

The background of the cover features a close-up of several hands reaching upwards, palms facing up, in a gesture of unity or support. The hands are of different skin tones. In the upper left, a person wearing a yellow hard hat and safety glasses is partially visible, looking towards the right. The overall lighting is bright and natural, suggesting an outdoor setting.

The UK Carbon Border Adjustment Mechanism

Implications and Strategies
for Commonwealth Countries



The Commonwealth

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Acronyms and Abbreviations

BCA	border carbon adjustment
CBAM	Carbon Border Adjustment Mechanism
CBDR-RC	Common but Differentiated Responsibilities and Respective Capabilities
CMC	Commonwealth member countries
COP	Conference of the Parties (UNFCCC)
ETS	emissions trading system / scheme
EU	European Union
GATT	General Agreement on Tariffs and Trade
GCPP	Global Climate Policy Project (Harvard-MIT 2025)
GDP	gross domestic product
GHG	greenhouse gas
HMRC	His Majesty's Revenue and Customs
HS Code	Harmonised System Code
IEA	International Energy Agency
IMF	International Monetary Fund
LDC	least developed country
LMIC	lower middle-income country
MFN	most favoured nation
MIT	Massachusetts Institute of Technology
MRV	monitoring, reporting and verification
mtCO ₂ e	metric tonnes of CO ₂ equivalent
mtCO ₂ e/t	metric tonnes of CO ₂ equivalent per tonne
NDC	Nationally Determined Contribution(s)
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
SIDS	small island developing states
T&T	Trinidad and Tobago
UK	United Kingdom

UK ETS	United Kingdom Emissions Trading Scheme
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
VCM	voluntary carbon market
WITS	World Integrated Trade Solution
WTO	World Trade Organization

Executive Summary

Global temperatures are projected to exceed 1.5°C above pre-industrial levels within the next decade. The industrial sector, encompassing steel, cement, chemicals and aluminium, accounts for 25–30 per cent of total global carbon emissions, making its decarbonisation critical. In response, developed economies have adopted carbon pricing instruments, including Carbon Border Adjustment Mechanisms (CBAMs), to prevent carbon leakage and align domestic and import costs.

The United Kingdom's (UK's) CBAM, effective from 1 January 2027, imposes a carbon tax, administered by His Majesty's Revenue and Customs (HMRC), on imports of aluminium, cement, fertiliser, hydrogen, and iron and steel. Unlike the European Union's (EU's) certificate-trading approach, the UK CBAM calculates liability by multiplying embodied emissions by the effective UK carbon price, with deductions for overseas carbon pricing already paid.

This paper finds that, while the UK CBAM has a defensible rationale in preventing carbon leakage, its effectiveness is constrained by design limitations including widespread use of default emission values, vulnerability to 'resource reshuffling', and weak alignment with principles of international equity enshrined in the UN Framework Convention on Climate Change (UNFCCC) and Paris Agreement.

Commonwealth countries export approximately US\$945.67 million of CBAM-covered goods to the UK annually. The fiscal burden falls disproportionately on developing country exporters (86.5 per cent of total Commonwealth

CBAM exports), with iron and steel (43.5 per cent), aluminium (26.8 per cent), and ceramics (14.8 per cent) as the dominant categories.

Two focused case studies illustrate the range of vulnerabilities. Sierra Leone, a least developed country (LDC) with a fragile mining sector, faces a potential cost escalation of 25–40 per cent on iron ore exports. Trinidad and Tobago, a high-income small island developing state (SIDS) dependent on its hydrocarbon-based petrochemical sector, faces 20–30 per cent cost increases on ammonia and fertiliser exports.

The 30th Conference of the Parties (COP30), which took place in Belém, Brazil, in 2025, brought unilateral trade measures formally onto the UNFCCC agenda. New modelling by Harvard and the Massachusetts Institute of Technology (MIT) demonstrates that internationally co-ordinated, income-differentiated carbon price floors yield emission reductions up to seven times greater than CBAMs alone, at lower economic cost and with greater equity.

This paper recommends that the UK: (i) consider LDC exemptions using the World Trade Organization (WTO) Enabling Clause; (ii) allocate a defined portion of CBAM revenues to climate finance for developing countries; (iii) recognise non-pricing mitigation measures in CBAM calculations; (iv) institutionalise technology transfer; and (v) explore income-differentiated carbon price floors as a superior long-term approach.

1. Introduction

'Nations have had three attempts to hit the mark with their Paris Agreement pledges, and each time they have landed off target ... the multi-decadal average of global temperature will now exceed 1.5°C, very likely within the next decade.' – UN Environment Programme (UNEP) Executive Director, *Emissions Gap Report 2025*.

The International Energy Agency (IEA) estimates that the industrial sector, comprising steel, cement and chemicals, accounts for around 25–30 per cent of total global carbon emissions and 60–70 per cent of total industrial sector direct emissions. Developed countries have responded with carbon pricing mechanisms, of which Carbon Border Adjustment Mechanisms (CBAMs) have emerged as a prominent tool for aligning the carbon costs of domestic production with those embedded in imported goods.

The UK CBAM, operational from 1 January 2027, imposes a carbon tax administered by

His Majesty's Revenue and Customs (HMRC) on selected carbon-intensive sectors: aluminium, cement, fertiliser, hydrogen, and iron and steel. The mechanism is designed to mirror the UK Emissions Trading Scheme (UK ETS), ensuring parity between domestic producers and importers.

