PROPOSAL SUMMARY

FUELS Industry UK

Fuels Industry Carbon Border Adjustment Mechanism proposal

Fuels Industry UK with Wood Mackenzie[1]

Summary of submission made to HMT and DESNZ on 17th July 2025

Executive Summary

In the UK domestic market refineries compete with fuels imports from overseas refineries which often do not face ETS costs or an equivalent cost on carbon. As a result, importers can undercut fuels and refined products manufactured in the UK with imports from refineries in jurisdictions with no ETS, nor equivalent carbon costs put on their process emissions.

The result has been that refineries in the UK have closed or reduced their capacity more rapidly than UK demand has reduced. Furthermore, most imports come from refineries which are less carbon efficient. Specifically, the 10.6 $MtCO_2$ per annum (ref Woodmac chart) of emissions embedded in fuels imports greatly exceeds the equivalent emissions had those products been manufactured in the UK, demonstrating significant carbon leakage with existing policies.

This proposal, authored by Fuels Industry UK in collaboration with Wood Mackenzie, presents a pragmatic technical methodology for introducing a Carbon Border Adjustment Mechanism (CBAM) for refined fuels in the UK. It demonstrates that a targeted CBAM on the core fuels products, (these being petrol, diesel, gasoil, and jet which together account for 87% of UK oil product imports), can be implemented in a simple and effective way by assigning total site emissions to these core products. Key points include:

- Calculating average embedded carbon intensity (ECI) from total site emissions and refinery product outputs is a transparent and robust method.
- Product codes (under CN code 2710) can be used, and existing mechanisms (Certificate of Origin and Jet A1 batch tracking) identifies the source of imports.
- Default values (like those developed by Wood Mackenzie) can be estimated from the ECI for overseas refineries and where full disclosure is not possible.
- Circumvention risk can be mitigated through HMRC monitoring and potentially CN code updates and adjustments.

[1] Wood Mackenzie (WM) is an independent energy sector commercial advisory consultant (Energy consultant)

Recommendations include:

a) A robust, fair, and defensible method exists to apply a CBAM on refined products. Monitoring, reporting and verification is possible and practical.
b) Implementation on a selected sub-set of refined products provides reasonable mitigation against the risk of carbon leakage.

Fuels Industry UK and its members support including the sector in the UK CBAM.

1. Refining and the fuels sector

At the time of submission in July 2025, seven companies across the downstream oil sector (Esso, Prax, P66, Valero, Essar/EET Fuels, Shell and bp,) undertook[2] refining, distribution and marketing of oil products in the UK, and, together with other smaller fuels importers, deliver almost 40%[3] of primary national energy demand, mostly in the form of petrol, diesel, gasoil and aviation fuel or 'jet' to keep the UK economy moving.

The major refineries also manufacture liquified petroleum gases (LPG), naphtha, vacuum gasoil (VGO), coke, bitumen, and lubricants and these other product exports contribute favourably to the national balance of payments. These and other associated companies manage coastal and inland fuel terminals, thousands of miles of pipeline and 1,200 fuels retail filling stations. The wider sector supports the direct and supply-chain employment of 300,000 people[4], as an essential part of the UK's critical energy infrastructure.

2. Border adjustment problem statement

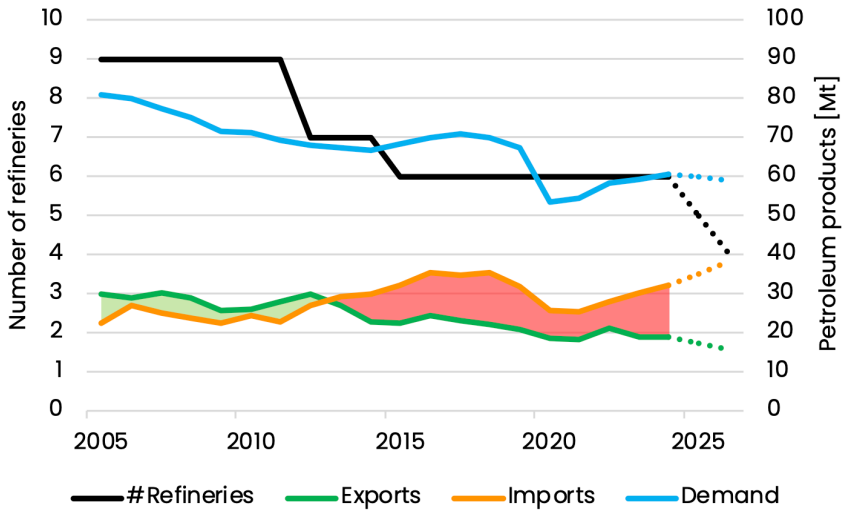
UK and EU refineries operate within respective Emissions Trading Schemes (ETS). As such they pay a price on their carbon emissions from the manufacturing process which is based on their actual emissions and the free allowances[5] they receive.

