

Sayı: 70430465-TİM.OAİB.GSK.YESİL.2024/82-3978

Ankara, 26/03/2024

Konu: BİRLEŞİK KRALLIK SINIRDA KARBON DÜZENLEME MEKANİZMASI

Sayın Üyemiz,

Bilindiği üzere 2027 yılı itibariyle Birleşik Krallık tarafından Sınırdaki Karbon Düzenleme Mekanizması (SKDM) hayata geçirilecektir. İlk etapta alüminyum, çimento, seramik, gübre, cam, hidrojen, demir ve çelik sektörlerinde hayata geçirilecek olan uygulama için 21 Mart 2024 tarihi itibariyle kamu istişare süreci başlatılmıştır.

Bu kapsamda, Birleşik Krallık SKDM'sine ilişkin görüşlerinizi 13 Haziran 2024 tarihine kadar <https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism> linki üzerinden iletmeniz mümkün olup, uygulamaya ilişkin özet doküman ekte sunulmaktadır.

Bilgileri ve gereğini rica ederim.

Musa DEMİR
Genel Sekreter

Ek: Birleşik Krallık SKDM Özet Doküman (64 sayfa)





HM Revenue
& Customs



HM Treasury

Introduction of a UK carbon border adjustment mechanism from January 2027

Consultation

Publication date: 21 March 2024

Closing date for comments: 13 June 2024

Subject of this consultation

The introduction from January 2027 of a carbon border adjustment mechanism (CBAM) on imports into the UK of certain carbon intensive goods. This consultation, being undertaken jointly by His Majesty's Revenue & Customs (HMRC) and His Majesty's Treasury (HMT), seeks views on proposals for the design and administration of the mechanism.

Scope of this consultation

The government announced that, following a previous consultation, it would introduce a CBAM from 1 January 2027 on imports of certain carbon intensive goods from the following sectors: aluminium; cement; ceramics; fertilisers; glass; hydrogen; and iron & steel. This consultation sets out how the government intends to structure and administer a CBAM and invites views from interested parties.

Who should read this

The government would like to hear from importers and their agents, other businesses, individuals, tax advisers, trade and professional bodies and other interested parties, including those overseas.

Duration

21 March - 13 June 2024 (12 weeks).

Lead officials

Lucia Suggitt, HMRC

Katie Keegan, HMT

How to respond or enquire about this consultation

The online response form can be found on the gov.uk page:

<https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism>.

Responses will be shared between HMRC and HMT. Although using the online response form is the preferred method of responding, responses or enquiries can also be sent by e-mail to cbampolicyteam@hmrc.gov.uk or by post to: Lucia Suggitt, CBAM policy development team, HM Revenue & Customs, 3/58, 100 Parliament Street, London, SW1A 2BQ.

Additional ways to be involved

To engage with those affected by the proposals in this consultation, the government will be consulting interested parties on the proposals through meetings. If you would like to be included in a consultative meeting, please contact us via the email above.

After the consultation

The government will aim to analyse responses within 12 weeks and publish a formal response document in due course. Following this consultation, the government will prepare primary legislation which stakeholders will have an opportunity to comment on. Primary legislation and any necessary secondary legislation will then be brought forward ahead of the start of the UK CBAM in 2027.

Getting to this stage

HM Treasury and the Department for Energy Security and Net Zero consulted in 2023 on a potential UK CBAM which would place a carbon price on the emissions intensity of imported goods to ensure they are subject to a comparable carbon price to emissions in the same UK sectors. The government published a response to the consultation on 18 December 2023.

Previous engagement

During the period of consultation during 2023, the government had meetings with various stakeholders to discuss the impact of the initial proposals.

Contents

Foreword	5
1. About you	6
2. Introduction	8
3. The current carbon pricing environment in the UK	13
4. Overview of the UK CBAM	14
5. Applying the UK CBAM	17
6. Calculating the UK CBAM liability.....	20
7. Administration, payment and compliance of the UK CBAM.....	34
8. Glossary of terms	41
9. Assessment of impacts	43
10. Summary of consultation questions.....	50
11. The consultation process	54
Annex A: Commodity codes within scope of UK CBAM	57
Annex B: Historic Trade flows in sectors within CBAM scope	62

Foreword

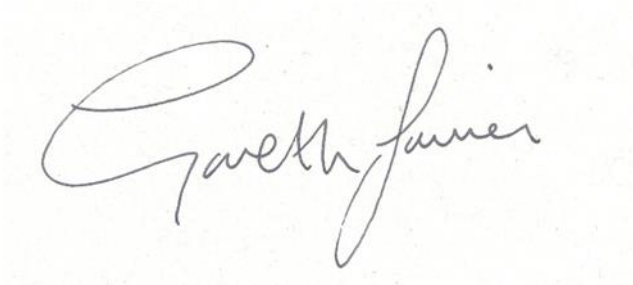
The UK is leading the charge internationally on tackling climate change. It was the first major economy to legislate for net zero. It is decarbonising faster than any other G7 country and has committed to ambitious targets to reduce its emissions by at least 68% by 2030 and to net zero by 2050.

As we make progress with our decarbonisation plans, we must ensure our ambition is not undermined by carbon leakage. Businesses must be able to invest in the UK with confidence that their efforts will lead to true decarbonisation globally, not the offshoring of emissions. Carbon leakage would defeat the purpose of reducing emissions at a national level, and undermine the global effort to reach net zero and limit global warming to 1.5 °C. That is why we are working internationally to reduce carbon leakage risk by pushing for ambitious climate action and supporting countries to transition to a low carbon future. We need to ensure that there are strong incentives for economies and industries to decarbonise in a race to the top, and not allow a loophole for emissions to be displaced rather than reduced.

It is also why following consultation, in December I announced that the UK will introduce a carbon border adjustment mechanism (CBAM) by 2027. 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 and iron & steel sectors that are at risk of carbon leakage, ensuring that a carbon price is paid regardless of where the goods are produced.

The UK CBAM will be a key part of the government's wider strategy to tackle carbon leakage risk. However, it is also a complex and novel measure. This consultation sets out how the government is planning to design the UK CBAM to ensure that it is effective, deliverable and meets our international obligations. We want to understand the views of producers and importers, our international trading partners and climate experts on this proposed design. It is important to emphasise that the government's objective in bringing forward this measure is to ensure that UK policies to incentivise a move to less carbon-intensive production methods, in line with its Net Zero Strategy, do not lead to an increase in net global emissions. It is not to raise revenue or impact international trade, and we will continue to work energetically to support global decarbonisation. Together, we can make the UK CBAM a success, tackle carbon leakage risk and meet our ambitious climate targets.

GARETH DAVIES MP



1. About you

1.01 This consultation sets out further detail on the government's announcement to introduce a carbon border adjustment mechanism (CBAM) in 2027, building on the views received in response to the March 2023 consultation on "Addressing carbon leakage risk to support decarbonisation". The government expects that this consultation will be of interest to UK domestic industry in the sectors impacted, including importers and downstream users of the goods in scope. It will also be of interest to producers of those goods in other jurisdictions and parties involved with the monitoring and verification of emissions. Outside of industry, this consultation may be of interest to other jurisdictions with exports to the UK, those working towards Paris Agreement aims, and organisations, academics and individuals with an interest in trade, decarbonisation and net zero.

1.02 The introductory chapters of this consultation do not seek views from respondents. They set out the context and rationale for a CBAM, including:

- The issue of carbon leakage risk and the further detail on the government's decision to introduce a CBAM
- An overview of the carbon pricing policies currently in operation in the UK
- A high-level overview of how a CBAM will operate once implemented from the perspective of a customer

1.03 The consultation then explores the further detailed policy for the design and implementation of the CBAM in chapters 5, 6 and 7. These chapters seek views from respondents on the proposals and questions set out, covering the following areas:

- What the CBAM will apply to – including sectoral and product scope, and exemptions
- How the CBAM liability will be calculated – including principles for the calculation of embodied emissions and the price payable with any adjustments for overseas carbon pricing
- How the CBAM will operate – including administration, payment and compliance

1.04 Businesses, organisations and individuals may have different perspectives, and we are interested in understanding the context of the answers you give to all the questions in this consultation.

Question i: Before you set out your response to the questions in chapters 5, 6 and 7, please indicate:

- ☐ Your name
- ☐ Your email address
- ☐ Postal address
- ☐ Phone number
- ☐ Job title

1.05 Please also respond to the following questions:

Question ii: Are you:

- a) a business (if so, please state whether you are an importer, a UK manufacturer, a manufacturer in another jurisdiction or other type of business)
- b) an organisation (if so, please provide details (e.g. trade / health body))

c) an individual?

Question iii: If you are in business, where does your business operate? (please select all that apply)

- ☐ England
- ☐ Scotland
- ☐ Wales
- ☐ Northern Ireland
- ☐ Isle of Man
- ☐ EU - please state which country
- ☐ Non-EU - please state which country

Question iv: If you are in business, how many staff do you employ across the UK?

- ☐ Fewer than 10
- ☐ 10 - 100
- ☐ 101 - 500
- ☐ More than 500
- ☐ Prefer not to say

Question v: Please provide any further information about your organisation or business activities that you think might help us put your answers in context.

Question vi: Would you like your response to be confidential? If so, why (please note the information on confidentiality in chapter 11)?

2. Introduction

Addressing carbon leakage

2.01 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. Decarbonising UK industry is crucial to reaching net zero: reducing emissions by two-thirds relative to 2020 levels is projected to be necessary before 2035 to stay on track. This industrial transformation will have far-reaching benefits to the UK, creating new jobs, contributing to the fight against climate change, our energy security and putting economic growth on a more sustainable trajectory. There is a risk, however, that the objective of decarbonisation - to reduce global emissions - could be undermined by carbon leakage. 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.

2.02 The UK's exact future exposure to carbon leakage risk is uncertain and would depend on future international carbon price differentials, emission intensities and technological developments. However, according to the World Bank, carbon pricing currently covers only 23% of global emissions and the majority of those pricing systems on 1 April 2023 had a lower price than the UK ETS market price¹.

2.03 The best solution to carbon leakage is an international one. With 90% of the global economy committed to net zero by 2050, the UK is championing a number of initiatives to advance global decarbonisation (see below), including through support for adoption of carbon pricing globally. In the long term these initiatives can reduce differences in carbon pricing globally, but that will take time. In the meantime, while disparities remain, differential carbon pricing between trading partners can create material carbon leakage risks.

2.04 The UK's current main measure to mitigate carbon leakage risk is the system of free allocation under the UK Emissions Trading Scheme (ETS). Reforms to the ETS, as set out by the UK ETS Authority in July 2023, will reduce the number of ETS permits available for purchase from government by 45% between 2023 and 2027, and from 2026 the number of free allowances will also decrease². These reforms will ensure that the UK continues to be a world leader on carbon pricing – with an ambitious ETS in line with the UK's net zero 2050 target. The government is committed to putting in place the necessary policies and measures for UK industry to successfully decarbonise, including ways to reduce the risk of carbon leakage as we implement domestic reforms. That is why the UK ETS Authority has consulted on how best to target free allowances from 2026 and the government has committed to ensure there is no gap in carbon leakage risk protection as we move through the decarbonisation transition³.

2.05 However, as we move towards decarbonisation, the gap between UK and international ambition, creates additional UK risk of carbon leakage from the mid-2020s. Without further action, this would undermine the environmental objectives of UK climate mitigation efforts. This is why, in 2023, the Department for Energy Security and Net Zero and His Majesty's Treasury consulted on the risk of carbon leakage and a range of potential mitigation

¹ World Bank, 2023, '[State and Trends of Carbon Pricing 2023](#)'.

² UK Government, July 2023, '[Developing the UK Emissions Trading Scheme: Main Response](#)'.

³ UK Government, December 2023, '[UK Emissions Trading Scheme: free allocation review](#)'.

measures in a consultation entitled ‘*Addressing carbon leakage risk to support decarbonisation*’.⁴ This consultation will be referred to as ‘the previous consultation’. The previous consultation provided an important part of the evidence base for the government’s approach to managing carbon leakage throughout the UK’s transition to net zero. Among other things, it sought views on the nature and extent of carbon leakage risk to UK industry; and potential design and implications of a potential carbon border adjustment mechanism (CBAM) in the UK. A summary of responses and government response to this consultation was published in December, and some of the views shared by respondents are explored in more detail in the section below, and are built on through this consultation.⁵

2.06 The UK is not alone in wanting to tackle carbon leakage to drive down global emissions. Alongside the introduction of an EU CBAM on 1 October 2023⁶, the Australian government have announced they are considering a border adjustment⁷, and the Department of Finance Canada has previously explored one.⁸ Any decisions by the government on domestic carbon leakage mitigations are being taken in the context of this global picture, and as part of the government’s continued co-operation on global decarbonisation and tackling carbon leakage.

UK international action on carbon pricing and carbon leakage

The UK is a strong supporter of carbon pricing and a pioneer on carbon markets, through both domestic action and our support for the uptake of carbon pricing schemes around the world.

Through the UK’s £11.6bn support for International Climate Finance, leadership on global decarbonisation and investment in multilateral institution carbon pricing programmes, the government is working with developing country partners to move together in reforming, reporting, pricing, regulating - and therefore reducing carbon emissions. This work directly supports the Sustainable Development Goals’ call to combat climate change and to reduce or avoid global greenhouse gas emissions.

The government is providing £130m to developing countries to support more ambitious carbon pricing globally. This includes £20m to the Partnership for Market Implementation fund, to help developing countries put a price on their emissions using carbon taxes and emissions trading schemes. The government is also a strong supporter of the International Carbon Action Partnership (ICAP), as well as Canada’s Global Carbon Pricing Challenge.

Alongside this, the government is taking a lead in co-ordinating global decarbonisation and responses to carbon leakage through working with international partners including at the United Nations Framework Convention on Climate Change, the World Trade Organisation, the G7/G20 and the Organisation for Economic Co-operation and Development, and through initiatives such as the Breakthrough Agendas, the Industrial Deep Decarbonisation Initiative and the Climate Club.

FIGURE 1: OVERVIEW OF UK AND INTERNATIONAL ACTION ON CARBON PRICING AND CARBON LEAKAGE

⁴ UK Government, 2023, ‘[Addressing carbon leakage risk to support decarbonisation](#)’.

⁵ UK Government, 2023, ‘[Addressing carbon leakage risk to support decarbonisation: Summary of consultation responses and government response](#)’.

⁶ EU Commission, ‘[Carbon Border Adjustment Mechanism](#)’.

⁷ Australian Government, 2023, ‘[Carbon Leakage Review](#)’.

⁸ Government of Canada, 2021, ‘[Exploring Border Carbon Adjustments for Canada](#)’.

Introducing a UK carbon border adjustment mechanism

2.07 After considering the information gathered as part of the previous consultation, on 18 December 2023 the government published its response and **announced that it would introduce a UK CBAM by 2027**. In addition, the government's response announced the government's intention to work with industry to establish voluntary product standards that businesses could choose to adopt to help promote their low carbon products to consumers; and to develop an embodied emissions reporting framework that could serve future carbon leakage and decarbonisation policies. These measures will also be subject to further technical consultation in 2024.

2.08 Although UK CBAM and demand-side policies will not be delivered using a single emissions reporting system initially, consideration will be given to maximising the alignment between reporting systems. In 2023, the government also ran a call for evidence seeking views on Scope 3 emissions reporting in the UK. **The government will continue to explore opportunities to streamline reporting where possible and desirable**. The government and the UK ETS Authority will continue to work together to ensure that all carbon leakage mitigation measures, including free allowances, and the UK CBAM work in a co-ordinated way.

