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Steel on the Border:

Trade exposure and the implications of UK and EU CBAM for UK Steel

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Executive summary

Chapter 1: The UK's steel trade exposure

- The UK steel trade deficit reached a record £2.6 billion in 2024, driven by a fall of around two thirds in domestic crude steel output between 2014 and 2024. By 2025, output had fallen by more than three quarters from its 2014 level. The domestic supply share of total consumption stands at approximately 30%, against the government's initial aim of returning to 40 to 50%.
- UK steel trade is heavily concentrated on the EU, 67% of exports and 66% of imports by value in 2024. The bilateral UK–EU regulatory relationship is the single most consequential variable for the sector's competitive position.
- The UK generates 10 to 11 million tonnes of ferrous scrap annually but consumes less than 25% domestically. The surplus is exported principally to Turkey, creating industrial value leakage as the UK exports raw material and re-imports finished steel.
- As the EAF transition accelerates, domestic demand for high-quality, low-copper scrap will rise substantially. Realising that potential requires coordinated reform across vehicle end-of-life regulation and scrap processing standards.

Chapter 2: Understanding UK steel trade dynamics

- Carbon Border Adjustment Mechanisms (CBAMs) are designed to address carbon leakage by applying a comparable carbon price to imports of emissions-intensive goods. UK industry has broadly supported a CBAM as a way of ensuring that domestic producers are not undercut by higher-carbon imports from countries without equivalent carbon pricing. Gareth Stace, Director General of UK Steel, argued in 2023 that "*the vast majority of the world's steel producers face no carbon costs… we need a level playing field where imported and domestically produced steel face similar carbon costs, and a Carbon Border Adjustment Mechanism can deliver just that.*"[1]
- The UK CBAM comes into force on 1 January 2027, applying a levy on embodied carbon in imported steel and four other sectors. Liability is calculated as embodied emissions multiplied by the CBAM rate (calculated and published quarterly by the government from the previous quarter's average UK ETS auction price, adjusted for free allocation), minus any Carbon Price Relief for carbon costs already paid overseas.
- The most consequential design difference is the treatment of default emission values. HMRC's published UK defaults are set by product but apply regardless of country of origin until 2029, and the UK rate deducts free allocation at the sector average. At HMRC's illustrative rate, a tonne of hot-rolled coil imported on default values would face a UK CBAM charge of roughly £26 to £37, against a net EU CBAM cost of around €179 for Chinese hot-rolled coil imported in 2026. UK Steel estimates the UK ETS cost for a UK blast furnace producer at around £61 per tonne in 2027.

- A concluded UK–EU ETS link would trigger mutual CBAM exemptions, removing the EU carbon border charge from approximately £3 billion of annual UK steel exports to the EU, and the UK CBAM charge from EU goods imported into the UK. Linkage would not by itself change UK default values for imports from third countries.
- Formal ETS linkage negotiations began in January 2026 following the May 2025 Leaders' Summit Common Understanding. In October 2026 negotiators were reported to have reached agreement on the ETS file, although no agreement has been published, and the next UK-EU Summit is expected to be held in Brussels on 20 November 2026. Until linkage is in force, UK exporters face EU CBAM compliance obligations that the UK government has estimated could cost UK industry around £800 million a year, and the UK domestic market remains more exposed to carbon-intensive imports than its EU counterpart.
- US tariffs present a mixed picture for UK steel trade. UK-origin steel retains a preferential 25% Section 232 tariff rate following the US-UK Economic Prosperity Deal of May 2025, while imports from most other origins face 50%, providing a meaningful competitive advantage for UK producers in the US market. However, qualifying for the preferential rate requires steel to have been melted and poured in the UK, and the US market remains a smaller destination for UK exports than the EU.

Introduction

The United Kingdom's position in international steel trade has deteriorated markedly over the past decade. Domestic crude steel output fell by around two thirds between 2014 and 2024, and by more than three quarters by 2025, reducing the sector's share of total UK consumption to approximately 30% and widening the trade deficit to a record £2.6 billion in 2024. Against this backdrop, the policy framework governing steel imports is undergoing a significant reconfiguration, including: the expiry of the UK's steel safeguard measure in June 2026, the successor trade instrument in force from 1 July 2026, and the imminent implementation of the UK Carbon Border Adjustment Mechanism from January 2027 each represent material changes to the regulatory conditions under which domestic producers compete with overseas supply.

The analysis draws on published government, parliamentary and regulatory sources, supplemented by industry data and independent economic analysis, current to November 2026. Where statistics represent estimates or forward projections, this is noted explicitly. The report presents evidence and objective assessment; it does not advocate for particular policy outcomes.

The report is structured as follows:

- **Chapter 1** sets out the current trade position: the structure and scale of the UK's steel trade deficit, the paradox of a country that exports its primary recycling feedstock while importing finished steel, and the new trade measures replacing the expired safeguard from July 2026.
- **Chapter 2** turns to carbon border policy: how the UK CBAM will operate, where its design diverges from the EU regime and what that divergence means for the competitive position of domestic producers, and why the outcome of UK-EU Emissions Trading Scheme linkage negotiations is the most consequential near-term variable for the sector's trade competitiveness.
- A concluding section draws together the key trade-offs and considerations.

1. The UK's steel trade exposure

This chapter examines the structural position of the UK in international steel trade and the policy changes reshaping the trade environment. It covers the widening trade deficit and the UK's heavy dependence on EU supply chains, the large domestic scrap surplus that is largely exported, and the transition to a new tariff-rate quota regime from July 2026.