In the UK domestic market, like the EU domestic market, refineries compete with imports from overseas refineries which often do not face ETS costs. In the UK market, UK ETS costs (despite receipt of free allowances) along with higher energy costs and other local costs, put locally UK manufactured fuels and therefore refineries at a competitive disadvantage to many overseas refineries, despite the additional cost of transportation to bring fuels from far away.

[2] Prax Group filed for insolvency announced 30th June 2025 (link)
[3] In 2023, according to the Digest of UK Energy Statistics DUKES 1.1 (link), the sector was the largest supplier of energy in the UK, equivalent to 39% or 766 TWh out of a national 1955 TWh of primary energy demand. In addition, it exported 240 TWh or 21 Mtoe of refined products worldwide, contributing to the balance of payments.
[4] Source: Economic Contribution of UK Downstream Oil Sector, Oxford Economics for Fuels Industry UK, 2019
[5] Refining is identified within UK ETS as being trade exposed and at risk of carbon leakage, as a result refineries receive a portion of free allowances in order to reduce the risk of carbon leakage.

The result has been carbon leakage, as refineries in the UK have closed or reduced their capacity[6] more rapidly than UK demand has reduced. Furthermore, most imports come from refineries which are less carbon efficient[7].

Chart: Carbon leakage, as refineries in the UK have reduced their capacity or closed, the economy is ever more reliant on imports, and the economic contribution of exports has contracted.



Source: Fuels Industry UK, DUKES 3.2, and 2025 and 2026 estimates based on statistical extrapolation and refinery count.

A Carbon Border Adjustment Mechanism (CBAM) is an alternative carbon leakage mitigation mechanism to free allowances. Thus far the UK government have excluded refined products from the sectors in scope for a CBAM. We understand the reason refined products were left out of scope of the UK CBAM is that complexity and short implementation timelines were judged to mean that developing a CBAM methodology for refined products was not feasible. This paper makes the case that a UK CBAM for fuels is important and that a straightforward, feasible method exists.

3. Why is a CBAM for refined products important?

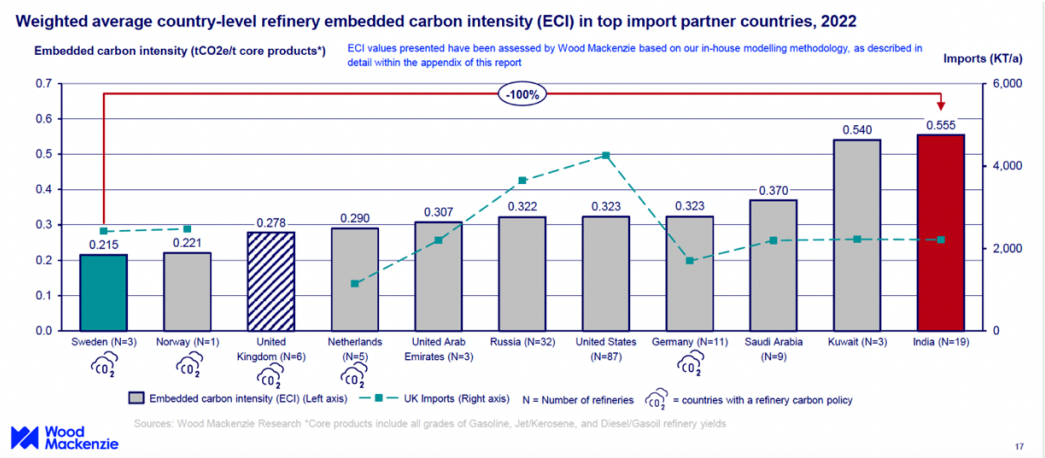
The problem statement above lays out why UK ETS costs contribute in a significant way to the cost disadvantage of UK refineries[8]. The result has been carbon leakage, as refineries in the UK have closed or reduced their capacity more rapidly than UK demand has reduced: de-industrialisation rather than decarbonisation.

