UK Steel – Submission To Carbon Leakage Consultation

Date: 22 June 2023
To: carbonleakage.consultation@beis.gov.uk

About UK Steel

UK Steel, a division of Make UK, is the trade association for the UK steel industry. It represents all the country's steelmakers and a large number of downstream steel processors.

Submission to the consultation on Addressing carbon leakage risk to support decarbonisation.

Question 0.1: Are you responding as / on behalf of (select all that apply):
1) industry/business
If relevant, in which sector are you based? Steel industry

Question 0.2: If responding on behalf of a business/organisation, where is your business/organisation based/registered? If your organisation is based overseas, please specify which country you are based in.
The UK.

Question 0.3: If your country of origin is the UK, which region are you based in?
-

Question 0.4: Are you in receipt of free allowances under the UK ETS?
Yes

Question 0.5: Would you consider your business as part of an industrial cluster (an area where related industries have co-located)? If 'yes', which one?
Yes. The steel industry is located in several industrial clusters, e.g. the Humber and South Wales industrial clusters.

Question 1.0: Does government's definition of carbon leakage reflect your understanding of the issue? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree; no, strongly disagree]

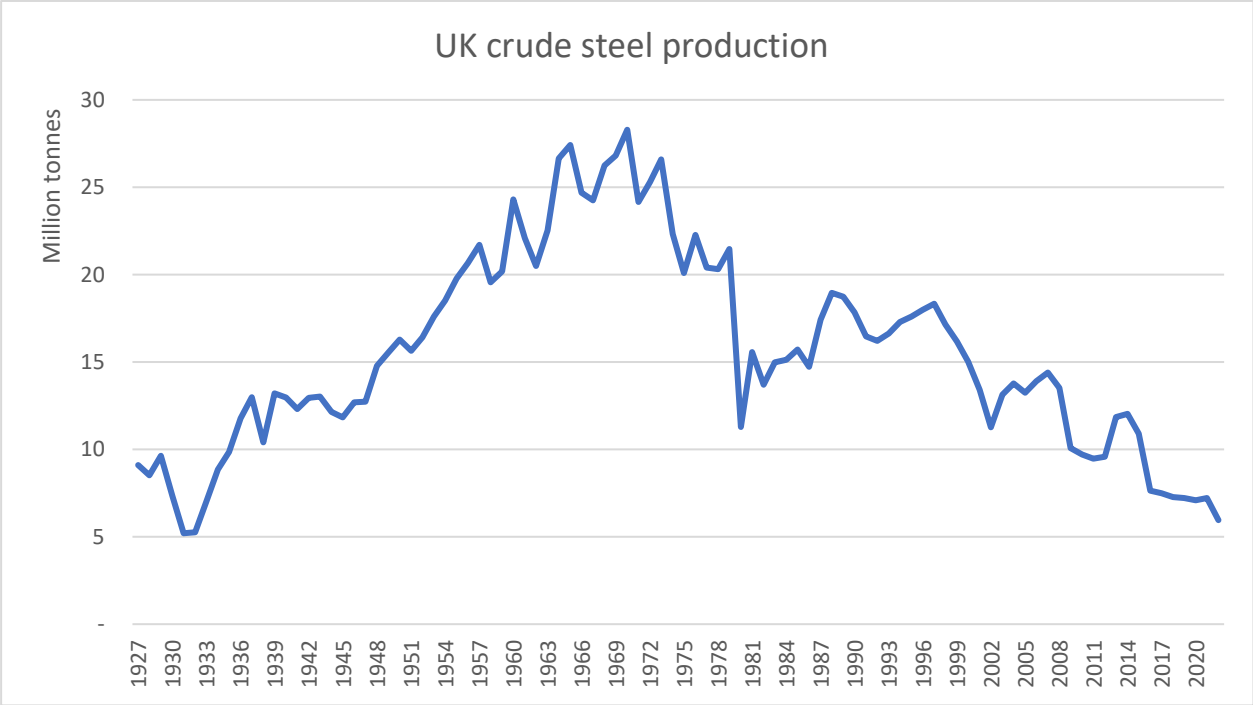
Question 1:1 Do you believe that the risk of carbon leakage in the UK is likely to:
4. Carbon leakage is occurring now

Please explain your reasoning, including when you think any change to the level of risk might occur.
Carbon leakage is currently occurring in the steel industry, directly and indirectly. Steel is a global commodity, intensively traded across borders. While 25% of all steel produced is traded internationally, this climbs to 43% in markets outside of China, and the UK exports 40% of its steel production and imports over 60% of its direct requirements. Whilst increasingly specialised and high-value steels are being produced, market requirements and economies of scale mean that the vast majority of steel made in even developed economies is commoditised and available from a broad range of sources. There is, therefore, intense competition, which keeps steel prices and margins low. Carbon price differentials are a key risk factor contributing to carbon leakage.

Mechanisms, such as emissions trading and carbon pricing taxing domestic producers' emissions, create an uneven playing field when countries exporting to the UK have not faced comparable policies. For example, the UK Emission Trading Scheme (UK ETS) currently prices carbon at £70/tonne of CO_2e, which would add roughly £140 to the cost of producing one tonne of steel at integrated sites, increasing production costs by up to 25% (based on April 2023 prices). It is estimated that the steel industry in 2022 faced UK ETS compliance costs of £120m-£130m[1], which their non-EU competitors do not face. UK producers will therefore have higher production costs, which will reduce their ability to compete in a

[1] Based on the average UK ETS price for 2022 of £80/UKA; 10,439,253 free allowances in 2022, and ETS emissions in 2021 of 12,061,453 tCO_2e. If 2022 emissions are similar to 2021 levels, this would lead to a compliance cost of £129.8m.

commoditised market and lead to direct carbon leakage. This was evidenced by the 2022 UK production figures, which reached their lowest level since 1932 of just below 6mt of crude steel. There are, of course, other contributing factors to this production level, which is not caused solely by the additional ETS compliance costs. But carbon leakage certainly plays an important role, particularly as steel consumers are not necessarily willing to pay more for low-emissions steel. It is no coincidence that the loss of UK producer market share is typical to countries like China, India and Turkey, which have large steel production capacities and face both lower energy costs and no carbon costs.



Source: ISSB

The HM Treasury's Net Zero Review[2] analysed the risk of carbon leakage to different industries. It showed that the basic metal sector (dominated by the steel sector) had one of the highest trade openness at 72%, combined with the highest carbon intensity (CO2 tonne/$m) and the third-highest proportion of CO2 from domestic sources. The report showed that the steel sector's gross output was the most reactive to high carbon pricing among all industries.

[2] HM Treasury (2021), Policy paper, Net Zero Review Final Report, https://www.gov.uk/government/publications/net-zero-review-final-report

Table 2.B: Carbon intensity for UK manufacturing sectors, and the illustrative cost of carbon pricing

Sector	Overall trade openness[19]	UK-sourced carbon intensity[20] (CO_2 tonne/ $ million)	Proportion of CO_2 from domestic sources	Illustrative cost of UK carbon pricing (% of gross output)		
				$50/tonne	$75/tonne	$100/tonne
Computers & electronics	78%	71	41%	0.4%	0.5%	0.7%
Textiles and apparel	76%	125	63%	0.6%	0.9%	1.2%
Mining & energy extraction	75%	381	90%	1.9%	2.9%	3.8%
Basic metals	72%	790	80%	3.9%	5.9%	7.9%
Other transport equipment	72%	76	37%	0.4%	0.6%	0.8%
Chemicals & pharmaceuticals	70%	121	59%	0.6%	0.9%	1.2%
Motor vehicles	69%	96	43%	0.5%	0.7%	1.0%
Electrical equipment	69%	90	36%	0.4%	0.7%	0.9%
Machinery and equipment	67%	118	46%	0.6%	0.9%	1.2%
Other manufacturing	54%	170	69%	0.8%	1.3%	1.7%
Refineries	52%	681	83%	3.4%	5.1%	6.8%
Rubber and plastics	51%	300	76%	1.5%	2.3%	3.0%
Wood products	35%	122	55%	0.6%	0.9%	1.2%
Fabricated metals	34%	112	49%	0.6%	0.8%	1.1%
Mining of non-energy products	32%	176	73%	0.9%	1.3%	1.8%
Non-metallic minerals	30%	417	81%	2.1%	3.1%	4.2%
Paper	28%	157	66%	0.8%	1.2%	1.6%

Source: OECD, HM Treasury calculations

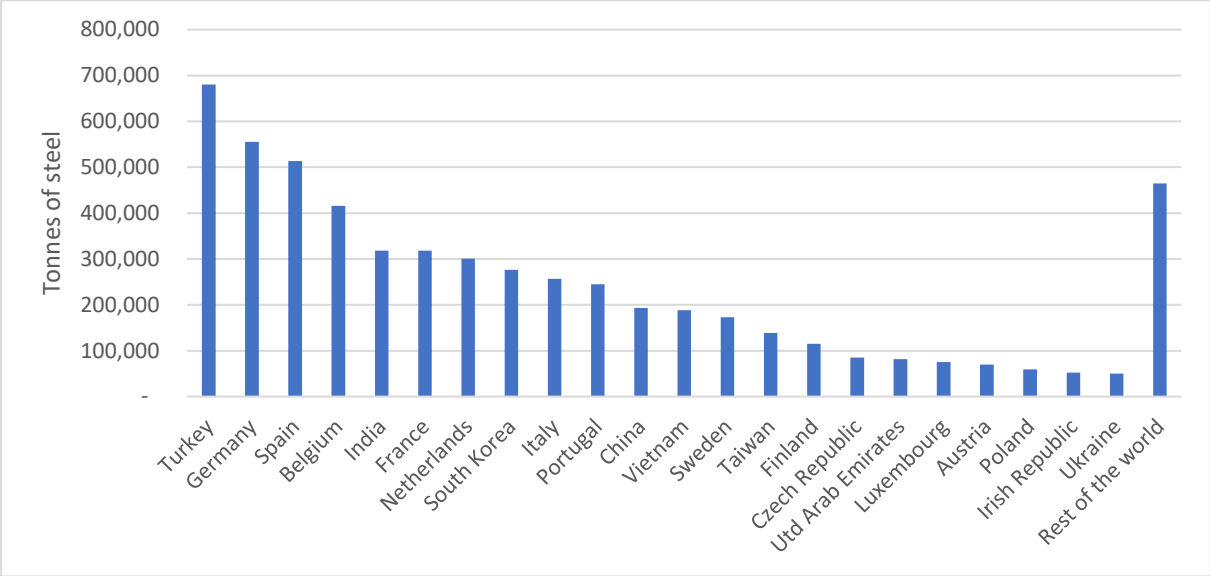
Similarly, the steel sector was singled out as having a high proportion of demand covered by imports (60%+ import penetration) and a high proportion of production exported (an average of 45% of production is exported). Finally, the UK basic metals sector has significantly lower CO2 intensity embodied in export than non-OECD countries and somewhat lower than OECD countries. The HMT Net Zero Review concludes:

> *"In summary, this analysis suggests that some UK manufacturing sectors have substantially lower emissions intensities compared to some trading partners. Many of these sectors are also relatively open from a trade perspective. However, when different levels of carbon price are applied to sectoral emissions intensities, the impacts look relatively low for most sectors. The main exceptions are basic metals, refineries and non-metallic minerals."*

The UK imports its steel from an increasingly wide range of countries. Whilst the majority come from the EU, primarily due to geographic proximity and integrated supply chains, countries such as Turkey, India, South Korea, China, Vietnam, and Taiwan are all major exporters to the UK now – each supplying over

100,000 tonnes a year and with Turkey providing as much as 680,000 tonnes in 2022 – 12% of imports and 6% of total demand.

