

# UK Carbon Border Adjustment Mechanism (UK-CBAM)

On 18 of December that UK government announced that it will implement a [UK Carbon Border Adjustment Mechanism](#) (UK-CBAM) by 2027.

This is part of the UK's strategy to minimise carbon leakage<sup>1</sup>. It follows the implementation of such a mechanism in the EU in October 2026, which is threatening UK firms with an uneven playing field if there is no similar scheme in the UK. From 1 January 2026 as well as data reporting, the EU CBAM will impose an actual compliance cost on carbon-intensive imports into the EU from 1 January 2026.

*(See the brief on the EU-CBAM in Appendix 1).*

## Scope of the UK CBAM

To date the Government has confirmed the following details on the new UK CBAM:

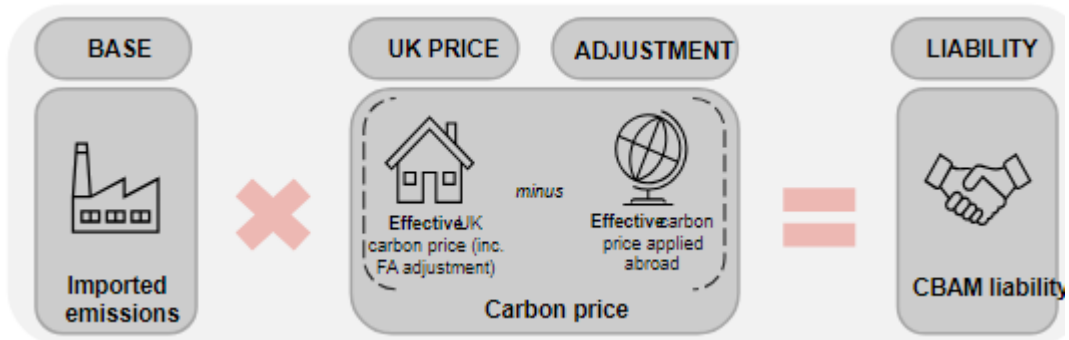
- The UK will apply a carbon price to imported goods from the following sectors: aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron, and steel.
- The UK CBAM will be applied to Scope 1, Scope 2, and select precursor product emissions embodied in imported products.
- The UK CBAM is designed so that other countries which also have an explicit carbon price will see the CBAM liability on their goods adjusted accordingly.
- Further detail on **the design and delivery of a UK CBAM will be subject to consultation in 2024**, including the precise list of products in scope and the criteria for carbon prices elsewhere in the world to be recognised by the UK CBAM.

## How will it work?

- The CBAM liability will lie directly with the importer of imported products within scope of the UK CBAM on the basis of emissions embodied in imported goods. This system will not involve the purchase or trading of emissions certificates.
- The liability applied by the CBAM will depend on the greenhouse gas emissions intensity of the imported good and the gap between the carbon price applied in the country of origin (if any) and the carbon price that would have been applied had the good been produced in the UK.

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<sup>1</sup> Carbon leakage is the movement of production and associated emissions from one country to the other due to different levels of decarbonisation efforts through carbon pricing and climate regulation (UK Government definition).



- The carbon price will adjust for free allowances and other reductions to the carbon price paid domestically and will account for explicit<sup>2</sup> carbon prices in other jurisdictions.
- The price applied by a CBAM will therefore be set on the basis of the explicit carbon price differential between the UK and the country where the products were produced.
- The UK CBAM will work cohesively with the UK ETS, including free allowances, to ensure imported products are subject to a carbon price comparable to that incurred by UK production, mitigating the risk of carbon leakage. (Note: on the 18 December two consultations were launched on the UK ETS to ensure that it continues to support net zero and to review the free allocation levels).

### What will it mean for UK manufacturers?

**For the UK businesses manufacturing the goods in scope** (aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron, and steel) and selected semi-finished goods and articles, the CBAM is good news.

