

EFET response to UK Government's consultation on Addressing carbon leakage risk to support decarbonisation

22 June 2023

The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets. We build trust in power and gas markets across Europe, so that they can underpin the sustainable and secure supply of energy and enable the transition to a carbon-neutral economy. EFET currently represents more than 130 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

We understand electricity is one of the sectors that could potentially be included in a UK Carbon Border Adjustment Mechanism (UK CBAM), if one is introduced. We remind that electricity is traded regionally (not globally) over interconnectors, which limits the number of UK electricity trading partners. At the moment, the UK has electricity interconnectors with several EU Member States (France, Belgium, the Netherlands, Ireland, and Denmark) and Norway. All of these countries are part of the EU Emissions Trading System (EU ETS) and their power generators have to purchase and surrender emission allowances corresponding to their greenhouse gas emissions, just like in the case of the UK Emissions Trading Scheme (UK ETS). They have also adopted ambitious climate policies and decarbonisation targets, comparable to the ones in the UK.

Since the launch of the UK ETS, the prices of UK and EU emission allowances have evolved in a similar way, creating a comparable pressure on installations which emit greenhouse gas emissions. Where there are similar carbon pricing frameworks, it is crucial that the UK cooperates with the respective jurisdictions to avoid undue administrative burdens and costs that could lead to unintended consequences for security of supply and end consumers.

This is also our view with respect to the implementation of the EU CBAM in the case of electricity imports into the EU from the UK. We believe that both EU and UK policymakers should cooperate and explore the following biliterate measures in respect of both carbon leakage mitigation policies:

- Linking the UK ETS and the EU ETS. This would be a comprehensive solution, which would not only ensure an exemption under the EU CBAM, but also help to strengthen the liquidity of the UK ETS, reducing transaction costs and improving its efficiency.
- Recoupling the UK and EU electricity markets. In addition to opening the possibility for an EU CBAM exemption for electricity imports, price coupling would ensure that interconnectors operate in the most efficient way possible, optimising cross-border exchanges and the dispatch of renewable energy.
- A bilateral agreement taking into account the UK carbon pricing regime is another possibility. While such an agreement may resolve some technical implementation

challenges, however, the reporting and verification requirements and related administrative costs will remain.

- Mutual recognition of existing certificate schemes to demonstrate lower embodied emissions as opposed to the application of default values.

Since reporting requirements under the EU CBAM will start applying as of October 2023 and full implementation will commence in 2026, work on securing a solution for electricity imports needs to start immediately and be completed within a rather ambitious timeframe.

Political recognition (both in the UK and the EU) that the UK and the EU are on a similar decarbonisation path, with a comparable level of ambition and targets is important. This will ensure greater cooperation, and greater cooperation means that we can be more efficient in our cross-border exchanges and can harness more effectively the enormous potential of offshore renewables. Greater cooperation will help us to achieve our decarbonisation targets faster and at a lower cost, and will strengthen our security of supply.

Consultation questions

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]

5 – Yes, strongly agree. Yes, in our view the definition is accurate and comprehensive.

Question 1.1 Do you believe that the risk of carbon leakage in the UK is likely to:

- 1. Increase
- 2. Decrease
- 3. Remain unchanged
- 4. Carbon leakage is occurring now

Please explain your reasoning, including when you think any change to the level of risk might occur.

4 - Carbon leakage is occurring now. We recognise that the pace of change will be different around the world. We expect countries to implement policies to close the carbon leakage gap, but implementing such policies will take time, and therefore carbon leakage in the UK may increase in the interim period.

