



PROACTIVE RELEASE COVERSHEET

Minister	Hon Simon Watts	Portfolio	Climate Change
Name of package	Proactive release: Updates to 2025 final allocative baselines	Date to be published	12 February 2026

List of documents that have been proactively released

Date	Title	Author
4 December 2025	1. LEG-25-SUB-0250 – Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025	Ministry for the Environment
4 December 2025	2. LEG-25-MIN-0250 - Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025	
8 December 2025	3. CAB-25-MIN-0446 Report of the Cabinet Legislation Committee Minute	
18 September 2025	4. BRF-6769 Final allocative baselines for industrial allocation in 2025	
31 October 2025	5. BRF-6983 Technical updates to industrial allocation in 2025	
24 November 2025	6. BRF-7182 Approval to lodge – technical updates to industrial allocation 2025	

Information redacted **YES** **NO**

Any information redacted in this document is redacted in accordance with the Ministry for the Environment'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 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.

Summary of reasons for redaction

Some information has been withheld from the documents as follows:

- LEG-25-SUB-0250 – Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025
 - Paragraphs 23 - 24, the second sentence of paragraph 25 and paragraph 25.2 under Section 9(h) of the Official Information Act as 'legally privileged'.
- CAB-25-MIN-0446 Report of the Cabinet Legislation Committee Minute
 - Other titles have been redacted as they are out of scope
- BRF-6769 Final allocative baselines for industrial allocation in 2025
 - paragraph 11, Table 1 and paragraph 15 under Section 9(2)(b)(ii) of the Act as

'commercially sensitive'.

- paragraph 19 under Section 9(h) of the Act as 'legally privileged'.
- BRF-7182 Approval to lodge – technical updates to industrial allocation 2025
 - paragraph 5 under Section 9(2)(g)(i) as 'free and frank' advice
 - paragraph 6, ii, paragraphs 9 and 10, and Appendix 4 under Section 9(h) of the Act as 'legally privileged'

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CLASSIFICATION

Office of the Minister of Climate Change

LEG - Cabinet Legislation Committee

Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025

Proposal

- 1 I propose that the Cabinet Legislation Committee authorises the submission to the Executive Council of the *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*.

Relation to government priorities

- 2 This is a routine operational adjustment that requires Cabinet approval.

Executive Summary

- 3 Annual technical amendments to the regulations that set emission unit allocations to firms in the New Zealand Emissions Trading Scheme (NZ ETS) are a requirement. An additional one-off technical amendment is also required to update Regulation 19 (the manufacture of carbon steel from cold ferrous feed). These amendment regulations will improve the accuracy of the NZ ETS, reduce the fiscal costs of the scheme, and support NZ ETS market credibility.
- 4 New Zealand's industrial allocation system provides free emissions units to firms undertaking eligible production activities¹. The number of emissions units a firm receives is calculated using an "allocative baseline". These baselines are amended annually to reflect the annual electricity allocation factor, and technical changes to other emissions factors. The attached amendment regulations update these settings, and they will be applied to 2025 allocations.
- 5 No policy decisions are sought in this paper. Rather, these amendment regulations apply the existing statutory framework. Allocative baselines are solely based on emissions and production data from firms and are determined using a formula in the Climate Change Response Act 2002 and set in regulations.
- 6 Updating allocative baselines ensure these accurately reflect the electricity-related emissions costs firms are exposed to. Most firms will experience a reduction in the amount of allocation received for 2025 as result of this annual update. Firms who are undertaking activities that are electricity intensive will experience this more acutely, due to reduced electricity-related emissions costs during this period. I intend to manage stakeholder responses to this update with careful and considered communications.
- 7 This paper seeks agreement on a second operational industrial allocation issue. No firm currently receives allocation under Regulation 19, and the regulation is out of date.

¹ Industrial allocation protects firms in certain industries from facing the full costs of the NZ ETS, to reduce the risk of the activity reducing or closing in New Zealand and the production moving elsewhere in the world.

New Zealand Steel will start to use this regulation once its new electric arc furnace is operational in 2026. To ensure accuracy I have called for projected data to review and recalculate the allocative baselines for this activity and include an additional product for the calculation of allocation. I now seek Cabinet's agreement to update Regulation 19 in line with this new information. Ensuring an updated Regulation 19 for 1 January 2026 will provide important business certainty for New Zealand Steel as it commences operation of the electric arc furnace. Regulation 19 will be updated in future to reflect actual emissions costs, once this data becomes available.

