A PLAIN-ENGLISH GUIDE

The UK Carbon Border Adjustment Mechanism

What the 2027 UK requirements mean, and how they differ from the EU CBAM.

FOR FINANCE, OPERATIONS AND PROCUREMENT TEAMS

POSITION AS OF AUGUST 2026

This guide explains what the UK CBAM is, who it catches, what you have to do and by when, and where the UK rules diverge from the EU scheme many businesses are already grappling with. Figures and dates reflect the position as of August 2026; some operational detail, including default emissions values, is still being finalised by HMRC.

01 What CBAM is

02 Does it apply to your business?

03 What you actually have to do

04 The 2027 timeline and accounting periods

05 How the charge is calculated

06 How the UK CBAM differs from the EU CBAM

07 Getting ready: a practical checklist

08 Why this matters beyond compliance

A carbon price at the border, so imports face the cost UK producers already pay

The problem it solves is **carbon leakage** : the risk that tough domestic climate policy pushes carbon-intensive production overseas, where it is cheaper to emit, rather than reducing emissions overall.

A UK steel producer pays for its emissions under the UK Emissions Trading Scheme. An overseas competitor selling the same steel into the UK has historically faced no equivalent cost. CBAM closes that gap by charging at the border.

THE THREE FACTS THAT FIX THE DEADLINE

Finance Act 2026

CBAM is now law

18 March 2026

Royal Assent

1 January 2027

Takes effect for goods imported

Statutory instruments covering administrative rules, rate calculation and carbon price relief were laid before Parliament in July 2026, in force from the start date.

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Liability falls on the importer, in five sectors, above one threshold

Generally the business in whose name the goods are declared at the UK border — or, where there are no customs controls, the person on whose behalf the goods enter the UK.

SECTOR 01
Aluminium

SECTOR 02
Cement

SECTOR 03
Fertiliser

SECTOR 04
Hydrogen

SECTOR 05
Iron and steel

COVERED BY COMMODITY CODE

Only specific products within those sectors are covered, identified by their commodity codes.

EXCLUDED

Scrap aluminium and scrap iron and steel. Goods of UK origin, and goods imported by individuals for non-commercial use.

DROPPED FROM INITIAL SCOPE

Glass and ceramics were in earlier consultation drafts but are not covered from 2027; the government may add them later. Electricity, which the EU covers, is also excluded.

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£50,000

ROLLING 12-MONTH IMPORT VALUE

You must register with HMRC once the value of the CBAM goods you import reaches £50,000 over a rolling 12-month period. Businesses below the threshold are exempt — designed to keep smaller importers out of the regime.

TEST ONE · BACKWARD-LOOKING

Preceding 12 months

Total value of CBAM goods imported, checked on the first of each month.

TEST TWO · FORWARD-LOOKING

Coming 30 days

Whether imports over the next 30 days will hit the threshold.

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Once you are over the threshold, the obligations run in a cycle

01 Register with HMRC within 30 days of becoming liable

In the first year specifically, businesses that become liable have until 31 January 2028 to register.

02 Work out the embedded emissions of each CBAM good

Using either independently verified actual data or the government's published default values.

03 Submit a CBAM return for each accounting period

Goods by commodity code, date of import, value, net weight excluding packaging, embedded emissions, and evidence of carbon price already paid abroad. A return is required even if the tax due is nil.

04 Pay the charge by the deadline for that accounting period

05 Keep records for six years

To support HMRC compliance checks. Failure to keep records can attract a fixed £500 penalty , with further penalties for not providing information on request.

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The first accounting period is unusually long — the whole of 2027

PERIOD	COVERS	RETURN AND PAYMENT DUE
First period (annual)	1 Jan 2027 to 31 Dec 2027	31 May 2028
From 2028 onwards	Calendar quarters	Last working day of the second month after the quarter ends

A gift and a trap.

The long first window gives you a full year to build a reporting process — but the data you fail to capture during 2027 is gone. Once a return is filed using default values, it cannot later be amended to substitute cheaper verified data. Treat 2027 as a live dress rehearsal for the quarterly cadence that begins in 2028, not a one-off annual exercise.

CBAM LIABILITY

(embedded emissions × sector CBAM rate) − carbon price relief

THE RATE

Set per sector, quarterly

HMRC bases it on the average UK ETS auction price for the preceding quarter, adjusted for the free allowances still covering that sector.