Electricity

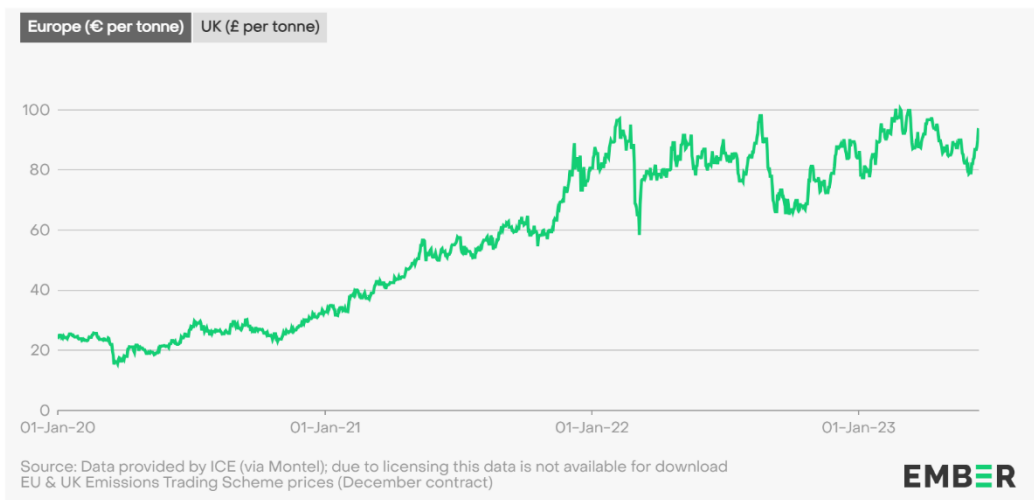
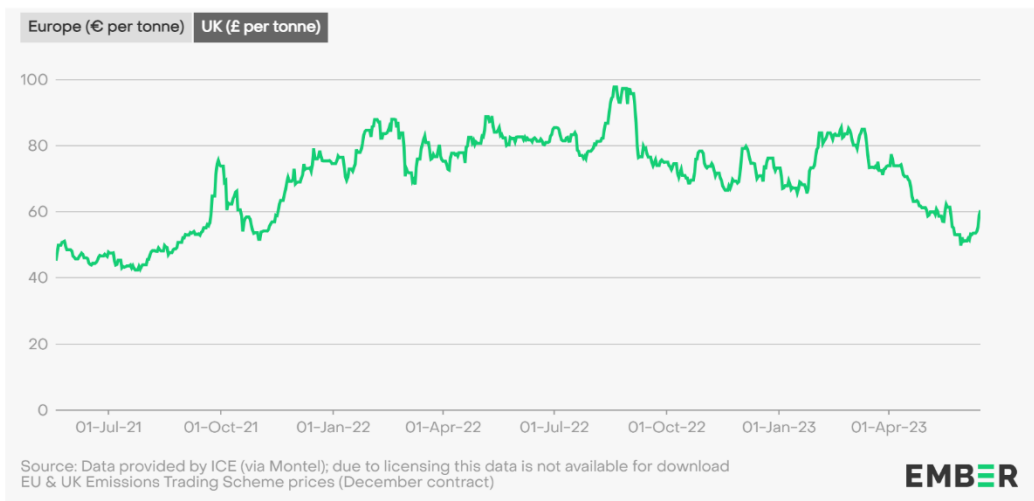
With respect to electricity, the risk of future carbon leakage will depend on carbon price differentials. Electricity generation, as one of the sectors covered by the UK ETS, is a sector that needs to be considered when it comes to the risk of carbon leakage. We also note that electricity is included in the scope of the recently adopted EU CBAM.

Under the UK ETS, electricity generation does not receive free allowances. This means that, in principle, the sector is exposed to carbon leakage (in the sense of a possibility for cheaper carbon-intensive electricity imports to replace domestic electricity generation, which has been made more expensive due to the carbon pricing mechanisms). However, in reality, given the regional nature of electricity markets - not global, and the geographical location of the UK – interconnection with neighbouring markets that have carbon pricing and climate

policies in place, we think that the actual risk of carbon leakage in relation to electricity imports - at this time - is negligible.

The UK has electricity interconnectors with several EU Member States (France, Belgium, the Netherlands, Ireland, and Denmark) and Norway. EU Member States and Norway are part of the EU ETS and their power generators have to purchase and surrender emission allowances corresponding to their greenhouse gas emissions, just like in the UK ETS. This means that they have a comparable carbon pricing regime which ensures that electricity generators (and other relevant actors) pay a price on the greenhouse gas emissions resulting from their activities.

The two graphs below illustrate the similarity in the price evolution of allowances under the UK ETS and the EU ETS since the start of operation of the UK ETS.