Policy

Technical updates to the general allocative baselines

- 8 This paper seeks Cabinet approval to amend the Climate Change (Eligible Industrial Activities) Regulations 2010 (the Regulations) supporting the operation of the NZ ETS. These regulations are made under the Climate Change Response Act 2002 (the Act).
- 9 The allocative baselines form part of the calculation to determine the amount of allocation provided to firms. Each year, the baselines are updated to reflect the scientific changes in emissions factors, and the latest information on the NZ ETS price impact on the cost of electricity.
- 10 The electricity allocation factor represents the NZ ETS cost impact on electricity price. This is determined annually by the Electricity Authority, in accordance with the formula specified in the Act. This year, the Electricity Authority have determined that the 2025 electricity allocation factor is 7% lower than the 2024 factor.
- 11 As a result of this update most firms will see a reduction in the allocation received for 2025. The extent of the change is variable across activities, with firms who are undertaking activities that are electricity intensive experiencing this more acutely. Overall, there will likely be a net reduction in allocations made to industry of 105,495 emissions units with a current value of approximately \$6 million NZD².
- 12 This update ensures that allocative baselines accurately reflect the electricity related emissions costs firms are exposed to, and that firms are then allocated units to a level that reflects this cost. It supports the accuracy of the NZ ETS and reduces fiscal costs.

Technical updates to Regulation 19

- 13 Further to the annual updates, Regulation 19 of the Regulations is outdated and currently uses decade-old data. New Zealand Steel Development Limited (NZ Steel) will start using this regulation when it commences production using its new electric arc furnace in early 2026.
- 14 To ensure the Regulations are up to date I have called for projected data to review and recalculate the allocative baselines for this activity. I now seek Cabinet's agreement to reflect the outcome of this call for data in the Regulations. I also seek agreement to amend the products being used as the basis of allocation within the existing activity, to more closely reflect the new steel making process.
- 15 When NZ Steel begin operating the electric arc furnace it will make steel with differing proportions of two feedstock: cold ferrous feed (scrap steel) and molten feed (iron sand). These two feedstocks have different emissions cost implications therefore, the

² NZU spot price of \$57.00 NZD

amendments to Regulation 19 (steel products made of predominantly cold ferrous feed), will prescribe two products each with a different allocative baseline (one for either feedstock). NZ Steel will then apply the relevant allocative baseline consistent with the proportion of feedstock used, across the volume of eligible product produced each year.

- 16 This update sits outside of my existing delegation from Cabinet but is technical in nature and does not require substantive policy decisions. The proposed approach applies real world information into regulation. I seek Cabinet agreement now to confirm this update and the draft regulations attached. This approach ensures an updated Regulation 19 is in force for 1 January 2026, providing important business certainty to New Zealand Steel as it commences operation of the electric arc furnace.

Timing and 28-day rule

- 17 The regulations will enter into force on 1 January 2026 and impact allocations made for 2025 (with the exception of the amendments to Regulation 19, as production relevant to this regulation will not commence until 2026). This timing does not comply with the 28-day rule for notifying regulations in the *Gazette*. A waiver to this rule is sought so that the purpose of the Regulations is not defeated.

Compliance

- 18 The amendment regulations comply with each of the following:
- 18.1 The principles of the Treaty of Waitangi;
 - 18.2 The rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993;
 - 18.3 The principles and guidelines set out in the Privacy Act 2020;
 - 18.4 Relevant international standards and obligations;
 - 18.5 The Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.
- 19 Section 161A(4A) of the Act allows the making of regulations prescribing an electricity allocation factor only if that factor was reported to the Minister under section 161FA. I confirm this test is met with my receipt of the Electricity Authority's report on 28 July 2025.
- 20 Section 161A(3B) of the Act allows the making of regulations to amend allocative baselines due to a change in emissions factors or the electricity allocation factor. I confirm this test is met with the receipt of the Electricity Authority's report on the electricity allocation factor; and by the emissions factors updated through the *Climate Change (Liquid Fossil Fuels) Amendment Regulations 2024 (SL 2024/204)* and the *Climate Change (Stationary Energy and Industrial Processes) Amendment Regulations 2024 (SL 2024/200)*.
- 21 Sections 161A(b)(iii) and 161A(b)(iv) of the Act allows the making of regulations to prescribe the products to be used as the basis of allocation, and the methodology for calculating the amount of each prescribed product, for the purposes of receiving allocation.

22 Section 161A(3A) of the Act allows the making of regulations to amend allocative baselines for a prescribed product of an eligible industrial activity. I confirm these tests are met as at least five years have passed since the amendment of allocative baselines for Regulation 19 eligible products and by the issuance of the New Zealand Gazette Notice (2025-sl4094). I am satisfied the current allocation settings are greater than the prospective allocation settings for the Regulation 19 products.

