

Time to Prepare for Carbon Border Adjustment Mechanism Compliance Obligations in the EU and the UK

Importers of certain carbon intensive goods in the EU and UK should focus on preparing for the implementation of obligations under Carbon Border Adjustment Mechanisms (CBAMs).

CBAM aims to prevent carbon leakage from countries that have not implemented EU- or UK-equivalent decarbonisation policies by ensuring that imports of certain carbon intensive goods reflect their production-related emissions. This requirement makes sure that these imported goods are subject to comparable carbon costs as EU and UK producers under the Emissions Trading Systems in these jurisdictions. CBAM imposes significant compliance obligations for importers of iron and steel, aluminium, cement, fertilisers, hydrogen and, for the EU only, electricity. The measures are part of the climate package introduced under the European Green Deal and the UK's Net Zero Strategy.

[EU CBAM](#) is already in play with the transitional phase coming to a close and full implementation less than six months away. [UK CBAM](#) (currently in draft form) is close behind with implementation beginning in 2027.

EU importers need to ensure that they are ready to comply by calculating and reporting emissions and, from 1 January 2026, to purchasing and surrendering CBAM certificates. For importers in the UK, it will be critical to monitor CBAM implementation in the UK to ensure readiness for commencement on 1 January 2027. Having fit-for-purpose compliance programs will enable importers to avoid penalties and maintain their supply chains. Serious and/or repeated non compliance could result in the loss of the right to import. For importers heavily dependent on imported goods covered by CBAM, non compliance may put at risk their ability to operate.

A high-level timeline is provided at the end of this note.

A. EU CBAM

What Is in Scope?

During the transitional phase, EU CBAM shall apply to imports into the EU of iron and steel, aluminium, cement, fertilisers, hydrogen and electricity. Importers must verify whether their products are covered by comparing international (CN or common nomenclature) trade codes for their products with those listed in Annex 1 of the CBAM Regulation. EU CBAM only applies to imports from outside the EU, Iceland, Liechtenstein, Norway and Switzerland.

CBAM includes several exemptions during its transitional phase to ease the burden on smaller importers and specific trade situations. These exemptions include low-value consignments under €150, returned goods re-imported without modification and goods re-imported under the outward processing procedure.

As part of the first Omnibus simplification package, the European Commission proposed changes to CBAM and, on 18 June, announced that it had reached an agreement to introduce an additional exemption for importers bringing in less than 50 tons per year, along with simplifications such as for calculating and verifying emissions. The de minimis threshold is expected to apply to iron and steel, aluminium, cement and fertilisers. The agreed text is yet to be released, although final adoption is expected before full implementation takes effect on 1 January 2026.

On 1 July, the European Commission launched a call for evidence (open until 26 August) that included expanding the scope of the exemption to include certain steel- and aluminium-intensive downstream products. The outcome of this call will inform legislation expected in Q4 2025.

What Are the Obligations?

The [CBAM Implementing Regulation](#) refers to the entity responsible for reporting as the "reporting declarant" — the importer of record or the indirect customs representative who would be involved if an importer is established outside of the EU.

During the transitional period from 1 October 2023 to 31 December 2025, reporting declarants must report on embedded emissions imported into the EU on a quarterly basis. For this purpose, reporting declarants must request access to the European Commission Transitional Registry from the National Competent Authority (NCA) in the Member State in which a reporting declarant is established. The data-gathering process that reporting applicants should follow is outlined below, and the contents and structure of the report are set out in Annex 1 of the first Implementing Regulation.

The NCA is responsible for checking that reports are complete and correct and to impose penalties if necessary. During this transitional period, a reporting declarant does not need to have emissions data verified and they are not required to surrender CBAM certificates.

This transitional regime is intended to help prepare reporting declarants for full CBAM implementation in 2026. The European Commission has also published a comprehensive [guidance document](#) to assist reporting declarants.

A key task to enable a reporting declarant to meet their CBAM obligations is to gather data that will broadly involve:

- Checking whether the CN code of the good being imported falls within the list provided in Annex 1 of CBAM Regulation; if so, CBAM is triggered.
- Confirming the total quantity of goods, in megawatt hours (MWh) for electricity and in tons for other goods specified per installation.
- Requesting from the operator of the producing installation the total embedded emissions data expressed in tons of CO₂ per MWh for electricity and, for other goods, in tons of CO₂ for each type of good.
- Requesting indirect emissions data from the operator of the producing installation (how much electricity is used in production).
- Ascertaining from the operator of the producing installation whether a carbon price was paid in the country of production that could reduce a reporting declarant's compensation obligation, after full implementation of the regime in 2026.