A CBAM is aimed at creating a level playing field between domestic industry, which already faces the carbon price compliance burden, and imported products. It is fair that imported raw materials and semi-finished products face similar carbon costs as UK industry to avoid the deindustrialisation of the UK manufacturing industry.

However, it does not provide a 'complete' solution to carbon leakage and would need accompanying measures (see 'Further considerations' below).

**For UK businesses importing the in-scope raw materials (and selected semi-finished goods and articles) for their manufacturing**, there could be a cost burden, plus an administrative burden for importers from a UK CBAM, once the UK CBAM is fully implemented.

- ***The CBAM will only add additional costs if the in-scope raw material manufacturer has not already paid a carbon price in the jurisdiction of production.***  
If imported from the EU, it is unlikely there will be any additional costs as the EU carbon price has been higher than the UK price for the past year or so (although this may change over time). If imported from Canada or New Zealand, which applies a smaller carbon price, the CBAM impact will also be mitigated.
- ***A CBAM, on one hand, will still allow companies to import raw materials and semi-finished products not made in the UK***, regardless of their emission profile.

<sup>2</sup> An explicit carbon price puts a £/tCO<sub>2</sub>e directly on greenhouse gas emissions produced during a given process, such as manufacturing. These usually take the form of either an emissions trading scheme with a market-based price or a carbon tax with a fixed price.

On the other hand, the CBAM which is not sufficient in itself to prevent the UK from becoming a dumping ground for cheap high-carbon content raw (and semi-finished) materials and the Government has been considering Mandatory Product Standards (MPS) as a potential accompanying measure. MPS would have the more radical consequence of simply preventing imports of high-emission products altogether.

Industry favours voluntary product standards which could be introduced over time, as and when each sector is able to do so.

- ***there will always be the possibility to import finished products (goods)***, which are not (with some exceptions) subject to the tax.

If the UK CBAM is applied to raw materials (and semi-finished products) only - as opposed to finished products (goods) – finished products would not be subject to the carbon tax. A finished product however, could still be more expensive to import than paying the tax on the semi-finished product itself.

- ***In the long-term, the carbon price differential, and the tax liability, should be ironed out for importers.***

The anticipated benefit of a CBAM is that the exporter could be induced to take action to introduce a carbon pricing in their country as this would reduce their CBAM charges on exports to the UK (and reduce global emissions). This is the mechanism by which the global momentum to produce less-carbon intensive materials and goods is created, contributing to overall global net zero goal.

## Make UK's position

### **Implementation timelines need to be aligned with the EU-CBAM**

- It is crucial to align the UK-CBAM with the EU-CBAM timescales. This will ensure a level playing field with EU competitors and prevent potential trade diversion, where high-emission industrial products destined for the EU market are diverted to open markets like the UK, when facing the EU CBAM.

While it has not yet consulted on this, the Government will likely implement the UK CBAM in stages. For example, the EU CBAM will be gradually introduced over eight years, as it reduced free allocations for EU installations from 2026-2034. This would allow domestic producers sufficient time to decarbonise, expand product ranges if needed, and for importers to adapt to the new market conditions.

- The fact that there is one year of difference between the implementation of the UK-CBAM (in 2027) versus the EU CBAM (in 2026) will increase risks for domestic industries. High-emission industrial products (e.g. blast furnace steel or cement) will face an EU CBAM compliance obligation in 2026, which would divert the product towards other open markets without a CBAM in place, like the UK. This could damage the UK domestic production and cause deindustrialisation. It is therefore essential that Government aligns the UK-CBAM timelines with the EU's to avoid creating trade distortions and harming its domestic industries.

### **A balanced and flexible approach to the UK-CBAM is needed**

Like most other sectors, Make UK have welcomed the announcement of a UK-CBAM: mitigating carbon leakage should provide clarity and long-term certainty to businesses, enabling them to invest and grow.

A balanced approach should be taken to achieving environmental goals without imposing a pre-

determined solution at the cost of UK manufacturing.

