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UK to launch carbon border adjustment mechanism (CBAM) in 2027

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On 18 December 2023, the United Kingdom [announced](#) its plan to implement a carbon border adjustment mechanism (CBAM) by 2027. The announcement follows a Government consultation "[Addressing carbon leakage risk to support decarbonisation](#)" (first Consultation) and comes in the wake of the implementation of an [EU CBAM](#), which applies as of 1 October 2023 and is currently in its transitional phase until the [end of 2025](#). On 21 March 2024, the Government launched [a further consultation](#), open for comments until 13 June 2024 (second Consultation), providing updated details about the possible design and administration of the UK CBAM.

What products will be covered?

The UK CBAM will introduce a charge on carbon emissions embedded in goods imported into the UK on or after 1 January 2027 from seven sectors: aluminium, cement, ceramics, fertilisers, glass, hydrogen, and iron & steel. The sectors covered overlap with those within the scope of the EU CBAM which, in addition to aluminium, cement, fertilisers, hydrogen, iron and steel, also includes electricity.

Ceramics and glass are currently not subject to the EU CBAM but could be included in its scope in the future, as the EU aims to gradually expand its CBAM to all goods covered by its Emissions Trading System (EU ETS). The list of products in scope, as well as other aspects of the operation of the UK mechanism, are the subject of the second Consultation, which includes an initial list of CN codes suggested for inclusion in the CBAM. In defining the product scope, the UK Government initially focuses on the sectors at significant risk of carbon leakage, including due to the risk arising from potential trade diversion created by the EU CBAM. The UK CBAM may be extended in the future to other products falling within the scope of the UK Emissions Trading Scheme (UK ETS).

What emissions will be covered?

The UK CBAM targets both direct and indirect emissions (along with emissions of certain as yet unnamed precursors), in imported goods, in order to align its coverage with that of the UK ETS. Direct emissions are those resulting from the production processes of imported CBAM goods. Indirect emissions cover emissions from purchased electricity which is consumed during production of imported CBAM goods (i.e. emissions which are not directly controlled by the manufacturer of a product).

This approach follows that of the EU CBAM, which also covers direct and indirect emissions embedded in imports for the purpose of the reporting obligation during the transitional phase. From 1 January 2026, the EU CBAM will apply a different emissions scope for different products for the purpose of calculating the CBAM financial obligation. Initially, for iron and steel, aluminium as well as hydrogen, only direct emissions will be taken into account. For cement and fertilisers both direct and indirect emissions will be taken into account.

The UK will accept information on actual emissions verified by an independent third-party verifier or, in the alternative, default values. This is similar to the EU CBAM, which determines embedded emissions on the basis of actual emissions but allows the use of default values when actual emissions cannot be adequately determined, or in case of indirect emissions. However, the UK CBAM approaches the calculation of default values differently. In particular, under the UK CBAM default values will be set for each CBAM good, in line with global average embodied emissions weighted by production volumes of key UK trading partners. Another option outlined in the second Consultation would be to use 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. Further details on the methodology and rules for monitoring and reporting embodied emissions for the purpose of the CBAM are anticipated at a later date.

How will a carbon price on imports be set?

The UK CBAM will apply an effective carbon price to imported products falling within its scope. In particular, the UK intends to charge a price that would reflect both the carbon emitted during production, as well as the gap between the carbon price applied in the country of origin, if any, and the carbon price that would have been incurred if the production was based in the UK. Where the total value of the CBAM goods imported into the UK falls below a minimum registration threshold of £10,000 a year, those imports will be exempted from the UK CBAM obligations.

In the second Consultation, the Government suggests that the rate payable on CBAM goods will be determined by a set methodology and updated on a quarterly basis, reflecting the prevailing UK ETS price. A separate rate for each of the seven covered sectors has been proposed.

The proposed approach means that the effective carbon price will also take into account free allowances under the UK ETS. In December 2023, the UK ETS Authority launched two consultations on proposed changes to the UK ETS including the Review of Free Allocation which explores how to revise free allowances for industries facing the highest risk of carbon leakage. Revision of these allowances will have a direct impact on the costs of the UK CBAM in the future.

Finally, according to the second Consultation, the UK CBAM liability can be reduced if the embedded emissions in the CBAM goods are subject to an explicit carbon price abroad, verified by an independent third party. This mirrors the approach under the EU CBAM, which also allows the discount of a carbon price paid in a third country where goods were produced, taking into account any relevant rebates or compensation.

