

## RESPONSE FROM THE INSTITUTE OF ENVIRONMENTAL MANAGEMENT AND ASSESSMENT (IEMA) TO HM TREASURY AND HM REVENUE AND CUSTOMS' 2024 CONSULTATION ON THE INTRODUCTION OF A UK CARBON BORDER ADJUSTMENT MECHANISM

### ABOUT IEMA

We are the Institute of Environmental Management and Assessment (IEMA). We are the global professional body for over 20,000 individuals and 300 organisations working, studying or interested in the environment and sustainability. We are the professional organisation at the centre of the sustainability agenda, connecting business and individuals across industries, sectors and borders. We also help and support public and private sector organisations, governments and regulators to do the right thing when it comes to environment and sustainability-related initiatives, challenges and opportunities. We work to influence public policy on environment and sustainability matters. We do this by drawing on the insights and experience of our members to ensure that what happens in practice influences the development of government policy, legislation, regulations and standards.

### EXECUTIVE SUMMARY

Our response is set out in the format of the consultation paper, with the questions grouped into topic groups. We have not answered all questions, only those of most concern to IEMA members.

IEMA welcomes this introduction of a UK Carbon Border Adjustment Mechanism. It will play a critical part in incentivising the transition to a global low-carbon economy whilst supporting the early adopters of low carbon technologies, within and outside the UK.

Having read and considered the proposed CBAM detail, our core recommendations are:

- To implement a CBAM without delay. The commodity codes, default values and proposed mechanisms are a good place to start, and getting started is critical, both to ensure the competitiveness of UK industry and to support decarbonisation efforts in supplier countries.
- To have an immediate goal of improving the accuracy of emissions data. This is essential, so that the scheme can move away from default values, which may provide perverse incentives for some suppliers not to decarbonise.
- To harmonise the scheme with the UK ETS and the EU ETS and CBAMs (and other CBAMs being developed). This would have benefits such as reducing reporting requirements and the unintended consequences of uneven taxation, and would reduce trade friction.

### QUESTIONS ON PRODUCT LEVEL SCOPE OF THE CBAM QUESTION (1-4)

**Question 1: Do you agree that the list of commodity codes in Annex A an accurate reflection of the policy intent described above? Please provide supporting evidence.**

We agree that these are the commodities most at risk of carbon leakage (from the UK perspective) which in turn is most likely to hold back global decarbonisation efforts (when taking the global view).

**Question 2: Are there any relevant commodity codes omitted or any that should be excluded? Please provide supporting evidence.**

**Question 3: Do you have any concerns on the feasibility of any of the commodity codes in Annex A being within scope of the CBAM? Please provide supporting evidence.**

**Question 4: Do you agree that scrap aluminium, scrap glass and scrap iron & steel do not pose a carbon leakage risk and should not be within scope of the CBAM? If not, please provide evidence to support your response**

We agree on this point, given that default values are proposed as the method of calculating emissions. Were more granular and holistic data available on different methods and impacts of (say) mining versus recycling, then it might be useful to include both scrap and non scrap. However, in the absence of this data, scrap should be excluded.

#### QUESTIONS ON RELEVANT IMPORTED EMBODIED EMISSIONS (5-6)

**Question 5: Do you agree that the government's definitions of 'direct' and 'indirect' emissions accurately describe the embodied emissions a CBAM ought to place a carbon price on, in line with those emissions within scope of the UK ETS? If not, please explain why not.**

The principle of including direct and indirect emissions is sound, therefore we agree with the approach to include direct and indirect embodied emissions. However we do have a concern about the lack of clarity provided by the phrase: 'a limited part of Scope 3 emissions'. Without definition of which Scope 3 categories would be included, or how far back along the supply chain they should be included, it is impossible to estimate the impact that this would have on the mechanism. This takes into account the reality that the longer a supply chain is, the harder it is currently to compile accurate emissions data, whilst by their nature long supply chains almost inevitably incur greater production and transportation emissions.

