



HM Treasury



HM Revenue  
& Customs

# **Introduction of a UK Carbon Border Adjustment Mechanism**

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## Carbon pricing and carbon leakage

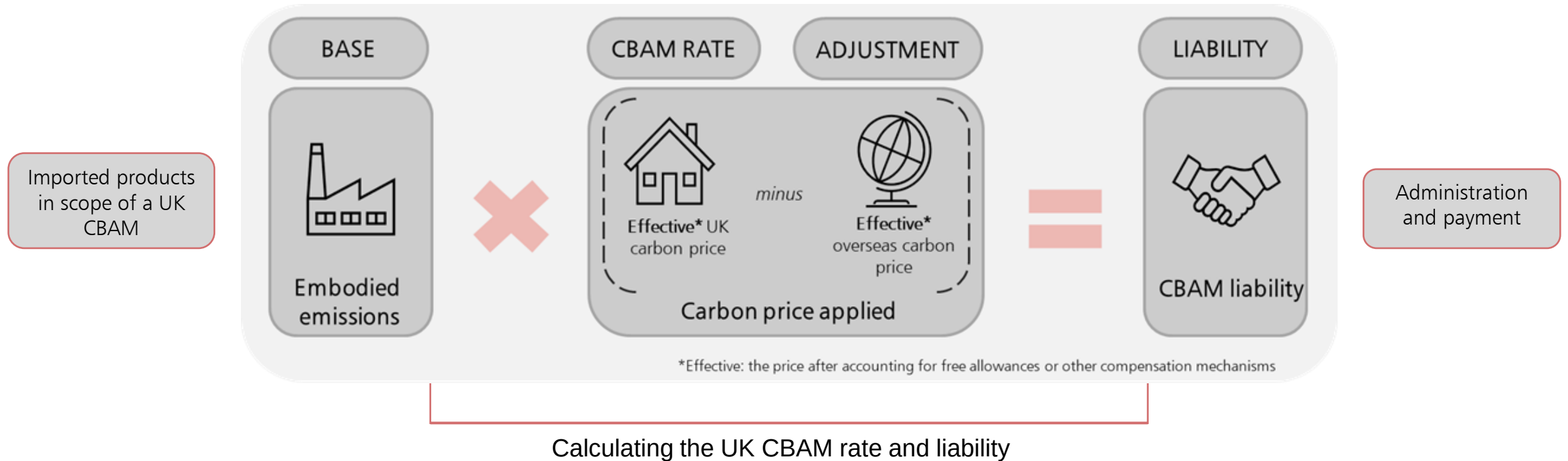
- The UK is committed to achieving net zero emissions by 2050, and the UK Emissions Trading Scheme (ETS) is the UK's primary carbon pricing instrument. It covers sectors including industry and power generation.
- The UK ETS works on a 'cap and trade' principle, where a cap is set on the total amount of certain greenhouse gas emissions that can be emitted by the sectors covered by the scheme. Within this cap, participants buy emission allowances at auction or on the secondary market which they can trade with other participants as needed.
- Imported goods are not subject to the UK ETS, meaning that, where those goods have not been subject to a similar carbon price in the jurisdictions in which they are produced, there is disparate carbon pricing across goods available on the UK market. This may result in carbon leakage risk.
- Carbon leakage is the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation. As a result of carbon leakage, the objective of decarbonisation efforts – to reduce global emissions – would be undermined.

## Addressing carbon leakage risk in the UK

- The UK has made world-leading commitments to decarbonise across the economy, reaching a reduction in emissions from 1990 levels of at least 68% by 2030 and net zero by 2050.
- The objective of decarbonisation - to reduce global emissions - could be undermined by carbon leakage.
- The best solution to carbon leakage would be an international one. However, that is likely to take time to develop so it is important that we take domestic action to protect against future carbon leakage risk
- The UK's current main measure to mitigate carbon leakage risk is the system of free allocation under the UK ETS
- Following consultation, on December 18<sup>th</sup> the government announced that the UK will introduce a CBAM by 2027. On the same day, the UK ETS Authority consulted on proposals to better target free allowances to sectors at risk of carbon leakage.
- The UK CBAM will work cohesively with the UK ETS, including free allowances, to ensure imported products are subject to a carbon price comparable to that that would have been paid if the good were produced in the UK , mitigating the risk of carbon leakage.