In addition, all of the electricity markets with which the UK is interconnected also have ambitious climate policies and decarbonisation targets, comparable to the ones in the UK (e.g. European Climate Law, Fit for 55 Package, RePowerEU, etc.). For this reason, we think that measures to prevent carbon leakage in the electricity sector (given the current interconnections of the UK with jurisdictions with comparable carbon pricing regimes, climate policies and decarbonisation commitments) may create unnecessary administrative burdens, impact security of supply and increase costs to consumers, without adding much in terms of climate benefits and ensuring a level playing field.

Hydrogen, ammonia and hydrogen derivatives

A UK CBAM should ideally consider harmonisation with the requirements under the EU CBAM and include hydrogen and ammonia, to avoid any unintended advantages or disadvantages for GB market participants. The scope and timeframe for implementation of a UK CBAM should mirror those set out in the EU CBAM. Methodologies to calculate GHG emissions under the two schemes ideally should also be aligned.

We would also see a benefit in considering the potential advantages and drawback of aligning the UK CBAM with the EU CBAM - any lessons learnt we could apply to the designing of the UK CBAM (e.g. on which party will be liable to provide data, how administration can be streamlined, how double taxation can be avoided). It would also be important to minimise the impact on trading if these were not aligned.

Hydrogen compliant with the UK Low Carbon Hydrogen Standard

The UK Government is committed to launching a hydrogen certification scheme by 2025 to demonstrate high-grade British hydrogen for export and ensure any imported hydrogen meets the same high standards that UK companies expect. The standard covers a number of production pathways, including electrolytic hydrogen, CCUS-enabled and alternative pathways such as thermal gasification and others.

It is likely that hydrogen imported into the UK from EU and non-EU countries will need to meet the requirements of the Low Carbon Hydrogen Standard, and from 2025, of the Low Carbon Hydrogen Certification Scheme. We would therefore encourage the Government to explore whether an exemption from the UK CBAM could be included to apply to imported hydrogen that meets the requirements of the standard or the certification scheme. This would make clean products more competitive against other more polluting forms of hydrogen and support the Government objective of facilitate imports of hydrogen that meet the same standard as domestic hydrogen.

However, further consideration will need to be given about the framework used for calculating the GHG emissions of imported products. Convergence and alignments of standards and GHG calculation methodologies used across different schemes will be critical to facilitate and develop global trade and ensure a level playing field between requirements for in-country and ex-country production. Within the certification scheme development, the Government is considering whether midstream emissions should be included and whether to develop a certification that works with hydrogen carriers.

The above considerations also apply to hydrogen derivatives such as ammonia, although at present these are not yet covered in the Low Carbon Hydrogen Standard. A standard or certification may be however developed in the future.

We would strongly recommend engaging closely with the Government department developing the certification scheme to ensure different schemes are fully aligned.

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)**

While the first two bullet points may be of highest importance, all of the points above are of relevance.

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**

Government should act on domestic measures alongside international and multilateral action. Domestic measures to address carbon leakage should be complemented by efforts to expand the scope of climate and environmental policies across the globe, e.g. through the wider adoption of carbon pricing mechanisms to reduce emissions of greenhouse gases.

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]

Yes, agree. The application of a CBAM needs to be reviewed in relation to its compliance with WTO rules. Including additional sectors beyond what is covered by the UK ETS (i.e. beyond the sectors subject to carbon pricing domestically) may create issues in term of compliance with WTO rules.

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.

As explained in our answer to Question 1.1, we are of the opinion that, if applied, a UK CBAM should recognise the fact that neighbouring markets from which the UK is importing electricity have all established and enforce to a high standard climate and environmental policies, including a carbon pricing mechanism, and that they have all set ambitious decarbonisation targets, comparable to the ones in the UK.

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] [Open text]

Yes, agree. The scope of CBAM could be expanded in the future to reflect any potential expansion of the UK ETS.

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]

In general, the importer should be responsible for paying the border charges on imported products. However, it would be important to assess what information is already available to the (customs) authorities and other relevant parties (e.g. interconnector operators) in order to avoid imposing unnecessary duplicative reporting and verification requirements on importers. Such duplications would create undue administrative burden and costs.

