



HM Treasury



HM Revenue
& Customs



Department for
Business & Trade



Foreign, Commonwealth
& Development Office

UK Carbon Border Adjustment Mechanism (CBAM)

August 2025

Content

1. Carbon Leakage
2. Introduction to the UK CBAM
3. Overview of UK CBAM design and implementation
 - Tax base
 - Product scope
 - Emissions scope
 - Reporting of emissions and default values
 - CBAM rate
 - Carbon pricing policies in the UK
 - Calculation of CBAM rate
 - Carbon price relief
 - Accounting, returns and payments
4. Comparison with EU CBAM
5. Forward look



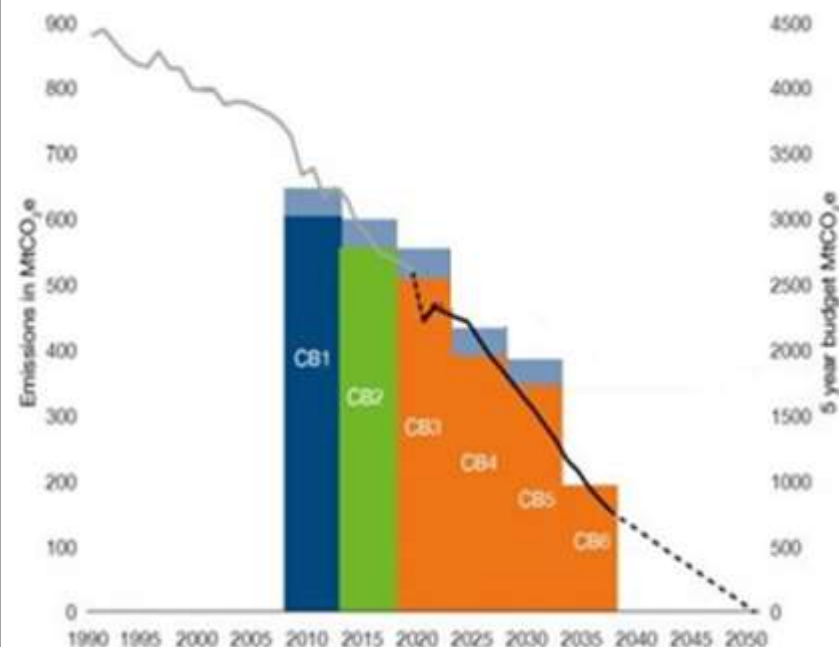
HM Treasury

1. Carbon Leakage

Risk of carbon leakage in the UK is set to increase over time

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, the objective of decarbonisation efforts – to reduce global emissions – would be undermined.

- Nationally Determined Contribution of at least 68% by 2030* and at least 81% by 2035* under the Paris Agreement.
- UK industrial emissions to reduce by at least two thirds* by 2035 to meet net zero.
- More ambitious UK carbon pricing is necessary to achieve those targets.
- The UK implements carbon pricing through the UK Emissions Trading Scheme (UK ETS) for the power, industry and aviation sectors. To put the UK ETS on a net zero consistent trajectory, the UK ETS Authority will reduce the number of ETS allowances available for purchase from government by 45% between 2023 and 2027.
- Future of free allowances is under review. Current levels guaranteed to 2026.
- As industry is exposed to more ambitious carbon pricing to meet net zero, the risk of carbon leakage is likely to increase.



*On 1990 levels

UK approach to carbon leakage



Working with **international** partners to address carbon leakage



In the absence of an international solution, **Domestic** policies to ensure UK efforts lead to a true reduction in global emissions



UK Emissions Trading Scheme

Free Allocation Review: Carbon Leakage Consultation

A joint consultation of the UK Government, the Scottish Government, the Welsh Government and the Department of Agriculture, Environment and Rural Affairs for Northern Ireland

