 December 2046 (based on a 20-year asset life), which compares favourably to the MACs of other Government Investment in Decarbonising Industry Fund (GIDI)-funded projects, and to the MAC of offshore mitigation;

16 **noted** that NZ Steel has suggested that part of, or all, the Crown's contribution to the EAF could be via a 'wedge' of industrial allocation (intentional over-allocation) to provide a return on investment, and that the government does not recommend this in NZ Steel's case because:

16.1 the Climate Change Response Act 2002 (CCRA) does not currently support this;

- 16.2 it would be inconsistent with the purpose of industrial allocation and create considerable precedent risk;
- 16.3 an appropriate funding mechanism (GIDI) is already set up to provide capital support;
- 16.4 KPMG's assessment is that ^{Confidential advice to Government} of GIDI funding is considered sufficient to support commerciality of the investment, and there is no need for additional support through the industrial allocation policy;
- 17 **agreed** that the Crown provide up to \$140 million as a grant via the GIDI fund to NZ Steel for the purchase and installation of an EAF;
- 18 **agreed** that the Minister of Energy and Resources and the Minister of Climate Change write to NZ Steel outlining the government's offer;
- 19 **authorised** the Minister of Finance, the Minister of Energy and Resources, and the Minister of Climate Change to agree the final negotiated package of support to be provided to NZ Steel, subject to it being within scope of the options described in the paper under DEV-23-SUB-0016, and not exceeding \$140 million in grant funding;
- 20 **noted** that NZ Steel has requested the Ministry of Business, Innovation and Employment, the Ministry for the Environment, and the Energy Efficiency and Conservation Authority form a transition group with NZ Steel to discuss ongoing key regulatory settings and other issues associated with NZ Steel's transition to EAF production;
- 21 **agreed** that officials from the Ministry of Business, Innovation and Employment, Ministry for the Environment, and Energy Efficiency and Conservation Authority continue to engage with NZ Steel on ongoing key regulatory settings and other issues;
- 22 **noted** the risks associated with offering financial and policy support to NZ Steel, which include but are not limited to:
- 22.1 precedent setting for future GIDI projects;
- 22.2 failure to reach agreement with NZ Steel resulting in failure of the EAF proposal;
- 22.3 **Free and frank opinions**
- 22.4 potential project failure, including failure by NZ Steel to access sufficient scrap steel;
- 22.5 **Legal professional privilege**
- 23 **invited** the Minister of Energy and Resources and the Minister of Climate Change to report back to Cabinet after agreement has been reached with NZ Steel or by 30 June 2023, whichever is sooner;

24 **noted** the process outlined in the paper under DEV-23-SUB-0016 for engagement with other very large emitters, should more opportunities arise in future.

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon Michael Wood
Hon Stuart Nash
Hon Damien O'Connor
Hon David Parker
Hon Peeni Henare
Hon Priyanca Radhakrishnan
Hon Kieran McAnulty
Hon Ginny Andersen
Hon Meka Whaitiri
Hon Dr Duncan Webb
Hon Dr Deborah Russell

Officials present from:

Office of the Prime Minister
Officials Committee for DEV