A simplified method to calculate emissions using reference and default values was permitted until 31 July 2024 for the first three quarterly reports. Since that date, only the EU method is permitted if an importer must obtain actual data from the operator of the producing installation. Embedded emissions exclude downstream emissions from use of a product and end-of-life emissions. It is a narrow assessment of the carbon footprint to reflect what is captured by the EU Emissions Trading System (EU ETS).

It will be more efficient for a reporting declarant to require in its arrangements with the operator of the producing installation that they must use the standard template provided in Annex IV of the first [Implementing Regulation](#) in providing emissions-related data to the reporting declarant. The European Commission has [published guidance](#) to support operators of producing installations in identifying CBAM goods and monitoring and reporting emissions.

Starting 1 January 2026, CBAM enters its definitive phase, introducing full financial obligations for reporting declarants. From this date, reporting declarants must be registered as *authorised CBAM declarants* (see below for information on this process) and are required to purchase and surrender CBAM certificates annually to account for the greenhouse gas emissions embedded in their imports.

An annual declaration must be submitted to the CBAM Registry by 31 May each year, detailing both the volume of goods imported and their associated emissions for the preceding year. The declarations must be verified by an accredited verifier before submission, thereby ensuring that an independent expert has checked and confirmed the calculations.

Compliance Costs

The cost of CBAM certificates will reflect the weekly average price of EU ETS allowances, aligning the carbon cost of imported goods with that of domestically produced items. At the time of writing, the average weekly price of EU ETS allowances was €60-70 per ton of CO₂.

These new rules increase financial exposure for businesses, particularly as free EU ETS allowances will begin phasing out in 2026, with a full phase-out by 2034. Reduced free supply may drive prices higher.

Becoming an Authorised CBAM Declarant

In March this year, the European Commission adopted further [implementing regulations](#) that specifically set out the conditions and procedures for obtaining *authorised CBAM declarant* status under EU CBAM. This status is crucial for importers and indirect customs representatives planning to bring CBAM-covered goods into the EU from 1 January 2026. The application process for becoming an authorised CBAM declarant was opened on 31 March 2025. Importers in the EU must apply to their NCA before importing CBAM-covered goods, while non-EU importers must apply through an indirect customs representative.

Applicants must:

- Have a clean compliance record with customs and tax regulations over the past five years.
- Demonstrate financial stability to meet CBAM obligations.

NCAs assess applications based on regulatory adherence and financial capacity. It is prohibited to import CBAM-covered goods without proper authorisation. The European Commission has released an [Authorisation Management Module](#) (AMM) which facilitates the entire application process. The AMM:

- Captures all relevant information for the authorisation, including the guarantees.
- Supports interaction between CBAM declarants and NCAs.
- Manages communication and work between the NCAs and the European Commission.

If an importer is authorised, their details, including name, address and contact information, are recorded on the CBAM Registry and is public information. The CBAM Registry also holds information regarding each authorised CBAM declarants' certificates activity, which shall be kept confidential.

Penalties

During the transitional period, Member States must impose penalties of €10-50 per ton of emissions (adjusted each year for consumer inflation) that were not reported due to incomplete or incorrect CBAM reports or a failure to submit a CBAM report. Consideration will be given to the extent of the reporting failure, the declarant's conduct in respect of the report failure and whether there have been other report failings.

From full implementation on 1 January 2026, penalties are significant for non compliance. A reporting declarant shall be liable to fines of €100 per ton of CO₂ emitted (adjusted each year for consumer inflation) for which the declarant has failed to surrender certificates. In more severe cases, such as unregistered importers or systematic evasion, fines can be up to five times higher. These fines are in addition to the cost of having to surrender CBAM certificates; importers are still required to surrender the outstanding number of certificates. Significant or repeated breaches may result in a declarant losing their authorisation to import CBAM-covered goods.

B. UK CBAM

What Is in Scope?

The UK government has published draft CBAM legislation and announced its intent for the legislation to be effective from 1 January 2027. The UK CBAM will initially cover iron and steel, aluminium, cement, fertiliser and hydrogen imports. Exclusions include scrap metals, and based on consultation feedback, the UK government decided to keep glass and ceramics out of scope for now due to lower emissions intensity. Electricity remains excluded because most electricity imported into the UK comes from the EU, which has its own ETS, and Norway, which has a carbon tax. This exclusion differentiates the UK scheme from the EU CBAM. The scope will be reviewed post-2027 to reflect changes in carbon leakage risk and feasibility.

What Are the Obligations?

