

**Consultation:** Draft Regulations – Carbon Border Adjustment Mechanism (CBAM)

**Submitted by:** The Aluminium Federation (ALFED)

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## 1. Introduction

The Aluminium Federation (ALFED) welcomes the opportunity to respond to HMRC's consultation on the draft secondary legislation underpinning the UK Carbon Border Adjustment Mechanism (CBAM), scheduled to take effect from 1 January 2027.

ALFED represents the UK aluminium sector across the full value chain, including recycling, remelting, extrusion, rolling, finishing, distribution and downstream manufacturing. Our members are deeply integrated within global supply chains and therefore directly affected by the design and implementation of carbon border adjustment mechanisms.

ALFED recognises the importance of CBAM as a policy instrument intended to prevent carbon leakage and ensure a level playing field between domestic production and imported goods. However, for CBAM to achieve its intended objectives, it must be implemented in a way that supports UK industrial competitiveness, maintains alignment with key trading partners, and avoids creating disproportionate administrative burdens for businesses operating in globally traded markets.

This consultation provides a valuable opportunity to address several outstanding areas of uncertainty within the proposed CBAM framework.

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## 2. Strategic Context: Competitiveness and Policy Alignment

The UK aluminium sector operates within an intensely competitive global marketplace. Many UK manufacturers are already facing structural cost disadvantages relative to international competitors, particularly in relation to energy prices, regulatory costs and investment conditions.

In this context, the introduction of CBAM must be carefully designed to ensure that it does not unintentionally exacerbate these competitiveness challenges. A poorly calibrated mechanism risks creating additional compliance costs for UK importers and manufacturers without materially reducing global emissions or strengthening domestic production. For example, under the proposed UK CBAM rules, a UK producer importing aluminium to manufacture an aluminium flask for domestic sale in the UK, will incur a Carbon Tax on the imported aluminium via UK CBAM. However, a retailer importing the finished aluminium flask for sale in the UK may not incur an equivalent Carbon Tax via UK CBAM. This asymmetry risks placing domestic manufacturers of aluminium goods at

a competitive disadvantage relative to importing aluminium finished products ready for sale. As such, the UK CBAM policy design warrants careful consideration to ensure it supports, rather than inadvertently undermines, UK manufacturing.

A further strategic consideration is the need for alignment with the EU CBAM framework, given the deep integration between UK and European supply chains. Divergence between UK and EU CBAM methodologies, reporting frameworks or verification standards could significantly increase administrative complexity for businesses operating across both markets.

Companies importing materials into both the UK and EU may face the prospect of managing two separate carbon border regimes with different reporting rules, emissions calculation methodologies and verification requirements. Such divergence would increase compliance costs and potentially distort trade flows.

ALFED therefore encourages the UK Government to prioritise regulatory alignment with the EU CBAM wherever possible, particularly in relation to emissions calculation methodologies, verification standards and reporting processes.

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### **3. Implementation Timeline and Industry Preparedness**

The timeline for CBAM implementation remains one of the most significant concerns raised by industry.

The consultation documentation suggests that several core operational elements of the CBAM framework, including Monitoring, Reporting and Verification (MRV) rules, verifier accreditation requirements, and default emissions value, may not be finalised until late 2026. If this timetable is maintained, businesses will have very limited time to develop the internal systems and supply chain processes required to comply with the regime before the January 2027 implementation date.

Implementing CBAM will require companies to establish new compliance structures that extend far beyond traditional customs procedures. Businesses will need to engage with international suppliers to obtain emissions data, adapt contractual arrangements to include carbon reporting requirements, establish internal emissions accounting systems and potentially invest in new IT infrastructure to manage reporting obligations.

Companies will also need to consider and calculate the full cost of UK CBAM in commercial negotiations for 2027, which will typically start in Q3 2026. One of ALFED's member learnings from EU CBAM is that the definitive period has started with some open questions on how much CBAM tax importers to EU will have to pay. The UK CBAM should avoid this by publishing methodologies as soon as possible.

It has been communicated that free allocation phase-out/UK CBAM phase-in will begin in 2027 and last for a trajectory of 9 years. i.e. full phase out in 2035. This means that free allocation phase-out/phase-in for the UK CBAM starts and finishes one year after

the EU CBAM. Please could UK Government provide clarity on the exact percentages of this phase-out.

For many companies, these changes will require substantial operational planning and internal investment.

ALFED therefore strongly recommends that the government publish the full MRV framework, verifier accreditation rules and default emissions methodologies as early as possible and ideally no later than mid-2026. Providing industry with sufficient implementation time will be critical to ensuring the mechanism functions effectively.

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#### **4. Registration Process and Administrative Burden**

ALFED recognises the importance of establishing a registration framework that enables HMRC to identify companies liable for CBAM obligations.

