EXPLANATORY MEMORANDUM TO

THE CARBON BORDER ADJUSTMENT MECHANISM (EMISSIONS AND VERIFICATION) REGULATIONS 2026

2026 No. 995

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC), on behalf of HM Treasury (HMT), and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 Rt Hon James Murray MP, Financial Secretary to the Treasury and Paymaster General at HM Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 Judith Kelly, Deputy Director for Indirect Taxes, at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Peter Connell at the Carbon Border Adjustment Mechanism (CBAM) team in HMRC can be contacted by email at the following address with any queries regarding the instrument: cbampolicyteam@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 Finance Act 2026 (FA 2026) includes provisions that will introduce the Carbon Border Adjustment Mechanism (CBAM) from 1 January 2027. CBAM is a new tax which will ensure that emissions within highly traded, carbon intensive goods which are imported into the United Kingdom (UK) face a comparable carbon price to that paid by manufacturers producing the same goods in the UK. It will apply to specific goods across the following five industrial sectors; aluminium, cement, fertiliser, hydrogen, and iron and steel.

4.2 These regulations make provisions on calculating the carbon dioxide equivalent (CO_2e) of embodied emissions within an imported CBAM good. They provide details on either using default emissions values (values set by HMT which can be used to determine the emissions embodied in a CBAM good) or actual emissions values (independently verified data about the emissions embodied in a CBAM goods) to account for these emissions. Where actual emissions are used, the regulations set out how the emissions should be calculated and monitored. The regulations also provide for HMRC to publish a notice specifying requirements that installation operators must

meet where actual verified emissions data is used by the liable person to calculate the embodied emissions within their imported CBAM goods.

4.3 These regulations also set out the requirements that emissions data must meet to be used in determining actual emissions. These include requirements relating to the period over which emissions must be monitored and the verification of actual emissions, including who can carry out verification and the accreditation requirements for verifiers. They also set out the verification evidence that a person liable to CBAM must hold when reporting actual emissions. These provisions are intended to support the accurate calculation of CBAM liabilities.

Where does the legislation extend to, and apply?

4.4 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the UK.

4.5 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the UK.

5. Policy Context

What is being done and why?

5.1 CBAM aims to ensure UK decarbonisation policy delivers genuine global emissions reductions, rather than resulting in carbon leakage (the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing) in the sectors in scope. By taxing embodied emissions, it reduces the risk of emissions being displaced overseas and supports UK industry confidence to invest in achieving net zero emissions.

5.2 Part 5 of FA 2026 creates the charge to CBAM and provides powers to set out the details of the operation of the CBAM charge. These regulations supplement that and are necessary for the operation of the tax, providing the detailed operational provisions necessary to administer the tax and to support compliance across CBAM.

5.3 In particular, these regulations:

- set out the meaning of embodied emissions
- give effect to the System Boundaries Document V1.00 which sets out which direct emissions are attributable to the production of CBAM goods,
- set out provisions for determining, evidencing and verification of emissions

5.4 The regulations delegate highly technical and administrative provisions to notices. This is appropriate to ensure that the operation of CBAM can keep pace with industrial developments in the sectors in scope, and domestic and global approaches to monitoring and verifying carbon emissions. Notices are also more appropriate to the equation-based content and using technical emissions engineering terminology that is common practice in industry.

What was the previous policy, how is this different?

5.5 Prior to the introduction of CBAM, embodied carbon emissions in goods which are imported into the UK were not subject to tax, unlike similar goods produced in the UK whose producers are subject to the UK Emissions Trading Scheme. The government is introducing CBAM to ensure that highly traded, carbon intensive goods which are imported into the UK face a comparable carbon price to that which would be paid were the same goods produced by manufacturers in the UK. This

instrument establishes part of the statutory framework needed to implement the new tax regime.

6. Legislative and Legal Context

How has the law changed?

6.1 At Budget 2025, following several rounds of consultation on the detailed policy design, the government confirmed that it would legislate to introduce CBAM. Part 5 of FA 2026 provides the primary legislative framework for CBAM and enables the introduction of the tax from 1 January 2027. These regulations are made under HMT powers in sections 148(2) of FA 2026, and HMRC powers in section 154(4) of, and paragraphs, 7(3), 10, 13 and 14 of Schedule 17 to, FA 2026. Section 157(1) and (2) of FA 2026 is also relied on. This is the first use of those powers, apart from section 157(2). The regulations provide the framework necessary for the operation of CBAM, including how to calculate embodied emissions and eligibility criteria for verification of emissions, as well as associated record-keeping requirements.