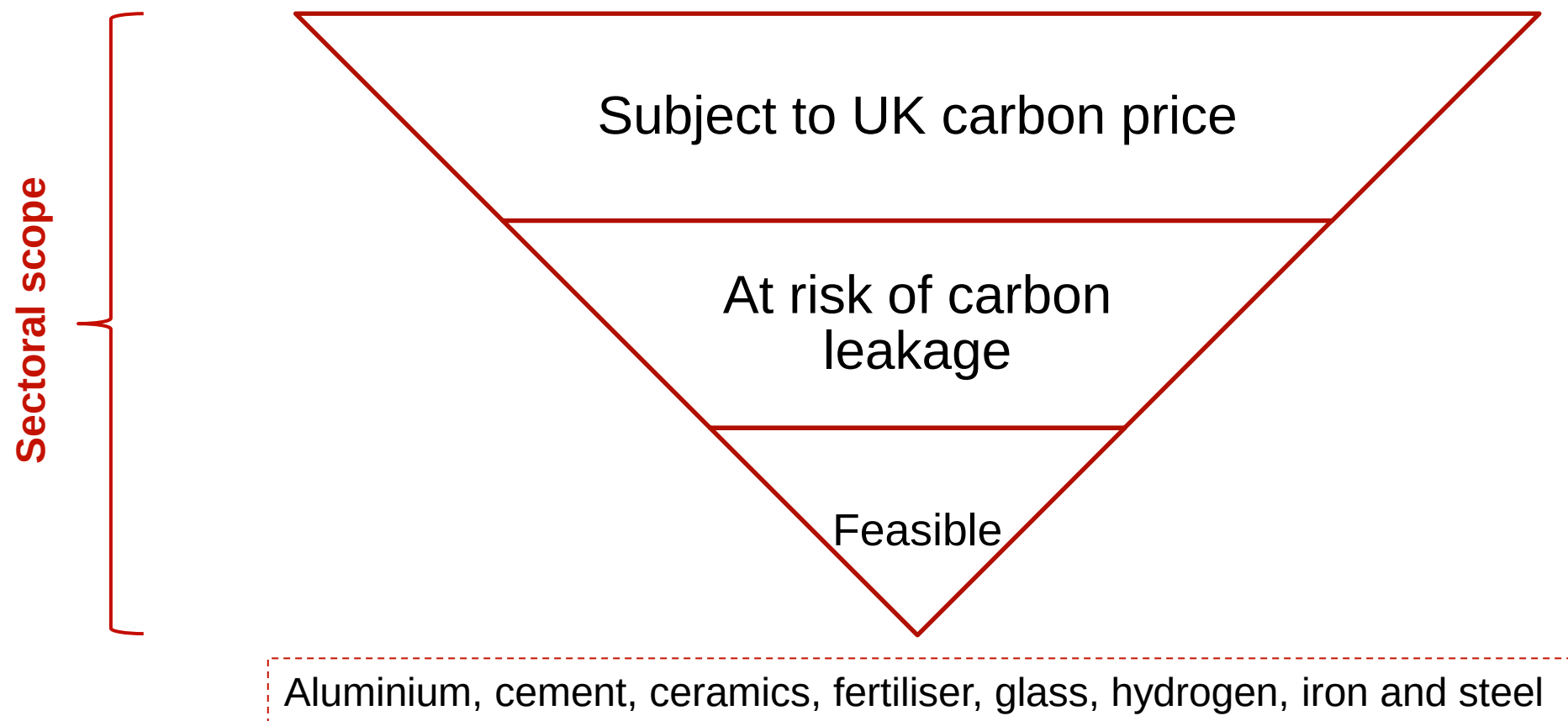
## A UK CBAM

- The UK CBAM will place a carbon price on some of the most emissions intensive industrial goods imported to the UK from the aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron and steel sectors.
- This consultation asks for views on government proposals on the key building blocks of the CBAM process



## Sectoral scope for 2027 implementation

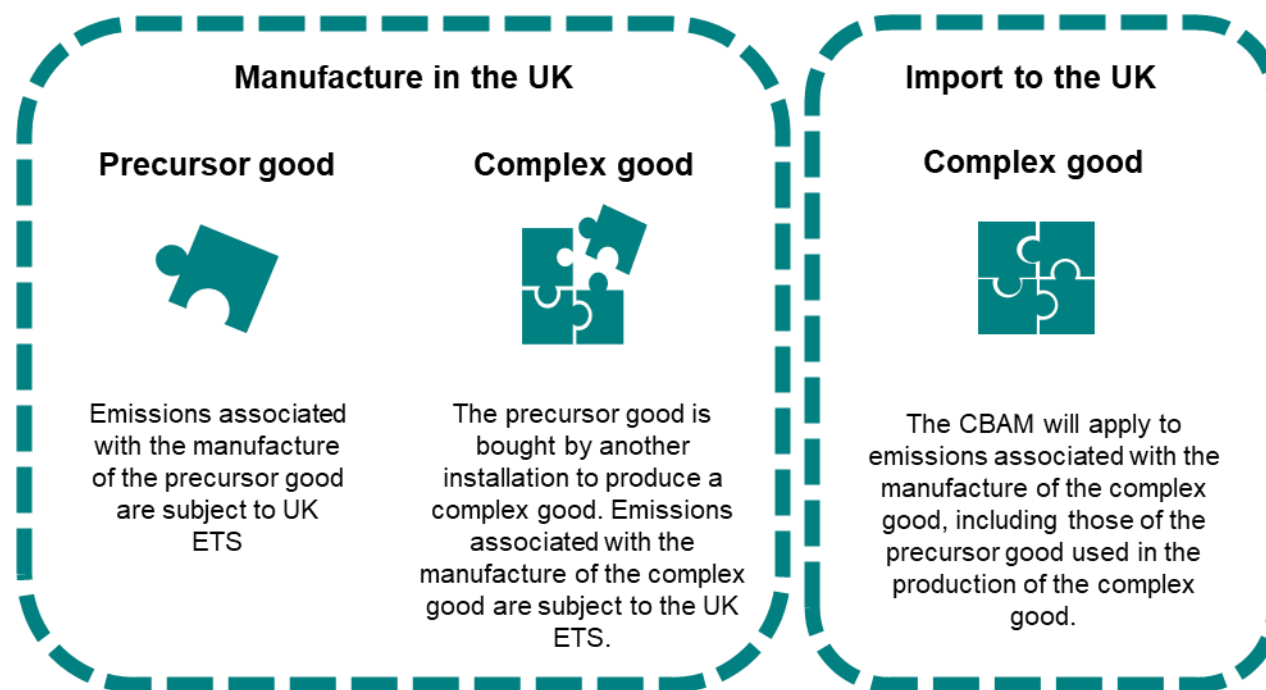
In making the decision around the initial sectoral scope of the UK CBAM for 2027 implementation, the government looked primarily at three factors.



## Product scope – precursor goods

A 'precursor good' is used as an input material in the production of a second good. The government has announced that 'precursor goods' will be included in the calculation when determining the emissions embodied in CBAM goods.