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]

To the extent that accurate and reliable information is already available (e.g. based on monitoring and reporting of greenhouse gas emissions under the EU ETS), there should be no additional verification requirements.

It should also be noted that in the electricity sector, due to the way electricity is traded (e.g. via anonymous exchange-based trading), it is often difficult or not possible to provide a paper trail between the producer and the importer, so it may not be possible for an importer to present documentation on verified emissions or a carbon price being paid (to obtain a discount), although such a price was paid by the original producer (all power producers in the EU and Norway are required to pay a carbon price under the EU ETS on their greenhouse gas emissions).

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? Please explain your reasoning. (See Chapter 6 for further discussion of default values).

- **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.**

Default values could be helpful, as in the case of electricity trading it may be difficult or impossible to provide a paper trail between a producer and an importer (electricity can be traded on exchanges where transactions are done on an anonymous basis). However, for the same reason – difficulty of establishing a paper trail due to the way electricity is traded, some importers may not have the documentation on a carbon price being paid, which would mean that they would not be able to claim any CBAM discount (although a carbon price was paid on the respective emissions (if any), as all countries from which the UK is importing electricity are subject to the EU ETS). Therefore, potentially a default carbon price paid should also be considered for electricity imports from countries subject to the EU ETS.

Also, if renewable energy producers are not able to meet the requirements for using actual emissions, which would allow them to claim zero emissions (depending on how such

requirements are set – in the case of the EU CBAM those include having a power purchase agreement and proof that there was no congestion at the time of export), they would have to use default values. However, unlike fossil fuel producers who have paid a carbon price in the UK and hold the relevant documentation to get a discount on the price of CBAM certificates, a renewable energy producer would not hold such documentation, as no emissions were actually produced. That would put a renewable energy producer at a disadvantage compared to a fossil fuel producer (the same issue applies to traders not having the respective documentation on a carbon price being paid for the reasons described in the previous paragraph – difficulty of establishing a paper trail due to the way electricity is traded).

However, we remain of the opinion that there should be mutual exemptions for electricity imports to the UK from EU Member States/ Norway, and to the EU from the UK. If CBAM were to apply, it would be important to ensure operational burdens are eased for electricity.

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.

Default values in the electricity sector should not be based on assumptions that all electricity imports are fossil fuel based and should take into account the actual electricity mix of the countries from which the UK imports electricity and the fact that the electricity mix of neighbouring countries is changing in response to climate policies and decarbonisation targets.

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.

Should the Government decide to put in place a UK CBAM, any such questions should be the subject of an extensive analysis and consultation to avoid unintended consequences and ensure that no undue (e.g. duplicative) burdens are placed on importers, as such burdens would lead to unnecessary additional costs.

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.

The level of accuracy of determining embodied emissions of imported products should be weighed against the associated administrative burden. EFET supports a phased approach, starting with using benchmarks or averages, followed by a transition to more accurate methodologies. In the first phase, the UK could assume the CO₂ content of the imported products based on their scope 1 and 2 emissions to be the UK average. Emissions from (international) transport of products could be excluded initially to simplify calculations and included at a later stage.

The importer should receive an exemption if they provide robust evidence (e.g. via an accredited certification body) of lower CO₂ content, e.g. through CCS, renewable power or low carbon fuels. Carbon credits should be taken into account if they are allowed as compliance pathway within the Carbon Pricing Mechanism in the exporting country.

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

No comment.

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]

No comment.

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.

No comment.

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. [Open text]

No comment.

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]

No comment.

Question 2.15: If yes, how should country level Scope 2 average emissions be calculated? Please explain your reasoning. [Open text]

No comment.

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] [Open text]

No comment.

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. [Open text]

No comment.

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. [Open text]

No comment.

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

No comment.

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] [Open text]

Yes, otherwise there is a risk of issues with respect to compliance with WTO rules. A UK CBAM price would have to consider any carbon price being paid already (to avoid double taxation), and respective free allowances or compensation.

