ICAEW
REPRESENTATION 57/23

ADDRESSING CARBON LEAKAGE RISK TO SUPPORT DECARBONISATION

Issued 22 June 2023

ICAEW welcomes the opportunity to comment on the consultation addressing carbon leakage to support decarbonisation published by Department for Energy Security and Net Zero on 30 March 2023, a copy of which is available from this link.

For questions on this response, please contact the ICAEW Tax Faculty at taxfac@icaew.com quoting REP 57/23.

This response of 22 June 2023 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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KEY POINTS

1. In line with our strategy to help achieve the UN Sustainable Development Goals, ICAEW is supportive of the introduction of a Carbon Border Adjustment Mechanism (CBAM) and Mandatory Product Standards in the UK. Proposed measures taken to grow the market for low carbon products are also welcomed.
2. In the short term, a CBAM should only apply to products in sectors subject to the UK ETS to ensure consistency and avoid retaliatory measures by other jurisdictions. In the long term, the CBAM should be extended to other industries and products as necessary.
3. Importers should have the option of using default values to simplify the administrative process, but incentives should be provided for businesses that provide accurate, independently verified emissions data.
4. The CBAM price should be comparable to the domestic carbon price by tracking the prevailing UK ETS price, and be based on the effective carbon price differential between the UK and country of origin.
5. The CBAM should be designed for simplicity, following mechanisms used for other border charges where applicable, and should reflect the flexibility offered by the UK ETS.
6. The government should consider the interaction of the CBAM with the Single Trade Window and consider consistency with major trading partners' CBAM implementation timelines.

Mandatory Product Standards

7. We consider the proposed criteria for deciding on the sectoral scope of mandatory product standards (MPS) to be sensible.
8. Considerations for targeting the point of obligation should include administrative feasibility, avoiding carbon leakage, and compliance with international trade rules.
9. MPS should apply to imports to prevent a disadvantage for domestically produced products.
10. We strongly agree with the proposed principles for setting thresholds and increasing stringency over time, but we would recommend clear timelines and criteria are set out for reviewing and changing thresholds.

Cross cutting policy issues for CBAM and MPS

11. We recommend consideration of less stringent MPS or lower CBAM prices for least developed and low income countries, similar to the Developing Countries Trading Scheme for tariffs.
12. Financial support and alignment of CBAM and MPS objectives with developmental goals could assist least developed and low income countries to adopt less carbon-intensive production methods. We would recommend any financial support is managed on an international level.
13. Simplifying the estimation of product-level emissions would lower compliance costs, particularly for small and medium-sized enterprises (SMEs).
14. Broadly applying carbon leakage measures and collaborating with international partners can mitigate the risk of circumvention. Sector-specific policies could mitigate the risk of resource shuffling.
15. Reducing or removing carbon pricing for production intended for export and investing in research and development for low-carbon technologies could mitigate the risk of carbon leakage in export markets.
16. MPS exemptions for UK manufactured products intended for export could be considered to maintain competitiveness of UK businesses, but compliance with WTO obligations must be ensured.

17. We recommend that carbon credits are not considered within product assessment due to verification challenges. Instead, we advocate a focus on source emissions reduction.

Growing the market for low carbon products

18. We are broadly supportive of mandatory labelling for products with reported embodied emissions to incentivise emissions reduction and enable informed purchasing decisions.
19. Our favoured approach would be energy efficiency style lettered and coloured ratings along with embodied emissions data.

ANSWERS TO SPECIFIC QUESTIONS

Introduction

0.1 Are you responding as / on behalf of

20. 9) Other (Professional Body)

0.2 If responding on behalf of a business/organisation, where is your business/organisation based/registered? If your organisation is based overseas, please specify which country you are based in.

21. United Kingdom

0.3 If your country of origin is the UK, which region are you based in?

22. London

0.4 Are you in receipt of free allowances under the UK ETS?

23. No

0.5 Would you consider your business as part of an industrial cluster?

24. No

Carbon leakage policy measures

1.0 Does government's definition of carbon leakage reflect your understanding of the issue? Please explain your reasoning.

25. Yes, strongly agree. In its simplest terms, we consider carbon leakage to be the movement of production to jurisdictions with lower environmental regulations (with respect to carbon emissions), as a result of carbon emission regulation in a home jurisdiction, causing global emissions to stay the same or even increase.

1.1 Do you believe that the risk of carbon leakage in the UK is likely to increase?

26. Yes, strongly agree. It is likely that carbon emissions regulations in the UK will be tightened at a faster rate than most of the rest of the world, and significantly faster than developing countries, to where industrial production may be most likely to be offshored.