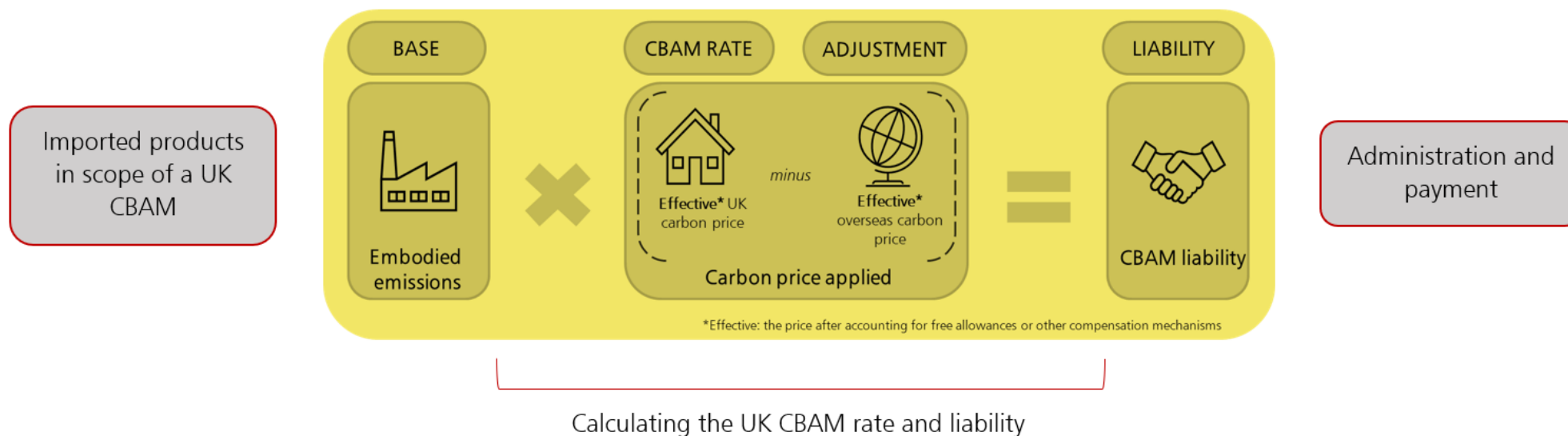
**The precise goods within scope of the CBAM to be deemed 'precursor goods' will be specified at a later date and mapped to resulting complex goods, also within scope of the CBAM.**





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## Calculating the UK CBAM rate and liability



## Principles for calculating the CBAM liability

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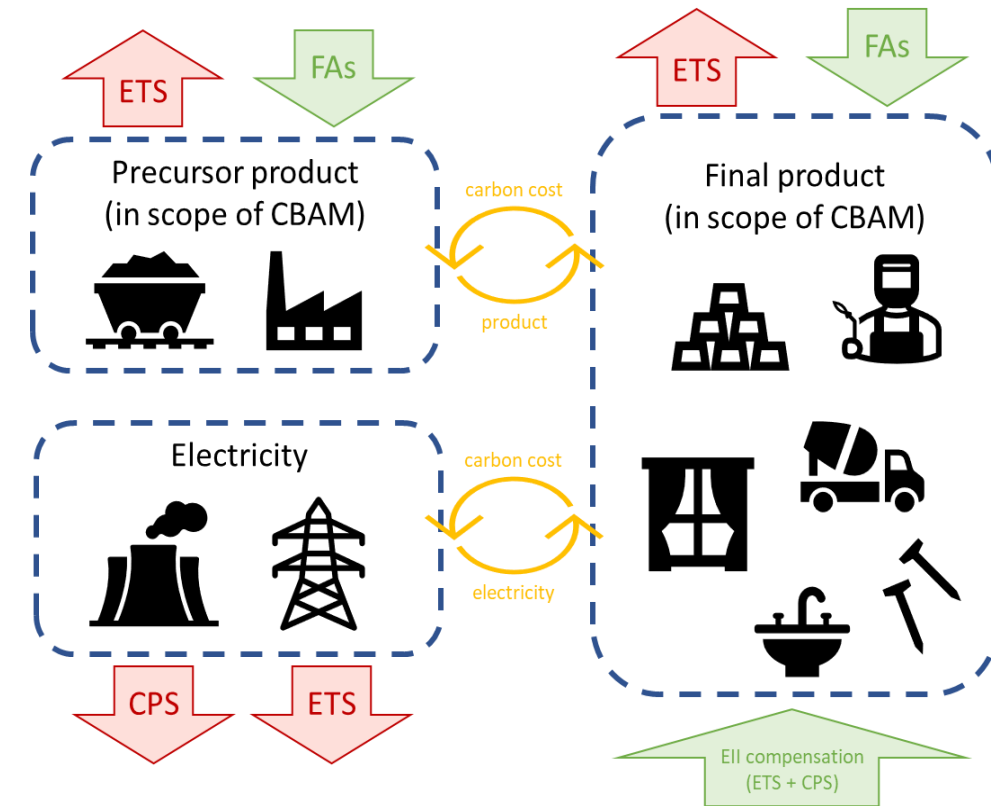
The UK and international carbon prices and emissions values used in the UK CBAM calculations should:

- ensure a comparable carbon price is paid on imported emissions and domestic emissions
- not place a burden on importers or imports that is higher than on domestic producers
- be applied fairly to UK imports

All minded to positions in this section of the consultation have been designed with those principles in mind.



- **Direct emissions** are emissions related to the production processes of CBAM goods. This includes emissions from the production of heating and cooling that are consumed during the production processes, irrespective of whether the heating or cooling was produced on or off site.
- **Indirect emissions** are emissions related to the production of electricity, which is consumed during the production of CBAM goods irrespective of whether the electricity was produced on or off site.
- Direct and indirect emissions related to precursor goods also within scope of the CBAM.