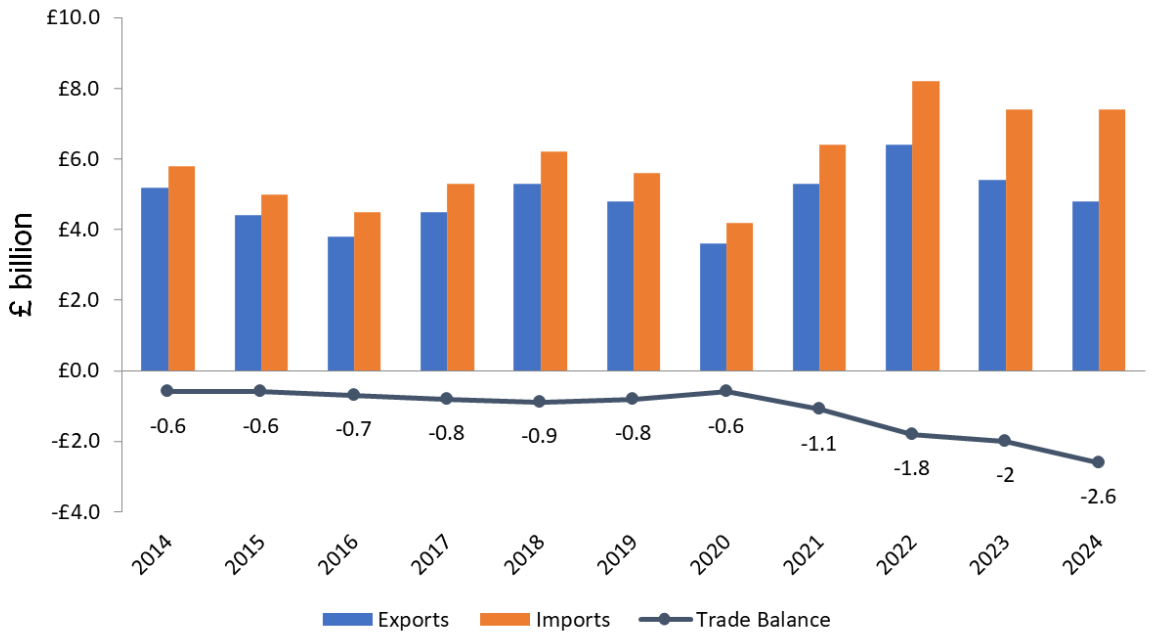
Key Findings:

- The UK's steel trade deficit reached a record £2.6 billion in 2024, driven by a structural collapse in domestic crude steel output, down more than 60% since 2014, which has reduced the domestic supply share of total consumption to approximately 30%, against a government target of 40–50%.
- The decline of British steel output is linked to international oversupply, Brexit impacting trade with the EU, and high energy costs which are largely driven by high wholesale energy costs.
- The UK's steel trade is heavily concentrated on the EU. In 2024, 67% of UK steel exports by value went to EU markets and 66% of imports originated there, making the bilateral UK–EU regulatory relationship the single most consequential variable for the sector's competitive position.
- The UK generates between 10 and 11 million tonnes of ferrous scrap annually but consumes less than 25% domestically, exporting the remainder. This industrial value leakage means the UK exports a low-cost raw material and re-imports finished steel products, with the processing value captured overseas.
- As the UK EAF transition accelerates, anchored by the 3.2 million tonne Port Talbot facility due to commission in 2027, domestic demand for high-quality, low-copper scrap will rise substantially. Meeting that demand requires coordinated policy reform across vehicle end-of-life regulation, scrap processing standards, and export controls, which the government's new cross-departmental working group was mandated to address by May 2026.
- From 1 July 2026, a new tariff-rate quota regime replaces the expiring WTO safeguard. The successor measure raises the out-of-quota tariff from 25% to 50%, tightens quota volumes to approximately 60% of previous levels, and expands coverage from 14 to 20 steel product categories - applying universally, including to countries with bilateral free trade agreements.

1.1 The current environment of steel trade in the UK

The UK steel sector has been a net importer of iron and steel products in every year from 2014 to 2024. The trade deficit stood at minus £0.6 billion in 2014 and widened to minus £2.6 billion in 2024.[2] This sustained and worsening imbalance reflects the structural contraction of domestic steelmaking capacity over the same ten years, with the main drivers being oversupply from China, high energy prices, with UK Steel arguing that the UK's industrial electricity price gap with France and Germany is now driven mainly by wholesale prices, which in Great Britain are set by gas most of the time[3], and Brexit trade friction. As UK crude steel output fell from around 12 million tonnes in 2014 by around two thirds to 4.0 million tonnes in 2024 and by more than three quarters to 2.6 million tonnes in 2025 (1.6 million tonnes of basic oxygen steel and 1.0 million tonnes of electric arc furnace steel)[4], the gap between domestic demand and domestic supply has been filled by an expanding volume of imports.

Figure 1: UK trade in iron and steel 2014 to 2024 (£ billion, value)



Source: ONS UK Trade Series EHBT, EHAL, BQQF (June 2026)

Import values rose sharply in the period following the COVID-19 pandemic. By 2022, total UK steel imports had reached £8.2 billion, a figure likely reflecting a combination of post-pandemic restocking activity and elevated global commodity prices in the context of supply chain disruption and the Russia-Ukraine conflict.[5] Import values subsequently moderated to £7.4 billion in both 2023 and 2024, but remained materially above pre-pandemic levels, indicating that the higher import baseline reflects more than temporary demand factors.

The geographic concentration of UK steel trade amplifies the sector's exposure to the bilateral regulatory environment with the European Union. In 2024, 67% of UK steel exports by value were destined for EU markets, and 66% of imports by value originated in the EU.[6] This concentration has remained broadly stable since the UK's departure from the EU single market in 2021 and reflects the deep integration of UK steel producers and downstream manufacturers into EU-oriented supply chains that developed over decades of single market membership. The practical consequence is that any change in the regulatory, tariff, or carbon pricing framework governing UK-EU trade carries disproportionate consequences for the steel sector relative to other UK industries with more geographically diversified trade flows.

The growing reliance on imported steel to meet domestic demand raises considerations of supply chain resilience that extend beyond the trade balance. The UK's domestic supply share stood at approximately 30% of total consumption in 2024, compared with 40 to 50% typically between 2010 and 2020. The government's initial aim, set out in the UK Steel Strategy, is to return to those recently sustained levels.[7] At the current production level, a significant proportion of the steel consumed by UK construction, automotive,

engineering, and infrastructure sectors is sourced from overseas supply chains subject to global price volatility, geopolitical developments, and, increasingly, the carbon pricing frameworks being introduced by the UK's major trading partners.