Closing date: 10 March 2025

Introduction of a UK carbon border adjustment mechanism from January 2027

Consultation

Publication date: 21 March 2024

Closing date for comments: 13 June 2024

HMG Responsibilities for UK CBAM and carbon leakage

HM Treasury

UK CBAM policy and design

HM Revenue and Customs

UK CBAM implementation and administration

Department for Business and Trade

UK industry and trade partner engagement

Department for Energy Security and Net Zero

UK ETS and carbon leakage

Foreign, Commonwealth and Development Office

UK overseas climate network and diplomacy



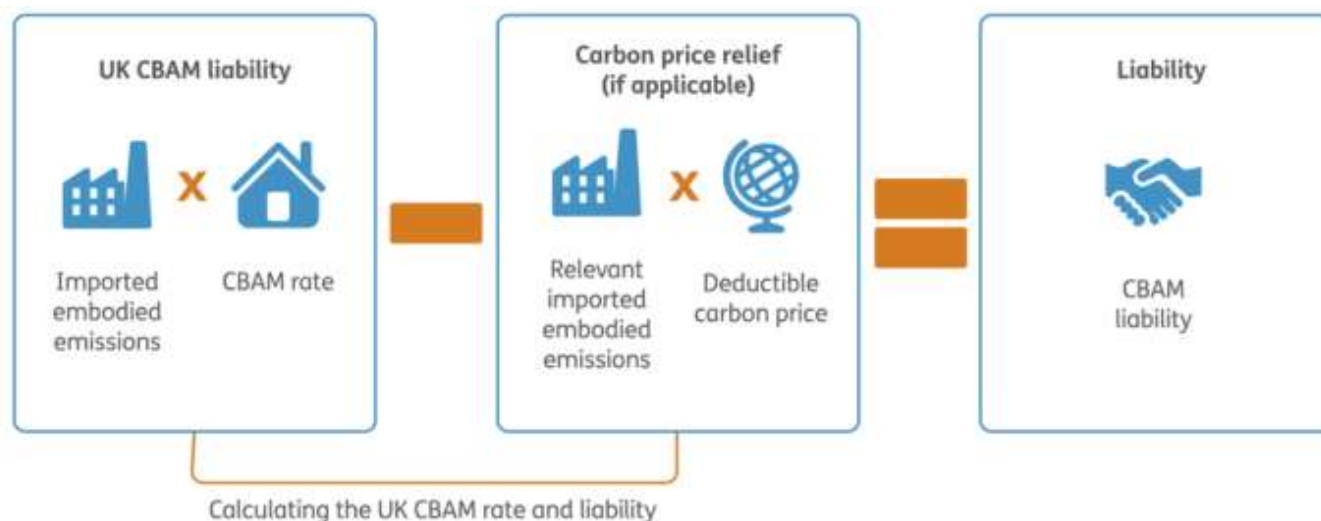
HM Treasury

2. UK CBAM

Introduction to the UK CBAM

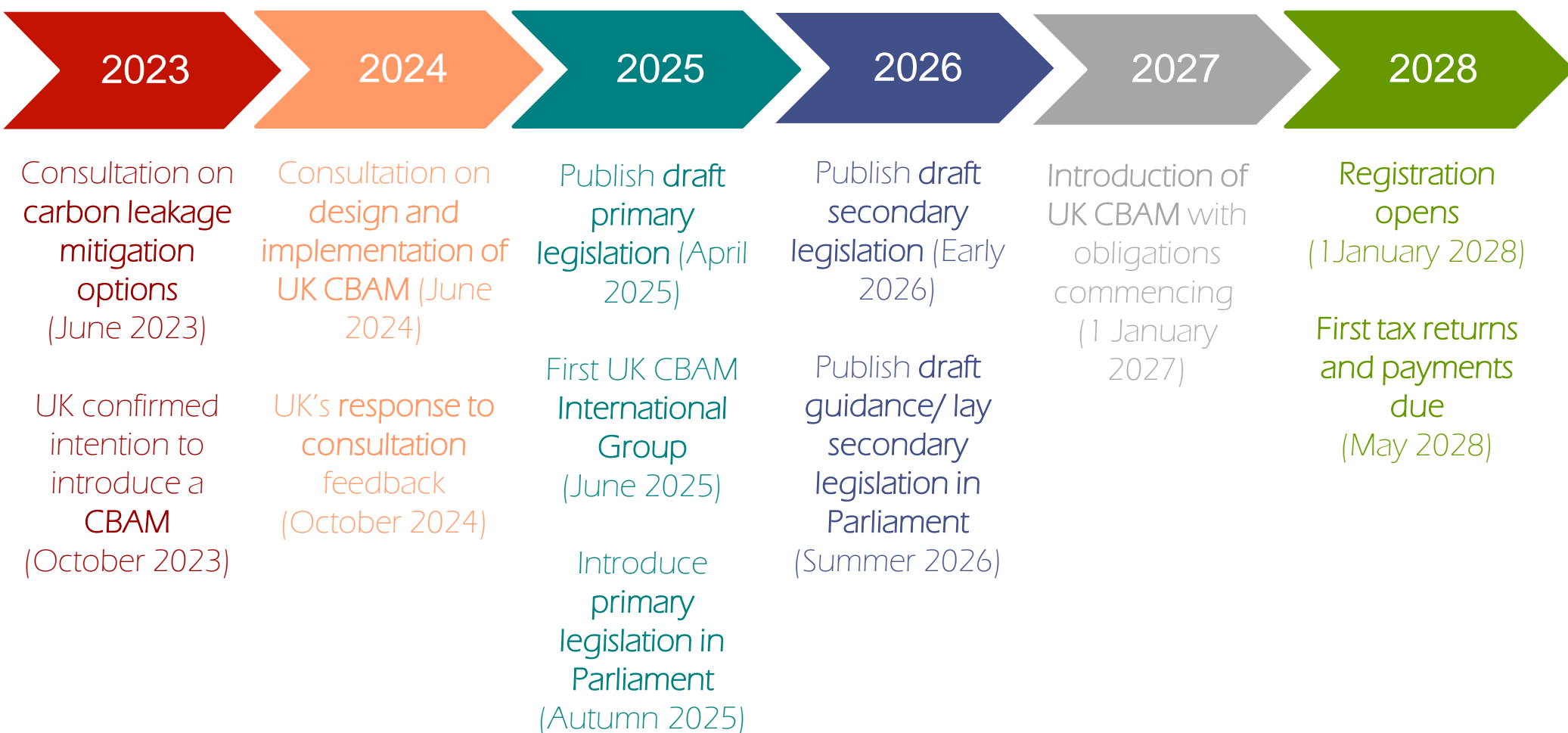
- The UK will introduce a **Carbon Border Adjustment Mechanism (CBAM)** from **1 January 2027** to ensure that UK decarbonisation efforts lead to a true reduction in global emissions.
- It will place a carbon price on some of the most emissions intensive industrial goods imported to the UK from the **aluminium, cement, fertiliser, hydrogen and iron & steel sectors** that are at risk of carbon leakage.

How will the UK CBAM work?



- The tax will be based on the **emissions embodied within the products in scope** i.e., the ‘imported emissions’ which will be calculated on a tCO₂e basis. Importers can use either the **actual emissions data** associated with the import (which has to be independently verified) or a **default value** where the associated emissions are not known.
- The tax rate which will be applied is the “**UK CBAM rate**”, which will reflect the domestic carbon price that would have been incurred, had the good been produced in the UK. The UK rate will be determined by the price of the UK Emissions Trading Scheme (UK ETS) and the Carbon Price Support rate (CPS).
- The overall CBAM liability can be adjusted to reflect any deductible carbon prices CBAM goods have been subject to (where there is evidence and where the price has been verified).