9(2)(h)

[Redacted]

[Redacted]

Regulations Review Committee

25 The Regulations Review Committee has the ability to draw the regulations to the attention of the House of Representatives under Standing Order 327. 9(2)(h)

Certification by Parliamentary Counsel

The attached regulations are certified in order for submission to Cabinet, -

25.1 provided that the Minister has been notified as referred to in section 161A(4A) of the Climate Change Response Act 2002; and

9(2)(h) [Redacted]

25.3 except that it will come into force on 1 January 2026, which is earlier than the 28th day after notification of the regulations in the *Gazette*.”

Impact Analysis

26 The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement on the grounds that it has no or only minor economic, social, or environmental impacts.

- 27 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met.

Communications

- 28 The Ministry for the Environment and the Environmental Protection Authority will work together to contact NZ ETS industrial allocation participants affected by the amendment regulations.

Proactive Release

- 29 I intend to proactively release this paper on the Ministry for the Environment's website subject to any redactions as appropriate under the Official Information Act 1982.

Consultation

- 30 This paper was circulated with agencies for feedback on 21 October 2025. Owing to its technical nature agencies consulted were limited to the Treasury, the Ministry of Business Innovation and Employment and the Environmental Protection Authority. The Department of Prime Minister and Cabinet has been informed.
- 31 New Zealand Steel and the New Zealand Association of Metal Recyclers (NZAMR) have been consulted in the development of the updated to Regulation 19.

Recommendations

I recommend that the Cabinet Legislation Committee:

- 1 **note** that on the 25 September 2024 the Cabinet Economic Policy Committee agreed to delegate an ongoing power to the Minister of Climate Change to make decisions and issue drafting instructions for the amendment regulations to the Climate Change (Eligible Industrial Activities) Regulations 2010 in accordance with these annual data updates;
- 2 **agree** to amend the Climate Change (Eligible Industrial Activities) Regulations 2010 to update Regulation 19 (Manufacture of carbon steel from cold ferrous feed) by inserting a new product ,providing for a proportionate application of allocative baselines relative to the proportion of molten and cold ferrous feedstock, and to set allocative baselines for each product to reflect data obtained in accordance with the August 2025 Gazette Notice (2025-sl4094);
- 3 **note** that the *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025* will give effect to the decisions referred to in recommendations 1 and 2 above;
- 4 **note** that section 161A(4A) of the Climate Change Response Act 2002 requires that the electricity allocation factor be reported to the responsible Minister before making regulations prescribing this factor;
- 5 **note** that section 161A(3B) of the Climate Change Response Act 2002 allows the making of regulations due to a change in emissions factors or electricity allocation factor;

- 6 **note** that section 161A(3A) of the Climate Change Response Act 2002 allows the making of regulations to amend allocative baselines for a prescribed product where at least five years have passed since the baseline was most recently amended, a notice has been issued in respect of the activity and where the current allocation settings are equal to or greater than the prospective allocation settings;
- 7 **note** the advice of the Minister of Climate Change that the requirements referred to in recommendations 4-6 above have been met;
- 8 **note** that a waiver of the 28-day rule is sought:
 - 8.1 so that the regulations can enter into force on 1 January and be applied to allocations made for 2025;
 - 8.2 on that grounds that early commencement is necessary to avoid unfair commercial advantage being taken, or the defeat of the purpose of the regulations;
- 9 **agree** to waive the 28-day rule so that the regulations can come into force on 1 January 2026;
- 10 **authorise** the submission to the Executive Council of the *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*;

Authorised for lodgement

Hon Simon Watts

Minister of Climate Change

**Attachment: Climate Change (Eligible Industrial Activities) Amendment
Regulations (No 2) 2025**



Cabinet Legislation 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.

Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025

Portfolio Climate Change

On 4 December 2025, the Cabinet Legislation Committee:

- 1 **noted** that in September 2024, the Cabinet Economic Policy Committee agreed to delegate an ongoing power to the Minister of Climate Change to make decisions and issue drafting instructions for the amendment regulations to the Climate Change (Eligible Industrial Activities) Regulations 2010 in accordance with annual data updates [ECO-24-MIN-0201];
- 2 **agreed** to amend the Climate Change (Eligible Industrial Activities) Regulations 2010 to update Regulation 19 (Manufacture of carbon steel from cold ferrous feed) by inserting a new product providing for a proportionate application of allocative baselines relative to the proportion of molten and cold ferrous feedstock, and to set allocative baselines for each product to reflect data obtained in accordance with the August 2025 Gazette Notice (2025-sl4094);
- 3 **noted** that the Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025 (the Regulations) will give effect to the decisions above;
- 4 **noted** that section 161A(4A) of the Climate Change Response Act 2002 requires that the electricity allocation factor be reported to the responsible Minister before making regulations prescribing this factor;
- 5 **noted** that section 161A(3B) of the Climate Change Response Act 2002 allows the making of regulations due to a change in emissions factors or electricity allocation factor;
- 6 **noted** that section 161A(3A) of the Climate Change Response Act 2002 allows the making of regulations to amend allocative baselines for a prescribed product where at least five years have passed since the baseline was most recently amended, a notice has been issued in respect of the activity, and where the current allocation settings are equal to or greater than the prospective allocation settings;
- 7 **noted** the advice of the Minister of Climate Change that the requirements referred to in paragraphs 4 to 6 above have been met;