In terms of language and definitions, and notwithstanding the findings of previous consultations which found the definitions of 'direct' and 'indirect' to be preferable to 'Scope 1' and 'Scope 2', IEMA members find 'direct' and 'indirect' to be less clear than references to Scopes. Reference to Scopes is already clear to organisations using the GHG Protocol terminology and that are already reporting under schemes such as SECR and ESOS. Overall we believe it would be preferable to keep to the accepted GHG Protocol terminology of Scopes, because the same teams within an organisation are likely to be working on both projects.

Should the terminology of other reporting systems change, then IEMA members would of course not resist dropping reference to Scopes. On this note, we were glad to see, in paragraph 2.08, that the government will continue to explore opportunities to streamline reporting where possible and desirable. IEMA fully supports the streamlining of reporting.

**Question 6: Do you foresee any issues with calculating the emissions associated with precursor goods in CBAM goods? Please provide evidence to support your response.**

It will in some cases be extremely difficult to calculate emissions of precursor goods. Barriers to obtaining good data can include a lack of transparency in supply chains and the ability of smaller suppliers to provide good data. Long supply chains with multiple companies on multiple continents compound these issues. It isn't clear from the consultation how far upstream in supplier Tiers the emissions data should be sought (see also response to question 5). All of these well-documented problems with Scope 3 data collection will transfer to the accuracy of assumed emissions in imported goods.

We are following with interest the progress being made by Professors Kaplan and Ramanna and the E-Liability method, which proposes a system for more accurately capturing upstream data, which they note provides a more sound basis for taxation than default values do. In particular we are following their successful implementation of pilot projects which test their methodology.

#### QUESTIONS ON VALUES FOR DEFAULT EMISSIONS FOR ALL CHARGEABLE GOODS (7-10)

**Question 7: Do you foresee any difficulties with the government's proposal to use product level default emissions values calculated in line with global average emissions weighted by the production volumes of the UK's key trading partners? Please outline.**

The ultimate goal should be the discovery and disclosure of accurate primary emissions data. In the absence of such available data, we support product level rather than sector level default values.

Default emissions values are second best to actual emissions values. They should be set high enough to encourage decarbonisation efforts by trading partners. When setting default rates, attention should be paid to the weightings, given that substantial trade volumes with the EU (which has generally lower intensity production) could bring down the global average, which in turn may not sufficiently incentivise non-EU trading partners to decarbonise production. A solution to this could be a tiered system for default values in which countries are grouped into a limited number of tiers and their default values set appropriately. Again, this should be a temporary solution in the absence of actual emissions data.

The UK should consider providing support and skills to low-income nations which may not have the capacity to provide detailed data, and which may be unnecessarily adversely impacted by default values (in other words if their emissions intensity is lower than the default but they lack the data to demonstrate it).

**Question 8: Are there alternative approaches to default emissions values the government ought to consider which neither undermine the environmental integrity of the CBAM nor are punitive in nature? If so, please provide detailed evidence.**

As above (question 7), the use of primary accurate data is better than the use of default average values. Default values can penalise lower emissions production facilities while not incentivising higher emissions production facilities to decarbonise. Global emissions are not falling fast enough to prevent damaging levels of climate change, which means that voluntary emissions reduction efforts are not enough. This is why the CBAM is being implemented. Leveling the playing field so that higher emitters are no longer insulated from the impacts of their emissions is the only solution.

**Question 9: Do you have views on how a percentage based mark-up (in addition to global average emissions weighted by production volumes of embodied emissions intensities of the UK's key trading partners) could impact the use of default values and actual reported emissions data? Please outline.**

**Question 10: Do you have any initial views on the considerations and/or aims of a future review into the use and functionality of default values? Please outline.**

We support future reviews into default values.