Sources of UK Steel Imports 2022



Source: International Steel Statistics Bureau.

With such high levels of international trade in steel and carbon intensity, the steel industry is at significant risk of carbon leakage. The UK imports about 2.6 million tonnes of steel (40% of imports) from countries that do not face comparable carbon costs and exports 0.68m tonnes (20% of its export) to markets without similar carbon pricing in 2021[3]. With the presence of high carbon prices without carbon leakage protections (e.g. full free allowances, CBAM, product standards etc.), UK steel producers will be outcompeted by producers that do not face carbon costs. The ETS compliance costs erode UK producers' thin margins and are so substantial that some companies consider them an existential threat to their ability to operate in the UK.

Prior to 2021, the sector received free allowances matching its emissions, which minimised the risk of direct carbon leakage. However, the steel industry did suffer indirect carbon and investment leakage via uncompetitive industrial electricity prices, which were caused by climate change-related levies (i.e. levies to fund the decarbonisation of the power sector, such as the RO, FiT, CfD, and Capacity Market levies). UK steel producers typically face an average electricity price of £95 per megawatt-hour (MWh) in 2021/22 compared to the estimated German price of £59/MWh and French price of £63/MWh. The gap compared to steel producers further afield is even greater. Therefore, UK production sites pay 61% and 51% more, respectively, than their main EU competitors. The price disparity directly impacts competitiveness and equates to a total additional cost to UK steel producers of around £90 million per year compared to if the same production was based in Germany.

In brief, the UK steel industry has suffered indirect carbon leakage and, from 2021, direct carbon leakage due to climate change-related levies and UK ETS carbon costs. The Government has announced that it will increase exemptions and introduce new policies to reduce the policy costs on electricity bills for the steel industry, and it is thus likely that the indirect carbon leakage pressures will decrease. However, it is expected that the UK ETS compliance costs will increase as UKA prices rise when UKA supply is reduced as a result of the UK ETS consultation and the Government's reform of the scheme. It is still unclear whether free allowances for the steel industry will increase, remain the same, or decrease following the free allowance review.

Additional carbon leakage risks

The European Union is currently introducing its own CBAM, which will apply to steel, cement, aluminium, electricity, fertiliser, and hydrogen. The mechanism will start from October 2023 with the initial reporting requirement introduced for imported CBAM products. From 2026 to 2034, EU free allocations will be phased out, meaning that EU steelmakers will eventually face the full EU ETS carbon price, and the

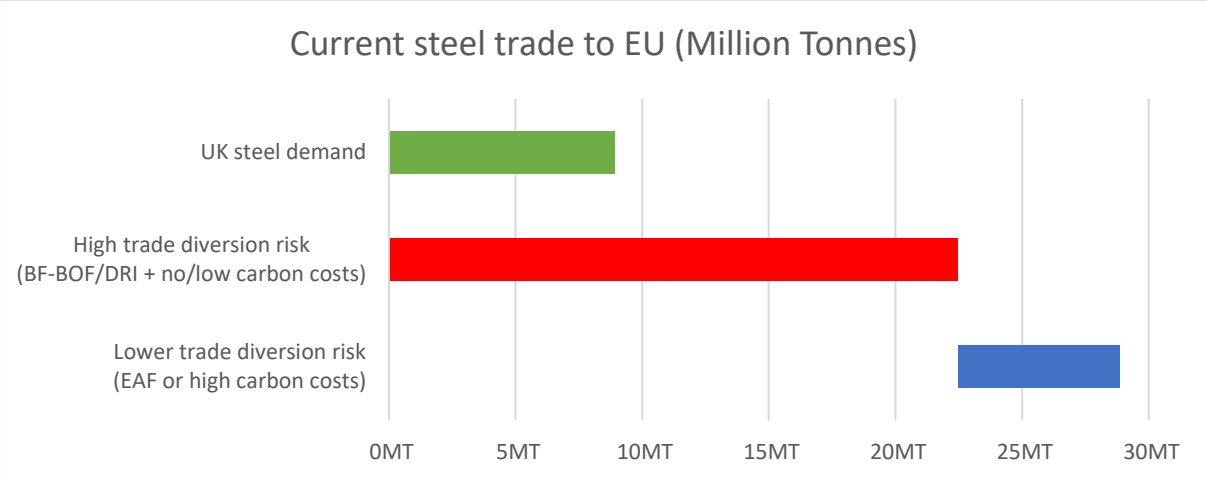
[3] International Steel Statistics Bureau, Markets with similar carbon price include EU, Norway, Switzerland, New Zealand, and Canada.

CBAM compliance obligation will be applied to imported, high-emission steel. When exporting steel to the EU, non-EU steelmakers will have to buy a CBAM certificate corresponding to the amount of emissions generated in the production of those goods, which is priced according to the average weekly price of ETS auctions. As the UK steel industry is so integrated with the broader European steel market, the EU CBAM could directly impact the UK sector in the following ways:

1. Trade barriers: Once EU free allowances are reduced, EU and UK producers will face different effective carbon prices, and UK exporters will have to buy CBAM certificates, resulting in a trade barrier to our biggest export market. This will also apply when the UK reforms its ETS, as UK and EU producers have different ETS prices, free allowances, and benchmarks. While it does not resemble the carbon leakage described above, it results from differences in climate change policies, resulting in a decrease in UK production. In 2022, the UK exported 3,399,485 tonnes of steel, of which 2,550,312 tonnes went to EU member states, constituting 75% of exports. This means that the EU CBAM could have a detrimental impact on UK steel exports. If the UK steelmakers instead wanted to export the 2.5m tonnes to non-EU markets, they would compete with steel producers, which face no or negligible carbon pricing. This would likely damage the UK steel industry, resulting in carbon leakage, and separately supports the case for linking the UK ETS to the EU ETS.

2. Trade diversion: When facing EU CBAM costs, high-emission steel currently exported to the EU could be diverted to the UK, flood the market, and depress prices. In 2022, 28,849,708 tonnes of steel were exported to the EU, which could be diverted to the UK market. As CBAM compliance obligations will fall on steel which has not faced carbon costs already, not all steel is at risk of diversion, nor will the compliance obligation be large if emissions are low. Canada and New Zealand both have carbon schemes which apply a carbon cost of around £30-40/tCO_2e, which would reduce their compliance costs and risk of trade diversion (22,033 tonnes). Similarly, Scrap-EAF-based production would also face a reduced compliance burden, as its emissions would generally be lower, reducing the risk of trade diversion (6,342,089 tonnes). This still leaves 22,485,587 tonnes at risk of trade diversion, which have faced no or negligible carbon costs and are produced via BF-BOF or DRI-EAF production routes, which would induce a significant compliance cost.

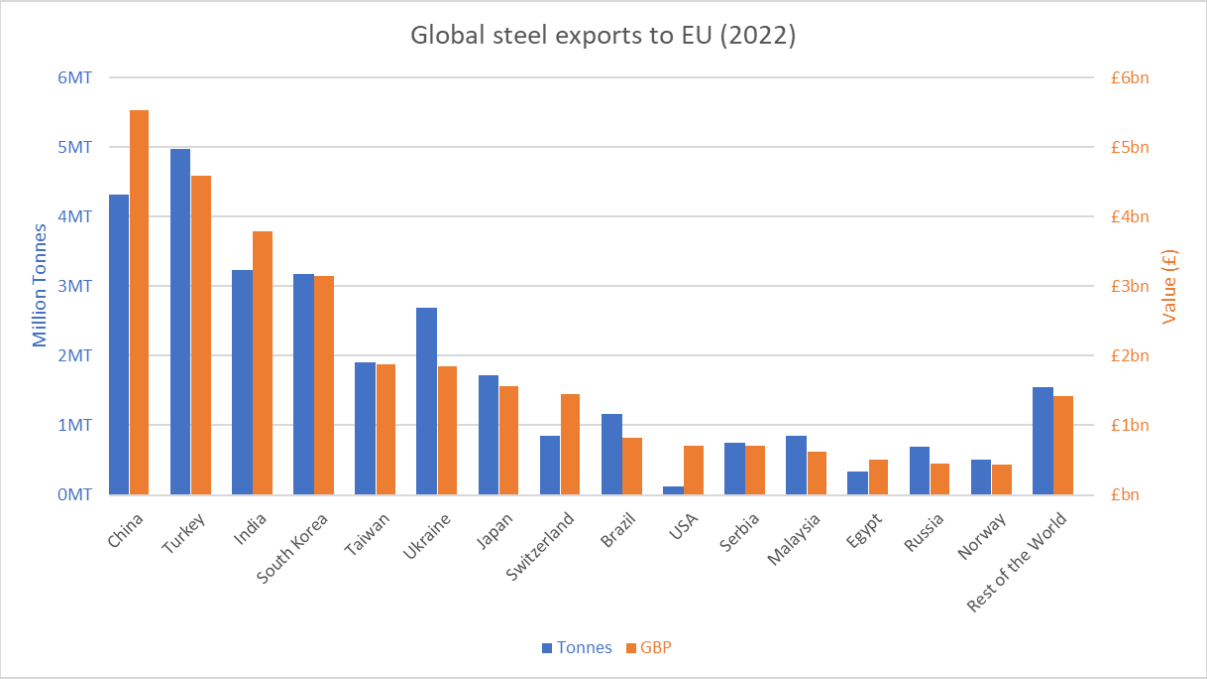
As illustrated in the chart below, UK steel demand was 8.9MT in 2022, which compared to the steel imported to the EU at risk of trade diversion at 22.5MT suggests that this could completely flood the UK market. Such trade inflow would profoundly damage the UK steelmakers and domestic production, causing substantial carbon leakage as UK production would be replaced with production facing no/low carbon cost with high emission intensity.