- 8 **noted** that a waiver of the 28-day rule is sought:
- 8.1 so that the Regulations can enter into force on 1 January 2026 and be applied to allocations made for 2025;
- 8.2 on the grounds that early commencement is necessary to avoid unfair commercial advantage being taken, or the defeat of the purpose of the Regulations;
- 9 **agreed** to waive the 28-day rule so that the Regulations can come into force on 1 January 2026;
- 10 **authorised** the submission to the Executive Council of the Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025 [PCO 28418/10.0].

Tom Kelly
Committee Secretary

Present:

Hon David Seymour
Hon Chris Bishop (Chair)
Hon Paul Goldsmith
Hon Shane Jones
Hon Nicole McKee
Hon Casey Costello
Hon James Meager
Stuart Smith, MP

Officials present from:

Officials Committee for LEG
Office of the Associate Minister of Justice (Hon Nicole McKee)



Cabinet


Minute of Decision

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Report of the Cabinet Legislation Committee: Period Ended 5 December 2025

On 8 December 2025, Cabinet made the following decisions on the work of the Cabinet Legislation Committee for the period ended 5 December 2025:

Out of scope




LEG-25-MIN-0250


**Climate Change (Eligible Industrial Activities)
Amendment Regulations (No 2) 2025**
Portfolio: Climate Change

CONFIRMED

Out of scope



Out of scope



Rachel Hayward
Secretary of the Cabinet



Final allocative baselines for industrial allocation in 2025

Date submitted: 18 September 2025

Security level: CLASSIFICATION

MfE priority: Standard

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	Approve issuance of drafting instructions	25 September 2025

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (advice@mfe.govt.nz).

Appendices and attachments
Appendix 1: Final allocative baselines for 2025

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Emily Richardson		
Responsible Manager	Simon Mandal-Johnson	027 288 0142	✓
General Manager	Kirsty Flannagan		

Minister's comments

Final allocative baselines for industrial allocation in 2025

Key Messages

This is the annual technical update to industrial allocation regulations

1. This paper seeks your approval to issue drafting instructions to the Parliamentary Counsel Office (PCO) to draft amendments to the Climate Change (Eligible Industrial Activities) Regulations 2010 (the Regulations) in order to:
 - i Update allocative baselines, which are used to determine individual allocations
 - ii Update the Regulations to prescribe the 2025 Electricity Allocation Factor (EAF)
2. Cabinet has delegated authority to you to issue drafting instructions for these technical matters, as they follow directly from Cabinet's approval of the policy [ECO-24-MIN-021 and CAB-24-MIN-0381 refer].
3. This is a routine update and does not relate to the changes you are progressing through the *Climate Change Response (Efficiency and Effectiveness) Amendment Bill*.

Annually updating the baselines ensures the technical accuracy of industrial allocation, reflecting real-world changes to the EAF value and other emissions factors.

4. All eligible activities have an allocative baseline, which is set based on the activity's emissions intensity. The baseline is part of the annual calculation of an eligible firm's allocation of free emissions units (industrial allocation). Allocative baselines have been updated each year to reflect changes in the EAF and other emissions factors.
5. The EAF measures an estimate of the cost impact of the New Zealand Emissions Trading Scheme (NZ ETS) on electricity prices. The value is calculated annually by the Electricity Authority, using a method outlined in the Climate Change Response Act 2002. You prescribe the EAF by updating the value set in the Regulations.
6. Applying the 2025 EAF value to the allocative baselines ensures they accurately reflect the electricity-related emissions cost firms are exposed to, and that a firm's allocation reflects this cost. The updated baselines for this year are listed in Appendix 1.

Most allocative baselines will decrease in 2025 because of the updated EAF


7. As previously advised by the Electricity Authority, the 2025 EAF is 0.516t CO₂e/MWh, a 7% decline on the 2024 EAF (BRF 25-2025 refers). The decline is the result of long periods of averagely low electricity prices over the 2024/25 financial year.¹

¹ The annual EAF value is calculated by taking the average of the three previous financial year EAF values. 2024/25 financial year saw a 0.425tCO₂e/MWh value, compared to 0.587tCO₂e/MWh in the 2023/24 financial year.