Recent events in the Middle East have underlined the exposure of steel supply chains to geopolitical disruption. Following the escalation of conflict involving Iran from late February 2026, disruption to shipping through the Strait of Hormuz raised freight and insurance costs and constrained Middle Eastern steel supply.[8] Iran accounts for around 11% of global trade in semi-finished steel, and its effective withdrawal from export markets has tightened global supply of semis and prompted steelmakers in Europe and Asia to reassess sourcing.[9] The conflict has also kept gas prices, and therefore wholesale electricity prices in Great Britain, elevated.[10] For a sector already operating with a domestic supply share well below the government's aim, such external shocks add to the cost and supply risks facing UK producers and steel users.

1.2 The Scrap Paradox

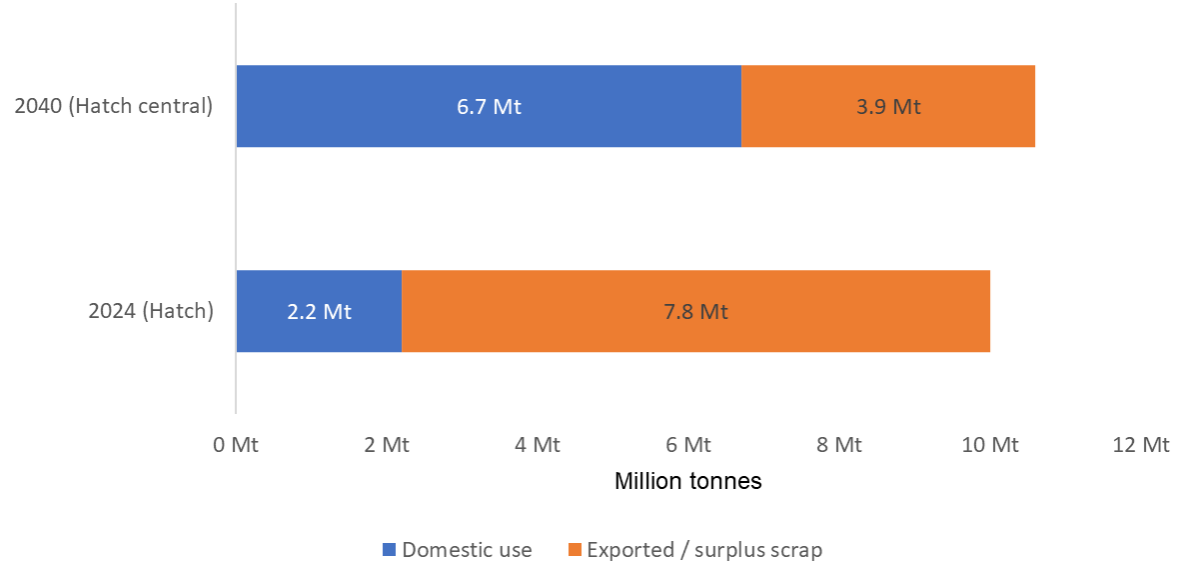
Steel scrap is generated continuously across the UK economy wherever steel-containing products complete their service life, through demolition activity in construction, vehicle end-of-life processing, industrial plant decommissioning, and manufacturing process arisings. Because steel retains its structural properties through repeated recycling, scrap is both a renewable and an infinitely recoverable domestic resource. The UK generates between 10 and 11 million tonnes of ferrous scrap annually.[11]

Of that total, less than 25%, approximately 2.2 million tonnes in 2024, was used by domestic steelmakers across both electric arc and basic oxygen furnaces.[12] In 2025, EAF scrap consumption was 1.1 million tonnes, with a further 0.3 million tonnes of scrap charged to basic oxygen furnaces.[13] The remaining volume, estimated at 7.8 million tonnes in 2024 in the Hatch demand assessment, is exported, principally to Turkey and other markets with large EAF sectors that draw on imported scrap as feedstock.[14] This makes the UK among the largest exporters of ferrous scrap in the world by volume and the largest on a per capita basis.[15]

The structural consequence of this position is a form of industrial value leakage. The UK exports a raw material of significant value, which is processed overseas into finished steel products, some of which are then re-imported into the UK market. The additional value captured in the processing, rolling, and fabrication stages accrues to overseas producers rather than the domestic industrial base. In the January 2024 Commons debate on protecting steel in the UK, the then minister Nusrat Ghani stated that "We use shy of 3 million tonnes of scrap steel, and we export 8 million tonnes."[16] Retaining more of this material domestically could reduce the sector's dependence on imported iron ore and coking coal while lowering the carbon intensity of domestic production. The minister's figures relate to an earlier period than the 2024 figure of around 2.2 million tonnes used elsewhere in this report, and are not directly comparable.

The EAF transition currently under way fundamentally alters the domestic demand picture for scrap. Blast furnace production uses iron ore and coke as its primary inputs and consumes only limited quantities of scrap. EAF production typically operates on a charge consisting primarily or entirely of scrap. As the confirmed pipeline of UK EAF capacity comes online, including the 3.2 million tonne Port Talbot facility expected to come online in late 2027, domestic scrap consumption is projected to increase substantially by 2040, according to the Hatch demand assessment produced for the Department for Business and Trade. The timing of the Port Talbot EAF depends on its grid connection, and the facility replaces steelmaking capacity lost when the blast furnaces closed in 2024, rather than adding net capacity.[17] Even at that elevated level of domestic consumption, the UK Steel Strategy notes that a significant export surplus would remain, as total generation continues to exceed projected domestic requirements.

Figure 2: UK steel scrap: generation, domestic use and exports (Mt, 2024 and 2040)



Source: Hatch, UK Steel Strategy Demand Assessment Part 2 (2026), p.70 (MPI analysis, Hatch analysis).