This paper examines the UK CBAM through five analytical lenses, as follows:

1. Design and implementation architecture.
2. Effectiveness in preventing carbon leakage.
3. Compatibility with WTO law.
4. Alignment with UNFCCC just transition principles.
5. Fiscal impact on the 56 Commonwealth countries, with detailed case studies of Sierra Leone and Trinidad and Tobago.

2. Emergence of the UK Carbon Border Adjustment Mechanism

The United Kingdom (UK) CBAM was announced primarily in response to the European Union's (EU's) adoption of its own Carbon Border Adjustment Mechanism (CBAM), which risked penalising UK exports to the EU, still the UK's principal trading partner for carbon-intensive goods. Initial assessments suggested UK steel producers alone could face approximately 1 billion euros per year in carbon-related charges under the EU CBAM unless an equivalent mechanism were established domestically ([Burke et al. 2021](#)).

World Bank data indicate that only 29 per cent of global emissions are subject to any direct carbon price, and most jurisdictions price carbon well below

UK Emissions Trading Scheme (ETS) levels. This disparity perpetuates the risk of carbon leakage, where domestic producers relocate production to low-regulation jurisdictions, shifting emissions, jobs and investment overseas.

Prior to CBAM, the UK had relied on free allocation of emission permits to shield domestic industries from competitive pressures. While this reduced immediate leakage risks, it weakened the carbon-price signal and inhibited decarbonisation incentives in the most emissions-intensive sectors. The UK CBAM is designed to replace this system with a more robust, incentive-compatible framework.

3. UK Carbon Border Adjustment Mechanism Design and Implementation

3.1 Scope and tax liability

Announced in December 2023, the UK CBAM will impose a charge on emissions embodied in specified imported goods, effective from 1 January 2027 (HM Treasury and DESNZ, 2024). It covers aluminium, cement, fertiliser, hydrogen, and iron and steel. Tax liability arises when goods are released for free circulation in the UK. The liable person is responsible for goods when they are released for free circulation, which means it could be the importer of the goods or a person on whose behalf the goods enter the UK supply chain. CBAM obligations apply when the value of relevant imports exceeds £50,000 per annum. A liable person (an authorised tax agent) is required to submit a CBAM return and pay the corresponding tax at the end of each accounting period, with the first period starting on 1 January 2027 (HMRC 2025).

Tax liability is calculated by multiplying embodied emissions of each imported good by the effective UK carbon price and then deducting any overseas direct or indirect carbon price (any other carbon tax, ETS or CBAM) already paid on those emissions (converted using the applicable exchange rate). Exporters will have two options for determining embodied emissions: either using the default value published by the UK Government or submitting actual emissions data for verification. Default values will be set for each CBAM product, providing a simplified route for traders who cannot access installation-level data. Starting in 2027, the default value will be set for each product; however, post 2027, the UK Government intends to consider alternate approaches to default values. Reported emissions data, whether default or actual, will be subject to verification by independent bodies accredited through the International Accreditation Forum, ensuring consistency and integrity across reporting systems.

The UK CBAM will apply only to direct emissions (arising from the production process), while the

application of indirect emissions (associated with electricity used in production) has been postponed until at least 2029. It will also include emissions embodied in relevant precursor goods, which are CBAM in-scope materials used as inputs in the manufacture of more complex products.

CBAM rates will be comparable to the carbon price faced by UK domestic producers adjusted for exemptions, compensations or support measures available under the prevailing UK ETS carbon price, and for free allowances used during production. Importers will be able to reduce their CBAM liability by demonstrating that an explicit carbon price (whether through an ETS or carbon tax or any CBAM) has already been paid on the embodied emissions of the goods. Such deductions will be granted only upon submission of valid, verifiable evidence by the importer.

3.2 Implementation challenges

Implementation of CBAM presents several administrative challenges, particularly in accurately ascertaining the embodied emissions in imported goods. The CBAM mechanism requires UK importers to report the emission profile of their imported products, either by submitting verified actual emissions data or by relying on government-issued default values for calculating tax liability. Importers opting for actual emissions reporting will incur additional audit and verification costs, as the data must be validated by an independent verification body employed by the importer.

Importers must also declare the accurate weight of all CBAM-covered goods, which may require either reliance on supplier-provided information or independent measurement. This creates the scope for reporting discrepancies due to information asymmetry between UK HM Revenue and Customs's guidelines and the suppliers, especially where suppliers operate under different data standards or lack familiarity with UK HMRC guidance.

A further challenge arises from the limited monitoring, reporting and verification (MRV) infrastructure in many exporting jurisdictions. In countries without robust emissions-monitoring systems, data gaps and inconsistencies are likely, increasing the risk of disputes between importers, suppliers and HMRC over the accuracy and acceptability of reported emissions. These administrative frictions could become a major bottleneck in the early years of CBAM implementation.

The UK Chartered Accountant Association has also reported challenges in obtaining information from suppliers for calculating existing 'plastic packaging tax', primarily due to complex supply chains (Chartered Institute of Taxation 2024). Similar challenges are expected with the implementation of CBAM. To ensure that international producers receive similar treatment to domestic producers under the UK ETS, it is proposed that emissions verification be conducted through site inspections by third-party accredited bodies registered with UK Accreditation Services. Recognising and approving authentic verifiers by the UK Government will be a significant challenge, while elaborate specifications must be issued to ensure that laboratory analyses conducted abroad are equivalent to those followed in the UK.

