

Introduction to the UK Carbon Border Adjustment Mechanism (CBAM)

Introduction

In the Budget 2025, the UK government announced that a Carbon Border Adjustment Mechanism (CBAM) will start on 1 January 2027, with first returns due in May 2028. The objective of CBAM is to ensure that highly traded, carbon-intensive products imported from abroad are subject to a carbon price comparable to that imposed on UK manufacturers. This approach aims to guarantee that UK decarbonisation efforts result in an actual decrease in global emissions, rather than merely shifting carbon emissions to other countries.

Scope

CBAM will cover select UK imports in aluminium, cement, fertiliser, hydrogen, and iron and steel sectors that face carbon leakage risks. The minimum registration threshold for CBAM goods is £50,000 over a 12-month rolling period.

CBAM considers direct emissions contained in imported CBAM goods, as well as emissions present in relevant precursor goods higher up the value chain. Indirect emissions will only be included starting from 2029 as part of ongoing support for the Energy Intensive Industries Compensation Scheme managed by the Department for Business and Trade who will provide more information on eligibility of scheme later in 2026.

CBAM exemption apply to CBAM sector goods imported for non-business use, those with UK place of origin, returned goods, UK pre-cursor goods and those imported into the UK under temporary admission.

Application

Liable persons or their tax agents must register with HMRC and file an annual tax return for January 1 to 31 December 2027, due by 31 May 2028. Starting on 1 January 2028, returns and tax payments will be required on a quarterly basis, due two months after each period. Importers must self-assess UK CBAM liability, similar to other indirect taxes.

Calculation of CBAM liability

Liable persons may use either independently verified actual emissions data for the CBAM goods or default values. Starting in 2027, the government will implement a single set of default values per product, confirm calculation methods, and publish these values before CBAM begins. After 2027, alternative approaches to default emissions values may be considered. For actual verified emissions data, the liable persons are expected to coordinate with the producers of CBAM goods to obtain verified data on carbon emissions embodied in the imported CBAM goods inclusive of emissions embodied in the relevant precursor goods used in the production of complex CBAM goods.

Interaction with the UK Emissions Trading Scheme and other CBAMs

The CBAM rate applies per tonne of embodied emissions in CBAM goods, aligning with the net carbon price paid by UK producers based on the UK Emissions Trading Scheme (ETS). While the headline

carbon price is uniform across sectors, each sector's rate will be adjusted according to how many Free Allowances (FAs) it receives. This adjustment uses an average of emissions covered by FAs over a set period, and the calculation is updated every year with a 'reduction factor' to account for the gradual removal of FAs. Only years where the sector had domestic emissions are considered for the baseline. The government will calculate and announce the CBAM rates at the start of each quarter, beginning 1 January 2027. Before official implementation, a trial rate will be released in Q4 2026. In practice, if the UK ETS price rises, the CBAM charge will rise and similarly if the UK ETS price falls then the CBAM charge will fall too.

It is worth noting that the CBAM liability could be lowered and that the liable person may claim Carbon Price Relief (CPR) if they prove with necessary documentation that a deductible carbon price was paid abroad for the emissions in imported CBAM goods. Only qualifying carbon pricing schemes such as taxes, emissions trading, or other CBAMs like EU CBAMs, will count for this adjustment. CPR emissions data must be verified by an organisation accredited by a full member of the Global Accreditation Cooperation Incorporated and a signatory of the Global Accreditation Cooperation Multilateral Recognition Agreement.

And for businesses trading between the UK and EU, they will need to navigate both CBAMs for now, ensuring compliance with the reporting requirements and understanding the carbon pricing implications for their imported goods.

Penalties

HMRC will offer guidance and communications to help businesses meet new CBAM requirements. Existing powers and penalties will be used for enforcement, including penalties for:

- failure to notify HMRC of liability for CBAM;
- failure to submit a CBAM return;
- failure to pay CBAM;
- errors in CBAM returns or other documents relied upon by HMRC;
- failure to disclose relevant tax avoidance schemes and serial tax avoidance; and
- failure to comply with an information notice.

Additionally, HMRC is introducing a general penalty for failing to comply with CBAM-specific requirements, such as reporting address changes or business changes due to death, incapacity, or insolvency. Criminal offences will also apply for fraudulent evasion and deliberate misstatement of CBAM.

Way forward

CBAM is now a permanent fixture in both the EU and the UK. Other jurisdictions like Canada, Taiwan and Australia also plan to launch their own CBAM systems. As a result, CBAM data will remain important for exporters, as well as traders and importers in the UK and beyond.

Emissions data management and engagements with the value chain is the key to prepare businesses for CBAM. And as CBAM mechanisms evolve, companies may need to adapt their supply chain strategies to align with the changing regulations and market conditions.