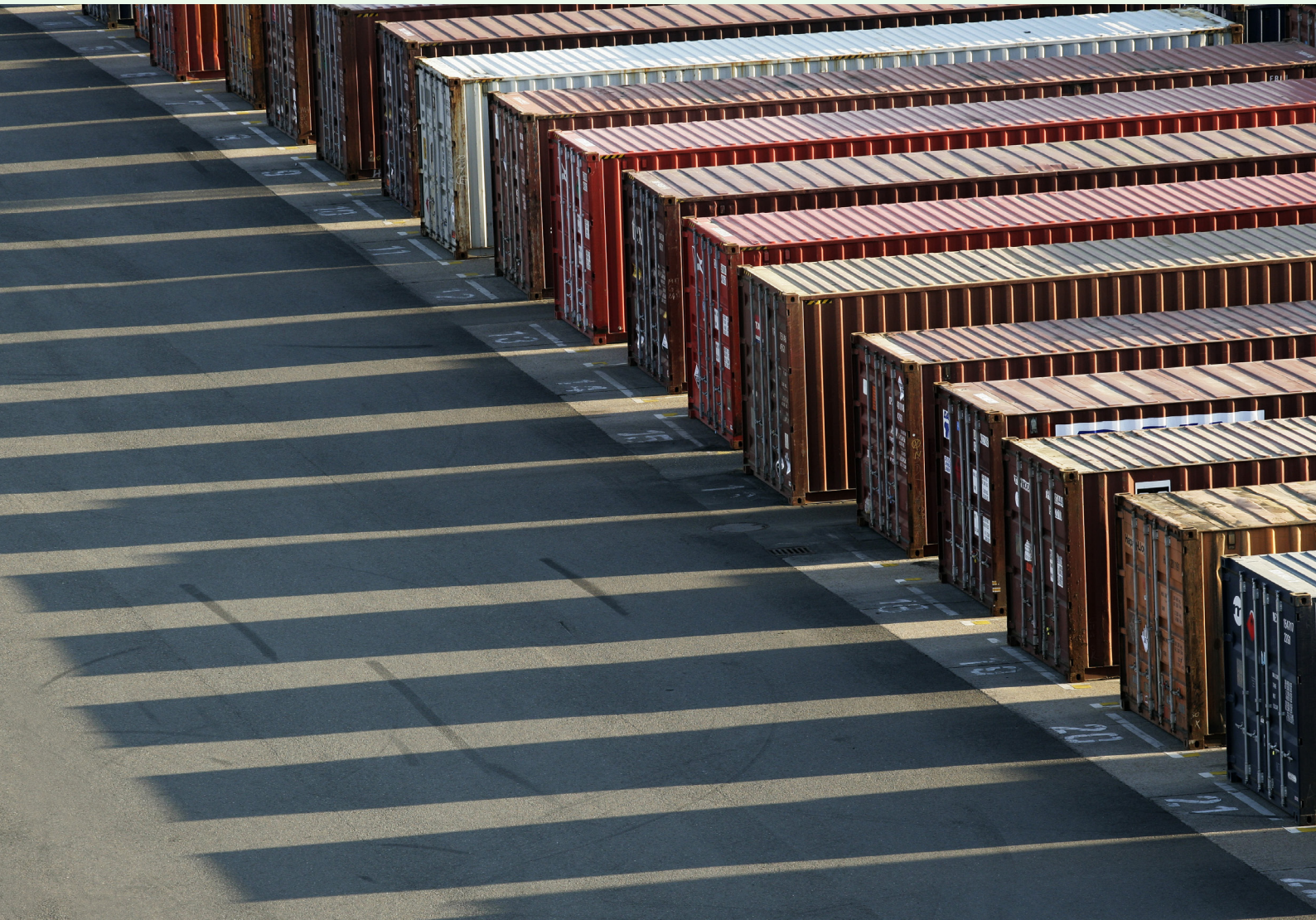


UK Carbon Border Adjustment Mechanism (CBAM) – a primer

September 2026



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The UK government is in the process of launching its UK Carbon Border Adjustment Mechanism (UK CBAM), a new tax on imports of specified carbon-intensive goods that will take effect on 1 January 2027. It is designed to prevent 'carbon leakage' by ensuring that importers of specified carbon-intensive goods pay a charge reflecting the carbon emissions embodied in those goods, equalising carbon costs between domestic UK producers and foreign competitors. Although the UK CBAM will be broadly similar to the EU CBAM, it has notable differences in design, scope and timing. This briefing provides a primer on the UK CBAM and the appendix sets out some of the key differences from the EU CBAM.

