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STATUTORY INSTRUMENTS

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No.

**CARBON BORDER ADJUSTMENT MECHANISM**

**The Carbon Border Adjustment Mechanism (Calculation of CBAM Rate and Determination of Carbon Price Relief) Regulations 2026**

*Made* - - - - **\*\*\***

*Laid before the House of Commons* **\*\*\***

*Coming into force*

The Treasury make these Regulations in exercise of the powers conferred by sections 145(2), 146(5), 147(2) and 154(2) of the Finance Act 2026.

The Commissioners for His Majesty's Revenue and Customs make these Regulations in exercise of the powers conferred by section 154(2) of and paragraphs 12(1) and 14(1) of Schedule 16 to the Finance Act 2026.

**PART 1**

**Preliminary matters**

**Citation and commencement**

1. These Regulations may be cited as the Carbon Border Adjustment Mechanism (Calculation of CBAM Rate and Determination of Carbon Price Relief) Regulations 2026 and come into force on 1st January 2027.

**Interpretation**

2. In these Regulations—

“average ETS price” has the meaning given in regulation 3;

“carbon price” means an amount per tonne of carbon dioxide equivalent which is payable in relation to relevant emissions as a result of a carbon pricing scheme;

“carbon pricing scheme” means an emissions trading scheme, a carbon tax or an amount required to be paid in relation to emissions under the law of a country or territory in connection with the importation of goods into that country or territory;

“carbon pricing verification form” has the meaning given in regulation 9;

“effective carbon price” means the price per tonne of carbon dioxide equivalent payable by an installation outside the United Kingdom for relevant emissions, calculated in accordance with regulation 12;

“elements of a qualifying carbon pricing scheme” has the meaning given in regulation 7(2);

“emissions factor” means a value which gives the relationship between the amount of a pollutant produced and the amount of raw material processed or burnt;

“emissions trading scheme” means a scheme in which a cap is set on the total amount of emissions that can be emitted by installations participating in the scheme, which must purchase and surrender allowances to account for each tonne of carbon dioxide equivalent emitted over a period of time specified in the rules of the scheme;

“headline carbon price” means the price per tonne of carbon dioxide equivalent payable under a qualifying carbon pricing scheme prior to accounting for any relevant elements of that scheme which result in a reduction of that price;

“indirect carbon pricing scheme” has the meaning given in regulation 6(1)(c);

“installation” means a stationary industrial unit where CBAM goods, either solely or alongside other goods, are manufactured or processed;

“precursor good” means a CBAM good which is used in the production of another CBAM good and is identified as relevant to determining the embodied emissions of that good in the system boundaries document;

“qualifying carbon pricing scheme” has the meaning given in regulation 6;

“relevant elements of a qualifying carbon pricing scheme” has the meaning given in regulation 11;

“relevant emissions” means the specified types of emissions produced by the specified production processes for a CBAM good as set out in the system boundaries document;

“system boundaries document” means the document entitled “System Boundaries Document”, version [1.00] dated [Y] which—

- (a) in section [2], sets out which emissions are to be included as relevant emissions for different classes of CBAM good, including emissions from any relevant precursor goods;
- (b) in section [3] sets out which production processes are to be taken into account when determining relevant emissions;
- (c) sets out which precursor goods are relevant for a CBAM good in determining the emissions embodied in that good;

“verifier” has the meaning given in regulation 8.

## PART 2

### Calculation of the CBAM rate

#### Calculation of the average ETS price

3. Where Step 1 of the calculation set out in section 146(3) of FA 2026 requires the Treasury to calculate the average price per tonne of specified emissions under the UK Emissions Trading Scheme in the quarter preceding quarter Q (“the average ETS price”), that price is to be determined by—

- (a) calculating the mean average of all auction clearing prices for UK ETS allowances during the quarter preceding quarter Q, or
- (b) if no allowances were sold at auction during the quarter preceding quarter Q, calculating the mean average of all auction clearing prices for UK ETS allowances for the most recent quarter in which allowances were sold at auction.

#### Adjustment to be applied to the reduction of the average ETS price in relation to free allowances

4.—(1) Where Step 2 of the calculation set out in section 146(3) of FA 2026 requires the Treasury to reduce the average ETS price by a percentage equal to the baseline free allocation percentage(a) for the CBAM sector, subject to adjustment to reflect the matters set out in paragraphs (a) and (b), the factor to be applied to that percentage in each calendar year is the same factor that is set out in Article 16(14) of Commission Delegated Regulation (EU) 2019/331 determining transitional Union-wide rules for harmonised free allocation of emission allowances pursuant to Article 10a of Directive 2003/87/EC of the European Parliament and of the Council, in relation to the corresponding scheme year(b).