Importers must register with HM Revenue & Customs (HMRC) if the total import value of UK CBAM goods that pass the tax point over a 12-month rolling period meets or exceeds £50,000. To determine the liability start date, the following tests must be considered:

- Forward looking: On any given day, an importer must consider whether they expect the total value of UK CBAM goods passing over the tax point over the next 30 days will meet or exceed the £50,000 minimum threshold.
- Backward looking: On the first of each month, an importer must assess whether this threshold has been met or exceeded over the previous 12 months.

If a person meets both tests, their liability commences from the earlier of the two dates. In the first year, importers will only need to look back to 1 January 2027.

Registration must occur within 30 days of triggering liability, though longer deadlines will apply in the first year. De-registration is possible if the importer no longer meets the threshold and HMRC is satisfied that no future liability exists.

Once registrable, importers must submit UK CBAM returns electronically for each accounting period. Even in the absence of liability, a nil return is mandatory unless the importer has been formally de-registered. The initial accounting period covers the calendar year 2027, with the first returns and payments due by 31 May 2028, allowing a transitional phase for businesses and HMRC to implement necessary systems. From 2028 onwards, reporting will occur quarterly, with returns and payments due two months later.

UK CBAM returns must include:

- Commodity codes for the CBAM goods imported.
- Imported goods' weights.
- Embodied emissions for direct and indirect emissions.
- Any eligible carbon price deductions.

The UK government will work with industry to set out methods for weighing goods and provide more information before implementation. Default emission values may be used to calculate emissions if actual emissions data is not available. Default emissions values will be published for each UK CBAM good before UK CBAM enters into force, which is a simplification compared to EU CBAM where actual emissions data are now needed. Recordkeeping obligations, expected to require document retention for up to six years, will be further detailed in secondary legislation.

The legislation introduces group treatment, allowing connected corporate entities to register and file returns as a group. A UK-based representative is required, and all group members are jointly liable.

Compliance Costs

A key difference between the EU CBAM and UK CBAM is that in the UK, a direct CBAM tax is levied. Certificates are not issued and therefore it does not involve trading mechanisms like EU CBAM.

Each covered sector will be assigned a unified CBAM rate reflecting the effective carbon cost borne by domestic producers. This rate will be determined with reference to the average UK Emissions Trading Scheme (UK ETS) auction price, the Carbon Price Support (CPS) rate and adjustments for free emissions allowances allocated under the UK ETS. These measures aim to ensure parity between imported and domestic goods. The UK CBAM rate will be updated quarterly. To give an indication as to the base price, in June 2025, the UK ETS spot price was €40-45 per ton of CO₂.

Like the EU CBAM, importers may claim carbon price relief if the imported goods have already been subject to a verifiable carbon price in their country of origin, such as through an emissions trading scheme or a carbon tax.

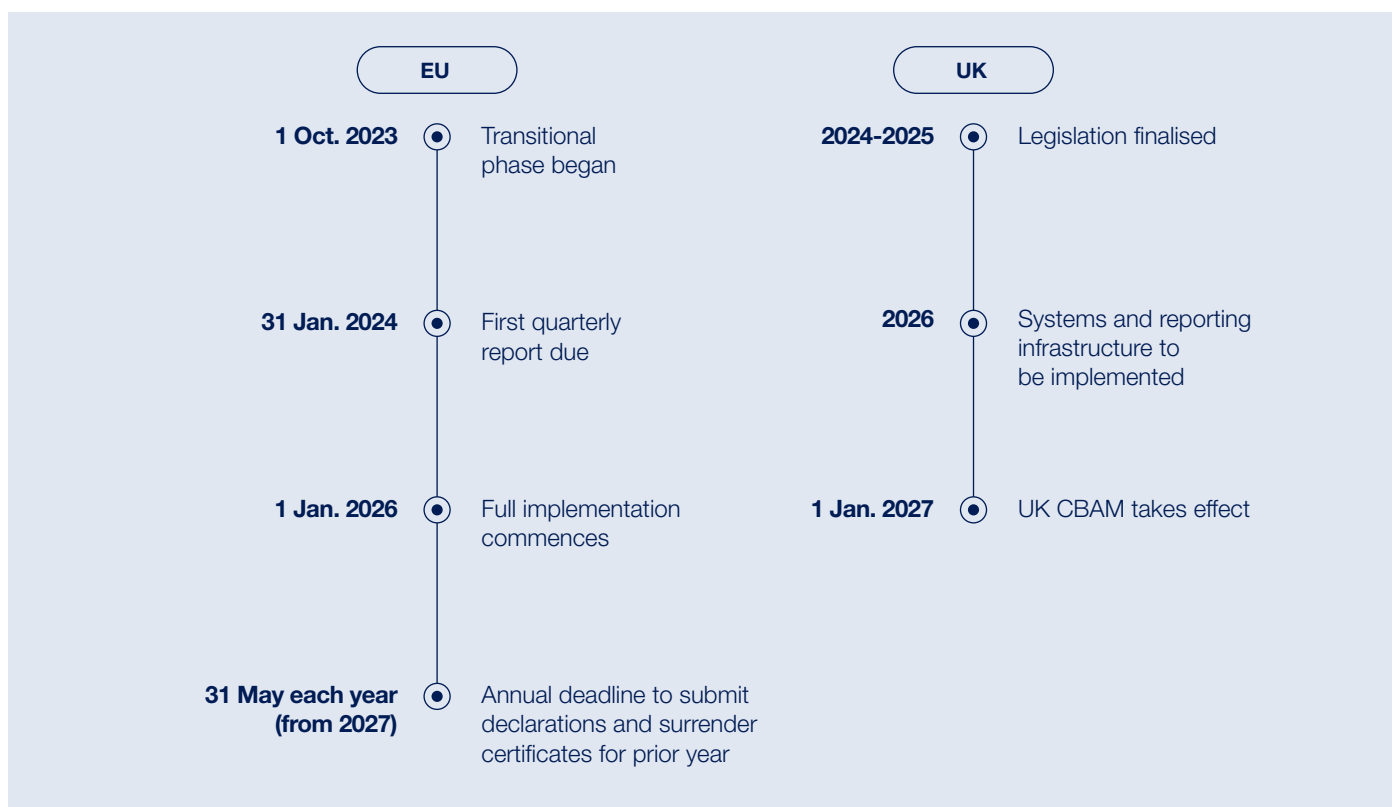
In May 2025, the EU and UK reached an agreement on linking the EU ETS and UK ETS. This agreement will mean that allowances under each ETS are fungible in each jurisdiction. In terms of the impact for CBAM, the link would result in mutual exemptions for exports between the EU and UK. Formal negotiations need to commence to agree on detailed text and there is no formal deadline.