Source: Trade data: International Steel Statistics Bureau, UK steel demand: WorldSteel. Note: Canada & New Zealand place somewhat comparable carbon costs between £30-40/tCO_2e on their steel producers, South Korea and Japan negligible carbon costs at £10-12/tCO_2e, and South Africa, Chile, Mexico, Kazakhstan, and Colombia almost no carbon costs at £0.7-3/tCO_2e, with the remaining countries placing no carbon costs on emissions from steel producers. 71% of global steel production is via BF-BOF (at an average of 2.32 tonnes CO2 per tonne of crude steel cast), 7% DRI-EAF (at an average of 1.65tCO2/tCS), and 22% Scrap-EAF (at an average of 0.67tCO2/tCS). High trade diversion risk is estimated to be BF-BOF/DRI-EAF production in countries with no/ negligible carbon costs, and lower trade diversion risk is estimated to be Scrap-EAF production in countries with no/negligible carbon costs, and any production in countries with somewhat comparable carbon costs.

This furthermore strengthens the case for rapidly implementing a UK CBAM policy and other carbon leakage measures to avoid profound damage to the UK steel industry, jobs, supply-chain resilience and national security, with no benefits to overall global emissions.

Of the 15 highest exporting countries to the EU, only South Korea and Japan apply a carbon price to their steel industries, although at significantly lower levels than the UK (£12.00/tCO2e and £10.39/tCO2e, respectively, at the time of writing). Canada and New Zealand, the only two countries with somewhat comparable carbon pricing, only make up 0.08% of the tonnes of steel exported to the EU. The vast majority of the steel exported to the EU faces no significant carbon price and will likely face CBAM compliance costs when exporting to the EU.



Question 1.2: What factors contribute to the risk of future carbon leakage that government should be looking at and that government should address? What evidence can you provide to support your view?

UK carbon price relative to other jurisdictions
Other UK climate policies relative to other countries
Impacts of climate and carbon leakage policy in other countries
The cost and availability of technologies to transition from energy intensive production (as well as abatement technologies)
The ability of a sector to transition to low emission production processes and the ability of customers to substitute to low carbon alternatives
Lack of demand for low carbon products in the UK
Other (please specify)

[Open text: What evidence can you provide to support your view?]

See above. Additionally:

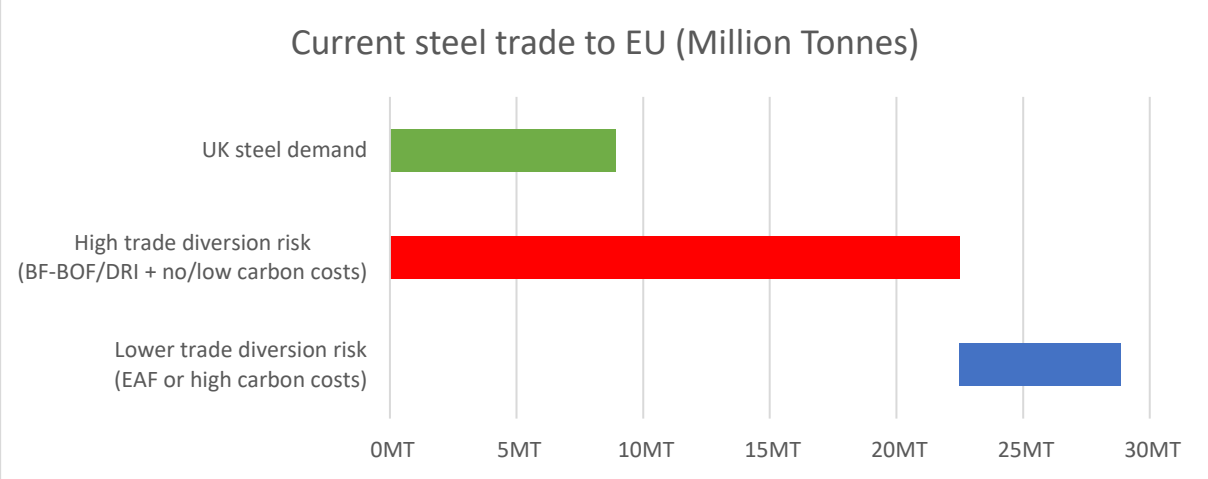
1. UK carbon price relative to other jurisdictions: Outside of the UK and EU, only four countries price carbon above £10/tonne (Canada at ≈£39/t, New Zealand at ≈£31/t, South Korea at ≈£12/t, and Japan at ≈£10/t), with the remaining competitors either pricing carbon substantially lower[4], not at all, or via voluntary schemes. As evidenced above, the UK steel producers faced carbon prices of an average of £80/t in 2022, which led to a compliance cost of £120m-£130m for that year. This increases the risk of carbon leakage. Also, see the analysis above.
2. Other UK climate policies relative to other countries: Other UK climate change policies also contribute to the risk of carbon leakage, such as the lack of Red Diesel discount for industrial users, renewable energy levies, Capacity Market levies, Climate Change Agreement costs, and administrative burdens of reporting to ESOS, SECR, and UK ETS.

[4] South Africa prices carbon at £3.36/t, Chile at £1.24/t, Mexico at £1.03/t, Kazakhstan at £0.88/t, and Colombia at £0.7/t.

3. Impacts of climate and carbon leakage policy in other countries: The lack of a global carbon price also increases the risk of carbon leakage, and so does the support for reducing electricity prices across the EU and globally. Additionally, governments worldwide have provided significant funding for decarbonising steel production and energy efficiency. This is not an exhaustive list, and other funding may be available:

Country	Funding
France	• €1.7bn investment for ArcelorMittal to replace three blast furnaces with EAF/DRI • €5.6bn for industrial decarbonisation as part of the "France 2030" Investment Plan
Canada	• C$400m in the Arcelor Mittal DRI plant • C$420m in the Algoma Steel EAF plant
Germany	• €1bn grant for Salzgitter for hydrogen-based steelmaking • €5bn for the decarbonisation of Germany's industrial sector • €55m initial funding or ArcelorMittal hydrogen-based steel production • Industrial Carbon Contract for Difference to provide funding model for industrial decarbonisation
Spain	• Signed MoU with ArcelorMittal for hydrogen-based steel plant
Sweden	• Joint venture between state-owned energy company Vattenfall, state-owned mining company LKAB, Swedish energy regulator, and steelmaker SSAB in hydrogen-based steelmaking
Belgium	• Investment in €1.1bn ArcelorMittal DRI plant

Furthermore, the analysis below suggests a significant risk of trade diversion as a result of the EU CBAM policy, with over twice the UK annual steel demand at a high risk of being diverted to the UK market when facing EU CBAM compliance obligation costs.



Source: Trade data: International Steel Statistics Bureau, UK steel demand: WorldSteel. Note: Canada & New Zealand place somewhat comparable carbon costs between £30-40/tCO_2e on their steel producers, South Korea and Japan negligible carbon costs at £10-12/tCO_2e, and South Africa, Chile, Mexico, Kazakhstan, and Colombia almost no carbon costs at £0.7-3/tCO_2e, with the remaining countries placing no carbon costs on emissions from steel producers. 71% of global steel production is via BF-BOF (at an average of 2.32 tonnes CO2 per tonne of crude steel cast), 7% DRI-EAF (at an average of 1.65tCO2/tCS), and 22% Scrap-EAF (at an average 0.67tCO2/tCS). High trade diversion risk is estimated to be BF-BOF/DRI-EAF production in countries with no/ negligible carbon costs, and lower trade diversion risk is estimated to be Scrap-EAF production in countries with no/negligible carbon costs, and any production in countries with somewhat comparable carbon costs.

4. The cost and availability of technologies to transition from energy intensive production (as well as abatement technologies): As has been demonstrated in UK Steel's Net Zero report[5], the OPEX cost of CCUS is estimated at £61-£101/tCO_2e, which is prohibitively expensive. Hydrogen-based steelmaking has a higher OPEX of 20-30% in Sweden, where electricity prices are significantly lower, suggesting that UK costs would be much steeper.

[5] UK Steel (2022), "Net Zero Steel: A Vision for the Future of UK Steel Production", https://www.makeuk.org/about/uk-steel/net-zero-steel--a-vision-for-the-future-of-uk-steel-production.

5. The ability of a sector to transition to low emission production processes and the ability of customers to substitute to low carbon alternatives: See UK Steel's Net Zero report.
6. Lack of demand for low carbon products in the UK: While demand is increasing for low-emission steel, the willingness to pay premiums for it has not.

Question 1.3: How should the government act to mitigate future carbon leakage risk? Please explain your reasoning.
Government should focus on international and multilateral action to address carbon leakage.
Government should focus on domestic carbon leakage measures
Government should act on domestic measures alongside international and multilateral action.
No additional government action on carbon leakage is needed.

We believe that the Government should continue to take international and multilateral action to address carbon leakage. Climate change is a global problem which must be solved through international cooperation. However, it must also recognise that there is no global carbon price and very significant timelines for industrial decarbonisation. On the latter point, while the UK's Climate Change Committee recommends that the UK steel industry decarbonises by 2035 (ahead of its overall 2050 target), India and China, which produces 59% of all steel, do not have specific targets for industrial decarbonisation and overall targets for Net Zero in 2060 and 2070, respectively. This is a substantial and considerable difference in pace and ambitions. This could leave 35 years in which a decarbonised UK steel sector would be outcompeted by lower-cost, higher-emission steel from India unless protection is introduced. If the UK does not take domestic action and implement UK policies to address carbon leakage, it risks deindustrialisation with potentially increased global emissions due to its current policies.

UK Steel has, alongside the six steel producers, trade unions, academics, and Government officials, published a roadmap[6] for how the industry could greatly lower emissions by 2035, in line with the Climate Change Committee's recommendations. The Government's Net-Zero target will require fundamental changes to steel production in the UK and will necessitate substantial investment in new processes and equipment over the next dozen years. To meet this ambition, steel companies will need to invest in new production methods, which will have higher production costs, in addition to facing domestic carbon taxation. UK steelmakers will be outcompeted due to the higher operational costs associated with CCUS and hydrogen-based steelmaking when competing with high-carbon producers who do not face carbon costs. Additional H&S and high environmental regulations also increase OPEX in the UK. As such, there is a need to ensure that imported high-carbon steel faces a comparable carbon cost or regulation to ensure a level playing field. Finally, many EU countries are busy providing vast levels of decarbonisation support to their steel industries (see above), which will further undermine the competitiveness of UK steel producers unless the Government follows suit.