We have called on the Government to adopt a flexible approach to its application and to engage with all stakeholders in manufacturing, including the supply chain as each sector and material, has specific circumstances relating to their respective markets.

## How Make UK can help

Here at MAKE UK, we can help you with CBAM in the following ways:

- Help you identify your products that fall into the scope of EU CBAM and UK CBAM and what your obligation to report will be.
- Help you calculate your embedded carbon emissions in your products effected and give advice on declaring your CO<sub>2</sub>e Tonnes
- Help you with completing reports for information requests you will be receiving from your customers in Europe

You can contact Make UK Environment, Health and Safety at:

0808 168 5874

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# Appendix 1:

## EU CARBON BORDER ADJUSTMENT MECHANISM (EU-CBAM)

### What is the EU CBAM?

The new EU Carbon Border Adjustment Mechanism (EU-CBAM) Regulation entered into application in its transitional phase on 1 October 2023.

The will level the playing field on carbon costs, ensuring that imported products face similar carbon costs as domestic producers. It is a reflection of the EU's efforts to balance its climate change ambitions as part of its "Fit for 55" package<sup>3</sup>, with the related objectives of not harming its internal industry while acting in accordance with its WTO obligations.

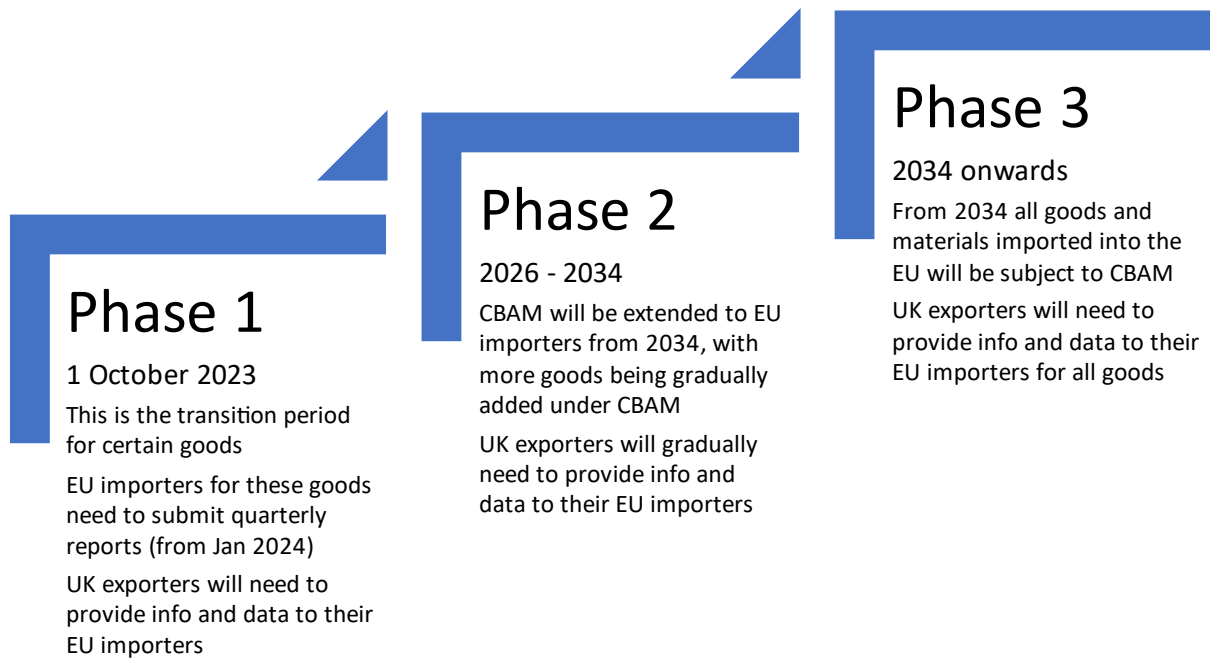
The EU-CBAM seeks to ensure that the import price of certain goods (see list further below) reflect their carbon content. This is to ensure a level playing field for the European Union, which already applies a price on carbon through the EU Emissions Trading System (EU ETS). It will make equivalent the price of carbon between domestic products and imports. This will ensure that the EU's climate policies are not undermined by production relocating to countries with less ambitious green standards or by the replacement of EU products by more carbon-intensive imports (also known as 'carbon leakage'). CBAM is a WTO-compatible measure that encourages global industry to embrace greener and more sustainable technologies. It will gradually replace the previous free allowances allocation system which alleviated the burden for Energy Intensive Industries under the EU ETS.

