NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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UK Carbon Border Adjustment Mechanism

MARKET INTELLIGENCE REPORT

Summary

- The UK’s Carbon Border Adjustment Mechanism (CBAM) is scheduled to come into effect on 1 January 2027, introducing a carbon-based charge on specified imports in the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors. The UK says the mechanism is intended to address carbon leakage by ensuring imported goods face a carbon price comparable to that paid by UK producers under the UK Emissions Trading Scheme (UK ETS). The UK has now finalised the design of the scheme, including a £50,000 import threshold below which businesses will not be required to comply. Agricultural and food products remain outside the scope of the initial phase of the CBAM.

- The products currently covered by the CBAM account for a small proportion of New Zealand's exports to the UK and do not currently include key export sectors such as dairy, meat, wine, horticulture or seafood. The CBAM represents a significant development in the UK's climate and trade policy framework.

Report

The UK's Carbon Border Adjustment Mechanism (CBAM) is scheduled to come into effect on 1 January 2027. The UK says that the mechanism is designed to address the risk of carbon leakage by ensuring that imported carbon-intensive products face a carbon price comparable to that paid by UK manufacturers under the UK Emissions Trading Scheme (UK ETS). The UK's stated objective is to ensure that the UK's decarbonisation efforts contribute to a reduction in global emissions, rather than incentivising production and associated emissions to shift overseas to jurisdictions with less stringent carbon pricing regimes.

Scope of the CBAM

The CBAM will apply to specified goods that are imported into the UK on or after 1 January 2027 and will operate across the whole of the UK, including Northern Ireland. Initially, the mechanism will cover specified products within the following sectors:

- **Aluminium** (New Zealand exported **NZD$7.64 million** of products within the designated CBAM commodity codes to the UK in the year ended March 2026).
- **Cement** (New Zealand exported **NZD$47,432** of products within the designated CBAM commodity codes to the UK in the year ended March 2026).
- **Fertiliser** (New Zealand recorded **no exports** within the designated CBAM commodity codes to the UK in the year ended March 2026).
- **Hydrogen** (New Zealand recorded **no exports** within the designated CBAM commodity codes to the UK in the year ended March 2026).
- **Iron and steel** (New Zealand exported approximately **NZD$15.16 million** of products within the designated CBAM commodity codes to the UK in the year ended March 2026).

The CBAM applies only to designated commodity codes within these sectors rather than all products produced by those industries. The UK Government has confirmed that products from the glass and ceramics sectors will not be included in the initial scope, despite having been considered during earlier consultations.

Importantly for New Zealand exporters, agricultural and food products remain outside the scope of the CBAM, meaning key New Zealand exports such as dairy, meat, wine, horticultural products and seafood will not be directly affected when the mechanism commences.

Operation of the mechanism

The CBAM will operate as a tax-based system administered by HM Revenue & Customs (HMRC). UK importers will be liable to pay a charge reflecting the difference between the carbon price faced by UK producers and any explicit carbon price already paid in the country where the goods were produced.

The UK has confirmed that recognised overseas carbon pricing mechanisms, including emissions trading systems and carbon taxes, will be taken into account when calculating CBAM liability. This is intended to prevent double carbon pricing and ensure that imported goods are treated consistently with domestically produced goods.

The first CBAM reporting and accounting period will cover the entirety of the 2027 calendar year, with any CBAM liability payable by 31 May 2028. From 2028 onwards, the regime will transition to a quarterly reporting and payment cycle, increasing the frequency of compliance obligations for affected importers.

The UK Government has also signalled a robust compliance and enforcement framework. Importers will be required to maintain appropriate records and provide accurate emissions and carbon pricing information, with penalties applying for non-compliance. The UK has signalled that these may include financial penalties for late registration, reporting failures or incorrect returns, as well as more serious sanctions for deliberate evasion, fraud or the submission of false information.

In July 2026, the UK Government provided further detail on its approach to setting default emissions values for imported CBAM goods. These default values will be published before the end of 2026 and are intended to be used where importers cannot provide verified emissions data. The Government has confirmed that the values will not be based on simple global averages. Instead, they will be derived from trade-weighted emissions data and may include additional adjustments to ensure that businesses are not advantaged by relying on default values rather than reporting actual embodied emissions. This approach is intended to encourage the use of verified emissions data while protecting the environmental integrity of the scheme.

Compliance threshold

To minimise compliance costs for smaller businesses, the UK Government has introduced a registration threshold. The CBAM will apply only to businesses that import more than £50,000 worth of covered CBAM goods over a 12-month period. Importers below this threshold will not be required to register or account for the tax.

Impact on New Zealand exporters

The mechanism represents a significant development in the UK's approach to climate and trade policy. The introduction of CBAM signals a growing focus on the carbon intensity of traded goods.

New Zealand exporters of products covered by the CBAM should continue to monitor implementation requirements and ensure they are able to provide accurate and verifiable emissions data to UK importers. Robust emissions reporting will be increasingly important for demonstrating compliance and minimising potential CBAM liabilities.

The UK has confirmed that recognised overseas carbon pricing mechanisms, including emissions trading systems and carbon taxes, may be taken into account when calculating CBAM liability.

The extent to which carbon costs incurred under the New Zealand Emissions Trading Scheme (NZ ETS) will be recognised in practice will depend on the UK's implementation arrangements, evidential requirements and the calculation methodologies being finalised through secondary legislation and guidance. The UK Government has confirmed that further guidance on emissions monitoring, reporting and verification requirements will be published ahead of implementation.

Most New Zealand exports are not covered by the initial scope of the CBAM, and agricultural emissions are not currently priced under the NZ ETS. However, recognition of NZ ETS costs may be relevant for certain industrial products that fall within the CBAM's coverage, including some aluminium and iron and steel products.

The Government's approach to default emissions values means that exporters may have an increasing incentive to provide verified emissions information to UK importers. Where robust emissions data is unavailable, importers may instead need to rely on default values determined by the UK Government, which are being designed to avoid providing an advantage over reporting actual emissions. As a result, the availability of credible emissions information may become an important factor in managing potential CBAM liabilities.

While the CBAM will initially apply only to specified products in the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors, the UK Government has said that the mechanism may evolve over time. The current sectoral coverage reflects those industries considered by the UK to be most at risk of carbon leakage and where robust emissions measurement methodologies are already available. However, the UK

Government has indicated that it will continue to monitor the effectiveness of thescheme and consider whether additional sectors or products should be brought within scope in the future.

The publication of the remaining technical guidance and default emissions values later in 2026 will provide greater clarity on the practical compliance requirements for affected importers and exporters ahead of the scheme's commencement on 1 January 2027.

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