UK CBAM Consultation and Legislative Process

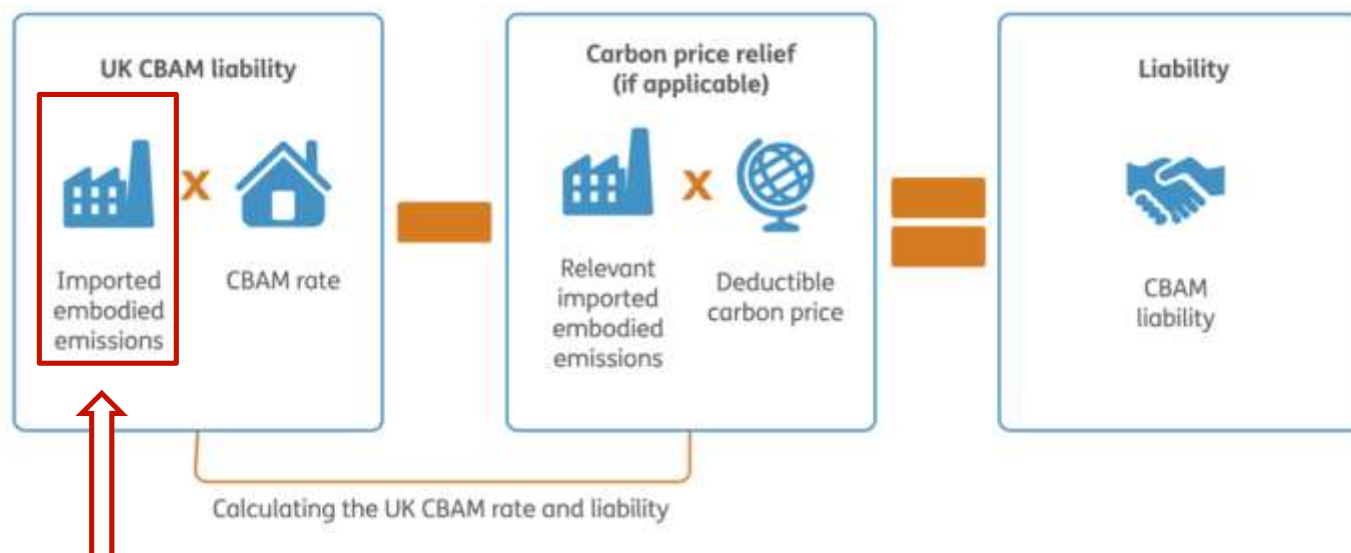




HM Treasury

3. Overview of UK CBAM design and implementation

Tax base



Products in scope of the UK CBAM

- Not all products which fall within the five sectors will be in scope. Specific products will be specified via UK tariff commodity codes under a system known as the **Combined Nomenclature (CN)**. This builds on a system governed by the WCO called the Harmonised System (HS). The full list of commodity codes within scope of the UK CBAM for 2027 is set out in Annex A [here](#)*.
- The EU and UK CBAM have the same product scope (except electricity).
- Products include both **simple and complex goods** (but only complex goods with a few production steps).
 - For example: sintered ore = a simple good, and a steel bar = a complex good with just a few productions steps.
 - Targeting such goods further upstream in the value chain limits the impacts on goods for final consumption.
- **Products further down the value chain** (such as metallic car doors) will not be within scope of the UK CBAM for 2027 even though the aluminium sheets used to make them will be.

Emissions scope

Types of emissions:

1. Direct emissions

Direct emissions are emissions related to the production processes of CBAM goods. This includes (but is not limited to) emissions from the production of heating and cooling consumed during the production processes irrespective of whether the heating or cooling was produced on or off site.

2. Indirect emissions

Indirect emissions are emissions related to an organisation's production of electricity, which is consumed during the production of CBAM goods irrespective of whether the electricity was produced on or off site.

Reporting emissions and default emissions values

There are two mechanisms for importers to declare their emissions.

- using actual data about the emissions embodied within CBAM goods
- using default emissions values as determined by the UK government

Actual emissions

- Verification of emissions data for CBAM will be required by a body accredited by an International Accreditation Forum (IAF) member.
- Accreditation does not need to be from a body in the country where the emissions are produced, meaning emissions from countries without accreditation services can still be verified by any accredited body.
- The verification body will need to be accredited by an accreditation body.