8. The impact of the decline in the annual EAF varies across activities, depending on electricity use (see Table 1 below). Other changes to emissions factors due to technical and scientific improvements to methodologies result in less significant impacts (e.g., the emissions factor for regular petrol has increased by 0.26% since 2023).
9. Firms undertaking electricity intensive activities will experience the greatest decline in the allocative baselines this year, as the electricity related emissions costs they face has decreased. Some firms experiencing high energy costs at present may not feel the cost savings implied by the 2025 EAF. However, updating the allocative baselines ensures technical accuracy by correctly reflecting electricity related emissions costs.
10. The update will impact the final allocation received by firms for the 2025 reporting period. Firm's actual production and the level of assistance² will also determine the amount of allocation received in any given year.
11. An estimate of the impact is illustrated in Table 1. It displays three examples of firms that are undertaking activities that consume high levels of electricity activities and two examples of activities that consume lower levels of electricity. The example uses 2024 production data to calculate hypothetical 2025 allocation. The numbers are indicative only, as actual allocation will be informed by 2025 production data (which is not currently available), but demonstrate the likely scale of the impact.

Table 1: Potential impact of change on firms undertaking activities that consume high and low levels of electricity

9(2)(b)(ii)



² In 2025 the level of assistance is 85% for highly emitting activities and 55% for moderate activities

³ Table uses an NZU price of \$57.00 NZD

9(2)(b)(ii)



- 12. There is no explicit statutory requirement that means you must proceed with this update; however, we strongly recommend that you do. This is a routine adjustment that you implemented last year (BRF-5270 refers), and it is now expected by firms that the precedent set last year will be continued.
- 13. If you choose not to progress the baseline amendment, the accuracy and technical credibility of the NZ ETS will be impacted. If you are minded to not make this change, it will impose a fiscal cost on the Crown of roughly \$6mil per year by over-allocating approximately 105,000 emissions units annually and we recommend you consult with the Minister of Finance before making your decision

Some allocative baselines have not been recalculated for this update

- 14. This update applies to most activities, but not all of them. The baselines that have not been recalculated are:
 - i Gelatine and newsprint, as no one has been undertaking these activities, and the eligibility is set to be revoked in 2027 (BRF-5270 refers).
 - ii The manufacture of carbon steel from cold ferrous feed (Regulation 19). A call for data process is currently underway to inform the reassessment of the baseline for this activity and prepare for when NZ Steel commences use of their Electric Arc Furnace (BRF-5641 refers).
 - iii Firm-specific baselines for NZ Steel’s use of cogenerated electricity or NZAS’s electricity contracts. Baselines for these firms will be set in March 2026, which are developed once electricity consumption data for 2025 is received for both firms.

15. ~~9(2)(b)(ii)~~ [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Next Steps

- 16. The amendment regulations need to be presented to the Cabinet Legislation Committee before the end of November. This allows them to come into force from 1 January 2026

and be implemented through the annual process of adjustments to provisional allocations, administered by the Environmental Protection Authority.

- 17. We will issue drafting instructions to PCO as soon as we receive your direction through this briefing.
- 18. We will provide your office a draft Cabinet Legislation Committee paper by mid-October 2025 to enable consideration in early November 2025.

Legal advice

- 19. 9(2)(h) [Redacted]

Recommendations

We recommend that you:

- a. **agree** to instruct Parliamentary Council Office to draft amendments to the Climate Change (Eligible Industrial Activities) Regulations 2010 to prescribe the allocative baselines for 2025 as set out in Appendix 1

Yes | No

- b. **agree** to instruct Parliamentary Council Office to draft amendments to the Climate Change (Eligible Industrial Activities) Regulations 2010 to prescribe the 2025 Electricity Allocation Factor of 0.516 CO2e/MWh

Yes | No

Signatures



Simon Mandal-Johnson
Manager, Emissions Trading Scheme Policy
17/09/2025

Hon Simon WATTS
Minister of Climate Change
Date

Appendix 1: Final allocative baseline for 2025

Activity	Product	Baseline currently in regulations	Baseline for regulation amendments
Aluminium smelting	A	10.2560	9.6969
Manufacture of carbon steel from cold ferrous feed	A	0.3693	No change
Manufacture of carbon steel from cold ferrous feed	B	0.1470	No change
Manufacture of carbon steel from cold ferrous feed	C	0.0940	No change
Manufacture of iron and steel from iron sand	A	3.1787	3.1368
Manufacture of iron and steel from iron sand	B	0.1423	0.1381
Manufacture of iron and steel from iron sand	C	0.2078	0.1936
Manufacture of iron and steel from iron sand	D	0.1839	0.1780
Manufacture of iron and steel from iron sand	E	0.1593	0.1540
Manufacture of iron and steel from iron sand	F	0.1654	0.1592
Production of burnt lime	A	1.3028	1.3006
Production of carbamide (urea)	A	1.6152	1.6022
Production of carbamide (urea)	B	1.5581	1.5467
Production of cartonboard	A	0.7436	0.7220
Production of cartonboard	B	0.6465	0.6021
Production of cartonboard	C	0.0755	0.0703
Production of caustic soda	A	1.4962	1.3936
Production of cementitious products	A	0.8300	0.8273
Production of cementitious products	B	0.0235	0.0219
Production of clay brick and field tiles	A	0.0726	0.0681
Production of clay brick and field tiles	B	0.4156	0.4084