2.09 **Introducing a UK CBAM will ensure highly traded, carbon intensive goods from overseas face a comparable carbon price to those produced here.**

2.10 Approximately 70% of respondents supported the use of domestic measures, alongside international action, to mitigate carbon leakage, with broad support for a UK CBAM. In responses a leading rationale for implementing a UK CBAM was that it is most closely aligned with the domestic mechanism (UK ETS), in that it would apply a price to residual emissions after any decarbonisation action has been taken. As well as reflecting the domestic policy, this approach means that imports from other jurisdictions can continue to be imported to the UK even if they choose a different decarbonisation route or timeline, and still face the same price signal. While respondents also provided details on potential issues (e.g. difficulties around providing accurate data, minimising the administrative burden on business, the challenges for least developed countries, and mirroring UK ETS requirements), they generally indicated that these should be worked through in the more detailed development of CBAM policy and that these should not stop action being taken to introduce a CBAM soon. The Environmental Audit Committee⁹ and the Skidmore Review¹⁰ have also recommended that the UK introduce a CBAM and the Climate Change Committee recommended that government ought to consult on plans to implement a CBAM¹¹.

2.11 The December CBAM announcement also detailed that the CBAM will apply to the emissions embodied in imports of specified goods as determined by a list of commodity codes in the following seven sectors: aluminium; cement; ceramics; fertilisers; glass; hydrogen; and iron & steel.

2.12 The purpose of a CBAM is to mitigate the risk of carbon leakage by applying a carbon price to imported goods to ensure they are subject to a comparable carbon price to that incurred by UK-based production. Since any CBAM will involve administrative burdens for

⁹ Environmental Audit Committee, 2022, '[Greening imports: a UK carbon border approach](#)'.

¹⁰ UK Government, 2023, '[Review of Net Zero](#)'.

¹¹ UK Climate Change Committee, 2022, '[2022 Progress Report to Parliament](#)'.

business, a CBAM will only be introduced where the evidence of carbon leakage risk and the need for such measures is sufficiently compelling to justify it on environmental grounds.

2.13 In making the decision around the initial sectoral scope of the UK CBAM that will be introduced by 2027, the government looked primarily at three factors:

- i. **Inclusion in the UK ETS** – the purpose of the CBAM is to ensure a comparable treatment of imported goods and domestic products from a carbon pricing perspective, to avoid carbon leakage. In line with that objective, the government considered a potential CBAM only for products in sectors subject to the UK ETS which is the UK's primary carbon pricing mechanism. The list of regulated activities is set out in legislation.¹²
- ii. **Carbon leakage risk** – the objective of the UK CBAM is to address carbon leakage risk but not all sectors within the UK ETS are at risk. This was determined initially by considering the list currently used by the UK ETS Authority to determine sectors at significant risk of carbon leakage for the purpose of determining eligibility for free allowances at 100% of the benchmark.¹³ Further analysis was also done to understand the impact on carbon leakage risk arising from the potential trade diversion created by other jurisdictions introducing similar measures and the differential in UK and global emissions intensity for the sector.
- iii. **Feasibility and effectiveness** – the UK CBAM would be most effective if it can be put in place in a way that is deliverable and does not create significant circumvention risks that would undermine its purpose. To judge this, the government looked at the responses to the previous consultation, summarised in the published government response. Where the inclusion of a particular sector was not deemed feasible, the government did not announce a CBAM in the sector for implementation by 2027. For example, this could be due to disproportionate challenges some sectors may face in ascertaining key metrics about imported goods such as embodied emissions at a product level.

2.14 The sectoral scope of the CBAM will be kept under review as new evidence comes to light to reflect changes to carbon leakage risk as well as methodological and technological advances. This is required to ensure the good functioning of a CBAM.

2.15 The CBAM will be applied to 'direct', 'indirect' and select 'precursor' product emissions (as defined in paragraph 6.08) embodied in imported CBAM goods, to ensure comparative coverage with the UK ETS. The UK CBAM rate applied to the embodied emissions will reflect explicit carbon pricing in the UK and adjust for free allowances and other reductions to the carbon price paid domestically. This will ensure that imported goods are subject to a carbon price comparable to that incurred by UK production. The overall CBAM liability will account for explicit carbon prices applicable in other jurisdictions to ensure the measure focuses on mitigating the risk of carbon leakage driven by the differentials in carbon pricing between jurisdictions.

2.16 The UK CBAM will be compliant with the UK's international obligations and our commitment to free and open trade. The government is committed to understanding the impacts of a UK CBAM on trade partners and continuing to work together on broader carbon

¹² UK legislation, 2020, Schedule 2, '[The Greenhouse Gas Emissions Trading Scheme Order 2020](#)', SI 2020/1265.

¹³ UK legislation, 2019, Annex, '[Commission Delegated Decision \(EU\) 2019/708](#)'.

leakage mitigations alongside the UK CBAM. It encourages governments and operators in overseas jurisdictions to meet officials and respond to this consultation.

What is the government consulting on?

2.17 This consultation seeks views on the detailed design, implementation and administration of a CBAM that was announced in December, to ensure that delivery for 2027 best meets the government's environmental and other objectives, while not placing disproportionate burdens on business. The following chapters set out what the government is consulting on and include specific questions on a range of issues:

- **Chapter 5: Applying the UK CBAM** – understanding which sectors and goods are in scope
- **Chapter 6: Calculating the UK CBAM liability** – understanding how the liability for the CBAM will be calculated, including emissions reporting, default values, the UK's carbon price and adjustments for carbon prices applicable overseas
- **Chapter 7: Administration, payment and compliance of the UK CBAM**

2.18 The proposals set out in these chapters represent the government's minded to positions on the design of the UK CBAM. The government is seeking feedback from a range of stakeholders both in the UK and abroad, on the proposals set out in these chapters, and will consider the responses to this consultation in the final design and implementation of the UK CBAM policy before legislating.

3. The current carbon pricing environment in the UK

3.01 The UK is committed to achieving net zero emissions by 2050, and the UK Emissions Trading Scheme (ETS) is the most cost effective and economically efficient way to deliver this for covered sectors, including industry and power generation. The UK ETS is therefore the UK's primary carbon pricing mechanism. It works on a 'cap and trade' principle, where a cap is set by the UK ETS Authority 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.

3.02 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.

3.03 Currently, to mitigate the carbon leakage risk for sectors covered by the UK ETS, a proportion of UK ETS allowances are assigned to operators in exposed sectors for free. This lowers the exposure to the market price for operators receiving free allowances, which in turn reduces carbon leakage risk while preserving the economic incentive for decarbonisation and the emissions cap across the ETS sectors. In July 2023 the UK ETS Authority set out the overall level of free allowances that will be provided from 2026, and in December 2023 published a consultation on how best to target those free allowances from 2026 to ensure the continued protection of at-risk sectors. Any and all decisions on the future of free allowance policy are for the UK ETS Authority.

3.04 In Great Britain, the government places an additional carbon price on electricity generation through the Carbon Price Support (CPS) which is paid alongside the UK ETS. The CPS taxes fossil fuels used in electricity generation at a rate equivalent to £18/tCO₂e. The CPS, together with the UK ETS price, has contributed to a rapid decline in power sector emissions, as coal-based generation fell from around 40% of electricity in 2012 to 2% in 2021.

3.05 Alongside free allowances, the Energy Intensive Industry (EII) Compensation Scheme also mitigates the risk of carbon leakage in Great Britain. For certain energy intensive industries, the scheme provides compensation from the indirect carbon price on their energy costs which arise from the UK ETS and CPS. In April 2022 the government announced the Energy Intensive Industry Compensation Scheme would be extended until 31 March 2025.

4. Overview of the UK CBAM

4.01 This chapter provides a broad overview of how the government's proposed model for the UK CBAM will operate from the customer's perspective. More detail on each of the individual aspects of the CBAM is set out in chapters 5, 6, and 7.

What does the CBAM apply to?

4.02 The UK CBAM will be a **charge on the emissions embodied in relevant imports** into any part of the UK that take place on or after 1 January 2027. However, the CBAM will not be payable until after the end of an accounting period.

4.03 The CBAM will apply to '**CBAM goods**' covered by a specified list of commodity codes (see Annex A) in the following sectors:

- ☐ aluminium
- ☐ cement
- ☐ ceramics
- ☐ fertiliser
- ☐ glass
- ☐ hydrogen
- ☐ iron & steel

Who is responsible and when?

4.04 The government proposes that **the tax point** – the time that CBAM liability arises - will be either:

- ☐ where a good is subject to customs control, the date on which the good is released into free circulation, or
- ☐ where there are no customs controls, the date on which the CBAM good first enters the UK.

Where a CBAM good is imported and processed into a non-CBAM good before it is released into free circulation, the government proposes that the liability will be based on the CBAM good before it was processed. In all cases, the government proposes that the appropriate rate of tax will be that applicable on the date the tax point arises.

4.05 The government proposes that a person will not need to register or account for CBAM if the total value of their CBAM goods passing a tax point falls below a **minimum registration threshold** of £10,000 over a rolling 12-month period. The total value should be calculated with existing methodologies used for customs.

4.06 The government proposes that a person meeting the threshold will be required to be **registered for CBAM**, either from the date they expect to meet the threshold or from the date they meet it, whichever is earlier. It proposes that their liability for CBAM starts from this date.

4.07 The government proposes that the **liable person** for the CBAM charge will be either:

- ☐ where there are customs controls, the person responsible for the goods when they are released into free circulation. This means the liable person could be the

importer of the CBAM goods, but this is not always the case (for example where there is a change of ownership while the goods are under customs control), or

- ☐ where there are no customs controls, the person on whose behalf the goods are moved to the UK

4.08 The government proposes that a **tax agent** can act for a liable person.

4.09 The government proposes that a liable person will be required to **submit a CBAM return and pay the liability at the end of each accounting period**. This will include submitting nil returns where there is no CBAM charge to pay (for example, where there was a sufficiently high carbon price on their goods overseas to offset the UK CBAM charge – see below).

4.10 The government proposes that the first **accounting period** will run for 12 months and cover imports of CBAM goods from 1 January to 31 December 2027. From 2028, the government proposes that accounting periods become quarterly. Details of the deadlines for submitting returns and payments are set out in chapter 7.

How is the liability determined?

4.11 The government proposes that when the liable person submits their return, the CBAM liability will be calculated by multiplying the total emissions emitted per type of good by the relevant UK CBAM rate, minus the carbon price payable overseas.

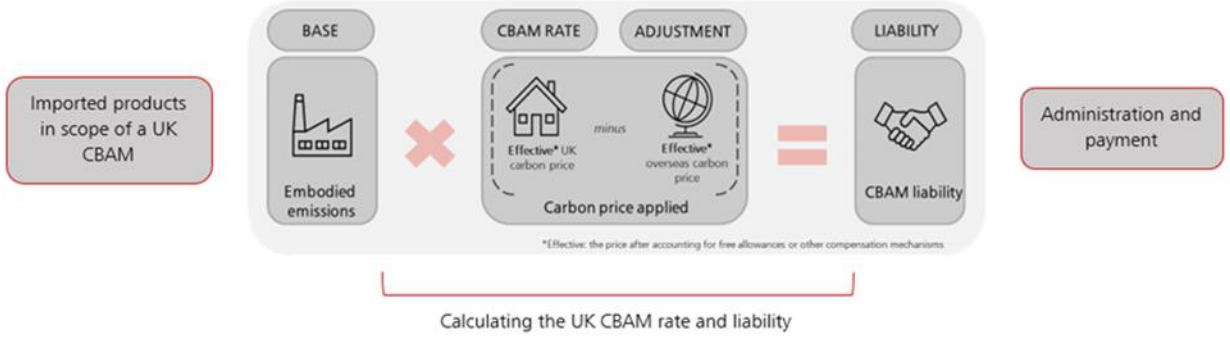
4.12 In terms of **calculating the emissions**, the government proposes that the liable person will either:

- ☐ provide information about the emissions associated with their CBAM goods, verified by an independent verification body, or
- ☐ apply default emissions values which the government will publish – these will be based on a global weighted average of UK imports for the relevant sector

4.13 The **rate payable on CBAM goods** will be set by the government. The government proposes that there will be seven rates of tax – one for each sector (so all liable iron & steel goods will have one rate, all liable aluminium goods another etc.). It proposes that **the UK CBAM rates will be determined by a set methodology** (see chapter 6) and updated by the government on a quarterly basis, reflecting the UK's moving carbon price under the UK ETS.

4.14 The government proposes that the UK CBAM rate applied will be reduced (potentially to zero) if the embodied emissions in the CBAM goods were subject to **a carbon price overseas** that was greater than or equal to the UK CBAM rate for that sector.

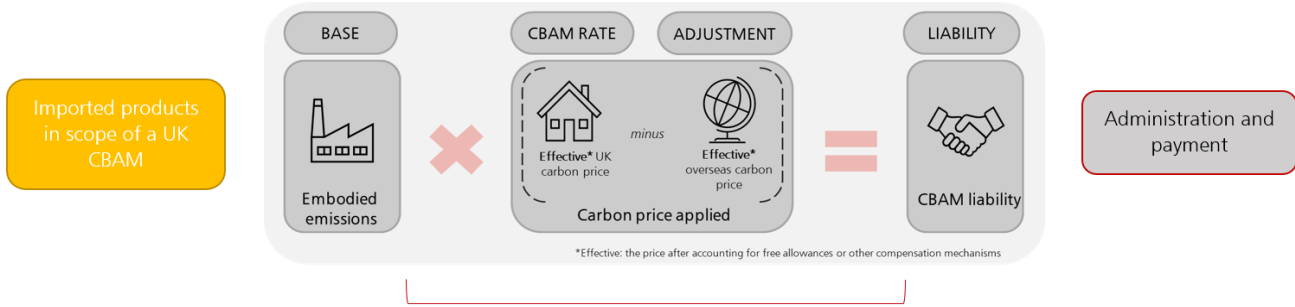
4.15 The following chapters set out further detail on how the government proposes each stage of the UK CBAM will operate, following the diagram at Figure 2.



.FIGURE 2: OVERVIEW OF THE UK CBAM PROCESS

5. Applying the UK CBAM

5.01 This chapter covers the sectoral and product scope of the CBAM.



Calculating the UK CBAM rate and liability

FIGURE 3: STEP 1 OF UK CBAM PROCESS

Sectoral scope of the CBAM

5.02 The purpose of a CBAM is to mitigate the risk of carbon leakage by applying a carbon price to imported goods to ensure they are subject to a carbon price that is comparable to that incurred by UK-based production. Therefore, the government intends to limit introduction of a CBAM charge to sectors subject to the UK ETS in the first instance and, within those sectors, to those deemed most at risk of carbon leakage, where it is feasible to do so.

5.03 As announced in December 2023, from the introduction of the UK CBAM on 1 January 2027 **the measure will apply to imports of specified goods as determined by a list of commodity codes in the following seven sectors:**

- ☐ aluminium
- ☐ cement
- ☐ ceramics
- ☐ fertiliser
- ☐ glass
- ☐ hydrogen
- ☐ iron & steel

5.04 The **sectoral scope of the CBAM will be kept under review** as new evidence comes to light to reflect changes to carbon leakage risk as well as methodological and technological advances. This is required to ensure the good functioning of a CBAM.