Default values

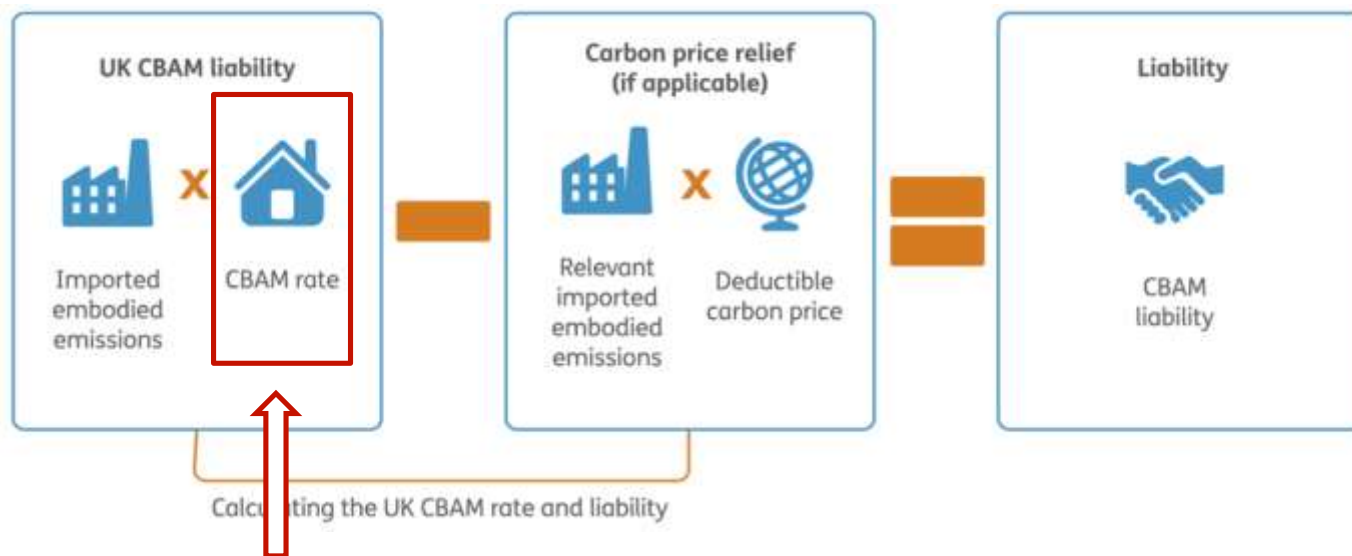
- From 1 January 2027, there will be one default emissions value per CBAM good. The methodology for constructing these default values will be specified at a later date. These default emissions values will be published in delegated legislation in advance of CBAM implementation.
- After 2027, the government is considering the feasibility of moving to an alternative approach.



HM Treasury

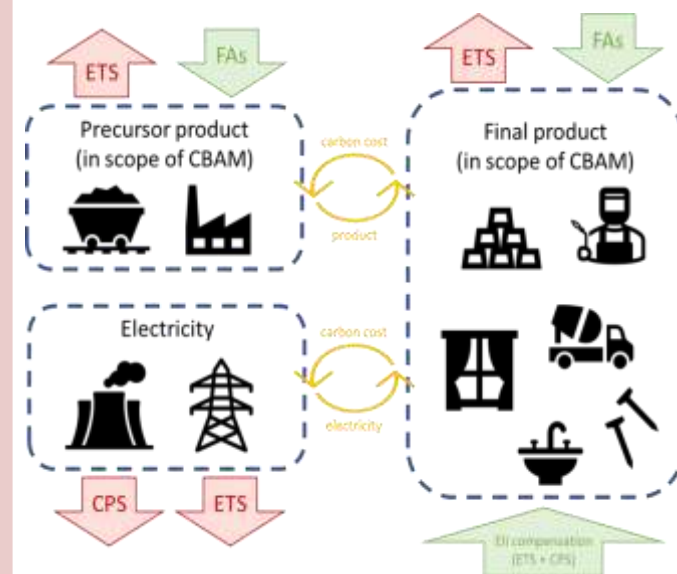
3. Overview of UK CBAM design and implementation

CBAM rate



UK Carbon Pricing Policies

Carbon pricing policy	Scope	How it works	Compensation mechanism
UK Emissions Trading Scheme (ETS)	Indirect and direct emissions	<p>Cap and trade policy.</p> <p>Government sets a cap on emissions and issues allowances to cover the emissions that installations (producers) emit. Installations must surrender one allowance for each tonne of carbon dioxide they produce.</p> <p>Allowances can be bought at the ETS auction (takes place fortnightly), or on a secondary market.</p> <p>Allowances are surrendered annually.</p>	<p>Some sectors receive Free Allowances (FAs). This is the main carbon leakage mitigation measure at the moment.</p> <p>FAs for CBAM sectors will be gradually reduced from 2027 so some sectors subject to ETS will receive less support from 2027 and therefore will incur higher costs under the UK ETS.</p> <p>There is also an Energy Intensive Industry (EII) compensation scheme for indirect carbon costs.</p>
Carbon Price Support (CPS)	Indirect emissions	Tax on electricity generation from fossil fuels in Great Britain (i.e. England, Scotland and Wales) only.	There is also an EII compensation scheme for indirect carbon costs.