Meanwhile, system-wide global emissions have increased as many overseas refineries are less carbon efficient. If nothing changes, this drive towards carbon

[6] Of the 4 remaining refineries, several have removed primary distillation capacity since 2005.
[7] Reference Annex A Wood Mackenzie slide 17 with carbon efficiency of countries of origin of imports
[8] Source: Annex A Wood Mackenzie slide 13

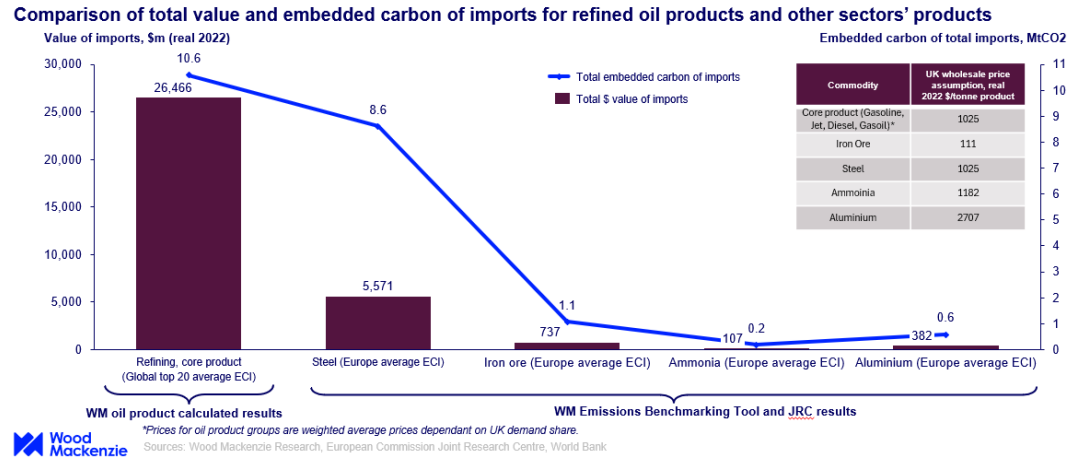
leakage and additional system-wide global emissions will continue to intensify as UK ETS prices are expected to increase[9] with the UK ETS cap on a net zero trajectory.

Chart[10]: 80% of the top 10 UK import partners have a higher ECI than the UK refining system, the majority of which have no carbon mitigation policy in place



In the wider context, the level of embedded carbon[11] associated with the manufacture of refined product imports is higher than for many other energy intense sectors.

Chart[12]: On a total import basis, $ value and total embedded carbon for oil products are far greater than other sectors which are included in the UK CBAM



Implementing a Carbon Border Adjustment Mechanism (CBAM) for refined products would help address the competitive disadvantage due to ETS costs; as such it would:

[9] DESNZ traded carbon values for modelling purposes are used to estimate the financial cost of purchasing UK ETS allowances under different scenarios (link); for example the Net Zero Strategy Aligned carbon price value for 2050 is 124 £/tCO2e (real terms 2024) as of July 2025.

[10] Source: Annex A Wood Mackenzie slide 17.

[11] Note this embedded carbon includes only the emissions associated with the manufacture of the refined products, it excludes the combustion emissions derived from end-use in road vehicles, ships and planes.

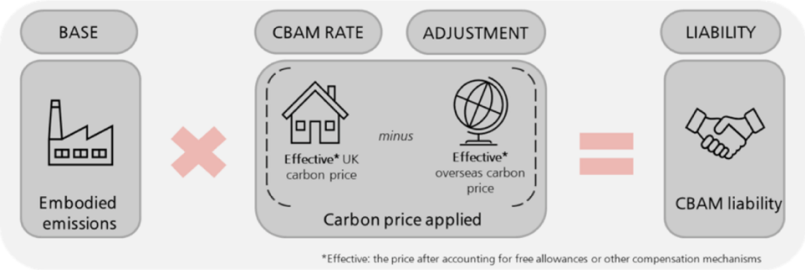
[12] Source: Annex A Wood Mackenzie slides 24, 25.

- Help address the trend of replacing products refined in the UK with products from overseas refineries which operate with higher carbon emissions.
- Similarly, curtail the trend of delivering UK emissions reduction targets through UK deindustrialisation, not decarbonisation, which is counter to policy intent.
- Help retain UK jobs, economic gross value add (GVA) and a have positive effect on fuels supply security.
- When the Government implements an export mechanism, the UK refining industry would have a future as an exporter of fuels with a lower embedded carbon intensity (ECI) to economies that still demand them.

4. How to calculate a UK CBAM for refined products?

The intent of the existing UK CBAM[13] due to come into effect in January 2027, is to ensure imports face a comparable carbon price to the one applied on the same goods produced domestically. The CBAM liability is calculated by multiplying the total imported emissions by an adjusted UK price on carbon. Embodied emissions, with reference to the diagram, depend on the embedded carbon intensity (ECI) of the product on which the CBAM is applied.

Diagram: CBAM liability calculation, source HMT



Embedded Carbon Intensity (ECI)

At the level of a refining asset, the direct embedded carbon intensity (ECI) of refined products is the total direct carbon emissions of the refinery, divided by the mass of the products that are produced. Refineries measure the actual volume and mass of products produced, and there are well documented methods to measure or assess the amount of direct carbon emitted from manufacturing processes in the form of CO_2. All refineries within scope of the UK ETS and EU ETS do this, and other refineries could do the same.