(2) For the purposes of paragraph (1), a “scheme year” has the meaning given in regulation 4 of the UK ETS Order(c).

## PART 3

### Availability of carbon price relief

#### Conditions for claiming carbon price relief

5. An importer may claim carbon price relief to reduce the amount of CBAM charged on emissions where—

- (a) a good has been manufactured or processed by an installation participating in a qualifying carbon pricing scheme, including where such participation is on a voluntary basis, and
- (b) the requirements relating to verification in Part 4 of these Regulations have been met.

#### Qualifying carbon pricing schemes

6.—(1) A qualifying carbon pricing scheme is a carbon pricing scheme—

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- (a) “Baseline free allocation percentage” is defined in section 146(4) FA 2026.
  - (b) EUR 2019/331. Article 16 was amended by S.I. 2025/XXX [DESNZ SI]. Article 16(14) sets out the UK CBAM reduction factor to be applied to the calculation of the free allowances to which an operator of certain sub-installations operating in a UK CBAM sector is entitled in each of the 2027-2030 scheme years.
  - (c) “UK ETS Order” is defined in section 146(4) FA 2026.

- (a) which is administered by or on behalf of—
    - (i) a city,
    - (ii) a province, state, region or a pair or group of provinces, states or regions, howsoever composed,
    - (iii) a national government, or
    - (iv) a supra-national organisation,
 and in which the use of the revenue collected by the scheme is determined by such city, province, state, region, pair or group of provinces, states or regions, government or supra-national organisation,
  - (b) which requires that either—
    - (i) all installations that manufacture or process a CBAM good, or
    - (ii) all installations that manufacture or process a CBAM good and produce more than a specified level of relevant emissions,
 participate in the scheme as a matter of law,
  - (c) which imposes a cost on relevant emissions produced by participants of the scheme, either directly or indirectly (an “indirect carbon pricing scheme”), and
  - (d) the rules, scope and headline carbon price of which are publicly available.
- (2) For the purposes of paragraph (1)(c)—
- (a) a cost on relevant emissions is imposed directly by charging a price per tonne of carbon dioxide equivalent emitted by an installation during a manufacturing or processing process;
  - (b) a cost on relevant emissions is imposed indirectly by charging a price for the fossil fuels used at an installation during a manufacturing or processing process which is then multiplied by the applicable emissions factor taken directly from or calculated using the methodology of any of the sources identified in a notice published by the Commissioners.
- (3) For the purposes of paragraph 1(d), the headline carbon price of the carbon pricing scheme must be made publicly available by the jurisdiction administering the qualifying carbon pricing scheme within the time period specified in a notice published by the Commissioners.

## PART 4

### Verification

#### **Verification of certain data used in the calculation of the effective carbon price**

7.—(1) The following data used to calculate the effective carbon price of a good must be verified by a person who meets the requirements set out in regulation 8—

- (a) the amount, in tonnes of carbon dioxide equivalent, of relevant emissions produced in a calendar year by the installation from which the good was produced;
- (b) the number of relevant emissions in that calendar year which were subject to an element of the qualifying carbon pricing scheme;
- (c) the number of relevant emissions in that calendar year which were subject to free allowances;
- (d) the monetary support that an installation has received or is due to receive under a support scheme which meets the criteria set out in regulation 11(b);

- (e) where the installation has been subject to an indirect carbon pricing scheme, the emissions factors used.
- (2) In this regulation—
- (a) the “elements of a qualifying carbon pricing scheme” are—
    - (i) the headline carbon price;
    - (ii) free allowances;
    - (iii) the threshold above which a carbon price is charged;
    - (iv) graduated carbon pricing;
    - (v) monetary support in the form of rebates or refunds received under a support scheme;
    - (vi) the payment of a monetary amount to reflect the removal of a quantity of greenhouse gases from the atmosphere.
  - (b) a “free allowance” is a zero cost allowance per unit of emissions allocated within a carbon pricing scheme;
  - (c) “graduated carbon pricing” refers to a pricing strategy adopted by a carbon pricing scheme whereby the price increases in proportion to an increase in the level of emissions produced by an installation.
- (3) Details of the calendar year in relation to which data must be verified in accordance with paragraph (1) are set out in a notice published by the Commissioners.

