



MEMORANDUM

FOR : **The Directors**
Biodiversity Management Bureau
Climate Change Service
Ecosystem Research and Development Bureau
Environmental Management Bureau
Forest Management Bureau

FROM : **The OIC Director**
Policy and Planning Service

SUBJECT : **ADDITIONAL REPORT FROM THE PERMANENT MISSION TO THE WORLD TRADE ORGANIZATION (PM-WTO) REGARDING UNITED KINGDOM'S (UK) CARBON BORDER ADJUSTMENT MECHANISM (CBAM) FRAMEWORK**

DATE : **10 MAY 2024**

This has reference to the supplemental report from the Permanent Mission to WTO in Geneva (PM – WTO), regarding the development of the United Kingdom's Carbon Border Adjustment Mechanism (CBAM) framework, extending the request of H.E. Simon J. Manley, Ambassador and Permanent Representative of the Mission of the United Kingdom (UK) to Geneva to participate in the ongoing public consultation on how the UK Carbon Border Adjustment Mechanism (CBAM).

It may be recalled that in a letter dated 20 February 2024, the DENR submitted written updates on the domestic developments related to carbon pricing, carbon credit mechanisms, and existing policies such as excise taxes that could be considered for “crediting”, which has been used as reference materials of the PM-WTO. Further to said letter, the PM – WTO is requesting the TCWM members including the DENR, to provide comments on **the product scope; emission monitoring; reporting and verification requirements; approach to default values for calculation of embodied emissions; minimum UK CBAM threshold; and recognition of explicit carbon prices.**

Considering that the UK CBAM will only recognize explicit carbon prices in other jurisdictions. The PM – WTO recommends **listing out price and non-price mechanisms that have an impact on carbon and other greenhouse gas emissions in the Philippines**, including excise taxes levied on fossil fuels and coals, the VAT regimes for renewables vs non-renewable energy sources, incentives for renewable energy and energy efficiency, and price impact on the removal of fossil fuel subsidies, among others.

MEMO NO. 2024 - 422

Please be informed that the UK CBAM is set to begin implementation on 1 January 2027. The UK hopes to work within the framework of the WTO rules and solicit views on understanding the impacts of CBAM on producers and importers, international trade partners, and climate experts. The consultation is open until **13 June 2024** and may be accessed at <https://tinyurl.com/4bmttb65>.

We would appreciate receiving your input on the above request **on or before 17 May 2024** through the following email addresses: psddivision@gmail.com and/or policy@denr.gov.ph. For your reference related materials provided by the PM – WTO may be access using this link: <https://tinyurl.com/4nbttdt6z>.

For your information and consideration, please.


CHERYL LOISE T. LEAL, *EnP.*



1104
Undersecretary for Policy, Planning and International Affairs
<ouppia@denr.gov.ph>

[For inputs – Deadline by 24 May 2024] Letter from the UK Ambassador and Permanent Representative Simon Manley on UK Carbon Border Adjustment Mechanism (CBAM)