Product level scope of the CBAM

5.05 A key component of CBAM design is the translation of activities in scope of the UK ETS carbon price into a list of imported products that would have been part of that activity if produced in the UK. This is a complex exercise and government is seeking views to ensure the list of products prevents carbon leakage risk and does not add disproportionate burdens.

5.06 **The government has drafted an initial list of commodity codes set out in Annex A for inclusion in the CBAM by 2027.** Throughout this consultation document these are referred to as CBAM goods. We welcome views on this initial list and final decisions on the products to be included in the CBAM for 2027 will be made in consideration of answers to this consultation as well any relevant further information and analysis. More broadly, the government intends to keep the sectoral and product scope of the UK CBAM under review

post-2027 implementation, and does not rule out amending the list of commodity codes subject to the CBAM in future.

5.07 As with other aspects of CBAM policy, the CBAM must reflect UK ETS policy (as the UK's primary carbon pricing mechanism) as closely as possible. Therefore, **only goods whose production would be within scope of the UK ETS if produced domestically¹⁴, and which would be produced as a result of activities currently deemed at risk of carbon leakage within the UK ETS¹⁵ will be considered for potential inclusion within scope of the UK CBAM.** Carbon leakage risk, and therefore potential inclusion within the CBAM, is not dependent on the good currently being produced within the UK. The Carbon Leakage List UK is subject to review by the UK ETS Authority. The government and the UK ETS Authority will work together to ensure that changes to the Carbon Leakage List work in a co-ordinated way with the UK CBAM from 2027. HMT would adapt existing carbon leakage indicators where necessary, including to account for things like product level emissions and UK trade and production data.

5.08 We have also considered stakeholder feedback on the importance of alignment with similar mechanisms from other jurisdictions. Therefore, the list of proposed products in the EU CBAM has been used as a starting point for drafting the UK list on sectors included in the UK CBAM. As the UK has a similar carbon leakage risk profile to the EU, the government deemed this a sensible approach.

5.09 The government also considered the potential inclusion of scrap aluminium, scrap glass and scrap iron & steel within scope of the CBAM. Scrap is either a product at the end of its useful life or 'offcuts', with no productive use, other than as a feedstock for recycling. As such, the use of scrap goods has a net benefit on emissions (given their use as an input material reduces the need for additional production) which reduces the risk of carbon leakage posed by such imported goods. In addition, there are methodological uncertainties around the calculation and attribution of emissions embodied in such goods. Therefore, **the government proposes that scrap imported goods within the aluminium, glass and iron & steel sectors will not be within scope of the CBAM.**

5.10 A 'precursor good' is a good which is used as an input material in the production of a second good. A precursor good can be either a simple or complex good whereas by definition the resulting second good would always be a complex good.

5.11 In December 2023, the government set out that 'precursor goods' would be included in the calculation when determining the emissions embodied in CBAM goods. Under the UK CBAM, a relevant 'precursor good' will refer to an in-scope CBAM good which is used as an input into the production process of a complex good that is also within scope of the CBAM. To measure the emissions of that complex good, it will be necessary to include the emissions embodied in relevant precursor 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.**

5.12 We welcome feedback on the considerations set out in paragraphs 5.05 - 5.11 and the proposed list, which we will incorporate in our ongoing assessment to inform the final product scope. The product level scope of the CBAM will be kept under review as new evidence

¹⁴ UK legislation, 2020, Schedule 2 ' [Greenhouse Gas Emissions Trading Scheme Order 2020 SI 2020/1265](#)'.

¹⁵ UK legislation, 2019, '[Commission Delegated Decision \(EU\) 2019/708](#)'.

comes to light to reflect changes to carbon leakage risk as well as methodological and technological advances. This is required to ensure the good functioning of a CBAM.

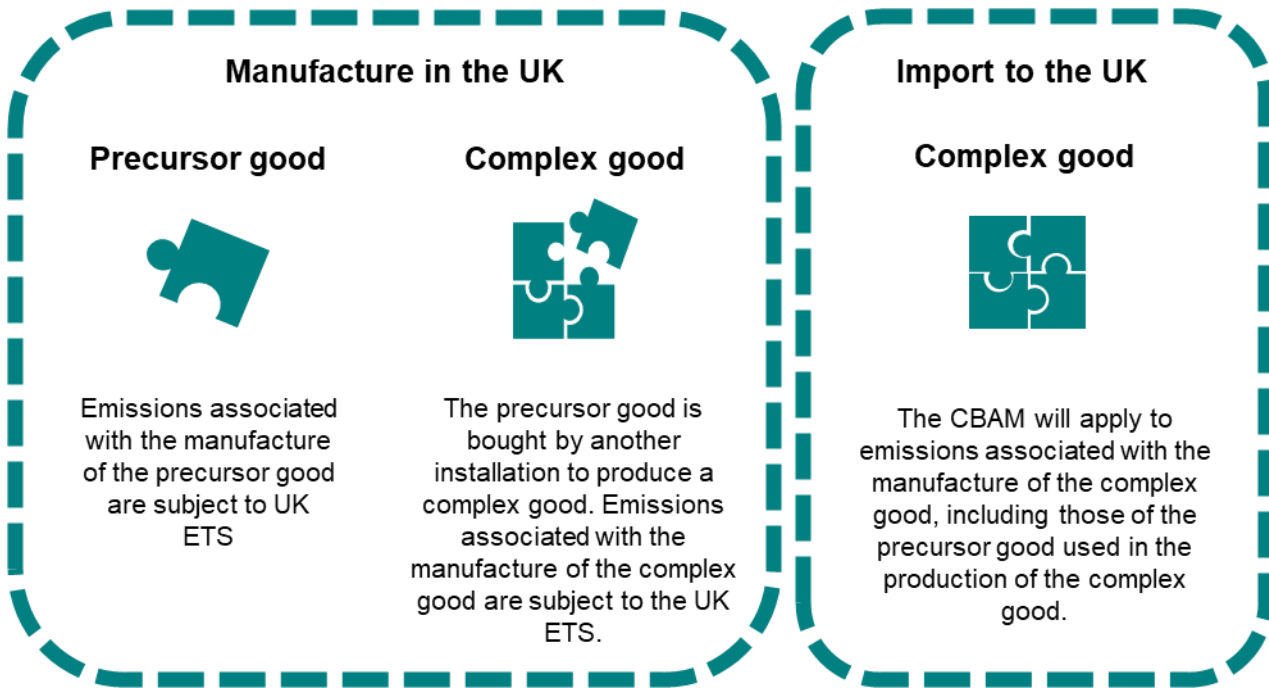


FIGURE 4: THE APPLICATION OF CARBON PRICING ON EMISSIONS BY THE UK ETS COMPARED WITH THE UK CBAM ON THE SAME COMPLEX GOOD

Questions on product level scope of the CBAM

Question 1: Do you agree that the list of commodity codes in Annex A an accurate reflection of the policy intent described above? Please provide supporting evidence.

Question 2: Are there any relevant commodity codes omitted or any that should be excluded? Please provide supporting evidence.

Question 3: Do you have any concerns on the feasibility of any of the commodity codes in Annex A being within scope of the CBAM? Please provide supporting evidence.

Question 4: Do you agree that scrap aluminium, scrap glass and scrap iron & steel do not pose a carbon leakage risk and should not be within scope of the CBAM? If not, please provide evidence to support your response.

Exemptions

5.13 The government does not intend for there to be any exemptions from the product scope. A person whose CBAM goods pass the tax point in quantities that meet or exceed the minimum registration threshold (see chapter 7) will be required to pay the appropriate UK CBAM rate on those goods, although their liability can be reduced by a carbon price applied overseas.

6. Calculating the UK CBAM liability

6.01 This chapter sets out how the government plans to calculate the UK CBAM liability.

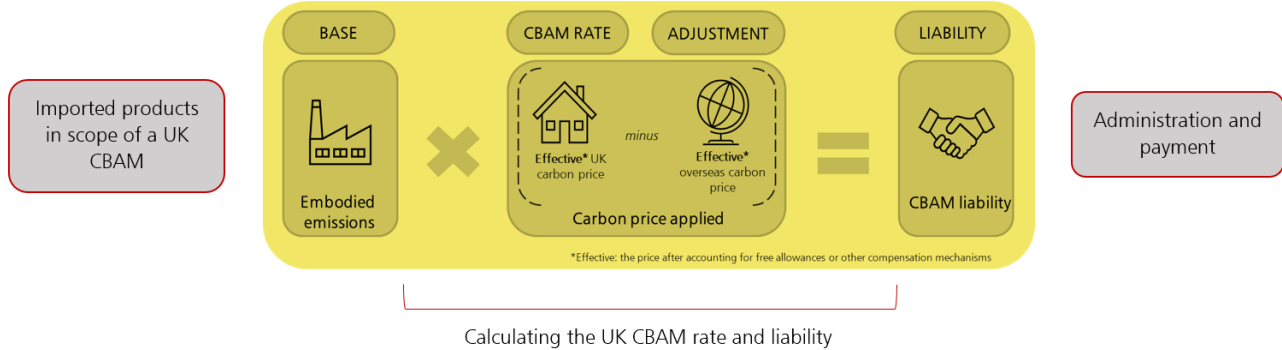


FIGURE 5: CALCULATING THE CBAM LIABILITY COVERS THE STEPS OF CALCULATING EMBODIED EMISSIONS, THE UK EFFECTIVE CARBON PRICE AND THE EFFECTIVE OVERSEAS CARBON PRICE.

6.02 To follow the principles that the CBAM:

- ☐ responds to carbon leakage risk in a proportionate, targeted, evidence-based and effective way which aligns with relevant UK decarbonisation policy; and
- ☐ is designed in line with the UK's international obligations and commitments

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 in line with our WTO obligations.

Summary of the CBAM liability

6.03 The overall approach to determining the CBAM liability will be calculated as depicted in Figure 6:

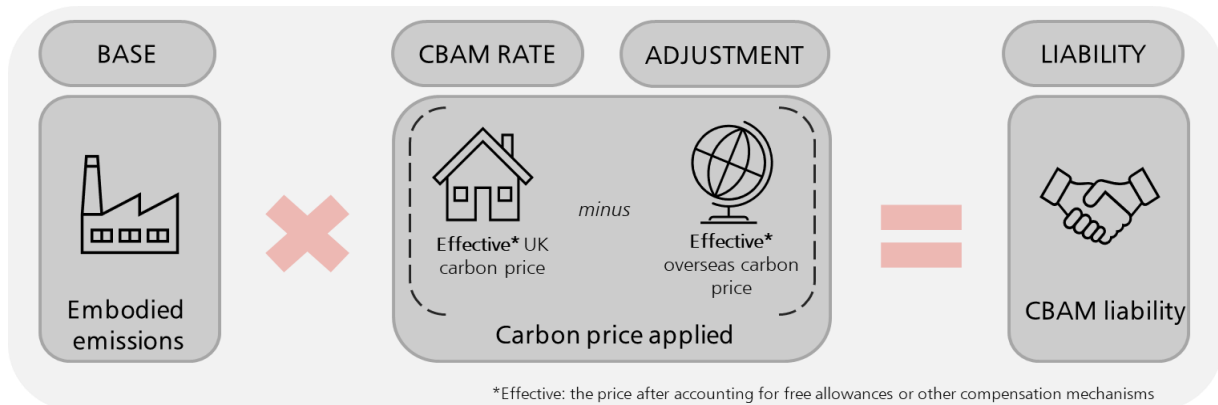


FIGURE 6: THE CBAM LIABILITY CALCULATION

6.04 **The liable person (or their tax agent) will need to submit a return** containing the information set out at paragraph 7.19 below. Based on this submission the **CBAM liability**

will be calculated by multiplying the emissions value per type of good per production source by the effective UK carbon price, minus the overseas carbon price (at the given exchange rate). This self-assessment tax model is similar to that in operation for other indirect taxes in the UK and therefore the process should be familiar to importers with other tax liabilities, which will facilitate engagement with HMRC.

6.05 An alternative CBAM model, as adopted by the EU, is the purchase and surrender of 'CBAM certificates' at the current ETS market price. This model would require additional new administrative steps for UK importers and the government through the sale and purchase of certificates, which would add complexity to the UK CBAM. Market-based certificates would also not reflect the totality of the effective UK carbon price as set out at paragraph 6.34 below, as it would not include the CPS or the EII compensation scheme, making the carbon price less comparable to that faced by domestic producers.

6.06 The remainder of this chapter addresses in turn the three components of CBAM liability: imported embodied emissions, UK CBAM rate and adjusting the UK CBAM rate for carbon prices payable overseas.

Relevant imported embodied emissions

6.07 **The government will provide a dual approach for the determination of emissions embodied within imported goods for the purpose of calculating the CBAM liability.** This means that when determining the embodied emissions liable to the UK CBAM, the liable person will have two options available to them:

- a) using **default values** as determined by the UK government
- b) using **data on the actual emissions** embodied within CBAM goods

6.08 In either case, the government needs to define which embodied emissions are relevant to the UK CBAM. The government has set out that the UK CBAM will apply a carbon price to select emissions embodied in CBAM goods to ensure comparable coverage with the UK ETS. In previous publications, the government has categorised emissions in terms of "Scopes". However, responses to the previous consultation suggested that this categorisation was not clear. Therefore, government will instead refer to 'direct' and 'indirect' emissions from this point, as defined below:

- ☐ **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.

6.09 In line with the government's December 2023 announcement, but noting the amended terminology, **the CBAM will apply to both the indirect and direct embodied emissions in CBAM goods, including those emissions embodied in any relevant precursor goods at a point further up the value chain.**

6.10 The inclusion of emissions embodied in precursor goods is necessary to ensure comparable UK CBAM coverage to the UK ETS. Precursors will only be relevant for the CBAM if, when that precursor good is produced at an installation in the UK, the emissions associated with its production are within scope of the UK ETS for that installation. Under the

UK ETS, emissions associated with the production of a further complex good, which may use the original precursor good as an input, are also within scope of the UK ETS. As a result, within the UK ETS a carbon price is applied on both elements of the production of the complex good regardless of whether the precursor good and resulting complex good are produced at the same or separate installations.

6.11 The UK CBAM will extend this principle to imports by requiring that direct and indirect emissions will be within scope of the CBAM, with direct emissions including those from ‘precursor’ goods. If the emissions of precursor goods were not included in scope, goods produced from supply chains that are broken down into more component parts would be associated with a lower embodied emissions calculation, reducing the effectiveness of the CBAM.

6.12 Overall, this is equivalent to applying the UK CBAM to Scope 1, Scope 2 and a limited part of Scope 3 emissions embodied within CBAM goods, as discussed in the previous consultation.

6.13 **To reflect the UK ETS, all embodied emissions in imported goods relevant to the CBAM will be measured in tonnes carbon dioxide equivalent (tCO₂e).** This is a metric used to compare the emissions from various greenhouse gases based on their global warming potential, by converting amounts of other gases into the equivalent amount of carbon dioxide with the same global warming potential. The greenhouse gases within scope of the CBAM, will align with those covered by the UK ETS including carbon dioxide, nitrous oxide and perfluorocarbons.

Questions on relevant imported embodied emissions

Question 5: Do you agree that the government’s definitions of ‘direct’ and ‘indirect’ emissions accurately describe the embodied emissions a CBAM ought to place a carbon price on, in line with those emissions within scope of the UK ETS? If not, please explain why not.

Question 6: Do you foresee any issues with calculating the emissions associated with precursor goods in CBAM goods? Please provide evidence to support your response.

