



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Energy and Resources
Title of Cabinet Paper	<i>Engagement with very large emitters: investment package for second significant decarbonisation proposal and report back on New Zealand Steel</i>	Date to be published	28 August 2023

List of documents that have been proactively released

Date	Title	Author
July 2023	Engagement with very large emitters: investment package for second significant decarbonisation proposal and report back on New Zealand Steel	Office of the Minister of Energy and Resources
17 July 2023	Engagement with very large emitters: investment package for second significant decarbonisation proposal and report back on New Zealand Steel <i>CAB-23-MIN-0309 Minute</i>	Cabinet Office
July 2023	Climate Impact Policy Assessment Disclosure Form	MBIE
2 June 2023	Engagement with very large emitters: progress update on second large emitter partnership	MBIE

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under the Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of commercial information; legally professional privilege; confidential advice to government; constitutional conventions; and free and frank opinion.



Cabinet

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: Second Investment Package for Significant Decarbonisation Proposal and Report Back on New Zealand Steel Partnership

Portfolio Energy and Resources

On 17 July 2023, Cabinet:

Funding agreement to support Fonterra's decarbonisation programme

- 1 **noted** that Fonterra and the Energy Efficiency and Conservation Authority (EECA) have been working closely to agree a support package for the government to support Fonterra's decarbonisation programme with funding through the Government Investment in Decarbonising Industry (GIDI) Fund;
- 2 **noted** that this project with Fonterra would deliver an estimated 1,230,000 tonnes of cumulative abatement before the end of 2030;
- 3 **noted** that this emissions reduction is expected to contribute approximately 2.69 percent of the required emissions reductions within emission budget two (2026-2030), and approximately 1.13 percent of the total required within emission budget three (2031-2035);
- 4 **noted** that this proposal is expected to deliver 7.27 percent of the emissions reductions required from the Energy & Industry sector sub-target in emission budget two and approximately 4.31 percent in emissions budget three;
- 5 **noted** that Fonterra has currently committed to reducing its scope 1 and 2 emissions by 30 percent of its 2018 baseline year levels by 2030;
- 6 **noted** that in line with this commitment, Fonterra currently has projects in place or completed sufficiently to reduce its emissions by 14 percent, but specific plans are yet to be finalised to reduce its scope 1 and 2 emissions by the full 30 percent by 2030;

- 7 **noted** that EECA and Fonterra have negotiated a proposed decarbonisation funding agreement that would provide up to \$90 million or 18 percent of qualifying capital costs, whichever is the lesser, to support a decarbonisation programme delivering an estimated cumulative reduction of 1,230,000 tonnes of CO₂e by 31 December 2030, with the funding split in two tranches:
- 7.1 Tranche A: up to \$45 million for further decarbonisation projects that support Fonterra to achieve a 50 percent overall total reduction in carbon emissions in its New Zealand-wide operations by 31 July 2031 (from its baseline measurement year of 2018);
- 7.2 Tranche B: up to \$45 million for decarbonisation projects focused on coal use at Fonterra's manufacturing sites, predominantly in the South Island;
- 8 **noted** that this proposed funding will be subject to clawback provisions if Fonterra fails to deliver the targets agreed in Tranches A and B, and that clawed back funds would likely be returned to the Climate Emergency Response Fund;
- 9 **noted** that the proposed co-funding would leverage a significant investment by Fonterra to decarbonise its processes, estimated to be in the range of \$500-790 million;
- 10 **noted** that purchasing abatement through supporting Fonterra's decarbonisation programme would support the achievement of New Zealand's Nationally Determined Contribution 1 (NDC1) by bringing forward an estimated 1,230,000 tonnes of CO₂e abatement into the 2021-2030 NDC1 period;
- 11 **agreed** that EECA, through its Chief Executive, be authorised to enter into a binding funding agreement containing the terms outlined in the paper under CAB-23-SUB-0309;
- 12 **noted** the risks associated with offering financial support to Fonterra, which include but are not limited to:
- 12.1 potential project failure/cost overruns;
- 12.2 impact on existing coal resources networks;
- 12.3 perception risks;
- 12.4 impact on dairy manufacturing sector competitiveness;
- 12.5 impacts on supply of new fuels;
- 12.6 Legal professional privilege [REDACTED]
- 13 **noted** that there are other trade-offs, including uncertainties regarding the relative cost of purchasing abatement now versus in the future;

Report back on New Zealand Steel decarbonisation partnership

- 14 **noted** that on 21 May 2023, the government announced its conditional deal with New Zealand Steel [DEV-23-MIN-0016];
- 15 **noted** that officials are continuing to work with New Zealand Steel regarding their industrial allocation under the New Zealand Emissions Trading Scheme;

- 16 **noted** that the government has now agreed to a memorandum of understanding with New Zealand Steel establishing an officials' group to discuss key regulatory settings and other issues that may affect the ongoing viability of the Electric Arc Furnace;
- 17 **noted** that New Zealand Steel's parent company, BlueScope Group, has agreed to move forward with a feasibility assessment of the project, which officials will have visibility of by early September 2023;

Next steps

- 18 **noted** that the government is continuing to explore other partnerships with large emitters, but that these are significantly more uncertain or nascent than the partnership with New Zealand Steel or the proposed partnership with Fonterra;
- 19 **noted** that Fonterra will provide an annual report back on its progress under this decarbonisation programme to the Minister of Energy and Resources, commencing in September 2024 and ending in 2031;
- 20 **noted** that the government is intending to make an announcement regarding this GIDI partnership on 20 July 2023.

Rachel Hayward
Secretary of the Cabinet