The UK's scrap position presents a significant opportunity, but realising it depends on addressing one important qualification. Not all ferrous scrap is equivalent in its suitability for EAF steelmaking. The production of flat-rolled products, including the surface-critical grades required for automotive applications, demands scrap with low residual levels of copper and tin. These contaminants originate principally from electrical wiring and coatings in end-of-life vehicles and, once present in a melt, cannot be removed. The grades of scrap most suited to producing such products are significantly scarcer than bulk grades of heavy melting scrap, and the Hatch demand assessment identifies demand for high-quality, low-copper scrap rising by 7 to 8 times as EAF capacity scales up, considerably faster than overall domestic scrap consumption, together with a potential low-copper scrap deficit of 73% by 2050.[18]

For the UK, getting this right would unlock a substantial industrial opportunity. Government ambitions for green steel production, anchored by the Port Talbot EAF transition and wider net zero commitments, represent a large and growing domestic demand for the high-quality scrap that the UK already generates. If the regulatory and infrastructure conditions can be reformed to retain and upgrade more of that material domestically, the UK's scrap surplus shifts to a structural competitive advantage.

This quality dimension is important because it means the policy challenge is not solely one of volume, but also one of upgrading the infrastructure and regulatory framework that determines the quality of scrap processed and sorted within the UK. The UK Steel Strategy acknowledges this directly, noting that current regulations governing end-of-life vehicles, together with existing scrap sorting and processing standards, may constrain the availability of the highest grades of scrap in the volumes that the post-transition EAF sector will require.

In response, the government committed in the UK Steel Strategy to establishing a new cross-government working group on scrap, bringing together the Department for Business and Trade, the Department for Environment, Food and Rural Affairs, and the Department for Energy Security and Net Zero, together with other government departments and the devolved governments. The working group was to form by May 2026, with a mandate to provide a forum for engagement, assess regulatory and market conditions, and tackle barriers to a high-quality domestic scrap supply chain. Recyclers responding to the consultation suggested measures including reducing end-of-life vehicle exports.[19] The working group represents a recognition that realising the feedstock potential of the UK's scrap surplus requires coordinated action across multiple policy departments, not only industrial policy. The outcomes of that work are material to the viability of the post-transition domestic EAF sector at the scale envisaged in the UK Steel Strategy.

1.3 The UK's new steel trade regime

The UK's steel safeguard regime, which had protected the domestic market from a surge of diverted steel imports since its introduction in 2018, was subject to a maximum duration of eight years under WTO rules governing safeguard measures. That limit was reached on 30 June 2026, requiring the government to establish a new legal basis for continued import protection.

From 1 July 2026, the government introduced a new steel trade measure as the successor instrument, with quarterly quotas administered by HMRC.[20] The measure operates as a tariff-rate quota system covering 20 categories of steel products that can be produced domestically in the UK. Within each category, imports up to the defined quota volume enter the UK without additional tariff. Imports above quota are subject to a 50% tariff, calculated on the customs value of the goods before any other applicable import duties. This represents a doubling of the previous 25% out-of-quota tariff under the safeguard.

The move brings the UK broadly into step with the protectionist direction taken by its major trading partners. From 1 July 2026 the EU replaced its safeguard with a new measure that cut tariff-free volumes to 18.3 million tonnes a year across 28 categories, applies a 50% tariff above quota and introduced a melt and pour rule,[21] while the US increased Section 232 tariffs on most steel imports from 25% to 50% in June 2025.

Tariff-free quota volumes under the new measure are 51% lower than under the safeguard, significantly tightening the volume of tariff-free access for overseas suppliers. The government initially announced a cut of around 60% in March 2026 and confirmed the final figure of 51% on 30 June 2026.[22] The scope of the measure is also wider than its predecessor. It covers 20 product categories, including two not previously covered, namely stainless bars and light sections, and non-alloy and other alloy cold-finished bars.[23] The measure applies universally to imports from all origins, including countries with which the UK has bilateral free trade agreements[24], although Ukraine[25] was excluded from the final measure. This universal application is a notable feature: free trade agreements that might otherwise provide zero or reduced tariffs on steel are overridden by the measure for above-quota volumes.

The government has stated that the new trade measure is designed to ensure the continued viability of domestic UK steel production and to meet the UK's security objectives in sectors including defence, energy, and transport infrastructure, while taking into account the impact on downstream supply chains that depend on imported steel. The measure is subject to review after an initial period of operation, and the government has confirmed that goods under contracts agreed before 14 March 2026 and imported between 1 July and 30 September 2026 are fully exempt from the 50% out-of-quota duty.

In addition to the immediate trade measure, the government announced the initiation of a process at the WTO under Article 28 of the General Agreement on Tariffs and Trade to raise the UK's bound Most Favoured Nation tariff ceiling for steel to 50%.[26] Under WTO rules, a country's "bound" tariff is the maximum rate it has committed not to exceed. The UK's current bound tariff on most steel products is zero, so applied Most Favoured Nation duties above that level require the bindings to be renegotiated. The UK notified WTO members on 19 March 2026 of its intention to raise the binding on steel products in HS headings 72.06 to 73.07 to 50% under Article XXVIII.[27] The Article 28 process allows the UK to renegotiate that ceiling upward through agreement with affected trading partners, providing the long-term legal foundation needed to maintain or increase the 50% applied rate on a permanent, WTO-consistent basis.

The government has also indicated it will explore requirements to identify where steel imports were melted and poured, to understand supply chains better and protect the industry from overcapacity.[28]

In the context of the broader international trade environment, UK steel exporters to the US market retain a competitive position because of the US-UK Economic Prosperity Deal agreed in May 2025. When the United States increased Section 232 tariffs on steel imports from 25% to 50% in June 2025, UK-origin steel was exempted from that increase

and remained subject to the 25% rate. That preferential treatment was retained under the April 2026 restructuring of the Section 232 framework, though with a tightened origin test. To qualify for the special UK rate, at least 95% of the steel must have been melted and poured in the UK, under the proclamation of 2 April 2026, effective 6 April 2026. UK derivative products under Annex I-B pay 15% rather than 25%.

Additionally, tariffs now apply to the full customs value of covered goods rather than only to the metal content, a change that increases the effective cost burden on non-qualifying imports but leaves UK-origin steel at the 25% rate. A further proclamation issued on 1 June 2026, effective 8 June, made additional adjustments to product coverage and rate eligibility, though the UK preferential rate remains in place. The US market represents a smaller share of UK steel exports than the EU, but the preferential rate constitutes a commercially relevant advantage in a market where the alternative tariff burden would otherwise be prohibitive for most product categories.