Values for default emissions for all chargeable goods

6.14 Whilst actual emissions data independently verified according to paragraphs 6.24 - 6.27 will be preferable where available, relying on verified data in all instances could have unintended consequences, particularly for importers of CBAM goods for which such data are not currently available. The use of default values ensures that all liable persons can comply with the CBAM, even where actual emissions data is not available, to maintain trade openness.

6.15 It is crucial that default values are set in line with environmental considerations to ensure that the CBAM mitigates carbon leakage risk. The government has considered a range of options for the approach to default values, balancing the need to protect the environmental integrity of a CBAM and the need for feasibility. Given the variation of emissions at a product level within sectors, the government ruled out the use of sector level default values and will set default values at the product level.

6.16 The government recognises that emissions intensity varies between jurisdictions and that were default values to be set too low, importers may opt to rely on default values to

reduce CBAM liability. For example, were the default value below the level of actual embodied emissions, their use would avoid imported goods facing a comparable price to that faced by producers in the UK. This would risk undermining the environmental integrity of the CBAM. It is critical that the approach taken on default values does not create incentives to rely on default values instead of providing actual reported emissions data.

6.17 The government considered designing jurisdiction-specific default values. However, this was deemed infeasible by 2027. Therefore, the **government proposes that a default value be set for each CBAM good (proposed CBAM goods are listed in Annex A of this document) in line with global average embodied emissions weighted by production volumes of key UK trading partners**. This would be a single value incorporating direct and indirect emissions embodied within imported goods, including for any goods later deemed to be precursor goods. This approach aims to reduce the risk of under-pricing the most emissions intensive imports and is consistent with the objective of the CBAM to effectively mitigate carbon leakage risk.

6.18 **To calculate this, the government proposes the weighting by production volumes of embodied emissions intensities, of the UK's key trading partners**. This would ensure that the subsequent average reflects the emissions embodied within CBAM goods imported to the UK. The government is exploring data sources to do this, including the country level data compiled by the Joint Research Centre of the European Commission for use within the EU CBAM. Where data does not currently exist in this format for either products within scope of the UK CBAM or for key trading partners, the government will procure equivalent data.

6.19 Additional options that were considered and discarded were:

- the use of country specific product level values – these were judged to be infeasible
- the use of a single average of global emissions by product - this does not accurately reflect the UK's trading patterns and risks a higher likelihood of underestimation of the embodied emissions of goods imported into the UK, and
- the use of emissions intensity of the most emissions intensive country - this was considered to be unduly punitive

6.20 In the early years of the UK CBAM, the government believes its proposed approach of setting default values in line with global average embodied emissions weighted by production volumes of key UK trading partners protects the environmental integrity of the UK CBAM. This approach would also allow time for businesses and governments in other jurisdictions to facilitate a transition towards the accurate reporting set out in paragraph 6.25 and would appropriately mitigate carbon leakage risk. We welcome views on this approach.

6.21 A further option could be the use of a percentage-based mark-up added to the global average emissions weighted by production volumes of embodied emissions intensities of the UK's key trading partners. This could further reduce the risk of under-pricing the most emissions intensive imported goods. A mark-up could also increase the incentives for importers to work with producers in other jurisdictions to provide greater levels of actual reported emissions to reduce reliance on default values.

6.22 As part of a future review, the government would continue to monitor the appropriate model for determining default values, particularly looking to understand how the availability of both producer and national/regional level emissions monitoring is developing.

6.23 This initial approach to default values will be used at least for an initial period of 2027-2030. Default values will be published by the government in advance of this period. Post-2027, the government proposes that a review be held to assess the use and functionality of default emissions values, with any subsequent changes to be implemented from 2031, at the earliest.

Questions on values for default emissions for all chargeable goods

Question 7: Do you foresee any difficulties with the government's proposal to use product level default emissions values calculated in line with global average emissions weighted by the production volumes of the UK's key trading partners? Please outline.

Question 8: Are there alternative approaches to default emissions values the government ought to consider which neither undermine the environmental integrity of the CBAM nor are punitive in nature? If so, please provide detailed evidence.

Question 9: Do you have views on how a percentage based mark-up (in addition to global average emissions weighted by production volumes of embodied emissions intensities of the UK's key trading partners) could impact the use of default values and actual reported emissions data? Please outline.

Question 10: Do you have any initial views on the considerations and/or aims of a future review into the use and functionality of default values? Please outline.

Calculation and verification of actual embodied emissions

6.24 If the liable person chooses to use data on the actual emissions for calculating CBAM payments on imported goods, emissions embodied within imported CBAM goods will need to be measured using prescribed methodology to ensure a consistent approach. Where possible, this will align with and build upon existing rules set out for use by stationary installations within the UK ETS (as set out within [The Greenhouse Gas Emissions Trading Scheme Order](#) as modified).

6.25 The government will set out further detail on the methodology and rules for monitoring and reporting embodied emissions for the purpose of the CBAM at a later date. As well as aligning with the UK ETS methodology where possible, when developing proposals for the monitoring, reporting and verification (MRV) arrangements for the UK CBAM, the government is giving consideration to the specificities of goods included in scope of the CBAM, other domestic emissions reporting standards, any emissions MRV arrangements in operation (now or in the future) in the international community, and options for apportioning installation-level reporting (which is more common within domestic carbon pricing regimes) on a product basis. We also continue to monitor any ongoing developments in these areas.

6.26 Actual embodied emissions data will need to be independently verified to prevent fraud and maintain the integrity of the CBAM. To ensure equitable treatment with goods produced in the UK, the government proposes that the existing principles of verification used for the UK ETS will also be applied to the UK CBAM, including the requirement to have an agreed emissions monitoring plan and site visits.

6.27 Whilst emissions covered by the UK ETS are created and measured in the UK, emissions embodied within imported CBAM goods will, by definition, have been created

overseas. Reliable and independent verification of these emissions at source will therefore be an essential requirement.

6.28 The government proposes that embodied emissions data provided for the purpose of calculating the UK CBAM liability will be required to be verified by bodies accredited by accreditation services which are part of the International Accreditation Forum (IAF), such as the United Kingdom Accreditation Service (UKAS). Under this model, accredited verification bodies would not need to be based in the nation where the emissions occur but should be able to fulfil the requirements for physical inspection of facilities which will form part of the verification requirements. Accreditation would also not need to be by a body located in the territory where the emissions occur, and hence emissions from countries with no accreditation service would still be able to be verified by bodies which receive their accreditation in other nations. The liable person would need to retain information about the emissions associated with their CBAM goods that is verified by an independent verification body.

Questions on the calculation and verification of actual embodied emissions

Question 11: Do you foresee any issues with a liable person acquiring and providing to HMRC details of emissions embodied in CBAM goods at the end of the accounting period (should they choose to)? Please outline.

Question 12: Do you agree that verification of emissions should be performed by any body accredited by accreditation services which are part of the International Accreditation Forum (IAF), like UKAS in the UK? If not, please explain why not.

Question 13: Would the market respond adequately to provide for the accreditation of verifiers by accreditation services and the verification of emissions independent verifiers?

Question 14: Noting that the government is still developing policy in this area, do you have any initial views on the monitoring, reporting and verification (MRV) rules for the UK CBAM? Please outline.

Measurements and weights

6.29 The weight of the good will be needed to arrive at total emissions for that good. As such, it is important for the weight used in the calculation to be as accurate as possible as it forms part of the basis of the CBAM liability.

6.30 Net mass is the weight of the goods themselves without any packaging. **Liable persons will need to declare the weight of imported goods on their CBAM returns**, as specified in chapter 7. In the majority of cases, this should be straightforward as this information is currently required for customs declarations. In all cases, but especially where customs declarations are not required, importers and their agents should be setting up processes to obtain certain information from suppliers, including the weight of goods.

6.31 Where the actual weight of the goods is not available from suppliers, the government is considering options on how importers should arrive at the weight of their imported goods. This includes requiring importers to weigh the goods themselves, arriving at the weight by obtaining the weight of identical (or very similar) goods produced in the UK, or using an industry standard if one exists. As is the case with other taxes, there may also be the option

for importers to submit a bespoke proposal for determining the weight of their imported good for HMRC's approval.

Questions on measurements and weights

Question 15: Do you foresee any difficulties in obtaining an accurate weight for CBAM imported goods? If so, please specify the difficulties, why they will arise and any suggestions you might have for dealing with those concerns.

Question 16: If a liable person was required to arrive at the weight of the goods themselves, how would they do that? Please explain how CBAM products that you import are weighed. For example, is the weight arrived by means of a calculation or is it physically weighed?

Question 17: Is there a UK industry standard weight for the CBAM good you import? If so, please give details.

Setting the UK CBAM rates

6.32 The effective UK carbon price applied by the CBAM will be known as the “UK CBAM rate”. The UK CBAM rate will be applicable per tonne of embodied emissions attributed to CBAM goods. A majority of responses to the previous consultation agreed that a CBAM should apply a price comparable to the domestic carbon price paid, accounting for discounts. However, as the effective carbon price varies in the UK depending on the availability of other carbon leakage mitigation policies and the electricity intensity of production, it is difficult to determine one UK CBAM rate that is comparable for all sectors. The government has considered setting UK CBAM rates at a sector or product level, to approximate the national carbon pricing treatment of UK installations more closely. Product-level rates would result in a large number of different UK CBAM rates for importers to familiarise themselves with and increase the complexity of the administration of the CBAM.

6.33 Therefore the government proposes having an individual UK CBAM rate for each sector of goods in scope of the CBAM and that these rates will be set by the government at the beginning of each quarter. Under this option there would be seven UK CBAM rates in 2027. Where a person is liable for goods from multiple sectors the relevant UK CBAM rate would be applied to each of the different goods.

6.34 As set out above, the UK CBAM rate should be comparable to the carbon price faced in the UK by domestic producers, after accounting for adjustments, exemptions or compensation schemes. Based on announced government policy, the pricing mechanisms currently expected to be in place for 2027 are:

- ☐ the UK ETS
- ☐ free allocation of allowances under the UK ETS, and
- ☐ the carbon price support rate on electricity generated using fossil fuels in Great Britain

6.35 If the government takes any decisions on existing or new carbon pricing or adjustment policy in the future, it would need to consider whether or how these changes should be included in the calculation of the UK CBAM rate.

6.36 The government has considered how to factor in each of these policies when calculating a single UK CBAM rate for each sector. Please note that explanations of indirect and direct embodied emissions are covered in paragraph 6.08.

UK Emissions Trading Scheme	The government proposes referencing the average of the UK ETS auction price over the preceding quarter to the quarter in which the goods were imported. For example, if goods were imported in quarter 2, the average UK ETS price from quarter 1 would be the basis for the UK CBAM rate. This will be known as the ' UK ETS reference price '. A majority of responses to the previous consultation agreed that a CBAM price should track the prevailing UK ETS price throughout the year, as opposed to being a fixed price. Using a quarterly reference to the UK ETS price would allow for the UK CBAM rate to track the changes in the UK ETS price throughout the year, whilst balancing the need to give importers certainty on the price they will pay for their consignments in each reporting period.
Free allocation of UK ETS allowances	The government proposes making an adjustment to the UK ETS price reference price (above) , to reflect the existence of free allowances available to the domestic industry within that sector over the previous year. This will be known as the ' free allocation adjustment '. This adjustment would make the UK CBAM rate more comparable to the financial value of the carbon price faced by domestic producers, as the provision of free allowances under the UK ETS means that the full UK ETS price will not be paid on all domestic emissions covered. In the same way that free allowance allocation varies by sector and activity, the government proposes that this adjustment varies per sector, resulting in seven different rates for the CBAM. As there are no free allowances available to the energy generation sector, the UK ETS price associated with electricity use does not need to be adjusted in this way.
Carbon price support	The government proposes referencing the carbon price support rate for the current quarter , noting that this rate would not change more frequently than once per year on 1 April. This will be referred to as the ' CPS rate '. Using this rate would ensure that the current costs of carbon pricing on electricity emissions in Great Britain are captured when setting the UK CBAM rate.

FIGURE 7: UK PRICING MECHANISMS CURRENTLY EXPECTED TO BE IN PLACE FOR 2027 BASED ON ANNOUNCED GOVERNMENT POLICY:

6.37 As set out in Figure 7, the UK ETS and free allowances are relevant to the direct emissions of a sector in the UK, while the UK ETS and CPS (but not free allowances) are relevant to the indirect emissions of a sector in the UK. Therefore, **when bringing these elements together to form a UK CBAM rate for each sector, the government proposes that they are applied on a weighted basis to reflect the proportion of emissions that are either direct or indirect in that sector and produce a single rate**, as shown in Figure 8. This would mean that for each sector, the UK ETS reference price and free allocation adjustment would be weighted on the basis of relevant direct (product and precursor) emissions covered by the UK ETS in that sector, and the UK ETS reference price and CPS rate would be weighted on the basis of relevant indirect electricity emissions in that sector based on UK electricity emissions.

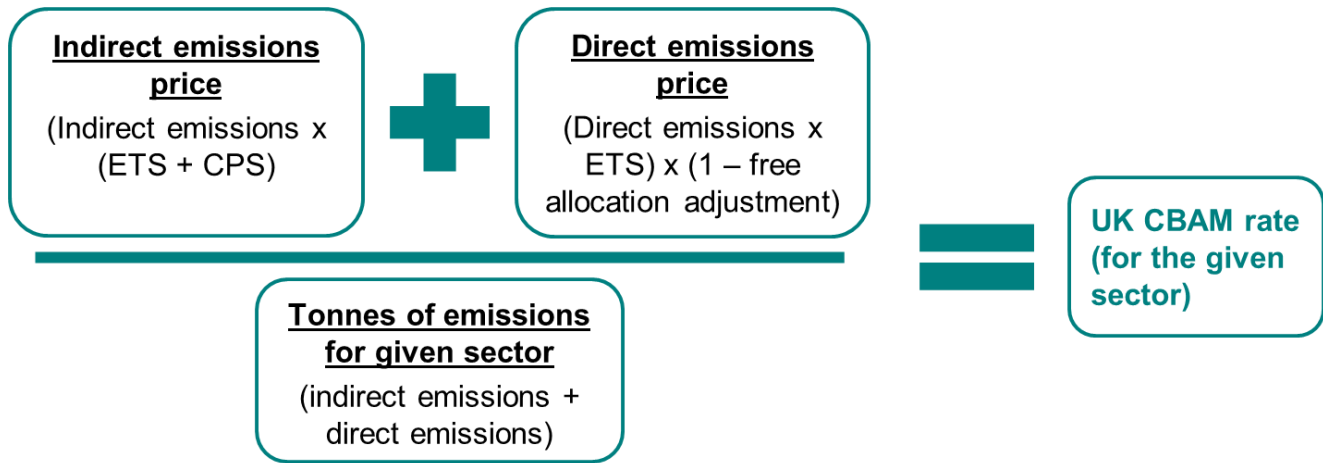


FIGURE 8: DETERMINING THE UK CBAM RATE FOR A GIVEN SECTOR

6.38 As in the example at Figure 9, if there are 2t/CO₂e of direct emissions related to a sector, but only 1t/CO₂e of indirect emissions, the UK CBAM rate for their sector would be weighted as below. Please note that the UK ETS reference price, free allocation adjustment and CPS rate are for illustration only and do not represent accurate figures. Therefore, the resulting UK CBAM rate is also an example rather than accurate expected rate for any sector.

