

# Introduction of a UK carbon border adjustment mechanism from January 2027

Consultation response from Shell<sup>1</sup>

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Shell's target to become a net-zero emissions energy business by 2050 remains at the heart of its strategy to deliver more value with less emissions. Shell is transforming its business, reducing emissions from its operations and energy products, while growing sales of low-carbon solutions. Shell supports a balanced energy transition, one that maintains secure and affordable energy supplies as the world moves to net zero. Shell believes it has an important role to play in providing the energy the world needs today, and in helping to build the low-carbon energy system of the future.

The right policy and regulatory conditions could help to provide more profitable investment opportunities through the energy transition. We advocate robust policies, legislation and regulations in areas where we can best support the decarbonisation of our customers and reduce our own emissions.

Shell believes that putting a price on carbon – whether through cap-and-trade, a carbon tax, or a hybrid system – is a central pillar of any comprehensive net-zero emissions policy framework. A carbon price provides an economic signal to drive changes in the behaviour of consumers, businesses and investors, spurring technological innovation and generating revenues that can be allocated towards the energy transition.

Shell is one of the largest global participants in carbon markets. We have been active since 2003, when the first emissions trading scheme was set up in Europe. Since then, we have expanded significantly to become a global presence in both the regulated and voluntary carbon markets. Today, we participate in all major emissions trading schemes in the world.

In the UK, Shell believes in the potential for the net zero transition to unleash economic growth and opportunity throughout the UK. Shell also believes that government and policymakers should promote the use of low-carbon products through policies that create demand and encourage supply of low-carbon energy in industry such as fiscal support, government mandates, public procurement and green certificates, as well as to accelerate policies to encourage the development of carbon capture, utilisation and storage (CCUS) for industry. The UK Emissions Trading Scheme (ETS) and an effective Carbon Border Adjustment Mechanism (CBAM) can underpin this opportunity for green growth.

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<sup>1</sup> The companies in which Shell plc directly and indirectly owns investments are separate legal entities. In this response "Shell", "Shell Group" and "Group" are sometimes used for convenience where references are made to Shell plc and its subsidiaries in general. Likewise, the words "we", "us" and "our" are also used to refer to Shell plc and its subsidiaries in general or to those who work for them. These terms are also used where no useful purpose is served by identifying the particular entity or entities.

## **1. Shell's support for Carbon Border Adjustment Mechanisms**

- 1.1. Shell believes that a price on carbon is a central pillar of any comprehensive net zero-emissions (NZE) policy framework. A carbon price provides an economic signal to drive changes in the behaviour of consumers, businesses, and investors, spurring technological innovation and generating revenues that can be allocated towards the energy transition.
- 1.2. Shell advocates for governments and policy makers to put a direct price on carbon emissions as part of a broader policy framework to achieve net-zero emissions. The carbon price, whether through cap-and-trade, carbon tax, or a hybrid system, should apply to as many sectors of the economy as possible and increase over time.
- 1.3. Shell believes market-based mechanisms, such as an emissions trading scheme, are preferable as they incentivise decarbonisation at the lowest cost and support the long-term development of a global carbon market.
- 1.4. Shell also promotes greater international cooperation through systems that transfer carbon credits between countries, and advocates to ensure that international carbon credit transactions have environmental integrity by avoiding double counting across national inventories, including in voluntary carbon markets. Shell supports governments and policy makers to put a price on carbon.

## **2. Shell's Position on UK CBAM Alignment with the EU**

- 2.1. Shell supports the UK and EU linking their ETS schemes, and notes that both parties agreed to continue working together on carbon pricing in the Trade and Compliance Agreement.
- 2.2. Shell supports the introduction of policies to protect against carbon leakage such as a CBAM. In line with the above positions, Shell believes this is best served by a certificate-based programme, as certificates better allow for linking with other international schemes.
- 2.3. As well as the trading relationship between themselves, the UK and EU are assessed to share seven out of the top ten trading partners for products in scope of the respective CBAMs<sup>2</sup>. To minimise the reporting and administration burden on companies in the global supply chains for CBAM products, Shell believes there would be benefit from harmonisation of methodologies, reporting and verification requirements across the UK and EU CBAMs.
- 2.4. Shell believes that linking of the UK and EU ETS schemes and consistent CBAM approaches would help reduce the burden on global supply chains of compliance with two different CBAM schemes, and it would also relieve the administrative burden of the CBAM between the two trading partners.
- 2.5. Given the potential benefits of linked UK and EU ETS, the alignment of sectors in scope of the UK and EU CBAMs would assist the possibility for the two ETS to link, and therefore the UK government should consider whether it should bring electricity into the UK CBAM. Consideration should be given to additional policy measures that balance the increase of carbon pricing in third party countries with the need to support decarbonisation of the power sector, and to reduce any trade friction on power imports and exports.
- 2.6. Shell agrees with the Government's intent to start with the sectors most at risk of carbon leakage and where calculation of the emissions intensity of products is feasible. Shell believes