The EU-CBAM seeks to prevent "carbon leakage" from the EU caused by the relocation of producers away from the EU, due to the increasing price of EU allowances as a result of the gradual reduction in the total cap on emissions from 2026 and the phasing out of free allowances under the EU ETS by 2034. The gradual introduction of the EU-CBAM is aligned with the phase-out of the allocation of free allowances under the EUETS to support the decarbonisation of EU industry. As EU ETS free allowances are phased out between 2026 and 2034, the price of EU-CBAM certificates should increase, thus increasing the incentive for EU businesses to decarbonise their supply chain.

The scheme will be introduced in two stages:

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<sup>3</sup> [Fit for 55](#) aims to reduce the EU's greenhouse gas emissions by 55 per cent compared to 1990 levels by 2030.



1. **The transitional phase (1 October 2023 to 31 December 2025):** this is a three-year phase-in period during which a simplified system will apply. The obligations for the importers into the EU (the ‘authorised declarants’) will be required to report the (direct) Greenhouse Gas (GHG) emissions embedded in their imports contained quarterly (starting from 4Q2023).
2. **The definitive phase (from 1 January 2026)** when financial adjustment will be in place, importers into the EU will have to purchase digital CBAM certificates (from the Customs or stated Government agency in a Member State) for each tonne of carbon reflecting both direct and indirect embedded GHG emissions. Importers into the EU will need to surrender the number of “EU-CBAM certificates” corresponding to the GHGs embedded in imported EU-CBAM goods.  
 The price of which these emissions will be based on the average weekly price of the EU ETS carbon permits.
3. **Business as usual (from 2034 onwards)** CBAM will apply to all carbon intensive goods and material that are imported into the EU. UK exporters will need to provide info and data to EU importers as standard procedure.

### Who is it relevant to?

The new EU-CBAM will be relevant to

- all UK businesses importing CBAM goods into the EU in their own name and/or
- all UK (and other third country) firms exporting EU-CBAM goods to the EU.  
 Although not directly required to report under the EU CBAM, they are expected to provide emissions data to allow their EU customers to meet their obligations.

Because *some precursors of some of these materials* have been included a larger number of businesses will be concerned (see list below).

## Which goods does it apply to?

EU-CBAM goods are carbon-intensive materials (and some of their precursors) at most significant risk of carbon leakage e.g. cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen.

Currently the EU-CBAM will only apply to imports of certain goods and selected precursors, including the “precursors” (such as cathode active materials) and a limited number of so-called “downstream products”, covering the following product categories:

1. Kaolin and other kaolinic clays, calcined
2. Cement, aluminous cement, cement clinkers, etc.
3. Fertilizers (e.g., ammonia, nitric acid, sulphonitric acids)
4. Agglomerated iron ores and concentrates
5. Comprehensive coverage of iron and steel products (except for some ferro-alloys, scrap etc.)
6. The iron and steel products include *downstream<sup>4</sup> products*, such as screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter pins, washers (including spring washers) and similar articles
7. Aluminium structures and parts of structures
8. Certain aluminium reservoirs, tanks, vats, containers
9. Stranded wire, cables, plaited bands and the like, made of aluminium, not electrically insulated
10. Other articles of aluminium
11. Hydrogen
12. Electrical energy

The full list with the detailed product codes can be found [here](#) under the ‘Code Lists’ tab.

