

# UK Carbon Border Adjustment Mechanism (CBAM)

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On 18 December 2023, the UK Government announced its intention to implement, by 2027, a UK Carbon Border Adjustment Mechanism under which a levy is imposed on imports of certain goods from countries with a lower or no carbon price. This follows the recent introduction of a similar measure in the EU.

## Context to this announcement

The UK has applied carbon pricing since 1 January 2021 through the UK Emissions Trading Scheme ("ETS") (and previously as an EU member through the EU ETS). However, as many other countries do not operate a comparable ETS, 'carbon leakage' can occur whereby production and other emissions-generating activities simply move from UK to a jurisdiction which does not operate an ETS. In March 2023, the UK Government consulted on measures to address the carbon leakage risk.

A carbon border adjustment mechanism ("CBAM") was one of the options identified in the consultation to address the 'carbon leakage' risk.

## What is the UK CBAM?

The UK CBAM is a levy on the import into UK of products whose manufacture is carbon-emission-intensive. The objective is to level the playing-field between domestic producers (to whom UK ETS applies) and importers by ensuring that products manufactured outside of UK face a comparable carbon price to those produced domestically in the UK.

## What has been announced:<sup>1</sup>

The UK Government has [announced](#) that "goods imported into the UK from countries with a lower or no carbon price will have to pay a levy by 2027".<sup>2</sup> Further details will be the subject of a subsequent consultation in 2024, but some details have been announced already:

**Products in relation to which the UK CBAM will apply:** The sectors identified in the government's announcement are iron, steel, aluminium, fertiliser, hydrogen, ceramics, glass, and cement. Note

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<sup>1</sup>[Consultation outcome Factsheet: UK Carbon Border Adjustment Mechanism, updated 18 December 2023](#)

<sup>2</sup>[New UK levy to level carbon pricing](#)

however that the specific products in these sectors to which the levy will apply are yet to be determined.

**What emissions will be covered:** The UK CBAM will apply to Scope 1 emissions (direct emissions from activities owned/controlled by an organisation), Scope 2 emissions (indirect emissions from the organisation's consumption of electricity, heat, steam, and cooling purchased as an input) and select precursor product emissions. This is stated to “ensure comparable coverage with the UK Emissions Trading Scheme”.<sup>3</sup>

**How will the UK CBAM levy be calculated:** The carbon levy will be calculated depending “on the amount of carbon emitted in the production of the imported good, and the gap between the carbon price applied in the country of origin - if any - and the carbon price faced by UK producers.”<sup>4</sup>

**Recognition of carbon pricing in other countries:** Products for which a carbon price has been paid in their country of origin will see their UK CBAM liability reduced accordingly.

## Remaining uncertainties

The UK CBAM is in an early design stage, with many details yet to be decided. The design and delivery of UK CBAM will be subject to further consultations in 2024. This includes the decision on the specific products that will fall within scope, as well as the calculation methodologies for any emissions covered.

## How does UK CBAM compare with EU CBAM?

The UK CBAM is clearly modelled on the approach of the EU. Based on the UK announcement, the UK CBAM may differ from EU CBAM in the following ways:

1. **Sectors impacted:** The UK appears not to be including electricity – which is covered by EU CBAM – within the initial scope of the UK CBAM; instead, the UK has included ceramics and glass, which are not in the EU CBAM.
2. **Timing:** The UK CBAM is to be implemented by 2027, whereas the EU CBAM is already in a transitional phase and is to be fully implemented by 1 January 2026.
3. **Mechanism:** The UK system will involve a levy, rather than the purchase of certificates (which is the EU model), although economically this difference may be a question only of form (rather than substance) and does not appear to affect the amounts due.

## Complementary measures

The UK Government also announced its intention to establish a voluntary *'product standard'* to help companies promote low carbon products to their customers and has invited stakeholders in power, aviation, and industrial sectors to suggest changes to the UK Emission Trading Scheme.

## How we can help:

As the UK Government has not decided on the design and delivery of the UK CBAM, it will be important for those potentially affected (such as UK importers, or global producers) to monitor and participate actively in the 2024 consultation.

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<sup>3</sup> See footnote 1, section 4.

<sup>4</sup> See footnote 2.

Companies should also ensure that they are prepared for the requirements imposed during the EU CBAM transition period and those that apply afterwards, when the permanent system is in force.

### Dentons' International Trade team

Dentons trade lawyers already advises many companies, both in and out of Europe, in relation to the EU CBAM, and our London-based trade team are well placed to advise and support those potentially affected by the new UK measures as they are developed and introduced. If you have any queries about any of the matters arising in the UK or EU, then please reach out to one of our team.

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