1.2 What factors contribute to the risk of future carbon leakage that government should be looking at and that government should address? What evidence can you provide to support your view?

27. Without the introduction of measures explored in this consultation, a lower carbon price in other jurisdictions compared to the UK would contribute to the risk of future carbon leakage. It is important that the UK government collaborates internationally on carbon pricing to

ensure a level playing field for UK businesses without compromising its strategy for net zero by 2050.

1.3 How should the government act to mitigate future carbon leakage risk? Please explain your reasoning.

28. Government should act on domestic measures alongside international and multilateral action. Climate change is an international problem, and the best solutions will be found working multilaterally with international partners. For example, government should continue to explore the possibility of linking the UK and EU's ETS schemes, as provided for in the UK-EU Trade and Cooperation Agreement.
29. To ensure that the UK meets its pledge to reach net zero by 2050, it cannot wait for international agreements to be reached and should continue to work on domestic policies. However, the UK should ensure that any carbon leakage policies introduced are in line with the UK's WTO obligations.

Carbon border adjustment mechanism

2.1 Should a CBAM only apply to products in sectors that are subject to the UK ETS? Please explain your reasoning.

30. Yes, agree. At least in the short term, the CBAM should only apply to products in sectors subject to the UK ETS. This is for the following reasons:
    a) It is important that there is consistency between domestic and imported products in terms of carbon pricing. Applying a carbon price to imported products that is not applied to domestic products could lead to retaliatory measures by other jurisdictions.
    b) A CBAM is administratively complex. Businesses already using the UK ETS will be best placed to comply with a CBAM as they should already have many of the necessary processes in place to do so.
31. In the longer term, the UK ETS (and therefore the CBAM) could be extended to other industries that the government considers necessary and is able to decarbonise. In future, the CBAM could also be extended to other products if a carbon tax (rather than an ETS) is introduced for sectors where this might be more appropriate.

2.2 Are there products in your sector/sub-sector where the application of a CBAM would not be effective or feasible?

32. Not applicable.

2.3 If the scope of a CBAM is initially limited, should it be designed to potentially cover other products in future? Please explain your reasoning.

33. Yes, strongly agree. The CBAM should be designed to be as agile as possible so that it can be extended and improved without changing the fundamental design of the mechanism. There are likely to be other sectors or products to which it is or becomes necessary to extend the UK ETS (or introduce a carbon tax) and it is essential that domestic manufacturers of these products have access to a level playing field.

2.4 Should the importer of products covered by a CBAM be responsible for meeting all CBAM requirements? If not the importer, who? Please explain your reasoning.

34. Yes, agree. As the CBAM is an adjustment made at the border, it makes sense for the importer to be responsible for meeting the CBAM requirements.
35. In some specific circumstances, this may not be possible. For example, there may be an intermediary in the supply chain who acts as importer but is not the intended customer of the import. It should be considered whether responsibility can be delegated in a manner like that of direct and indirect representation for imports.

2.5 Should importers be required to provide accurate, independently verified emissions data for the products they import where available? Please explain your reasoning.

36. Don't know. Although we understand the benefits that accurate, independently verified emissions data would provide, the CBAM is administratively complex and allowing this to be simplified by the use of default values would be a significant administrative simplification.
37. We would recommend the consideration of allowing the use of default values but providing benefits to those businesses that do provide the accurate, independently verified emissions data.

2.6 Should there also be an option for importers to use default values, where they do not or cannot provide accurate emissions data? Please explain your reasoning.

38. Yes, agree – there should be an option for importers to use default values. This would be a significant administrative simplification.
39. As stated in our answer to 2.5, rather than there being a legal requirement to provide data, we would recommend other incentives for the provision of data. It may be sensible for the default values to be a worst-case scenario end of any estimate, so any businesses that do provide accurate data can reduce their CBAM liability. This would encourage the provision of accurate verified data, which is important for the continued successful operation of the CBAM, whilst allowing businesses that cannot or do not want to provide accurate verified data the option not to do so.

2.7 Are there any factors not presented in this chapter which government should consider for the calculation of default values?

40. We are not able to comment on this question.

2.8 Are there any additional challenges or opportunities around the monitoring, reporting and verification of emissions that have not been considered?

41. We are not able to comment on this question.

2.9 What data could UK importers provide for Scope 1 emissions embodied within imported products on a product basis? Please explain your reasoning.

42. We are not able to comment on this question.

2.10 What alternative data sources would government need to consider when determining Scope 1 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.

43. We are not able to comment on this question.

2.11 Do you agree or disagree a CBAM should be applied to Scope 2 emissions embodied within imported products? Please explain your reasoning.