Issues reported during the implementation of the EU CBAM, which are likely to arise in the UK as

well, include a lack of awareness and uncertainty among many importers regarding reporting requirements, resulting in many not submitting reports. Notably, only 10 per cent of importers in Germany reported emissions during the initial phase. The compliance burden on importers has also made them less competitive. Initial technical glitches resulted in much lower registration rates, and slow communication between importers and suppliers and caused significant delays in reporting (PwC 2024). A continuous stakeholder dialogue process by the UK is necessary to remove such initial challenges.

A CBAM-driven price escalation in the UK is likely, mainly due to disruptions on the supply side. Given the inelastic demand for many CBAM-covered products such as iron and steel, and fertilisers, consumers are expected to bear the primary burden of this tax liability through increased product prices. The CBAM will raise the cumulative tax burden associated with the production of these goods in exporting countries, with pass-through costs ultimately borne by consumers. Furthermore, the mechanism may increase downstream production costs for industries that use these goods as raw materials, such as car manufacturing, heavy machinery and packaging. Meanwhile, the loss of free allowances for domestic producers under the UK ETS could further contribute to rising commodity prices.

4. Effectiveness in Checking Carbon Leakage

4.1 Loopholes for leakage

A major hurdle in effectively addressing carbon leakage has been identified as 'resource reshuffling'. By keeping existing trade flows constant, companies strategically direct lower-emission products toward regulated markets, thereby reducing their border adjustment liabilities without achieving an actual reduction in overall emissions (Mehling and Ritz 2020). For example, in California, USA, which imposed a border carbon adjustment for electricity imports from other US states, resource reshuffling emerged as a major concern. Californian utilities that previously imported coal-fired power responded to the border carbon price by switching to gas-fired power for California and redirecting the coal-fired power to other states. A similar scenario is likely to happen with CBAM, as exporters may be incentivised to divert their carbon-intensive goods to non-CBAM destinations, thereby continuing carbon leakage (Mehling et al., 2020).

CBAM is intended to prevent carbon leakage, which is often attributed to the relocation of industries. However, establishing a direct causal relationship between carbon pricing and carbon leakage oversimplifies the complex realities of global supply chains and trade patterns. In practice, business relocation decisions are primarily influenced by such factors as relocation cost, opportunity cost of leaving the home country and considerations related to market share (Dev and Goswani 2024). Moreover, a CBAM based on default value runs counter to the economic logic of carbon pricing. Carbon pricing is intended to provide incentives to allocate marginal cost of abatement among producers efficiently, thereby reducing the overall cost of emission abatement. The crucial point is that polluters should pay for their 'actual' emission rather than a default value based on average intensity, which can actually increase abatement costs.

In practice, carbon intensity varies considerably within industrial segments and across source countries. For instance, Ferronickel, a CBAM-covered good, has a carbon intensity of 4.49

tonnes of CO₂ equivalent (mtCO₂e/t) in Brazil compared to 9.76 mtCO₂e/t in Serbia. Given this situation, the default value (for EU CBAM – 6.26 mtCO₂e/t), which represents the average across different countries, tends to favour exporters from high carbon-intensive jurisdictions, as they are more likely to resort to default values rather than reporting actual emissions (European Commission, JRC Publication Repository 2023). Analyses have revealed that this underestimated emission could exceed 1 million mtCO₂e/t for the iron and steel sector in the UK (CITP 2024). These statistics underscore the importance of reporting actual emissions and highlight the shortcomings of default values, emphasising the need for a market-based flexibility within CBAM to achieve cost-effective decarbonisation.

4.2 Monitoring, reporting and verification

The existing variations in carbon intensity metrics across different jurisdictions present a major challenge in addressing carbon leakage. Granular metrics related to products and production processes are a crucial requirement for any effective CBAM.

Differences in carbon intensity metrics, specifically the measurement of emissions per unit of production, make it difficult to ensure comparability across nations and facilities due to differing methodologies and reporting systems. Since most developing countries lack a standardised MRV regime, it becomes challenging to ensure internationally acceptable reporting. The absence of robust MRV systems in many reporting jurisdictions risks a series of issues, resulting in insufficient and faulty reporting, thereby jeopardising the policy intent of preventing carbon leakage.

An interoperable system that allows emission data collected from one system to be functionally transformed for use in another system could address these differences. This can be achieved by maximising disaggregation of emission data,

expanding coverage and establishing mutual recognition of emission measurement methods, reporting and verification frameworks.

Recognising the significant implications of MRV disparities across countries, the Organisation for Economic Co-operation and Development (OECD)

has recently released a report on the interoperability of different MRV systems in terms of their coverage, emission estimation approaches, data availability and reporting frameworks, which may serve as a guide for addressing impending disputes (OECD 2025).

Box 4.1 WTO law and the UK CBAM

Most favoured nation (MFN; GATT Art. I). The UK CBAM applies a uniform calculation method to all imports. Art. I:1 of the General Agreement on Tariffs and Trade (GATT) mandates that member countries must not discriminate between 'like' products from different trading partners. The UK CBAM asserts compliance by applying a uniform method for determining carbon content and imposing the same carbon price on all imports (Dillon et al. 2024). However, the World Trade Organization (WTO) definition of 'likeness' between carbon-intensive and low-carbon goods remains contested.

National treatment (GATT Art. III). Art. III requires equal treatment for domestic and foreign 'like' products. The UK CBAM aims to ensure compliance by applying the same carbon price to both domestic and foreign producers and allowing deductions for free allowances under the UK ETS. However, the use of default values rather than actual emissions creates an asymmetry that may breach National Treatment obligations, as domestic producers are charged on their verified actual emissions under the UK ETS.