Key points

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- 2 When does CBAM liability arise and who is responsible?
- 3 How and when will CBAM liability be paid?
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- 6 Interaction with UK ETS
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Scope of the UK CBAM: which goods and emissions are covered?

Sectors: The UK CBAM will initially cover five sectors: aluminium, cement, fertiliser, hydrogen and iron and steel. This largely mirrors the EU CBAM sectors, though the UK excludes electricity imports. Only specific goods within these sectors, defined by commodity code, will be in scope (certain scrap products are explicitly excluded). The government has indicated that additional sectors (for example, glass, ceramics, refined petroleum products) could be added after 2027.

Geographic scope: The UK CBAM applies throughout the UK (including Northern Ireland). Any covered goods imported from anywhere in the world, including from the EU, Crown Dependencies, Overseas Territories and the UK Continental Shelf, will be subject to the charge.

Emissions covered: Initially, only direct (Scope 1) greenhouse gas emissions will be counted. The UK is deferring inclusion of indirect emissions (for example, from electricity used in manufacturing) until at least 2029, whereas the EU CBAM already covers indirect emissions for cement and fertilisers.

Key exclusions and exemptions: The UK CBAM excludes personal imports for non-business use, goods of UK origin (determined under non-preferential rules of origin), returned goods and temporary admissions and goods under special customs procedures (provided they are not released into free circulation). Where a UK-produced CBAM precursor good is exported and later re-imported as part of a complex CBAM good, the CBAM charge will not apply to the portion of emissions attributable to the UK-origin precursor.

When does CBAM liability arise and who is responsible?

The CBAM tax point arises when goods are released into free circulation (where customs controls apply) or when CBAM goods enter the UK (where there are no customs controls). The importer of record is liable for the CBAM charge and all compliance obligations. A liable person may appoint a tax agent to submit returns, but the liability remains with the importer.

A de minimis threshold applies: importers of CBAM goods valued at £50,000 or more over a rolling 12-month period will need to register for CBAM within 30 days of reaching the threshold (assessed by both a forward-looking 30-day test and a backward-looking annual test). Below that threshold, no registration is needed. Registration will be through the CBAM service, accessed via the Government Gateway. Transitional provisions apply for the first year: registration will open by 1 January 2028 and companies reaching the threshold any time during 2027 will have until 31 January 2028 to register.

How and when will CBAM liability be paid?

After the end of each accounting period, a liable person (or their tax agent) must submit an online return through a service developed by HMRC. CBAM payments are required at the same time as the return is made. The first accounting period ends on 31 December 2027, with the first return and payment due by 31 May 2028. From 2028, there will be four quarterly accounting periods each year, with transitional deadlines of 31 July, 29 September and 30 November 2028, and 28 February 2029; the standard two-month window applies from Q2 2029 onwards. Records of all in-scope imports must be kept for six years.

Calculating the UK CBAM liability

The UK CBAM liability is calculated as follows:

$$\text{CBAM liability} = (\text{Embodied emissions}) \times (\text{CBAM rate}) - (\text{Carbon Price Relief})$$

The calculation of CBAM liability is designed to ensure a comparable carbon price is paid on imported emissions (through UK CBAM) and domestic emissions (through the UK Emissions Trading Scheme) so as to avoid placing a higher burden on importers than on domestic producers.