Calculation of the CBAM rate

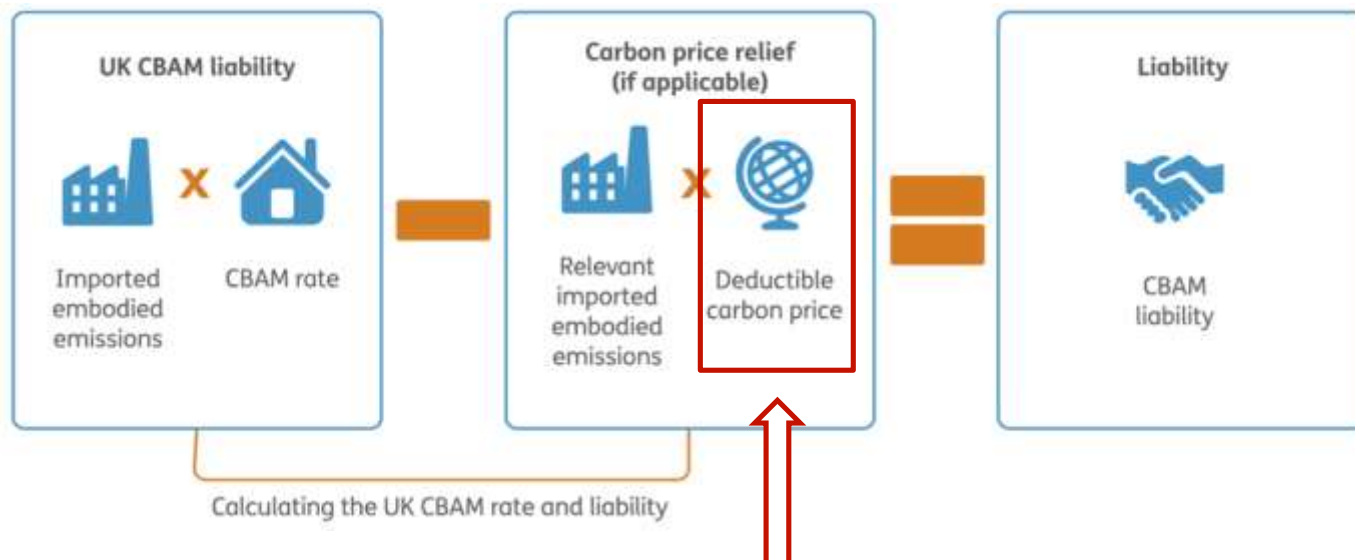
- The CBAM rate is the tax rate which is chargeable on the emissions embodied in CBAM goods, before any adjustments to account for deductible carbon prices. This rate is set by the UK government.
- The CBAM rate will be applicable per tonne of embodied emissions attributed to CBAM goods and will be comparable to the carbon price faced in the UK by domestic producers, net of reductions. As a result, the CBAM rate will be set with reference to:
 - The annual rate of CPS
 - The average UK ETS allowance price every quarter – as determined by the [fortnightly auction clearing price](#)
 - The proportion of emissions covered by free allowances for each sector
- There will be a **single rate for each sector** in scope of CBAM and the CBAM rate will be adjusted for free allocations per sector.
- The CBAM rates will be calculated and published by the UK government at the **beginning of each quarter** from 1 January 2027.



HM Treasury

3. Overview of UK CBAM design and implementation

Carbon price relief



Carbon Price Relief

- The CBAM liability can be reduced if the embodied emissions in the imported CBAM goods have already incurred a deductible carbon price overseas and the importer provides evidence of this.
- The price can only be reduced where the goods have **incurred/been subject to**:
 - A **direct carbon price** e.g. a carbon tax, an emissions trading scheme, or another CBAM
 - An **indirect carbon price on emissions from the combustion of fossil fuels** that are used in the manufacturing of the CBAM good
 - Carbon prices like fuel duties cannot be deducted, be they direct or indirect, even if they are based on emissions factors.
- The carbon price deduction will need to account for any adjustments which reduce the headline carbon price, such as free allowances and graduated carbon prices, to determine the **effective deductible carbon price**.
- The liable person will be required to hold **independently verified evidence** of all carbon price deductions claimed on the tax return alongside publicly available carbon prices.
- Further detail as to the characteristics of deductible carbon pricing schemes and the methodology of how to calculate the effective carbon price incurred will be set out in delegated legislation and guidance.

