

The Food and Drink Federation's response to HMRC's consultation on the introduction of a UK carbon border adjustment mechanism (CBAM)

Introduction

This submission is made by the Food and Drink Federation (FDF), which is the voice of the UK food and drink manufacturing industry, the largest manufacturing sector in the country, with a footprint in every parliamentary constituency. Our industry has a turnover of more than £113 billion, accounting for 20% of total UK manufacturing, and Gross Value Added (GVA) of more than £33 billion. Food and drink manufacturers directly employ over 450,000 people across every region and nation of the UK. 97% of our industry is small and medium-sized businesses.

We welcome the government's consultation on policy measures to mitigate against the risk of future carbon leakage. Our sector is committed to lowering emissions and has an ambition to achieve net zero carbon emissions by 2040. Our members are committed to creating a more sustainable and resilient food system to meet climate and wider environmental goals. This consultation is an important step towards putting in place a UK Carbon Border Adjustment Mechanism (CBAM). We are keen to work with the government to address carbon leakage. Government must ensure it guards against the risk of damaging our sector's international competitiveness, investment and jobs in the UK and trade flows from Least Developed Countries (LDCs). As a key part of the UK's Critical National Infrastructure, the government should also prioritise our nation's food security.

UK food and drink supply chains have faced major challenges and disruptions due to consecutive challenges and crises that have contributed to an erosion of resilience within our industry. This includes major changes to our trading relationship with the EU, the effects of disruption caused by the COVID pandemic and Russia's invasion of Ukraine, leading to a surge in business insolvencies and record UK food price inflation.

To ensure the UK CBAM delivers aims of carbon reduction, at the same time ensuring that UK manufacturers are not hindered by the regulation, we propose the following recommendations.

- 1. Compatibility with the EU CBAM.**
- 2. An option for a weight or value exemption threshold.**
- 3 A permanent default value for measuring emissions**
- 4 Reduce bureaucracy with longer reporting periods, comprehensive guidance, and business-friendly online systems.**
- 5 Government support to increase industry competitiveness.**

It is crucial that the UK CBAM effectively prevents carbon leakage without creating unnecessary barriers for UK businesses. The UK CBAM must be compatible with similar systems, especially the EU CBAM, and should learn from the implementation

challenges of this system – many of which we have covered in this response. It should be user-friendly, low in bureaucracy, and effective without driving manufacturing away from the UK.

Whilst our sector is not initially included, we have addressed a number of principles that we consider to be important for all sectors, and ultimately the functioning of the UK CBAM.

1. Compatibility with the EU CBAM

We agree with the government's principle that the CBAM price should be based on the explicit carbon price differential between the UK and the country of production. To reduce bureaucracy, we propose **exemptions for markets with sufficient carbon pricing systems**. Specifically, the EU market should be exempt, as it has a comparable carbon pricing system to the UK. However, this should be periodically reviewed. Ideally, the EU would also exempt the UK from its CBAM.

To further this objective, and for full compatibility, the UK and EU should consider aligning and linking their respective Emissions Trading Systems (ETS).

This is envisaged in Article 392 (6) of the EU-UK Trade and Cooperation Agreement which states: *'The Parties shall cooperate on carbon pricing. They shall give serious consideration to linking their respective carbon pricing systems in a way that preserves the integrity of these systems and provides for the possibility to increase their effectiveness.'*

Failure to do so risks unnecessary burdens (e.g. continued compliance with the reporting requirements, nil returns etc.) Aligning our systems would also ensure there are no divergence issues when trading goods between Northern Ireland, the UK and EU. At present, there is no visibility of whether the EU CBAM reporting requirements will apply for internal GB-NI trade.

As with the EU system, our industry and UK shoppers will benefit from a pragmatic approach to the introduction of CBAM on a sectoral basis starting on the largest emitting sectors first., Any new requirements in **the food and drink sector should enter into force at a date** that is broadly aligned with the EU CBAM.

If food and drink is included in the future, it is worth noting that the EU is the UK's largest trading partner and a vital supplier (In 2023, the EU supplied over 70% of the UK's food and drink imports), An exemption would significantly reduce bureaucracy for many businesses.

Plenty of notice of the changes to the sectoral scope in the UK CBAM is a must. Due to the nature of our sector and the need to source ingredients globally, our supply chains are long and complex. As such, it would take a long time to gather emissions data for UK importers.

Government must work with industry when extending the scope of products, to ensure simplicity and they are targeting the products which will have the most impact on emissions. This particularly applies for composite products which would require more complex calculations.

This process should also be mindful of problems around different commodity codes being used in different jurisdictions which has caused issues with the EU system.

2. An option for a weight or value exemption threshold.

The £10,000 threshold to exclude SMEs and small importers of CBAM products is a step in the right direction. However, £10,000 is a low tax registration threshold and would capture a lot of businesses, importing small inputs over the year in small quantities. This would especially be an issue if a business has multiple sites across the UK.

As emissions are calculated based on the weight of imported products, we recommend offering a choice of a value or weight threshold. Firstly, this would be more logical as the quantity of the material is more relevant to the risk of carbon leakage. Smaller volumes may have a high value but little impact on carbon emissions. Secondly, adding a weight option would align with the plastics tax, utilising existing business resources for weighing imports and is already a feature on business declaration forms.

Composite products would be especially difficult to work out if the scope is extended to food and drink, as manufactured products have a lot of different inputs. As such, it would be ideal if business had the option to choose **weight or value when it comes to thresholds exemptions**. A value option in this instant would make calculations easier.