Each sector's CBAM rate will be derived from the UK Emissions Trading Scheme (ETS) carbon price, adjusted to reflect free allowances given to UK producers, and will be published quarterly from 1 January 2027. An illustrative example rate will be published in autumn 2026.

Embodied emissions may be determined using either verified actual emissions data from the overseas production facility (confirmed by an independent verifier accredited by an eligible accreditation body) or government-provided default emissions intensity values set per CBAM product by commodity code. The methodologies for monitoring and verification of actual emissions data are broadly designed to support interoperability with the EU CBAM, helping to reduce administrative burdens. Default values are expected to use trade-weighted data and will be published in advance of CBAM coming into force in 2027.

If the producer has already paid a qualifying carbon price abroad (for example, under a carbon tax or emissions trading scheme), the UK importer can claim a Carbon Price Relief deduction. Claims require verified evidence of the foreign carbon price paid, obtained through a carbon pricing verification form completed by an independent verifier. The effective overseas carbon price takes into account any adjustments, exemptions or compensation schemes in the relevant country.

Overseas carbon pricing schemes

In August 2026, the UK government published a draft list of overseas carbon pricing schemes that currently meet the qualifying criteria for Carbon Price Relief, covering 16 countries. A scheme not included on the list may nevertheless qualify if it meets the statutory criteria, while inclusion does not determine the amount of relief available in a particular case.

As of the date of this publication, the eligible schemes listed include:

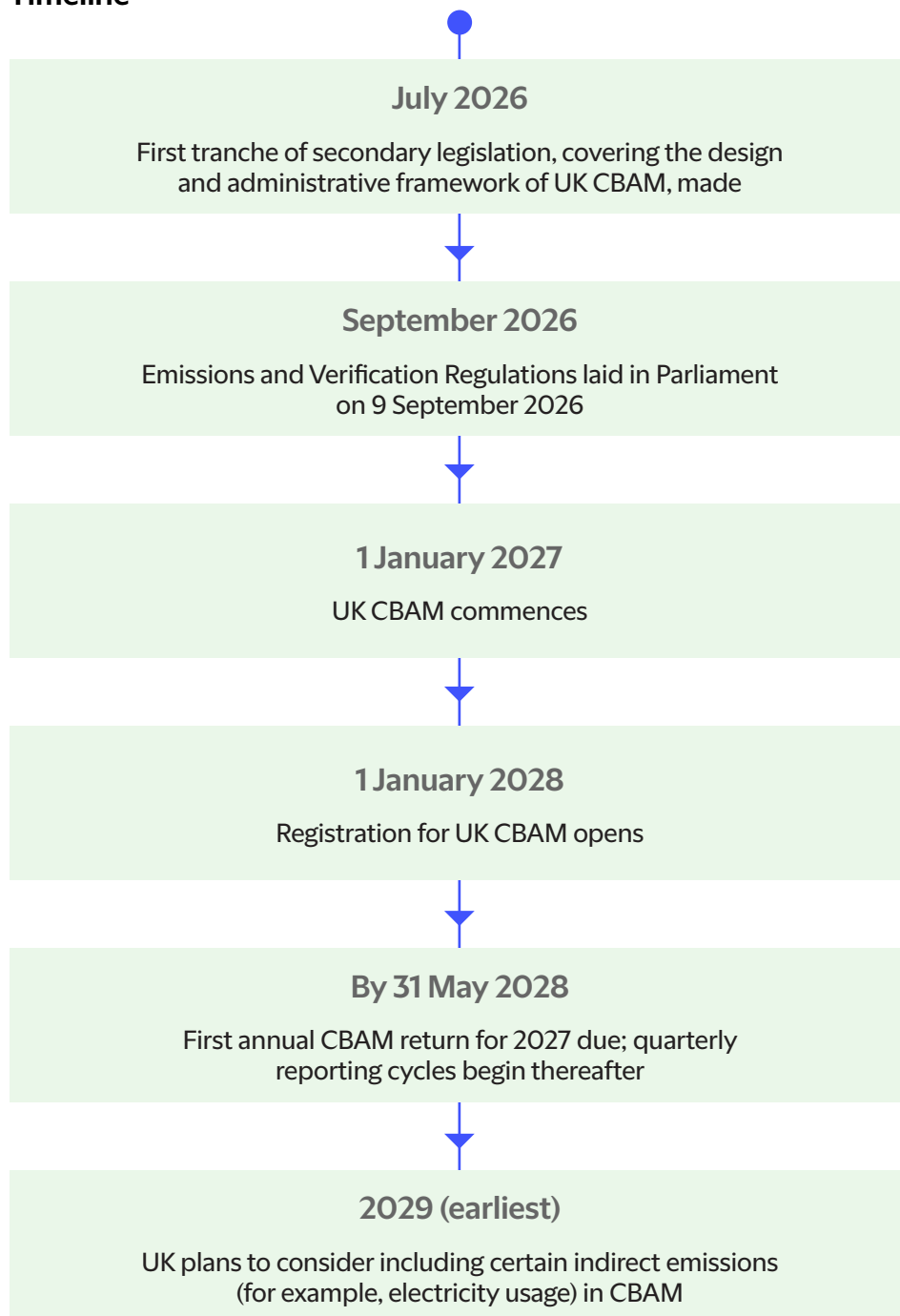
- Australia Safeguard Mechanism
- Canada Federal Output-Based Pricing System
- Chile Carbon Tax
- China National ETS
- EU ETS
- Indian Carbon Credit Trading
- Japan GX-ETS
- Kazakhstan ETS
- Korea ETS
- Montenegro ETS
- New Zealand ETS
- Serbia Carbon Tax
- Singapore Carbon Tax
- South Africa Carbon Tax
- Swiss ETS
- Taiwan Carbon Fee