## QUESTIONS ON THE CALCULATION AND VERIFICATION OF ACTUAL EMBODIED EMISSIONS (11-14)

**Question 11: Do you foresee any issues with a liable person acquiring and providing to HMRC details of emissions embodied in CBAM goods at the end of the accounting period (should they choose to)? Please outline.**

We see no technical issues with this proposition. It will require people with a combination of knowledge that includes tax as well as emissions calculations. This is a skill combination that may need to be built up within the UK, something that IEMA supports in its campaign to make all jobs greener.

**Question 12: Do you agree that verification of emissions should be performed by any body accredited by accreditation services which are part of the International Accreditation Forum (IAF), like UKAS in the UK? If not, please explain why not.**

We agree that verification of emissions should be carried out by bodies accredited by services that are part of the International Accreditation Forum, like UKAS in the UK. Members highlight though that there may not be enough independent verification bodies to carry out this work, and that this is an area where skills may need to be developed.

**Question 13: Would the market respond adequately to provide for the accreditation of verifiers by accreditation services and the verification of emissions independent verifiers?**

As noted in Q12, the market is likely to respond positively if investment is made in the skills needed.

**Question 14: Noting that the government is still developing policy in this area, do you have any initial views on the monitoring, reporting and verification (MRV) rules for the UK CBAM? Please outline.**

While we agree that monitoring, reporting and verification is vital it should be recognised that this will be an additional cost to companies on top of the carbon tax. The government should seek to understand these costs and provide support to SMEs and low income supplier countries where necessary.

## QUESTIONS ON MEASUREMENTS AND WEIGHTS (15-17)

**Question 15: Do you foresee any difficulties in obtaining an accurate weight for CBAM imported goods? If so, please specify the difficulties, why they will arise and any suggestions you might have for dealing with those concerns.**

**Question 16: If a liable person was required to arrive at the weight of the goods themselves, how would they do that? Please explain how CBAM products that you import are weighed. For example, is the weight arrived by means of a calculation or is it physically weighed?**

**Question 17: Is there a UK industry standard weight for the CBAM good you import? If so, please give details.**

## QUESTIONS ON SETTING THE UK CBAM RATES (18-20)

**Question 18: Do you agree that the CBAM rate calculation set out a fair reflection of the price paid in the production of goods in UK? If not, please explain why not.**

Product level rates would be more accurate where differences exist within sectors. The government should consider a methodology for CBAM rates that takes into account the key sub-sector differences. The UK ETS

uses a methodology that identifies 52 product level benchmarks and the UK CBAM could align with this by setting equivalent product-level rates.

**Question 19: Does setting a CBAM rate for each sector on a quarterly basis strike the right balance between tracking the UK ETS market price and giving importers certainty for financial planning? If not, please explain why not.**

It makes sense for the rates to track the UK ETS.

**Question 20: Are there any other considerations for setting the UK CBAM rate not set out above? Please outline.**

As set out in other answers, the UK CBAM rate should align with the UK ETS and the EU ETS and EU CBAM. This will support friction-free trade.

#### QUESTIONS ON ADJUSTING FOR OVERSEAS CARBON PRICES (21-28 )

**Question 21: Are there explicit carbon pricing policies which do not align with our criteria which should be recognised by the UK? Please outline.**

**Question 22: Are there other recognised forms of evidence which a liable person could provide? Please outline.**

**Question 23: Are there additional considerations or processes that might facilitate the provision of information on the overseas carbon price from producer to liable person, including by mutual agreement with other jurisdictions? Please outline.**

The UK should leverage its progress and influence on the global stage to support international cooperation on carbon leakage mitigation, as well as supporting progress in common carbon pricing and emissions reporting methodologies.

**Question 24: For operators overseas, do you foresee challenges providing the evidence for importers to comply with the measure? Please outline.**

SMEs and manufacturers in lower income countries may need support in capacity building to gather and report the data needed. This will require investment in the technology and skills necessary to ensure the compilation of verifiable data.