However, members have expressed concern that the proposed registration process may create unnecessary administrative complexity, particularly for companies importing commodity materials such as aluminium.

The draft guidance requires businesses to estimate the weight of CBAM goods expected to be imported over the following twelve months as part of the registration process.

For globally traded commodities, import volumes can fluctuate significantly due to changes in market conditions, currency movements and supply chain dynamics. As a result, providing accurate twelve-month projections may be extremely challenging.

Industry understands that these estimated weights are intended primarily as a contingency mechanism that would allow HMRC to raise a central assessment where companies fail to submit returns. However, it is essential that such estimates are treated as indicative rather than binding projections and that companies are not exposed to penalties where actual import volumes differ materially from initial estimates.

Further clarification would also be helpful regarding the ongoing lifecycle of CBAM registration. Companies require a clear understanding of whether they remain within the system indefinitely once registered or whether they will need to notify HMRC if their imports subsequently fall below the registration threshold.

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## 5. Scope of Goods and Supply Chain Complexity

The publication of commodity codes identifying goods within the scope of CBAM is a welcome step in providing clarity for industry.

However, the aluminium supply chain is highly complex and often involves multiple stages of processing across different jurisdictions. As a result, companies require clear guidance on how CBAM will apply to complex goods incorporating multiple precursor materials.

The draft legislation indicates that emissions embodied in UK-produced precursor goods should not be subject to CBAM where those materials are incorporated into complex products that are subsequently re-imported into the UK. While this principle is strongly supported, the current legislation provides limited guidance on how companies should demonstrate and document the presence of UK precursor materials within imported products.

Clear rules regarding documentation requirements, supply chain traceability and verification standards will be essential to ensure that companies are able to apply these provisions correctly.

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## 6. Record Keeping and Supply Chain Data

The draft legislation requires companies to maintain detailed records relating to imported CBAM goods for a period of six years. These records include data on commodity codes, import values, weights, origin documentation and embodied emissions information.

While ALFED recognises the importance of maintaining appropriate records, members have raised concerns regarding the practical challenges associated with collecting emissions data across complex international supply chains.

Many UK aluminium importers purchase materials through traders or distributors rather than directly from production facilities. In such cases, obtaining independently verified emissions data from upstream installations may prove difficult, particularly during the early phases of CBAM implementation.

Ensuring that default emissions values remain available and practical will therefore be essential in order to avoid creating barriers to trade or excessive administrative burdens.

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## 7. Carbon Price Relief and Verification Requirements

ALFED strongly supports the principle of carbon price relief in order to prevent double carbon pricing where emissions have already been priced in another jurisdiction.

However, the proposed verification requirements may prove difficult for many supply chains to meet in practice. Importers must obtain a carbon pricing verification form completed by an accredited independent verifier and containing detailed information on the carbon pricing scheme applied to the production of the goods.

For complex international supply chains, particularly those involving multiple intermediaries, obtaining this level of documentation may not always be straightforward.

ALFED therefore encourages government to ensure that verification requirements remain proportionate and aligned with international standards wherever possible.

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## 8. Monitoring, Reporting and Verification Framework

One of the most critical outstanding issues for industry is the absence of detailed guidance on Monitoring, Reporting and Verification requirements.

Companies cannot effectively prepare for CBAM implementation without clear rules governing emissions calculation methodologies, verification procedures and reporting formats.

Given the importance of these frameworks to the operation of CBAM, ALFED strongly recommends that government prioritise the publication of MRV guidance and verifier accreditation requirements well in advance of implementation.

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## 9. Industrial Strategy and Use of CBAM Revenues

The introduction of CBAM raises broader questions regarding the role of carbon border mechanisms within the UK's industrial strategy.

The aluminium sector is currently undergoing a significant transition as it seeks to decarbonise production processes while maintaining international competitiveness. This transition will require substantial investment in new technologies, recycling infrastructure and low-carbon energy systems.

ALFED therefore encourages government to consider how CBAM revenues could support the decarbonisation and long-term competitiveness of UK manufacturing, particularly by incentivising decarbonisation projects at UK sites facing CBAM-related

costs, ensuring that funds are reinvested to strengthen domestic industrial capability.

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## 10. Conclusion

The Aluminium Federation supports the objective of introducing a Carbon Border Adjustment Mechanism that protects UK industry from carbon leakage and ensures fair competition between domestic and imported goods.

However, the success of the mechanism will depend on its practical implementation.

In particular, industry requires regulatory certainty, sufficient implementation time and clear guidance on core operational elements such as emissions reporting, verification and supply chain documentation.

ALFED looks forward to continuing constructive engagement with HMRC, HM Treasury and the Joint Industry Working Group as the policy framework develops.