Interaction with UK ETS

The UK CBAM is designed to work coherently with the UK ETS. Each sector's CBAM rate is set with reference to the UK ETS carbon price, adjusted for free allocations, to ensure imported products face a comparable carbon cost. The UK ETS Authority plans to phase out free allocations for CBAM-covered sectors over nine years from 2027.

No UK-EU ETS link or reciprocal CBAM exemption currently applies. However, following a May 2025 Common Understanding, the UK and EU are negotiating an agreement to link the UK ETS and EU ETS. In December 2025, the UK and EU issued a [joint statement](#) noting an aim to conclude negotiations by the time of the next UK-EU summit.

Timeline



How will the CBAM be enforced?

HMRC will oversee compliance using existing tax compliance powers extended to CBAM. Penalties apply for failures to register, file or pay on time, and for providing false information. Criminal offences apply for fraudulent evasion and deliberate misstatement.

Next steps

Enabling powers for the UK CBAM have already been included in the Finance Act 2026. The first tranche of secondary legislation was laid on 13 July 2026, covering the administrative framework, CBAM rate calculation, Carbon Price Relief methodology and transitory provisions. On 9 September 2026, the government laid the remaining Emissions and Verification Regulations, covering the calculation of embodied emissions, monitoring and verification of emissions data, and associated record-keeping requirements. Further guidance for businesses, including default emissions values and an illustrative CBAM rate, is expected in autumn 2026.

How can businesses prepare?

With the UK CBAM commencing on 1 January 2027, businesses importing goods in the covered sectors should be taking steps now to ensure readiness. In particular, importers should:

- identify which of their imports fall within the CBAM commodity codes and assess whether they are likely to exceed the £50,000 registration threshold;
- engage with overseas suppliers to establish whether verified actual emissions data will be available, or whether default values will need to be used;
- determine whether suppliers operate under qualifying overseas carbon pricing schemes that could give rise to Carbon Price Relief, and begin the process of obtaining the necessary verified evidence;
- review supply contracts to ensure they include appropriate provisions requiring suppliers to provide emissions data and carbon pricing information on an ongoing basis;
- put in place internal systems and governance for CBAM return preparation, payment and record-keeping (noting the six-year retention requirement); and
- monitor the finalisation of the Emissions and Verification Regulations and HMRC guidance expected later in 2026, including the publication of default emissions values and illustrative CBAM rates.

