



Budget Representation 2024

The Commission for Carbon Competitiveness

January 2024

Overview

The Commission for Carbon Competitiveness is a cross-party and cross-industry endeavour, set up to explore how the United Kingdom can reach net zero without undermining the competitiveness of British manufacturing. Formed in February 2023, the Commission wanted to hear directly from industry and share recommendations with government on how to avoid decarbonisation through deindustrialisation. Its members are:



John Penrose MP

Conservative, Weston-super-Mare
(Chairman)



Arjan Geveke

Director, Energy Intensive
Users Group



Jo Gideon MP

Conservative, Stoke-on-Trent Central



Stephen Kinnock MP

Labour, Aberavon

Executive Summary

- In July 2023, the Commission published its first policy paper, Fixing the Carbon Leak. The central recommendation of the report was for the government to introduce a Carbon Border Adjustment Mechanism (CBAM) without delay.
- The government announced its intention to take an important first step towards bringing in a CBAM in December 2023. However, issues in its approach remain:
 - By not aligning the timing of the CBAM introduction with the EU in 2026, the Government creates a substantial risk of “dumping” low-cost, high-carbon products in the UK.
 - The Government’s announcement omits entire manufacturing industries that are at risk of carbon leakage, and no justification was given as to why certain sectors are included or excluded.
 - The plans also need a greater focus on exports. Without an exemption from ETS costs to make clean, green UK manufacturing products globally competitive, a CBAM will only offer a partial solution.
- The Commission believes that much more needs to be done to tackle the risk of carbon leakage. Evidence gathered by the Commission overwhelmingly suggests that the UK CBAM should apply to all of our manufacturing industries without exception over time, with a clear pathway for each sector, and should only apply to manufactured goods consumed in the UK, with UK manufacturing exports exempted from carbon costs.
- Independent economic analysis from Frontier Economics has found that this type of CBAM would generate revenues for HM Treasury of between £2bn and £3.3bn per year.
- This level of revenue would free up cash for £117 per household, or take 6p per litre off fuel duty, with an immediate benefit for consumers and the cost of living.

Carbon Leakage

- British manufacturing – particularly energy-intensive industries such as steel, cement, refining and petrochemicals – is facing a major challenge from the risk of carbon leakage.
- The risk of carbon leakage is that domestic companies will suffer if the burden of policies aimed at reducing carbon emissions is too high, particularly if they operate in internationally competitive markets
- Instead, production could reduce – or cease altogether – with the carbon-intensive activity simply happening elsewhere
- While it is vital that we transition the UK economy to net zero, we must do all we can to make sure this is done in a way that does not damage the competitiveness of our manufacturing industries due to carbon leakage.
- If carbon leakage is allowed to occur, global emissions do not come down, but our manufacturing industries suffer and the risk of job losses and industrial decline here increases.
- Research conducted on behalf of the Commission for Carbon Competitiveness* has found that 70% of the UK public are concerned about the impact of current emissions policy on industry.
- Residents of industrial communities are particularly concerned about the impacts of carbon leakage. 78% are worried about what current policy will mean for local jobs, and 74% are worried about the impact it will have on local communities.

Carbon Border Adjustment Mechanism

- The Commission held an extensive evidence gathering process, consulting various representatives from industry, trade unions, academics and think tanks.
- Considering all the evidence, the Commission's central recommendation is to introduce a UK Carbon Border Adjustment Mechanism (CBAM).
- A UK CBAM is widely supported. When asked, 48% of the UK public supported a CBAM while only 14% opposed. Meanwhile 54% of industrial

community residents agreed that a CBAM would be an effective mechanism to enable UK industry to compete with overseas producers.

- This will be a considerably cheaper and more efficient way of reaching our net zero targets and means our manufacturing industries can compete on a level playing field with firms based abroad with less ambition on climate policy.
- In December 2023, the UK Government announced its intention to bring forward a CBAM – which would impose a levy on carbon intensive products which are imported from outside a given jurisdiction.

Timelines and Sector Coverage

- However, the Commission believes the Government's proposals do not go far enough, and are calling for a CBAM which is tailored to the UK's specific and sectoral requirements, and applies to all our manufacturing industries without exception over time, with a clear pathway for each sector.
- Importantly, the CBAM should also only apply to manufactured products consumed in the UK, with UK manufacturing exports exempted from carbon costs. These exports will still be low-carbon, because they will be produced in one of the most highly-efficient and environmentally-regulated jurisdictions in the world.
- Before a UK CBAM is brought in, however, we will need transitional arrangements to make sure our manufacturing industries already exposed to high levels of damage from carbon leakage remain viable. This means we need to make immediate changes to the UK Emissions Trading Scheme (UK ETS) policy, including keeping free allowances in place.
- More broadly, the policy-making timelines to reduce ETS allowances, allocation of free ETS allowances, delivery of the measures to enable manufacturing industries to decarbonise and introduction of sectoral CBAMs are not aligned. Government should set out publicly how it intends to align these policies to unlock investment decisions that are currently on hold due to the uncertainty about the interaction between them.

*Research was conducted in July 2023 for the Commission for Carbon Competitiveness by Hanover Communications and Focaldata. This included seven focus groups in industrial communities and a nationally representative survey of 2,053 respondents.

Economic Analysis

- Independent economic analysis was undertaken by Frontier Economics in December 2023, looking at the economic impact of introducing a CBAM in the UK.
- The analysis found that although the primary purpose of a CBAM is to equalise the emissions price faced by domestic manufacturing industries and their imported counterparts, as a secondary effect the scheme can generate revenues for government.
- This revenue is dependent on the level of sectoral coverage of a CBAM, whether other countries impose similar carbon prices, and the speed of adjustment to low-carbon production – amongst a variety of other dynamics.
- Frontier Economics modelled a variety of scenarios, and found that a UK CBAM would generate a significant revenue stream for HM Treasury. Indeed, if the type of CBAM the Commission for Carbon Competitiveness is calling for is brought forward, with broad sector coverage, HM Treasury would generate revenues of between £2.bn and £3.3bn per year.
- This level of revenue would free up cash for £117 per household, or take 6p per litre off fuel duty, with an immediate benefit for consumers and the cost of living.

Next Steps

- The Government has announced its intention to bring forward a Carbon Border Adjustment Mechanism, and is launching a consultation this year on the operational details.
- The Commission for Carbon Competitiveness looks forward to working with the Government directly on this to develop a policy solution which achieves the best outcomes for all of the UK's manufacturing base.