The method that we propose here is to use total refinery emissions to assign a single embedded carbon intensity (ECI) to the refined product outputs. We propose one further simplification.

[13] Reference UK HMT Factsheet: Carbon border adjustment mechanism (link)

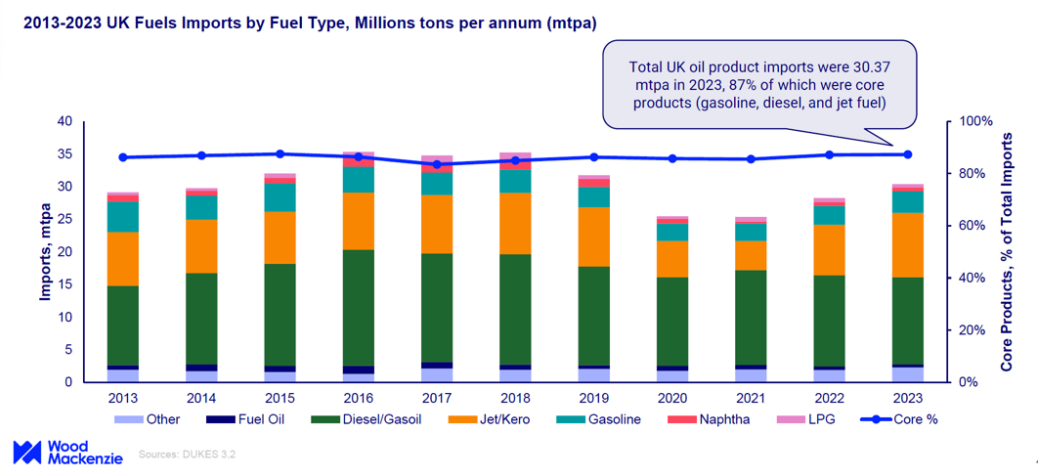
Core products: petrol, diesel, gasoil and jet

Refineries have been built and are operated to make the transport fuels: petrol, diesel, gasoil and jet. These four fuels, together with their component parts (blend-stocks), are referred to as core products. Globally, core products account for around 66% of total refinery output, within the UK core products account for 75% of refinery output as UK refineries are relatively complex and focused on core product manufacture (source WM). Other refinery outputs, such as LPG, naphtha, VGO, coke, bitumen and lubricants are not core products (we refer to them as non-core products) in the same way that by-products exist in other sectors. From the perspective of the needs of the UK economy, 87% of oil product imports in 2023 were the core products gasoline, diesel, gasoil and jet fuel (see chart).

The proposal is to apply a CBAM on the core refined product imports, in a way that aligns with the approach of other sectors, as described by the two Joint Research Centre (JRC) documents on implementing a CBAM, (i) Vidovic et al[14] on steel, fertiliser and aluminium and (ii) Dolci et al[15] on GHG intensity of hydrogen production.

The approach of focusing on the primary products is common across other CBAM sectors that are already in-scope for the UK CBAM regime, e.g. steel sector allocates all emissions to steel despite co-production of slag for aggregates, and ammonia does not allocate emissions to the co-produced CO_2 used in the food industry. Later in this paper we will show that using a subset of the most useful refined products provides reasonable mitigation of the carbon leakage risk. Furthermore, refinery sector tax experts have concluded that this approach would be simpler from the administrative perspective.

Chart[16]: UK oil product imports are sizable (30 mtpa in 2023), with 87% consisting of the core products of gasoline, diesel, gasoil and jet fuel



[14] Vidovic, D., Marmier, A., Zore, L. and Moya, J., "Greenhouse gas emission intensities of the steel, fertilisers, aluminium and cement industries in the EU and its main trading partners", Publications Office of the European Union, Luxembourg, 2023, doi: 10.2760/359533, (134682)

[15] Dolci, F. and Arrigoni, A., "Estimation of the global average GHG emission intensity of hydrogen production, Publications Office of the European Union, Luxembourg", 2023, doi:10.2760/744837, JRC135067.

[16] Source Annex A Wood Mackenzie slide 45.

For implementation, and in granular terms; petrol, diesel, gasoil, jet and their component parts or blend-stock are defined primarily by the 27-10 CN product code[17].