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] [Open text]

Yes, otherwise there is a risk of issues with respect to compliance with WTO rules. The price of UK allowances varies and the respective carbon pricing burden on importers would need to be of a comparable level.

The most optimal benchmark to reflect the prevailing UK ETS price for CBAM purposes should be the weekly average settlement price for December futures (i.e. based on secondary market). This will ensure that any CBAM price fairly reflects the UK carbon price at a given point in time. Further to this, using the fortnightly UK ETS auction price would mean in periods where there has not been an auction, the pricing data used for the CBAM levy could be out of date and not reflective of the prevailing UK ETS price for the importer.

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] [Open text]

In principle, yes, but for jurisdictions with comparable carbon pricing regimes (which is the case with the UK and neighbouring EU markets and Norway), climate policies and decarbonisation commitments, the application of a CBAM would create additional administrative costs without adding much in terms of climate benefits and ensuring a level playing field.

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]

See our answer to Question 2.6. In the case of electricity imports, due to the way electricity is traded, it may often be impossible to provide a paper trail of the carbon price being paid. At the same time, in jurisdictions subject to the EU ETS - i.e. all markets exporting electricity to the UK - all electricity producers emitting greenhouse gas emissions pay a carbon price corresponding to their emissions.

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.

No comment.

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]

A UK CBAM should take into account the fact that in the electricity sector all of the current UK trading partners have carbon pricing mechanisms, climate policies and decarbonisation targets comparable to the ones in the UK. There should be a possibility for an exemption from the application of CBAM with respect to electricity in such circumstances. In case, however, the instrument applies, the administrative burden should be minimised.

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]

No comment.

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.

No comment.

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.

No comment.

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

No comment.

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]

No comment.

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

No comment.

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

No comment.

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

No comment.

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 • [Open text]
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.

No comment.

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]

No comment.

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]

No comment.

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] [Open text]

No comment.

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.

No comment.

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.

No comment.

Question 4.3 What is your view on the importance of finding ways to simplify the process for estimating product level emissions intensities?

No comment.

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?

No comment.

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?

No comment.

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

In the electricity sector, considering the way electricity markets are organised (how cross-border electricity trading works) and who the UK trading partners are (countries with comparable carbon pricing regimes and ambitious decarbonisation targets), we do not see a risk of circumvention.

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

No comment.

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

In the electricity sector we do not see a risk of circumvention through resource shuffling.

Question 4.9: How can carbon leakage mitigation measures be best designed to limit risk of resource shuffling? Please explain your reasoning.

No comment.

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]

No comment.

Question 4.11: If you answered yes, in which sectors do you foresee material issues, and why? [Open text]

No comment.

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? [Open text]

No comment.

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. [Open text]

No comment.

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. [Open text]

No comment.

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.

No comment.

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.

No comment.

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?

No comment.

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 [Open text]

No comment.

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

If carbon credits are to be used to offset emissions within the assessment of a product, there would need to be a framework in place that would ensure the high quality and integrity of such credits.

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

In the electricity sector, energy attribute certificates, such as REGOs in the UK and Guarantees of Origin (GoOs) in the EU, are an important source of information and transparency for consumers. By giving to consumers unique title to the environmental attributes of the produced electricity, such certificates are essential for the consumer-led growth of renewable energy. They are indispensable elements of renewable Power Purchase Agreements – commercial contracts between a renewable energy producer and an (e.g. corporate or industrial) offtaker. They are also used to meet supplier disclosure requirements, which allow end consumers to sign up to green tariffs, thereby supporting the growth of renewable energy.

The UK has never been part of the European Energy Certificate System (EECS) managed by the Association of Issuing Bodies. However, prior to Brexit, UK REGOs were recognised in other EU Member States. Following Brexit, the EU stopped the recognition of UK REGOs. As of April 2023, the UK is not recognising EU-issued GoOs either. This creates lost opportunities on both sides to facilitate further the consumer-led growth of renewable

energy. Given the benefits of such demand for reaching the UK and the EU decarbonisation objectives, we believe the UK and the EU shall reach an agreement on the mutual recognition of energy attribute certificates for electricity (REGOs and EU GoOs).

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] [Open text]

No comment.