The reporting period for exemptions is proposed to be on a rolling 12-month period. Instead, the FDF **recommends a clear hard threshold per reporting period**. Under current proposals businesses would need to continually monitor each month the value of imports coming in to understand whether they have exceeded the proposed threshold. Industry would also need to check their 12-month figures at the start of each month. This is also the process undertaken in the UK plastic and packaging tax, which has been an onerous and administrative process. Instead, one target per reporting period would be less burdensome.

3. A permanent default value for measuring emissions

In order for a smooth transition when and if the scope of products is expanded to food and drink, a CBAM must be future-proofed to work for all sectors.

Given the complexities of measuring emissions, especially in the food and drink sector with its intricate supply chains, **a default value must be a permanent feature of the UK CBAM**. Not all businesses have the resources or supplier cooperation to provide accurate emissions data. We understand that around 80% of businesses relied on default values in the first reporting period of the EU CBAM due to the inability to obtain accurate data, with almost half unable to foresee acquiring the required data at all, even with longer lead in times.

If the scope is broadened to include food and drink, government should seek to align the measurement of emission with those used in other government departments, such as sustainability reporting and the Food Data Transparency Partnership (FDTP). The FDF is currently involved in initiatives with departments across

Whitehall seeking to standardise a methodology for the measurement of carbon emissions at a product level. The product level measurements which will be the eventual output of the FDTP may be considered as data sources for a UK CBAM on food and drink.

To ensure continuity and certainty with the default value, it is recommended that the **rate set for each product is reviewed annually** instead of quarterly. While we understand that quarterly would provide more accurate data, keeping the value the same for the year, would allow businesses to better understand yearly finances allowing them to make investments confidently. There is also the issue of over-bureaucracy, with businesses having to update their systems every quarter with new prices, adding unnecessary complexity.

4. Reduce bureaucracy with longer reporting periods, more guidance, and business-friendly online systems.

A UK CBAM will create significant administrative burdens for businesses. The UK must make it as simple as possible for businesses to comply with the regulations.

Measuring emissions based on other carbon price systems seems like a proportionate way forward. To ensure it is easy for businesses to work with this system, it is recommended that the UK government **release a list of countries with similar carbon pricing mechanisms**.

The calculation of emissions, relying on third-party information and the need to revise quarterly, could lead to added complexity for calculation. Companies may just resort to paying the full amount to reduce paperwork and confusion, leading to paying double for the product's carbon footprint. This may mean businesses outsource these operations to external tax agents, adding unnecessary costs to UK based businesses. The UK should **review third party verification on overseas carbon prices annually** so it is more manageable for UK businesses.

To ensure third parties do not hinder the process, they should be given clear guidance. **Multilingual guidance should be provided to suppliers** to make it as easy as possible for them to provide the data needed. The UK government should also raise awareness of CBAM regulations through embassies and international bodies.

When it comes to online systems for businesses to report, **a simple portal, linked to the existing HMRC gateway** would ensure ease of use. The EU system uses Excel, which is not well-adapted for reporting, with multiple technical issues reported.

5. Government support to increase competitiveness

A UK CBAM is likely to increase supply chain costs for businesses, which will be passed on to consumers in the UK and abroad. If the intent of the policy is to incentivise procurement from lower carbon jurisdictions (and/or investment in low carbon manufacturing in higher carbon jurisdictions), the government must consider investments in EU/UK manufacturing to ensure supply matches demand. Failure to do so risks increasing costs.

In the short term, if the proposed scope is implemented, food and drink businesses will incur some extra costs to manufacturing equipment, which may be passed onto consumers. Although, this will be minimal.

However, if the scope is expanded to include food and drink, our sector would find it very difficult to modify our supply chains to markets with similar carbon pricing systems. Our sector depends heavily on imports, including essential inputs that cannot be sourced domestically, many of which comes from developing countries without carbon pricing systems, such as cocoa from Africa and coffee from South America. The UK CBAM will increase the price of manufactured products, potentially affecting competitiveness in markets without carbon pricing schemes.

To mitigate this, the UK government **should consider a rebate scheme** for exporters to markets without carbon pricing. Without such support, UK products may become less competitive, and manufacturing could shift outside the UK, failing to prevent carbon leakage.

It is important that the UK implement only necessary regulations that promote a positive business environment, supporting growth and investment. If done correctly, this can counter some of the added costs and friction that a UK CBAM would create.

Key outstanding questions for government consideration

1. How will the UK ensure that manufacturers do not relocate operations to regions outside the scope of carbon pricing mechanisms?
2. What penalties will UK businesses face if supplied with inaccurate information from their suppliers?
3. Which governmental body will determine and audit emissions calculations, and how will they prevent fraud and inaccuracies?
4. How will the UK ensure that appropriate support is given to UK businesses to support decarbonisation?
5. How will the UK CBAM link and work alongside other regulations such as Extended producer responsibility and the Packaging and Plastics Tax?

The UK Food and Drink Manufacturing Industry

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The following Associations actively work with the Food and Drink Federation:

ABIM	Association of Bakery Ingredient Manufacturers
BCA	British Coffee Association
BOBMA	British Oats and Barley Millers Association
BSIA	British Starch Industry Association
BSNA	British Specialist Nutrition Association
CIMA	Cereal Ingredient Manufacturers' Association
EMMA	European Malt Product Manufacturers' Association
FCPPA	Frozen and Chilled Potato Processors Association
FOB	Federation of Bakers
GFIA	Gluten Free Industry Association
PPA	Potato Processors Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SSA	Seasoning and Spice Association
UKAPY	UK Association of Producers of Yeast
UKTIA	United Kingdom Tea & Infusions Association Ltd

FDF also delivers specialist sector groups for members:

Ice Cream Group
Organic Group
Seafood Industry Alliance
CBD Group