Table[18]: Potential Core Product Commodity Codes, Customs Duties and Cross Industry Usage

Commodity Code	Description	Customs Duty	Known cross industry usage
22/07/2020	Ethanol		
27-10-1231 to 27-10-1290	Light oils - Gasolines and components	4% except EU Manu	
27-10-1911 to 27-10-1930	Medium oils – Jet & kerosene	0% or 4% for kero	
27-10-1931 to 27-10-1949	Gas oils – All diesel types without FAME biodiesel, can include HVO/RD	0%	
27-10-2011 to 27-10-2019	Gas oils – All diesel types with FAME biodiesel, can include HVO/RD	0%	
38-26	FAME	6.50%	Importers can use this given it allows blends <20% FAME
27-10-1225	Special spirits (excl. white spirit) of petroleum or bituminous minerals		

Source: Fuels Industry UK.

Testing actual refinery embedded carbon intensity (ECI)

Fuels Industry UK compared actual refinery production and emissions, with 25 data points comprising for each a full year of operations, from 13 refineries across member company portfolios, approximately half in the UK and half overseas in order to assess if modelled numbers were reflective of actuals. Statistical analysis indicated that the mean embedded carbon intensity of the 25 data points was reasonably consistent across the different refining assets and the embedded carbon intensity for the core bundle of refinery products aligned with expectation (i.e. allowing for variations in asset-level configuration) and prior theoretical studies.

For example, the mean of the 25 data points for the core products was 0.29 tCO2/tonne with standard deviation of 0.042 tCO2/tonne or 14%. Outlier data points can be explained based on specific refinery configurations and/or the mix of products produced. There was a good read-across to complex analysis presented by Concawe in their 2022 report[19], which indicates the distribution of product-specific embedded carbon intensities is close to this outcome, specifically in the Concawe report table 13 gives the following values for embedded carbon intensity of main fuel grades:

- Petrol / gasoline: 0.27 tCO2/tonne
- Jet fuel / kerosene 0.27 tCO2/tonne
- Diesel / gasoil 0.30 tCO2/tonne

[17] Combined Nomenclature (CN) is a tool for classifying goods, set up to meet the requirements of both the EU Common Customs Tariff and for external trade statistics. It is based on the World Customs Organization's Harmonized System nomenclature, a systematic list of commodities applied by most trading nations.

[18] Notes on table: Some gasoils with higher sulphur content may have tariffs >0%
HVO - Hydrotreated Vegetable Oil is a paraffinic biofuel produced from vegetable oils or animal fats.
FAME - Fatty acid methyl ester, usually obtained from vegetable oils and used in biodiesel.

[19] Estimating the CO_2 intensities of EU refinery products statistical regression methodology" (link)

The difference in embedded carbon intensity of these core products was relatively small. Our conclusion is that the significant additional work and complexity of the Concawe analysis which gives different embedded carbon intensity values for the different fuels creates the risk of confusion with only a small change in the embedded carbon intensity applied in the CBAM calculation.

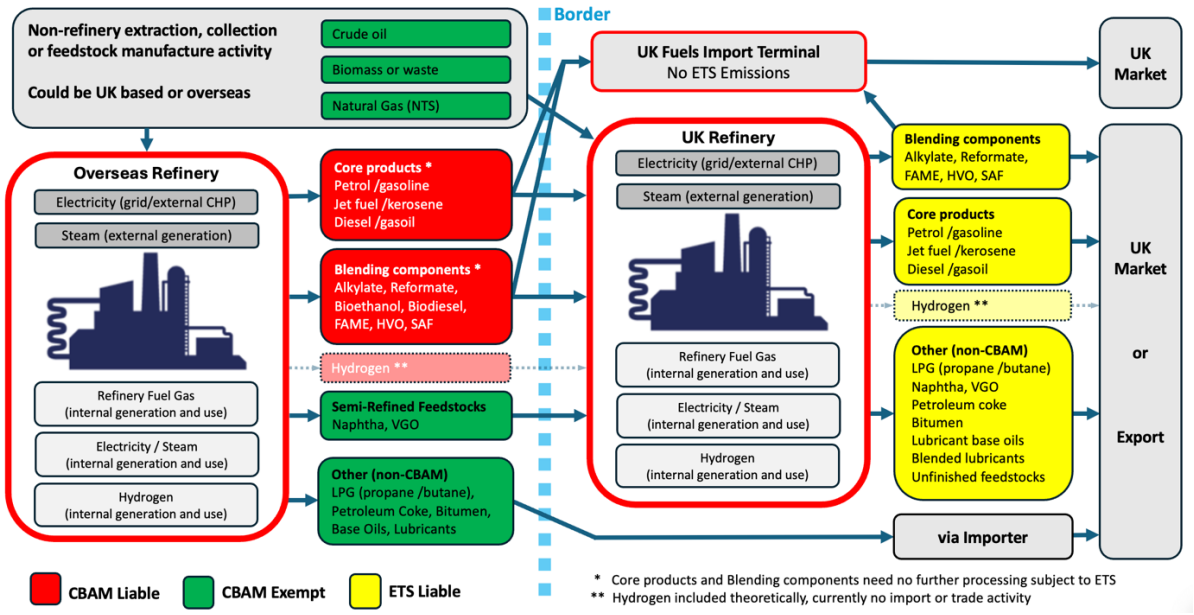
5. Embedded Carbon Intensity (ECI) scope boundaries

Fuels supply chain raw materials, feedstock and finished products move from their source either through the refinery or directly to market.