Kareen Hope A. Eltagon <KareenHopeEltagon@dti.gov.ph>

Mon, Apr 29, 2024 at 1:44 PM

To: "tbmarcelo@bsp.gov.ph" <tbmarcelo@bsp.gov.ph>, "MacasaquitMR@bsp.gov.ph" <macasaquitmr@bsp.gov.ph>, "wsamaniego@bsp.gov.ph" <wsamaniego@bsp.gov.ph>, "BSP - Maria Donnabelle M. Cadag" <cadagmm@bsp.gov.ph>, "Angelito L. Banares" <BanaresAL@bsp.gov.ph>, "BSP - Christian Joseph G. Zosa" <CGZosa@bsp.gov.ph>, "ongjd@bsp.gov.ph" <ongjd@bsp.gov.ph>, "Renzcy Dianna M. Cervantes" <CervantesRM@bsp.gov.ph>, "oded@climate.gov.ph" <oded@climate.gov.ph>, "cuencara@climate.gov.ph" <cuencara@climate.gov.ph>, "prdd@climate.gov.ph" <prdd@climate.gov.ph>, "ilaganj@climate.gov.ph" <ilaganj@climate.gov.ph>, Jerome Ilagan <ilaganjerome.ccc@gmail.com>, "usec.ppr@da.gov.ph" <usec.ppr@da.gov.ph>, "asis.perez@da.gov.ph" <asis.perez@da.gov.ph>, "paz.benavidez@da.gov.ph" <paz.benavidez@da.gov.ph>, "prs@da.gov.ph" <prs@da.gov.ph>, "director.da.policy@gmail.com" <director.da.policy@gmail.com>, DA - Tisha dela Rosa <tisha.delarosa@da.gov.ph>, Sherlene de Torres <sherlene.detorres@da.gov.ph>, DAMEPD <mepd@da.gov.ph>, "demosthenesesoto@gmail.com" <demosthenesesoto@gmail.com>, "do@bfar.da.gov.ph" <do@bfar.da.gov.ph>, BFAR ADOTECH <adotech@bfar.da.gov.ph>, "sidvelayo@gmail.com" <sidvelayo@gmail.com>, "sidvelayo@yahoo.com" <sidvelayo@yahoo.com>, "adrie@bfar.da.gov.ph" <adrie@bfar.da.gov.ph>, "joerenyleana@yahoo.com" <joerenyleana@yahoo.com>, "cfd@bfar.da.gov.ph" <cfd@bfar.da.gov.ph>, DA - Sonia Luisa Sanchez <sonia.bfar@gmail.com>, Felix William Fuentesbella <repwimpy@gmail.com>, "Felix William B. Fuentesbella" <repwimpy.fuentesbella@doe.gov.ph>, "Michael O. Sinacruz" <msinacruz@doe.gov.ph>, "wquinto@doe.gov.ph" <wquinto@doe.gov.ph>, "Christopher Edmundo V. Manalo" <cevmanalo@doe.gov.ph>, "tophetski@yahoo.com" <tophetski@yahoo.com>, Kristine Ross Welsh Lacbayo <kristine.lacbayo@gmail.com>, "jbalbosa@dof.gov.ph" <jbalbosa@dof.gov.ph>, "ncabiles@dof.gov.ph" <ncabiles@dof.gov.ph>, DOF - IFG-IFPO <ifg_ifpo@dof.gov.ph>, "dminimo@dof.gov.ph" <dminimo@dof.gov.ph>, "cdiaz@dof.gov.ph" <cdiaz@dof.gov.ph>, Ferdinand Ortila <fortilla@dof.gov.ph>, "afang@dof.gov.ph" <afang@dof.gov.ph>, Al Gerica Rillon <arillon@dof.gov.ph>, "cvillegas@dof.gov.ph" <cvillegas@dof.gov.ph>, "cbatino@dof.gov.ph" <cbatino@dof.gov.ph>, BOI_attached <MCHDichosa@boi.gov.ph>, Sandra Marie Recolizado <smsrecolizado@boi.gov.ph>, Patricia Dominique Tablizo <pddtablizo@boi.gov.ph>, BOHRD <boi-ird@boi.gov.ph>, "ipps-ird@boi.gov.ph" <ipps-ird@boi.gov.ph>, "ouppia@denr.gov.ph" <ouppia@denr.gov.ph>, "cleal@denr.gov.ph" <cleal@denr.gov.ph>, "odpps@yahoo.com" <odpps@yahoo.com>, "mojicallarina@gmail.com" <mojicallarina@gmail.com>, Llarina Mojica <llarinamojica@gmail.com>, "DENR - Venerando U. Garcia" <policy@denr.gov.ph>, "psddivision@gmail.com" <psddivision@gmail.com>, "nhmeusebio@denr.gov.ph" <nhmeusebio@denr.gov.ph>, "zausuello@denr.gov.ph" <zausuello@denr.gov.ph>, Office OUIER <oumaier@dfa.gov.ph>, "paulvincent.uy@dfa.gov.ph" <paulvincent.uy@dfa.gov.ph>, "louella.duarte@dfa.gov.ph" <louella.duarte@dfa.gov.ph>, "anthony.aguirre@dfa.gov.ph" <anthony.aguirre@dfa.gov.ph>, "vonryan.ferrera@dfa.gov.ph" <vonryan.ferrera@dfa.gov.ph>, "eru.oier@dfa.gov.ph" <eru.oier@dfa.gov.ph>, IEPN OUIER <iepn.oier@dfa.gov.ph>, "ousec.rd@dost.gov.ph" <ousec.rd@dost.gov.ph>, "itcu-mail@dost.gov.ph" <itcu-mail@dost.gov.ph>, "jep@asti.dost.gov.ph" <jep@asti.dost.gov.ph>, "Alexis Niño H. Almasan" <alexis@asti.dost.gov.ph>, "joan@asti.dost.gov.ph" <joan@asti.dost.gov.ph>, "vanesa@asti.dost.gov.ph" <vanesa@asti.dost.gov.ph>, "tr.batan@dotr.gov.ph" <tr.batan@dotr.gov.ph>, "ouppd@dotr.gov.ph" <ouppd@dotr.gov.ph>, "icd@dotr.gov.ph" <icd@dotr.gov.ph>, "DOTr - Jasmin Marie C. Uson" <Jasmin.uson@dotr.gov.ph>, "Dir. Neil Catajay" <NeilCatajay@dti.gov.ph>, Bureau of Philippine Standards <BPS@dti.gov.ph>, "Mario U. Gaudiano" <MarioGaudiano@dti.gov.ph>, Catherine Antonio <CatherineAntonio@dti.gov.ph>, "Jasmin E. Metre" <JasminMetre@dti.gov.ph>, "NEDA - Usec. Rosemarie Edillon" <rgedillon@neda.gov.ph>, "baganapin@neda.gov.ph" <baganapin@neda.gov.ph>, "rdballester@neda.gov.ph" <rdballester@neda.gov.ph>, &TSIS-od <&TSIS-od@neda.gov.ph>, &TSIS-sd <&TSIS-sd@neda.gov.ph>, "mnurgel@neda.gov.ph" <mnurgel@neda.gov.ph>, "rfrome@neda.gov.ph" <rfrome@neda.gov.ph>, ntnatural <NTNatural@neda.gov.ph>, "Rory Jay S.C. Dacumos" <rsdacumos@neda.gov.ph>, "&ANRES-ed@neda.gov.ph" <&ANRES-ed@neda.gov.ph>, "mpmendoza@mail.tariffcommission.gov.ph"