## Practical steps for UK manufacturers and exporters to the EU

### 1. Assess what data you need

UK exporters of the goods in-scope will need to provide information and data to enable their EU importing customers to fulfil their obligation to report their carbon emissions quarterly, starting at the end of January 2024 for 4Q 2023/24.

Failing to report carbon emissions by the end of January 2024 for 4Q2023 will likely result in fines for UK businesses importing into the EU. Importers for UK products will be fined if they are unable to provide satisfactory information on their products and installations, making their products less competitive when punitive costs are added. The concerned UK businesses therefore need to be able to provide the required information and data and should start considering whether they are able to demonstrate that they have completed their calculations correctly (e.g. that these are independently verified). The data required might include (non-exhaustive list):

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- <sup>4</sup> Note – apart from the ones mentioned in the list, most consumer (or finished) goods e.g. white goods or mobile phones and their embodied emissions are not included in the scope of the EU CBAM

- commodity codes of goods;
- country of origin;
- direct emissions from: fuel combustion; waste gas; and process emissions;
- indirect emissions from electrical energy consumed

## 2. Reassure your EU importers

EU businesses may also be looking for, during the first year (Oct 2023-2024) early reassurance that their non-EU suppliers will be able to provide the relevant data in the correct format, so UK businesses should prepare in advance for this.

## 3. Calculate and report embedded emissions

- **During the first year of implementation**, companies will be able to calculate their embedded emissions in three ways:
  - **full reporting according to the EU method** set out within the [implementing regulations](#)<sup>5</sup> for the EU CBAM published in July 2023;
  - **reporting based on equivalent national systems** for the monitoring, reporting and verification rules of the third country of production (such as the UK ETS); or
  - **reporting based on default reference values** (based on the worst performing EU installations, and valid only until July 2024).
- **From 1 January 2025**, the EU method will be the only acceptable method of embedded emissions reporting. This is based on actual emissions, which must also be accredited by independent verifiers. Estimates (including default values) can only be used for complex goods if these estimations represent less than 20% of the total embedded emissions. The Commission will publish default values by the end of 2023.
- **Note:** currently the EU and the UK methodology to calculate and report embedded emissions are identical. This is, however, expected to diverge in future as the UK government is considering changes to the ETS free allowances allocation system, resulting in different sectors being allocated different amounts of free allowances (the more trade intensive sectors e.g. cement and ceramics receiving more free allowances than the less trade intensive sectors). This will make things a lot more complex for calculating the shortfall in compliance cost.
- A new [EU CBAM transitional registry](#) is available since 1 October to help importers perform and report these calculations.
- **From 1 January 2026** as well as data reporting, the EU CBAM will impose an actual compliance cost on carbon-intensive imports into the EU from 1 January 2026. This is because EU importers into the EU will need to declare the not only the quantity of goods imported into the EU in the preceding year and their embedded emissions, but also the shortfall (if applicable) in carbon cost paid. The concerned UK businesses will need to have paid a carbon price (per tonne of product) based on their carbon market that is equivalent to the EU carbon price and will need to make up for the difference with the EU carbon price if there is a shortfall. If the third country carbon price is higher than the EU carbon price, then they will not face any additional EU CBAM cost.

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<sup>5</sup> [CBAM Implementing Regulation for the transitional phase](#) and [Annexes to the CBAM Implementing Regulation](#) for the transitional phase



- The declaration must be done:
  - for UK importers into the EU, using the template for data and information on the embedded emissions of the goods provided in the [EU guidance for importers of goods into the EU](#). There will be a dedicated portal on the EU Customs & Tax website.
  - for UK exporters: they will need to be able to demonstrate the carbon cost of their emissions using the [CBAM template for communication between installations located in third countries and reporting declarants \(e.g. the importers\)](#) and following the [EU guidance on CBAM installations for installation operators outside the EU](#).

### 1. Know what emissions need to be declared

Which embedded emissions have to be declared?