Environmental exceptions (GATT Art. XX). The GATT provides exceptions for protection of the environment and public health. Art. XX allows measures necessary to 'protect human, animal or plant life or health' or 'related to the conservation of exhaustible natural resources'. The UK intends to rely on this exception. However, the Chapeau (Introductory clause to Article XX) prohibits arbitrary or unjustifiable discrimination, and the UK must demonstrate genuine co-operative efforts.

Classification of energy costs as inputs.

GATT Article II:2 permits border adjustments only for charges imposed on products or inputs physically incorporated into them. Whether energy consumed in production qualifies as an input for border adjustment remains debatable.

Processes and production methods (PPMs).

CBAM is generally understood as a PPM-based trade measure. Traditionally, WTO jurisprudence did not permit distinctions between products solely based on their production process. However, the Appellate Body's reasoning in the US Shrimp/Turtle case signalled a more flexible approach (WTO 2023).

Tariff binding. WTO members have bound themselves to maximum tariff levels. If CBAM were characterised as a customs duty, the resulting charge could exceed bound tariff rates, breaching tariff commitments (Dillon et al. 2024).

Non-pricing measures. Many exporting countries employ non-pricing mitigation measures that receive no recognition under the UK CBAM. This could be construed as discriminatory. The Chapeau also requires genuine efforts to seek mutually acceptable solutions before invoking Art. XX.

Revenue earmarking. To establish a clear nexus between CBAM and its environmental objectives, it is often argued that CBAM revenue should be earmarked for climate purposes – a feature that the UK CBAM design does not provide (Holzer et al. 2022).

5. Compatibility with Just Transition Goals

Evaluating CBAM against UN Framework Convention on Climate Change (UNFCCC) principles raises significant concerns about its alignment with internationally accepted climate law and just transition objectives. The UNFCCC's overarching principle of 'Common but Differentiated Responsibilities and Respective Capabilities' (CBDR-RC) (UNFCCC 1992, Art. 3–4), reaffirmed by the Paris Agreement, recognises the economic disparities among nations. It calls on countries to design climate policies that reflect their specific needs, capacities and circumstances. From this perspective, a uniform CBAM applied without regard to differing national capabilities may be viewed as inconsistent with the equity-based foundations of the global climate framework.

The UNFCCC recognises that climate change is a common concern of humankind and cannot be effectively addressed through unilateral action without co-operation among nations (Holzer et al. 2022). This principle requires that any unilateral climate measure adopted by a country be compatible with economic, ecological and social aspects of sustainability, including the interests of vulnerable populations. Additionally, Article 3.5 of the UNFCCC explicitly prohibits unilateral climate measures that amount to disguised restriction to international trade.

Applying a uniform UK ETS carbon price to all CBAM in-scope imports risks disproportionately affecting vulnerable countries, particularly least developed countries (LDCs) and small island developing states (SIDS). Failing to recognise their differentiated circumstances and imposing the same market-based carbon price applied to domestic producers does not align with the equity-based commitments under the Paris Agreement. This need for differentiation has been acknowledged by the International Monetary Fund (IMF) in its proposed model of International Carbon Price Floors (ICPFs), which recommends carbon prices calibrated to a country's level of gross domestic product (GDP) (Parry et al., 2021). Incorporating such differentiation into CBAM design is essential; otherwise, uniform pricing may generate distorted

distributional impacts and undermine the welfare capacities of low-income countries.

CBDR-RC also presupposes that wealthier nations should shoulder greater responsibility considering their historical contribution to cumulative emissions. For this reason, CBAM may appear justified; however, its operational modalities raise significant concerns. The inclusion of indirect emissions (postponed until 2029 (HMRC 2025)) within UK CBAM obligations also implies that measures should be complemented with financial support and technology transfer to developing countries. Under international law, these countries are entitled to seek assistance to adjust their production processes so they can meet the emission standards imposed by importing jurisdictions (Holzer et al. 2022).

CBAM qualifies as a 'response measure' under the Paris Agreement, which in turn places an obligation on parties to the agreement to consider the social and economic impacts such measures may create in developing countries. The Ad Hoc Working Group on the Paris Agreement is mandated to provide information on these impacts, yet the UK CBAM framework does not specify how such concerns will be addressed. UK producers also enjoy a comparative advantage due to their access to greener technologies, while CBAM risks imposing a competitive disadvantage on low-income countries, effectively shifting the burden of decarbonisation onto them (World Bank 2023).

Article 4(3) of the UNFCCC explicitly calls for promotion, creating access to and financing of technology transfer to developing countries, an obligation that the UK CBAM does not appear to fulfil. Similarly, Article 9 of the Paris Agreement requires developed countries to provide financial assistance to support mitigation efforts in developing countries. Yet the UK CBAM does not envisage any allocation of CBAM revenue to assist these countries. Rather, CBAM proceeds place a direct burden on products from developing countries, with costs indirectly borne through a loss of comparative advantage and diminished market access.

