



BRIEFING

Final Cabinet paper: Engagement with very large emitters: investment package for significant decarbonisation proposal

Date:	1 March 2023	Priority:	High
Security classification:	Sensitive	Tracking number:	MBIE: 2223 - 2787 MFE: BRF-2842

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Energy and Resources	Lodge the attached Cabinet paper on 2 March 2023	2 March 2023
Hon James Shaw Minister of Climate Change		

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Sharon Corbett	Policy Director, MBIE Energy and Resource Markets	Privacy of natural persons	✓ (Cabinet paper)
James Coombes	Manager, MfE Emissions Pricing Policy	Privacy of natural persons	✓ (ETS matters)

The following departments/agencies have been consulted
The Energy Efficiency and Conservation Authority

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Final Cabinet paper: Engagement with very large emitters: investment package for significant decarbonisation proposal

Date:	1 March 2023	Priority:	High
Security classification:	Sensitive	Tracking number:	MBIE: 2223 - 2787 MFE: BRF-2842

Purpose

This briefing provides a final Cabinet paper on *Engagement with very large emitters: investment package for significant decarbonisation proposal* to be lodged with the Cabinet office on 2 March 2023.

Recommended action

The Ministry of Business, Innovation and Employment, Ministry for the Environment recommend you:

- a **Note** the attached Cabinet paper has been updated to reflect comments received through Ministerial and departmental consultation

Noted

- b **Agree** to lodge the attached Cabinet paper on Thursday 2 March

Agree / Disagree

- c **Note** we will separately provide your offices with talking points to support discussion at DEV and Cabinet

Noted

Privacy of natural persons

Privacy of natural persons

James Coombes
Manager, Emissions Pricing Policy
MfE

01 / 03 / 2023

Sharon Corbett
**Policy Director, Energy &
Resource Markets**
MBIE

01 / 03 / 2023

Hon Dr Megan Woods
Minister of Energy and Resources

..... / /

Hon James Shaw
Minister of Climate Change

..... / /

Background

1. We briefed you on 9 February 2023 on three options on how to progress negotiations with NZ Steel for government support for a major decarbonisation project via the installation of an electric arc furnace (EAF) for scrap steel processing [2223-2539; BRF-2716 refer].
2. We met with you on Monday 13 February, where you expressed your preference to progress with all support provided through the Government Investment in Decarbonising Industry (GIDI) Fund, with a co-funding **Commercial Information** (Confidential advice to Government) \$140 million).
3. We developed a draft Cabinet paper based on this option, which we provided to your offices on Friday 17 February.
4. Following your agreement, we circulated the paper for Ministerial and departmental consultation from 22–28 February.

We have updated the Cabinet paper to reflect feedback received through Ministerial and departmental consultation

5. We have updated the Cabinet paper to reflect feedback received through Ministerial and departmental consultation. A clean final version, ready to be lodged in CabNet is attached as Annex 1, and a tracked-change version, showing updates from the last version of the paper you saw, is attached as Annex 2.
6. The paper now incorporates content addressing feedback from Minister Shaw's office (including a paragraph on the Green/Labour co-op area).

Clarifying the level of additionality

7. EECA and MBIE officials have been working with KPMG to establish with greater certainty which figures are the most appropriate to use when describing the *additional* abatement that the deal will secure. We have added a section to the Cabinet paper clarifying that:
 - a. The headline figure for the deal remains the 800,000t/co2e of emissions reductions per annum. This is the amount that NZ Steel is contractually required to deliver following the installation of the EAF.
 - b. The underlying abatement that NZ Steel may have achieved anyway is approximately 150,000t/co2e. However, this is not guaranteed and may not have occurred at the rate expected, or at all.
 - c. The EAF itself will directly unlock 650,000 t/Co2e of emissions reductions, annually.
8. For the purposes of calculating the marginal abatement cost and investment benefits, officials have used 650k as the abatement delivered. This is a highly conservative approach for estimating the benefits of the project but, given the significance of this investment, EECA has chosen to use this figure to ensure the additionality of the proposed investment is not in any way over-stated. This is consistent with how GIDI projects are generally assessed.

Proposed Communications approach following negotiations

9. When you met with NZ Steel and officials last week, there was an initial discussion on timing and approach for a possible public announcement. We recommend an announcement could be made around the end of April, at which point a conditional funding agreement will be in place. At that point, the Government could announce:
 - a. That there is a conditional GIDI agreement for NZ Steel to install an EAF

- b. Potential abatement opportunity
 - c. Other benefits
 - d. Next steps
10. We do not currently propose announcing the funding amount then as it may remain commercially sensitive at that point.
 11. At the meeting, there was discussion of potentially drafting a Memorandum of Understanding (MoU) to enable an earlier announcement (e.g. an announcement in March). We recommend focusing on a partial announcement after a conditional agreement is secured, because:
 - a. An MoU would divert resources and attention from finalizing negotiations.
 - b. An MoU would likely have to refer to the deal under negotiation to avoid being seen as incomplete in hindsight.
 - c. We think NZ Steel would likely have to disclose to the market when they have signed a conditional agreement anyway.
 12. If you are happy with this broad approach, MBIE and EECA will develop a draft comms plan with NZ Steel for discussion with office by mid-March.
 13. The Cabinet paper now includes a reference to the intention to possibly announce after conditional agreement is secured, in the communications section.

Legal professional privilege

14. Legal professional privilege

[Redacted content]

Additional work needed

15. During consultation several questions about other aspects of the deal and potential benefits or costs were raised. Officials consider more work is needed over the coming months to improve our understanding of the following aspects:
 - a. The likely employment impacts (e.g., what are the skill level of employees, where in the supply chain would changes of employment happen, and how in NZ Steel planning to manage that / retrain employees?)
 - b. Supply chain resilience benefits (e.g., what are the impacts on New Zealand's supply chain resilience of having a steel producer onshore?)
 - c. The impact of the project on the Scrap Steel market (e.g., is there sufficient competition in the market, what are the key factors that shape scrap steel supply chains?)
 - d. Electricity system and grid resilience benefits (e.g., what impact does the project have for the resilience of the electricity system?)
 - e. Environmental impacts of the reduced demand for coal and iron sands (i.e., likely remediation timeframes may change)
16. The Cabinet paper notes that further work is being done to understand the full costs and benefits of the proposal, and that this may inform the report back to Cabinet later this year.

Financial implications

17. In response to feedback from The Treasury we have added a comment to the Financial Implications section noting that there is a risk that future negotiations with large emitters are affected by the precedent set by this deal. We have also noted that this risk is mitigated by the fact that GIDI is a capped fund, not a demand driven appropriation, so once GIDI funding is exhausted, the Government can always choose whether to invest more or stop.

Next steps

18. Our proposed next steps are as follows:

2 March	Final Cabinet paper lodged
8 March	DEV Cabinet Committee
13 March	Cabinet – followed by update to NZ Steel on the Crown’s approach
13–15 March	BlueScope board meeting and decision on whether to progress to full feasibility study of an EAF
Mid-March	Communications plan agreed with Ministers’ Offices and NZ Steel
April	Officials group for further engagement with NZ Steel established
Late-April	Conditional GIDI funding agreement likely signed by EECA and NZ Steel
Commercial Information	Deadline for most conditions in the funding agreement to be met
Commercial Information	Deadline for remaining conditions in the funding agreement to be met

Annexes

Annex One: Final Cabinet Paper

Annex Two: Tracked-Change Cabinet Paper

Annex One: Final Cabinet Paper

Annex Two: Tracked-change Cabinet paper
