



Department for  
Energy Security  
& Net Zero



HM Treasury

**Rt Hon Graham Stuart MP**  
Minister of State at the Department for  
Energy Security & Net Zero

**Department for Energy Security & Net  
Zero**  
1 Victoria Street  
London  
SW1H 0ET

**James Cartlidge MP**  
Exchequer Secretary to His Majesty's  
Treasury

**HM Treasury**  
1 Horse Guards Road, London, SW1A 2HQ

BEIS Select Committee

[www.gov.uk](http://www.gov.uk)

30 March 2023

Dear Darren,

### **Consultation: Addressing Carbon Leakage Risk to Support Decarbonisation**

The government is fully committed to delivering net zero by 2050 and has reiterated this ambition, alongside the importance of reducing our emissions to support growth, at the recent Spring Budget and in the Net Zero Growth Plan. To do that, we are moving ahead with an ambitious plan for the UK to meet its net zero commitments.

The UK government committed on 2 December 2022 to consult on potential carbon leakage policy measures in Spring 2023<sup>1</sup>, following a previous Written Ministerial Statement<sup>2</sup>. We are now writing to inform the BEIS Select Committee that HM Treasury and the Department for Energy Security and Net Zero has published this consultation today.

Decarbonising UK industry is a core part of the government's ambitious plan to achieve net zero and goes hand in hand with working collaboratively with global partners to tackle climate change and to ensure that UK efforts are not undermined by carbon leakage - the movement of production and associated emissions from one country to another due to different levels of decarbonisation effort through carbon pricing and climate regulation.

For UK industry, this means a net zero consistent cap for the UK Emissions Trading Scheme (UK ETS), supported by robust carbon leakage policy measures. The UK ETS Authority has consulted on upcoming changes to ensure the UK ETS cap is consistent with net zero by January 2024. In response to the UK ETS Authority's consultation on developing the UK ETS, there have been strong calls from industry to explore new proposals for mitigating the risk of carbon leakage, including calls that action to tackle carbon leakage should be closely aligned with future changes to the ETS. Consulting on potential carbon leakage mitigations now will

---

<sup>1</sup> Taxation: Carbon Emissions, Question for HM Treasury 2 December 2022, UIN 95815: <https://questions-statements.parliament.uk/written-questions/detail/2022-11-24/95815>

<sup>2</sup> Update on carbon leakage mitigations, statement made on 16 May 2022, UIN HCWS26: <https://questions-statements.parliament.uk/written-statements/detail/2022-05-16/hcws26>

inform the government's decision on the best approach to ensure carbon leakage risks are mitigated at all stages of the UK's net zero transition.

The government is committed to working with partners to find international solutions to carbon leakage, recognising that this risk could be eliminated if all countries were to move together in reducing carbon emissions globally through carbon pricing and regulation. However, it will take time to build consensus, so the UK needs to consider domestic measures in parallel.

The consultation covers a range of potential policy measures to mitigate future carbon leakage risk. These include a carbon border adjustment mechanism, mandatory product standards, and additional policies to grow the market for low carbon products, as well as embodied emissions reporting that could underpin future carbon leakage policy measures.

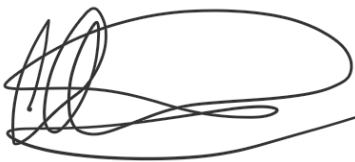
The consultation will be open for 12 weeks and seeks views and evidence from a wide range of stakeholders. Following this consultation, further policy development would be needed before new carbon leakage measures, if any, could be implemented.

The government is clear that any policy or suite of policies would need to be consistent with a range of domestic and international priorities for the UK. This includes our commitment to free and open trade, respecting international climate change commitments and taking into consideration countries' differing levels of development, as well as minimising burdens on businesses (both in the UK and abroad) and enabling consumer choice. Indeed, we are clear that the successful decarbonisation of UK industry, taking advantage of cutting edge new technologies, presents a huge investment opportunity for British industry and should ultimately drive greater long-term competitiveness.

Publishing this consultation also aligns with recommendations made in the Environmental Audit Committee's Report on a UK carbon border approach (April 2022), Chris Skidmore MP's Net Zero Review (September 2022), and the UK Climate Change Committee's Progress Report (October 2022) for government to consult on domestic carbon leakage mitigations.

We would welcome engagement with the Committee on this important element of the UK's transition to net zero and efforts to drive decarbonisation.

Yours ever,



**Rt Hon Graham Stuart MP**  
Minister of State at the Department for Energy Security & Net  
Zero



**James Cartlidge MP**  
Exchequer Secretary to His Majesty's Treasury