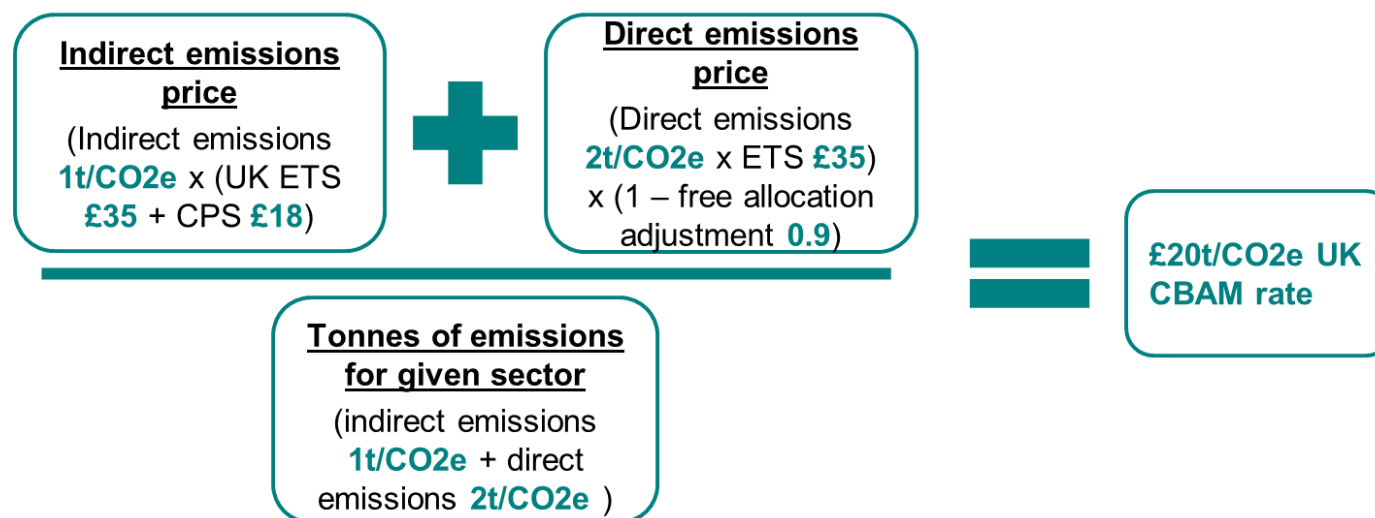


## Determining embodied emissions

- Use of **independently verified actual emissions data to calculate the CBAM liability is preferable** where available.
- **Default values will be available to maintain trade openness.** These default values must be set in line with environmental considerations to ensure that the CBAM mitigates carbon leakage risk. The government is minded to introduce a default value for each CBAM good in line with global average embodied emissions weighted by production volumes of key UK trading partners.
- Actual emissions embodied within imported CBAM goods will need to be **measured using prescribed methodology**. The government will **seek to align with and build upon existing UK ETS rules** and give consideration to the specificities of the goods and other domestic and international reporting standards.
- Actual embodied emissions data will need to be **independently verified** in line with existing verification principles in the UK ETS, including the requirement to have an agreed emissions monitoring plan and site visits.
- The government is minded to require emissions to be **verified by bodies accredited by accreditation services** which are part of the International Accreditation Forum (IAF). Accredited verification bodies and accreditation services may be based in the UK or abroad.

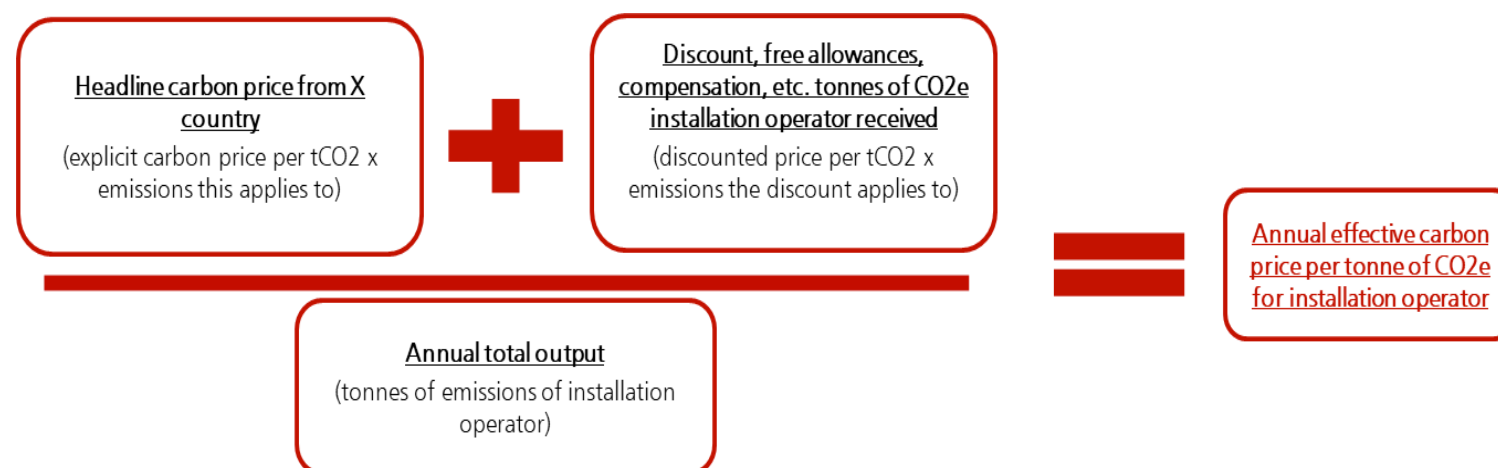
## Setting the UK CBAM rates

- A UK CBAM rate is the **tax rate set by the government** which is payable on CBAM goods, before any adjustments.
- The government is minded to introduce an individual UK CBAM rate **for each sector** in scope and that the rates are set by the government at the beginning of each quarter.
- The UK CBAM rate should be comparable to the carbon price faced in the UK by domestic producers, after accounting for adjustments, exemptions and compensation schemes.