Fundamentally, decarbonising steel production relies on passing on the additional cost of decarbonisation to steel customers without being outcompeted by high-carbon emission steel imported from abroad. To enable this, policies like Carbon Border Adjustment Mechanisms (CBAM) and other carbon leakage measures are needed to provide a level playing field between domestic and international producers.

[6] UK Steel (2022), "Net Zero Steel: A Vision for the Future of UK Steel Production", https://www.makeuk.org/about/uk-steel/net-zero-steel--a-vision-for-the-future-of-uk-steel-production

Question 2:1: Should a CBAM only apply to products in sectors that are subject to the UK ETS? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

To ensure that a Carbon Border Adjustment Mechanism (CBAM) enables fair and free trade, it must be linked to the UK Emission Trading Scheme (UK ETS), ensuring that domestic producers and imported goods face similar carbon costs. It would therefore follow that a CBAM would apply to products which are subject to the UK ETS.

Nonetheless, one of the main pitfalls of demand-side policies such as product labelling, standards, or CBAMs is that they initially will typically apply to the intermediate (or 'semi-finished') industrial products covered by the UK ETS. It does not apply to embodied steel within all end-consumer (or 'finished') products, such as cars or washing machines. There is a risk by either taxing the emissions via a CBAM or simply banning them through product standards that production of the end-consumer, finished products will move outside of the regulated market and then be imported to avoid the tax or regulation (i.e. value chain circumvention). Therefore, it is important that the CBAM is applied to steel in goods and semi-finished products. This would include certain products that contain steel but are not subject to the UK ETS. This could be done either by expanding the ETS scheme to cover other products or applying the CBAM to the steel contained in goods.

Separately, there is also a risk of product substitution. If the CBAM does not apply to all industrial products, the products not covered face a lower carbon price or no carbon regulation. Therefore, these will gain an economic advantage over steel products, which are affected by the regulation and applied to products both produced within and outside the UK. We could therefore see inter-material competition being affected, where carmakers choose aluminium over steel if aluminium isn't included or building developers choose cement over a steel frame if cement isn't covered, regardless of whether these products are associated with fewer carbon emissions. Similarly, for packaging, plastic would appear as a preferable choice if not covered by a CBAM, but steel and aluminium were.

Question 2.2: Are there products in your sector/sub-sector where the application of a CBAM would not be effective or feasible? Please explain your reasoning.
Drop down menu [NACE]:

As described above, the main risks lie with product substitution and value chain circumvention rather than any particular products or sub-sector.

Question 2.3: If the scope of a CBAM is initially limited, should it be designed to potentially cover other products in future? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

With the risk of value chain circumvention and product substitution, the CBAM must be designed to cover additional products to minimise these risks. For example, if the market starts responding by increasing manufacturing of finished products outside of the UK and EU, then the CBAM must be expanded to cover these products as well to avoid carbon leakage. This needs to be done sooner rather than later because once manufacturing processes move abroad, they are difficult and unlikely to return to the UK.

Question 2.4: Should the importer of products covered by a CBAM be responsible for meeting all CBAM requirements? If not the importer, who? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

As the obligation is placed on UK steel producers to comply with the UK ETS, a similar compliance burden must be placed on the importers of steel products.

Question 2.5: Should importers be required to provide accurate, independently verified emissions data for the products they import where available? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

UK steel producers must provide accurate, independently verified emissions data for the UK ETS, and importers should face a similar requirement, thereby creating a level playing field. It would be completely unreasonable if UK steel producers faced increasing carbon costs and had to report rigorously verified

data when imported steel faced no such requirements. It would be a recipe for rapid carbon leakage and deindustrialisation.

Question 2.6: Should there also be an option for importers to use default values, where they do not or cannot provide accurate emissions data are? Please explain your reasoning.
Agree, in all cases. There should be no requirement to provide data.
Agree. However, there should be a requirement to provide all available data.
Disagree. Importers must provide accurate emissions data.

Fundamentally, we believe that if UK producers are required to supply accurate data, importers should do likewise. This is also the premise behind creating a level playing field on carbon costs and reporting. All imported steel should have to report emission data, and a UK CBAM would encourage this, but such data may not be available at the implementation of this policy. We recognised that Emission Trading Schemes and carbon taxes are not widespread, and therefore neither is the obligation to monitor, report, and verify emission data.

To address the lack of reliable data, default values should be introduced, where a certain carbon intensity is assumed unless the global steelmaker can provide reliable, verifiable, audited data proving otherwise. There are several approaches which could be considered:

- Worst domestic producers: The default value could reflect the 10% worst UK emitters, reflecting how ETS benchmarks are determined. However, as the global average emission intensity is higher than the European and British, the default value must reflect this. There are also too few steel producers to define the 10% worst, and such an approach would only benefit the most polluting steelmakers, as their emissions would be assumed to be similar to UK steelmakers trying to decarbonise.
- Global Average: A global average could be used as the default value, ensuring that any steel imported, which did not provide reliable data, would be treated as the average emitter. However, this would again benefit the steelmakers with the highest emissions, as they would face a lower CBAM compliance cost than their actual emissions would require.
- Worst global producers: Finally, the best approach would be to set the default value to reflect the steelmakers with the highest global emissions intensity, for example, the 10% highest emitters. This would ensure that highly carbon-intensive steel producers face the accurate CBAM tariff while encouraging less carbon-intensive producers to present reliable data proving otherwise.

We strongly encourage a CBAM to be designed around data reporting requirements, creating a robust incentive to submit verified data. Should this not be possible, default values must be based on the worst global producers to ensure that high-emission imported steel does not benefit from using default values and creating an incentive to report accurate and verified emission data. More lenient default values will only encourage high-emission steel producers to export to the UK while impeding low-emission imported steel and domestic producers.

Question 2.7: Are there any factors not presented in this chapter which government should consider for the calculation of default values? Please explain your reasoning.

As outlined above, the default value must be based on the 10% highest emitting steel producers to ensure that highly carbon-intensive steel producers face the accurate CBAM tariff while encouraging less carbon-intensive producers to present reliable data proving otherwise. Basing the default value on the global average or highest emitting domestic producers would only benefit the steelmakers with the highest emissions, as they would face a lower CBAM compliance cost than their actual emissions would require.

Question 2.8: Are there any additional challenges or opportunities around the monitoring, reporting and verification of emissions that have not been considered? Please explain your reasoning.
-

Question 2.9: What data could UK importers provide for Scope 1 emissions embodied within imported products on a product basis? Please explain your reasoning.

To provide a level playing field and enable free and fair trade, the importers must provide scope 1 emission data similar to what is provided under the UK ETS.

Question 2.10: What alternative data sources would government need to consider when determining Scope 1 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning
A default value must be applied if an importer cannot provide verifiable emission data. The Government should not allow other data sources to be used, as this would only benefit the steelmakers with the highest emissions, as they would face a lower CBAM compliance cost than their actual emissions would require.

Question 2.11: Do you agree or disagree a CBAM should be applied to Scope 2 emissions embodied within imported products? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

We would agree that scope 2 emission data must also be reported, as it, in particular for EAF production, can have a sizable impact on their overall emissions.

Question 2.12: What data could UK importers provide for Scope 2 emissions embodied within imported products on a product basis? Please explain your reasoning.
Verified data on electricity use and grid intensity of the country of production must be provided.

Question 2.13: What alternative data sources would government need to consider to determine Scope 2 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.
If an importer cannot provide verifiable scope 2 data, a default value must be applied. The Government should not allow other data sources to be used, as this would only benefit the steelmakers with the highest emissions, as they would face a lower CBAM compliance cost than their actual emissions would require. The default value must be based on the 10% highest grid intensity and electro-intensity to ensure that there is an incentive to provide accurate data.

Question 2.14: Should the government consider the use of product level electricity 'content' benchmarks and country level averages to calculate Scope 2 emissions from purchased electricity?
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

The Government should recognise that scope 2 emissions make up a much larger proportion of EAF-produced steel, and it should therefore treat BOF-BF-steel differently from EAF-steel. Similarly, steel produced in, for example, Iceland (estimated at 29gCO_2e/kWh) will have significantly different scope 2 emissions than in, for example, South Africa (estimated at 716gCO_2e/kWh[7]). The Government must, as such, consider different country level averages, as these will have a substantial impact on the scope 2 emission profile of EAF-produced steel.

Question 2.15: If yes, how should country level Scope 2 average emissions be calculated? Please explain your reasoning.
Verifiable data must be used to estimate the average grid intensity of the country of origin.

Question 2.16: Should a CBAM be applied to the Scope 3 emissions embodied within imported products that are also indirectly covered by the UK ETS? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

Ideally, a CBAM policy would cover upstream scope 3 as well to ensure that all emissions are covered. This is particularly important, as there are options to move scope 1 emissions into scope 3 through different production practices or even changes to business structures. For example, if EAF producers use HBI or DRI from another steelmaker, their scope 1 emissions would be very low, while the emissions would still have occurred. There are also options to separate parts of the BOF-BF process (e.g. coke-making and sintering) into separate businesses, which could reduce scope 1 emissions without reducing

[7] Our World in Data, Carbon intensity of electricity, 2022, https://ourworldindata.org/grapher/carbon-intensity-electricity

overall emissions. This would allow imported steel to avoid high CBAM compliance costs without actually reducing global GHG emissions.

However, as the UK ETS only covers scope 1 emissions (and indirectly scope 2 emissions), the inclusion of scope 3 emissions will require further consideration to avoid unintended consequences.

Question 2.17: What data could UK importers provide for Scope 3 emissions embodied within imported products on a product basis? Please explain your reasoning.
-

Question 2.18: What alternative data sources would government need to consider to determine Scope 3 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.
-

Question 2.19: Do you have further comments on the inclusion and measurement of emissions embodied in imported products as part of a CBAM?
-

Question 2.20: Should the price applied by a CBAM be comparable to the effective domestic carbon price paid, including accounting for any discounts available through free allowances or compensation? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

To create a level playing field between domestically produced and imported steel, both need to face similar carbon pricing. This should also take account of discounts available through free allowances or compensation to enable trade on fair terms.

However, as the CBAM would be a completely new instrument, there are questions about its robustness and how well it will work. It would be fairly risky to reduce the only direct carbon leakage measures that have proved to work (i.e. free allocation and compensation) while introducing a new, untested policy. It might therefore be worth cautiously reducing these after the CBAM implementation to avoid accidental deindustrialisation.

Question 2.21: Should the price applied by a CBAM track the prevailing UK ETS price throughout the year, as opposed to being set at a fixed annual rate? Please explain your reasoning and any preference between the different options outlined above.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

The UK ETS price has been shown to be extremely volatile, starting at £45/tCO_2e while rising to highs of almost £100/tCO_2e. The ETS price has doubled within a 12-month period, so it would not be right to use an annual fixed rate. At any given time, this would provide either domestically produced or imported steel with a trading advantage and would not create the level playing field that the CBAM aims to deliver. We would propose that a monthly or quarterly average is used instead, which would more accurately reflect the reality of the market.