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<eia@emb.gov.ph>, recordsco <recordsco@emb.gov.ph>, "bmb@bmb.gov.ph" <bmb@bmb.gov.ph>,
"director@bmb.gov.ph" <director@bmb.gov.ph>, "adirector@bmb.gov.ph" <adirector@bmb.gov.ph>,
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Sent on behalf of the TRM-TCWM Technical Secretariat

Dear Sir/Madame:

Further to ZWTO-8-2024, kindly find attached a follow-up report from the Philippine Mission to the WTO in Geneva regarding the UK's invitation for the WTO Members to participate in the ongoing consultations on the UK Carbon Border Adjustment Mechanism (CBAM) (ZWTO-128-2024 dated 15 April 2024).

The UK CBAM is set to begin implementation on 1 January 2027. The UK hopes to work within the framework of the WTO rules and solicit views on understanding the impacts of CBAM on producers and importers, international trade partners, and climate experts. The consultation is open until 13 June 2024 and may be accessed at: <https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism>.

Mission's Comments and Recommendations

- The Mission recommends focusing the comments on the product scope, emissions monitoring, reporting and verification requirements, approach to default values for the calculation of embodied emissions, minimum UK CBAM threshold, and recognition of explicit carbon prices.
- The Mission welcomes granular data on Philippine exports covered in the proposed scope and the additional sectors that will likely be covered in the future (e.g., ceramics and glass). Based on the PSA data (see Annex to the report), Mission noted the negligible CBAM exposure for Philippine exports to the UK, with the highest trade volume of goods covering articles of iron and steel and ceramic products in 2023.
- The UK CBAM will only recognize explicit carbon prices in other jurisdictions. Thus, the Mission recommends listing out price and nonprice mechanisms that have an impact on carbon and other greenhouse gas emissions in the Philippines, including excise taxes levied on fossil fuels and coal, the VAT regime for renewable vs. non-renewable energy sources, incentives for renewable energy and energy efficiency, and price impact on the removal of fossil fuel subsidies, among others.