2. Understanding UK Steel trade dynamics

This chapter sets out how the UK Carbon Border Adjustment Mechanism (CBAM) is designed to work, assesses the principal weaknesses in that design relative to the EU framework, and examines the implications of ETS linkage for the sector's competitive position. Together, the three sections establish the carbon border dimension of UK steel trade competitiveness that sits alongside the tariff regime examined in Chapter 1.

Key Findings:

- Carbon Border Adjustment Mechanisms (CBAMs) are an important tool for ensuring that domestic industries are protected against cheaper imported products that may have higher carbon emissions. For steel, it is widely viewed as protection against, primarily Chinese, imports of cheap, high carbon steel, which in recent decades have flooded the EU and UK markets.
- The UK CBAM comes into force on 1 January 2027, applying a levy on the embodied carbon of imported iron and steel, aluminium, cement, fertiliser, and hydrogen. The most consequential design weakness is the UK CBAM's use of a single global average default emission value of 1.85 tCO_2 per tonne of steel. Chinese blast furnace steel carries actual emissions of approximately 3.5-4.0 tCO_2 per tonne, meaning the default charges it on fewer than half its actual emissions.
- ETS linkage is a central pending variable. If concluded, a UK–EU ETS link would trigger mutual CBAM exemptions, removing the EU CBAM charge on approximately £3 billion of annual UK steel exports to the EU and eliminating the trade diversion incentive created by the current default value gap.
- Until linkage is in force, UK steel exports to the EU face EU CBAM compliance obligations, with the UK government estimating total potential costs to UK exporters at approximately £800 million per year by 2030.
- ETS linkage could unlock a structural green steel advantage for UK producers. As the UK grid decarbonises, UK EAF steel will carry progressively lower embodied emissions than equivalent EU production. Under a linked ETS, this translates directly into a competitive advantage in EU green steel markets, without the compliance friction of the current separate CBAM regimes.

2.1 How current UK CBAM will work

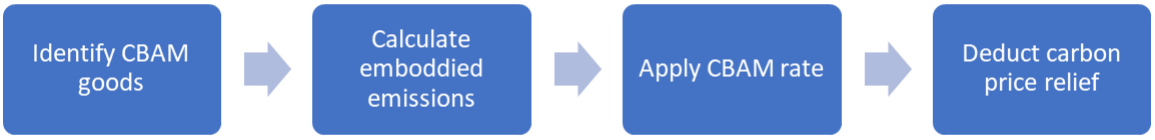
The UK Carbon Border Adjustment Mechanism (CBAM) is a levy applied to the carbon emissions embodied in certain categories of imported goods, designed to ensure that overseas producers face a comparable carbon cost to that paid by UK manufacturers operating under the UK Emissions Trading Scheme. The mechanism comes into force on 1 January 2027 and applies to imports from outside the UK across five sectors: iron and steel, aluminium, cement, fertiliser, and hydrogen.

The policy rationale is to address carbon leakage, where unequal carbon pricing globally could cause emissions-intensive production in countries with a carbon price to relocate to countries with none or weaker regulation, or demand for domestic goods is substituted for higher-carbon, cheaper, imports, resulting in no net global reduction in emissions while diminishing domestic industrial competitiveness. By applying a carbon

price at the UK border, the CBAM seeks to level the cost basis between domestically produced and imported goods on their respective carbon content.

Carbon pricing is a market-based mechanism for reducing greenhouse gas emissions; by placing a cost on carbon, it creates a financial incentive for producers to invest in lower-emission processes and technologies rather than externalising the environmental cost of production. UK industry has broadly supported the introduction of a CBAM, in principle, on these grounds, viewing it as essential protection against cheaper, higher-carbon imports, particularly from countries where producers face no equivalent carbon costs.

Figure 3: UK CBAM four-step liability calculation - process flow diagram



Source: HMRC CBAM secondary legislation consultation (February 2026); HMRC CBAM livestream (3 March 2026); HMRC CBAM policy summary (updated 2 November 2026).

2.1.1 Scope and registration.

The UK CBAM applies to goods originating outside the UK whose commodity codes fall within the in-scope sectors as defined in the Finance Act 2026 and associated secondary legislation. Not all importers of in-scope goods will be subject to the charge: the registration threshold is set at £50,000 of CBAM-liable imports, assessed under two tests. Under the forward-looking test, a person must register with HMRC if they expect CBAM goods worth £50,000 or more to pass the tax point in the next 30 days. Under the backward-looking test, they must register if, on the first day of a month, the value over the previous 12 months met or exceeded £50,000. Where both tests are met, liability starts from the earlier date. Imported scrap in the iron and steel (CN 7204) and aluminium sectors is explicitly excluded from scope.[29] The exclusion was made on the basis that recycled inputs carry a low carbon leakage risk and present practical difficulties in attributing embodied emissions.[30]

2.1.2 Calculating the liability.

The CBAM charge is calculated in four steps. The first is to determine whether the imported goods fall within scope using UK Tariff commodity codes. The second is to establish the embodied emissions in those goods. Importers may use independently verified actual emissions data provided by the overseas producer or, where such data is unavailable, a default value set by HM Treasury, with one value per CBAM good. The third step is to apply the CBAM rate to the embodied emissions figure. The rate is calculated by taking the mean UK ETS auction clearing price for the previous quarter and multiplying it by a free allocation adjustment, equal to one minus the product of the

sectoral share of direct emissions covered by free allowances and a reduction factor reflecting the phase-out of free allocation. This gives a single rate per sector, published by the government at the start of each quarter, which applies across all products within the sector rather than varying by product or production route.[31] The fourth step is to deduct any Carbon Price Relief.