44. Yes, agree. Without the inclusion of Scope 2 emissions, there remains a significant risk of carbon leakage as there would be an incentive to move production to a jurisdiction with cheaper but more carbon-intensive energy generation. However, we note the additional complexity of including Scope 2 emissions and would suggest that this could be introduced at a specified later date not too far into the future.

2.12 What data could UK importers provide for Scope 2 emissions embodied within imported products on a product basis? Please explain your reasoning.

45. We are not able to comment on this question.

2.13 What alternative data sources would government need to consider to determine Scope 2 imported emissions on a product basis if these data cannot be provided by an importer? Please explain your reasoning.

46. The government would need to consider the average energy used to produce the product in the UK and the energy mix of the country that the product has been imported from. Where this data is not available, a worst case scenario value could be used to encourage that country (or exporters in that country) to produce more accurate and reliable data.

2.14 Should the government consider the use of product level electricity 'content' benchmarks and country level averages to calculate Scope 2 emissions from purchased electricity?

47. Yes, strongly agree. This would allow Scope 2 emissions to be included from an earlier date without introducing a significant additional administrative burden on importers.

2.15 If yes, how should country level Scope 2 average emissions be calculated? Please explain your reasoning.

48. The Scope 2 average emissions should be calculated using accurate, verified emissions data for the production of that product in the UK, adjusted for the country of export's energy mix. Where a country's energy mix emissions data is not accurate, reliable or available, a proxy could be used based on data from similar countries. If the product has been processed in more than one country prior to import into the UK, a proxy could be used based on the country with the highest emissions, unless the importer is able to provide accurate, independently verified data.

2.16 Should a CBAM be applied to the Scope 3 emissions embodied within imported products that are also indirectly covered by the UK ETS? Please explain your reasoning.

49. Yes, agree. As per our answer to 2.11, there remains a significant risk of carbon leakage if Scope 3 emissions are not included and UK manufacturers would be placed at a disadvantage where these emissions are indirectly covered by the UK ETS. However, we note the additional complexity of including Scope 3 emissions and would suggest that this could be introduced at a specified later date in the future.

2.17 What data could UK importers provide for Scope 3 emissions embodied within imported products on a product basis? Please explain your reasoning.

50. We are not able to comment on this question.

2.18 What alternative data sources would government need to consider to determine Scope 3 imported emissions on a product basis if these data cannot be provide by an importer? Please explain your reasoning.

51. We are not able to comment on this question.

2.19 Do you have further comments on the inclusion and measurement of emissions embodied in imported products as part of a CBAM?

52. We recommend the UK government monitors CBAMs being introduced globally and consider aligning to some extent the proposed timetable for the inclusion of Scope 2 and Scope 3 emissions within the UK CBAM.

2.20 Should the price applied by a CBAM be comparable to the effective domestic carbon price paid, including accounting for any discounts available through free allowances or compensation? Please explain your reasoning.

53. Yes, agree. The CBAM price should be as close as is practicably possibly to the domestic carbon price paid to ensure a level playing field. The CBAM's only effect should be to reduce carbon leakage – it should not otherwise impact on commercial decision-making.

2.21 Should the price applied by a CBAM track the prevailing UK ETS price throughout the year, as opposed to being set at a fixed annual rate? Please explain your reasoning and any preference between the different options outlined above.

54. Yes, agree. As per our answer to 2.20, the CBAM price should be as close as is practicably possible to the domestic carbon price paid ie, the UK ETS price. A fixed annual rate could mean that the CBAM price and the UK ETS price are significantly different at any given point. We recommend the use of the fortnightly UK ETS price.

2.22 Should the price applied by a CBAM to imported products be based on the value of the effective carbon price differential between the UK and the country where that good was produced? Please explain your reasoning.

55. Yes, strongly agree. Not basing the price applied on the value of the effective carbon price differential would lead to double taxation of emissions from countries that already have carbon pricing regimes. This would penalise imports from countries with carbon emissions regulations, which clearly goes against the purpose of a UK CBAM.

2.23 Would it be practicable for importers to provide information on the effective carbon price already paid on products in the originating country? Please provide details.

56. Yes, agree. In theory, if a business has had to provide information to the relevant authorities in the originating country, they should be able to provide this to the UK authorities (or to the importer in the UK where the exporter and importer are separate parties).
57. We recommend the government considers the OECD's work on calculating Effective Carbon Rates in major economies.

2.24 What issues might arise in taking into account a carbon price already paid in another country when calculating the price applied by a CBAM? Please explain your reasoning.

58. It may be difficult to quantify the carbon price paid in another country if different methodologies are used, and the onus must be on businesses to provide sufficient evidence of the carbon price paid.