The main refinery input is currently crude oil, as well as natural gas, renewable and waste feedstocks, mineral based feedstocks, blending components and hydrogen.

The main refinery outputs are the core fuels petrol, diesel, gasoil and jet, as well as other refined products. These compete in the UK market with products imported from overseas. The diagram represents raw material and product flows with the relevant scope boundaries.

Diagram: scope of refined products that would attract a CBAM liability



Source: Fuels Industry UK

Within the context of these scope boundaries, aside from avoiding complexity, applying the CBAM to just the core products means that:

- Tracking, reporting and implementing a CBAM on a long tail of other low volume refinery products with multiple CN codes is avoided, which avoids the cumulative complexity of dealing with a few hundred individual products.
- Potential conflict with other sectors using the same CN product codes (and which are, or potentially will be, subject to their own CBAM regimes) like upstream oil and gas production, lubricants and chemicals is much reduced.

- This approach of focusing on the primary products is common across other CBAM sectors that are already in-scope for the UK CBAM regime, for example steel, which does not apply a CBAM on slag for aggregates, and ammonia which does not allocate emissions to the co-produced CO2 used in the food industry.
- Like crude oil, mineral-based feedstocks[20], (such as VGO, heavy residues, naphtha and high sulphur gasoils) would not attract a CBAM as their further processing is subject to the UK ETS, thus avoiding double taxation[21] on these refinery feedstocks.

Keeping product scope under review

While the UK CBAM should apply to the majority share of the production i.e. the core fuels products, we also propose that the products that are in-scope and defined as core are periodically reviewed.

If the number of products included in the CBAM were increased at some later date, there may be conflicts with CBAM regimes applied to other sectors, i.e. upstream (LPG), chemicals (LPG, Naphtha), specialities (lubricant base oils, bitumen).

This would probably require engagement with other sectors via industry bodies, trades associations and relevant government teams. It would also require other sectors to come up with embedded carbon intensity methodologies for their production. This Is a significant task and one that Fuels Industry UK have identified in prior government consultations.

6. Export mechanism

The ETS is structured so that carbon cost is effectively applied to all products a UK refinery produces whether sold domestically or exported. While the work-in-progress UK CBAM legislation will put a fairer tax on imports, it does not provide any mitigation for UK ETS costs that relate to UK refinery exports. It goes without saying that an import-only CBAM leaves refineries exposed to carbon leakage on exports.

An export mechanism would help to mitigate some of the ETS compliance cost on the manufacture of exports and further reduce the risk of carbon leakage. Careful consideration is needed regarding the design and mechanism of such a process.

At the point when the Government implements an export mechanism, the UK would have a future as an exporter of fuels with a lower embedded carbon intensity (ECI) to economies that still demand them.

To implement an export mechanism, providing a rebate of domestic costs incurred at the point of export seems to be an acceptable and accepted concept[22]. An

[20] 11% of the overall refinery input (source is Wood Mackenzie sector analysis).
[21] Though, if so minded, we believe the government could offer relief for that. Advice from tax experts implies that some version of End Use Relief (EUR) which allows the import of goods for processing or manufacturing purposes without incurring customs duty could be possible
[22] Reuters, "EU to compensate exporting industries for carbon levy", July 2nd, 2025

arrangement using existing benchmarks and UK ETS allowances could be used and seems likely to be workable, however any relief needs to apply specifically to exported volumes or the calculation for the CBAM liability applied to imports would be affected.

7. Potential implementation challenges

In this section we describe potential implementation challenges and outline initial thinking on how they can be addressed

7.1 Default values

For refineries within the UK or EU ETS systems, the throughput and emissions information required to calculate embedded carbon intensity for each refining site is readily available. Throughput is measured and reported to government for DUKES, and emissions are assessed, verified and reported to the UK ETS authority. While the policy intent is to apply the UK cost of carbon to all *actual* embedded carbon emissions associated with imported refined products, doing this does depend on transparency on the part of refiners exporting products to the UK to report them.