International agreements

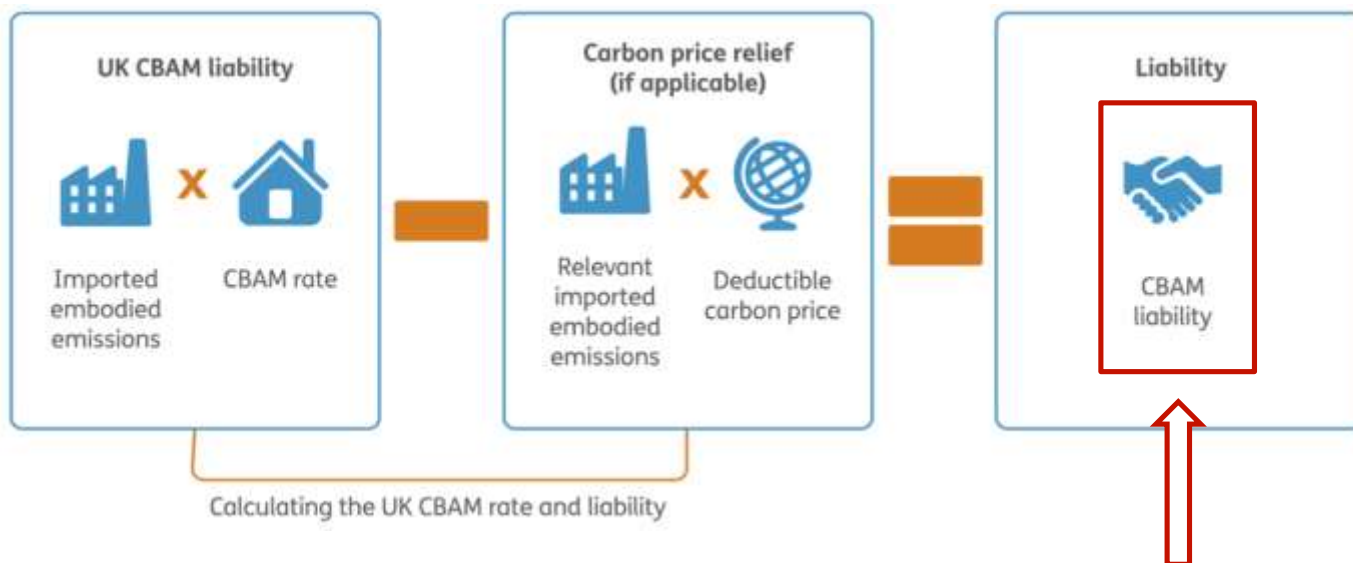
- The government would consider the use of international agreements or arrangements to **facilitate compliance with CBAM**.
- One of the areas the government is considering the use of international agreements or arrangements is in relation to **claiming carbon price relief** where goods have been subject to a deductible carbon price.
 - The draft legislation provides the flexibility to implement international agreements or arrangements in relation to jurisdiction-specific carbon prices and to make reference to third party information including from international partners, in order to simplify the calculation and claim carbon price relief.
 - The provisions also give flexibility to specify different evidence requirements for the carbon price relief, so that these may be simplified where an international agreement or arrangement is in place.



HM Treasury

3. Overview of UK CBAM design and implementation

Accounting, returns and payments



Minimum Registration Threshold

- An importer of CBAM goods will not need to register or account for CBAM if they do not meet the minimum registration threshold. This is to ensure that the costs of complying with the CBAM are more **proportionate to the carbon leakage risk** the government is seeking to address.
- The rules focus on the importer of CBAM goods as they are the liable person for CBAM. There will be two tests to determine whether the registration threshold has been met (or exceeded). Liability for CBAM starts when either of the tests are satisfied. If both tests are met, liability starts from the earlier of the 2 dates.
 - **Forward looking test:** the total value of CBAM goods imported over the next 30 days is expected to meet or exceed £50,000.
 - **Backward looking test:** looking back over a rolling 12-month period, the total value of CBAM goods imported met or exceeded £50,000. In the first year of CBAM, a person must only look back to 1 January 2027.
- The minimum registration threshold retains over 99% of imported emissions within the scope of the CBAM, whilst removing over 80% of otherwise registrable businesses. Over 70% of those removed from the CBAM altogether by this threshold are micro, small, or medium sized businesses.