## Adjusting for overseas carbon prices – calculation

- The CBAM liability can be reduced if the embodied emissions in the imported CBAM goods were subject to an explicit carbon price overseas and the importer chooses to provide evidence of this.
- The government has decided that the UK CBAM should only account for overseas prices defined as explicit carbon prices – a price/tCO<sub>2</sub>e placed directly on greenhouse gas emissions produced during a given process, such as manufacturing.
- To align with the application of the UK CBAM rate, the government is minded to adjust it for compensation and exemptions.
- The government is minded to recognise both carbon prices incurred in the country of production and those incurred en route to the UK (e.g. an overseas CBAM).

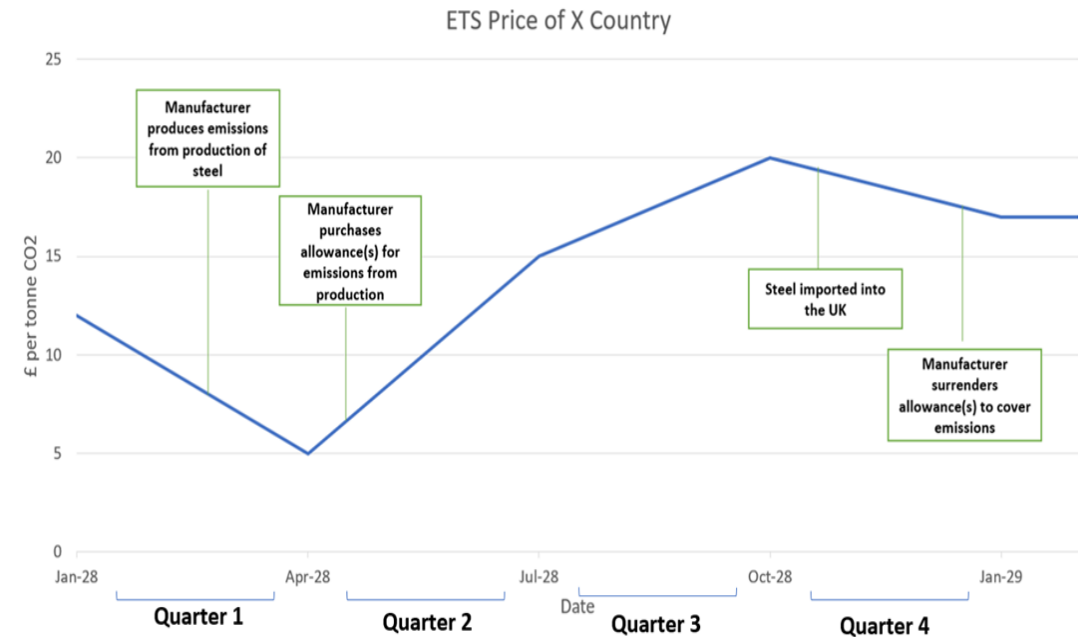


## Adjusting for overseas carbon prices – evidence and administration

- The government is minded to reference overseas carbon price adjustment from previous quarter from the date on which the CBAM good passes the tax point.
- The government is minded to require that the overseas carbon price would need to be verified by an independent third party.

The government is minded to require liable persons obtain (and provide on request) the following evidence:

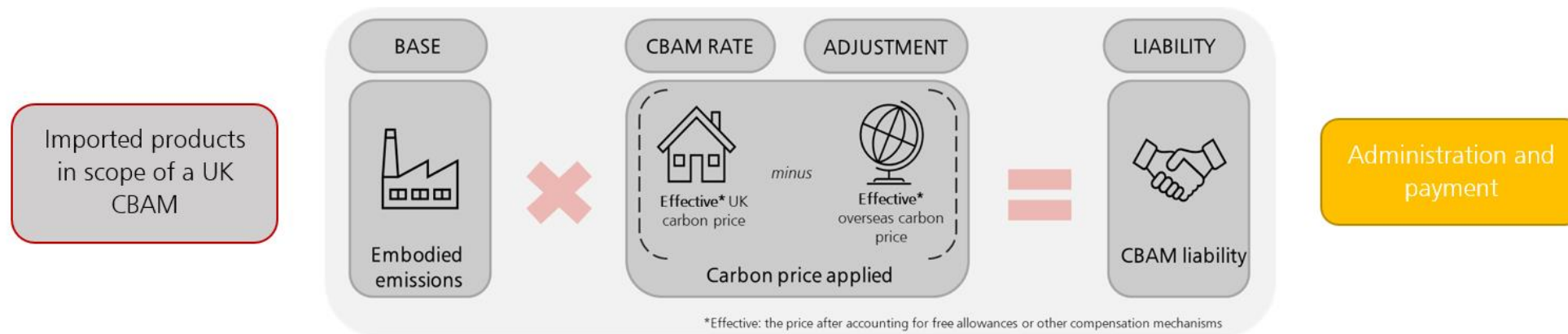
- The CBAM good is effectively subject to a carbon pricing scheme that meets the definition set out
- The applicable prevailing explicit carbon price or tax rate per tonne of CO<sub>2</sub>e in the preceding quarter or, if fluctuating, the average of this price per tonne of CO<sub>2</sub>e for the preceding quarter (to the quarter of import).
- Evidence of support schemes or other adjustments effectively applicable to the CBAM good in the previous year. Where the overseas producer or importer does not have such evidence because, for example, they were not in the business of manufacturing those goods during the previous year, a methodology which the carbon pricing authority used to apply support schemes or adjustments will need to be provided instead.
- Evidence of the total emissions subject to the carbon prices and adjustments – for example at installation level – to facilitate apportioning the prices and adjustments to calculate an effective carbon price for emissions. For example, total output of the manufacturer from the previous year.





