



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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UK Carbon Border Adjustment Mechanism

MARKET INTELLIGENCE REPORT

Summary

- The UK Government has announced a plan to introduce its own carbon border adjustment mechanism (CBAM) by 2027. The UK CBAM will impose a tariff on a range of high-carbon goods imported from countries with weaker emissions regulations to prevent carbon leakage and protect UK firms from being undercut by less-regulated foreign competitors.
- The tariff will apply to imports from a range of high-carbon sectors including iron, steel, aluminium, ceramics, glass, fertiliser, cement and hydrogen. Like its EU equivalent, the UK CBAM as currently envisioned will not apply to agricultural/food and beverage products.
- The UK announcement comes after the EU introduced its own CBAM last year, with the latter's transitional implementation period having begun on 1 October 2023. The UK scheme broadly resembles that of the EU, albeit with some sectoral differences, later implementation dates, and different charging mechanisms.
- The UK Government is currently [consulting](#) on the design and administration of the scheme. The consultation will close on 13 June 2024.

Report

In December 2023, UK Chancellor Jeremy Hunt announced that the UK will be implementing its own carbon border adjustment mechanism by 2023 ‘to support the decarbonisation drive’.

The CBAM intends to mitigate carbon leakage (the offshoring of emissions) and ensure that UK producers are not undercut by foreign competitors exporting from lower-regulation jurisdictions, by imposing a tariff on high-carbon imports from countries with a lower (or no) carbon price. Hunt announced that the tariff will apply to imports of specified products from the iron, steel, aluminium, ceramics, glass, cement, fertiliser and hydrogen sectors. The products within these sectors that are going to be liable for the tariff are currently subject to consultation. The initial list of affected commodity codes can be found in Annex A of the [consultation document](#).

The basics of the scheme involve setting a price – determined by the embedded carbon of a product multiplied by the difference between the carbon price applied to the product in its country of origin and that applied to an equivalent product in the UK – that will be imposed upon potentially high-carbon imports as they enter the UK. In effect, the more aligned that the UK carbon price is with that of the country of origin, the smaller the CBAM tariff will be on those goods.

The tariff will apply to a product’s Scope 1 emissions (those resulting directly from production) and Scope 2 emissions (those resulting from the energy used during production), in addition to emissions associated with select precursor products. Other than these select precursor products, Scope 3 emissions (indirect emissions not controlled by the manufacturer but resulting from activity elsewhere in the value chain) will not be initially covered.

The UK’s CBAM announcement follows the EU’s introduction of its own CBAM last year, which began its transitional implementation period on 1 October 2023. The UK and EU schemes are broadly aligned, albeit with some notable differences:

- The implementation dates for the schemes differ. The EU CBAM will be fully implemented by 1 January 2026, while the UK has said its scheme will begin charging importers in January 2027.
- The UK and EU schemes apply to a slightly different range of sectors. The UK omits the electricity sector, which is covered under the EU CBAM, but it extends to ceramics and glass, neither of which are currently covered by the EU. Like its EU equivalent, the UK CBAM as currently envisioned will not apply to agricultural/food and beverage products.

- The two schemes also differ in how they charge fees, with the EU CBAM using the sale and purchase of CBAM certificates, and the UK scheme planning to use a self-assessment tax model, similar to how other indirect taxes are levied.

The introduction of a UK carbon border levy is broadly popular with UK manufacturers. According to polling commissioned by climate think tank E3G, 73% of manufacturers were in favour, with only 8% opposed. The same polling found strong support from manufacturers for the UK formally linking its emissions trading scheme with that of the EU to minimise potential added costs for exporting high-carbon goods to the EU from 2026 onwards. According to the results of a consultation round in 2023, 85% of responding businesses told the Government that carbon leakage was a risk to their decarbonisation efforts.

In March, the UK Government announced a [consultation round](#) focused on the design and administration of the scheme, closing on 13 June 2024. Specifically, the consultation is seeking views on the CBAM's sector and product scope; how liability will be calculated; and how the scheme will operate in practice. In addition to importers and domestic industry, they would be interested in hearing from businesses exporting to the UK from other jurisdictions. Any New Zealand businesses interested in submitted can find the relevant information linked above.

Concurrent to the CBAM announcement in December, the UK also announced it would work with businesses to establish voluntary product standards underpinned by an emissions reporting framework to help consumers distinguish between low carbon and high carbon products covered under the CBAM and to build demand for low carbon products. The UK Government will carry out a technical consultation for these product standards later this year.

External links

- [2024 Consultation on the Design and Administration of the UK CBAM](#)
 - [Outcome of 2023 Consultation on Carbon Leakage](#)
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