



Department for  
Energy Security  
& Net Zero

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Minister for Energy

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Bill Esterson MP  
Chair, Energy Security and Net Zero Committee  
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11 February 2025

Dear Bill,

Thank you for your letter of Friday 13 December about your visit to the Stanlow oil refinery and the accompanying briefing paper *Policies disadvantaging refineries* from Fuels Industry UK.

Our oil refineries play a valuable role in the UK economy, contributing to our energy security, the economy, and jobs. I was pleased to speak to Fuels Industry UK within the first few weeks of my role, and look forward to working with them to ensure that the sector is aligned with measures we are taking to accelerate the green transition.

Carbon Border Adjustment Mechanism (CBAM)

Making Britain a clean energy superpower is one of the five defining missions of this Government. As part of this mission, the Government is taking action to mitigate the risk of 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. Carbon leakage has the potential to hinder global efforts towards green growth and decarbonising industry. As part of these efforts, the UK is bringing forward a UK Carbon Border Adjustment Mechanism (CBAM) from 1 January 2027 to specific imported goods from the aluminium, cement, fertiliser, hydrogen and iron & steel sectors. It will ensure highly traded, carbon intensive products from overseas face a comparable carbon price to that paid if the goods were produced in the UK. The design and implementation of the UK's CBAM is led by His Majesty's Treasury (HMT) and HM Revenue & Customs (HMRC).

In making the decision on sectoral scope for the UK CBAM at the point of implementation in 2027, the Government considered which sectors were included in scope of the UK Emissions Trading Scheme, their risk of carbon leakage, and the feasibility and effectiveness of applying a CBAM. For refineries, the final criteria exposed concern about whether importers of refined fuel would be able to ascertain the carbon content of imported goods at a product level. On that basis, the government chose not to extend the scope of the UK CBAM to the sector at the point of implementation.

The scope of the CBAM will be kept under review, however, given assessment of the factors mentioned above is likely to change over time, for example if carbon leakage risk increases and/or if feasibility constraints are overcome by technological and methodological developments. HMRC and HMT will continue to engage with key stakeholders representing those sectors and industries most impacted.

### Free Allocations

The UK Emissions Trading Scheme (ETS) Authority gives free allocations to sectors at risk of carbon leakage, including the refineries sector, to reduce their exposure to the carbon price. The Government are currently conducting a review into free allocation rules to ensure that these can be better targeted at sectors most at risk of carbon leakage, whilst also ensuring the UK ETS continues to provide a strong incentive for businesses to invest in decarbonisation. My officials are engaging with Fuels Industry UK to ensure that their views are considered.

### Energy Intensive Industries (EII) Compensation Scheme

Officials in the Energy Intensive Industries (EII) team in the Department for Business and Trade engage regularly with all EII stakeholders to understand their concerns and support sectors. The team recently met with Fuels Industry UK at their offices and had a wide-ranging discussion, which covered the planned timeline for the review of eligibility for the compensation scheme.

The EII Compensation Scheme was last reviewed in 2020, and changes were made to eligibility following that review. The Government plan to review eligibility for the scheme in 2025/26 when robust data is next available and DBT will work closely with stakeholders throughout this process.

### Next steps

My officials will continue to work closely with officials in HMT and HMRC as they finalise the design of and implement the UK CBAM by 2027 and will continue to work closely with all affected sectors to ensure that the Government is taking the steps necessary to mitigate the risks and impacts of carbon leakage.

The Government also recognise the importance of the UK's oil refineries more broadly, and that is why DESNZ have created a small "Future of Fuel" team, to better support the sector to adapt to achieve our net zero ambition by 2050. The team is already working closely with Fuels Industry UK to embed a joined-up approach across government.

Yours ever,

A handwritten signature in black ink, appearing to read "Michael Shanks", with a horizontal line underneath the name.

**MICHAEL SHANKS MP**

## **Minister for Energy**