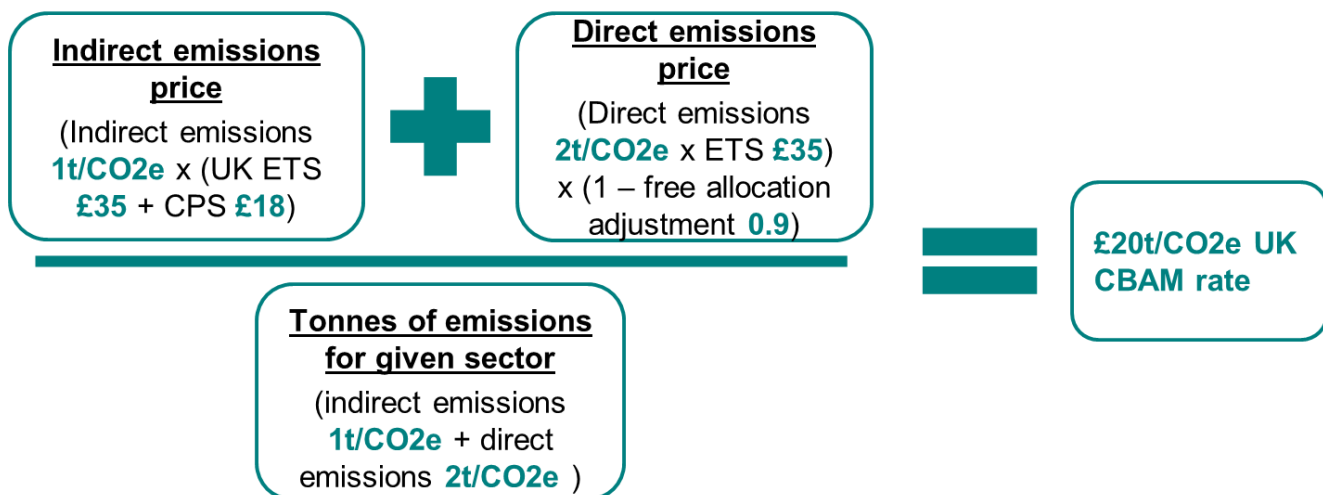


FIGURE 9: ILLUSTRATIVE EXAMPLE OF UK CBAM RATE CALCULATION

6.39 Alternatively, as in the example at Figure 10, if there are 2t/CO₂e of direct emissions related to a sector, but higher electricity use resulting in indirect emissions of 4t/CO₂e, the UK CBAM rate for their sector would be weighted as below. As above, price figures are for illustration only and do not represent accurate calculations for any sector.

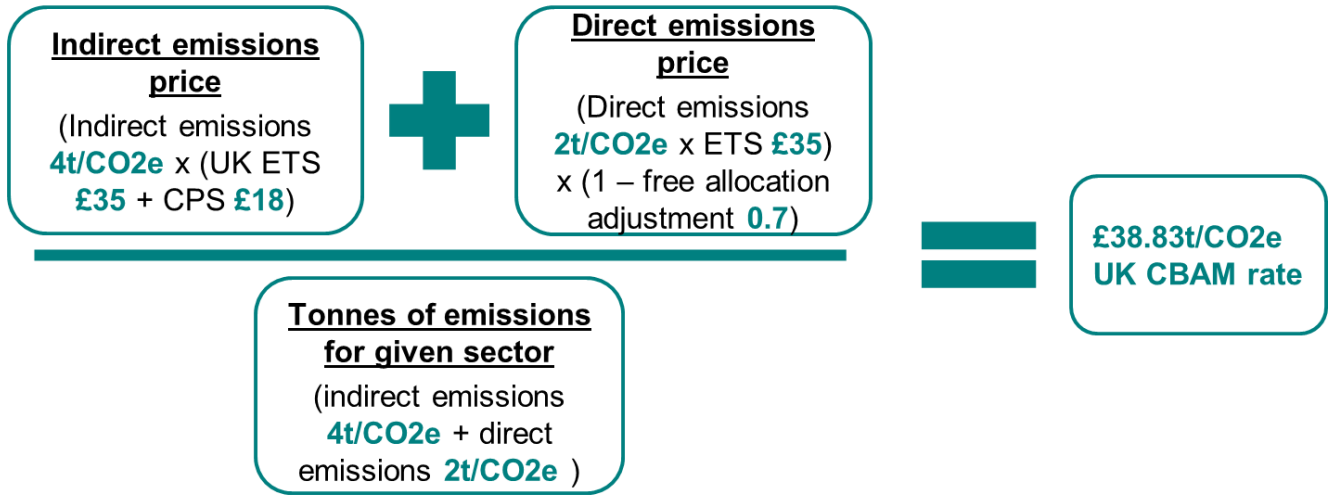


FIGURE 10: SECOND ILLUSTRATIVE EXAMPLE OF UK CBAM RATE CALCULATION

Questions on setting the UK CBAM rates

Question 18: Do you agree that the CBAM rate calculation set out a fair reflection of the price paid in the production of goods in UK? If not, please explain why not.

Question 19: Does setting a CBAM rate for each sector on a quarterly basis strike the right balance between tracking the UK ETS market price and giving importers certainty for financial planning? If not, please explain why not.

Question 20: Are there any other considerations for setting the UK CBAM rate not set out above? Please outline.

Adjusting for overseas carbon prices

6.40 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. Where the liable person does not provide acceptable evidence, they will be chargeable at the appropriate full UK CBAM rate. This section discusses the requirements for calculating and evidencing an overseas carbon price for the purposes of reducing a UK CBAM rate.

6.41 To align with the application of the UK CBAM rate, the government proposes any overseas carbon price adjustment is referenced in relation to the date on which the CBAM good passes the tax point. An alternative option would be to reference any overseas carbon price from the date of the production of the CBAM good. However, it would be extremely difficult for the government to satisfactorily determine when that specific CBAM good was produced and whether that price was in fact related to the production of the specific CBAM good in question.

6.42 Overseas carbon prices are dependent on the policies of the jurisdictions in the supply chain of the CBAM good. While there are a range of carbon price policies in use overseas which the government does not wish to individually assess, it has decided that the UK CBAM

should only account for those we define as explicit carbon prices:

Explicit carbon price: a price/tCO₂e placed directly on greenhouse gas emissions produced during a given process, such as manufacturing. Explicit carbon prices usually take the form of either an emissions trading scheme with a market-based price or a carbon tax with a fixed price.

FIGURE 11: EXPLICIT CARBON PRICES

6.43 The government proposes using this definition of an explicit carbon price to determine what overseas carbon prices will be recognised by the UK for use in a CBAM. The price may be applied at supranational, national or regional level, as long as it meets this definition.

6.44 Based on this definition, evidence of the application of wider regulatory policies or non-pricing carbon reduction measures overseas (such as carbon regulations and fuel duties) would not be sufficient to result in a reduction to the UK CBAM rate applied, given these policies do not place a price/tCO₂e directly on greenhouse gas emissions. This supports the principle to price emissions in the same way as domestic emissions as it is consistent with the UK carbon price, which is paid on the emissions of production regardless of the wider regulatory or non-pricing carbon reduction measures implemented to reduce those. While it would not result in a reduction to the UK CBAM rate, any overseas regulation which results in lower emissions intensity would be reflected when determining the embodied emissions associated with the imported good, and therefore will result in a lower final CBAM liability.

6.45 As with the UK CBAM rate, the **government proposes that the overseas carbon price be adjusted to account for domestic support mechanisms or adjustments which reduce the carbon price international producers are liable for**, such as (but not limited to):

- ☐ not having to pay for some or all carbon price obligations on emissions, for example via de minimis thresholds or free allowances, or
- ☐ financial support directly targeted at alleviating business of some or all of the direct or indirect cost(s) of carbon pricing, for example via industry compensation schemes.

6.46 When considering how to define an ‘overseas’ carbon price, one option would be to consider only carbon prices in the country from which the CBAM good originates. However, this would exclude (a) carbon prices on precursor inputs produced in other jurisdictions to the final good, and (b) carbon prices incurred on import to another country either during the production process or en route to the UK, such as a CBAM. Considering this, the government proposes allowing for adjustments on the basis of all overseas carbon prices, provided they meet our criteria and verified evidence can be provided (more information can be found at paragraphs 6.49 to 6.51). **Given a CBAM overseas could place a carbon price on UK CBAM goods during the course of production or en route to the UK, the government proposes recognising an overseas CBAM charge and adjusting the UK CBAM rate to account for this.**

6.47 To reflect the approach proposed to determine the relevant UK CBAM rate, the government proposes that the carbon price of overseas jurisdictions be measured using an average of the explicit (or headline) carbon price over the previous quarter from the point of import. This approach will ensure that the overseas carbon price aligns with the most recently measured UK carbon price, and ensure that importers are not comparing carbon prices from

different time periods. This price will then be exchanged into GBP using the exchange rate calculated as an average from the previous quarter.

6.48 The government proposes that the overseas carbon price would need to be verified by an independent third party. This is necessary to ensure that any reduction claimed by a liable person to their UK CBAM liability is reflective of the carbon price actually applicable to the import and to support the effectiveness of the CBAM at mitigating carbon leakage risk. The **government will set out more detail on third party verifiers** at a later date, but welcomes views on existing mechanisms or bodies that could fulfil this role.

6.49 Liable persons will need to obtain appropriate evidence to be able to calculate the overseas carbon price. The majority of responses to the previous consultation agreed that it would be practical for importers to provide information on the effective overseas carbon price. **The government proposes that liable persons obtain (and be able to provide on request) the following evidence:**

- Evidence the CBAM good is effectively subject to a carbon pricing scheme that meets the definition set out at paragraph 6.42 above.
- The applicable prevailing explicit carbon price or tax rate per tonne of CO₂e in the preceding quarter or, if fluctuating, the average of this price per tonne of CO₂e 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 (more information can be found in paragraph 6.45). 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 set out above – 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. This would ensure that where prices and adjustments are dependent on overall emissions (as with free allowances in the UK ETS) an artificially high overseas carbon price cannot be evidenced for the given CBAM goods, by claiming that any free allowances were used to satisfy the liability of a different tonne of that good.

6.50 When the liable person submits their CBAM return, they will be able to enter details of any effective carbon price applicable overseas per tonne of CO₂e, which will be offset against their UK CBAM liability. Other adjustments will be made, for example to cover domestic support mechanisms (see Figure 12).

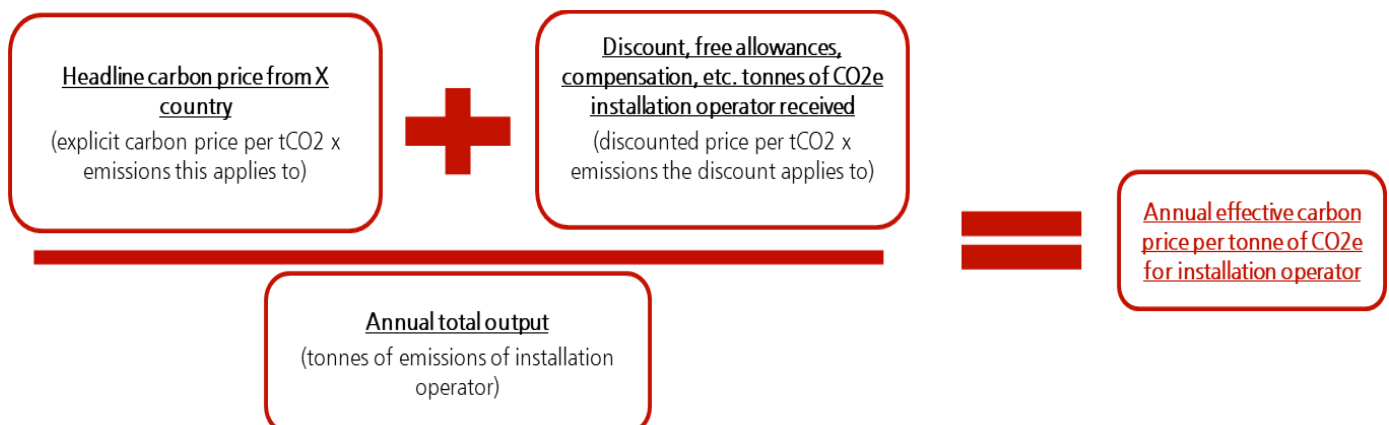


FIGURE 12: INFORMATION REQUIRED TO ASCERTAIN CARBON PRICE PAID OVERSEAS PER TONNE OF CO₂E

6.51 For example, an overseas manufacturer is operating in a country which has an explicit carbon price of £20t/CO₂e. This country has a compensation scheme where manufacturers pay a discounted price of £5t/CO₂e on their first 20 tonnes of CO₂e emitted. The manufacturer has a yearly output of 50 tonnes of CO₂e, where they pay the discounted price of £5t/ CO₂e for their first 20 tonnes of CO₂e, and £20/tCO₂e for their remaining 30 tonnes of CO₂e emitted. Their effective carbon price across all emissions (when adjusted for discounts) is £14/tCO₂e. Figure 13 sets out how this example would be calculated.



FIGURE 13: ILLUSTRATIVE EXAMPLE OF CARBON PRICE PAID OVERSEAS

6.52 Based on the government's principle that where possible, the government will reduce any burden on importers, the government is open to considering alternative options in respect to evidencing overseas carbon prices, and invites views on any arrangements that respondents may wish to propose.

Questions on adjusting for overseas carbon prices

Question 21: Are there explicit carbon pricing policies which do not align with our criteria which should be recognised by the UK? Please outline.

Question 22: Are there other recognised forms of evidence which a liable person could provide? Please outline.

Question 23: Are there additional considerations or processes that might facilitate the provision of information on the overseas carbon price from producer to liable person, including by mutual agreement with other jurisdictions? Please outline.

Question 24: For operators overseas, do you foresee challenges providing the evidence for importers to comply with the measure? Please outline.

Question 25: Do you foresee challenges with referencing the overseas carbon price on a quarterly basis? Please outline.

Question 26: Do you have views on what types of third parties would be appropriate to verify overseas carbon price? Please outline.

Question 27: Do you have views on how the government could decrease the burden on the liable person to evidence an overseas carbon price? Please outline.

Indirect imports

6.53 In keeping with the principles set out at paragraph 6.02, where CBAM goods are not sent directly to the UK from the country of production, the government **proposes that any overseas carbon price should be deducted from the UK CBAM liability**. This will be subject to the same requirements as set out at paragraphs 6.42 - 6.47, and that appropriate evidence is obtained and can be provided confirming the carbon price – as set out at paragraph 6.49.

Question on indirect imports

Question 28: Do you agree that where a CBAM good has been subject to multiple carbon prices, the total carbon price can be offset from the UK CBAM liability? If not, please explain why not.

