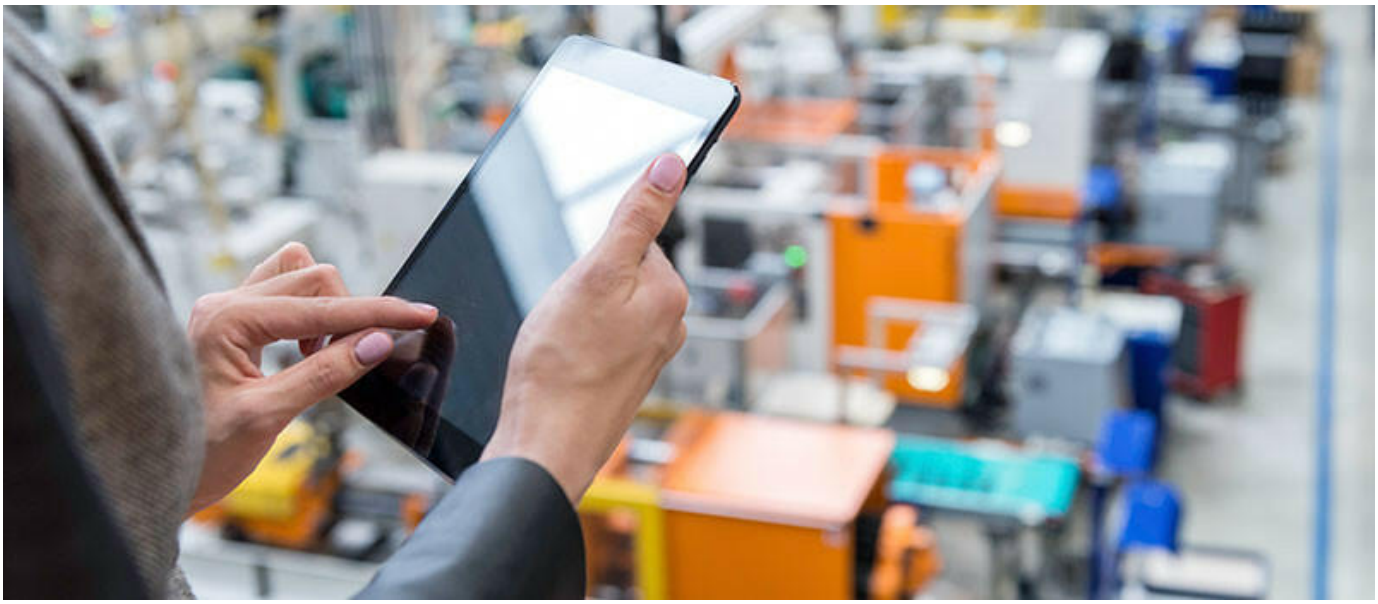
Introducing the new UK carbon border adjustment mechanism

Indirect Tax | Environmental



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Following consultation, the government announced in December 2023 that the UK will introduce a carbon border adjustment mechanism from 1 January 2027 on imports of certain emission intensive imported goods as part of the drive to reach its 2050 net zero target. Budget 2024 announced a further consultation.

HM Treasury and HMRC launched their joint ‘Consultation on the introduction of a UK carbon border adjustment mechanism’ (CBAM)

(see tinyurl.com/mr37v5yv) on 21 March. The consultation seeks views on proposals for the design and administration of the mechanism. Virtual meetings for launch events, roundtable and sectoral deep-dives are also running during the period of consultation.

CBAM is primarily a behaviour changing measure. Whilst there is no doubt that it will raise revenues for the exchequer, its primary purpose is to prevent carbon leakage

in the supply chain. Carbon leakage is where carbon intensive manufacturing is moved offshore, so that UK carbon targets can still be met. The CBAM rate will be based on the embedded emissions of these goods.

What products will be within the scope of the CBAM?

The CBAM will apply to imported product from the aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron and steel sectors. This differs slightly from the EU CBAM, which currently excludes glass and ceramics. It is interesting to note that each sector for the UK scheme will be subject to its own CBAM rate due to the differing levels of carbon emission intensities in the manufacturing process.

Launch events

CIOT and ATT representatives attended both consultation stakeholder launch events on 5 and 10 April, where HM Treasury and HMRC officers presented an overview of the focus areas of the consultation document and then ran a question-and-answer session.

It was also mentioned that the UK's CBAM has been designed as a 'tax', so that it is able to comply with the terms of the Windsor Framework as being a UK wide tax; hence, Northern Ireland is included in the UK rather than the EU CBAM.

Consultation document

The consultation first sets out an overview of the issue of carbon leakage risk, UK carbon pricing policies currently in operation and a high-level overview of how a CBAM will operate. The design and administration question look at:

- what the CBAM will apply to, including sectoral and product scope, and exemptions;
- how liabilities are calculated, including calculating embodied emissions and how to factor in adjustments from overseas carbon pricing; and
- administration, payment and compliance.

If you would like to contribute feedback on any of the consultation questions (there is no need to answer all questions), please contact us at technical@ciot.org.uk or atttechnical@att.org.uk, with CBAM in the email header, ideally before the end of May. The consultation closes on 13 June.

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