If you would like to discuss how UK CBAM might apply to your business, please contact Adam Hedley or Callum MacLeod.



Appendix:

Summary of key differences between UK CBAM and EU CBAM

While the UK CBAM (as proposed) and EU CBAM (as implemented) share the same objectives and broad structure, there are some important differences in timelines, scope, and implementation set out in the following summary table:

Policy	UK CBAM	EU CBAM
Start date	1 January 2027.	1 January 2026.
Phase-in period	No phase-in period. Full CBAM cost liability applies from 1 January 2027.	Phase-in period began on 1 October 2023 (reporting obligations only, no CBAM payments required). Full CBAM began 1 January 2026.
Payment of CBAM	Simple tax payment to HMRC, due at the same time as the return is submitted.	CBAM certificates must be purchased on a central platform and surrendered in September each year when the annual CBAM declaration is made. Certificates surrendered must correspond to the emissions in the previous year.
Appointment of customs representative	A liable person may appoint a tax agent to submit returns, but the CBAM liability remains with the importer.	The liable person may appoint an indirect customs representative (and must do so for importers outside the EU).
Sectors covered	Five sectors: iron and steel, cement, fertilisers, aluminium, hydrogen.	Six sectors: iron and steel, cement, fertilisers, aluminium, hydrogen and electricity.
Geographical scope	Whole of the UK including Northern Ireland; goods from any country including the EU.	EU customs territory; all non-EU countries; countries with linked emissions trading schemes are exempt (including Iceland, Liechtenstein, Norway and Switzerland).
Emissions covered	Direct (Scope 1) emissions only at launch; indirect emissions possible from 2029 at the earliest.	Direct emissions for all covered goods. Indirect (Scope 2) emissions included for goods not listed in Annex II of the CBAM Regulation (principally cement and fertilisers) from 2026.

Policy	UK CBAM	EU CBAM
Default emissions intensity values	Product level (a single default value per product commodity code, regardless of country of origin).	Product-country level (default values vary by product and by country of origin, reflecting each country's typical production emissions profile).
Carbon price	Tax rate per tonne of carbon dioxide based on UK ETS prices (updated periodically).	CBAM certificates priced at the EU ETS carbon allowance market price (with prices updated quarterly during 2026 and weekly from 2027 onwards).
De minimis threshold	Value based: importers of CBAM goods under £50,000 over a rolling 12-month period do not need to register.	Volume based: importers importing 50 tonnes or less per calendar year are exempt (excludes hydrogen and electricity).
Credit for foreign carbon price	Carbon Price Relief (CPR): a direct monetary deduction from the CBAM charge for carbon costs paid under a qualifying overseas scheme. Requires a verification report from a Global Accreditation Cooperation Incorporation-accredited verifier using an HMRC-prescribed template. CPR cannot exceed the CBAM charge.	Reduction in the number of CBAM certificates to be surrendered, calculated proportionally by reference to the carbon price effectively paid in the country of origin. Separate EU verification process applies.
Reporting and payment cycle	Annual return for 2027 due by May 2028; quarterly returns thereafter.	Annual declaration due 30 September each year; quarterly certificate holdings from 2027.
Expansion	Possible expansion to glass, ceramics and petroleum products after 2027; indirect emissions after 2029.	Proposed expansion to downstream steel and aluminium products from January 2028.
Interaction with respective ETS	Rate linked to UK ETS price; free allocations phasing out over nine years from 2027.	Certificate price reflects EU ETS; free allocations phasing out by 2034 (proposed extension to 2038) – see our briefing .

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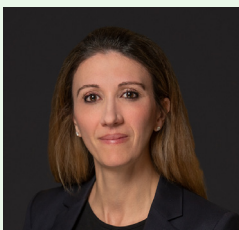
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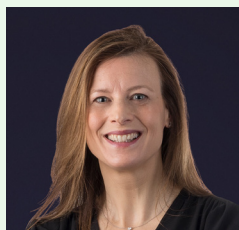
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