Accounting periods, returns and payments

- The liable person will need to complete and submit an online tax return for CBAM following the end of each accounting period.
 - First accounting and payment period will be **annual** (1 January 2027 – 31 December 2027) with **returns and payments due five months later** (31 May 2028).
 - From 2028, accounting periods will be **quarterly** with **returns and payments gradually due two months after** the end of each accounting period.
- **Information required on a tax return** is likely to include:
 - CBAM goods imported by reference to the commodity codes
 - Weight of those goods
 - Total carbon emissions embodied in those goods (i.e., direct + indirect emissions, or default values can be used if information is unavailable)
 - Any effective deductible carbon price incurred on those goods
 - For the first accounting period, the quarter in which each CBAM good passed the tax point





HM Treasury

4. EU CBAM Comparison

EU CBAM Comparison

The UK and EU CBAM have the **same mission** – to introduce a carbon price on imported goods with an aim to mitigate the risk of carbon leakage. There are some details that **differ due to the specific nature of the carbon leakage risk in the UK** and the UK CBAM has been designed in a way best suited to UK circumstances.

	 EU CBAM	 UK CBAM
Sectoral scope	Aluminium, cement, fertiliser, hydrogen, iron & steel, electricity.	Aluminium, cement, fertiliser, hydrogen, iron & steel. Electricity not included in the UK CBAM due to different carbon leakage risk profile.
Timing	Liabilities arising in 2026 with reporting-only period since October 2023.	Full implementation in 2027 with no prior reporting period.
Mechanism	Buying and surrendering of CBAM certificates.	Mirrors other business taxes in the UK – paid directly to HMRC at the end of each accounting period.
Verification	Emissions to be verified by accredited independent third-party verifiers recognised under EU accreditation frameworks.	Emissions to be verified by bodies accredited by accreditation services which are part of the International Accreditation Forum (IAF).
Default values	During the definitive period, default values set at the average emissions intensity of each exporting country, increased by a proportionately designed mark up.	2027: a global average default value for each CBAM good. Post-2027: consider the viability of moving to an alternative approach.
De minimis	Proposed to exempt importers if CBAM imports are below the maximum threshold of 50 tonnes per year.	UK CBAM only applies if the total value of CBAM imports in a rolling 12-month period meets or exceeds £50,000.

EU-UK ETS Linking

- The UK and EU explored areas with the potential to strengthen bilateral cooperation between the European Union and the United Kingdom. The details of this are set out in the “Common Understanding” on a renewed agenda for the European Union-United Kingdom cooperation – link available on [gov.uk](https://www.gov.uk).
- The agreement establishes a commitment to work towards **linking the UK and EU ETS** and highlights that linkage of the two schemes should create the conditions for **mutual CBAM exemptions**:

35. The United Kingdom and European Commission should work towards establishing a link between carbon markets by way of a European Union-United Kingdom agreement linking the United Kingdom Emission Trading Scheme (UK ETS) and the European Union Emission Trading System (EU ETS).

37. The agreement to link the UK ETS and EU ETS should create the conditions for goods originating in our jurisdictions to benefit from mutual exemptions from the respective European Union and United Kingdom Carbon Border Adjustment Mechanisms subject to compliance with the relevant provisions of European Union and United Kingdom legislation.

- The UK is working closely with the European Commission to agree a timetable for linking negotiations with the aim of delivering a successful linking agreement.



HM Treasury

5. Forward Look

Forward Look

2025

- Analyse feedback received on draft primary legislation.
- Finalise primary legislation before introduction to Parliament.
- Continue policy development for secondary legislation, including deductible carbon prices and rules for Monitoring, Reporting and Verification (MRV).

2026

- Publish draft secondary legislation and guidance for technical consultation.
- Analyse feedback received on draft secondary legislation.
- Finalise secondary legislation before laying in Parliament.
- Finalise and publish comprehensive communications package and guidance to support businesses with the implementation of the UK CBAM.