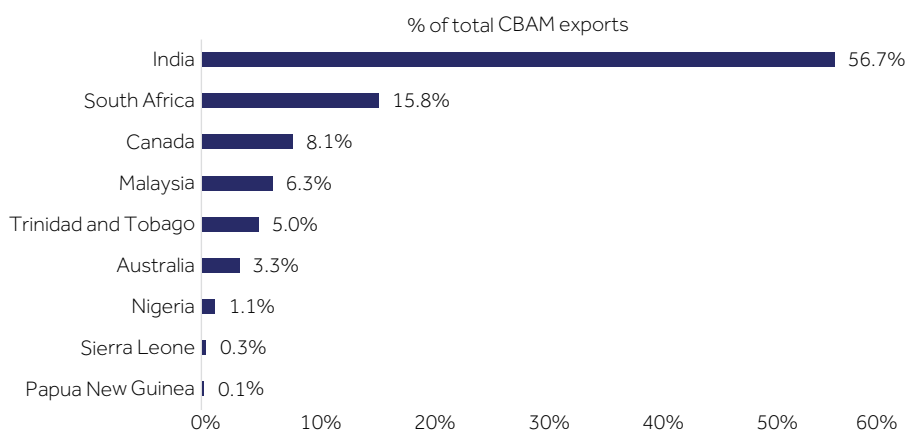
6. Fiscal Impact on Commonwealth Countries' Trade with the UK

6.1 Overview

Commonwealth member countries (CMCs) export a total of US\$945.67 million worth of CBAM goods to the UK (World Bank/WITS 2023). This trade is heavily concentrated among a small number of member countries, particularly Australia, Canada, India, Singapore and South Africa. India is the leading exporter for all CBAM goods to the UK,

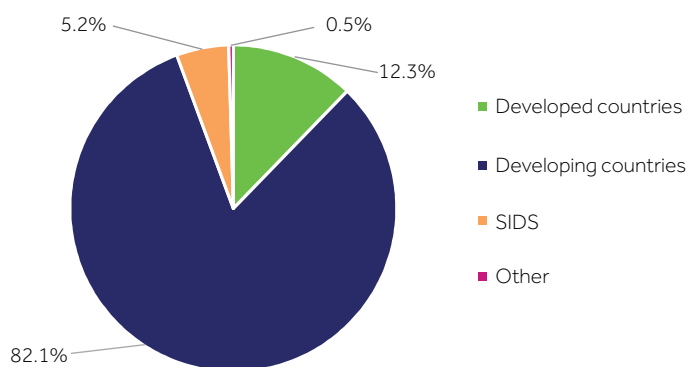
constituting 56.7 per cent of total Commonwealth exports, followed by South Africa (15.8 per cent) and Canada (8.1 per cent). However, some smaller developing member countries have considerable trade dependence on the UK, making them particularly vulnerable to CBAM. These include: Nigeria, Pakistan, Sierra Leone and Trinidad and Tobago. Among them, Trinidad and Tobago accounts for a significant 5.0 per cent of exports.

Figure 6.1 Exports of CBAM goods by country to the UK



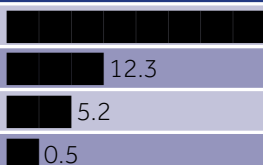
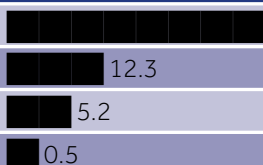
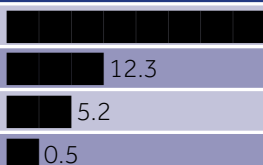
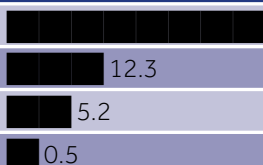
Source: WITS, World Bank, 2023

Figure 6.2 Exports distribution by level of development



Source: WITS, World Bank, 2023

Table 6.1 Exports distribution by level of development

Country category	Share of CMC exports (%)	Indicative distribution (%)
Developing countries	82.1	 82.1
Developed countries	12.3	 12.3
Small island developing states (SIDS)	5.2	 5.2
Other	0.5	 0.5

Source: World Bank/World Integrated Trade Solution (WITS) 2023

6.2 Sectoral distribution

CBAM in-scope products are categorised under seven broad headings using international nomenclature and classification of goods (Harmonised System (HS) Codes; WCO, 2017). Iron and steel is the largest CBAM export category, accounting for 43.5 per cent of total Commonwealth CBAM exports at US\$411.11 million. Aluminium constitutes 26.8 per cent at US\$252.83 million. Ceramics accounts for 14.8 per cent (US\$139.24 million). Fertilisers (10.2 per cent, US\$96.17 million) are of critical importance to Trinidad and Tobago (5.0 cent of total Commonwealth member country exports) and to Nigeria. Hydrogen is exported in the smallest quantity, and only by India.

India is the dominant exporter of iron and steel, contributing 32.3 per cent of the total trade of CBAM-covered goods, followed by South Africa and Malaysia. However, smaller economies such as Sierra Leone and Pakistan also export a significant amount of iron and steel, making them particularly vulnerable to the impact of CBAM.

Aluminium exports see India and South Africa each contributing 7.81 per cent and 7.76 per cent of the total trade. Additionally, around 20 other countries, including smaller economies such as Malta, Pakistan and Sri Lanka, export varying amounts of aluminium. Glass, although exported in smaller quantities, is exported by 24 countries. Barbados, Eswatini, PNG, Tonga, Uganda and Zambia, export only glass, and due to limited export diversity and weaker economic strength, their emerging glass industries will be adversely affected.

6.3 Regional analysis

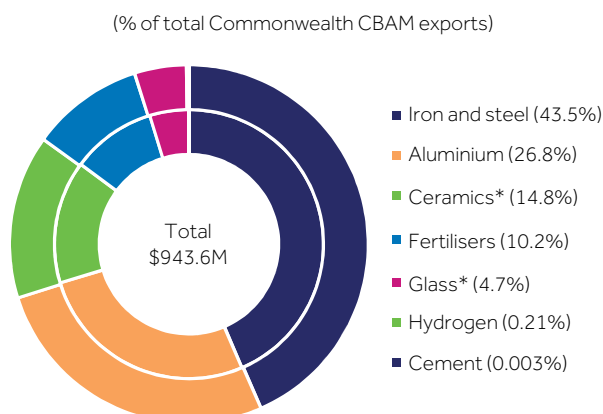
Asia is the leading exporting region of CBAM goods, with total exports valued at \$611.8 million, accounting for 64.69 per cent of all Commonwealth exports. India is the leading exporter for most CBAM products, with a total trade value of \$535.7 million, accounting for 56.7 per cent of total Commonwealth member country exports. Malaysia is the second-largest Asian exporter, with total exports valued at \$59.35 million, constituting 6.3 per cent of total member exports, with aluminium being the major export.

