# Addressing carbon leakage risk to support decarbonisation

Consultation overview

6 April 2023



Department for Energy Security & Net Zero

HM Treasury

# Agenda

**10:00 - 10:10** Introduction

**10:10 - 10:15** Consultation context and how to respond

**10:15 - 10:30** Overview of policies

**10:30 - 11:00** Q&A and next steps

# HMG’s approach to carbon leakage

Carbon leakage is the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation. As a result, the objective of decarbonisation efforts – to reduce global emissions – would be undermined.

- The UK is working with international partners to address carbon leakage - this remains our priority.
- However, this will take time, so we are also considering domestic policies to ensure UK efforts lead to a true reduction in global emissions.
- **The government is therefore exploring a package of potential measures to mitigate carbon leakage risk at all stages of the UK's net zero transition.**
- ETS reform is being explored in parallel by the UK ETS Authority; any carbon leakage policy would be designed to work cohesively with our existing carbon leakage policy measures.



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# About the consultation

**Timing and audience**

Consultation opened on 30 March, running for 12 weeks to 22 June.

Welcome inputs from all stakeholders, including industry in UK and overseas.

**Accessing and responding:**

Consultation online at: https://www.gov.uk/government/consultations/addressing-carbon-leakage-risk-to-support-decarbonisation

Respond online at: https://beisgovuk.citizenspace.com/trade/addressing-carbon-leakage-risk/

Email for consultation: [redacted]@beis.gov.uk

# Exploring a potential policy package

This exploratory consultation will inform decision making on which policies, if any, should be introduced, and does not commit the government to adopt any specific policy.

We are inviting views and evidence from stakeholders on the best possible mix of policies to manage carbon leakage risk.

**New measures would need to:**

- Respond to carbon leakage risk in a proportionate, targeted, evidence-based, and effective way, aligning with relevant UK decarbonisation policy.
- Promote and encourage increased climate action both in the UK and globally, including international action to address carbon leakage and taking into consideration countries' differing levels of development, particularly for least developed and low-income countries.
- Be compatible with, and deliverable alongside, the government's key domestic priorities, such as supporting sustainable and balanced growth, by minimising business compliance costs.
- Be consistent with our commitment to free and open trade and be designed in line with the UK's international obligations and commitments, including World Trade Organisation (WTO) obligations.

# Part 1: Potential mitigation policies

<table>
<tr><th>Measure</th><th>Description</th><th>Overview</th><th>Key areas for consideration</th></tr>
<tr><td>Carbon border adjustment mechanism<br><br>(CBAM)</td><td>Applied on imports and would reflect both the carbon emitted in their production together with any gap between the carbon price already applied in the country of origin and the carbon price that would have been incurred had they been produced in the UK.</td><td>• Could be introduced for imported products in sectors subject to UK domestic carbon pricing (e.g. UK ETS).<br>• CBAM liability determined as imported emissions multiplied by carbon pricing differential between jurisdictions.<br>• Could utilise ‘default values’ and/or independently verified emissions data.</td><td rowspan="2">• Sectors and targeting<br>• Emissions<br>• CBAM price measurement<br>• MPS thresholds<br>• Implementation<br>• Timing<br>• International and trade<br>• Simplification of carbon intensity measurement<br>• Risk of circumvention and resource shuffling<br>• Possible downstream impacts<br>• Exports<br>• Carbon credits and offsetting</td></tr>
<tr><td>Mandatory product standard (MPS)</td><td>Would set an upper limit on the embodied emissions of specific industrial products (both domestically produced and imported), and could be designed to increase in stringency over time.</td><td>• Proposing to initially target intermediate products in the steel and cement sectors, with the potential for expanding to other sectors and products in due course.<br>• Standards could be introduced from the late 2020s, following the establishment of an emissions reporting system.</td></tr>
<tr><td>Demand side policies</td><td>Would help grow the market for low carbon goods, such as product labelling (based on voluntary product standards) and public procurement initiatives.</td><td>• Would give consumers greater transparency about the embodied emissions of products, enabling lower carbon choice.<br>• Seeks views on to which level of pledge for the Industrial Deep Decarbonisation Initiative (IDDI) the UK should sign up.</td><td>• Voluntary Product Standards and Labelling<br>• The Industrial Deep Decarbonisation Initiative (IDDI) Pledge level<br>• The First Movers Coalition</td></tr>
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# Part 2: Emissions reporting requirements

An **embodied emissions reporting system** could support the implementation of carbon leakage mitigation policies.

A key consideration is to minimise and consolidate burdens on business including by making requirements streamlined and non-duplicative as far as possible.

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|---|---|
| An **emissions reporting framework** may be needed to underpin policy with reporting of product-level embodied emissions. | • Options for embodied emissions reporting<br>• Use of Emission Factors<br>• Possible use of default values |
| **Designing the mechanism for embodied emissions reporting** to standardise approaches and ensure robust outcomes while minimising burdens for businesses | • Methodology and metric<br>• Data collection period<br>• Sectoral coverage and where to target in the manufacturing chain |
| **Delivery of reporting system** for collecting and processing product-level embodied emissions data | • IT system options<br>• Frequency of reporting<br>• Verification and disclosure |

# Q&A

Please submit any questions on Teams.

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