

# ALFED Response to HMRC Technical Consultation

**Draft Regulations – Carbon Border Adjustment Mechanism (CBAM): Emissions and Verification**

**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 regulations relating to emissions calculation and verification requirements under the UK Carbon Border Adjustment Mechanism (CBAM).

ALFED continues to support the principle of a CBAM mechanism designed to prevent carbon leakage and maintain fair competition between domestic and imported goods. However, the effectiveness of the UK CBAM will depend heavily on practical implementation, international alignment and the extent to which the mechanism supports, rather than unintentionally undermines, UK industrial competitiveness and manufacturing resilience.

Many of the concerns raised in ALFED's previous consultation response remain highly relevant, particularly around implementation timelines, regulatory clarity, administrative burden and alignment with EU CBAM systems.

## 2. Linkage Between the UK ETS and EU ETS

ALFED strongly supports continued efforts to pursue closer linkage between the UK Emissions Trading Scheme (UK ETS) and EU ETS.

Alignment between the two systems remains critically important given the deep integration of UK and European aluminium supply chains. Regulatory divergence risks creating duplicate compliance obligations, increased reporting complexity and additional costs for businesses operating across both jurisdictions. From an industry perspective, long-term policy ambition should seek to support eventual exemption or mitigation from EU CBAM exposure for UK exports where sufficient UK-EU ETS alignment can be achieved.

Maintaining close alignment between UK and EU CBAM methodologies, verification standards and emissions reporting frameworks will therefore be essential to preserving competitiveness, reducing friction within supply chains and minimising unnecessary administrative burden for manufacturers, importers and downstream customers.

### 3. Expansion of CBAM Scope

ALFED continues to have significant concerns regarding the current scope of UK CBAM and the potential unintended consequences for domestic manufacturing.

If UK CBAM applies only to primary and semi-finished aluminium products, while excluding many downstream and finished goods, there is a material risk of carbon leakage and deindustrialisation within UK manufacturing supply chains. Under the current framework, UK manufacturers importing aluminium inputs for domestic production may incur CBAM costs, while imported finished goods containing equivalent aluminium may avoid similar obligations. This creates a structural competitive imbalance which risks incentivising the movement of value-added manufacturing activity outside the UK.

For example, in aluminium packaging, there is a need to include can ends and metal bottle closures (commodity code 8309) to close existing loopholes. Filled aluminium packaging must also be brought within scope to prevent the offshoring of both packaging manufacturing and filling operations. There is a clear risk that businesses will be incentivised to source these products from non-UK markets to circumvent CBAM-related costs.

This issue is particularly significant for strategically important sectors including automotive, packaging, construction, engineering and defence manufacturing, where aluminium is embedded within complex downstream products and supply chains. The UK Government must establish a pathway to expand UK CBAM coverage. This expansion should be closely aligned with EU developments (including the incorporation of 180 additional downstream products from January 2028) to prevent regulatory divergence, which would leave the UK market vulnerable to carbon-intensive imports. ALFED therefore strongly encourages Government to continue reviewing future scope expansion pathways to ensure the mechanism supports retention and growth of domestic manufacturing capability, rather than unintentionally disadvantaging UK processors and manufacturers.

### 4. Default Emissions Values

ALFED welcomes the availability of default emissions values, particularly during the early implementation period where verified emissions data may not always be readily obtainable across complex international supply chains.

However, industry has significant concerns regarding the proposal to apply a single default emissions value per commodity code, rather than recognising country specific or production route specific variations. The aluminium sector demonstrates substantial differences in carbon intensity depending on electricity grid mix, smelting technology, recycled content and broader production methodology. A single default value risks under-pricing high-carbon aluminium while simultaneously failing to appropriately recognise or incentivise lower-carbon production routes.

ALFED therefore encourages continued review of default value methodologies, greater consideration of country-sensitive or production-specific approaches to ensure the

mechanism properly supports decarbonisation objectives while maintaining fairness across global supply chains.

ALFED also strongly encourages Government to publish indicative default values well in advance of implementation to allow businesses sufficient time to understand likely exposure, undertake modelling and prepare appropriate compliance systems.

## 5. Monitoring, Reporting and Verification (MRV) and Timelines

ALFED strongly supports close alignment between UK and EU verification systems wherever possible.