Question 2.22: Should the price applied by a CBAM to imported products be based on the value of the effective carbon price differential between the UK and the country where that good was produced? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

It would only be fair to consider any carbon pricing in the country of production the imported product has already faced. As described above, Canada and New Zealand apply carbon pricing of £30-40/tCO2e on their steel producers, South Korea and Japan negligible carbon costs at £10-12/tCO2e, and South Africa, Chile, Mexico, Kazakhstan, and Colombia almost no carbon costs at £0.7-3/tCO2e. The European Union applies a similar carbon pricing to the UK through its EU ETS. As we would expect the EU to take account of the carbon price already paid through the UK ETS for its CBAM policy, imports from non-EU countries would expect the UK to apply a similar policy. Given that the carbon costs paid by UK and EU producers are equivalent and the EU remains by far our largest trading partner, mutual recognition of the respective CBAM schemes must be agreed upon to ensure we continue to trade as seamlessly as possible. However, we would expect differentials to be applied to all other countries.

Question 2.23: Would it be practicable for importers to provide information on the effective carbon price already paid on products in the originating country? Please provide details.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

For countries with mandatory carbon taxes or emission trading schemes, it would be easy to account for and provide information on the effective carbon price already paid on products in the originating country. As these are legal requirements, steel producers will have ample documentation, which can be provided along with the imported steel.

If documentation cannot be provided, there would be reason to believe that no carbon price has been paid on imported products.

Question 2.24: What issues might arise in taking into account a carbon price already paid in another country when calculating the price applied by a CBAM? Please explain your reasoning.

The main complication would arise in determining the actual carbon price paid. As emission trading schemes are volatile, it could prove difficult to determine what price was paid in the originating country, as this would depend on when they purchased the ETS allowances and when their compliance obligation falls.

Question 2.25: Do you have any views on how a CBAM could be designed to ensure maximum simplicity? For example, by following the mechanism for other border charges such as tariffs and excise duties. Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

The CBAM should be designed with maximum simplicity in mind to facilitate free trade. However, this must not come at the expense of a rigorous, thorough, and robust MRV scheme, as an oversimplistic, toothless scheme could allow high-emission steel into the UK, undercutting domestically produced steel.

Question 2.26: Should government prioritise reflecting the flexibility offered by the UK ETS in a CBAM? For example, by allowing emissions to be paid for at a separate point to the release of products into free circulation. Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

To mirror other border charges, like tariffs and excise duties, the CBAM compliance obligation must fall at the point of entry into the UK market. Unnecessary flexibility will allow importers to game or avoid these costs.

Question 2.27: Are there further actions government could take to design a CBAM in a way that facilitates the smooth flow of trade? Please explain your reasoning.
[Open text]

Question 2.28: Are there further interactions with the customs and/ or border systems which government should take into account for the development of a CBAM? Please explain your reasoning.

Any new carbon leakage policy must address exports. As outlined above, the steel industry is highly trade-intensive, with high levels of imports and exports. If UK steel producers face full carbon pricing without free allowances, their production costs will be significantly higher. They, therefore, need a mechanism to enable a level playing field against imports. However, they will struggle to compete against steel on the global market when exporting. In implementing the EU CBAM policy, the European steel trade association has expressed significant concern about a lack of an export solution, putting €45bn steel exports at risk. One proposal had been to provide free allowances for every tonne of steel exported, which could then be sold in the carbon markets to reduce the price of the exported steel. An export mechanism can be built into a CBAM to facilitate trade while reducing carbon leakage, which would not be possible with Mandatory Product Standards. CBAMs, MPS, and other measures could substantially harm the domestic steel industry without an export solution.

Question 2.29: Are there further policy interactions that government should consider regarding potential implementation timelines for a CBAM? Please explain your reasoning.

The UK's CBAM policy must be implemented at the latest by 2026 to align with the UK ETS reforms and avoid the negative impact in trade and trade diversion of the EU CBAM implementation.

Question 3.1: Were mandatory product standards introduced, should the above criteria be used to decide on its initial sectoral scope? Are there other criteria that should be considered? Please explain your reasoning, including any alternative criteria.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

We would agree with the listed criteria, especially the interaction with other policy tools, such as CBAM.

Question 3.2: Which option, if any, would be most appropriate for the initial sectoral targeting of a mandatory product standard? Are there other/additional sectors which should be considered for early targeting, for example to address the risk of substitution? Please explain your reasoning.
Option 1: Targeting steel only
Option 2: Targeting steel, cement, and concrete
Option 3: Targeting steel, cement, concrete, and chemicals
Other

While we recognise that steel is an ideal candidate for carbon leakage measures, it would be disastrous to only introduce Mandatory Product Standards (MPS) for the steel industry. Instead, cement, concrete, chemicals, and aluminium must be included as a minimum. If MPS only applies to steel or steel/cement/concrete, then it is highly likely it would lead to rapid product substitution. If the MPS does not apply to all industrial products, the products not covered face no regulation. Therefore, these will gain an economic advantage over steel products, which are affected by the regulation and applied to products both produced within and outside the UK. We could therefore see inter-material competition being affected, where carmakers choose aluminium over steel if aluminium isn't included or building developers choose cement over a steel frame if cement isn't covered, regardless of whether these products are associated with fewer carbon emissions. This would drive consumers away from steel (or lead to value chain circumvention) without reducing global emissions, severely damaging the steel industry.

Like CBAMs, MPS carry several risks, including the following:

- Value chain circumvention: MPS will apply to the intermediate (or 'semi-finished') industrial products rather than the embodied steel within the end-consumer (or 'finished') products, such as cars or washing machines. By banning them through MPS, there is a risk that production of the end-consumer, finished products will move outside of the regulated market and then be imported to avoid the regulation. Once this takes place, it is very difficult to reverse.
- Product substitution: (see above)
- Measures and verification: A robust and standardised measurement and verification mechanism will be essential to an MPS working, as the MPS will depend on accurate data which have been verified. If the data associated with imported steel is not credible, it could avoid the MPS regulation, even if its production emitted substantial amounts of carbon emissions. As there is a clear economic incentive to avoid any MPS by falsifying data, the measurement and verification mechanism must be robust.
- Default values: To address the lack of reliable data, default values could be introduced, where a certain carbon intensity is assumed unless the global steelmaker can provide reliable, verifiable, audited data proving otherwise. Any default value would be set at the worst global level to discourage high emitters from using the default.
- Exports: Where an export mechanism could be built into a CBAM policy, it is much harder to see how this could be achieved with product standards. For such a trade-intensive industry as steel, any carbon leakage measure must be able to address exports.
- Trade and market flexibility: MPS are unequivocal and binary in their nature – a steel product either meets the emission standard or does not. MPS would ban any products from entering the UK market if they were not produced with fewer emissions than allowed by the agreed standard. There are about 3,500 grades of steel, and the UK industry does not make all. If a manufacturer needs a specific grade of steel that the UK did not produce, a product standard approach would either prevent them from importing this or limit imports to decarbonised steelmakers. This could have a significant negative impact on the wider manufacturing supply chain and the customers of the UK steel industry. A CBAM policy does not share the same limitation, as a steel customer could easily import steel not produced in the UK, even if made with high emissions, but would need to pay an associated CBAM compliance cost. As such, MPS will reduce trading opportunities and market flexibility.

- Recognition of carbon pricing: MPS and labelling would assess steel according to the agreed-upon emission standard, regardless of the origin of steel production. However, it would be challenging to recognise carbon taxes or prices already paid by imported steel. When an EU-produced steel product is exported to the UK, the EU producer has already paid the full carbon costs for the emissions associated with the steel production. However, the product standard would not be set up to recognise this, as it would only allow the import of low-emission steel, regardless of whether it had faced domestic carbon prices.
- Lack of agreed methodology: There is no internationally agreed emission standard for steelmaking, with competing standards being developed and championed by different steelmakers. The UK will also likely prove too small of a market to set its own standard and will likely need to follow an agreed internationally recognised standard/methodology. Conversely, CBAMs have an agreed standard in place if it is linked to the UK ETS, where the emission methodology has been defined, verified, and monitored for years. While the consultation states that there already are sector-led reporting and initiatives, such as Responsible Steel standard and certification programme and the International Energy Agency (IEA)'s proposal to define low emissions, these are still highly contentious, and many other competing standards exist. The Government must recognise that, for example, Responsible Steel was created and funded by ArcelorMittal and largely benefits their specific business model, and it may not be appropriate as a basis for a UK MPS.

We are incredibly concerned that the Government would consider only applying an MPS to the steel industry without considering the consequences to its ability to compete with other carbon-intensive products and the risk of product substitution. MPS must either be implemented for all carbon-intensive foundation sectors at once or not at all. If this option is considered, it would only make sense to be introduced at a later stage, when the decarbonisation journeys of many producers are further progressed.

Question 3.3: Which option, if any, would be most appropriate for emissions scope of a mandatory product standard? Please explain your reasoning, and details of any alternative options.
Option 1: Scope 1, 2, and some upstream Scope 3 emissions
Option 2: Scope 1, 2, and some upstream and downstream Scope 3 emissions
Other

If MPS are introduced, they should only be introduced as a backup mechanism to cover scope 2 and 3 emissions, which a CBAM policy may struggle to cover. For scope 3 emissions specifically, it would only be appropriate to cover upstream scope 3 emissions, as steelmakers have limited influence over downstream scope 3 emissions. Whereas steelmakers have some influence over raw material extraction, processing, transportation, waste, employee commuting etc., they will have significantly less influence over how their products are further processed, transported, used, discarded etc. It will be too onerous to regulate downstream emissions, and regulation should instead be applied to downstream users (e.g. the use of steel in construction).

Question 3.4: Which value chain option, if any, would be most appropriate to target with a mandatory product standard? Please explain your reasoning, with reference to specific sectors if possible, and details of any alternative options.
Option 1: Upstream products
Option 2: Midstream products (broad scope)
Option 3: Midstream products (narrow scope)
Option 4: Downstream or end-user products
None of the above

It is unclear how the definitions used within this question would apply to the steel industry. What additional products are included within the broad scope which are not included within the broad scope? The consultation document also seems to have confused options 2 and 3.

To minimise the risk of value chain circumvention (see above), MPS must be applied to both the intermediate (or 'semi-finished') industrial products and the embodied steel within the end-consumer (or 'finished') products, such as cars or washing machines. By banning only midstream or semi-finished products via MPS, there is a risk that production of the end-consumer, finished products will move

outside of the regulated market and then be imported to avoid regulation. MPS must therefore cover both midstream and downstream/end-consumer products containing steel.