Table 6.2 Percentage distribution of export of CBAM products

CBAM product	Export value (US\$ million)	Share of total (%)	Leading CMC exporter
Iron and steel	411.11	43.50	India (32.30%), South Africa (7.40%)
Aluminium	252.83	26.80	India (7.81%), South Africa (7.76%)
Ceramics*	139.24	14.80	India (13.50%)
Fertilisers	96.17	10.20	T&T (5.0%), Canada (3.40%)
Glass*	44.24	4.70	24 countries incl. Papua New Guinea, Eswatini
Hydrogen	0.002	0.21	India (sole exporter)
Cement	0.03	0.003	Negligible
TOTAL	943.60	100	

*Ceramics and glass removed from 2025 in scope list; expected for subsequent inclusion.

Source: World Bank/WITS 2023

Figure 6.3 CBAM goods exports by product to the UK

Source: World Bank/WITS 2023

Africa ranks as the second-largest exporting region, contributing 17.46 per cent of total exports, valued at US\$165.18 million. South Africa is the leading exporter, with total exports amounting to US\$149.6 million and comprising 15.8 per cent of total Commonwealth member country exports. Nigeria follows, with exports worth US\$10.5 million, primarily consisting of fertiliser.

Caribbean and the Americas, as a region, ranks as the third-largest exporter, contributing 13.17 per cent of total exports, worth US\$124.63 million. Canada is the leading exporter in this region, with US\$77.04 million worth of exports. Trinidad and Tobago is the second-largest exporter in this region, with US\$47.57 million worth in exports, mostly fertilisers.

The Pacific region accounts for 4.37 per cent of total exports, valued at US\$41.38 million. Australia

is the leading exporter in this region, with US\$31.20 million in exports, primarily driven by aluminium. Papua New Guinea (PNG) exports only one product, glass, valued at US\$1.28 million. Europe is the smallest exporting region, constituting 0.28 per cent of total exports, with Cyprus being the main exporter.

6.4 Analysis based on total exports

The ratio of CBAM exports to the total export value for major Commonwealth exporters to the UK is of significant concern. Exports of CBAM products constitute a significant component of trade for larger economies such as India (1.93 per cent) and South Africa (1.56 per cent). Notably, for certain smaller economies like Trinidad and Tobago (8.5 per cent), Sierra Leone (1.8 per cent),

Table 6.3 Commonwealth CBAM exports by region and key countries (US\$ million, 2023)

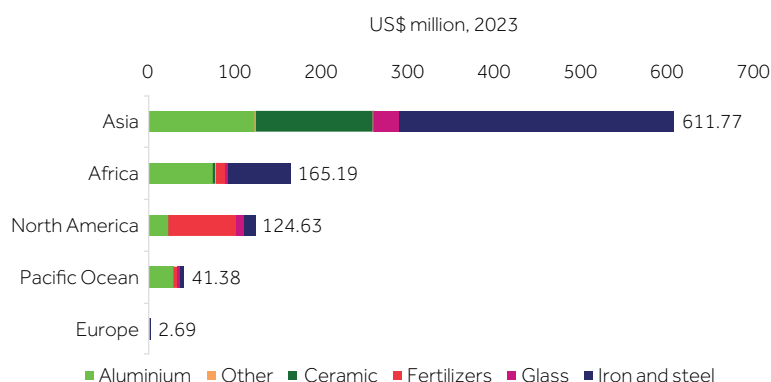
Region	Export value (US\$ million)	Share (%)	Key exporters
Asia	611.80	64.7	India (US\$535.7 million), Malaysia (US\$59.35 million)
Africa	165.18	17.47	South Africa (US\$149.6 million), Nigeria (US\$10.5 million)
Caribbean and the Americas	124.63	13.18	Canada (US\$77.0 million), T&T (US\$47.6 million)
Pacific	41.38	4.37	Australia (US\$31.2 million), PNG (US\$1.3 million)
Europe	2.60	0.28	Cyprus (US\$1.0 million)
TOTAL	945.59	100.00	56 Commonwealth countries

Source: World Bank/WITS 2023

and Papua New Guinea (2.9 per cent), exports of CBAM products contribute significantly to their total exports. This indicates that export of CBAM products plays a major role in these countries' overall economic structure, making them highly vulnerable to CBAM.