CLASSIFICATION

Production of clay brick and field tiles	C	0	No change
Production of cut roses	A	0.0004	No change
Production of ethanol	A	1.8716	1.8509
Production of fresh capsicums	A	3.0099	2.9874
Production of fresh cucumbers	A	0.7714	0.7663
Production of fresh tomatoes	A	1.4964	1.4863
Production of gelatine	A	0	No change
Production of glass containers	A	0.6126	0.5972
Production of hydrogen peroxide	A	1.2862	1.2562
Production of lactose	A	1.3084	1.2728
Production of market pulp	A	0.7323	0.6914
Production of market pulp	B	0	No change
Production of market pulp	C	0.8298	0.7754
Production of methanol	A	0.8191	0.8373
Production of newsprint	A	0	No change
Production of newsprint	B	0	No change
Production of packaging and industrial paper	A	0.5422	0.5149
Production of packaging and industrial paper	B	0.5270	0.5009
Production of packaging and industrial paper	C	0.1110	0.1041
Production of protein meal	A	1.1289	1.1148
Production of reconstituted wood products	A	0.2090	0.1947
Production of tissue paper	A	0.9176	0.8644
Production of tissue paper	B	0	No change
Production of whey powder	A	0.6379	0.6179



Technical updates to industrial allocation regulations 2025

Date submitted: 31 October 2025

Sub Security level: CLASSIFICATION

MfE priority: Urgent

Actions sought from Ministers		
<i>Name and position</i>	<i>Action sought</i>	<i>Response by</i>
To Hon Simon WATTS Minister of Climate Change	Agree to issue drafting instructions to PCO to update Regulation 19 Agree to circulate the attached Cabinet paper for Ministerial consultation	3 November

Actions for Minister's office staff
Return the signed briefing to the Ministry for the Environment (advice@mfe.govt.nz).

Appendices and attachments
<ol style="list-style-type: none"> Appendix One: Updated activity description and allocative baselines for Regulation 19 (the Manufacture of Carbon Steel from Cold Ferrous Feed) Appendix Two: Draft Cabinet Paper: Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025

Key contacts at Ministry for the Environment			
<i>Position</i>	<i>Name</i>	<i>Cell phone</i>	<i>First contact</i>
Principal Author	Emily Richardson		
Responsible Manager	Simon Mandal-Johnson	027 288 0142	✓
General Manager	Kirsty Flannagan		

Minister's comments

Technical updates to industrial allocation regulations 2025

Key messages

1. This paper provides a draft Cabinet paper to progress two operational and technical updates to the *Climate Change (Eligible Industrial Activities) Regulations 2010* (the Regulations): (1) an annual technical update to allocative baselines and (2) an update to one regulation in preparation for New Zealand Steel's (NZ Steel) electric arc furnace.
2. We seek your feedback and agreement to send this paper for Ministerial consultation ahead of confirming these updates at Cabinet Legislation Committee (LEG) in early December.

Annual technical and operational updates to the industrial allocation regime

3. You previously agreed to update allocative baselines and have issued drafting instructions to the Parliamentary Counsel Office for amendment regulations (BRF-6769 refers). This update reflects the 2025 electricity allocation factor and other changing emissions factors. You have ongoing delegated authority from Cabinet to make decisions and issue drafting instructions to reflect these annual technical updates.
4. The draft Cabinet paper at Appendix Two seeks Cabinet approval to update the Regulations with the 2025 electricity allocation factor and amend allocative baselines set out in Schedule 2 of the Regulations.

Updating Regulation 19 prepares the industrial allocation regime for NZ Steel's electric arc furnace

5. New Zealand Steel will start to receive industrial allocation under Regulation 19 (the manufacture of carbon steel from cold ferrous feed) when production commences using its new electric arc furnace (arc furnace) in early 2026.
6. Regulation 19 is currently based on decades old data and requires technical updates before it can be used, both to the product descriptions and to the allocative baselines specified in the Regulation. You began this update process earlier this year by issuing a call for projected data to update the description of products used as the basis of allocation, and the allocative baselines for each product (BRF-5641 refers). This has now been completed and the draft Cabinet paper at Appendix Two seeks approval to make these changes into regulation, both to the products described in Regulation 19 and the relevant allocative baselines outlined in Schedule 2 of the Regulations.
7. The Ministry has undertaken internal quality checks of the allocative baseline information provided through the call for data and procured PWC to provide an external data validation and completeness check. The data provided was found to be sound, consistent with expectations and with clear explanation of assumptions.
8. Cabinet's policy agreement is required to make all changes to Regulation 19. To reduce the amount of Cabinet decisions required, we propose this policy agreement is sought at LEG, alongside draft regulations. We have tested this approach with the Cabinet office,

who have confirmed this is appropriate given the update to Regulation 19 is highly technical in nature

9. If you agree with this approach, we ask you to agree now to issue drafting instructions to the Parliamentary Counsel Office (PCO) so that the draft regulations can be prepared.