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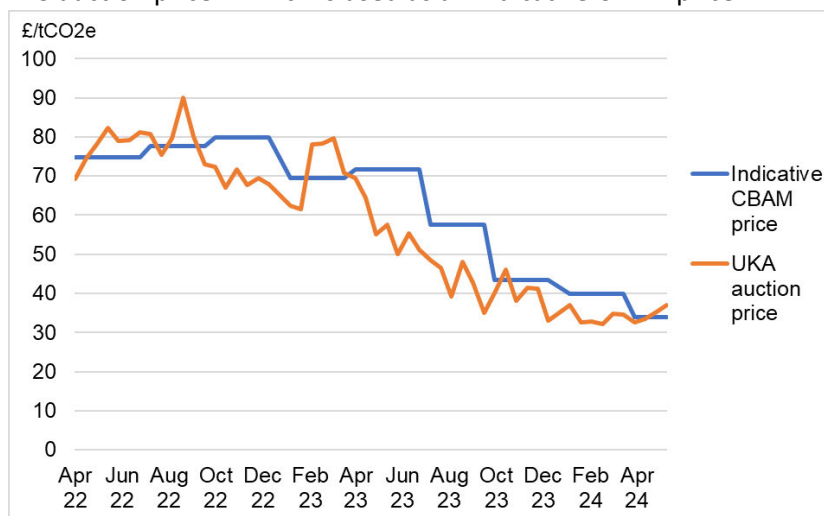
<sup>2</sup> Sources: UK consultation document Annex B, EU analysis from a report prepared by Kaya Advisory for the UN's Principles For Responsible Investment (PRI) Inevitable Policy Response available at <https://www.unpri.org/download?ac=16332>. The contents of websites and certain documents referred to in this response do not form part of this response and do not represent an endorsement of such contents by Shell.

the expansion of CBAM scope for more complex sectors at risk of carbon leakage – for example to refined products – should be aligned with timing in the EU CBAM when a common methodology has been developed and agreed. This would allow for lower barriers and costs to compliance throughout the global supply chain, and reduction/ limitation of any impact on security of supply.

- 2.7. Further to this, we do not support a quarterly accounting period for declaring returns. We believe that it is more appropriate to have an annual declaration that accounts for both embedded emissions imported as well as the CBAM rate (or certificate if amended), also surrendered at this time, in line with the EU CBAM. In our view a one-month lead time to complete the previous quarter’s return is insufficient and we propose declarants are given the ability to amend declarations following the deadlines in case of any errors or oversight.

### 3. Specific Design Points

- 3.1. World Trade Organization (WTO) Compliance: It has been reported that certain countries are considering challenging whether the EU CBAM is compliant with WTO rules<sup>3</sup>. The UK government should ensure that the UK CBAM is in line with its WTO trade requirements, and that it learns any lessons from the EU in this area.
- 3.2. Consistency with domestic ETS scheme: Having a CBAM that has seven different rates – one per sector – based on a quarterly ETS price, rather than a certificate-based scheme may mean that the CBAM price paid is not consistent with the domestic price paid. Domestic producers can manage carbon price risk through the ability to purchase ETS allowances throughout the calendar year of production and can retain allowances purchased in previous years to surrender for compliance.
- 3.3. Allowing a certificate system with a shorter pricing period for CBAM, such as fortnightly, means importers could fairly manage their costs in the same way as is permitted for UK industry under the UK ETS. Further to this, the presence of separate prices for each sector complicates the ability of importers to aggregate and manage their CBAM exposure. A certificate system should also allow for CBAM certificates to be managed, purchased by and transferred to another entity within the same organisation or Group.
- 3.4. The below chart shows the UK ETS auction price volatility compared to the quarterly average UK ETS auction price – which is used as an indicative CBAM price.