2.25 Do you have any views on how a CBAM could be designed to ensure maximum simplicity? For example, by following the mechanism for other border charges such as tariffs and excise duties. Please explain your reasoning.

59. Following the mechanism for other border charges would give importers or their agents a sense of familiarity, which may make it easier for businesses to comply. That being said, mechanisms for other border charges should not be used or followed where it does not make practical sense for them to do so.

2.26 Should government prioritise reflecting the flexibility offered by the UK ETS in a CBAM? For example, by allowing emissions to be paid for at a separate point to the release of products into free circulation. Please explain your reasoning.

60. Yes, strongly agree. The government should prioritise making the CBAM as easy as possible to comply with. As the CBAM and UK ETS will be closely linked, it makes sense for flexibility offered by one scheme to be offered for the other scheme.

2.27 Are there further actions government could take to design a CBAM in a way that facilitates the smooth flow of trade? Please explain your reasoning.

61. We are not able to comment on this question.

2.28 Are there further interactions with the customs and/or border systems which government should take into account for the development of a CBAM? Please explain your reasoning.

62. Government should ensure that CBAM requirements are fully integrated into the Single Trade Window.

2.29 Are there further policy interactions that government should consider regarding potential implementation timelines for a CBAM? Please explain your reasoning.

63. As previously mentioned, the government should consider aligning where possible the implementation timelines for a CBAM with CBAMs being introduced by our largest trading partners. Many businesses affected by the introduction of the CBAM may be required to comply with CBAMs in other jurisdictions and would appreciate consistency of approach.

64. It should also be considered whether introduction of the CBAM should wait until the Single Trade Window is operating smoothly – it seems likely that this will be the case anyway.

Mandatory product standards

3.1 Were mandatory product standards introduced, should the above criteria be used to decide on its initial sectoral scope? Are there other criteria that should be considered? Please explain your reasoning, including any alternative criteria.

65. Yes, strongly agree. The criteria set out appear to be sensible.

3.2 Which option, if any, would be most appropriate for the initial sectoral targeting of a mandatory product standard? Are there other/additional sectors which should be considered for early targeting, for example to address the risk of substitution? Please explain your reasoning.

66. Option 2: Targeting steel, cement, and concrete. It is important that a balance is struck between ambition and deliverability to ensure the successful introduction of mandatory product standards. Once MPS have been introduced successfully for these sectors, extension to other sectors such as chemicals, or sectors acting as substitutes for sectors already included (such as timber), should be considered.

3.3 Which option, if any, would be most appropriate for emissions scope of a mandatory product standard? Please explain your reasoning, and details of any alternative options.

67. Option 1: Scope 1, 2, and some upstream Scope 3 emissions. We support the government's proposed approach to provide the best balance between deliverability and ambition. In our view, it is more important to introduce MPS successfully by only including emissions that are deliverable than to make MPS undeliverable. Downstream emissions can (and should) be added later.

3.4 Which value chain option, if any, would be most appropriate to target with a mandatory product standard? Please explain your reasoning, with reference to specific sectors if possible, and details of any alternative options.

68. Option 2: Midstream products (narrow scope). We are inclined to support the government's proposed approach. Option 2 appears to achieve the best balance between ambition and deliverability and could be gradually extended until it reaches Option 3. Option 4 does not appear to be an achievable starting point for MPS but should remain the end goal.

3.5 Which option, if any, would be most appropriate for targeting the point of obligation for a mandatory product standard for domestically produced goods? Please explain your reasoning.

69. Point of sale would appear to be most appropriate as this would align with existing regulatory systems and processes and could be readily adapted for imported products.

3.6 What considerations should government consider when targeting the point of obligation for imported goods? Please explain your reasoning.

70. The point of obligation for imported goods should be one which is administratively feasible, avoids carbon leakage and complies with international trade rules. The government should consider collaborating with exporting countries (particularly major trading partners) to align standards and regulations.

3.7 Do you agree or disagree that any mandatory product standard should apply to imports? Please explain your reasoning.

71. Yes, strongly agree. It should not be possible to import products that do not comply with MPS as this puts domestic producers at a significant disadvantage.

3.8 Do you agree or disagree with the proposed principles for setting thresholds and increasing the stringency of mandatory product standards over time? Please explain your reasoning.

72. Yes, strongly agree. Wherever possible, the government should set out a timeline for the increasing stringency of MPS thresholds so that businesses can factor that into their decision-making process. This may not always be possible if the MPS thresholds are linked to the UK's net zero target and carbon budgets but, in this case, there should be set criteria for thresholds to be reviewed and changed out of line with the timeline initially set out.