In view of the above recommendations, may we request your office to review the proposed UK CBAM regulation (see attached) and undertake necessary consultations with your respective stakeholders on the possible impact of such mechanism to the Philippines. We would appreciate your inputs, comments, and/or clarifications **on or before 24 May 2024**.

For queries, please coordinate with the DTI-BITR TCWM Secretariat through email at RaissaFaminial@dti.gov.ph and KareenHopeEltagon@dti.gov.ph.

Thank you.

Best regards,
TCWM Secretariat

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Multilateral Relations Division
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3 attachments

 **ZWTO-128-2024_Letter on UK Carbon Border Adjustment Mechanism (CBAM).pdf**
1670K

 **Annex A_Introduction_of_a_UK_carbon_border_adjustment_mechanism_from_January_2027.docx.pdf**
1236K

 **ZWTO-8-2024_UK's Carbon Border Adjustment Mechanism (CBAM) Framework and Deforestation Regulation.pdf**
289K

To: SFA
Fr: Geneva WTO
Re: **Letter from the UK Ambassador and Permanent Representative Simon Manley on UK Carbon Border Adjustment Mechanism (CBAM)**
Rt: OUMAIER, OIER, OEA, London PE
Cc: Secretary of the Department of Trade and Industry
Secretary of the Department of Agriculture
Secretary of the Department of Environment and Natural Resources
Secretary of the National Economic Development Authority
Undersecretary of DTI and Chair of the Technical Committee on WTO Matters
Dt: 15 April 2024
Cn: ZWTO-128-2024
Pgs: 5 including this page

Further to ZWTO-8-2024 (5 January 2024), Mission respectfully transmits the attached letter of H.E. Simon J. Manley, Ambassador and Permanent Representative of the Mission of United Kingdom (UK) to Geneva, inviting WTO Members to participate in ongoing consultations on how the UK Carbon Border Adjustment Mechanism (CBAM) (*Annex A*).

The UK hopes to work within the framework of the WTO rules and to solicit views on understanding the impacts of CBAM to the producers and importers, international trade partners, and climate experts.

This consultation is open until 13 June 2024 and may be accessed at: <https://www.gov.uk/government/consultations/consultation-on-the-introduction-of-a-uk-carbon-border-adjustment-mechanism>. Responses to the consultation may be sent to cbampolicyteam@hmrc.gov.uk.

Comments and Recommendations

Further to our previous report, Mission would recommend that the TCWM and Department focus its comments on the product scope; emissions monitoring, reporting and verification requirements; approach to default values for the calculation of embodied emissions; minimum UK CBAM threshold; and recognition of explicit carbon prices. The UK appears to require less stringent validation than the EU CBAM as it will allow for calculation of embedded emissions either through default values or by providing data on actual emissions. However, the UK does provide a low threshold in requiring CBAM registration, since any entity exporting more than GBP 10,000 over a 12-month period would be covered.

Mission would welcome granular data on Philippine exports covered in the proposed scope, which as previously mentioned, proposed to include the additional sectors of ceramics and glass beyond what is provided under the EU's CBAM. Based on available data in the attached *Annex B*, Mission would note the negligible CBAM exposure for Philippine exports to the UK, with the highest trade volume of goods covering articles of iron and steel (USD 740,142 in 2023) and ceramic products (USD 419,409 in 2023).

Mission would also note that the UK CBAM will only recognize explicit carbon prices in other jurisdictions. Mission would recommend that the TCWM and agencies list out price and non-price mechanisms that have an impact on carbon and other greenhouse gas emissions in the

Philippines. This could cover excise taxes levied on fossil fuels and coal, the VAT regime for renewable vs. non-renewable energy sources, incentives for renewable energy and energy efficiency, and price impact on the removal of fossil fuel subsidies.

The UK CBAM is set to begin implementation on 1 January 2027.

Our Mission stands ready to assist the Department and the TCWM in connecting with the UK Mission should you have further questions on the above policy.

For the Department's and TCWM's consideration.

A handwritten signature in black ink, appearing to read 'MAGZ', with a long, sweeping underline.