<sup>3</sup> Reported by Reuters in articles such as <https://www.reuters.com/world/africa/safrica-considers-complaining-wto-against-eu-carbon-border-tax-2024-05-22/> and <https://www.reuters.com/sustainability/india-plans-protest-eus-carbon-tax-wto-meeting-sources-2024-02-07/>

- 3.5. Departmental responsibility: Given the close relationship between the UK ETS and the CBAM, Shell believes that the operation of the CBAM would be best managed by the Department for Energy Security and Net Zero (DESNZ) to leverage knowledge of emissions and the underlying UK ETS and to ensure sufficient resourcing and capability for the operation of the CBAM. If, however, the operation of the CBAM remains with HMT and HMRC, Shell believes that the UK Government should ensure that there is adequate knowledge, resource and capacity building for HMT and HMRC ahead of any CBAM implementation.
- 3.6. Default Values: Shell supports the ability to use default values as an alternative to actual emissions values through a transition period, subject to future proposals for product level emissions, and the setting of the default values at an appropriate level.
- 3.7. Transition Period: The lack of a transition period for the UK CBAM system, with reporting and compliance coming in for the same period could lead to significant first year challenges. Shell understands that the Government wants to bring the UK CBAM in promptly, however Shell urges the Government to consider the approach taken with the EU system, which has a transitional reporting period to allow for teething problems to be identified ahead of CBAM pricing implementation. The Government should also make sure that there is a feedback mechanism for the initial implementation period so any issues can be shared and addressed.
- 3.8. Unintended Consequences: While the introduction of a CBAM could support domestic supply chains by reducing the risk of carbon leakage, and making domestic supply competitive, the Government should be mindful of potential unintended consequences of CBAM, such as diversion of products, cost inflation for major infrastructure projects, and risks to security of supply of impacted CBAM goods.
- 3.9. Double charging: Double charging of CBAM costs, particularly of products within offshore oil and gas supply chains, should be avoided. Shell also considers that liabilities under UK CBAM should align with consumption in the UK – i.e., CBAM charges should be avoided where there is no consumption within the UK. For example, CBAM application should align with a customs duty suspension regime utilised by offshore installation supply chains. Similarly, products produced in the UK, exported, but then returned to the UK from an external territory, should not trigger the application of a CBAM. This would align the UK CBAM with similar taxation regimes, such as customs duty and associated reliefs.
- 3.10. Cross Border Storage of CO<sub>2</sub>: If the UK is to capitalise on its potential as a leader in carbon storage and as sectoral coverage of the CBAM grows over time, the UK CBAM final design should ensure that cross-border movement across jurisdictions of captured CO<sub>2</sub> through CCUS deployment is not hindered but encouraged.
- 3.11. Verification: Verification of carbon emissions is a growing business, and the Government should be mindful of resource constraints in this space globally to avoid additional administrative and cost burden.
- 3.12. LDCs: Shell UK supports the continued economic development of Least Developed Countries (LDCs). LDCs are considered small carbon emitters, and the UK government has assessed the import volume from LDCs into the UK to be small. A CBAM obligation on imports from LDCs may impose a disproportionate cost and administrative burden on LDCs. It is difficult to see how the UK government will ensure no disproportionate cost or administrative burden to LDCs in the current design under consultation.
- 3.13. Support: Ahead of any implementation of the CBAM, the UK should provide relevant parties through the importers and supply chain with relevant materials and webinar engagements to support thorough understanding of the requirements.
- 3.14. CBAM operational management: From an operational perspective, the liable person should be able to appoint any entity, for example another entity within the same organisation or Group

or third party, to act on its behalf or as a direct or indirect agent (as these terms are understood in Customs practice) for CBAM purposes. Many large organisations may wish to appoint an internal entity to manage its CBAM returns to consolidate and reduce costs, therefore this should be permitted in the regulation. It is also common for specialist third party agents to be used for, e.g., customs filings, and CBAM obligations should align with this, particularly to support SMEs who may lack the necessary skillsets and resource internally, and to support a consistently high professional standard across the UK in relation to tax filings.

- 3.15. Liable person: The Government should further clarify the meaning of “liable person” for CBAM purposes, including defining what is meant by “the person responsible for the goods when they are released into free circulation”. These definitions should be clear and unambiguous and should align with the language used by similar and parallel regimes. Shell is in favour of using terms such as “the owner of the goods at the time of import” and “importer of record” to define the liable person for CBAM purposes, mirroring VAT and Customs concepts and terminology.

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