Next Steps

10. We recommend circulating the attached paper (Appendix Two) for Ministerial consultation to enable lodgement on 27 November for the LEG meeting on 4 December. This paper was circulated for agency feedback with the Treasury and the Ministry of Business, Innovation and Employment. No feedback was received.
11. Given your upcoming travel to COP30, this timing is the soonest available LEG date that also enables sufficient time for PCO to draft Regulation 19 amendments. It does not provide enough time to comply with the 28-day rule before 1 January 2026 when the amendment regulations are required to be in force. Therefore, a waiver to this rule is sought in the draft paper.
12. We note your earlier direction to consider communication of updated allocative baselines carefully (BRF-6769 refers). We are working with your office on the approach and recommend communicating the intended changes to allocative baselines to impacted firms, in advance of final Cabinet agreement to the amendment regulations. This approach provides increased time for stakeholders to digest the changes before they come into force. This approach is similar to previous years and will not be a surprise to stakeholders.

Recommendations

We recommend that you:

- a. **agree** to issue drafting instructions to the Parliamentary Counsel Office to:
- i. update the products to be used as the basis of allocation for Regulation 19 (the Manufacture of Carbon Steel from Cold Ferrous Feed) to reflect the revised description used to call for projected data (see Appendix One)
 - ii. update the allocative baselines for the activity, consistent with the products outlined in the revised description

Yes | No

- b. **agree** to circulate the draft Cabinet paper (see Appendix Two) for Ministerial consultation in early November, and provide any feedback on the paper in advance of Cabinet Legislation Committee later the same month

Yes | No

Signatures



Simon Mandal-Johnson
Manager – ETS Policy
 Markets Unit

31 October 2026

Hon Simon WATTS
Minister of Climate Change

Date

Appendix One: Updated activity description and allocative baselines for Regulation 19 (the Manufacture of Carbon Steel from Cold Ferrous Feed)

Product (basis of allocation) means the:

A. total tonnes of continuously cast carbon steel products and ingots of carbon steel, originating from cold feed, whether or not subsequently hot-rolled;

AA. total tonnes of continuously cast carbon steel products and ingots of carbon steel, originating from hot feed, whether or not subsequently hot-rolled;

B. total tonnes of long products of hot-rolled carbon steel;

C. total tonnes of flat products of hot-rolled carbon steel;

where (A), (AA), (B), and (C):

- a. are produced by carrying out the activity; and
- b. are not a relevant product; and
- c. are of saleable quality;

and where long products of hot-rolled carbon steel (B) and flat products of hot-rolled carbon steel (C) may each be counted as a product only once in relation to the carrying out of the eligible industrial activity of the manufacture of carbon steel from cold ferrous feed.

Carbon steel means a material that contains by mass more iron (Fe) than any other single element and has a carbon (C) content of less than 2 per cent.

Cold feed means solid ferrous input to the manufacture of the relevant product.

Hot feed means molten ferrous input to the manufacture of the relevant product.

Flat products of hot-rolled carbon steel means hot-rolled carbon steel products that:

- a. are flat in profile, such as plate and hot-rolled coil; and
- b. are generally produced in hot strip and plate mills; and
- c. are generally at least 600mm wide; and
- d. are generally no thicker than 150mm; and
- e. are produced from continuously cast carbon steel products that are produced as part of carrying out the eligible industrial activity of either the manufacture of carbon steel from cold ferrous feed or the manufacture of iron and steel from iron sand.

Long products of hot-rolled carbon steel means hot-rolled carbon steel products that:

- a. are in coils or straight lengths; and
- b. are generally produced in rod, bar, and structural (section) mills; and

- c. are generally of a cross-sectional shape such as I, T, Y, U, V, H, C, L, square, rectangular, round, flat, hexagonal, angle, channel, structural beam profile, or rail profile; and
- d. are produced from continuously cast carbon steel products that are produced as part of carrying out the eligible industrial activity of either the manufacture of carbon steel from cold ferrous feed or the manufacture of iron and steel from iron sand.

Manufacture of iron and steel from iron sand has the meaning given to it in regulation 23(3) of the Climate Change (Eligible Industrial Activities) Regulations 2010.