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# Administration and payment



Calculating the UK CBAM rate and liability

## Tax point, liable person and registration threshold

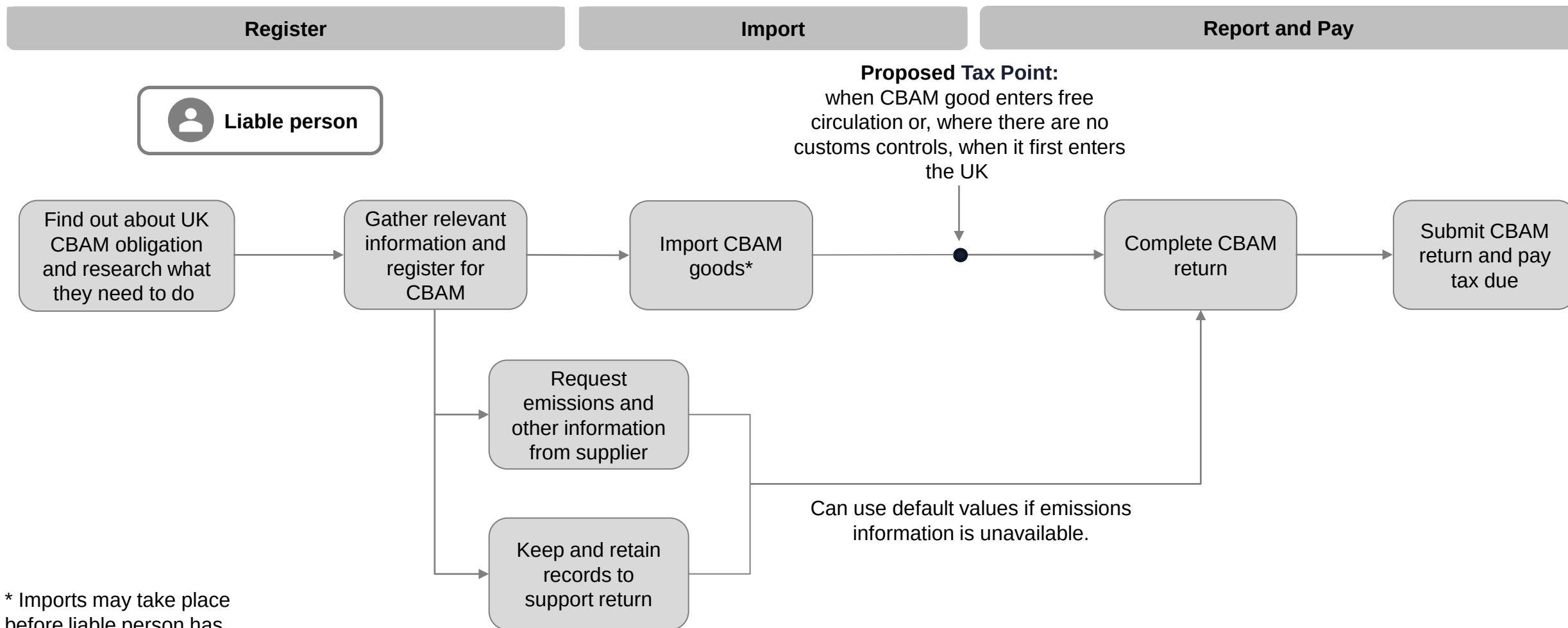
- The CBAM tax point will arise:
  - at free circulation; or
  - where there are no customs controls, when the goods arrive in the UK
- Where a CBAM good is processed into a non-CBAM good before entering free circulation, the CBAM liability will be based on the CBAM good before it processed.
- In all cases, the appropriate rate of tax will be that applicable on the date the tax point arises
- The person liable for CBAM is person on whose behalf the goods are:
  - released into free circulation; or
  - where there are no customs controls, moved to the UK
- To ensure the administrative costs of complying with the UK CBAM do not outweigh the carbon leakage risk we are seeking to address, there will be a minimum registration threshold of £10,000 in value over rolling 12-month period. We estimate this would exclude c.60% of liable population but retain over 95% of emissions.

# Accounting periods, returns and payments

- A liable person (or their tax agent) will be required to submit a CBAM return, including nil returns, and pay any liability at the end of each accounting period.
- **First accounting and reporting period:**
  - Accounting period: 1 January – 31 December 2027
  - Deadline to submit CBAM return and pay: May 2028
- **Subsequent accounting and reporting periods (from 2028):**
  - Accounting period: Quarterly
  - Deadline to submit CBAM return and pay: Transition to 1 month after the end of the accounting period



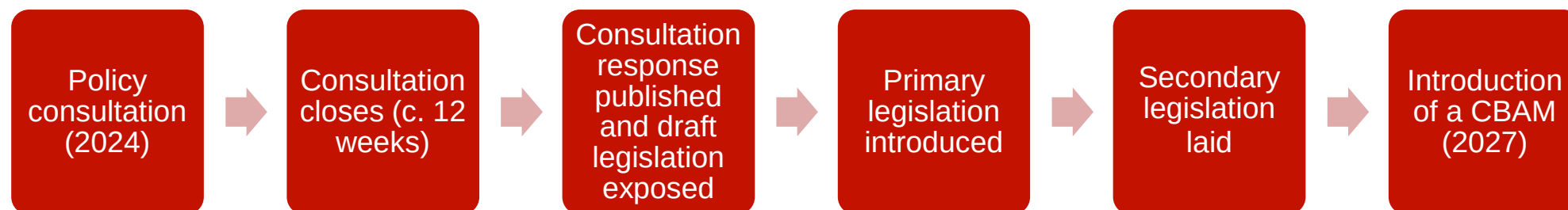
# Overview of user journey



\* Imports may take place before liable person has registered

## Next steps

- The consultation will be open for 12 weeks and close on 13 June 2024
- The response template can be found on the gov.uk page: <https://www.gov.uk/government/consultations/CBAM-taxpolicy-design>.
- If you would like to be added to our mailing list, please contact us at **cbampolicyteam@hmrc.gov.uk**



## Product scope - aluminium

An initial list of products within scope of the UK CBAM is included in the consultation – the following are within the aluminium sector.