Question 3.5: Which option, if any, would be most appropriate for targeting the point of obligation for a mandatory product standard for domestically produced goods? Please explain your reasoning, with reference to specific sectors if possible, and details of any alternative options.
Point of Sale
Point of Production
Other

Applying an MPS at the point of sale would allow steelmakers to export products to another jurisdiction without MPS or CBAM. While we think this is the most logical place to target the MPS obligation, it will not sufficiently address the export issue. It assumes that a steel producer can easily switch between two different production methods, depending on whether the product is destined for the domestic market or exported. Decarbonising steelmaking will require substantial investment in CCUS, new electric arc furnaces, or DRI-plants with electric arc furnaces, which will replace the existing production. There is, therefore, no option to simply produce high-emission, lower-cost steel for the export market while switching back to low-emission, high-cost steel for the domestic market.

Question 3.6: What considerations should government consider when targeting the point of obligation for imported goods? Please explain your reasoning, with reference to specific sectors if possible.

-

Question 3.7: Do you agree or disagree that any mandatory product standard should apply to imports? Please explain your reasoning, including any details of the possible impacts for your sector.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

To be effective, any carbon leakage policy must be targeted at both domestically produced and imported products. If MPSs are only applied to domestically produced steel, high-emission, lower-cost steel will be imported and outcompete UK steelmakers. It will lead to swift deindustrialisation, kill jobs, destroy local economies, and have no significant impact on global GHG emissions.

We strongly recommend that MPS (if implemented) be applied to imported and domestically produced steel. The alternative will actively drive carbon leakage as a Government policy.

Question 3.8: Do you agree or disagree with the proposed principles for setting thresholds and increasing the stringency of mandatory product standards over time? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

We agree that thresholds should be bespoke for each product, achievable, years in advance, and regularly reviewed. However, we disagree that the threshold stringency should increase gradually over time as this ignores the step-change nature of a large proportion of decarbonisation of steelmaking. Some energy efficiencies and initiatives would be gradual in nature, but some technology changes would reduce emissions substantially from one day to the next, and a gradual tightening of MPS may not capture this. It would either be too stringent too quickly before industry has invested in new production methods or be too lenient and not offer sufficient carbon leakage protection. The MPS thresholds must therefore be able to recognise the step-change nature of technology changes while recognising gradual, smaller energy efficiency gains.

Question 3.9: Should mandatory product standards be delivered in stages, broadly moving from a less stringent, relatively focussed application in the late 2020s to a more stringent and potentially broader application during the 2030s? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

This depends on the scope of mandatory product standards. If the intention is to have a sector scope which covers all steel products (for example), it will be very difficult to have an MPS in the 2020s, as the ore-based producers are unlikely to be able to decarbonise within the timeframe. If an MPS is to be

introduced earlier, it has to have individual products MPS, with a significant degree of granularity by product. The current UK ETS benchmarks reflect different benchmarks for electric arc furnaces and integrated blast furnaces. MPS could be introduced to reflect this or for specific products. From the 2030s, the MPS must be stringent to act as a carbon leakage measure, following the emissions of the new production methods adopted by UK steelmakers.

Question 4.1: What specific challenges for countries at differing stages of development to the UK, in particular least developed and low income countries would the government need to consider in the future design of any carbon leakage measures? Please explain your reasoning.
Question 4.2: How can the government best support countries at differing stages of development to the UK, in particular least developed and low income countries? Please explain your reasoning.
The UK should continue to support the development of global carbon pricing and carbon pricing initiatives while providing assistance to low-income countries to invest in low-carbon technologies. In addition, any carbon leakage measure must be transparent and treat imported products similarly to domestically produced products. This will enable free and fair trade.

Question 4.3 What is your view on the importance of finding ways to simplify the process for estimating product level emissions intensities?
We agree that it is incredibly important to find open, transparent, and fair methodologies for estimating product-level emissions intensities. These should follow the UK ETS methodology, ensuring that products produced in the UK and abroad face similar reporting requirements. A pro rata approach to estimating the emissions from a tonne of steel seems like the best approach.

However, while simplicity should be an aim of any CBAM or MPS, it must not be at the expense of robust, verified, and credible data, and failing this, appropriate default values, which do not favour the most polluting sites globally.

Question 4.4 What are the different options for simplifying the process for estimating product level emissions intensities without compromising on the integrity of the estimates?
-

Question 4.5 Do you have any views or empirical data on the trade-offs between reductions in administrative costs in the generation of product level data, and the accuracy of such data?
As the data for MPS or CBAM will be crucial in determining whether products can access the UK market or their financial compliance costs, the credibility and integrity of such data must not be compromised in the pursuit of reducing administrative costs. If CBAM and MPS are to be effective carbon leakage measures, they must require robust and verified data and rigorously apply compliance costs or keep products out of the UK market. Any leniency will lead to an ineffective carbon leakage policy, leading to further deindustrialisation of the UK.

Question 4.6: Is circumvention a risk in your sector(s)? Please explain your reasoning, with references to particular sectors where possible.
Yes
No
Don't know.

As stated above, there is a clear risk of value chain circumvention, general circumvention, and resource shuffling for the steel industry when introducing MPS and CBAM:

- General circumvention: As steel, its raw materials, and downstream products are highly trade intensive, there is a significant risk that importers will shift to importing products not covered by a CBAM or MPS. The shift could be to both upstream and downstream products, such as HBI/DRI/pig iron or embedded steel (see below) if the carbon leakage policy does not cover these.
- Value chain circumvention: MPS and CBAM will typically apply to the intermediate (or 'semi-finished') industrial products covered by the UK ETS. It does not apply to embodied steel within all end-consumer (or 'finished') products, such as cars or washing machines. There is a risk by either taxing the emissions via a CBAM or simply banning them through product standards that production of the end-consumer, finished products will move outside of the regulated market and then be imported to avoid the tax or regulation (i.e. value chain circumvention). Therefore, it is important that the CBAM is applied to steel in goods and semi-finished products. This would include certain products that contain steel but are not subject to the UK ETS.
- Resource shuffling: As the scrap-EAF route is well established, the introduction of CBAM or MPS will likely lead to a significant decline in imports of BOF-BF/DRI-EAF-made steel to the UK market, as steel producers will instead prioritise this steel for the UK and EU market, where carbon leakage measures are in place.

Carbon leakage measures, therefore, cannot stand alone but must be married with a supportive policy package addressing CAPEX support, electricity pricing, scrap availability, and energy efficiency support.

Question 4.7: How can carbon leakage measures be best designed to limit risk of circumvention? Please explain your reasoning.

If the CBAM/MPS policy covers scopes 1-3 and covers steel embedded within products, the risk of circumvention is greatly minimised. If the policies cover scopes 2-3, it is less likely that upstream products will be able to be imported, while covering downstream steel products embedded within vehicles and appliances will reduce the risk of value chain circumvention.

Question 4.8: Is resource shuffling a risk in your sector(s)? Please explain your reasoning, with references to particular sectors where possible.
Yes
No
Don't know.

Question 4.9: How can carbon leakage mitigation measures be best designed to limit risk of resource shuffling? Please explain your reasoning.
It is difficult to see how resource shuffling can be prevented when it comes to scrap-EAF-produced steel, as this generally has lower emissions associated with production. However, it is possible to reduce it by creating scheme rules which prevent steel producers from using different input factors to reduce the carbon intensity. For example, the scheme should not allow a scrap-EAF steel company in a country with 25% low-emission power production to allocate the low-emission power proportion to the exported steel, while the domestically consumed steel gets allocated the high-emission electricity.

Question 4.10: There may be a risk of carbon leakage from increased imports of processed products produced using intermediate inputs that would have been covered by UK carbon leakage measures if imported directly. Is this a significant concern for you? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; don't know; no, disagree; no, strongly disagree]

As stated above, there is a large risk of value chain circumvention if finished goods are not covered. MPS and CBAM will typically apply to the intermediate (or 'semi-finished') industrial products covered by the UK ETS. If it does not apply to embodied steel within all end-consumer (or 'finished') products, such as cars or washing machines, then there is a risk of either taxing the emissions via a CBAM or simply banning them through product standards that production of the end-consumer, finished products will move outside of the regulated market and then be imported to avoid the tax or regulation (i.e. value chain circumvention). It is, therefore, important that the CBAM/MPS are applied to steel in goods as well as semi-finished products. This would therefore include certain products which contain steel but are not subject to the UK ETS.

Question 4.11: If you answered yes, in which sectors do you foresee material issues, and why?
Sectors most at risk are those with a higher percentage of steel within goods and a higher level of competition.

Question 4.12: What are your views on the relative merits of the potential options presented above for addressing potential downstream impacts of carbon leakage measures? Are there alternative options for addressing this issue?
The ideal option is to "work out the amount of the intermediate inputs, which in the UK would be affected by the CBAM or MPS, that are embedded (either physically, or via the production process) in imported processed products, and apply a CBAM or standards based on the content of those embedded intermediate inputs". This would reduce the risk of value chain circumvention the most. However, "apply[ing] a CBAM, or MPS, to imports, which reflects an 'implied carbon price' or 'implied product standard' where UK production has been indirectly impacted by carbon leakage measures applying to intermediate products;" would also work to reduce the risk. Our least preferred option is to "do nothing for final products where the levels of relevant intermediate inputs (whether measured by mass or by a share of the value of the final good) are below a defined threshold." This will allow certain products to evade the MPS/CBAM if they are below the threshold. However, all three options are preferable to taking no action on embedded steel.

Question 4.13: One of the options set out is to take no action where the levels of relevant intermediate inputs are below a set threshold. In your view what would be the appropriate type, and level of such a threshold. Please explain your reasoning.
-

Question 4.14: How should the government strike the right balance between the need to address material downstream effects and the implications for both administrative complexity and consumer impacts? Please explain your reasoning.
-

Question 4.15: Which UK sectors are most likely to face carbon leakage risk in export markets? For each of these sectors please set out your reasoning and any evidence to support this view.
The UK steel industry faces a high risk of carbon leakage due to its trade intensity and the markets it currently exports to. While 25% of all steel produced is traded internationally, this climbs to 43% in markets outside of China, and the UK exports 40% of its steel production and imports over 60% of its direct requirements. The UK imports about 2.6 million tonnes of steel (40% of imports) from countries that do not face comparable carbon costs and exports 0.68m tonnes (20% of its export) to markets without similar carbon pricing in 2021[8]. The disparity between imports and exports to markets without similar carbon pricing will likely grow as carbon pricing increases and free allocations are reduced.