7. Administration, payment and compliance of the UK CBAM

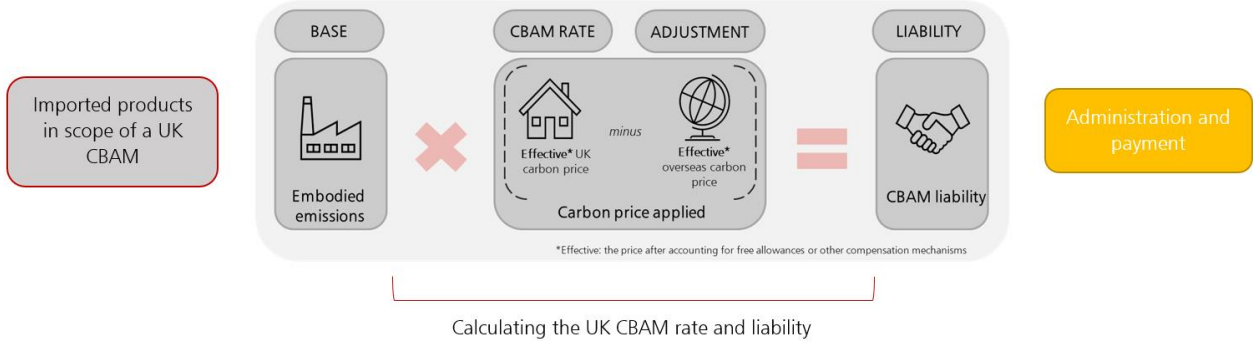


FIGURE 14: ADMINISTRATION AND PAYMENT OF THE CBAM

7.01 This chapter sets out a range of administrative requirements for the CBAM, and the approach HMRC will take to ensure the liable person pays the right amount of CBAM at the right time and gets the right allowances and tax reliefs.

When the CBAM tax point arises

7.02 The government believes that the most effective way of reducing carbon leakage will be to ensure that the CBAM applies to goods that end up on the UK market. This means **the CBAM should not apply to imported goods that are not placed or released for consumption on the UK market.**

7.03 The **government intends that where a good is subject to customs control, the CBAM tax point (the point at which the tax charge arises) will generally be when a CBAM good is released into free circulation.** This is when the CBAM good has cleared any customs controls; and is in line with the way the charge arises under the EU CBAM. Where an imported CBAM good is processed into a non-CBAM good before it is released into free circulation, the liability will be based on the CBAM good before it was processed. This maintains the principle that CBAM goods that are placed on the UK market should be subject to the UK CBAM.

7.04 **Where there are no customs controls, the tax point will be the date on which the CBAM good first enters the UK.**

7.05 **In all cases, the UK CBAM rate applicable will be that on the date on which the tax point arises.**

7.06 **Where a CBAM good is imported, released into free circulation and later exported, the good will be subject to the UK CBAM regardless of whether it is reprocessed and there will be no reimbursement of the CBAM charge on export.** This supports the policy rationale of reducing the risk of carbon leakage and incentivising other states to increase decarbonisation efforts.

7.07 **A CBAM tax point will not arise where CBAM goods are imported into a customs special procedure** such as a freeport or customs warehouse, and remain under customs control until they are exported.

Questions on when the CBAM tax point arises

Question 29: Do you foresee any difficulties with the arrangements for where the tax point arises, including which rates will apply? Please explain where you have any difficulties with the proposed policy.

Question 30: Do you foresee any risks with our proposal to base the CBAM liability on the CBAM good which is processed into a non-CBAM good before it is released into free circulation? Please explain the risks.

Liable person

7.08 The person that needs to register with HMRC for CBAM, submit returns and pay the liability at the end of the accounting period will be the ‘liable person’. The government proposes that the liable person will be either:

- ☐ where there are customs controls, the person responsible for the goods when they are released into free circulation (i.e. cleared customs controls). This means the liable person could be the importer of the CBAM goods, but this is not always the case (for example where there is a change of ownership while the goods are under customs control), or
- ☐ where there are no customs controls, the person on whose behalf the goods are moved to the UK

7.09 As with other taxes, a liable person will be able to appoint a tax agent to act on their behalf and submit CBAM returns.

Question on liable person

Question 31: Do you agree that the proposal for designating the liable person is appropriate or are there likely to be unintended consequences? If you do not agree, please explain your reasons.

Registration and the minimum registration threshold

7.10 To reduce the administrative burdens for those importing small quantities of CBAM goods, there will be a minimum registration threshold that will exclude those below the threshold from registering and accounting for the CBAM. This will also balance the cost of administering the CBAM against achieving the carbon leakage objectives. Such a threshold is a common practice across business tax regimes, most recently in Plastic Packaging Tax.

7.11 The government proposes to set the threshold in relation to the total value of a person’s CBAM goods that pass a tax point from 1 January 2027, with the value determined in accordance with the existing methodologies used for customs. It proposes that this threshold should be set at a value of £10,000 a year. We estimate that such a value will exclude around 60 per cent of potential registrations, while retaining more than 95% of emissions embodied in CBAM goods within scope of the CBAM. Applying the threshold in this way rather than by each consignment (as the EU is doing with its CBAM exemption for consignments under 150 euros) will reduce incentives to artificially split consignments to avoid or reduce the liability.

7.12 The government considered the way minimum threshold tests have been set in other taxes or duties, such as Plastic Packaging Tax where there are two tests to determine if a person meets or exceeds the threshold. It **proposes that there will be two tests that need to be considered to determine whether a person has exceeded the threshold for CBAM** – see Figure 15.

In determining whether a person has exceeded the threshold, after commencement of the tax they must....	If the answer to the question is yes, registration takes effect...	When CBAM liability starts
look forward to the next 30 days and consider whether they expect that the value of their CBAM goods passing a tax point will meet the £10,000 value threshold ¹⁶	with effect from the day the person had reason to expect they would meet the threshold	In both cases from the effective date of registration – CBAM goods passing a tax point on and after that date are all liable to CBAM.
look back over a rolling 365-day period to see if the value of their CBAM goods that passed a tax point met the £10,000 threshold	from the date the goods met the threshold	

FIGURE 15 – MINIMUM REGISTRATION THRESHOLD TESTS

7.13 The government **proposes that if a person meets either of these tests, they must register for the tax, and if they meet both tests their effective date of registration is the earlier of the two dates.**

7.14 The government **proposes that when a person becomes liable to be registered for the CBAM they will have 30 days to notify HMRC of that liability**, although the effective date of registration will be as set out in Figure 15. It **proposes that they will have to provide certain information, which is likely to include:**

- ☐ the name and address of the liable person
- ☐ their VAT number, if applicable
- ☐ the tonnage of goods imported for each CBAM commodity code over the previous 12 months
- ☐ the importer's Economic Operators Registration and Identification (or EORI) number, if applicable

¹⁶ Where CBAM goods are processed into a non-CBAM good, the value of the original CBAM goods will count towards the minimum threshold.

7.15 HMRC will need to build a new CBAM online service for liable persons to register and submit returns and payments. To allow time for IT build, in the first year it may be some months after a person becomes registrable until HMRC is able to register them.

7.16 **The liable person must submit a return and account for CBAM at the end of the accounting period in which they become registrable, and in all subsequent accounting periods until they satisfy the rules for deregistration** – see paragraph 7.17 below. They will be required to remain registered for at least a year. While they are registered, they must account for CBAM on all their CBAM goods that pass a tax point.

7.17 A registered person will be able to apply to HMRC to be deregistered in certain circumstances, including where they:

- ☐ are incorrectly registered
- ☐ have no liability for CBAM for four consecutive quarterly returns – this might be because they are no longer importing CBAM goods or are no longer importing at all.

Questions on registration and the minimum registration threshold

Question 32: Do you agree that there should be a minimum threshold below which a person should not be required to register for the CBAM? If not, please explain why not.

Question 33: Do you agree that an annual value of £10,000 is an appropriate level at which to set the minimum threshold? If not, please explain where you think it should be set and your reasoning.

Question 34: Do you agree with the tests set out in Figure 15 for assessing whether a person has met the minimum threshold? If not, please explain how you think the threshold should be assessed.

Question 35: Do you consider the registration and deregistration requirements set out above to be appropriate? If not, please specify why not.

Accounting periods, returns and payments

7.18 **After the end of each accounting period, a liable person will have to submit an online return.** Where a tax agent submits returns for a liable person, liability for the CBAM remains with the liable person.

7.19 **HMRC will require information to be declared on the return, which is likely to include:**

- ☐ the CBAM commodities imported during the period by reference to the commodity code
- ☐ the dates of all imports of CBAM goods during the period
- ☐ the weight of the CBAM goods
- ☐ the total carbon emissions embodied in those CBAM goods (where not available, a default value would need to be used), and
- ☐ any effective overseas carbon price

7.20 **The liable person or their tax agent will complete an online return and the liability for the whole accounting period will be calculated and made available for**

payment. In common with the approach for many other indirect taxes, the deadline for receipt of payment will be the same as the deadline for submitting returns.

7.21 If a liable person has a nil liability at the end of an accounting period (for example, because they did not import CBAM goods, or they did but their liability was offset by an overseas carbon price), they will need to declare on their return that they have no liability during that accounting period. If they have a nil liability for four successive accounting periods, they can apply to HMRC to deregister (see paragraph 7.17 above).

7.22 HMRC will need to develop a new online CBAM registration and returns service to administer the CBAM. To allow sufficient time for this to be developed and tested, the first CBAM accounting period will run for 12 months and cover the period 1 January to 31 December 2027. For this first accounting period, the government also recognises that it needs to allow time for liable persons and their agents (where appropriate) to set up processes to obtain information from their suppliers in the originating countries about the carbon content of those goods. The government therefore intends to relax the standard rules for other indirect taxes for this first accounting period, which would typically require returns to be submitted within a month after the end of the accounting period.

7.23 The **government proposes to allow a longer period from the end of the first accounting period before a liable person or their tax agent needs to submit their return to HMRC.** For the first accounting period, the government proposes the timetable for completion of returns and submission of payments will be:

Date	Activity
1 January 2027	CBAM commences. Eligible emissions from this date are subject to CBAM
31 December 2027	First accounting period ends
30 May 2028	Deadline for submitting the first CBAM return and payment covering first accounting period

FIGURE 16: TIMETABLE FOR RETURNS AND PAYMENTS (FIRST ACCOUNTING PERIOD)

7.24 **For subsequent accounting periods (from 2028), the government proposes to have four fixed accounting periods a year to align with the standard practice in many other taxes.** By 2028, liable persons should have established processes with their suppliers for obtaining information about the carbon content of liable goods and the overseas carbon price on those goods. There will also be an established system of verification in place. Therefore, to provide consistency with other taxes and help users navigate the tax system, the government also proposes to align the period for submitting returns/paying liability with other taxes. From the second accounting period onwards the timetable for completion of returns and submission of payments will be:

Accounting period ends	Returns and payments due
31 March each year	30 April each year. However, in 2028 HMRC proposes to extend this deadline to 30 June 2028 to ensure it does not coincide with the deadline for the first return
30 June each year	31 July each year
30 September each year	31 October each year
31 December each year	31 January each year

FIGURE 17: TIMETABLE FOR RETURNS AND PAYMENTS (SECOND ACCOUNTING PERIOD ONWARDS)

Questions on accounting periods, returns and payments

Question 36: Do you foresee any difficulties with the arrangements set out for completing and submitting returns, including the content required on the return? If so, please specify the difficulties and why they would arise.

Question 37: Do you think that allowing 5 months from the end of the first accounting period until returns are due allows sufficient time for a liable person to obtain data about the carbon content of their CBAM goods? If you think a different period should operate, please explain why.

Question 38: Do you agree with the proposal to move to quarterly accounting period from 2028 and, if not, why not?

Question 39: Do you foresee any difficulties in moving to a system of four fixed accounting periods a year from 2028, with returns/payments generally due a month later? If so, please explain your concerns and any suggestions for dealing with those concerns.

Credits/repayments

7.25 There will be provision for a credit or repayment of CBAM liabilities in a limited number of circumstances – for example, where overpayments are made or where CBAM is paid in error.

Compliance and penalties

HMRC's compliance approach

7.26 HMRC puts compliance and customer service at the heart of everything it does, striving to promote compliance by helping customers get it right first time and by designing out the opportunity for non-compliance. We aim to implement the CBAM in a way that minimises the risk of avoidance or evasion and provides a level playing field for businesses.

7.27 Previous chapters have already included some important questions aimed at designing out and reducing opportunities for avoidance and evasion. Below we look at other compliance risks and the powers and sanctions that will be available to HMRC to deter and tackle non-compliance. The government invites respondents to flag any other risks that the consultation has not covered.

Enforcement powers

7.28 **The government will aim to implement the CBAM in a way that minimises the risk of avoidance or evasion and provides a level playing field for businesses. Where there is non-compliance, HMRC will use similar enforcement and inspection powers to those that are currently used to administer other taxes.** This will provide certainty around the way HMRC treats non-compliance and avoids adding unnecessary complexity to the CBAM. For example, HMRC will have the power to compulsorily register a liable person for the CBAM where they have failed to register. They will also have powers to require a liable person to provide information and documents necessary to enable HMRC to verify CBAM

returns and calculate the correct level of CBAM liability; and assess for additional CBAM liability where appropriate.

Penalties and sanctions

7.29 HMRC applies penalties to encourage people to meet their tax obligations. Penalties act as a sanction to those who do not meet their obligations and reassure those that do that they are not going to be disadvantaged. HMRC does not use penalties as a method of raising revenue but as a deterrent to those who fail to pay the right amount of tax or fail to comply with legal requirements required for the administration of the tax.

7.30 As far as possible, **the government is minded to align with the penalty points system recently introduced for VAT for any late submission of returns or late payment. It will also introduce a general penalty for any non-compliance specific to CBAM, such as failure to keep appropriate records, late registration and failure to provide information.** In setting the level of penalties, the government will consider the penalties due under the UK ETS as well as taxes administered by HMRC.

7.31 The government will consider introducing criminal offences for a liable person who is knowingly involved in the fraudulent evasion of the CBAM.

Questions on compliance and penalties

Question 40: Do you consider that HMRC's approach to enforcement powers and penalties is appropriate? If not, please specify why.

Question 41: Do you have any other concerns or suggestions around potential compliance risks? Please outline.

Other administration issues

Reviews & appeals

7.32 Consistent with other taxes, **a liable person will be able to be able to ask for a review of a decision of the Commissioners or an officer of HMRC and, if that person remains dissatisfied, to be able to appeal the matter to the VAT and Duties Tax Tribunal.** This will include decisions relating to:

- ☐ registration and deregistration
- ☐ treating the goods as liable
- ☐ the amount of CBAM payable, and
- ☐ the issuing of penalties

Record keeping

7.33 **A liable person will need to keep records (on paper or digitally) in relation to their CBAM liability and make them available to HMRC on request.** This could include invoices, details about emissions and details of any carbon price in another country.

7.34 Records should be retained for a period of 6 years from the end of the relevant accounting period in line with the practice in many other taxes.