3.9 Should mandatory product standards be delivered in stages, broadly moving from less stringent, relatively focussed application in the late 2020s to a more stringent and potentially broader application during the 2030s? Please explain your reasoning.

73. Yes, agree. As mentioned above, a roadmap for the increasing stringency should be set out in advance so businesses can plan with certainty. Wherever possible, the changing thresholds should be legally binding to prevent giveaways to certain sectors under pressure from lobbyists.

Cross cutting policy issues for CBAM and MPS

4.1 What specific challenges for countries at differing stages of development to the UK, in particular least developed and low income countries would the government need to consider in the future design of any carbon leakage measures? Please explain your reasoning.

74. The government should consider whether there is a case for least developed and low income countries to be subject to less stringent MPS or a lower CBAM price, similar to the operation of the Developing Countries Trading Scheme, which reduces or removes rates of duty on imports from eligible developing countries into the UK.

4.2 How can the government best support countries at differing stages of development to the UK, in particular least developed and low income countries? Please explain your reasoning.

75. As above, the government should consider a scheme equivalent to the Developing Countries Trading Scheme where MPS are less stringent depending on the originating country or a lower CBAM price is applied. Implementing stringent carbon leakage measures on these countries without appropriate support could hamper their economic growth and hinder poverty reduction efforts. These countries have historically contributed less to global emissions so carbon leakage measures should take this into account (whilst ensuring the overall purpose of the carbon leakage measures are not materially compromised).

76. Government should consider aligning the objectives of the CBAM and MPS with its developmental objectives by providing financial support to least developed and low-income countries specifically aimed at supporting the introduction of less carbon-intensive methods of production. There is potential for any revenue raised from the CBAM to be used for this purpose.

4.3 What is your view on the importance of finding ways to simplify the process for estimating product level emissions intensities?

77. We consider that finding ways to simplify the process for estimating product level emissions intensities is very important, particularly to help SMEs comply with carbon leakage measures, as this would lower the time and cost of compliance.

4.4 What are the different options for simplifying the process for estimating product level emissions intensities without compromising on the integrity of the estimates?

78. We are not able to comment on this question.

4.5 Do you have any views or empirical data on the trade-offs between reductions in administrative costs in the generation of product level data, and the accuracy of such data?

79. Reducing administrative costs and minimising the burden on businesses is clearly desirable, but a balance needs to be struck between cost reduction and ensuring the accuracy and reliability of data collected. We recommend a risk-based approach, only allowing simplified processes where it is estimated that the reduction in administrative costs is significant while the reduction in data accuracy is insignificant.

4.6 Is circumvention a risk in your sector?

80. Not applicable.

4.7 How can carbon leakage measures be best designed to limit risk of circumvention? Please explain your reasoning.

81. Carbon leakage measures should be applied as broadly as possible. A broad scope, or broad definitions of the products that the measures apply to, allows less room for circumvention.

82. The UK should ensure it collaborates with overseas authorities to share information regarding possible circumvention.

4.8 Is resource shuffling a risk in your sector?

83. Not applicable.

4.9 How can carbon leakage mitigation measures be best designed to limit risk of resource shuffling?

84. The best way to limit the risk of resource shuffling is international collaboration on the introduction of CBAMs and MPS, to ensure comprehensive coverage and consistent carbon pricing.

85. Failing that, introducing targeted policies for each sector that combat the resource shuffling in that sector may be required.

4.10 There may be a risk of carbon leakage from increased imports of processed products using intermediate inputs that would have been covered by UK carbon leakage measures if imported directly. Is this a significant concern for you? Please explain your reasoning.

86. Yes, strongly agree, this is a concern. If the emissions from producing intermediate inputs are overlooked, this can lead to a displacement of emissions from the UK to another country, with imported products then having an advantage over products produced domestically.

4.11 In which sectors do you foresee material issues, and why?

87. We are not able to comment on this question.

4.12 What are your views on the relative merits of the potential merits of the potential options presented above for addressing potential downstream impacts of carbon leakage measures? Are there alternative options for addressing this issue?

- ***Apply a CBAM, or MPS to imports which reflects an 'implied carbon price' or 'implied product standard'***

88. This approach would ensure that the carbon impact of imported products reflects the carbon leakage measures applied to intermediate products.

- ***Apply a CBAM or standard based on the content of embedded intermediate inputs:***

89. This approach provides a more accurate reflection of the carbon emissions associated with the intermediate inputs but could be complex and resource-intensive and require reliable data and cooperating from supply chains to ensure accurate assessments.