2.1.3 Carbon Price Relief.

Where the imported good has already been subject to a qualifying overseas carbon pricing scheme, whether a carbon tax, an emissions trading scheme, or a scheme that prices emissions embodied in imported goods, the importer may claim Carbon Price Relief to reduce their CBAM liability by an amount equivalent to the carbon cost already paid in the country of origin. The purpose of this mechanism is to avoid double taxation of the same emissions. Relief is capped at the total CBAM liability, it cannot result in a net payment to the importer, and must be converted into sterling using HMRC's published exchange rate for the calendar quarter before import.[32] Importers seeking to claim Carbon Price Relief must obtain independent verification of the relevant carbon price data from an accredited verifier. The availability and scale of Carbon Price Relief is a material variable in how the UK CBAM affects imports from different countries, and its interaction with UK-EU ETS linkage is examined in Section 2.3.

2.1.4 The liability formula.

These steps can be expressed as:

CBAM Liability = (Embodied Emissions x CBAM Rate) - Carbon Price Relief

2.1.5 Accounting periods and payment.

The UK CBAM operates on a self-assessment basis. The first accounting period covers the full calendar year from 1 January 2027 to 31 December 2027, giving businesses and HMRC time to adjust to the new regime. The first return and payment are due by 31 May 2028. From 1 January 2028, accounting periods shift to a quarterly cycle, with quarterly return deadlines phased in during 2028 (31 July 2028, 29 September 2028, 30 November 2028 and 28 February 2029) and moving to the last working day of the second month after each quarter.[33] HMRC has the power to modify these periods during the transition to quarterly reporting.

2.2 Analysis on current UK CBAM design

The UK CBAM's policy objective, ensuring that imported goods face a comparable carbon cost to that paid by UK producers under the UK ETS, depends on the accuracy with which the mechanism captures the actual embodied emissions of the goods it charges. The design choices that determine this accuracy are central to whether the mechanism achieves its stated purpose. This section examines the five principal design

elements of the UK CBAM and assesses their implications for UK steel producers, drawing on the default values and rates published by HMRC and the European Commission, UK Steel's February 2026 industry analysis and the comparative EU CBAM framework.[34]

2.2.1 Default emission values: the central design divergence.

The most consequential design difference between the UK and EU CBAMs for steel lies in how each treats imports for which verified actual emissions data is not available. Both regimes allow importers to use government-published default values instead, but they differ in how those values are set and in how free allocation is deducted, and the differences matter most for high-emission imports.

HMRC published the UK default values on 16 October 2026 in a draft force of law notice.[35] They are set for each eight-digit commodity code, apply regardless of country of origin in 2027 and 2028, and include a 10% mark-up. They are derived from EU default value data, weighted to reflect the composition of UK imports and excluding EU-origin data, and the government intends to introduce country-specific default values from 2029.[36] For hot-rolled coil, the UK default values range from 2.649 to 3.778 tCO_2e per tonne depending on the product. HMRC's illustrative CBAM rate for iron and steel is £9.69 per tCO_2e, based on the average UK ETS price of £58.15 in the third quarter of 2026 and adjusted for the share of sector emissions covered by free allocation.[37] On these values, a tonne of hot-rolled coil imported on default values would face a UK CBAM charge of roughly £26 to £37, whatever its origin.[38] The illustrative rate is not binding, and the first binding rate is due to be published before the end of 2026.

The EU CBAM sets default values by country of origin as well as by product, and deducts free allocation using product benchmarks rather than a sector average. China's default value for hot-rolled flat products is 3.187 tCO_2e per tonne, to which a mark-up of 10% applies for 2026 imports, rising to 20% in 2027 and 30% from 2028.[39] The free allocation adjustment deducts 97.5% of the blast furnace route benchmark of 1.370 tCO_2e per tonne in 2026, so emissions above that level are charged in full even though only 2.5% of free allocation is withdrawn in that year.[40] At the third quarter 2026 certificate price of €82.32, a tonne of Chinese hot-rolled coil on default values therefore faces a net EU CBAM cost of around €179 for 2026 imports, about 62% of its gross cost. Under the parameters that apply to 2027 imports, the cost at the same price would be around €208.[41]

Industry analysis published before the default values were set assumed that the UK would apply a single global average of 1.85 tCO_2 per tonne to all steel.[42] The published values are higher and more granular than that assumption, but they do not distinguish between origins or production routes, and the UK rate deducts free allocation at the sector average. UK Steel estimates that a UK blast furnace producer would face UK ETS costs of around £61 per tonne of steel in 2027, on an assumed carbon price of £75 and a 2.5% reduction in free allocation.[43] That estimate is illustrative and uses a higher carbon price than HMRC's illustrative rate. Even with the UK CBAM rate scaled to the same £75 carbon price, however, the charge on hot-rolled coil would be around £33 to £47 per

tonne, indicating that a high-emission import on UK default values may face a lower carbon charge than domestic blast furnace production.

Table 1 sets out these figures. Because the two regimes use different carbon prices and currencies, each figure is shown on its own published basis rather than converted.

Table 1: Illustrative carbon border and carbon pricing charges on hot-rolled steel, per tonne

Charge	Basis	Per tonne
UK CBAM, hot-rolled coil on UK default values (any origin)	HMRC default values of 2.649 to 3.778 tCO_2e per tonne at the illustrative rate of £9.69 per tCO_2e (Q3 2026 UK ETS price of £58.15)	£26 to £37
UK CBAM, as above, rate scaled to a £75 carbon price	Illustrative rate scaled in proportion to £12.50 per tCO_2e	£33 to £47
EU CBAM, Chinese hot-rolled coil on default values, 2026 imports	Default of 3.187 tCO_2e per tonne with 10% mark-up, less 97.5% of the 1.370 benchmark, at €82.32 per tCO_2e	€179
EU CBAM, as above, 2027 parameters at the same price	20% mark-up, less 95% of the benchmark	€208
UK ETS, UK blast furnace producer, 2027 (UK Steel estimate)	Assumed carbon price of £75 per tCO_2 and 2.5% reduction in free allocation	£61

Source: HMRC (October 2026); Implementing Regulations (EU) 2025/2620, 2025/2621 and 2026/1740; European Commission; UK Steel (February 2026); CBI Economics calculations. Figures are illustrative and are not forecasts.