MANUEL A.J. TEEHANKEE
Ambassador and Permanent Representative



UK Mission
Geneva

From the Permanent
Representative
58 Avenue Louis Casai
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Switzerland

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11 April 2024

Dear Colleagues,

Consultation on the introduction of a UK CBAM

On 18 December I wrote to inform you that, as a component of the UK's international and domestic efforts to address the issue of carbon leakage, the UK Government had announced it would introduce measures including a Carbon Border Adjustment Mechanism (CBAM). That announcement followed an initial consultation on UK domestic policies to manage future carbon leakage risk. I am writing to inform you that the consultation is now open and to invite your response. The CBAM will be introduced by 2027 on imports of certain carbon intensive goods imported in the following sectors: aluminium; cement; ceramics; fertilisers; glass; hydrogen; and iron & steel.

The UK Government's objective in bringing forward this measure is to ensure that UK policies to incentivise a move to less carbon-intensive production methods, in line with its Net Zero Strategy, are not undermined because of carbon leakage. Carbon leakage would defeat the purpose of reducing emissions at a national level, and threaten the global effort to reach net zero and limit global warming to 1.5 °C.

We thank all WTO Members that have engaged with us to date on the UK's carbon leakage measures. The UK is committed to working within the framework of WTO rules and to understanding the impacts of the introduction of a CBAM, not least on least developed countries. As we design the CBAM, we will continue to engage openly with our trading partners around the world and we very much value feedback on how we can best deliver it.

We now invite WTO Members to share their perspectives in a further consultation published by HM Treasury and HM Revenue and Customs on how the UK CBAM can be best delivered: 'Introduction of a UK carbon border adjustment mechanism (CBAM) from January 2027' [Consultation on the introduction of a UK carbon border adjustment mechanism - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/introduction-of-a-uk-carbon-border-adjustment-mechanism). This consultation sets out how the Government is planning to design the UK CBAM to ensure that it is effective, deliverable and meets our international obligations.

The consultation is open to international responses and we welcome the participation of all WTO Members in this process, which will help us to understand the views of producers and importers, our international trading partners and climate experts on the proposed design of the CBAM. We will consider the responses to this consultation in the final design and implementation of the UK CBAM before legislating.

This consultation is open until 13 June 2024. We ask that you please send responses to the consultation to the following email address:
cbampolicyteam@hmrc.gov.uk.

We look forward to ongoing discussion with you on these measures, as well as continuing to work together towards international solutions to reduce the risks and impacts of climate change, including actions to limit carbon leakage risks. We are committed to transparency with our trade partners on our measures and would be pleased to make arrangements with your delegation to answer any questions you may have through the following email address: geneva_wto@fcdo.gov.uk.

Yours ever,

A handwritten signature in black ink, appearing to read 'S. Manley', with a long horizontal stroke extending to the right.

SIMON J. MANLEY CMG

Philippines Exports to United Kingdom

Commodity: 25/28/31/69/70/72/73/7301/76, Salt; Sulfur; Earths And Stone; Plastering Materials, Lime And Cement/Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Of Radioactive Elements Or Of Isotopes/Fertilizers/Ceramic Products/Glass And Glassware/Iron And Steel/Articles Of Iron Or Steel/Sheet Piling Of Iron Or Steel, Whether Or Not Drilled, Punched Or Made From Assembled Elements; Welded Angles, Shapes And Sections, Of Iron Or Steel/Aluminum And Articles Thereof

Year Ending: December, 2021 - 2023

HS Subheading	Description	January - December (Value: USD)			Market Share(%)			Change 2023/2022	
		2021	2022	2023	2021	2022	2023	Amount	Percent
28,31,25,69,70,72,73,76,7301	28,31,25,69,70,72,73,76,7301	1,487,821	1,845,602	1,589,635	100	100	100	-255,967	-13.87
73	Articles Of Iron Or Steel	998,692	1,291,772	740,142	67.12	69.99	46.56	-551,630	-42.7
69	Ceramic Products	275,098	413,267	419,409	18.49	22.39	26.38	6,142	1.49
72	Iron And Steel	21,432	32,968	381,292	1.44	1.79	23.99	348,324	1,056.55
76	Aluminum And Articles Thereof	140,987	68,805	35,933	9.48	3.73	2.26	-32,872	-47.78
70	Glass And Glassware	43,337	18,365	12,859	2.91	1	0.81	-5,506	-29.98
25	Salt; Sulfur; Earths And Stone; Plastering Materials, Lime And Cement	8,275	0	0	0.56	0	0	0	0
28	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Of Radioactive Elements Or Of Isotopes	0	20,425	0	0	1.11	0	-20,425	-100

