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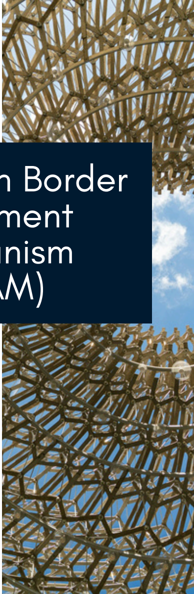
ALUMINIUM FEDERATION

UK Carbon Border Adjustment Mechanism (CBAM)



Urgent Requirement for Policy Clarity and Lessons from EU Implementation

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Executive Summary

ALFED Trade Committee Briefing Paper

The Aluminium Federation (ALFED) welcomes the Government's continued engagement on the development of the UK Carbon Border Adjustment Mechanism (CBAM) and supports the overarching objective of addressing carbon leakage whilst promoting fair competition and industrial decarbonisation.

However, with implementation scheduled for January 2027, significant concerns remain regarding the practical readiness of the scheme and the level of certainty available to industry. Businesses across the aluminium value chain continue to face unanswered questions relating to default values, verification arrangements, reporting methodologies and the treatment of carbon costs paid abroad.

Experience from the implementation of the EU CBAM demonstrates the risks associated with introducing a carbon border mechanism before the necessary rules, systems, verification frameworks and operational guidance are fully established. Trade Committee members have highlighted a number of lessons that should inform UK implementation, including the need for early publication of default values, clear accreditation arrangements for verifiers, robust methodologies for recognising carbon costs paid abroad and sufficient lead time for businesses to establish compliance systems.

Failure to address these issues risks creating unnecessary market uncertainty, compliance burdens and competitive distortions at a time when UK industry requires confidence to invest, grow and decarbonise.

ALFED therefore urges Government to prioritise policy certainty, technical clarity and meaningful industry engagement over the coming months to ensure a successful and proportionate implementation of the UK CBAM.

Current Position

ALFED members support the principle of establishing a UK CBAM that protects domestic industry from carbon leakage and creates a level playing field between UK producers and imported products.

However, members remain concerned that key implementation details are still outstanding despite the relatively short timeframe before implementation.

Particular concerns relate to:

- The publication and methodology of default emissions values.
- Verification and accreditation arrangements.
- Recognition of carbon costs paid abroad.
- Sector-specific technical guidance.
- The interaction between UK CBAM and wider UK-EU ETS discussions.
- The operational readiness of businesses, regulators and verification bodies.

Members with direct experience of EU CBAM implementation noted that many of the challenges currently being experienced in Europe stem from the fact that the mechanism entered into force before several critical implementation elements had been fully established.

Industry has faced ongoing uncertainty regarding default values, verification methodologies, accreditation frameworks and the treatment of carbon costs incurred in third countries that are attributable to the production of the imported CBAM good. This uncertainty has made it difficult for businesses to assess future liabilities, establish internal compliance processes, engage with suppliers and make informed commercial decisions.

The UK now has an opportunity to learn from these experiences and avoid introducing similar uncertainty into the domestic regime.

Industry Priorities

To support successful CBAM implementation, ALFED recommends that Government focuses on four immediate priorities over the next five months:

Policy Certainty
Businesses require sufficient lead time to develop systems, train personnel, engage suppliers and establish reporting processes. This can only be achieved once the final rules and methodologies are known.

Default Values
Robust and credible default values should be published as soon as possible, alongside clear methodologies and supporting assumptions. Early publication will enable businesses to model potential liabilities and prepare accordingly.

Verification Framework
Government should urgently establish and communicate a clear verification and accreditation framework, including recognised bodies, accreditation processes and implementation timelines.

Businesses need confidence that the verification system will be operational, accessible and capable of meeting demand before implementation begins.

Industry Engagement
Ongoing engagement with affected sectors will be essential to identify unintended consequences, test practical implementation challenges and ensure the regime functions effectively in practice.

Recommendations

ALFED recommends that Government:

1. Publish a comprehensive implementation roadmap setting out a timeline or flowchart for key milestones, publication dates and decision points ahead of January 2027.

2. Publish proposed default emissions values and the supporting methodology as a matter of urgency, enabling businesses to model exposure, assess risk and develop compliance strategies.