Relevant product means a product that is used as a basis of allocation for the eligible industrial activity of manufacture of iron and steel from iron sand.

Updated **allocative baselines** are outlined in the table below:

Activity	Product	Baseline currently in Regulations	Baseline for regulation amendments
Manufacture of carbon steel from cold ferrous feed	A	0.3693	0.3465
	AA	n/a	0.0615
	B	0.1470	0.1595
	C	0.0940	0.1783

Appendix Two: Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025



BRIEFING

Approval to lodge: technical updates to industrial allocation 2025

Date:	24 November 2025	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	BRF-7182

	Action sought	Response by
Hon Simon WATTS Minister of Climate Change	Approve lodgement of the Cabinet paper <i>Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025</i>	25 October 2023

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
General Manager	Kirsty Flannagan		
Manager	Simon Mandal-Johnson	027 288 0142	✓
Author	Emily Richardson		

- Minister's office to complete:**
- | | |
|--|---|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Seen |
| <input type="checkbox"/> Overtaken by Events | <input type="checkbox"/> Withdrawn |
| <input type="checkbox"/> Needs change | <input type="checkbox"/> See Minister's Notes |

Minister's Comments

BRIEFING

Approval to lodge: technical updates to industrial allocation 2025

Date:	24 November 2025	Priority:	High
Security classification:	CLASSIFICATION	Tracking number:	BRF-7182

Purpose

1. This briefing provides you with a final draft of the Cabinet paper, *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*.
2. We seek your approval to lodge the Cabinet paper by 10am Thursday 27 November, for approval at the Cabinet Legislation Committee (LEG) meeting on Thursday 4 December.

Key points

3. You are progressing two operational updates to the industrial allocation regulations: (1) an annual technical update to allocative baselines and (2) an update to one regulation in preparation for New Zealand Steel Limited's (NZ Steel) electric arc furnace (Regulation 19).
4. On 3 November you agreed to circulate a draft Cabinet paper for Ministerial consultation [BRF-6983 refers]. No substantive feedback was received from Ministers.

Annual Allocative Baseline Update

5. The Department of Cabinet and Prime Minister sought additional information as to the likely impact of the update on the amount of allocation eligible firms will receive, which we have provided. No other feedback has been received.

Regulation 19

6. We have made three key changes to the Cabinet paper since the version sent for consultation. These are:
 - i. The addition of a small amount of information to better explain this change (see para 15-16 in the Cabinet paper),
 - ii. 9(2)(h) [REDACTED]
 - iii. Some minor editorial changes to improve the quality of the paper.
7. In our assessment none of these changes are sufficient to require additional Ministerial consultation.
8. A clean version of the draft paper is attached at Appendix One and a version displaying tracked changes is attached at Appendix Two.

9(2)(h)

[REDACTED]

Next Steps

11. PCO has completed the drafting of the *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*. These are attached at Appendix Three. PCO will lodge the amendment regulations on 27 November for consideration at the LEG meeting on 4 December.
12. We will provide talking points to support you at the LEG meeting. Given the technical nature of the amendments, we will ensure these points enable you explain the impact of and rationale for the update clearly and simply to your Cabinet colleagues.
13. Pending Cabinet's agreement, these regulations will come into force on 1 January 2026 and to ensure accurate allocations can be made to firms for the 2025 calendar year. A waiver to the 28-day rule is sought in the paper, to ensure commencement to this timeframe.
14. In response to your feedback on our earlier advice [BRF-6769 refers], we have prepared a detailed communication plan to ensure that firms eligible for industrial allocation are fully apprised of the rationale for these changes. Following the approval by the Executive Council, the Ministry will communicate the updates to and other New Zealand Emissions Trading Scheme market stakeholders, via an email announcement. The Ministry will also offer to meet with firms directly impacted by the annual technical updates and explanatory information will be made available on the Ministry website. Your office will receive a draft of the plan this week.

Recommended action

The Ministry for the Environment recommends that you:

- a. **Note** the final approach to Regulation 19 amendments has been tested across relevant stakeholders, which has been reflected in this briefing

Noted

- b. **Approve** lodgement of the Cabinet paper *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*

Agree / Disagree



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

24 / 11 / 2025

Hon Simon WATTS
Minister of Climate Change

___ / ___ / 2025

Approval to lodge: technical updates to industrial allocation 2025

Appendices

Appendix 1: Cabinet paper_clean, *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*

Appendix 2: Cabinet paper_tracked, *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*

Appendix 3: *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*

9(2)(h)

Appendix 1: Cabinet paper_clean, *Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025*

Appendix 2: Cabinet paper_tracked, Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025

Appendix 3: Climate Change (Eligible Industrial Activities) Amendment Regulations (No 2) 2025

9(2)(h)



9(2)(h)