6.2 These regulations should be read in conjunction with the Carbon Border Adjustment Mechanism (Administrative Provisions) Regulations 2026 (which are amended in respect of information required on a return and to correct an omission by introducing a record-keeping requirement in regulation 17), the Carbon Border Adjustment Mechanism (Calculation of CBAM Rate and Determination of Carbon Price Relief) Regulations 2026, as well as the System Boundaries Document V1.00 and draft notices. Those regulations provide further information on more technical elements of CBAM which may be relevant to a person liable to CBAM (for example requirements for registration, returns, reimbursement arrangements and additional record keeping obligations). Together these regulations and the notices made under them give effect to the CBAM framework established by FA 2026.

6.3 Penalties for failure to comply with CBAM obligations, including obligations under these regulations, such as a failure that leads to miscalculation of reported emissions or failure to retain records on emissions, are provided for in Part 11 of Schedule 17 to FA 2026.

Why was this approach taken to change the law?

6.4 CBAM is a new tax introduced by Part 5 of FA 2026 and these regulations are made under the powers identified at paragraph 6.1 above as a proportionate and appropriate way of proceeding.

7. Consultation

Summary of consultation outcome and methodology

7.1 The government consulted on the policy design of CBAM in Spring 2024[1] and received 340 written responses from businesses, organisations, and individuals across a wide range of sectors. The government's response to the consultation was published on the 30 October 2024[2].

[1] Consultation on the policy design of CBAM: https://assets.publishing.service.gov.uk/media/65fc11fef1d3a0001132ac6f/Introduction_of_a_UK_carbon_border_adjustment_mechanism_from_January_2027.docx.pdf

[2] Response to Consultation: https://assets.publishing.service.gov.uk/media/679cb194a9ee53687470a2fa/Introduction_of_a_UK_Carbon_Bor

7.2 Responses to this consultation informed the development of the policy which was reflected in the primary legislation that was published for technical consultation between April and July 2025 ahead of its inclusion in FA 2026. Alongside this consultation, the government published a CBAM policy update outlining policy decisions taken since the publication of the October 2024 consultation response.

7.3 A technical consultation on a draft of this instrument was also conducted between 9 April and 21 May 2026. This sought feedback from stakeholders on the drafting of this legislation to ensure that it delivers the policy correctly and effectively for the tax to operate as intended and provide for administrative matters. Draft notices which will have force of law were also published alongside this draft instrument to support understanding of how CBAM legislation fits together as a whole. The overall consensus from the consultation responses was that the instrument met the policy intent. Responses mainly repeated policy design concerns that had been raised in the earlier consultations and were outside the scope of the consultation. As such there have been minimal changes to the text of the instrument as consulted on. These include:

- Adding a definition of "operator" into regulation 2
- Amending the cross-reference to the definition of "weight" in regulation 2 to the System Boundaries Document rather than notices. Also, instead of cross-referencing the definition of weight set out in The Carbon Border Adjustment Mechanism (Administrative Provisions) Regulations 2026/ SI 2026/802, the definition has been mirrored within these regulations
- Simplifying the requirements in regulation 16 to outline that only the verification report or summary report needs to be held as records rather than itemising components in the report and referencing emissions intensity
- Re-ordering provisions so that regulation 16 for accreditation bodies now sits at the end of Part 3

7.4 All consultations were open to the public and it was highlighted that they were of particular interest to: overseas producers, verifiers and accreditation bodies; importers of goods from aluminium, cement, fertiliser, hydrogen, and iron and steel sectors; respondents to previous consultations; and international partners with an interest in CBAM policy. HMRC and HMT utilised established networks to bring the consultations to the attention of stakeholders who they believed would have an interest, to maximise visibility and responses from impacted sectors.

7.5 During the development of the secondary legislation, HMRC continued to engage with stakeholders through ongoing discussions and the CBAM Joint Industry Working Group. CBAM is a reserved matter under the UK's devolution settlements and formal consent from devolved governments is not required.

7.6 Following consultation, further amendments were made. Changes include:

- Incorporating provisions on the treatment of multifunctional goods into the secondary legislation. These provisions were previously set out in the draft notice with force of law published alongside the consultation. The amendments ensure consistency between the secondary legislation and the Notice.

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- Clarifying how emissions are calculated for cement and fertiliser sectors.
- Extending the period from which emissions data may be sourced for CBAM goods imported in 2027 to include calendar year 2026, provided the most recently verified emissions data is used.

8. Applicable Guidance

8.1 Relevant guidance can be found on GOV.UK[3] ahead of 1 January 2027 when these provisions come into force.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note was published on 26 November 2025[4] alongside the Budget. It will be updated when this instrument is laid to provide further information about the business impacts of CBAM, including the impacts arising from this instrument.