| CN code    | Description                                                                                                                                                                                                                                                                                                                                                                        | Greenhouse gas                    |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| 7601       | Unwrought aluminium                                                                                                                                                                                                                                                                                                                                                                | Carbon dioxide & perfluorocarbons |
| 7603       | Aluminium powders and flakes                                                                                                                                                                                                                                                                                                                                                       | Carbon dioxide & perfluorocarbons |
| 7604       | Aluminium bars, rods and profiles                                                                                                                                                                                                                                                                                                                                                  | Carbon dioxide & perfluorocarbons |
| 7605       | Aluminium wire                                                                                                                                                                                                                                                                                                                                                                     | Carbon dioxide & perfluorocarbons |
| 7606       | Aluminium plates, sheets and strip, of a thickness exceeding 0.2 mm                                                                                                                                                                                                                                                                                                                | Carbon dioxide & perfluorocarbons |
| 7607       | Aluminium foil (whether or not printed or backed with paper, paper-board, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0.2 mm                                                                                                                                                                                                       | Carbon dioxide & perfluorocarbons |
| 7608       | Aluminium tubes and pipes                                                                                                                                                                                                                                                                                                                                                          | Carbon dioxide & perfluorocarbons |
| 7609 00 00 | Aluminium tube or pipe fittings (for example, couplings, elbows, sleeves)                                                                                                                                                                                                                                                                                                          | Carbon dioxide & perfluorocarbons |
| 7610       | Aluminium structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example, bridges and bridge-sections, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, balustrades, pillars and columns); aluminium plates, rods, profiles, tubes and the like, prepared for use in structures | Carbon dioxide & perfluorocarbons |
| 7611 00 00 | Aluminium reservoirs, tanks, vats and similar containers, for any material (other than compressed or liquefied gas), of a capacity exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment                                                                                                                               | Carbon dioxide & perfluorocarbons |
| 7612       | Aluminium casks, drums, cans, boxes and similar containers (including rigid or collapsible tubular containers), for any material (other than compressed or liquefied gas), of a capacity not exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment                                                                     | Carbon dioxide & perfluorocarbons |
| 7613 00 00 | Aluminium containers for compressed or liquefied gas                                                                                                                                                                                                                                                                                                                               | Carbon dioxide & perfluorocarbons |
| 7614       | Stranded wire, cables, plaited bands and the like, of aluminium, not electrically insulated                                                                                                                                                                                                                                                                                        | Carbon dioxide & perfluorocarbons |
| 7616       | Other articles of aluminium                                                                                                                                                                                                                                                                                                                                                        | Carbon dioxide & perfluorocarbons |

## Product scope - cement

An initial list of products within scope of the UK CBAM is included in the consultation – the following products are within the cement sector and included on that list.

| CN code    | Description                                                 | Greenhouse gas |
|------------|-------------------------------------------------------------|----------------|
| 2507 00 80 | Other kaolinic clays                                        | Carbon dioxide |
| 2523 10 00 | Cement clinkers                                             | Carbon dioxide |
| 2523 21 00 | White Portland cement, whether or not artificially coloured | Carbon dioxide |
| 2523 29 00 | Other Portland cement                                       | Carbon dioxide |
| 2523 30 00 | Aluminous cement                                            | Carbon dioxide |
| 2523 90 00 | Other hydraulic cements                                     | Carbon dioxide |

## Product scope - ceramics

An initial list of products within scope of the UK CBAM is included in the consultation – the following are within the ceramics sector.

| CN code | Description                                                                                                                                                                                                                         | Greenhouse gas |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 6901    | Bricks, blocks, tiles and other ceramic goods of siliceous fossil meals (for example, kieselguhr, tripolite or diatomite) or of similar siliceous earths                                                                            | Carbon dioxide |
| 6902    | Refractory bricks, blocks, tiles and similar refractory ceramic constructional goods, other than those of siliceous fossil meals or similar siliceous earths                                                                        | Carbon dioxide |
| 6903    | Other refractory ceramic goods (for example, retorts, crucibles, muffles, nozzles, plugs, supports, cupels, tubes, pipes, sheaths, rods and slide gates), other than those of siliceous fossil meals or of similar siliceous earths | Carbon dioxide |
| 6904    | Ceramic building bricks, flooring blocks, support or filler tiles and the like                                                                                                                                                      | Carbon dioxide |
| 6905    | Roofing tiles, chimney pots, cowls, chimney liners, architectural ornaments and other ceramic constructional goods                                                                                                                  | Carbon dioxide |
| 6906    | Ceramic pipes, conduits, guttering and pipe fittings                                                                                                                                                                                | Carbon dioxide |
| 6907    | Ceramic flags and paving, hearth or wall tiles; ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics                                                                                                  | Carbon dioxide |
| 6910    | Ceramic sinks, washbasins, washbasin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures                                                                                          | Carbon dioxide |

## Product scope - fertilisers

An initial list of products within scope of the UK CBAM is included in the consultation – the following products are within the fertilisers sector and included on that list.

| CN code    | Description                                                                                                                                                                                                                                       | Greenhouse gases               |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| 2808 00 00 | Nitric acid; sulphonitric acids                                                                                                                                                                                                                   | Carbon dioxide & nitrous oxide |
| 2814       | Ammonia, anhydrous or in aqueous solution                                                                                                                                                                                                         | Carbon dioxide                 |
| 2834 21 00 | Nitrates of potassium                                                                                                                                                                                                                             | Carbon dioxide & nitrous oxide |
| 3102       | Mineral or chemical fertilisers, nitrogenous                                                                                                                                                                                                      | Carbon dioxide & nitrous oxide |
| 3105       | Mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus and potassium; other fertilisers; goods of this chapter in tablets or similar forms or in packages of a gross weight not exceeding 10 kg | Carbon dioxide & nitrous oxide |
| 3105 60 00 | Except:<br>Mineral or chemical fertilisers containing the two fertilising elements phosphorus and potassium                                                                                                                                       |                                |

## Product scope - glass

An initial list of products within scope of the UK CBAM is included in the consultation – the following are within the glass sector.