**Question 25: Do you foresee challenges with referencing the overseas carbon price on a quarterly basis? Please outline.**

**Question 26: Do you have views on what types of third parties would be appropriate to verify overseas carbon price? Please outline.**

**Question 27: Do you have views on how the government could decrease the burden on the liable person to evidence an overseas carbon price? Please outline.**

The UK ETS and the EU ETS are not linked, and since the UK ETS commenced in 2020, divergence has occurred between the schemes as they evolve in isolation.

The proposed deviation from the EU CBAM approach will create additional administrative burden on businesses operating across both jurisdictions, and support will be needed to help companies comply with their obligations.

Aside from the differing and additional administrative burdens there is the risk of UK domestic industries paying top ups to the EU in the event of the UK price being lower than the EU's. Divergence of free allowances under the UK and EU ETS schemes could result in additional costs for companies.

Linkage of the UK and the EU ETS would increase the carbon market size, making decarbonisation more cost efficient in the UK economy and mitigating costs and administration associated with the implementation of the CBAM. The longer the UK and the EU ETS remain unlinked, the more challenges will be associated with future linkage - this includes but is not limited to the products included and excluded from the respective CBAMs in the UK and EU ETS.

Linkage of these schemes would reduce administrative burden and trade barriers, and equalize tax treatments and would be supported by IEMA.

Similarly, ensuring interoperability with other CBAMs being proposed such as in Australia, Canada and China will reduce the reporting burden.

**Question 28: Do you agree that where a CBAM good has been subject to multiple carbon prices, the total carbon price can be offset from the UK CBAM liability? If not, please explain why not.**

We agree.

#### QUESTIONS ON WHEN THE CBAM TAX POINT ARISES (29-30)

**Question 29: Do you foresee any difficulties with the arrangements for where the tax point arises, including which rates will apply? Please explain where you have any difficulties with the proposed policy.**

**Question 30: Do you foresee any risks with our proposal to base the CBAM liability on the CBAM good which is processed into a non-CBAM good before it is released into free circulation? Please explain the risks.**

#### QUESTIONS ON REGISTRATION AND THE MINIMUM REGISTRATION THRESHOLD (32-35)

**Question 32: Do you agree that there should be a minimum threshold below which a person should not be required to register for the CBAM? If not, please explain why not.**

**Question 33: Do you agree that an annual value of £10,000 is an appropriate level at which to set the minimum threshold? If not, please explain where you think it should be set and your reasoning.**

**Question 34: Do you agree with the tests set out in Figure 15 for assessing whether a person has met the minimum threshold? If not, please explain how you think the threshold should be assessed.**

**Question 35: Do you consider the registration and deregistration requirements set out above to be appropriate? If not, please specify why not.**

#### QUESTIONS ON ACCOUNTING PERIODS, RETURNS AND PAYMENTS (36-39)

**Question 36: Do you foresee any difficulties with the arrangements set out for completing and submitting returns, including the content required on the return? If so, please specify the difficulties and why they would arise.**

**Question 37: Do you think that allowing 5 months from the end of the first accounting period until returns are due allows sufficient time for a liable person to obtain data about the carbon content of their CBAM goods? If you think a different period should operate, please explain why.**

**Question 38: Do you agree with the proposal to move to quarterly accounting period from 2028 and, if not, why not?**

**Question 39: Do you foresee any difficulties in moving to a system of four fixed accounting periods a year from 2028, with returns/payments generally due a month later? If so, please explain your concerns and any suggestions for dealing with those concerns.**

#### QUESTIONS ON COMPLIANCE AND PENALTIES (40-41)

**Question 40: Do you consider that HMRC's approach to enforcement powers and penalties is appropriate? If not, please specify why.**

**Question 41: Do you have any other concerns or suggestions around potential compliance risks? Please outline.**

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Chloë Fiddy [c.fiddy@iema.net](mailto:c.fiddy@iema.net)

Senior Policy and Engagement Lead, Climate Change and Energy

Institute of Environmental Management and Assessment (IEMA)

[www.iema.net](http://www.iema.net)

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