Impact on businesses, charities and voluntary bodies

9.2 The impact on businesses, charities and voluntary bodies is as follows. The overall administrative impact of CBAM, including the provisions contained within the instrument, will have a significant impact on an estimated 10,000 businesses importing CBAM goods into the UK. The high-level design and implementation of the tax has been subject to extensive consultation and continued engagement with stakeholders to understand and reduce administrative burdens where possible.

9.3 There will be one-off costs to UK businesses to familiarise themselves with the requirements, train staff and set up new systems. There will also be a one-off cost associated with the time taken to register for CBAM where required. In addition, there will be ongoing costs to businesses to collate and report to HMRC information about the CBAM goods they have imported in order to complete their CBAM tax returns, including claiming any carbon price relief to which they are entitled.

9.4 Overseas businesses exporting to the UK may incur additional administrative costs in the event that they have their emissions and information relevant for carbon price relief verified. They may pass these costs on to importers of CBAM goods in the UK. However, where verified information is provided, importers may be able to reduce their CBAM liability. These administrative costs are likely to be lower for imports from countries which already have a carbon pricing scheme, as exporters in those countries will already have some infrastructure to measure emissions, albeit at an installation rather than product level. It is estimated that 80% of CBAM goods imported into the UK are exported from countries which already have a carbon pricing scheme. Administrative costs are also partially mitigated by allowing businesses to use default emissions values as an alternative to providing actual emissions data, although businesses may be able to reduce their CBAM liability by providing verified actual emissions data where these are lower than the applicable default values.

[3] CBAM Guidance: https://www.gov.uk/government/collections/carbon-border-adjustment-mechanism
[4] Tax Information and Impact Note: https://www.gov.uk/government/publications/introduction-of-carbon-border-adjustment-mechanism

9.5 Small and medium sized enterprises (SMEs) may also face proportionately higher administrative costs than larger importers. However, to mitigate against imposing disproportionate administrative burdens relative to the carbon leakage risk that CBAM aims to address, only businesses triggering the registration threshold in paragraph 2 of Schedule 17 to the FA 2026 (by importing CBAM goods with a value of £50,000 or more over a given period) will be required to register, submit returns, and pay any tax due. HMRC estimate that over 80% of otherwise affected importers will be excluded from CBAM altogether. Of those removed by this threshold, over 70% are SMEs.

9.6 This instrument is not expected to have a significant impact on charities, voluntary bodies, micro businesses, or the public sector, unless they are liable for CBAM, in which event they will be subject to the impacts as set out above.

9.7 Throughout the process of designing CBAM, the government has sought to minimise administrative impacts on those liable for CBAM as much as possible by aligning the requirements with existing tax processes that businesses should be familiar with, limiting obligations to what is necessary to achieve the policy objective and will be publishing clear guidance to support compliance. A complete exemption for small and micro businesses has not been adopted, as it would undermine CBAM's effective and proportionate operation. Differing requirements based on business size would create supply chain inconsistencies, increase evasion and non-compliance risks, and complicate enforcement—reducing effectiveness and potentially distorting the market. This approach balances the need for a consistent and enforceable tax regime with the Better Regulation Framework principle that regulatory burdens should be minimised and justified by the policy objective.

9.8 The updated analysis indicates that the one-off costs to businesses are likely to be estimated at £9million, the continued impact on administrative burdens is significant and is currently estimated to be around £16million.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 Consideration will be given to evaluating the policy's impact on mitigation of carbon leakage risk by combining external research and HMRC administrative data. This will enable the government to keep the effectiveness of CBAM under review after implementation.

10.2 The instrument does not include a statutory review clause. As per section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015, James Murray MP has made the following statement: "a review clause is not required as the regulations make provision related to a duty."

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument makes provision for certain matters to be specified in a notice published by HMT or HMRC. FA 2026 includes the power at section 157(2) for regulations made under Part 5 of that Act to make provision by reference to things specified in a notice that is published by the Treasury or the Commissioners in accordance with those regulations and not withdrawn by a further notice. The notices

made under this instrument will be published on GOV.UK[5] as draft final versions alongside laying legislation later, when the relevant provisions of the instrument come into force when CBAM commences on 1 January 2027 the word 'draft' will be removed.

11.2 This instrument introduces a provision not included in the Carbon Border Adjustment Mechanism (Administrative Provisions) Regulations 2026 and, after discussion with the SI Registrar in accordance with paragraph 4.7.6 of Statutory Instrument Practice, is being issued free of charge to all known recipients of that instrument.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

[5] CBAM collections page: https://www.gov.uk/government/collections/carbon-border-adjustment-mechanism