



Will Webster

ETG Secretariat
Golden Cross House
8 Duncannon Street
London WC2N 4JF

Tel: 020 7484 5274

Email: john.craven@etg.uk.com
Web Site: www.etg.uk.com

To cbampolicyteam@hmrc.gov.uk

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By email

Could you please reply by email to the ETG Secretariat at john.craven@etg.uk.com

Dear CBAM Policy Team,

Response from the UK Emissions Trading Group to the HMT / HMRC Consultation on the Introduction of a UK Carbon Border Adjustment Mechanism

The UK Emissions Trading Group's (ETG) members represent a significant proportion of UK businesses covered by the UK Emissions Trading Scheme (UK ETS) and, until 2020, the EU Emissions Trading System (EU ETS). The ETG provides a platform for discussing and resolving issues related to emissions trading and associated policies, facilitating regular communication between industry, the UK Government, Devolved Authorities, and regulators.

The sectors and businesses represented in the ETG play crucial roles in the UK's energy, manufacturing, energy-intensive industries, and supporting services such as verification, traded markets participation and advisory functions. They are pivotal in the transformation towards a net-zero economy and support the UK's ambition to achieve net zero by 2050. In 2019, ETG established a subgroup to evaluate the EU's Carbon Border Adjustment Mechanism (CBAM) and explore the potential for a similar approach in the UK. Regarding the current consultation, discussions within the ETG have highlighted various concerns across its membership which members will address in their responses from their respective sectoral viewpoints. However, the following issues are of particular concern to most members:

Default values

The use of default values poses significant challenges related to the accuracy of emissions reporting, establishing a level playing field, and providing incentives for overseas decarbonisation. While the use of actual verified emissions data is preferable, this is not feasible for some countries, sectors and products, necessitating the use of default values in limited instances for a short period. In such cases, default values should be set at the high end of estimated embodied emissions intensity to encourage accurate reporting and prevent underreporting and underpayment of CBAM charges. These values could be based on worst-case scenarios, such as producers using coal as their primary energy source.

/Calculating UK CBAM rate

Calculating UK CBAM rate

There is insufficient detail on how HMT/HMRC will calculate a single CBAM rate for each sector. The varying emissions intensity of different products and different product groups within sectors means that a single rate could lead to some importers paying significantly less than domestic producers, undermining the scheme's carbon leakage and environmental aims. The government must continue to work with sectors to find a satisfactory solution.

Benefits of closer alignment with the EU CBAM

Aligning the UK CBAM with the EU CBAM offers several advantages, particularly regarding timing and sectoral scope. Sectors participating in both schemes are keen for the UK CBAM to launch in line with the EU CBAM's 2026 launch date, while sectors only in the UK CBAM (e.g. ceramics and glass) prefer to delay implementation to align with EU developments. Closer alignment would also support the ETG's overarching call for linking the UK ETS and the EU ETS, avoiding the administrative burden and compliance costs associated with reporting under each other's CBAM if not linked. Additionally, we note that using a rate basis in the UK CBAM, as opposed to the certificate basis in the EU CBAM, could render the UK CBAM more susceptible to WTO challenges and complicate linkage.

Need for a single holistic impact assessment

There is an immediate need for a unified and thorough impact assessment that includes both CBAM (led by HMT) and potential changes to free allocation (led by DESNZ). Assessing each policy aspect in isolation fails to capture the holistic impacts on affected sectors.

Need for an export adjustment mechanism

Since the CBAM only applies to imports, exporting sectors remain deeply concerned about cost increases leading to a significant loss of competitiveness in their export markets. It is crucial for the UK Government to clarify how competitiveness will be retained in export markets, including through free allocation.

Lowering of £10,000 threshold

While we understand the rationale for setting minimum thresholds to reduce administrative burdens on small businesses while targeting larger importers, the proposed threshold level could create loopholes. For example, importers might be incentivised to split consignments into multiple smaller shipments to avoid CBAM charges. As a result, we think it prudent to reduce the threshold. Furthermore, greater transparency is needed from government on the quantity and value of goods being brought in, and their implications at the sector and product levels.

Circumvention risks

Several circumvention risks could undermine the effectiveness of a CBAM and create enforcement and compliance challenges. Key risks include: underreporting of emissions intensity, product misclassification, transshipment through third countries, manipulation of product origin, and relabelling of products. To mitigate these risks, robust verification and enforcement mechanisms, international cooperation, and stringent auditing processes are essential. Testing may also be important for some sectors.

/Product substitution risks

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Product substitution risks with a CBAM can lead to unintended economic and environmental consequences. These include: shifting to non-CBAM alternatives, substitution to lower-quality products that increase overall lifecycle emissions, and switching to alternative materials with other environmental or social impacts. To mitigate these risks, policies and measures must ensure that CBAM effectively drives the intended environmental benefits without leading to undesirable product substitutions.

This letter outlines ETG's key concerns and recommendations for introducing a UK CBAM. We look forward to further engagement with the government to address these critical issues.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Will Webster', with a stylized flourish at the end.

Will Webster, Chair UK ETG