Data Source: Phillipines Statistics Authority

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To: SFA
Fr: Geneva WTO
Re: **Letter from the UK Ambassador and Permanent Representative Simon Manley on the UK's Carbon Border Adjustment Mechanism (CBAM) Framework and Deforestation Regulation**
Rt: OUMAIER, OIER, OEA, London PE, Paris PE
Cc: Secretary of the Department of Trade and Industry
Secretary of the Department of Agriculture
Secretary of the Department of Environment and Natural Resources
Secretary of the National Economic Development Authority
Undersecretary of DTI and Chair of the Technical Committee on WTO Matters
Dt: 5 January 2024
Cn: ZWTO-8-2024
Pgs: 5 including this page

Mission respectfully transmits a copy of the letter of H.E. Simon J. Manley, Ambassador and Permanent Representative of the Mission of United Kingdom (UK) to Geneva, on the development of a Carbon Border Adjustment Mechanism (CBAM) framework, embodied emissions framework, and voluntary product standards to promote low carbon products.

The UK highlighted the importance of international cooperation in mitigating the risk of climate leakage, specifically through the Climate Club and the OECD's Inclusive Forum on Carbon Mitigation Approaches (IFCMA) but underlined the risk of carbon leakage, which in its view, will undermine efforts to reduce global emissions. The UK has concluded its consultation with relevant stakeholders on exploring potential domestic policies, and published the following summary: https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation?trk=public_post_comment-text.

As a result of the review, the UK has decided to implement its own CBAM by 2027 measuring embedded emissions for products in the following sectors: aluminum, cement, ceramics, fertiliser, glass, hydrogen, iron and steel. Under the UK's prospective CBAM, importers will be required to pay the difference between the carbon price of the exporting economy and the carbon price in the United Kingdom. The UK has emphasized that this policy framework will be consistent with WTO rules and stressed its commitment to maintain transparency within the WTO, while continuing to engage with trading partners to understand the UK CBAM's potential impacts.

Mission would note that in comparison to the EU's CBAM, the UK CBAM's will not cover electricity but will include the new sectors of ceramics and glass. While the UK CBAM appears to cover both scope 1 and scope 2 emissions, there is still a lack of clarity of whether scope 2 emissions from electricity consumed will be applied to all sectors (note: the EU provides a compensation mechanism for aluminum and iron/steel). There is also a lack of clarity on which products under these sectors will be covered and whether there would be a phased approach to implementation.

Ambassador Manley has also circulated a letter on the UK's Forest Risk Commodity Regulations. Under its scope, all UK companies with a global annual turnover of at least GBP 50 million and products will be required to conduct a due diligence exercise on their supply chains for soy, palm oil, cocoa, and cattle (excluding dairy) products to ensure that these products adhered to producer countries' domestic laws and regulations on land use.



Mission understands that the UK will likely conduct further briefing or transparency sessions at the WTO Committee on Trade and Environment (CTE) and will inform the Department and TCWM's on further updates, including possible engagement between capital-based officials.

Mission would recommend that the Department and TCWM consider collating and sharing information on Philippine participation in carbon adjustment and carbon pricing-related initiatives such as the OECD Inclusive Forum on Carbon Mitigation Approaches (IFCMA). Mission would also appreciate further information on domestic developments related to carbon pricing, carbon credit mechanisms, and existing policies such as excise taxes that could be considered for "crediting" under the EU CBAM or UK CBAM.

For the Department's and TCWM's consideration.



MANUEL A.J. TEEHANKEE
Ambassador and Permanent Representative



**UK Mission
Geneva**

**From the Permanent
Representative**
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Switzerland

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21 December 2023

Dear Colleague,

I am writing to inform you of important action the UK is taking to mitigate risk of carbon leakage, including through the development of a Carbon Border Adjustment Mechanism (CBAM), voluntary product standards and an embodied emissions reporting framework.