How does the operation of the UK CBAM relate to the EU CBAM?

The specific design of the UK CBAM is yet to be decided. It is expected that the UK will endeavour to align its CBAM with the EU CBAM to avoid creating unnecessary divergence and trade barriers. This was a major focus of respondents in the first Consultation, with 64% suggesting that a UK CBAM should be designed to align with international mechanisms such as the EU CBAM. However, the proposed design already diverges to some extent from the EU CBAM. For instance, the UK CBAM envisages a CBAM charge rather than purchase of emissions certificates.

The UK CBAM is expected to be introduced from 1 January 2027, one year after the EU CBAM enters fully into force. The discrepancy between the start dates has led to a number of stakeholders expressing concerns during the consultation process that this will raise commercial challenges for sectors falling within both CBAMs.

Potential impacts could include a surge in 2026 of (less green) imports into the UK of products in scope, redirected from the EU market. In particular, concerns have been raised that high-emission steel currently exported to the EU could be diverted to the UK which would put pressure on UK steel prices and potentially contribute to a higher carbon footprint for the consumption of the relevant products in the UK.

Additionally, if the final UK CBAM methodology differs significantly from that of the EU, in terms of price calculation or determination of embedded emissions, foreign producers exporting to both markets will be required to comply with two different sets of rules, and potentially provide different information to importers in each jurisdiction. This raises issues with respect to information gathering and reporting and is likely to increase compliance costs.

As a result, it is likely that the UK will need, in designing its CBAM, to ensure alignment with the EU model to the extent possible. In any event, the UK CBAM will introduce additional commercial costs and will likely impact supply chains following its entry into force.

The table below compares the key aspects of the EU CBAM and the UK CBAM.

	UK CBAM	EU CBAM
Product Scope	Aluminium, cement, ceramics , fertilisers, glass , hydrogen, iron and steel. The proposed list of products is found in Annex A of the second Consultation (reference to CN codes).	Aluminium, cement, fertilisers, hydrogen, iron and steel, electricity . The products listed in Annex I (reference to CN codes).
Emissions scope	Direct and indirect emissions + emissions embedded in some precursor products. The list of relevant precursor products is not yet defined (likely products listed in Annex A).	Direct and indirect emissions + emissions embedded in some precursor products. The precursor products are defined in Annex I.
Exemptions	Does not apply below the minimum registration threshold of £10,000 per year.	Does not apply to imports from countries which are covered by the EU ETS (i.e. EEA countries), countries with a domestic ETS fully linked with the EU ETS (i.e. Switzerland), low value shipments (max. EUR 150) and goods moved/used in the context of military activities.
CBAM price	Quarterly tracking of the prevailing UK ETS price. CBAM charge rate set per each sector. CBAM charge, no use of CBAM certificates.	Price of CBAM certificates will correspond to the weekly average price of the auctioned EU ETS allowances.
Accounting period	First accounting period – 1 year From 2028 – on quarterly basis	1 year
Start date	From 1 January 2027.	Transitional period: in effect (from 1 October 2023 until 31 December 2025). Full operation: from 1 January 2026.
Liable person	Importer / person on whose behalf the goods are moved to the UK Tax agent	EU importer EU indirect customs representative

How should businesses prepare for the UK CBAM?

UK-based clients importing goods falling within the scope of the UK CBAM will need to consider its impact on their operations, as will foreign producers exporting to the UK and EU. This will include understanding the regulatory and financial requirements of both CBAMs.

Foreign exporters as well as foreign and UK importers of goods covered by the UK CBAM should consider designing an internal monitoring system and collecting emissions data and monitoring any domestic carbon costs. Interested stakeholders should develop a clear strategy and aim to participate in the ongoing consultations to ensure that their priorities and views are taken into account in the final design of the UK CBAM.

How can we help?

Our team has extensive expertise in assisting clients on carbon border adjustment measures, in particular the EU CBAM. We can advise on all UK CBAM-related issues likely to impact your business, including:

- The proposed design of the UK CBAM;
- Involvement in consultations relating to the UK CBAM and liaising with the relevant UK authorities;
- Tailored assessment of the likely impact of the UK CBAM on your business and how to ensure effective compliance, as details of the mechanism are clarified;
- WTO-compliance of the UK CBAM;
- Carbon border adjustment measures in other jurisdictions, including the EU CBAM, and their interaction with the UK CBAM.

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