The difference between the two regimes creates a structural incentive for trade diversion, since high-emission steel facing a substantial charge at the EU border would face a markedly lower charge under the UK's origin-neutral default values. The scale of any diversion in practice will depend on trade flows, logistics costs and the relative attractiveness of the two markets.

2.2.2 CBAM rate granularity.

Beyond the default value, the UK CBAM applies a single rate per sector, calculated from the average free allocation across all products in that sector.[44] Under the EU CBAM, free allocation benchmarks vary by product and production route, although there is no country-specific rate. The consequence for steel is that a low-emission EAF product and a high-emission blast furnace product from the same origin would face the same CBAM rate per tonne of embodied emissions under the UK design, whereas the EU design differentiates the charge to reflect the different emission profiles of each production

route. UK Steel argues that a single sector-wide rate risks systematically undercharging higher-emission imports.[45]

2.2.3 Export protection.

The UK CBAM contains no mechanism to offset the carbon costs that UK steel exporters face when selling into non-EU markets. UK producers pay UK ETS costs on their production; when they export to markets without a linked carbon price, those ETS costs are not recovered at the border in the way that the CBAM recovers them at the import point. In December 2025 the European Commission proposed a Temporary Decarbonisation Fund as a partial and time-limited measure addressing this export leakage dynamic, though its coverage is narrow. It would cover production in 2026 and 2027, funded from 25% of CBAM revenues in 2028 and 2029. No equivalent mechanism exists in the current UK design, meaning UK producers face ETS costs on their exported production without any offsetting border relief. The UK Steel Strategy states that the government will continue to assess options to mitigate export leakage, including the EU's approach.[46]

2.2.4 Product scope.

The EU CBAM covers six sectors, including electricity, and the UK CBAM five (aluminium, cement, fertiliser, hydrogen, and iron and steel). Both regimes already cover some Chapter 73 articles, including structures (CN 7308), fasteners (CN 7318) and other articles of iron or steel (CN 7326). The European Commission proposed in December 2025 to extend the EU CBAM to around 180 further downstream products from 2028, including fabricated steel goods such as machinery components. The UK CBAM has no announced equivalent expansion. The significance of this for steel is that high-emission primary steel that might face CBAM charges at the UK border could still enter the UK indirectly as a component of fabricated downstream goods outside current scope, against which no carbon border charge applies. UK Steel argues that the narrow product scope creates a risk of circumvention through imports of fabricated goods containing high-emission steel.[47]

2.2.5 Policy review.

UK Steel's February 2026 briefing notes that the EU CBAM is subject to a two-yearly reporting requirement,[48] providing a structured mechanism for updating the design in response to evidence about its effectiveness and market impacts. The UK CBAM has no equivalent mandatory review period, although the UK Steel Strategy commits the government to keep all areas of CBAM design under review, without making this a statutory requirement.[49] UK Steel argues that, without a statutory obligation to review, design weaknesses may not be addressed in a timely manner.[50]

2.2.6 ETS cost escalation.

The design asymmetries above do not operate in a static environment. UK ETS costs for blast furnace operators are projected by UK Steel to escalate from approximately £64

million per year in 2025 to approximately £475 million per year by 2035, as free ETS allocations are progressively phased out over the nine-year period from 2027, which the UK Steel Strategy describes as an indicative trajectory.[51] As domestic carbon costs rise and import charges remain based on origin-neutral default values and a sector-average rate, the competitive asymmetry identified above may persist or widen, depending on how UK default values and mark-ups are set from 2029, since the UK CBAM rate will also rise as free allocation is phased out. It is important to note that these ETS cost projections are estimates produced by UK Steel based on assumed ETS price trajectories and free allocation reduction schedules; actual costs will depend on ETS price developments and policy decisions that cannot be known in advance.

2.3 The importance of ETS linkage

ETS linkage is currently one of the most consequential pending policy variables for UK steel's trade and carbon competitiveness. Its importance derives less from linkage as a standalone measure than from its effect on the most significant competitive exposure created by the interaction between the UK and EU carbon pricing regimes, namely the EU CBAM charge on UK steel exports to the EU, which account for around two thirds of UK steel exports by value. Linkage would remove that charge, alongside the UK CBAM charge on imports from the EU, but it would not by itself provide export protection for UK sales to non-EU markets or change the default values the UK CBAM applies to imports from third countries. Those exposures depend on the design of the UK CBAM, as discussed in Sections 2.2.1 and 2.2.3.

2.3.1 What ETS linkage means in practice.

ETS linkage would make UK Allowances (UKAs) fungible with EU Allowances (EUAs), meaning that a tonne of CO_2 covered by the UK ETS would be recognised as equivalent to a tonne covered by the EU ETS for compliance purposes in either system. The direct consequence for CBAM, confirmed in the Common Understanding reached at the UK-EU Leaders' Summit of 19 May 2025, is that mutual CBAM exemptions would apply once the linkage agreement is in force. The EU CBAM regulation would not apply to goods originating in the UK, and the UK would not apply its own CBAM to goods originating in the EU. The rationale is that where two jurisdictions operate a linked carbon price, the carbon cost on production is already equalised across the shared market and a border adjustment charge would constitute double counting.

2.3.2 The alignment scenario.

If ETS linkage is achieved, the competitive implications for UK steel are positive across several dimensions. UK steel exports to the EU, which account for approximately 67% of all UK steel exports by value and represent a market worth approximately £3 billion annually, would be exempt from EU CBAM charges and reporting requirements.[52] This removes the carbon border cost that currently applies to UK exports to the EU, where UK producers already pay the UK ETS price on their production and would otherwise face an

additional EU CBAM charge on top of that domestic carbon cost upon entry to the EU market.

Carbon price convergence between the two systems would reduce the volatility risk faced by UK producers, whose cost base is exposed to UK ETS prices while their largest customer market is governed by EU ETS dynamics. Linkage would remove CBAM charges between the UK and EU, but it would not by itself align UK and EU treatment of third-country imports, so the incentive for diversion created by the gap between the two regimes' default values would remain.

Grid decarbonisation would not translate into lower CBAM charges for UK EAF producers, with or without linkage, because both the EU CBAM for iron and steel and the UK CBAM price only direct emissions.[53] Any commercial advantage for UK EAF steel from a cleaner grid would instead arise through customers' green steel procurement and supply chain emissions targets.