- ***Doing nothing for final products below a defined threshold:***

90. This approach would simplify the implementation process, but the threshold would need to be carefully defined and monitored.

91. Alternative options:

a) collaborative international agreements that promote harmonisation of carbon pricing or standards

b) sector-specific support to support industries to transition to low-carbon technologies domestically thus removing the incentive to import more processed products using intermediate inputs.

4.13 One of the options set out is to take no action where the levels of relevant intermediate inputs are below a set threshold. In your view, what would be the appropriate type, and level of such a threshold. Please explain your reasoning.

92. We are not able to comment on this question.

4.14 How should the government strike the right balance between the need to address material downstream effects and the implications for both administrative complexity and consumer impacts? Please explain your reasoning.

93. The government should seek input and feedback from relevant stakeholders, including industry, trade associations, professional bodies, consumer groups and experts. Any measures that are implemented should be continuously monitored and evaluated. We would recommend a phased approach to implementation of any carbon leakage measures to allow for a smooth transition and to gather real-world feedback before the next phase of implementation.

4.15 Which UK sectors are most likely to face carbon leakage risk in export markets? For each of these sectors please set out your reasoning and any evidence to support this view.

94. We consider that the steel and chemicals sectors are particularly at risk of carbon leakage in export markets as they are high-emitting sectors that are export-oriented and face increasing competition from other countries, many of which have lower or no carbon costs.

4.16 What, if any, is the impact of carbon leakage risk in export markets? For each sector, please set out your reasoning and any evidence to support this view.

95. The impact of carbon leakage in export markets could be significant. If businesses relocate production to countries with lower carbon costs, this could lead to job losses in the UK.

4.17 For UK sectors affected by carbon leakage risk in export markets described in 4.15 above, what approaches would you propose for the mitigation of carbon leakage risk?

96. It should be considered whether, subject to the UK's WTO obligations, carbon pricing could be reduced or removed for production intended for export.

97. A longer-term approach would be to increase support for research and development into lower-carbon technologies in the sectors named above, making UK producers more competitive in the global market in future when more countries introduce carbon leakage policies or increase the stringency of existing measures.

4.18 Should mandatory product standards apply to all UK manufactured products intended for export? Please explain your reasoning, and provide details of any impacts this would have for your sector.

98. Don't know. As explained above, there is a risk that applying MPS to UK manufactured products intended for export will lead to overseas customers switching to suppliers in jurisdictions with fewer carbon emissions regulations, this creating carbon leakage and damaging UK businesses. There is therefore a case for not applying MPS to UK manufactured products to keep UK businesses competitive and to prevent carbon leakage. The government would need to ensure this approach would not breach its WTO obligations.

4.19 Should the use of carbon credits to offset emissions be considered within the assessment of a product? Please explain your reasoning.

99. No. Carbon credits are not easily verifiable and there has been several controversies recently regarding the use of them, most recently: CEO of biggest carbon credit certifier to resign after claims offsets worthless | Carbon offsetting | The Guardian.

100. We recommend that the use of carbon credits to offset emissions should not be considered as we would advocate for a strategy that prioritises emissions reduction at source.

Growing the market for low carbon products

5.1 Which of the following statements corresponds most with your view? In order to maximise the effectiveness of a labelling scheme, both in terms of consumer usability and implementation costs, a system of embodied emissions should include:

- ***Embodied emissions data only***
- ***Energy efficiency style lettered and coloured ratings only***
- ***Both embodied emissions data and energy efficiency style lettered and coloured ratings***
- ***I do not agree with any of these options***

101. We would recommend that energy efficiency style letter and coloured ratings form the basis of a labelling scheme as it is important that the information provided is easily understandable.

102. We would also support the inclusion of embodied emissions data within the label as this would allow more precise comparison of products.

103. We consider that embodied emissions data only would not be sufficient as it may not be meaningful to consumers.

104. We would add that, should a lettered grading system be used, the 'A' category should only denote a net zero product if there is an 'A+' category denoting a carbon negative product. It is widely accepted that we will need to go beyond carbon neutrality and strive for carbon negativity if we are to prevent high levels of global warming. An appropriate threshold of carbon negativity may need to be set to achieve an A+ rating. For example, assuming an A rating is net zero, the A+ could be carbon negative to the same extent that a B rating is carbon positive.

5.2 Should the government adopt mandatory labelling for products that are required to have their embodied emissions reported? Please explain your reasoning.

105. Yes, agree. The embodied emissions reporting is the most difficult step. Once that has been done, it makes sense for this to be included in product labelling. This provides an additional incentive to reduced embodied emissions and allows purchasers to make more informed decisions, thus driving demand-side change and promoting sustainable consumption.