As countries adopt IFRS standards and companies apply the IFRS S2 Climate-related Disclosures standard[23], asset level reporting of direct emissions will become more widespread. However, it may be that overseas refineries do not yet have the systems and processes in place to measure and report actual emissions[24], or they may choose not to report them. For this reason, to implement a CBAM, there needs to be a way to assign default values to imported product in a way that is robust and defensible.

Energy consultants Wood Mackenzie (WM) have a proprietary model which assesses product outputs and refinery emissions. Other proprietary[25] and open source[26] models exist. To create the baseline evidence for this study, WM created throughput and emissions profiles for all refineries in 2022.

The WM and Fuels Industry UK project team then worked through the following steps:

- Comparison of WM Petroplan UK refinery data with UK refinery actuals undertaken by Fuels Industry UK showed a good degree of correlation between the theoretical model output and actuals measured by the Fuels Industry UK member companies.
- WM analysed UK refined product imports by country, and allowing for "break bulk" volumes coming via The Netherlands and Belgium, identified the top 20 countries exporting refined products into the UK which accounted for 90% of UK imports[27].

[23] IFRS S2 Climate-related Disclosures is the second ISSB Standard (link).
[24] There is a strong incentive for overseas exporters to under report their emissions so there will need to be mitigation steps in place, just as for other sectors already included in the UK CBAM.
[25] For example Solomon Associates have Complexity Weighted Tonne CWT (link); and S&P Global Commodity Insights have their Refinery Cost & Margin Analytics RCMA method (link)
[26] University of Calgary Petroleum Refinery Life Cycle Inventory Model PRELIM model (link)
[27] Reference Annex A Wood Mackenzie slide 11.

- Within those countries the project team identified export refineries and non-export refineries. The result is a data set of approximately 300 refineries, accounting for most refined products arriving in the UK, which gives an embedded carbon intensity (ECI) for each refinery as well as volume throughput information.
- Using product output as the basis for weighted averages, default values for ECI can be calculated in a variety of different ways, for example by refinery, country, region or on global basis.

This work could be reproduced for other baseline years. It could also be done by using other proprietary and open-source models.

7.2 Tracking refined products cargos and country of origin

It is possible that when policy makers concluded that implementation of a UK CBAM was 'unfeasible', they based their decision in part on the performance of global cargo tracking and reporting systems as they were performing in the years leading up to the consultation responses on which the policy decisions were based.

Given that UK imports are dominated by jet and Ultra Low Sulphur Diesel (ULSD) it is appropriate to examine the certification route of these products. All products since BREXIT are now required to produce Certificate of Origin; the free circulation with the EU statement is no longer sufficient. This step change has improved determination of product source for all products and is reflected in commercial contracts. Further Jet product has an additional product quality certification process called "batch tracking". Under this process, it is a requirement to be able to track the product source, ultimately back to the point of production, e.g. the specific refinery. This "batch tracking" is a requirement of Jet A1 under Defence Standard, the specification used for all jet in the UK. As such Jet has a very robust means of checking origin of a product.

Since end-2022 many countries have banned the import of Russian oil products, including crude oil and refined products, to reduce revenue for Russia. For example, the UK Maritime Services Ban[28] and Oil Price Cap (OPC)[29] exception on Russian crude and oil products. We understand that tracking and verification of product cargos is now moving further up the supply chain through restrictions on refined products derived from Russian crude oil.

Efforts are ongoing to prevent the circumvention of these sanctions, including through the falsification of documents related to country of origin. Enforcement agencies like HMRC and the UK OFSI (Office of Financial Sanctions Implementation) monitor compliance and act against those who violate sanctions.

This has led to more robust country of origin documentation and (we believe) more familiarity with these documents within HMRC for both crude and oil products such as

[28] Maritime Services Ban prohibits the transportation by ship of Russian oil and oil products from a place in Russia to a third country, or from one third country to another. It also bans certain services associated with such transportation.

[29] OPC exception allows the supply or delivery of Russian oil and oil products by ship, as well as provision of associated services – so long as the price paid for Russian oil or oil products is at or below the relevant price cap.

those under CN code 2710. And a corresponding improvement in the ability of importers to report the country of origin of imported refined products.

7.3 Addressing the risk of circumvention

It is possible that applying a CBAM to most of the production, and not all production, will incentivise some importers to use different products codes to avoid border adjustment charges. One concern being that liquid components that can be used to blend into finished petrol, diesel and jet could be imported under CN codes that do not attract a CBAM. Such activity would constitute tax evasion as CN codes need to be the most appropriate for intended use. With respect to these concerns the following points are relevant:

- Intent is that blending components that could potentially go directly into finished products are identified by CN code and a CBAM is applied.
- HMRC could review the CN codes periodically to ensure the in-scope CN codes accurately reflect the policy intent through legislation based on a core products approach. One factor would be whether the product requires further processing subject to UK ETS or if it only needs blending to form a finished core product.
- All refined product imports are reported by CN code. This gives visibility to HMRC on the nature of products arriving in the UK. HMRC could screen import declarations pre- vs. post-CBAM implementation for signals of change/circumvention and use this to identify the need for any further checks that should be performed.