- *Scope 1 emissions*  
The EU CBAM applies to direct emissions (or scope 1 e.g. those generated from the production of CBAM goods at installation level) embedded in the covered manufactured products including some downstream products.
- *Upstream input material scope 3 emissions for complex goods*  
Upstream scope 3 emissions will only be partially in scope (e.g. input material under CBAM scope in the case of complex goods, but NOT raw materials, transportation and distribution, previous waste, etc...)
- *Scope 2 emissions will come at a later stage*  
At a later phase it is planned to apply to indirect (scope 2) emissions (e.g. the electricity consumed for the production of EU-CBAM goods).
- *Downstream scope 3 emissions (e.g. consumption, transportation and distribution, and end of life) are out of scope.*

Further practical steps for UK businesses who are also EU importers

#### 1. Identify in-scope products

- The scope of the EU-CBAM is based on specific CN / HS (customs) codes. Companies should work with their customs departments to determine whether products exported to the EU fall within these product-specific codes. It is also a good time to review whether these CN codes have been correctly classified.

#### 2. Calculate your own and your suppliers' emissions

- Start by mapping your own and your suppliers' production processes to calculate your baseline emissions. Begin with a high-level overview and gradually increase the level of detail.

#### 3. Identify key emissions contributors in your supply chain

- It can be challenging to report carbon data accurately due to the difficulty in accessing it across the entire supply chain. To overcome this, it is necessary to segment and prioritise the supply chain. Begin by identifying the largest contributors to your in-scope emissions and focus on them first.

#### 4. Mitigate financial impact

- Identify areas in your production processes and supply chain that emit the most greenhouse gases. Then, create effective strategies to reduce carbon emissions and plan how to implement them:
  - using materials and production processes with lower emissions
  - partnering with suppliers with strong carbon-reduction commitments
  - using contractual mechanisms and procurement processes to protect against consequential price increases.

#### Further information for UK manufacturers

We would encourage companies which are EU importers of goods or who export goods in scope of the EU-CBAM to the EU market to read [the published guidance on the EU information page](#), which includes details of the product categories that are in scope for the tax, and more specifically:

- The [guidance on CBAM installations for importers of goods into the EU](#)
- The [guidance on CBAM installations for installation operators outside the EU](#)
- [The communication templates for installations](#) (also contains the list of product codes)

The EU Commission is also gradually making available detailed written guidance, online training materials and webinars, sector-specific factsheets and a step-by-step checklist to support businesses as the transitional mechanism begins.

They can also listen to the **webinar recordings on the different materials**:

Cement	The webinar recording is available <a href="#">here</a> and <a href="#">nano-learning course</a> .
Aluminium	The webinar recording is available <a href="#">here</a> .
Fertilisers	The webinar recording is available <a href="#">here</a> .
Electricity	The webinar recording is available <a href="#">here</a> .
Iron and Steel	The Recording link is available <a href="#">here</a> .
Hydrogen	The Recording link is available <a href="#">here</a> .

There are further [fact sheets](#), and [Q&A](#) on [the Customs & Tax EU Learning Portal](#) and further training modules covering specific sector content will also be available soon.

#### What's next?

Although the EU-CBAM will apply to only six sectors initially, the intention is that all sectors covered by the EU ETS will be within scope of the CBAM by 2030. Reviews of the EU-CBAM's functioning and product scope during its transitional phase will be concluded before the start of the definitive period, as well as the feasibility of extending the scope of EU-CBAM to other goods produced in EU-ETS sectors. For example, the expansion could bring the production of glass or chemicals within scope of the EU-CBAM.

The UK has announced its own UK CBAM, where the carbon tax applied on imports would reflect both the carbon emitted in their production together with any gap between the carbon price already applied in the country of origin and the carbon price that would have been incurred had they been produced in the UK.

Make UK has called for the UK-CBAM to be introduced before 2026 for EITs, to prevent a cliff-edge fall when not only the UK-ETS free allowances taper off much faster than those in the EU-ETS scheme, but also UK businesses will be subject to the tax burden creating an uneven playing field.

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