| CN code            | Description                                                                                                                                                                                                                                                                                                                                                                                           | Greenhouse gas |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 7002               | Glass in balls (other than microspheres of heading 7018), rods or tubes, unworked                                                                                                                                                                                                                                                                                                                     | Carbon dioxide |
| 7003               | Cast glass and rolled glass, in sheets or profiles, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked                                                                                                                                                                                                                                                  | Carbon dioxide |
| 7004               | Drawn glass and blown glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked                                                                                                                                                                                                                                                              | Carbon dioxide |
| 7005               | Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked                                                                                                                                                                                                                                         | Carbon dioxide |
| 7006               | Glass of heading 7003, 7004 or 7005, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials                                                                                                                                                                                                                                               | Carbon dioxide |
| 7007               | Safety glass, consisting of toughened (tempered) or laminated glass                                                                                                                                                                                                                                                                                                                                   | Carbon dioxide |
| 7008               | Multiple-walled insulating units of glass                                                                                                                                                                                                                                                                                                                                                             | Carbon dioxide |
| 7010               | Containerised glass (Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods; preserving jars of glass; stoppers, lids and other closures, of glass)                                                                                                                                                             | Carbon dioxide |
| 7016               | Paving blocks, slabs, bricks, squares, tiles and other articles of pressed or moulded glass, whether or not wired, of a kind used for building or construction purposes; glass cubes and other glass small-wares, whether or not on a backing, for mosaics or similar decorative purposes; leaded lights and the like; multicellular or foam glass in blocks, panels, plates, shells or similar forms | Carbon dioxide |
| 7019<br>7019/62/10 | Glass fibres (including glass wool) and articles thereof (for example, yarn, rovings, woven fabrics)<br>Except: Waste and scrap                                                                                                                                                                                                                                                                       | Carbon dioxide |

# Product scope - hydrogen

An initial list of products within scope of the UK CBAM is included in the consultation – the following are within the hydrogen sector.

| CN code    | Description | Greenhouse gas |
|------------|-------------|----------------|
| 2804 10 00 | Hydrogen    | Carbon dioxide |

You may also be interested in products within scope of the CBAM within the fertilisers sector.



## Product scope – iron & steel Part 1

An initial list of products within scope of the UK CBAM is included in the consultation – the following are within the iron & steel sector.

| CN code    | Description                                                              | Greenhouse gas |
|------------|--------------------------------------------------------------------------|----------------|
| 2601 12 00 | Agglomerated iron ores and concentrates, other than roasted iron pyrites | Carbon dioxide |
| 72         | Iron and steel                                                           | Carbon dioxide |
|            | Except:                                                                  |                |
| 7202 2     | Ferro-silicon                                                            |                |
| 7202 30 00 | Ferro-silico-manganese                                                   |                |
| 7202 50 00 | Ferro-silico-chromium                                                    |                |
| 7202 70 00 | Ferro-molybdenum                                                         |                |
| 7202 80 00 | Ferro-tungsten and ferro-silico-tungsten                                 |                |
| 7202 91 00 | Ferro-titanium and ferro-silico-titanium                                 |                |
| 7202 92 00 | Ferro-vanadium                                                           |                |
| 7202 93 00 | Ferro-niobium                                                            |                |
| 7202 99    | Other:                                                                   |                |
| 7202 99 10 | Ferro-phosphorus                                                         |                |
| 7202 99 30 | Ferro-silico-magnesium                                                   |                |
| 7202 99 80 | Other                                                                    |                |
| 7204       | Ferrous waste and scrap; remelting scrap ingots and steel                |                |

## Product scope – iron & steel Part 2

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                           |                |
|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 7301    | Sheet piling of iron or steel, whether or not drilled, punched or made from assembled elements; welded angles, shapes and sections, of iron or steel                                                                                                                                                                                                                                                                                      | Carbon dioxide |
| 7302    | Railway or tramway track construction material of iron or steel, the following: rails, check-rails and rack rails, switch blades, crossing frogs, point rods and other crossing pieces, sleepers (cross-ties), fish- plates, chairs, chair wedges, sole plates (base plates), rail clips, bedplates, ties and other material specialised for jointing or fixing rails                                                                     | Carbon dioxide |
| 7303 00 | Tubes, pipes and hollow profiles, of cast iron                                                                                                                                                                                                                                                                                                                                                                                            | Carbon dioxide |
| 7304    | Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel                                                                                                                                                                                                                                                                                                                                                       | Carbon dioxide |
| 7305    | Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406.4 mm, of iron or steel                                                                                                                                                                                                                                                               | Carbon dioxide |
| 7306    | Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel                                                                                                                                                                                                                                                                                                                  | Carbon dioxide |
| 7307    | Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel                                                                                                                                                                                                                                                                                                                                                         | Carbon dioxide |
| 7308    | Structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example, bridges and bridge-sections, lock- gates, towers, lattice masts, roofs, roofing frameworks, doors and windows and their frames and thresholds for doors, shutters, balustrades, pillars and columns), of iron or steel; plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of iron or steel | Carbon dioxide |
| 7309 00 | Reservoirs, tanks, vats and similar containers for any material (other than compressed or liquefied gas), of iron or steel, of a capacity exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment                                                                                                                                                                               | Carbon dioxide |
| 7310    | Tanks, casks, drums, cans, boxes and similar containers, for any material (other than compressed or liquefied gas), of iron or steel, of a capacity not exceeding 300 litres, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment                                                                                                                                                                 | Carbon dioxide |
| 7311 00 | Containers for compressed or liquefied gas, of iron or steel                                                                                                                                                                                                                                                                                                                                                                              | Carbon dioxide |
| 7318    | Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter pins, washers (including spring washers) and similar articles, of iron or steel                                                                                                                                                                                                                                                                                   | Carbon dioxide |
| 7326    | Other articles of iron or steel                                                                                                                                                                                                                                                                                                                                                                                                           | Carbon dioxide |