If UK steel producers face domestic carbon pricing or mandatory product standards in their home market, their ability to compete will be greatly reduced. Domestic carbon pricing will increase the cost of exported UK steel, while MPS will also add costs. If UK steel producers face full carbon pricing without free allowances, their production costs will be significantly higher. They, therefore, need a mechanism to enable a level playing field against imports. However, they will struggle to compete against steel on the global market when exporting. In implementing the EU CBAM policy, the European steel trade association has expressed significant concern about a lack of an export solution, putting €45bn steel exports at risk. One proposal had been to provide free allowances for every tonne of steel exported, which could then be sold in the carbon markets to reduce the price of the exported steel. An export mechanism can be built into a CBAM to facilitate trade while reducing carbon leakage, which would not be possible with Mandatory Product Standards. CBAMs, MPS, and other measures could substantially harm the domestic steel industry without an export solution.

Question 4.16: What, if any, is the impact of carbon leakage risk in export markets? For each sector please set out your reasoning and any evidence to support this view.
See above.

Question 4.17: For UK sectors affected by carbon leakage risk in export markets described in 4.1 above, what approaches would you propose for the mitigation of carbon leakage risk?
With a CBAM policy, the Government should provide free allowances for every tonne of steel exported, which could then be sold in the carbon markets to reduce the price of the exported steel.

While we think applying an MPS at the point of sale is the most logical place to target the MPS obligation, it will not sufficiently address the export issue. It assumes that a steel producer can easily switch between two different production methods, depending on whether the product is destined for the domestic market or exported. Decarbonising steelmaking will require substantial investment in CCUS, new electric arc furnaces, or DRI-plants with electric arc furnaces, which will replace the existing production. There is, therefore, no option to simply produce high-emission, lower-cost steel for the export market while switching back to low-emission, high-cost steel for the domestic market.

Question 4.18: Should mandatory product standards apply to all UK manufactured products intended for export? Please explain your reasoning, and provide details of any impacts this would have on your sector.
Yes
No
Don't know
While we think applying an MPS at the point of sale is the most logical place to target the MPS obligation, it will not sufficiently address the export issue. It assumes that a steel producer can easily switch

[8] International Steel Statistics Bureau, Markets with similar carbon price include EU, Norway, Switzerland, New Zealand, and Canada.

between two different production methods, depending on whether the product is destined for the domestic market or exported. Decarbonising steelmaking will require substantial investment in CCUS, new electric arc furnaces, or DRI-plants with electric arc furnaces, which will replace the existing production. There is, therefore, no option to simply produce high-emission, lower-cost steel for the export market while switching back to low-emission, high-cost steel for the domestic market. It is thus unlikely to provide any benefit allowing products to have higher emissions than the MPS if exported. Some additional mechanisms must be provided to allow steelmakers to continue to compete in export markets.

Question 4.19: Should the use of carbon credits to offset emissions be considered within the assessment of a product? Please explain your reasoning.
Yes
No
Don't know

There would be a significant risk in allowing imported steel to use the purchase of carbon credits to count towards meeting an MPS or a CBAM obligation, as this would reduce the effectiveness of either policy. It would further incentivise the creation of dubious offsetting schemes, with minimal effect, to circumvent MPS/CBAM while not actually reducing emissions from steelmaking. One of the primary objectives must be to actually incentivise the decarbonisation of steelmaking with these policies.

Question 5.1: Which of the following statements corresponds most with your view? In order to maximise the effectiveness of a labelling scheme, both in terms of consumer usability and implementation costs, a system of embodied emissions should include:
Embodied emissions data only
Energy efficiency style lettered and coloured ratings only
Both embodied emissions data and energy efficiency style lettered and coloured ratings
I do not agree with any of these options

If MPSs are introduced, it would be appropriate to introduce voluntary product standards in the years ahead of any implementation. This would allow buyers, consumers, and industry time to get used to reporting against the standard and understand its meaning.

We do have some concerns about the introduction of a lettered and coloured rating system, as it could be too simplistic while driving consumers toward unintended consequences. Neither is an embodied emission data only-approach any better, as this would provide even less useful information to the steel consumer. We would also point to our answer above on increasing the stringency of any MPS over time for the steel industry, which is unlikely to be a helpful approach due to the step-change nature of the decarbonisation of steelmaking.

Question 5.2: Should the government adopt mandatory labelling for products that are required to have their embodied emissions reported? Please explain your reasoning.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

We are concerned that if a simple data point is reported, then it could drive unintended consequences, such as buying Vietnamese scrap-EAF steel vs BOF-BF steel from a domestic producer with a Net Zero plan to reduce their emissions by 70% within the next five years. Considering the unintended consequences discussed earlier in the consultation (circumvention, resource shuffling, product substitution etc.), a single data point could be misleading, especially if only implemented for a few sectors.

Question 5.3: Which level of IDDI pledge would best support the decarbonisation of UK industry? Please explain your reasoning.
Drop down options:
□ Levels One:
□ Levels One and Two:
□ Levels One, Two and Three:
□ Levels One, Two, Three and Four:

Considering the current trajectory of policies, we would support the Government in committing to Level One and Two, especially considering the steel industry's pathway towards decarbonisation. We would be concerned if the Government required "procurement of low emission cement/concrete and steel in public construction projects" from 2030 (Level Three), as this does not match the other Government targets and timelines on steel decarbonisation. The Climate Change Committee has recommended near-decarbonisation for the ore-based/BOF-BF production sites by 2035, five years later than the IDDI Level Three pledge. In UK Steel's "Net Zero Steel" report[9], the industry outlined how it could meet the 2035 target and proposed an industry-Government partnership. While some progress has been made to address some of the barriers outlined in the report (such as electricity prices and consulting on CBAMs/MPS), there are still many unaddressed which prevent the steel industry from moving forward. If the UK Government commits to Level Three or Four, it will likely drive public procurement towards non-UK, imported steel from countries where Governments have provided the necessary policy support and business landscape.

Separately, we do have some concerns regarding IDDI and how the programme works presently. There is no methodology for the IEA G7 report for determining emissions, allowing each country and company to apply their own methodology. This lack of consistency and agreed methodology does increase the risk that the UK could apply a very stringent reporting scheme while other countries signed up to IDDI choose less stringent methodologies more favourable to their industries. There is also an inconsistency between reporting for crude steel thresholds and product-level EPDs, which hasn't been addressed.

[9] UK Steel (2022), "Net Zero Steel - A Vision for the Future of UK Steel Production", https://www.makeuk.org/about/uk-steel/net-zero-steel---a-vision-for-the-future-of-uk-steel-production.

This is particularly important as the methodology approach needs to be consistent between thresholds and EPDs. IDDI has also been strongly influenced by organisations (e.g. Building Transparency) who lobby for using only EPDs. While we agree and believe that public procurement is a vital policy to drive demand for low-emission steel and against carbon leakage, we do have questions as to whether IDDI has the right focus presently.

Question 5.4: What would be the likely impact of implementation of each IDDI pledge level to your sector? When answering the question, please consider: if your company/companies in the steel, cement and concrete sectors would be likely to be able to match the rate of decarbonisation required by the different levels of the pledge, and; if the UK signing up to the pledge would incentivise decarbonisation within each sector.
As outlined above, the IDDI Levels Three and Four do not match the UK Government's own targets and timelines for industrial decarbonisation of the steel industry or the industry's own timelines. It is extremely unlikely that UK steel companies would be able to comply with the Three and Four pledge levels, which would drive taxpayer-funded projects toward imported steel, where foreign governments have subsidised their decarbonisation process. This would be very damaging for the UK steel industry while also having significant impacts on jobs, local economies, and regional communities.

It is again also concerning that Government is only targeting steel and concrete/cement and not other building materials and foundation industries. There is a significant risk that this could drive product substitution without any global emission reductions. Public procurement should be wider than just steel and concrete/cement.

Question 5.5: Should the government adopt the low emissions thresholds suggested by the IEA? Please explain your reasoning, including whether there are there any strong alternatives.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]
If yes, please explain how this could be achieved.

As outlined in UK Steel's Net Zero Steel report[10], there are broadly three routes to decarbonisation: electrification, CCUS, and hydrogen-based steelmaking. Electrification is already an established technology used for more than 100 years to melt scrap steel into new steel, and it is used by four steelmakers in the UK today. While EAF is promising for a swift decarbonisation process, it is restricted by scrap supply, which is not predicted to be able to completely meet the ever-growing demand for steel. This is likely the underlying reason behind the sliding low emissions thresholds suggested by the IEA, which seeks to balance the emission intensity by the amount of scrap, to avoid European and UK steelmakers all chasing the same scrap while leaving the ore-based steelmaking to other global producers. This would likely merely displace the use of scrap rather than reduce global emissions from the steel industry.

However, while keeping this in mind, we are concerned about the IEA's suggestions for sliding thresholds and therefore cannot offer our support. The sliding scale seems to propose that EAF steelmaking with >90% scrap needs to be below 0.3tCO_2/tCS to even be considered low-emission product band E, whereas ore-based production with no scrap use will achieve a similar rating at 2.3tCO_2/tCS. Adopting such a policy will drastically reduce the incentive of the UK's two BOF producers to switch to EAFs or to increase the domestic use of the UK's ample scrap supply, of which 80% is currently exported. It will furthermore unduly penalise the UK's existing EAF producers, classifying them as high-emission steel and reducing their incentive to continue recycling scrap steel. The two main sources of EAF producers' emissions are their natural gas use (scope 1) and electricity use (scope 2). However, they have limited control over the emission intensity of the electricity they consume, which is largely determined by Government policy, nor their natural gas use, as they are unable to switch to lower emission hydrogen before such infrastructure and supply are provided, which is also determined by Government policy.

Applying the IEA's threshold would disproportionately penalise exiting EAF producers, reduce the incentive for BOF/ore-based producers to switch to EAF, encourage the continued exporting of UK scrap, and discourage the recycling of scrap steel in the UK, damaging aims of the circular economy. As the UK has one of the lowest electricity grid intensities globally, policies should actively encourage

[10] UK Steel (2022), "Net Zero Steel: A Vision for the Future of UK Steel Production", https://www.makeuk.org/about/uk-steel/net-zero-steel---a-vision-for-the-future-of-uk-steel-production.

more scrap-based production in the UK rather than penalise the existing producers. Therefore, we disagree with adopting the low emissions thresholds suggested by the IEA.

Question 5.6: What can the government do to support firms to join the First Movers Coalition? Please explain your reasoning.