8. Energy consultant Wood Mackenzie (WM) assessment

Wood Mackenzie (WM) analysed the economic impact of implementing a CBAM. They had full access to member company views and those of industry tax experts.

Potential Impact of CBAM applied to core fuels petrol, diesel and jet

They conclude that for the UK market, with current refinery configurations and levels of import and export, the method proposed provides reasonable carbon leakage mitigation because the resulting CBAM liability allows for an improved level of UK ETS cost offset for manufacturers of fuels in the UK.

Furthermore, if UK ETS costs could be recovered on the proportion of production that is exported to jurisdictions where indigenous production has no cost on carbon emissions like Middle East, Asia and US Gulf Coast, then the risk of carbon leakage could be mitigated further.

The impact on consumer fuel prices, based on UK ETS costs and import patterns for an example year (2022), was calculated by WM to be less than one pence per litre.

Assessment of four strategic questions

Fuels Industry UK asked WM to analyse, assess and reach views on four strategic questions which were:

- Should UK Government implement a CBAM for refined products?
- What should the basis for the CBAM mechanism be?
- What should be the basis for the default value?
- Should there be an export mechanism?

The full WM assessment with supporting evidence accompanied the original proposal made to HMT and DESNZ. The energy consultants identified eight criteria which could be important to the government and the success of a CBAM regime. They provided an assessment of each of the questions above based on these eight criteria.

They conclude that (1) implementation of a CBAM for refined products is feasible and would help mitigate carbon leakage costs for UK refineries, so it should be implemented. Also, that (2) the products to include are those described in the previous section, that (3) there are various options for default values. They supplied global, regional and country level default values in the main report, thereby providing the same quality of data as the JRC report. They conclude that the higher the default value, the more likely that overseas refineries will report actual embedded carbon intensity, and (4) an export mechanism would help mitigate carbon leakage further and support conditions for the UK refineries to export lower carbon liquid fuels to economies that still need them.

9. Industry tax expert perspectives

Tax experts from the sector provided feedback and advice on the feasibility of including refined products in the UK CBAM regime, specifically and strictly limited to the tax administration perspective.

Their view was that the implementation of a CBAM for refined products is feasible, despite the multiple refined product codes and the potential complexity introduced by blending and reprocessing of certain products after import. Furthermore, they concluded that a CBAM on core products would be easy to administer. They indicated that avoiding potential shared use of certain products codes with other sectors (Chemicals, Upstream and Lubricants/Bitumen) could be helpful.

They recognised that a reduced set of product codes could increase the risk of circumvention (due to incorrect product classification, not incorrect country of origin). They identified mitigation methods including a review of product codes to reflect policy intent; and a reporting regime across all refined product volumes, to reveal unusual trading patterns.

10. Conclusion

This proposal of using a core production-based metric provides a pragmatic approach to a potentially complex implementation challenge because:

i) Core products petrol, diesel, gasoil and jet are the main refined products which the economy currently depends upon. Other products may be considered as by-products.

ii) The approach of focusing on the primary products is common across other CBAM sectors that are already in-scope for the UK CBAM regime, e.g. steel sector allocates all emissions to steel despite co-production of slag for aggregates, and ammonia does not allocate emissions to the co-produced CO_2 used in the food industry.

iii) Allocating emissions to these core products provides reasonable mitigation to carbon leakage risk arising from imports; and notably an improvement on the existing mitigation provided by free allowance allocations

iv) Excluding non-core products which have crossover with Chemicals, Upstream and Lubes/Bitumen avoids confusion and the need for co-ordination with other sectors that may be outside of the CBAM regime or seeking to implement a CBAM regime in a different way.

v) Practically to administer the border adjustment, it's easier to do this on just a few product codes

vi) Relies on minimal inputs that would be key operating metrics at any refinery.

Three recommendations

The work of the Fuels Industry UK trade association, its members, the conclusions of a Wood Mackenzie refinery emissions study, and feedback received from upstream and downstream industry tax experts indicates that

a) A robust, fair, accurate and defensible method exists to apply a CBAM on refined products. Monitoring, reporting and verification is possible and practical.

b) Implementation on a sub-set of refined products would provide reasonable mitigation against the risk of carbon leakage.

c) Failure to implement a UK CBAM on refined products increases the risk of UK refinery closures. It would also increase system-wide emissions, which is counter to the wider policy goal of decarbonisation.

[ENDS]