8. Glossary of terms

Term	Meaning
Carbon border adjustment mechanism (CBAM)	The name of the measure imposing a charge on CBAM goods at the CBAM tax point on or after 1 January 2027.
Carbon leakage	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.
Carbon price	A term generally understood to be a price on carbon emissions. Because this is an umbrella term, more precise terminology should be used when talking about the price applied by CBAM.
Carbon price support rate	A tax imposing a carbon price on power generators in Great Britain using fossil fuels to generate their electricity.
CBAM goods	Goods which are liable to the CBAM. These are set out at Annex A.
CBAM liability	The amount payable to HMRC in respect of CBAM goods.
CBAM liable person	The person who is legally responsible for registering with HMRC for CBAM and for declaring and paying CBAM – see chapter 7.
CBAM minimum registration threshold	The level at which a liable person will need to register and account for CBAM. This is proposed to be set by reference to the value of a person's imported CBAM goods over a rolling 12-month period.
UK CBAM rate	The tax rate set by the government which is payable on CBAM goods, before any adjustments.
CBAM sector	Sectors for which specified goods they produce are liable to the CBAM on entry to the UK.
CBAM tax agent	A person who is authorised to act on behalf of the CBAM liable person, but who does not take on joint and several liability for CBAM.
CBAM tax point	The point at which a CBAM liability arises – see chapter 7.
Default emissions value	An emissions value for each CBAM good set by the government to be used where the liable person does not have independently verified emissions data for the CBAM goods they have imported.
Direct emissions	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.
Effective carbon price	The carbon price payable, when accounting for the explicit price placed in tonnes of CO ₂ e and any support or adjustment provided to reduce the impact of the explicit price (e.g. free allowances under the UK or EU ETS).
Embodied emissions	Greenhouse gas emissions related to the manufacture of a product.
Explicit carbon price	A price/tCO ₂ e placed directly on greenhouse gas emissions produced during a given process, such as manufacturing. Carbon prices usually take the form of either an emissions trading scheme with a market-based price or a carbon tax with a fixed price.
Free allocation adjustment	An adjustment to the UK ETS reference price (used to calculate the UK CBAM rate), to reflect the free allowances available to the domestic industry within that sector.
Free allowances	Allowances that EU ETS installations deemed at risk of carbon leakage get for free.
Indirect emissions	Emissions related to the production of purchased electricity which is consumed during the production of CBAM goods.
Overseas carbon price	An effective explicit carbon price applied to a good before it enters the UK.
Precursor emissions	Emissions embodied in a precursor good, which is used as an input good in the production of a CBAM good.
Released to free circulation	The time that an imported good has cleared customs controls and is released into the domestic market.
UK Emissions Trading Scheme (ETS)	A cap-and-trade system which caps the total level of greenhouse gas emissions, creating a carbon market with a carbon price signal to incentivise decarbonisation.
UK ETS reference price	The average of the UK ETS auction price over a quarter that will be used to calculate the UK CBAM rate. The UK ETS reference price will be for the quarter preceding the quarter to which the CBAM will apply to (so, for example, the UK CBAM rate for quarter 2 will be based on the ETS reference price for quarter 1).

9. Assessment of impacts

Summary of impacts

Year	2023 to 2024	2024 to 2025	2025 to 2026	2026 to 2027	2027 to 2028	2028 to 2029
Exchequer impact (£m)	+0	+0	-10	+25	+155	+195

Impacts	Comment
Economic impact	The UK is taking rapid action on industrial decarbonisation to meet net zero. This includes the use of carbon pricing through the UK Emissions Trading Scheme (UK ETS). Since not all jurisdictions are moving at the same pace on carbon pricing and climate regulation, this creates the risk of carbon leakage. 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. To mitigate this risk, UK CBAM will place a carbon price on some of the most emissions intensive industrial goods imported to the UK, ensuring that emission intensive goods which are imported to and produced within the UK pay a comparable carbon price.¹⁷ This may mean a small increase to the cost of imports within the scope of the CBAM, which may result in higher levels of output than would've otherwise been within covered sectors, alongside moderate downstream contractions elsewhere. As an increased cost on imports, the UK CBAM is expected to have a limited negative macroeconomic impact. Several factors contribute to the scale of the impact: ☐ The sectors within scope of CBAM from 2027 only make up a small proportion of UK's economic output (around 1% of GVA in 2023).¹⁸ ☐ Only a small proportion of the UK's overall imports will be covered by a CBAM (around 3%).¹⁹ ☐ The initial CBAM liabilities are expected to be small because the price importers will pay will reflect the fact that domestic producers in these sectors do not yet pay the full ETS price, as they receive some of their allowances for free. ☐ The CBAM liability would also be reduced to account for any carbon price paid overseas.

¹⁷ Sectors are aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron & steel.

¹⁸ Office for National Statistics Gross value added (GVA) in pounds millions, chained volume measures, UK, seasonally adjusted (Annual, 2023).

¹⁹ HMRC Import Origin Data (2023).

	☐ Most of the CBAM imports (63%) originate from countries with an existing carbon price that is currently higher than the UK (all countries within the EU ETS) meaning that no CBAM would apply.²⁰ ☐ The implied average ad valorem CBAM liability on imports across the forecast period is estimated to be <1% of the value of the imported good.²¹ The longer run economic impacts of a CBAM will depend on several factors, including changes to carbon pricing measures in the UK and internationally, the provision of free allowances within the UK ETS, the level of adoption of lower emissions intensity production technology, and changes to trading patterns. A CBAM will self-calibrate, to reduce liabilities in response to a reduction of carbon intensity of production and introduction of carbon pricing by trading partners. A reduction in both UK and global emissions, through mitigating carbon leakage, would support long-run sustainable economic growth.
Impact on individuals, households and families	The UK CBAM is expected to have a negligible impact on prices for individuals, households, and families. CBAM imports are predominantly basic materials and intermediary goods used within industrial manufacturing, rather than consumer goods. Where CBAM goods are imported by households and families, it is not expected that they would reach the minimum registration threshold (of at least £10,000 in value per year) required to incur a CBAM liability. Given this, the government does not expect CBAM to directly increase the price of goods included within the Consumer Prices Index (CPI). There could be a small, indirect, short-term inflationary impact if CBAM raises input costs for businesses. However, the government estimates this to be negligible as we estimate CBAM to result in a <0.01ppt²² increase in overall input costs across UK industry. Some sectors will be more exposed due to a higher proportion of input costs being covered by CBAM (as explained in following sections). This higher exposure may translate into larger cost impacts for specific sectors than across the overall economy. Overall, competitive markets are expected to limit the pass through of increased costs to consumers. On this basis, the government expects the consumer experience to stay broadly the

²⁰ HMRC Import Origin Data (2023). Other trading partners including Australia, Canada, China, Japan, South Africa, and South Korea also have carbon pricing mechanisms.

²¹ The implied CBAM liability is based on the ratio of the estimated revenue from the carbon price applied to imported emissions in CBAM sectors over the corresponding value of imports within these sectors.

²² This is based on the estimated contribution of CBAM goods to total industry input cost of around 1% (ONS, input-output analytical tables, 2019), and estimated average CBAM liability of <1% of the value of the imported goods.

	same. Similarly, to the overall economic impacts, the long run impacts of CBAM on prices would depend on a number of uncertain factors, including changes to carbon pricing measures in the UK and internationally, the provision of free allowances, the level of adoption of lower emissions intensity production technology, and changes to trading patterns.
Equalities impacts	Impacts on sectoral output are expected to be varied, depending on inclusion within scope (see next section). These impacts on sectoral output could feed through into employment impacts, comparative to a counterfactual without CBAM. Manufacturing, construction, and agricultural sectors encompass both sectors within scope of a CBAM and exposed downstream sectors. Data from the 2011 Census suggests that people working in sectors of the economy which could be impacted by this policy are disproportionately likely to be male (81% of workers in these sectors are male compared with 53% of all UK workers). It does not appear that this group of workers are disproportionately likely to possess any of the other protected characteristics which are defined in the 2010 Equality Act.²³ CBAM is not expected to impact family formation, stability, or breakdown. The government will monitor the impact of the CBAM. If it discovers or is made aware that individuals with protected characteristics are disproportionately affected, it will consider appropriate action.
Impact on businesses and Civil Society Organisations	By placing a price on imported emissions within sectors covered by CBAM and ensuring these imports face a comparable cost to that faced by domestic producers, UK CBAM is expected to mitigate carbon leakage risk and support the effectiveness of CBAM sectors' decarbonisation efforts. Sectoral impacts will vary and depend on a number of factors, including: whether sectors are covered by CBAM scope, if they rely on imported inputs of goods within CBAM scope, and the extent to which reporting burdens under the CBAM require additional measurement of emissions. Sectors covered by CBAM scope are expected to see a positive impact on output relative to the counterfactual of no UK CBAM, since they will compete with inputs which have paid a comparable carbon price in production. Downstream sectors using CBAM imports as inputs to production may see a small increase in input costs, because of the new cost on imported goods, and consequently a moderate contraction in output. Overall, those impacts are expected to be limited given CBAM imports make up only a small proportion (around 1%) of average UK industry input costs.

²³ HMT analysis of 2011 UK Census.

	The downstream impacts will vary depending on the sector exposure to CBAM imports and on the extent to which they are able to substitute away from these inputs. The manufacture of machinery and equipment, electrical equipment, motor vehicles, trailers and semi-trailers, other manufacturing, and agricultural sectors are the sectors where CBAM imported inputs account for a higher than the average proportion of total sector input costs, on average around 7%.²⁴ In parallel, downstream sectors in regions which are taking similar action on decarbonisation, such as the EU, will be facing similar cost implications. A liable person within scope will also face increased administrative burdens to comply with the CBAM. Imports from countries which do not currently measure emissions through a carbon pricing regime, such as an ETS, will see larger increase in the compliance burden. Small and medium sized enterprises (SMEs) may also face higher administrative costs proportional to their level of imports relative to larger producers. The impacts of reporting requirements on businesses have been partially mitigated by the capacity for liable persons to use default values for reporting the embodied emissions of products within CBAM scope, to prevent an absolute barrier to trade. Additionally, given there is a minimum registration threshold of £10,000 in value a year in order to be within scope of CBAM, many SMEs are likely to be excluded from the administrative burdens. Customer experience impact This measure is expected overall to negatively affect customers' experience of dealing with HMRC as this is a novel measure and will require additional administration tasks to be completed. Customers will be supported with the additional administration required in connection with paying the CBAM as a result of implementation beginning in 2027, which will give them time to adapt. Imports to the UK of goods in scope of the CBAM are exported mostly from countries which already have a carbon pricing system²⁵, and so will already have the infrastructure to report emissions, albeit at an installation rather than product level.
Impact on HMRC or other public sector delivery organisations	HMRC will require additional funding to deliver this measure. It expects to incur one-off capital costs to develop the system for collecting the CBAM. Initial estimates based on the high-level design indicate costs of around £23.5 million for building a viable IT service. Further additional investment will be required and is being quantified for the upgrade of underlying IT infrastructure. There will also be ongoing resource costs for HMRC to implement this change, monitor compliance and meet customer service needs.

²⁴ For manufacturing sectors, imported input costs covered by CBAM were calculated from ONS input-output analytical tables (2019). For the agriculture sector, inputs of fertiliser of total intermediate consumption were calculated from DEFRA, Agriculture in the United Kingdom (2022).

²⁵ 63% of CBAM imports to the UK come from countries within the EU ETS. Other trading partners including Australia, Canada, China, Japan, South Africa, and South Korea also have carbon pricing mechanisms.

	Its resource costs (including ongoing compliance costs) are estimated at £24 million over the years 2023-2029. HMRC will review and firm up costings once there is a firm policy design. There may also be extra costs incurred by the Ministry of Justice as a result of the introduction of CBAM, which will be quantified in due course.
Other impacts	Trade impact Impacts on trade partners would vary depending on a number of factors, which may change over time including: the significance of CBAM sectors within their overall trade with the UK, the contribution of that trade to their overall economy, the emission intensity of countries' production, and whether trading partners apply carbon pricing domestically or not. Overall, the impact of a UK CBAM on trading partners is estimated to be small, due to low levels of export dependence on the UK. Exports to the UK of CBAM goods make up around 0.2% of total world's exports.²⁶ There may be more country and product specific dependencies (as shown in Annex B). Trade in CBAM sectors with jurisdictions that have carbon intensive production, and no carbon pricing mechanisms may decrease in the long run, if no action is taken by trading partners to decarbonise production. UK imports from least developed countries (LDCs)²⁷ make up a small proportion of total UK CBAM imports: <0.05%.²⁸ Data is limited on the exports of LDCs. However, using a range of sources the government estimates that, on average, less than 1% of LDCs' total exports of CBAM sectors go to the UK.²⁹ There may be more specific export dependencies, within this number at product and country level. As a CBAM will only cover imports, UK exports will continue to have exposure to carbon leakage and may face downwards pressure, which are more suitably addressed through other policy mitigations. Environmental impact: As a measure relating to taxation, the duty contained in section 19 of the Environmental Act 2021 to have due regard to the policy statement on environmental principles does not apply to CBAM. However, the policy is positive for the environment, with environmental protection and the prevention of environmental harm

²⁶ Accounting for all country exports, including those with zero CBAM exports to the UK. Table 3 in Annex b only accounts for countries which do export CBAM goods to the UK.

²⁷ There are currently 45 economies designated by the United Nations as the least developed countries (LDC), listed here: <https://unctad.org/topic/least-developed-countries/list>.

²⁸ HMRC Import Origin Data (2023).

²⁹ Source: GTAP (2017), which uses a combination of UN Commtrade, IMF, and OECD trade sources. GTAP measures broad sectors of non-metallic minerals, chemicals, iron & steel and non-ferrous metals, which have been used to represent export dependency of CBAM sectors. There may be more specific export dependencies within countries and products than within this aggregation.

at its heart. The CBAM is expected to ensure that UK decarbonisation policy leads to a true reduction in global emissions, by mitigating carbon leakage.

Carbon leakage risks undermining UK decarbonisation efforts (through the movement of production and associated emissions to another country) and may compromise a true reduction in global emissions, required to meet net zero commitments.

To date, carbon leakage risk has mainly been mitigated by the provision of free allowances within the UK ETS. Reforms to the ETS, as set out by the UK ETS Authority in July 2023, will reduce the number of ETS permits available for purchase from government by 45% between 2023 and 2027, and from 2026 the number of free allowances will also decrease. Future carbon leakage risk is uncertain due to unknown variables such as: future carbon price differentials, climate regulation, and abatement costs. A CBAM will, because of the way it is calculated, self-calibrate in the face of changing future levels of carbon leakage risk, ensuring that future UK decarbonisation policy supports a true reduction in net global emissions.

The CBAM is expected to reduce the risk of carbon leakage for sectors within scope of the policy, by ensuring that importers face a comparable carbon price to that paid in the UK by those producing the same goods. However, the CBAM will not mitigate carbon leakage risk for goods which are not within scope of the CBAM, nor will it provide carbon leakage risk mitigation for exporters. The government will continue to monitor carbon leakage risk across the economy throughout the net zero transition. As set out in the UK Emissions Trade Scheme: Free Allocation Review consultation, the government is committed to ensuring there is no gap in carbon leakage risk protection for individual sectors, as we move through the decarbonisation process.

Justice Impact Test

There will be civil and criminal penalties for failing to comply with the CBAM, including penalties for failure to register, failure to submit returns and failure to pay any liability. A full Justice Impact Test will be completed.

Tax simplification impact

The UK CBAM will be a new tax on the basis of embodied carbon emissions in specific imported goods. This is not information that the government or HMRC currently collects. While the government does collect similar information from domestic manufacturers, implementation of a CBAM will place new requirements for the provision of data and payment of a liability from importers of goods in scope, adding to the existing tax and import burdens of a small group of importers.

The size and scope of the burden will depend on a number of factors, including whether information on embodied emissions is

	already reported for the goods in scope and a carbon price applies overseas. Officials in HM Treasury and HMRC will continue to consider the commitment to tax simplification throughout the policy development process, ensuring that where possible this measure aligns with existing carbon pricing, tax and border mechanisms to reduce burdens.
--	---

10. Summary of consultation questions

Respondent details

Question i: Before you set out your response to the questions in chapters 5, 6 and 7, please indicate:

- ☐ Your name
- ☐ Your email address
- ☐ Postal address
- ☐ Phone number
- ☐ Job title

Question ii: Are you:

- a) a business (if so, please state whether you are an importer, a UK manufacturer, a manufacturer in another jurisdiction or other type of business)
- b) an organisation (if so, please provide details (e.g. trade / health body))
- c) an individual?