2.3.3 The divergence scenario.

If ETS linkage fails to be concluded, or is significantly delayed beyond the UK CBAM's 1 January 2027 launch date, the competitive pressures on UK steel intensify across multiple dimensions simultaneously.

UK steel exports to the EU continue to face EU CBAM compliance obligations. While the direct carbon cost of exporting low-emission EAF steel to the EU may be modest, UK Steel notes that at EU ETS prices the direct per-tonne cost for products such as hot-rolled wire is approximately €13 per tonne, the impact is disproportionate in a market where price differences of €5 per tonne can determine whether a contract is won or lost.[54] The administrative and compliance burden, which falls particularly heavily on smaller producers, adds a further layer of friction to what is already a trade-intensive bilateral relationship. The UK government has estimated that the EU CBAM could cost UK industry around £800 million a year in the absence of an exemption.[55]

The UK domestic market simultaneously becomes more exposed to trade diversion. Without ETS linkage, the UK and EU operate divergent carbon pricing frameworks. High-emission steel that faces a significant EU CBAM charge, such as Chinese blast furnace steel at the EU's country-specific default, faces a substantially lower charge under UK default values that do not vary by origin. The risk of that steel being redirected toward the UK market is therefore greatest in a divergence scenario, since the incentive created by the design gap between the two CBAMs operates without any countervailing unified framework.

Supply chain relocation risk also increases in the divergence scenario. UK manufacturers sourcing domestically produced steel face higher carbon costs through the UK ETS than competitors in countries without equivalent carbon pricing. Without downstream CBAM protection those manufacturers face no equivalent carbon cost on imported fabricated steel goods, creating an incentive to source from lower-carbon-cost jurisdictions.

2.3.4 Where negotiations stand.

The UK-EU Leaders' Summit of 19 May 2025 produced a Common Understanding committing both parties to work towards linking their ETS systems, with the stated objective that such linkage would trigger mutual CBAM exemptions. On 16 July 2025, the European Commission recommended opening formal negotiations, and on 13 November 2025 the EU Council unanimously authorised the Commission to do so. On 17 December 2025 the two sides stated an aim to conclude negotiations by the next summit, and formal negotiations began in the week of 19 January 2026.

A summit announced on 16 June 2026 for 22 July 2026 was postponed after the Prime Minister announced his resignation on 22 June. On 7 October 2026 POLITICO reported that negotiators had reached agreement on the ETS file, as part of a package with the sanitary and phytosanitary (SPS) and youth experience agreements.[56] On 12 October 2026 the Prime Minister told the House of Commons that the summit will be held in Brussels on 20 November 2026.[57] As of 5 November 2026 no agreement has been published, and the UK CBAM policy summary confirms that no jurisdiction is currently exempt.[58] A political agreement would not by itself remove either border charge, since each side's exemption depends on a linking agreement being in place.[59] Commentary from legal and carbon market analysts notes that the only precedent for a non-EEA country linking its ETS with the EU ETS is Switzerland, where the process took several years to complete.[60] Switzerland signed its linking agreement in November 2017 and it entered into force on 1 January 2020.

In the interim, the EU has confirmed that no pre-linkage CBAM exemption will be granted to the UK. EU Climate Commissioner Wopke Hoekstra stated on 17 December 2025: "We're not exempting anyone, but the moment we will be fully linking those two, it is likely that there will be an exemption at that point in time."[61] The EU CBAM definitive period began on 1 January 2026, with obligations on UK steel exports falling on EU importers. Certificate sales open on 1 February 2027, and the first declaration and certificate surrender for 2026 imports is due by 30 September 2027.

The two scenarios described in this section represent different but not symmetrical futures for the UK steel sector. The alignment scenario would resolve the largest single exposure, the EU CBAM charge on UK exports to the EU, while the divergence scenario would compound the exposures described above. Negotiations have progressed, but the timing and outcome remain uncertain. For a sector in the middle of a technology transition, with investment decisions and supply chain relationships depending on the regulatory environment that will exist in 2028 and beyond, that uncertainty is itself a material consideration.

Conclusion

The UK's steel trade position is defined by a structural imbalance that has deepened over a decade. A deficit widening to £2.6 billion, concentrated overwhelmingly in a single trading partner, leaves the sector acutely exposed to the bilateral regulatory relationship with the EU. The new trade measure in force from 1 July 2026 responds to the most immediate dimension of that exposure, replacing the expired safeguard with tariff-free quotas 51% lower than under the safeguard and a doubled tariff. It is a significant step, but it operates in isolation from the carbon border framework that will increasingly determine the true cost comparison between domestically produced and imported steel from 2027 onwards.

The scrap position sharpens that picture. The UK exports approximately 8 million tonnes of ferrous scrap annually, material that enters overseas steelmaking and returns, in part, as finished imports competing in the same market. The regulatory and infrastructure conditions that determine whether more of that scrap is retained and processed domestically are also a significant determinant of UK steel trade.

The CBAM analysis is where the trade and carbon threads converge most directly. On published values, a tonne of hot-rolled coil imported on default values would face a UK CBAM charge of roughly £26 to £37, compared with a net EU CBAM cost of around €179 for Chinese hot-rolled coil and UK Steel's estimate of around £61 per tonne in UK ETS costs for a domestic blast furnace producer. The UK's origin-neutral defaults and sector-average rate leave its border more permeable to carbon-intensive imports than the EU's, at least until country-specific default values are introduced from 2029. Both charges will rise as free allocation is phased out, so the future gap will depend on how UK default values and mark-ups are set from 2029 relative to the EU's mark-ups, which reach 30% from 2028.

ETS linkage is the mechanism through which the EU CBAM charge on UK steel exports could be removed, although it would not by itself change UK default values for third-country imports. Negotiators were reported in October 2026 to have reached agreement on the ETS file, but no agreement has been published, and the next UK-EU Summit is scheduled to be held in Brussels on 20 November 2026. Until that agreement is in force, each of the trade exposures documented in this report operates without its most direct available remedy.