5.3 Which level of IDDI pledge would best support the decarbonisation of UK industry? Please explain your reasoning.

106. Levels One, Two and Three (as a minimum).
107. Level Three would directly promote the use of low-emission concrete and steel and thus incentivises the industry to adopt low-carbon alternatives, driving investment in research and development.
108. We support the ambition of Level Four but acknowledge the risk that making the pledge and not meeting it may undermine confidence in future pledges for lowering carbon in public procurement.

5.4 What would be the likely impact of implementation of each IDDI pledge level to your sector?

109. We are not able to comment on this question.

5.5 Should the government adopt the low emissions thresholds suggested by the IEA? Please explain your reasoning, including whether there are any strong alternatives.

110. Yes, strongly agree.
111. The IEA's low emissions thresholds are designed to align with international climate objectives, based on scientific assessments and modelling. By adopting these thresholds, the government shows international leadership and commitment to addressing climate change and contributing to global efforts to mitigate carbon emissions.
112. To achieve the adoption of the low emissions thresholds suggested by the IEA, the government could set sector-specific targets, implement emissions reduction measures and encourage investment in low-carbon technologies.
113. Stakeholder engagement in developing these policies and regulations will be crucial. This includes collaborating with international stakeholders to share best practice and harmonise adoption of the thresholds.

5.6 What can the government do to support firms to join the First Movers Coalition (FMC)? Please explain your reasoning.

114. Raise awareness through targeted communication campaigns and industry-specific events;
115. Provide information and resources to help businesses understand the membership benefits of the FMC;
116. Engage in policy discussions with FMC members to align policies and regulations with the objectives of FMC members; and
117. Provide financial incentives.

Emissions reporting framework

6.1 Should the government introduce a new framework to enable the reporting and collection of product level emissions?

118. Maybe/undecided.

6.2 If yes, what do you see as the advantages to introducing the framework?

119. Enhanced transparency, improving comparability of products and increased robustness compared to existing frameworks, which are not sufficient for the measures outlined in this consultation.

6.3 If no, what do you see as the disadvantages that mean a framework should not be introduced, and how do you propose the government introduces the policy proposals considered in the consultation?

120. There is already an established emissions reporting framework in place through the Taskforce on Climate-Related Financial Disclosures, which could be improved to make it fit for purpose. This may reduce the additional administrative burden on businesses.

6.4 Do you prefer (1) attributing installation level data to products with default values or (2) product life cycle assessments with default values, or another option?

121. Either.

6.5 Would you prefer a single emissions reporting framework for all carbon leakage policy measures? Please explain your reasoning.

122. Yes, agree. Wherever possible, we consider a single reporting framework would be beneficial as it would provide streamlined reporting processes, improved consistency and comparability and improved accuracy and reliability. It also facilitates monitoring and evaluation and international alignment.

123. However, we note that creating a single emissions reporting framework that encompasses all carbon leakage measures will be highly complex and there may be a need for sector-specific or measure-specific frameworks.

6.6 What are your views on balancing the administrative burdens of product emissions reporting against the accuracy of results?

124. It is important to strike a balance between administrative burdens of product emissions reporting against the accuracy of results. Government should consider how much simpler any administrative easement makes the process and weigh this against how much less accurate the data might be as a result. A risk-based approach or proportional reporting could be considered with higher-emitting sectors or larger companies facing more stringent requirements.

6.7 Which emissions factors should be used for the calculation of embodied emissions of products if emissions reporting requirements were introduced? What are the advantages or disadvantages of the options?

125. We are not able to comment on this question.

6.8 Do you have a preference for how default values could be calculated? What are the advantages and disadvantages of the options?

126. Option 2: Default values are calculated to be stringent, for example representing the 'worst available technology' for the manufacture of a given product, or a penalty (for example, 20%) is added to the industry average.

127. Advantages: This option would ensure there remains an incentive for the business to use accurate and verifiable data rather than default values and avoid carbon-intensive businesses from benefitting from the use of averaged data.

128. Disadvantages: This could have a disproportionate impact on small businesses who may not be more carbon-intensive than average but may not be able to provide accurate data for legitimate reasons. To counteract this, the penalty applied to the default value could be a sliding scale depending on the size of the business or could be removed if there are reasonable grounds to do so.

6.9 Are there additional possible data sources for calculating default values that have not been mentioned? Please provide details of those data sources.