THE DIRECTION OF TRAVEL

Nine-year phase-out

Free allowances are withdrawn over an indicative nine years from 2027, so the effective rate rises over time.

BUDGETING WARNING

Do not budget on year one

A single opening-year figure will understate your cost by the third or fourth period.

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Two rules make the choice between verified data and defaults strategic

ROUTE A

Verified actual data

Independently verified emissions from your supplier. Slower to obtain — and usually cheaper, because good primary data beats a conservative default.

ROUTE B

Published default values

HMRC will publish one default value per CBAM good before the regime starts, set so defaults carry no advantage over real data — in practice, conservative.

THE TWO RULES

One-way mixing

You may use actual data for a finished good while using defaults for its precursors — but not the reverse.

Locked once filed

Once a return is filed on defaults, it is locked in for that period.

Carbon price relief

Where a good was produced under a qualifying overseas carbon price, you can deduct it from your UK liability — but only explicit carbon prices count, and the claim must be independently verified using a verified carbon pricing form.

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Deliberately similar, not identical

FEATURE	UK CBAM	EU CBAM
Start of charging	1 January 2027 — no reporting-only transition; charging from day one	Transitional reporting from Oct 2023; definitive charging from 1 January 2026
Mechanism	A tax, administered by HMRC through existing tax-return infrastructure	Purchase and surrender of CBAM certificates via the EU CBAM Registry
Sectors	Aluminium, cement, fertiliser, hydrogen, iron and steel	The same five, plus electricity
Electricity	Excluded	Included
Emissions scope at launch	Direct emissions only; indirect not expected before 2029	Both direct and indirect emissions for most sectors

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Different clocks, different data, different filing

FEATURE	UK CBAM	EU CBAM
Threshold	£50,000 value-based, rolling 12 months	50-tonne mass-based exemption per importer
Accounting rhythm	Annual for 2027, then quarterly from 2028	Annual declaration in the definitive phase
Where you file	Directly with HMRC	EU CBAM Registry
Default values	One published default per good; usable, but locked once filed	Defaults available with limits; methodology set in EU rules

PRACTICAL CONSEQUENCE

A business with UK and EU cross-border supply chains faces both regimes at once, on different clocks and filing systems. Data gathered for one is a strong starting point for the other, but the two are not interchangeable.

THE ONE-YEAR GAP

UK industry has criticised the gap between the two start dates, arguing it exposes UK manufacturers to carbon-intensive imports diverted from the EU market during 2026.

ONE TO WATCH

The UK and EU have agreed to negotiate linking their emissions trading schemes, which could eventually allow mutual exemptions and reduce double handling. Nothing is settled yet.

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A practical checklist

Charging starts in 2027, but the lead time to obtain verified supplier data and build internal processes means preparation needs to start now.

01 Screen your imports against the CBAM commodity codes to confirm which goods, if any, are in scope.

02 Test the threshold using both the backward- and forward-looking £50,000 methods, so you know whether and when you must register.

03 Map your suppliers for the five sectors and open conversations early about verified emissions data — the slowest part.

04 Compare data routes for each product line: is verified actual data achievable, or will you default, and what does each cost?

05 Model your exposure across 2027 to 2030, remembering the rate rises as ETS free allowances phase out.

06 Build the reporting process during the 2027 annual window so it can handle the 2028 quarterly cadence.

07 Set up record-keeping to the six-year retention standard from the first import.

08 Check contracts and long-term framework agreements spanning 2027 for how CBAM costs are allocated between parties.

CBAM is not a cost line. It reshapes the economics of your supply chain.

Low-carbon supply wins on price

Suppliers with genuinely lower verified emissions become cheaper to import from, giving green steel, low-carbon aluminium and low-carbon cement a real cost advantage.

Carbon data becomes procurement data

CBAM raises the value of ESG credentials and emissions data in procurement decisions — and lenders and investors increasingly expect projects to have considered CBAM cost risk.

Early movers pay less

Importers that gather verifiable emissions data early will pay less and forecast better than those relying on conservative defaults.

Start with the data. The deadline is fixed.

Net Zero Group builds the software and advisory that turn carbon data into decisions — including CBAM scope screening, supplier emissions data and exposure modelling to 2030.