Question iii: If you are in business, where does your business operate? (please select all that apply)

- ☐ England
- ☐ Scotland
- ☐ Wales
- ☐ Northern Ireland
- ☐ Isle of Man
- ☐ EU - please state which country
- ☐ Non-EU - please state which country

Question iv: If you are in business, how many staff do you employ across the UK?

- ☐ Fewer than 10
- ☐ 10 - 100
- ☐ 101 - 500
- ☐ More than 500
- ☐ Prefer not to say

Question v: Please provide any further information about your organisation or business activities that you think might help us put your answers in context.

Question vi: Would you like your response to be confidential? If so, why (please note the information on confidentiality in chapter 11)?

Policy questions

Question 1: Do you agree that the list of commodity codes in Annex A is an accurate reflection of the policy intent described above? Please provide supporting evidence.

Question 2: Are there any relevant commodity codes omitted or any that should be excluded? Please provide supporting evidence.

Question 3: Do you have any concerns on the feasibility of any of the commodity codes in Annex A being within scope of the CBAM? Please provide supporting evidence.

Question 4: Do you agree that scrap aluminium, scrap glass and scrap iron & steel do not pose a carbon leakage risk and should not be within scope of the CBAM? If not, please provide evidence to support your response.

Question 5: Do you agree that the government's definitions of 'direct' and 'indirect' emissions accurately describe the embodied emissions a CBAM ought to place a carbon price on, in line with those emissions within scope of the UK ETS? If not, please explain why not.

Question 6: Do you foresee any issues with calculating the emissions associated with precursor goods in CBAM goods? Please provide evidence to support your response.

Question 7: Do you foresee any difficulties with the government's proposal to use product level default emissions values calculated in line with global average emissions weighted by the production volumes of the UK's key trading partners? Please outline.

Question 8: Are there alternative approaches to default emissions values the government ought to consider which neither undermine the environmental integrity of the CBAM nor are punitive in nature? If so, please provide detailed evidence.

Question 9: Do you have views on how a percentage based mark-up (in addition to global average emissions weighted by production volumes of embodied emissions intensities of the UK's key trading partners) could impact the use of default values and actual reported emissions data? Please outline.

Question 10: Do you have any initial views on the considerations and/or aims of a future review into the use and functionality of default values? Please outline.

Question 11: Do you foresee any issues with a liable person acquiring and providing to HMRC details of emissions embodied in CBAM goods at the end of the accounting period (should they choose to)? Please outline.

Question 12: Do you agree that verification of emissions should be performed by any body accredited by accreditation services which are part of the International Accreditation Forum (IAF), like UKAS in the UK? If not, please explain why not.

Question 13: Would the market respond adequately to provide for the accreditation of verifiers by accreditation services and the verification of emissions independent verifiers?

Question 14: Noting that the government is still developing policy in this area, do you have any initial views on the monitoring, reporting and verification (MRV) rules for the UK CBAM? Please outline.

Question 15: Do you foresee any difficulties in obtaining an accurate weight for CBAM imported goods? If so, please specify the difficulties, why they will arise and any suggestions you might have for dealing with those concerns.

Question 16: If a liable person was required to arrive at the weight of the goods themselves, how would they do that? Please explain how CBAM products that you import are weighed. For example, is the weight arrived by means of a calculation or is it physically weighed?

Question 17: Is there a UK industry standard weight for the CBAM good you import? If so, please give details.

Question 18: Do you agree that the CBAM rate calculation set out a fair reflection of the price paid in the production of goods in UK? If not, please explain why not.

Question 19: Does setting a CBAM rate for each sector on a quarterly basis strike the right balance between tracking the UK ETS market price and giving importers certainty for financial planning? If not, please explain why not.

Question 20: Are there any other considerations for setting the UK CBAM rate not set out above? Please outline.

Question 21: Are there explicit carbon pricing policies which do not align with our criteria which should be recognised by the UK? Please outline.

Question 22: Are there other recognised forms of evidence which a liable person could provide? Please outline.

Question 23: Are there additional considerations or processes that might facilitate the provision of information on the overseas carbon price from producer to liable person, including by mutual agreement with other jurisdictions? Please outline.

Question 24: For operators overseas, do you foresee challenges providing the evidence for importers to comply with the measure? Please outline.

Question 25: Do you foresee challenges with referencing the overseas carbon price on a quarterly basis? Please outline.

Question 26: Do you have views on what types of third parties would be appropriate to verify overseas carbon price? Please outline.

Question 27: Do you have views on how the government could decrease the burden on the liable person to evidence an overseas carbon price? Please outline.

Question 28: Do you agree that where a CBAM good has been subject to multiple carbon prices, the total carbon price can be offset from the UK CBAM liability? If not, please explain why not.

Question 29: Do you foresee any difficulties with the arrangements for where the tax point arises, including which rates will apply? Please explain where you have any difficulties with the proposed policy.

Question 30: Do you foresee any risks with our proposal to base the CBAM liability on the CBAM good which is processed into a non-CBAM good before it is released into free circulation? Please explain the risks.

Question 31: Do you agree that the proposal for designating the liable person is appropriate or are there likely to be unintended consequences? If you do not agree, please explain your reasons.

Question 32: Do you agree that there should be a minimum threshold below which a person should not be required to register for the CBAM? If not, please explain why not.

Question 33: Do you agree that an annual value of £10,000 is an appropriate level at which to set the minimum threshold? If not, please explain where you think it should be set and your reasoning.

Question 34: Do you agree with the tests set out in Figure 15 for assessing whether a person has met the minimum threshold? If not, please explain how you think the threshold should be assessed.

Question 35: Do you consider the registration and deregistration requirements set out above to be appropriate? If not, please specify why not.

Question 36: Do you foresee any difficulties with the arrangements set out for completing and submitting returns, including the content required on the return? If so, please specify the difficulties and why they would arise.

Question 37: Do you think that allowing 5 months from the end of the first accounting period until returns are due allows sufficient time for a liable person to obtain data about the carbon content of their CBAM goods? If you think a different period should operate, please explain why.

Question 38: Do you agree with the proposal to move to quarterly accounting period from 2028 and, if not, why not?

Question 39: Do you foresee any difficulties in moving to a system of four fixed accounting periods a year from 2028, with returns/payments generally due a month later? If so, please explain your concerns and any suggestions for dealing with those concerns.

Question 40: Do you consider that HMRC's approach to enforcement powers and penalties is appropriate? If not, please specify why.

Question 41: Do you have any other concerns or suggestions around potential compliance risks? Please outline.

11. The consultation process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

- | | |
|---------|---|
| Stage 1 | Setting out objectives and identifying options. |
| Stage 2 | Determining the best option and developing a framework for implementation including detailed policy design. |
| Stage 3 | Drafting legislation to effect the proposed change. |
| Stage 4 | Implementing and monitoring the change. |
| Stage 5 | Reviewing and evaluating the change. |

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the detailed policy design and a framework for implementation of a specific proposal, rather than to seek views on alternative proposals.

How to respond

A summary of the questions in this consultation is included at chapter 10.

The online response form can be found on the gov.uk page:

<https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism>.

Although using the online response form is the preferred method of responding, responses or enquiries can also be sent by e-mail to cbampolicyteam@hmrc.gov.uk or by post to:

Lucia Suggitt,
CBAM policy development team,
HM Revenue & Customs,
3/58, 100 Parliament Street,
London, SW1A 2BQ.

As this is a joint consultation, responses will be shared between HMRC and HM Treasury.

Paper copies of this document in Welsh may be obtained free of charge from the above address.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

HMRC is committed to protecting the privacy and security of your personal information. This privacy notice describes how we collect and use personal information about you in accordance with data protection law, including the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act (DPA) 2018.

As this is a joint consultation, responses will be shared between HMRC and HM Treasury. Both departments are bound by the GDPR and DPA.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the DPA 2018, the UK GDPR and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HMRC.

Consultation Privacy Notice

This notice sets out how we will use your personal data, and your rights. It is made under Articles 13 and/or 14 of the UK General Data Protection Regulation.

Your data

We will process the following personal data (delete/add as appropriate):

- ☐ Name
- ☐ Email address
- ☐ Postal address
- ☐ Phone number
- ☐ Job title

Purpose

The purpose(s) for which we are processing your personal data is: 'Introduction of a UK carbon border adjustment mechanism (CBAM) by 2027.'

Legal basis of processing

The legal basis for processing your personal data is that the processing is necessary for the exercise of a function of a government department.

Recipients

Your personal data will be shared by us with HM Treasury, who are undertaking this consultation jointly with us.

Retention

Your personal data will be kept by us for 6 years and will then be deleted.

Your rights

You have the right to request information about how your personal data are processed, and to request a copy of that personal data.

You have the right to request that any inaccuracies in your personal data are rectified without delay.

You have the right to request that any incomplete personal data are completed, including by means of a supplementary statement.

You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.

You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

Complaints

If you consider that your personal data has been misused or mishandled, you may make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF
0303 123 1113
casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

The data controller for your personal data is HM Revenue and Customs. The contact details for the data controller are:

HMRC
100 Parliament Street
Westminster
London SW1A 2BQ

The contact details for HMRC's Data Protection Officer are:

The Data Protection Officer
HM Revenue and Customs
14 Westfield Avenue
Stratford, London E20 1HZ
advice.dpa@hmrc.gov.uk

Consultation principles

This call for evidence is being run in accordance with the government's Consultation Principles, which are available on the Cabinet Office website: [Consultation Principles Guidance](#)

If you have any comments or complaints about the consultation process, [please contact the Consultation Co-ordinator](#).

Please do not send responses to the consultation to this link.

Annex A: Commodity codes within scope of UK CBAM

Cement

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

Hydrogen

CN code	Description	Greenhouse gas
2804/10/00	Hydrogen	Carbon dioxide

Fertilisers

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: Mineral or chemical fertilisers containing the two fertilising elements phosphorus and potassium	

Ceramics

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

Glass

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	Glass fibres (including glass wool) and articles thereof (for example, yarn, rovings, woven fabrics)	Carbon dioxide
7019/62/10	Except: Waste and scrap	

Iron and steel

CN code	Description	Greenhouse gas
2601/12/00	Agglomerated iron ores and concentrates, other than roasted iron pyrites	Carbon dioxide
72	Iron and steel 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 Ferro-phosphorus 7202/99/10 Ferro-silico-magnesium 7202/99/30 Other 7202/99/80 Ferrous waste and scrap; remelting scrap ingots and steel 7204	Carbon dioxide
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	Carbon dioxide

	not lined or heat-insulated, but not fitted with mechanical or thermal equipment	
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

Aluminium

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

Annex B: Historic Trade flows in sectors within CBAM scope

Table 1. CBAM imports by sector³⁰

Sector	Total value of CBAM sector imports (£m)	Proportion of total (%)	Proportion from countries linked to the EU ETS (%) ³¹
Aluminium	4,510	22.0	70.4
Cement	491	2.4	N/A ³²
Ceramics	1,163	5.7	67.0
Fertiliser	1,035	5.1	56.5
Glass	1402	6.8	62.2
Hydrogen	4	0.0	98.6
Iron & steel	11,873	58.0	62.9
Total	20,477	100	63.2

HMRC Import origin data (2023); Totals may not add up due to rounding.

Table 2. Top 10 origin markets of CBAM imports, and imports of LDC origin³³

Markets	Total value of CBAM sector imports (£m)	Proportion of total (%)
EU	£12,510	61.1
China	£2,069	10.1
Turkiye	£840	4.1
United States	£803	3.9
India	£610	3.0
Taiwan	£382	1.9
South Korea	£258	1.3
Japan	£247	1.2
Norway	£240	1.2
United Arab Emirates	£222	1.1
Least Developed Countries	£5	0.03
Rest of World	£2,292	11.2
Total	£20,477	100.0

HMRC origin data (2023); Totals may not add up due to rounding, and only a selection of countries included. This table only represents the last full year of historic trade flows, trade flows are likely to fluctuate over time. Recent multiple year averages are less representative as data for the period 2020-2022 is affected by global shocks.

³⁰ Sectors listed alphabetically.

³¹ Including countries with an ETS linked to the EU: 27 Member states, Iceland, Liechtenstein, Norway, Switzerland.

³² Data within HMRC Import Origin may be suppressed to prevent identification of firms. Unclear from data due to suppressed values within HMRC data.

³³ Importing countries listed by value of imports.

Table 3. Export Dependency of top 10 (in value terms) exporters of CBAM goods to the UK

Markets	Aluminium	Cement	Ceramics	Fertiliser	Glass	Hydrogen	Iron and Steel	Overall Country Dependency ³⁴
European Union	22.3%	34.1%	13.0%	17.7%	16.8%	49.2%	13.8%	15.7%
Egypt	1.0%	0.0%	8.3%	10.7%	1.8%	0.0%	2.4%	5.8%
Turkey	4.2%	0.2%	9.1%	1.8%	5.5%	0.6%	3.7%	3.9%
Norway	1.7%	0.0%	2.8%	4.6%	1.5%	0.0%	12.6%	3.5%
UAE	0.9%	0.0%	10.4%	0.0%	1.8%	0.0%	3.8%	2.2%
India	0.9%	0.5%	2.4%	0.2%	1.6%	0.0%	2.5%	2.0%
South Africa	7.9%	0.0%	1.5%	0.0%	0.7%	0.0%	0.7%	1.8%
United States	2.0%	1.3%	3.5%	0.7%	1.8%	0.0%	1.5%	1.5%
China	2.2%	0.1%	1.0%	0.1%	1.2%	0.1%	0.9%	1.1%
Korea	0.1%	0.0%	0.1%	0.0%	0.2%	0.0%	0.9%	0.7%
Rest of World	3.0%	3.0%	3.3%	2.0%	2.4%	0.9%	1.9%	
Overall Sector Dependency (Top 10 exports in value terms) ³⁵	5.4%	7.0%	4.8%	5.2%	4.6%	11.8%	3.8%	

Source: UN Commtrade Export Data (2022)³⁶. This table only represents the last full year of historic trade flows, trade flows are likely to fluctuate over time.

³⁴ Calculated as (Total Country CBAM Exports to UK / Total Country CBAM Exports to World).

³⁵ Calculated as (Total CBAM Sector Exports from all third countries to UK / Total CBAM Sector Exports from all third countries to World).

³⁶ Due to data limitations, this table tracks the dispatch location of exports rather than their origin. A CBAM liability could be adjusted by carbon prices paid on goods before entering the UK, which includes at origin.

Table 4. Top 5 Importers to the UK of CBAM goods from least developed countries (LDCs)

CBAM good	Total imports of LDC origin	% Total sector imports	Top 5 LDC importers, total value of imports (Country of Origin)				
Aluminium	£893,526	0.02%	Mozambique	Bangladesh	Sierra Leone	Niger	Ethiopia
			£831,247	£40,022	£11,021	£5,232	£2,666
Cement	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ceramics	£562,382	0.05%	Bangladesh	N/A	N/A	N/A	N/A
			£562,382	N/A	N/A	N/A	N/A
Fertiliser	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Glass	£84,014	0.01%	Sierra Leone	Niger	Tanzania	Timor-Leste	Madagascar
			£39,532	£35,412	£5,221	£2,006	£1,843
Hydrogen	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Iron & steel	£3,613,434	0.03%	Sierra Leone	Bangladesh	Mozambique	Cambodia	Senegal
			£2,565,428	£352,982	£296,268	£280,036	£23,078

Source: HMRC import origin data (2023). This table only represents the last full year of historic trade flows, trade flows are likely to fluctuate over time. Data for the period 2020-2022 is affected by global shocks.