The key action the UK Government can take to support decarbonisation is to deliver on the recommendations within UK Steel's Net Zero report. Significant progress here would drive progress more widely for the industry and enable steel users to join the FMC. We would strongly urge the Government to use funding streams from the UK ETS and a UK CBAM policy to fund industrial decarbonisation, which needs significant investments and infrastructure. Current UK ETS revenues are estimated to be around £5-6bn in 2022, which is not matched by the support provided to industry, and a UK CBAM is expected to bring in additional revenue.

Question 6.1: Should the government introduce a new framework to enable the reporting and collection of product level emissions?
[5 point scale: Yes, Strongly agree; Yes, Agree; Maybe/Undecided; No, Disagree; No, Strongly disagree]

Question 6.2: If yes, what do you see as the advantages to introducing the framework?
We agree that when the Government introduces a CBAM and MPS, it must also introduce a framework for reporting emissions to minimise the burdens to domestic businesses and importers.

Question 6.3: If no, what do you see as the disadvantages that mean a framework should not be introduced, and how do you propose the government introduces the policy proposals considered in the consultation?
-

Question 6.4: If you answered yes above, do you prefer (1) Attributing installation level data to products with default values or (2) Product life cycle assessments with default values, or another option? Please suggest the advantages or disadvantages of each option.
Option 1 (prefer Installation level data)
Option 2 (prefer life cycle assessment data)
Either
None

We believe a CBAM policy should be based on and linked to the UK ETS, and it would be most sensible to base this on the UK ETS reporting data. This would minimise the administrative burdens on businesses and allow seamless trade with the European Union, assuming mutual recognition can be agreed upon. We would encourage the Government to base it on volume rather than the value of individual products, as the latter is open to manipulation from imported steel. Importers can claim steel not imported to the UK sold for a higher value, and therefore fewer of the production site's GHG emissions should be attributed to the imported steel.

However, as CBAM may be unable to cover Scope 3 emissions, MPSs are likely needed. These should be introduced from the earlier 2030s (a UK CBAM from 2026), and LCA data would be needed to cover scope 3 emissions.

Question 6.5: Would you prefer a single emissions reporting framework for all carbon leakage policy measures? Please explain your reasoning
[5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree]

As detailed above, as different reporting methodologies will be needed (one UK ETS, another LCA) to report for CBAM and MPS, it would not be possible to have a single methodology, particularly given the different scopes. But if a single emissions reporting framework could retain both approaches, then this would be preferable.

Question 6.6: What are your views on balancing the administrative burden of product emissions reporting against the accuracy of results?
Since the introduction of CBAM and MPS will have profound financial and regulatory implications for domestically produced and imported steel, a high degree of accuracy and robustness must be achieved. This is particularly true for imported steel, where there is no obligation to report under any of the existing Government schemes outlined in the report.

While there will always be an element of estimation involved regarding emission reporting, these will now have implications for CBAM compliance costs and the ability to enter the UK market. There is, therefore, a very large incentive to underestimate emissions or report inaccurate data to minimise these costs.

Question 6.7: Which emissions factors should be used for the calculation of embodied emissions of products if emissions reporting requirements were introduced? What are the advantages or disadvantages of the options? If other, please set out your preference in the text box.
Drop down list:
UK Greenhouse Gas Inventory
UK Government Conversion Factors

National Atmospheric Emissions Inventory (NAEI)
Trade body datasets
Other
Any
None

(UK Steel does not have any data or opinion on this).

Question 6.8: Do you have a preference for how default values could be calculated? What are the advantages or disadvantages of the options?
Option 1
Option 2
Option 3
None of the above
No preference

To address the lack of reliable data, default values should be introduced, where a certain carbon intensity is assumed unless the global steelmaker can provide reliable, verifiable, audited data proving otherwise. There are several approaches which could be considered:

- Worst domestic producers: The default value could reflect the 10% worst UK emitters, reflecting how ETS benchmarks are determined. However, as the global average emission intensity is higher than the European and British, the default value must reflect this. There are also too few steel producers to define the 10% worst, and such an approach would only benefit the most polluting steelmakers, as their emissions would be assumed to be similar to UK steelmakers trying to decarbonise.
- Global Average: A global average could be used as the default value, ensuring that any steel imported, which did not provide reliable data, would be treated as the average emitter. However, this would again benefit the steelmakers with the highest emissions, as they would face a lower CBAM compliance cost than their actual emissions would require.
- Worst global producers: Finally, the best approach would be to set the default value to reflect the steelmakers with the highest global emissions intensity. This would ensure that highly carbon-intensive steel producers face the accurate CBAM tariff while encouraging less carbon-intensive producers to present reliable data proving otherwise.

Data from WorldSteel illustrates the issue of default values, as the range of emissions associated with steelmaking varies widely depending on site and technology:

BOF-BF emission data 2020, WorldSteel

Scrap-EAF emission data 2020, WorldSteel

The emission intensity ranges from below [redacted] to almost [redacted], which depends on technology, sites, and country. The huge range illustrates the issue of using averages for default values, as this would be around 1.89 tCO_2/tCS (when weighted by volume) for steel, giving a huge financial advantage to steel producers with emission intensities closer to 5tCO_2/tCS. These ranges are, of course, based on the WorldSteel methodology, and as it is not based on all steel sites globally, the dataset could be biased as the most carbon-intensive plants may not be interested in reporting.

There should be a clear incentive for importers and non-UK steel producers to supply reliable, verified data, and this can only be achieved if the default value is based on the 10% worst global performers. In this scenario:

- The 10% worst performers would have less incentive to report but would face a considerable CBAM compliance burden or be barred from entering the UK market (due to MPS). This in itself would either be a sufficient incentive to lower emissions or simply not export to the UK market.
- The average and best-performing producers would have a clear incentive to supply accurate, verified data, which demonstrates their lower emission intensity, as this would reduce their CBAM compliance burden and allow them into the UK market (via MPS). While the average and best-performing producers would report when the worst performers might not, the reporting obligation would simply match what is expected of domestic producers. Therefore, the average and best-performing producers would not be any worse off than the UK industry.

Question 6.9: Are there additional possible data sources for calculating default values that have not been mentioned? Please provide details of those data sources.
[Yes/No/Don't know]

As suggested above, the UK Government should base the default value on the worst-performing steel producers with the highest emission intensity. Data is available from WorldSteel, which has demonstrated a significant range in emission intensities.

Question 7.1: Should government pursue a Life Cycle Assessment-based approach?
[Yes/No/Don't know]

Question 7.2: What is your preference for the type of Life Cycle Assessment methodology framework that should be adopted? What are the advantages or disadvantages of each option?
Option 1
Option 2
Option 3
None / Other

Initially, EPDs verified by a UK-approved certifier could be used.

Question 7.3: Should CO2e/mass (including performance metric where relevant) be used as the metric for embodied emissions reporting and form the basis of any subsequent policy? If you disagree, please explain why and suggest an alternative metric.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]

CO_2e/mass is the most straightforward approach and keeps administrative burdens low.

Question 7.4: Should mass (of product) be the appropriate unit of measurement for your sector? If not, please explain your reasoning and suggest your preferred unit of measurement.
[5 point scale: Yes, strongly agree; yes, agree; prefer not to say; no, disagree, no, strongly disagree]
[Open text]

Question 7.5: Should the government introduce a data collection period before the full implementation of carbon leakage policy measures? What are the advantages or disadvantages of the options?
[5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree]

We agree that it would be sensible to introduce a reporting requirement period before the full policy takes effect, helping industry and importers to get used to the new carbon leakage measures.

Questions 7.6: If Yes or Maybe/Undecided, how long should this data collection period be?

The CBAM policy should be introduced from 2026, which means the reporting period can be introduced from 2024 or 2025.

For MPS, we suggest that this should be introduced from the early 2030s, meaning labelling can be introduced ahead of time. Here a reporting period of 2-3 years seems possible.

Question 7.7: Should only those businesses in scope of current or upcoming policies be required report information about the emissions of products? Please explain your reasoning.
[5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree]

This depends on the scope of the CBAM/MPS. If the policy scope is very narrow, covering only a few sectors, then the risk of product substitution will be much higher, and there would be a purpose in requiring reporting from sectors not covered. This would allow the Government to assess the risk of product substitution and carbon leakage.

Question 7.8: If your sector were required to report product emissions, are there other sectors that would also have to report this information to help minimise information asymmetry between substitutable products in the market? For example, where two products composed of different materials and manufactured using different processes can fulfil the same or similar role. Please explain your reasoning.
[5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree]

Steel competes with most materials, including concrete, cement, aluminium, plastics, glass, ceramics, and non-ferrous metals, to name a few.

Question 7.9: Should the scope of any new embodied emissions reporting be limited to that which is required by carbon leakage policy measures, if introduced? Please explain your reasoning.
[5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree]

We have recommended introducing a CBAM to cover scopes 1 & 2, while MPS would be introduced later to cover scope 3 emissions. As such, the reporting against these policies should be limited to the scopes covered.

Question 8.1: If you are, or represent, a domestic manufacturer, which option for a reporting IT system would be most appropriate? Would another approach be more suitable? Please explain your reasoning.

Option 1
Option 2
Option 3
None of the above / different solution

Option 1 would be most suitable for CBAM, while option 2/3 could work for MPS.

Question 8.2: If you are, or represent, an importer or manufacturer outside the UK, which option for a reporting IT system would be most appropriate? Would another approach be more suitable? Please explain your reasoning.

-

Question 8.3: Do you have a preference for how frequently emissions data should be reported?

Option 1
Option 2
Option 3
Option 4
None of the above (please provide more detail)

Question 8.4: What are the advantages or disadvantages of the options? Please explain your reasoning.

As for the UK ETS, data will need to be reported annually for a CBAM policy, while MPS could be done less frequently due to the higher costs and in-depth nature of the reporting (likely every two years).

Question 8.5: What are your views on how product embodied emissions data should be verified? What are the advantages or disadvantages of the different options? Please explain your reasoning.

We strongly agree with the Government's position that verification is essential to the effectiveness of any carbon leakage policy. Imported products must face similar levels of scrutiny and verification as domestic producers. We would therefore support the Government in appointing "an independent regulator or accreditation body which would have the power to certify third-party organisations to verify emissions data, as under the UK ETS", as proposed in the consultation document.

Question 8.6: Should embodied emissions data for products be made publicly available through either labelling, a publicly accessible database, both, or neither? Please explain your reasoning.

Agree – through labelling
Agree – through a publicly accessible database
Agree – through both
Disagree – neither option

We would support both options.

Question 9.1: Do you have any views about the implications of the policy measures explored in this consultation on people with protected characteristics and how any potential negative impacts could be mitigated? Please provide any relevant evidence.

For further information, contact:
Frank Aaskov, Energy & Climate Change Policy Manager, 07872 190965, faaskov@makeuk.org