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: • [Open text] • Levels One and Two: • [Open text] • Levels One, Two and Three: • [Open Text] • Levels One, Two, Three and Four: • [Open Text]

No comment.

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.

No comment.

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.

No comment.

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

We would like to highlight the benefits of renewable power purchase agreements and energy attribute certificates in incentivising and facilitating the consumer-led growth of renewable energy and industrial decarbonisation.

Renewable PPAs are a way for consumers (e.g. corporate or industrial) to support the development of new or the continued operation of existing renewable energy facilities. At the same time, for corporates and industrial consumers such a contract is a way to make environmental sustainability claims based on the consumption of renewable energy, and also a way to have visibility on their energy costs longer term (hedge the risk of future price increases). The associated with them energy attribute certificates (which can also be sold

separately from the associated electricity) are, in fact, the mechanism through which such sustainability claims can be made under different initiatives for carbon tracking and accounting.

Considering their benefits for the growth of renewable energy and the decarbonisation of industry, the government should support such tools and provide incentives for their further uptake in the context of the Reform of Electricity Market Arrangements (REMA) and through the mutual recognition of energy attribute certificates between the UK and the EU.

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]

No comment.

Question 6.2: If yes, what do you see as the advantages to introducing the framework? [Open text]

No comment.

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? [Open text]

No comment.

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 [Open text]

No comment.

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] [Open text]

Such an decision would need to be based on an assessment of the most efficient way forward.

Question 6.6: What are your views on balancing the administrative burden of product emissions reporting against the accuracy of results? [Open Text]

Accurate reporting is of course important, but it would be equally important to assess what information is already available in order to avoid duplications and unnecessary

administrative burden. Also, in the case of electricity trading, the issues discussed in our comment to question 2.6 need to be considered – particularities of electricity trading and how a paper trail between a producer and an importer may be difficult to establish.

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 [Open text]

No comment.

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 [Open text]

A comprehensive methodology would have to be developed. One based on the carbon intensity of the fossil fuel based part of the electricity mix would not reflect properly the fact that the share of renewables in the electricity mix of markets neighbouring the UK is growing and that low-carbon and carbon-free technologies are displacing fossil-fuel based electricity generation in response to climate policies and decarbonisation targets.

More importantly, however, we would reiterate that any future UK CBAM should recognise the fact that neighbouring markets have comparable carbon pricing regimes and decarbonisation targets.

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]

There is considerable data available on the carbon intensity and electricity mix of the countries from which the UK is importing electricity and that should allow for the development of a coherent methodology under option 1, although further assessment would be required.

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

No comment.

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 [Open text]

No comment.

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] [Open text]

No comment.

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]

No comment.

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] [Open text]

5. Yes, strongly agree. A transitional data collection period would be useful, as it would allow for information to be gathered, for processes to be tested and for potential implementation challenges to be addressed before the actual start of full implementation.

Question 7.6: If Yes or Maybe/Undecided, how long should this data collection period be? [Open text]

We would consider a two-year transitional data collection period to be an appropriate duration.

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] [Open text]

Such questions need to be reviewed in relation to WTO rules.

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]

No comment.

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? [5 point scale: Yes, strongly agree; Yes, agree; Maybe/Undecided; No, disagree; No, strongly disagree] Please explain your reasoning.

Such questions need to be reviewed in relation to WTO rules.

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

Expanding an existing government IT service may be the most cost-efficient way forward, but a more detailed assessment would have to be carried out.

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.

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

Expanding an existing government IT service may be the most cost-efficient way forward, but a more detailed assessment would have to be carried out.

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)

At this point we cannot comment. A more detailed assessment of the benefits and drawbacks of different options would have to be carried out once a decision on which policies will be pursued has been taken. We expect there could be benefits and efficiencies to be gained from harmonising the frequency of reporting, but more detailed assessment is required.

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

At this point we cannot comment. A more detailed assessment of the benefits and drawbacks of different options would have to be carried out once a decision on which policies will be pursued has been taken. We expect there could be benefits and efficiencies to be gained from harmonising the frequency of reporting, but more detailed assessment is required.

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.

No comment.

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

No comment.

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.

No comment.