### **Accreditation**

- 8.** The data set out in regulation 7 must be verified by a person (“a verifier”) who meets all of the following requirements at the time of verification—
- (a) the person is accredited to the relevant standards specified in a notice published by the Commissioners;
  - (b) the person is accredited by an accreditation body which is a full member of the Global Accreditation Cooperation Incorporated and a signatory to the Global Accreditation Cooperation Multilateral Recognition Arrangement<sup>(a)</sup>;
  - (c) the person is independent of the installation for which the person is verifying elements of the effective carbon price;
  - (d) the person is independent of the importer;
  - (e) the person is independent of—
    - (i) the authorities of the city in which a qualifying carbon pricing scheme administered by or on behalf of a city is based,
    - (ii) the authorities of the province, state or region in which a qualifying carbon pricing scheme administered by or on behalf of such province, state or region is based or in the case of a pair or group of provinces, states or regions, the authorities of the provinces, states or regions in question,
    - (iii) the state institutions of the country in which a qualifying carbon pricing scheme administered by or on behalf of a city, province state, region or national government is based, or in the case of a pair or group of provinces states or regions located in different countries, the state institutions of each country.

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(a) The Global Accreditation Cooperation Multilateral Recognition Arrangement is available at <https://globalaccreditationcooperationincorporated.org/wp-content/uploads/2025/12/MRA-001-Arrangement-Structure-Scope-and-Obligations-V1-2025-12-30.pdf> and a hard copy is available for inspection at the offices of HMRC at 14 Westfield Avenue, Stratford, London E20 1HZ.

- (iv) the institutions of the supra-national organisation administering a qualifying carbon pricing scheme, where a scheme is administered by or on behalf of such an organisation.

### **Carbon pricing verification form**

9.—(1) An importer who intends to claim carbon price relief in relation to a CBAM good must obtain a carbon pricing verification form that has been completed by the verifier and provided by the verifier to the installation that manufactured the good.

(2) For the purposes of paragraph (1), a “carbon pricing verification form” is a form published by HMRC which contains the further information and a declaration to be completed by the verifier, as specified in a notice published by the Commissioners.

## **PART 5**

### **Calculation of carbon price relief**

#### **Responsibility of the importer to calculate relief due**

10. An importer who intends to claim carbon price relief in relation to a CBAM good must use the data in the carbon pricing verification form to undertake the calculation of the carbon price relief in accordance with this Part.

#### **Relevant elements of a qualifying carbon pricing scheme**

11. The elements of a qualifying carbon pricing scheme that must be taken into account in calculating the effective carbon price for a CBAM good in accordance with regulation 12 (“the relevant elements of a qualifying carbon pricing scheme”) are—

- (a) the elements identified at regulation 7(2)(a)(i) to (iv);
- (b) monetary support in the form of rebates or refunds that an installation has received or is due under a support scheme where—
  - (i) such support is connected to the emissions produced by the installation,
  - (ii) details of the support available are set out in publicly available documentation that is linked to the emissions of the installation that is subject to the qualifying carbon pricing scheme, and
  - (iii) the documentation linked to the scheme has been published by the jurisdiction in which the scheme operates;
- (c) the payment of a monetary amount to reflect the removal of a quantity of greenhouse gases from the atmosphere, where—
  - (i) such payment is recognised by a qualifying carbon pricing scheme,
  - (ii) the rules of the qualifying carbon pricing scheme permit participants to make such a payment to meet their obligations, and
  - (iii) the price charged for the removal of greenhouse gases from the atmosphere is publicly available.

#### **Calculation of the effective carbon price**

12.—(1) The effective carbon price for a CBAM good must be calculated as follows—

##### *Step 1*

Identify the amount, in tonnes of carbon dioxide equivalent, of all relevant emissions produced in a calendar year by the installation from which the good was produced;

*Step 2*

Identify the amount of the emissions from step 1 which are subject to an element of a qualifying carbon pricing scheme;

*Step 3*

Multiply the amount of emissions attributable to a relevant element of the qualifying carbon pricing scheme by the applicable price per tonne of carbon dioxide equivalent for those emissions, disregarding monetary support received under a support scheme within the meaning of regulation 11(b), and add the prices together;

*Step 4*

Divide the step 3 total by the step 1 emissions figure to produce an overall price per tonne of carbon dioxide equivalent;

*Step 5*

Adjust the step 4 price to reflect any monetary support that an installation has received or is due under a support scheme within the meaning of regulation 11(b) by—

- (a) dividing the sum received by the installation in the calendar year to which the step 1 emissions figure relates by that figure, and
- (b) deducting the result of that calculation from the step 4 price.

(2) The Commissioners may publish a notice setting out further provision about the data that may be used for the purposes of steps 1 to 5.