3. Establish and communicate a clear verification and accreditation framework, including recognised verification bodies, accreditation processes and implementation timelines.

4. Provide clarity on the methodology for recognising carbon costs already paid abroad and how these will be reflected within the UK CBAM framework.

5. Issue sector-specific technical guidance and undertake practical testing with industry to identify unintended consequences and implementation risks before commencement.

6. Clarify the relationship between UK CBAM and wider UK-EU ETS linkage discussions, including any implications for future policy alignment.

7. Establish a formal mechanism for ongoing technical engagement with affected sectors throughout implementation and subsequent policy review.

8. Commit to an early post-implementation review assessing competitiveness impacts, market distortions, administrative burdens and future policy requirements.

Lessons from EU Implementation

Trade Committee members with direct experience of the EU CBAM highlighted a number of practical implementation challenges that continue to create uncertainty for businesses.

One of the most significant issues has been the timing of supporting regulations and guidance. In several areas, businesses were required to prepare for compliance before all implementing and delegated acts had been finalised, creating uncertainty around reporting obligations and future liabilities.

Members identified several recurring challenges:
Late publication of default emissions values limited the ability of businesses to accurately model exposure, assess financial risk and make appropriate commercial provisions. Where actual emissions data is unavailable, reliance on default values can lead to inflated liabilities and distorted commercial decisions.

Verification and accreditation arrangements remain unclear in certain areas, with ongoing uncertainty regarding recognised verification bodies and the availability of accredited auditors. This creates a risk that businesses may struggle to obtain verified emissions data within required reporting deadlines.

The methodology for recognising carbon costs already paid in third countries has also remained uncertain, making it difficult for businesses to understand their true CBAM exposure and net liability.

Collectively, these issues have complicated compliance planning, increased administrative burdens and reduced confidence in the predictability of the system.

The UK should seek to avoid repeating these challenges by ensuring that all core elements of the UK CBAM framework are fully established, tested and communicated before implementation.

Implications for the Aluminium Sector

The aluminium industry is particularly exposed to CBAM implementation due to its globally traded nature, complex supply chains and reliance on internationally recognised pricing mechanisms.

The principal challenge facing industry is no longer the policy concept itself but the practical realities of implementation within an increasingly compressed timeframe.

Experience from the EU demonstrates that introducing a mechanism before all implementing rules, systems and institutions are fully operational can create significant market uncertainty and undermine confidence in the regime.

Members highlighted concerns that insufficient clarity could affect:

- Supplier engagement and data collection.
- Long-term procurement decisions.
- Internal compliance system development.
- Financial forecasting and risk management.
- Investment planning and competitiveness.

Trade Committee members also highlighted the risk that differing UK and EU CBAM methodologies may introduce additional complexity into aluminium pricing mechanisms and supply chains.

Aluminium is traded internationally through highly integrated markets and established pricing structures. Divergent approaches to emissions calculation, reporting and liability could create unnecessary market distortions, increase administrative burdens and complicate cross-border trade.

Government should therefore continue to engage closely with industry to understand how CBAM interacts with established aluminium pricing mechanisms and wider international trade flows.

Conclusion

ALFED and its members remain committed to supporting the successful implementation of a UK CBAM that protects domestic industry, supports decarbonisation and maintains competitiveness.

However, experience from the EU clearly demonstrates that implementation certainty is as important as policy intent.

The UK has a valuable opportunity to learn from the challenges experienced elsewhere and deliver a CBAM framework that is practical, proportionate and effective.

To achieve this, Government must prioritise early publication of key implementation details, provide sufficient lead time for businesses to prepare and maintain close engagement with affected sectors throughout the implementation process.

Doing so will help ensure that the UK CBAM delivers its intended objectives without creating unnecessary costs, uncertainty or competitive disadvantages for UK industry.

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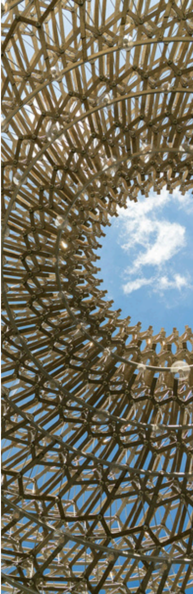
The Voice of the UK Aluminium Industry



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