129. IEA Emission factors database

Designing the mechanism for embodied emissions reporting

7.1 Should government pursue a Life Cycle Assessment-based approach?

130. Don't know.

7.2 What is your preference for the type of Life Cycle Assessment methodology framework that should be adopted?

131. Option 1: A life cycle assessment methodology that includes Scope 1, 2 and some upstream Scope 3 emissions at a minimum. It would be aligned with internationally recognised standards from the International Organisation for Standardisation (ISO) and would require third-party verification. Ideally, the chosen methodology would already be in use by parts of industry in the UK and other jurisdictions. An example of such a methodology is the European standard BS EN 15804:A2.68

132. Advantages: It would be beneficial for the methodology to align with internationally recognised standards. The administrative burden of this option may also be the lowest as it is not clear how well adopted sector-specific and UK-developed standards are in the UK.

133. Disadvantages: The methodology may not cover all relevant emissions sources and there is a lack of specificity for certain industries.

7.3 Should CO2e/mass (including performance metric where relevant) be used as the metric for embodied emissions reporting and form the basis of any subsequent policy? If you disagree, please explain why and suggest an alternative metric.

134. Yes, strongly agree. CO2e/mass is a widely accepted approach and has several advantages:
    - It provides a consistent and comparable metric;
    - It includes other greenhouse gases such as methane and nitrous oxide, taking into account each gas's global warming potential;
    - It aligns with many existing standards and reporting frameworks; and
    - It is well-recognised and reasonably well understood.

7.4 Should mass (of product) be the appropriate unit of measurement for your sector?

135. We are not able to comment on this question.

7.5 Should the government introduce a data collection period before the full implementation of carbon leakage policy measures?

136. Yes, agree. This would give businesses time to implement reporting and government time to iron out any issues with the system (whether technical issues or policy issues) before full implementation. Although the data collection period may be seen to place an unnecessary burden on businesses without the benefits of the policies, the reporting alone may drive some change prior to the full implementation as businesses will gain an early insight into their emissions.

7.6 If Yes or Maybe/Undecided, how long should this data collection period be?

137. At least one year but no more than two years.

7.7 Should only those businesses in scope of current or upcoming policies be required to report information about the emissions of products? Please explain your reasoning.

138. Yes, agree. The government should focus on those businesses that will be required to comply with upcoming policies to ensure the system works smoothly for those businesses before introducing voluntary reporting.

7.8 If your sector were required to report product emissions, are there other sectors that would also have to report this information to help minimise information asymmetry between substitutable products in the market?

139. We are not able to comment on this question.

7.9 Should the scope of any new embodied emissions reporting be limited to that which is required by carbon leakage policy measures, if introduced?

140. Yes, agree. At least initially, the administrative burden of reporting should be kept to a minimum. Reporting for additional emissions scope could be introduced at a later date if policy measures require it in future.

Reporting to government and delivery of the IT system

8.1 If you are, or represent, a domestic manufacturer, which option for a reporting IT system would be most appropriate?

141. Although we do not directly represent a domestic manufacturer, we would recommend Option 1: adding new functionality to existing systems under the UK ETS. This is on the basis that the UK ETS IT system is capable of being added to and upgraded and is future proofed to allow other data requirements to be added in future.

142. This approach would provide businesses already subject to the UK ETS with a familiar system and this minimise disruption created by a new system. Bespoke IT systems take many years and significant investment to build and, in our experience, can be delayed, over-budget and often do not function as intended, at least initially.

8.2 If you are, or represent, an importer or manufacturer outside the UK, which option for a reporting IT system would be most appropriate?

143. Not applicable.

8.3 Do you have a preference for how frequently emissions data should be reported?

144. Option 1 (different frequencies as required) or 2 (annually).

8.4 What are the advantages or disadvantages of the options?

145. Option 1 represents the optimal reporting frequency but may result in a significant administrative burden.

146. Option 2 provides a regular reporting timescale that allows businesses to tie in the requirements with existing disclosures and accounting periods.

147. Options 3 (every five years) and 4 (every two years) are too infrequent and would diminish the use of the data.

8.5 What are your views on how product embodied emissions data should be verified? What are the advantages or disadvantages of the different options? Please explain your reasoning.

148. The government should appoint an independent regulator or accreditation body which would have the power to certify third-party organisations to verify emissions data. This would ensure the credibility and accuracy of the data and is aligned with the UK ETS.

8.6 Should embodied emissions data for products be made publicly available through either labelling, a publicly accessible database, both, or neither? Please explain your reasoning.

149. Agree, through both. The scheme needs to be transparent to ensure credibility and data should be easily accessible.

Public Sector Equality Duty

9.1 Do you have any views about the implications of the policy measures explored in this consultation on people with protected characteristics and how any potential negative impacts could be mitigated? Please provide any relevant evidence.

150. We are not able to comment on this question.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
4. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see https://goo.gl/x6UjJ5).