

# A UK CBAM: A new route to net zero?

Blog post by Senior Associate Lilah Howson-Smith, 9 June 2021

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When former Trade Secretary Liam Fox announced his full-throated support for a carbon border adjustment mechanism (CBAM) a few weeks ago, it was in many ways surprising that it had taken so long for a senior UK political figure to intervene in a debate that has been live in the EU for years.

Put simply, a CBAM would put a tax on imports from countries with less robust carbon pricing policies than the UK. Crucially, in the view of two former business secretaries [writing](#) today, it introduces the much-loved political principle of fairness and applies it to emissions reduction. For UK government ministers, a CBAM presents both an opportunity to tax high emitting competitors like China, and to engage seriously with the UK's legislative net-zero target. If the government ultimately wants to increase the UK's carbon price, or expand it to cover sectors like agricultural production, it is politically expedient for this to avoid a competitive disadvantage for British businesses. As it stands, UK competitiveness is protected within the UK's carbon cap and trade system by 'free allowances'. While these protect certain sectors against their international competitors, such as aviation and industry, these allowances do not ultimately precipitate the kind of decarbonisation needed to get to net-zero.

Nonetheless, despite its political appeal, the UK government's interest in a CBAM will not answer the thornier questions in the path to net zero. Instead, it is more likely that the currently hidden tensions over the UK's net-zero agenda will become more exposed as ministers consider a carbon border tax.

In the first instance, a CBAM will not reduce the current or future cost of carbon, as levied on British businesses or consumers. To ensure it is compliant with WTO rules, the government will still have to impose its border tax at such a level that it equates to domestic carbon pricing. This in turn suggests that the government intends to set a domestic higher carbon price, while also leaving the difficult political question of whether this carbon price applies for example to beef or heating unanswered. No10 has so far sidestepped the cost to consumers of net zero, for fear of an adverse political reaction, but the complexities of implementing a CBAM are hard to justify unless the government is intent on widening the scope and level of carbon pricing.

Even beyond the domestic arena, a CBAM will test the UK government's appetite for engaging with the realpolitik of net-zero. Despite the UK government's support for carbon pricing, until recently, it was inferred that the UK government did not necessarily see the equalisation of carbon costs at the border as essential to decarbonisation efforts. But recent developments suggest that the UK's assumed lack of appetite was just a consequence of continuing poor relations with its most obvious partner - the EU - rather than a philosophical objection on free trade grounds.

If a CBAM is pursued, the relationship between the government's Global Britain ambitions and climate policy will be tested. Just this week, the Australian government has signalled its continuing opposition to countries pursuing CBAMs rather than an international carbon pricing agreement. The

UK government may argue it is only using a CBAM as a last resort to force such an agreement, but the debate creates a choppy backdrop to the implementation of a future UK-Australia FTA and the UK's burgeoning trading ambitions in the Indo-Pacific region.

Whatever the final outcome on carbon pricing at a global level, there is an opportunity for stakeholders to influence the UK's domestic carbon pricing as the government begins to form its approach. The Treasury's Net Zero Review and the upcoming cross-government Net Zero Strategy present obvious pinch points for the government to resolve how they want to use carbon pricing, regulation, and technology to achieve net zero in the timeframe that has been set. While the destination of net zero has been set inescapably in law, the exact route remains to be agreed. It is these discussions within the UK government that corporates will need to engage with.