The UK is taking rapid action on industrial decarbonisation as part of its response to the urgent challenge of tackling climate change. This includes the use of carbon pricing through the UK Emissions Trading Scheme (UK ETS), which the UK has announced will be aligned with its net zero ambitions. This ambitious action will contribute to fulfilling the UK's domestic and international climate commitments, including the government's nationally determined contribution (NDC) under the Paris Agreement, UK Carbon Budgets and the 2050 Net Zero target. However, it also creates risk of carbon leakage, which, left unmitigated, could undermine efforts to reduce global emissions, compromising our collective efforts to limit global warming to 1.5°C.

The UK is not alone. There is increasing recognition that all countries with high ambition to decarbonise their industry may face carbon leakage risk. The best solution to carbon leakage is an international one: as set out recently by the Climate Club, cooperation on emissions from some of the hardest to abate sectors can help accelerate the industrial transition across continents and reduce emissions on a truly global scale. This includes heavy industry sectors which are responsible for around 70% of industrial emissions, and which produce highly traded materials and goods, increasing the risk of carbon leakage. Against this background, the UK is undertaking practical work with others in the inclusive and cooperative international Climate Club, and is collaborating on action through other initiatives such as the Inclusive Forum on Carbon Mitigation Approaches (IFCMA).

While international solutions to mitigate carbon leakage are best, it will take time to build consensus. Therefore, earlier this year, the UK sought views on potential domestic policies to manage future carbon leakage risk as part of the joint HM Treasury and the Department for Energy Security and Net Zero consultation

'Addressing carbon leakage risk to support decarbonisation'. The consultation explored a number of potential domestic policies, including a CBAM, as well as considering what role could be played by product standards, measures to grow the market for low carbon industrial products, and emissions reporting.

Consultation background

Over the duration of the consultation the UK government conducted 61 engagement sessions with 326 stakeholders participating. A wide range of sectors responded to the consultation, with more than 160 responses in total from the UK and from overseas governments and industries. A summary of responses to the consultation and the government response has been published today, and is available here: [Addressing carbon leakage risk to support decarbonisation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation)

Government action

Following careful consideration and analysis of the responses received, the UK government has decided that it will implement a UK CBAM by 2027. The CBAM will ensure that UK decarbonisation efforts lead to a true reduction in global emissions rather than displacing carbon emissions overseas. It will do so by applying a carbon price to imported goods from the following sectors: aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron and steel.

The UK CBAM will operate by applying a liability that lies directly with the importer of goods within scope of the CBAM on the basis of emissions embodied in those goods. That liability will depend on the greenhouse gas emissions intensity of the imported good, and the gap between the carbon price applied in the country of origin (if any) and the carbon price that would have been applied had the good been produced in the UK. The CBAM will not involve the purchase or trading of emissions certificates. The attached factsheet sets out further information.

The UK will carry out consultation in 2024 addressing further details on the design and delivery of the CBAM. We will continue to engage with trade partners throughout the design and implementation phases to ensure the effectiveness of the CBAM and to minimise trade impacts.

Alongside a UK CBAM, the government is also announcing its intention to work with industry to establish voluntary product standards that businesses could choose to adopt to help promote their low carbon products to customers; and to develop an embodied emissions reporting framework that could serve future carbon leakage and decarbonisation policies.

The UK's approach to voluntary product standards and emissions reporting will, like the CBAM, be subject to further consultation in 2024.

Working with you

The UK is committed to working within the framework of WTO rules and to understanding the impacts of the introduction of a CBAM, particularly on least developed countries. We will continue to explore how their concerns could be addressed, consistent with our commitment to WTO rules and our determination to reduce global emissions.

We look forward to discussing the measures with you as well as continuing to work together towards international solutions to reduce the risks and impacts of climate change including actions to limit carbon leakage risks. We are committed to transparency with our trade partners on our measures and would be pleased to make arrangements with your delegation to answer any questions you may have.

Yours ever,

A handwritten signature in black ink, appearing to read 'S. Manley', with a long horizontal flourish extending to the right.

SIMON J. MANLEY CMG