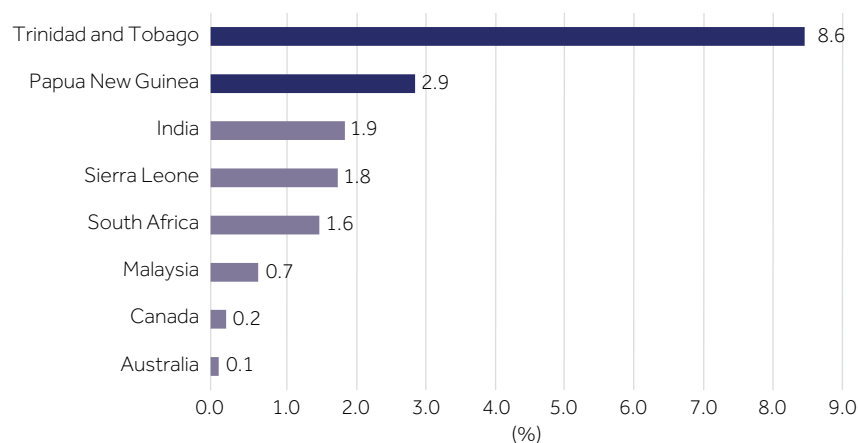
In light of these findings, detailed case studies have been undertaken for two countries, Trinidad and Tobago and Sierra Leone, which will be significantly impacted in different ways due to their unique circumstances and economic profiles.

Figure 6.4 Distribution of CBAM goods exports by region and product to the UK



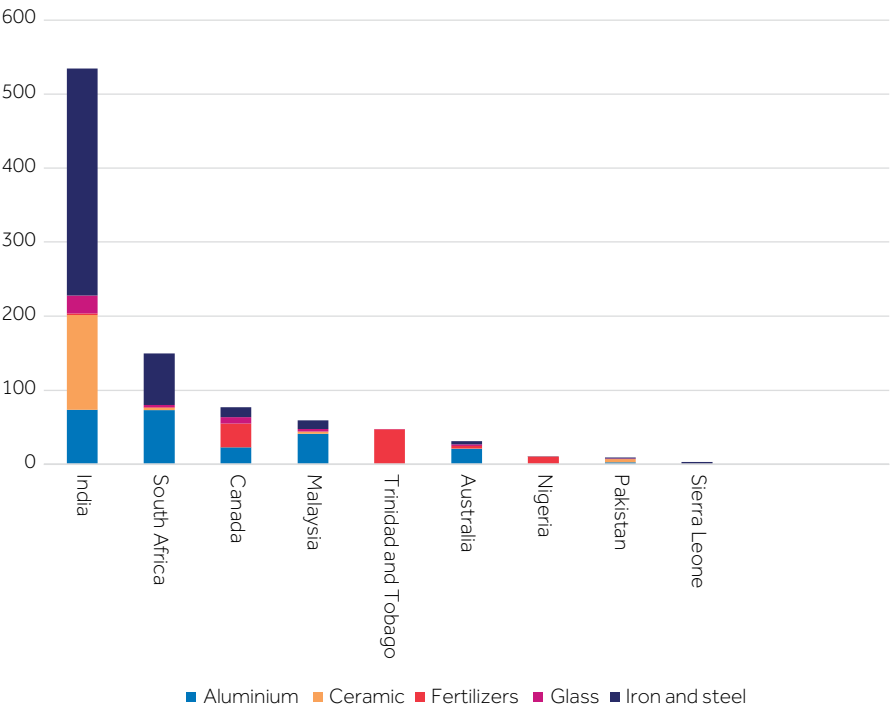
Source: World Bank/WITS 2023

Figure 6.5 CBAM goods exports by share of total export by country



Source: WITS, World Bank, 2023

Figure 6.6 CBAM-covered goods exports to UK by country by product



Source: WITS, World Bank, 2023

7. Recommended Measures for Commonwealth Exporters to Cope with CBAM Impact

The arrival of CBAM brings a host of challenges for Commonwealth countries. First, most member countries lack any explicit carbon pricing mechanism and therefore will not gain any credit for their non-pricing mitigation measures. Second, most of these countries rely heavily on fossil fuels for power generation due to carbon lock-in industries. 'Carbon lock-in' refers to carbon-intensive technologies and practices that persist over time, with the prohibitive cost of low-carbon transition (Eicke et al. 2021). Third, the lack of adequate reporting and monitoring mechanisms will effectively expose them to default UK carbon prices. Last, with the expansion of global decarbonisation plans and an increase in carbon prices, these countries will face potential economic shocks, including shifts in demand causing disruptions in the global supply chain. To brace against these challenges, each country must formulate a comprehensive reform policy in accordance with their structural and economic realities, while integrating environmental, fiscal, monetary and trade considerations. A unified and co-ordinated approach across various government organs and carefully phased mitigation measures are crucial for managing economy-wide shifts and producing equitable outcomes.

7.1 Carbon balance sheet and regulatory framework

Preparing a country's carbon balance sheet is key. A primary stocktaking, followed by regulation, are ideal sequential steps. An initial assessment of the country's carbon dependence is the preliminary step; this includes estimating the energy intensity of the economy, the relative proportion of carbon and renewable energy use, and the initial fossil-fuel trade balance. This should be followed by establishing a robust regulatory framework for controlling emissions, with a strong legislative foundation for key polluting sectors such as construction, transport and so on, coupled with

strict deforestation control. Rationalisation of fossil-fuel subsidies and their re-channelisation towards renewables is necessary (Central Bank of Malaysia 2023). Proactive efforts towards decarbonisation should include infusing energy efficiency into the production process through the adoption of greener technologies like green hydrogen, carbon capture and storage, biomass, and others.

7.2 Monitoring, reporting and verification (MRV) systems

An immediate response to CBAM requires the establishment of an elaborate MRV regime. Mandatory greenhouse gas (GHG) reporting is a prerequisite for dealing with CBAM obligations. A green taxonomy for each CBAM product – that is, a uniform definition explaining the attributes of a green product across each industry segment – will help lay a strong foundation for the MRV ecosystem (Government Of India 2024). Sufficient infrastructure for emission measurement and monitoring, the creation of a team of skilled experts in carbon measurement, life cycle analysis, data management, and the establishment of data quality procedures within each industrial segment are all crucial elements of this ecosystem. Key standards include the World Steel Association CO₂ Methodology, the World Steel Association LCI Methodology, the ISO 14404 series, ISO 20915 and the Responsible Steel International Standard version 2.0 (Principle 10).