Many aluminium producers and importers operate across both UK and EU markets and may already be subject to EU CBAM verification requirements. Industry is therefore concerned about the potential duplication of verification obligations, accreditation processes and administrative burden between the two systems.

Where installations, methodologies and verification processes are already recognised under EU CBAM requirements, equivalent recognition should be accepted within the UK framework wherever feasible. Alignment between accreditation bodies, verification requirements and reporting methodologies will be essential to avoiding unnecessary duplication, reducing compliance costs and ensuring businesses are not required to undertake parallel verification exercises for materially identical emissions reporting obligations.

The Government's stated intention to simplify the UK CBAM system compared with the EU framework is welcomed by industry and should continue wherever practical, provided this does not undermine future interoperability or UK-EU ETS linkage ambitions.

A key issue for UK CBAM implementation is the limited time available for businesses to build the internal systems, processes, and data capabilities needed for compliance before the planned go live next year. Many UK businesses, particularly those with complex supply chains, are in the early stages of understanding reporting requirements and establishing mechanisms to collect and verify emissions data. These changes require substantial operational planning and internal investment.

As such, there is a significant risk that the current timeline could result in a functioning CBAM framework, but with a substantial proportion of UK businesses unprepared to comply effectively, potentially leading to widespread non-compliance, operational disruption, and increased administrative burden in the initial phase.

ALFED therefore strongly recommends that the government publish the full MRV framework, verifier accreditation rules and default emissions methodologies as early as possible. Providing industry with sufficient implementation time will be critical to ensuring the mechanism functions effectively.

## 6. Review and Evaluation Mechanism

Given the complexity and novelty of the UK CBAM framework, ALFED believes there should be a formal Government review mechanism following implementation.

Industry would strongly support a structured review every 12 months to assess operational effectiveness, competitiveness impacts, trade flow implications, administrative burden, carbon leakage risks and opportunities for future improvement or scope refinement. This will be particularly important during the initial implementation years as businesses, importers and Government departments gain practical experience of the system in operation.

Regular review mechanisms would also allow Government to assess unintended consequences, identify loopholes or distortions and respond more effectively to changing international policy developments, including EU CBAM evolution and wider carbon pricing developments.

## 7. Free Allocation and Industrial Competitiveness and use of CBAM Revenues

ALFED asks for clarity regarding the Government's intention to phase-out free allocation alongside CBAM implementation. Industry requires greater clarity around the proposed phase-out trajectory, sector-specific implications and how domestic manufacturers will remain internationally competitive during the transition period.

The aluminium sector remains exposed to exceptionally high energy costs, international trade pressures and substantial decarbonisation investment requirements. Businesses therefore require clear long-term policy signals to support investment planning and maintain confidence in UK manufacturing.

Government should carefully consider how free allocation mechanisms and wider industrial support policies can continue supporting domestic manufacturing capability, low-carbon investment, recycling infrastructure and industrial resilience throughout the transition period. This is particularly important given ongoing concerns around international competitiveness, trade diversion and investment leakage to regions offering more favourable industrial conditions.

CBAM introduction raises wider questions about its role within the UK's industrial strategy. The aluminium sector is undergoing a major transition to decarbonise while remaining globally competitive. This will require significant investment in new technologies, recycling infrastructure, and low-carbon energy systems. ALFED therefore encourages the government to consider how CBAM revenues can be used to support decarbonisation and strengthen long-term competitiveness, including by reinvesting funds into UK manufacturing and incentivising emissions-reduction projects at sites facing CBAM-related costs.

ALFED also encourages Government to consider how free allocation and wider industrial policy tools can be used to support strategic domestic manufacturing capability and

ensure that UK industry is not placed at a structural disadvantage during CBAM implementation.

## 8. Conclusion

ALFED supports the objective of establishing a practical and effective UK CBAM framework that protects against carbon leakage while supporting industrial decarbonisation.

However, the mechanism must be implemented in a way that maintains UK manufacturing competitiveness, aligns closely with EU systems, avoids unnecessary administrative burden and recognises the complexity of global aluminium supply chains and downstream manufacturing activity.

Close industry engagement, practical implementation measures and continued review will be essential to ensuring the UK CBAM framework achieves its intended objectives without creating unintended risks for UK manufacturing and industrial investment.

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