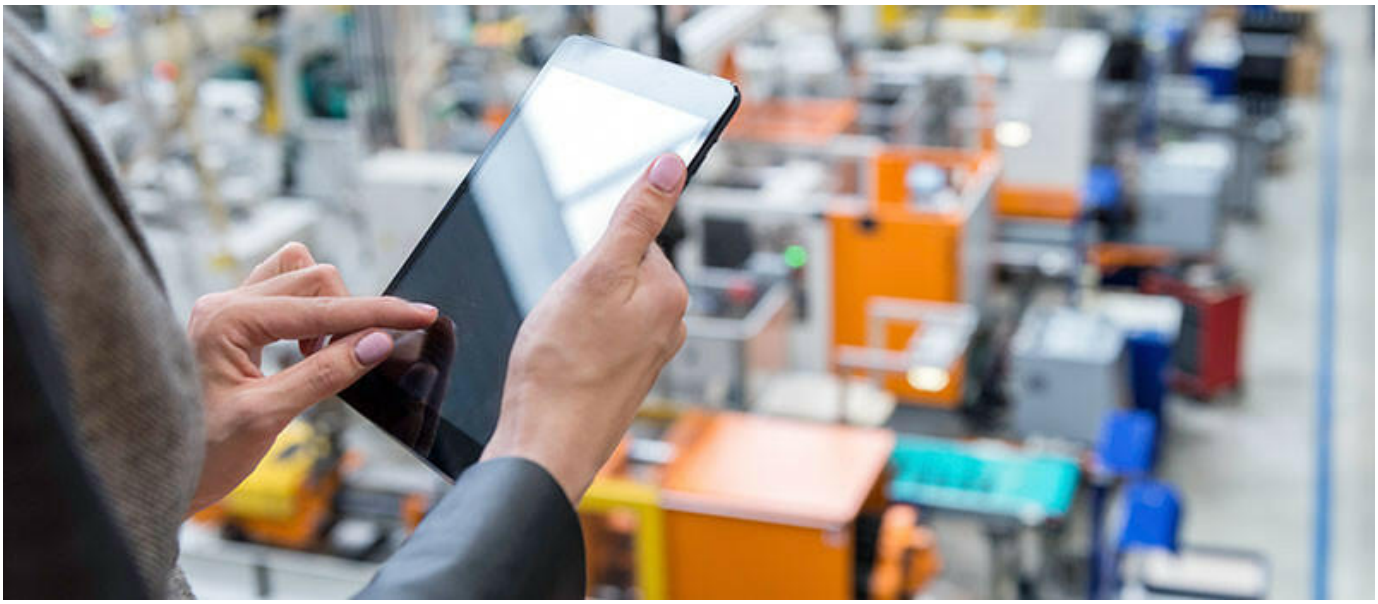
Addressing carbon leakage risk to support decarbonisation

Indirect Tax | Environmental



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On 30 March 2023, HM Treasury and the Department for Energy Security and Net Zero launched their consultation, ‘Addressing carbon leakage risk to support decarbonisation’, which sets out the measures under consideration that seek to encourage the decarbonisation of UK industry as part of the UK’s journey to net zero by 2050.

The measures under consideration in the consultation (tinyurl.com/3jhd4vn5) include:

- Carbon leakage policy: carbon leakage is the process where businesses move carbon-intensive production and their associated emissions from their established location to an overseas country with less stringent climate policies; hence such emissions fall outside of local net zero measures.
- Carbon border adjustment mechanism (CBAM): a charge levied on imported goods based on an embedded carbon emissions value.

- Mandatory product standards: product regulations that set minimum expectations on the pace of decarbonisation in targeted manufacturing sectors and prevent the highest carbon products being in the UK market, undercutting lower carbon alternatives.

Debating the issues

To consider the consultation questions, the CIOT partnered with the Institute of Fiscal Studies to host a virtual debate 'Carbon Border Adjustment – what approach should the UK take?' (tinyurl.com/33922zer). Speakers from backgrounds in UK public policy, international academia and UK industry discussed issues arising from potentially introducing a CBAM in the UK. Some points raised on the proposed CBAM, such as expanding the products to which it applies, were included in the CIOT's response (www.tax.org.uk/ref1117).

The CIOT also said that if any of the proposed measures under consideration were to be introduced, we would like to see the introduction of estimation rules, particularly if the business must rely on overseas third parties to provide evidence to reduce the issue of data gaps.

Emissions Trading Schemes

Currently, the UK, the EU, China, Canada and New Zealand already have Emissions Trading Schemes (ETS) that provide allowances to carbon heavy sectors and can include power stations, heavy industry and aviation. The EU's ETS will be gradually phased out and superseded by a CBAM, and the consultation asked whether the UK should also do the same. If a UK CBAM is introduced, the CIOT said that the UK too should phase out its ETS, so that affected businesses are not subject to two decarbonisation regimes.

Tax planning for decarbonisation

Our response repeated our earlier calls for the UK government to create a climate change tax roadmap (tinyurl.com/bdf6ydwu) to assist in providing certainly in its medium to long term net zero and decarbonisation tax policy, so that businesses so that they can plan accordingly. We note that in the Climate Change Committee's 15th annual progress report to Parliament (tinyurl.com/3dacpre2), the committee mentions that there has still been little progress on one of their recommendations to

‘undertake a review of the role of tax policy in delivering Net Zero’. We hope that this consultation will be the start of such work being undertaken.

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