Penalties

As UK CBAM is a tax, HMRC will use existing powers to enforce CBAM compliance. Penalties will apply for non registration, failure to file a return or pay the tax, inaccurate submissions or breaches of recordkeeping requirements. HMRC also plans to introduce a general regulatory penalty for failure to comply as well as legislation to prevent artificial business structuring intended to avoid UK CBAM obligations. Fraudulent evasion of UK CBAM may also lead to criminal offences.

Furthermore, UK CBAM will be integrated into the Disclosure of Avoidance Schemes for VAT and Other Indirect Taxes (DASVOIT) regime, potentially requiring disclosure of tax avoidance schemes related to UK CBAM liabilities.

C. Timeline Summary



D. Key Takeaways for Importers and Producers

These new rules increase financial exposure for businesses, particularly as the allocation of free EU and UK ETS allowances will begin to phase out in 2026, with full phaseout by 2034. Rising carbon prices create a strong incentive for both importers and suppliers to shift toward low-emission technologies and cleaner supply chains. In the initial stage, producers of CBAM in-scope goods may look to non-EU/UK markets that do not have equivalent carbon policies, although it is unlikely that these pathways will be sufficient over time as other jurisdictions are considering CBAM equivalent policies, including the United States, which is the largest importer of steel and cement. (While the outcome of the current administration's policies is uncertain, a tariff based on carbon intensity associated with imports of iron, steel, aluminium, cement, glass, hydrogen, solar products and battery inputs was introduced by Republican senators in April 2025.) Pressure will increase for producers of CBAM goods to adopt less carbon intensive production, thereby meeting CBAM policymakers' objective to mitigate carbon leakage. In the immediate term, importers will need compliance infrastructure with appropriate data systems and trained staff to meet their obligations.

Next Steps

- Identify what goods you have in your portfolio that are covered by EU or UK CBAM.
- For each operator of a producing installation, ascertain the right focal for obtaining embedded emissions data and establish protocols for receiving this information.

- If you are importing CBAM goods into the EU:
 - Review and develop your compliance infrastructure for quarterly reporting and impending full implementation under EU CBAM.
 - Identify and appoint a verifier for EU CBAM reporting if you are reporting directly and not using an agent.
- If you are importing CBAM goods into the UK, monitor legal developments, review your compliance infrastructure and develop it into alignment.
- Ensure that CBAM compliance costs are budgeted as they could be significant; EU importers face compensation costs from 2026 and UK importers from 2027.
- Review your supply chain to determine whether you can seek alternative, less carbon intensive supplies.

Paul Hastings remains available to advise the business community on CBAM-related matters globally.

Connect for more information on this topic



Ruth Knox

Chair / ESG & Sustainable Finance
+44-20-3321-1085
ruthknox@paulhastings.com