

Carbon Border Adjustment Mechanism (CBAM)

Rural – UK – October 2026

Lower impact on fertiliser than feared

What is CBAM?

The Carbon Border Adjustment Mechanism (CBAM) charges a carbon levy on certain imported goods to ensure imports face a carbon cost similar to what UK manufacturers pay under the UK Emissions Trading Scheme (ETS). UK CBAM will commence on 1 January 2027.

CBAM aims to ensure UK decarbonisation contributes to genuine global emissions reductions. It does this by applying a border charge on the embedded emissions of imported goods in the sectors below, i.e., a taxation mechanism that accounts for the carbon cost of producing imported goods.

- Aluminium
- Cement
- Fertiliser
- Hydrogen
- Iron and steel

Most farmers will not pay CBAM directly unless they are importing goods themselves; however, goods may become more expensive.

What is the UK Emissions Trading Scheme?

The UK Emissions Trading Scheme (ETS) is a market-based approach to controlling greenhouse gas emissions. It sets a cap on the total amount of certain greenhouse gases that covered sectors can emit, including energy-intensive industries such as power generation and aviation. Companies receive or buy emission allowances and can trade them as needed. This cap-and-trade system incentivises companies to reduce their emissions, as they can sell any unused allowances. The UK ETS aims to promote cost-effective decarbonisation by letting businesses cut emissions where it is cheapest.

What differentiates CBAM from ETS?

The CBAM is different from the ETS in that it specifically targets imported goods. While the ETS applies to domestic industries, CBAM ensures imported goods face the same carbon costs as those produced within the UK. This is important because imported goods are not subject to the ETS, which gives them a competitive advantage and could lead to carbon leakage. Carbon leakage occurs when companies move production to countries with less stringent climate policies, undermining global emissions reduction efforts.

CBAM is needed alongside the ETS to level the playing field between domestic and imported goods. Without CBAM, imported goods may be cheaper because they would not include the cost of carbon emissions, giving them an unfair advantage over UK-produced goods. By applying a carbon price to imports, CBAM helps prevent carbon leakage and encourages cleaner industrial practices globally. This ensures the UK's climate objectives are not undermined by international trade and supports the overall goal of reducing global emissions.

Who is responsible for CBAM?

CBAM liability arises at the point of entry into the UK; therefore, the importer bears responsibility. There is an exception to this rule - if the total value of CBAM goods imported over a 12-month rolling period is less than £50,000, there will be no liability for CBAM.

How will CBAM be charged?

HMRC sets the CBAM rate, the carbon price (£ per tonne of CO₂e (emissions)) that applies to a sector. A different rate will apply to each sector and will be updated each quarter. The government has not yet calculated these rates, but it will update it quarterly to reflect the changing price of carbon and will publish the rates for the first quarter of 2027 by the end of the year.

The CBAM charge calculation will follow a three-step process:

Step 1 – Calculate the CBAM rate, which is based on:

- UK ETS carbon price - The average ETS price, calculated as the mean average of all UK ETS auction clearing prices for the relevant quarter. In a scenario where all ETS auctions fail to clear in a given quarter, the last positive average ETS price will be used.
- The amount of free allowances UK producers receive.
- Sector-specific emissions data.

The final output is the CBAM rate for the given sector for that quarter. Table 1 below shows illustrative figures from the governments [policy update](#) published on 16 October 2026.

TABLE 1: ILLUSTRATIVE CBAM RATES (£/TCO₂E)

Fertiliser	Aluminium	Cement	Iron and steel	Hydrogen
£1.45	£9.79	£8.78	£9.69	£9.24

Source: HMRC

Step 2 - Calculate the emissions in the imported goods, i.e. the emissions associated with producing the imported goods. When determining the embodied emissions subject to CBAM, there are two options:

- Using actual data about the emissions embodied within CBAM goods.
- Using DV values (default values) as determined by the government. The government will publish further details on DVs before CBAM is introduced in 2027.

Step 3 - Calculate the CBAM charge. The charge is the imported embodied emissions (step 2) x CBAM rate (step 1), then any eligible foreign carbon price already paid is deducted. The liable person can claim carbon price relief (CPR), which will reduce their CBAM liability if the embodied emissions in the CBAM goods they have imported have been subject to a qualifying carbon pricing scheme and they have the necessary verification documents, such as the carbon pricing verification form, as well as other relevant information, to calculate the amount of CPR. This includes where a CBAM good has been subject to more than one qualifying carbon pricing scheme and produced in more than one installation within the same jurisdiction. The total relief claimed cannot exceed the amount of CBAM liability due.

What impact will CBAM have on fertiliser prices?

The cost will vary by fertiliser grade, but based on the information released, it is expected to be less than £5 per tonne of product. Table 2 illustrates the likely magnitude of charges for imported Urea and Ammonium Nitrate. CBAM is being phased in, so these charges are expected to rise over time.

TABLE 2: ILLUSTRATIVE CBAM CALCULATIONS AND CHARGES FOR FERTILISER

Step	Urea	Ammonium Nitrate	Description
Step 1: CBAM rate (£/tCO ₂ e)	1.45	1.45	Charge per tonne of CO ₂ e associated with the manufacturing
Step 2: tCO ₂ e per tonne of product	1.392	2.600	Tonnes of CO ₂ e associated with the manufacturing of a tonne of fertiliser
Step 3: CBAM charge 1 x 2 (£)	2.02	3.77	CBAM charge per tonne of product

Source: Savills Research, HMRC

The UK and EU are discussing linking their emissions trading schemes. If an agreement creates a mutual exemption from their respective CBAMs, qualifying EU-origin goods could fall outside UK CBAM. Until such an exemption takes effect, an importer may claim carbon price relief for an eligible, verified effective carbon price paid under a qualifying overseas scheme. This should reduce the UK CBAM liability on relevant EU-origin goods. This will be particularly relevant to Ammonium Nitrate, given EU members like Lithuania and Poland are important origins in the UK market.



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