(3) Where a CBAM good has been produced using precursor goods manufactured or processed by an installation participating in a qualifying carbon pricing scheme, the effective carbon price for each precursor good must be calculated in accordance with paragraph (1).

### **Calculation of the carbon price relief due**

**13.—**(1) The carbon price relief due in relation to a CBAM good must be determined according to the following formula—

$$A \times B$$

where—

“A” is the effective carbon price for that good;

“B” is the emissions embodied in that good<sup>(a)</sup>, being the same value that is used for the purposes of calculating the CBAM rate in accordance with section 146 FA 2026.

(2) The Commissioners may publish a notice setting out further provision about the data that may be used for the purposes of the calculation in paragraph (1).

(3) Where the effective carbon price is not in sterling, the sum obtained by carrying out the paragraph (1) calculation must be converted into its sterling equivalent in accordance with regulation 14.

(4) Where a CBAM good has been produced using precursor goods manufactured or processed by an installation participating in a qualifying carbon pricing scheme, the carbon price relief due in relation to that CBAM good must be determined by—

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(a) “Emissions embodied in a CBAM good” has the meaning given in section 145(1) FA 2026.

- (a) calculating the carbon price relief due in relation to each precursor good in accordance with the formula in paragraph (1),
  - (b) where the effective carbon price for a precursor good is not in sterling, converting the sum obtained by carrying out the paragraph (1) calculation into its sterling equivalent in accordance with regulation 14, and
  - (c) adding the figures for carbon price relief due in relation to each precursor good together to obtain the figure for the total carbon price relief due in relation to the good.
- (5) The maximum sum that may be claimed by way of carbon price relief in relation to a CBAM good is a sum equivalent to the liability to CBAM.

## PART 6

### Conversion of carbon price relief into sterling

#### **Exchange rate and procedure for currency conversion**

14. Where an importer converts the amount of carbon price relief due for the good into its sterling equivalent in accordance with regulation 13(3), the exchange rate that must be used and the procedure to be followed in connection with conversion is that set out in a notice published by the Commissioners.

## PART 7

### Record Keeping

#### **Requirement to keep records relating to the calculation of carbon price relief**

15. An importer who claims carbon price relief in respect of a CBAM good must keep—
- (a) written records of any evidence which they rely on to show—
    - (i) that a CBAM good was subject to a qualifying carbon pricing scheme within the meaning of regulation 6, and
    - (ii) the relevant elements of that scheme within the meaning of regulation 11,
  - (b) the carbon pricing verification form obtained in accordance with regulation 9,
  - (c) written records of any evidence which they rely on to show that the effective carbon price for the good has been calculated in accordance with regulation 12, and
  - (d) written records of any evidence that they rely on to show that the carbon price relief has been calculated in accordance with regulation 13, including records relating to the emissions embodied in a CBAM good that is a precursor good,

for a period of six years beginning with the day after the end of the accounting period to which the return claiming carbon price relief for the good relates.

#### **HMRC access to records relating to the calculation of carbon price relief**

16.—(1) When required to do so by an officer of HMRC an importer must provide the records relating to a CBAM good that are referred to in regulation 15

(2) The Commissioners may publish a notice setting out the form and manner in which the records set out in regulation 15 must be provided to HMRC.



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XXXX  
Two of the Lords Commissioners of His Majesty's Treasury

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Two of the Commissioners for His Majesty's Revenue and Customs

### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations make provision in connection with the introduction of a new tax called the carbon border adjustment mechanism (“CBAM”). CBAM was introduced by Part 5 of the Finance Act 2026 (“FA 2026”).

Part 1 deals with preliminary matters.

Part 2 clarifies two of the steps involved in the calculation of the sectoral domestic price applicable in respect of a CBAM good, which is one element of the calculation of CBAM rate set out in section 146 FA 2026.

Part 3 sets out the conditions for claiming carbon price relief and defines qualifying carbon pricing schemes.

Part 4 sets out requirements relating to verification of certain data used in the calculation of the effective carbon price and the accreditation of verifiers and imposes an obligation on importers to obtain a carbon pricing verification form completed by the verifier, where they intend to claim carbon price relief.

Part 5 makes provision about the calculation of the effective carbon price for a CBAM good and the calculation of the carbon price relief due.

Part 6 addresses the conversion of carbon price relief into sterling.

Part 7 makes provision about record keeping requirements in relation to the calculation of carbon price relief.

A notice made under a power created by these Regulations will be published at [\*\*\*].

[A Tax Information and Impact Note covering this instrument\*\*\*].