

A CBAM can generate up to £3.3 billion per year

- *A Carbon Border Adjustment Mechanism (CBAM) could raise up to £3.3bn per year, if Government implements one in line with recommendations from the Commission for Carbon Competitiveness*
- *Independent modelling from Frontier Economics shows the potential revenue a CBAM could generate*
- *Government announced its first step towards a CBAM in December 2023, but the Commission – a cross-party and cross-industry coalition – is calling on Ministers to go further to realise potential benefits*
- *The Commission for Carbon Competitiveness, chaired by John Penrose MP, works to deliver practical solutions for how the UK can reach net zero without undermining the competitiveness of UK manufacturing*

Independent analysis shows that a Carbon Border Adjustment Mechanism (CBAM) can generate as much as £3.3 billion per year, if the Government follows recommendations from a cross-party group of MPs.

The Commission for Carbon Competitiveness, a cross-party and cross-industry coalition, asked Frontier Economics to analyse the potential revenue a carbon border measure could generate, with the scenario closest to the Commission's recommended CBAM potentially freeing up to £117 off each household's energy bills or be used to cut 6p from fuel duty, providing immediate relief with the cost of living.

Evidence gathered by the Commission for Carbon Competitiveness, in consultation with a wide range of manufacturing industries, think tanks, trade unions and academics, overwhelmingly suggests that the UK CBAM should apply to all our manufacturing industries without exception over time, subject to transparent sector-specific impact assessments.

Last year, the Government confirmed its intention to bring forward a CBAM by 2027 as part of a package of measures to tackle carbon leakage. However, the Government's current proposals do not go far enough and contain a variety of issues, including:

- The Government's announcement omits entire manufacturing industries that are at risk of carbon leakage, and no formal justification was given as to why certain sectors are included or excluded.
- By not aligning the timing of the CBAM introduction with the EU in 2026, the Government risks significant exposure to carbon-intensive "dumping", which would cost UK manufacturing jobs and investment.
- The plans also need a greater focus on exports. Without an exemption from ETS costs to make clean, green UK manufacturing products globally competitive, a CBAM will only offer a partial solution.
- The Government's announcement is silent about the proposal not being a revenue-raising measure which is essential to underline that this is a fiscally-neutral environmental measure rather than protectionism.

To enable our manufacturing industries to compete on a level playing field with firms based in countries with less ambitious climate policies, the Commission for Carbon Competitiveness is calling on the Government to make significant improvements to its current proposals and provide a holistic solution to the risks of carbon leakage.

The Commission for Carbon Competitiveness is calling for:

- A CBAM which is tailored to the UK's specific and sectoral requirements, and applies to all our manufacturing industries without exception over time, subject to transparent sector-specific impact assessments.
- A clear timing pathway to introduce the scheme in each sector, with those sectors which are also covered by the EU CBAM to have a matching timetable in 2026, to avert the risk of product dumping.
- A CBAM to only apply to manufactured products consumed in the UK, with UK manufacturing exports exempted from carbon costs.
- Transitional arrangements to make sure our manufacturing industries already exposed to high levels of damage from carbon leakage remain viable. This means immediate changes to the UK Emissions Trading Scheme (UK ETS) policy.
- A public commitment that the CBAM will not be a revenue-raising measure, and that any net receipts will be returned to consumers and businesses in future budgets. The Commission's proposal is that this should be done by reductions in either green levies on energy bills, or in fuel duty.

Commenting, Chair of the Commission for Carbon Competitiveness John Penrose MP said:

"This research shows that the right kind of CBAM could cut as much as 6p a litre off fuel duty or £117 per household off energy bills, saving UK manufacturing jobs and boosting our exports in the process.

"But only if the Government adopts the recommendations of the Commission for Carbon Competitiveness and makes significant improvements to its current proposals on carbon leakage.

"We look forward to working closely with Ministers as they consider the detail of what a UK CBAM will look like in the coming months."

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