7.3 Carbon pricing

Pricing carbon disincentivises carbon-intensive production processes, thus allowing market forces to reduce the cost of renewables. It is necessary to assign a cost to a negative externality, that is, GHG emissions, in order to set a notional social cost for carbon emissions. Policy-makers may adopt either a carbon tax or an emission trading

system as explicit pricing mechanisms. Carbon pricing needs to be carefully designed to prevent any macroeconomic destabilisation, which is a likely negative spillover. Carbon pricing could cause a rise in production costs and a decline in profits in the short to medium term. This may lead firms to reduce investments, lowering their desired long-term capital stock and decreasing their reliance on carbon-based energy inputs (IMF 2023). Such a capital shift would also drive a reallocation of labour, potentially causing disruptions and wage impacts in sectors most affected by carbon pricing. An initial carbon price and subsequent increments must therefore be balanced well to give sufficient adaptation time to firms, while at the same time reflecting actual prices and creating sufficient incentives to reduce emissions.

7.4 Investment in decarbonisation

A focused and planned investment for decarbonisation is necessary. Raising domestic capabilities in cleaner production methods will impart trade competitiveness, which entails the right policy mix of public and private funding. Large-scale investments for building infrastructure – such as pipelines for carrying green hydrogen, carbon capture and storage, and high-voltage transmission lines for renewable electricity – must be carried out by the public sector (IMF 2023). Meanwhile, a targeted policy may be curated to incentivise private investment in green sectors, spur foreign direct investment, support re-skilling of affected workers in hard-to-abate sectors, and encourage reforestation plans and the creation of carbon sinks. Lifting tariffs on the import of green technology to catalyse investment is crucial. Encouraging domestic innovation in these technologies will reduce import reliance as well as create high-value green jobs.

Fiscal interventions to promote research and development through patents, research subsidies and tax breaks must be introduced. These policies should be time-bound and transparently presented in annual budgets, supported by a strong governance framework. Conditions must be created for technology absorption to facilitate technology transfer by developed countries. This requires a robust legal and regulatory framework, transparent governance, enforcement of property rights, and fair competition. The development

of adequate human capital and investment in information technology are required to feed the growing green market. The importance of awareness and capacity building is equally important in generating momentum. Lack of awareness among industry stakeholders about the potential benefits of energy efficiency measures is seen as a major challenge in the transition process (GOI 2024). Small and medium-sized enterprises are often unaware of energy-efficient methodologies. Increasing accessibility and awareness among them through systematic, government-led intervention is crucial to achieving an inclusive transition.

7.5 Voluntary carbon markets and awareness

Establishing voluntary carbon markets (VCMs) aligned with international carbon standards to allow trading in carbon credits acts as a parallel measure to carbon pricing. VCMs have been acknowledged as having the potential to drive mitigation efforts to reduce GHG emissions. They work on the principle of carbon offsetting through collected carbon credits, which can be purchased and sold in carbon markets. These credits are generated through projects that either reduce CO₂ emissions or remove GHGs from the environment. Article 6 of the Paris Agreement provides a framework for countries to co-operate in achieving their Nationally Determined Contributions (NDCs) through international carbon markets and non-market approaches. Article 6.4 establishes a United Nations-supervised crediting mechanism to generate high-quality, verifiable emission reductions.

Despite growing interest in carbon finance, most developing countries have yet to establish comprehensive VCMs. Across the Commonwealth, participation in carbon markets remains largely limited to project-level credit generation, primarily in forestry, afforestation and reforestation, and broader land-use activities. Only a handful of Commonwealth countries have begun developing their own market structures: Singapore (Climate Impact X), Kenya (VCM Framework), India (Carbon Credit Trading Scheme), Ghana and Pakistan have initiated or operationalised elements of domestic VCMs, though these systems remain at varying stages of maturity.

Box 7.1 Voluntary carbon markets issues

Voluntary carbon markets (VCMs) face a range of well-documented challenges. Their credit quality and overall integrity have been widely questioned, particularly in the absence of harmonised regulation and standardised market rules. Many credits often fail to deliver the carbon removals or emission reductions they claim, and VCMs are often criticised for acting as an unreliable substitute for direct mitigation efforts.

Most carbon credits are traded over the counter (OTC), where transactions occur bilaterally without formal regulatory supervision. This contributes to market fragmentation, driven by information asymmetries between buyers

and sellers. A Nasdaq survey indicates that approximately 94 per cent of the credit-trading cycle is still managed manually, raising serious concerns around project verification, listing and credit retirement.

At COP29 in November 2024, nearly 200 nations agreed to develop regulatory standards for a UN-backed, centralised international carbon market under the Paris Agreement Crediting Mechanism. Further, the European Commission established a Task Force for International Carbon Pricing and Markets Diplomacy in February 2024, collaborating with around 40 countries to strengthen their carbon pricing and market frameworks.

8. Recommendations for Improvements to the UK CBAM

8.1 Revenue recycling and financial assistance

The UK could strengthen its CBAM proposal by incorporating concrete and binding commitments to provide financial assistance to developing countries. Allocating a defined portion of CBAM revenues to international mitigation and adaptation funds, such as the Green Climate Fund or the World Bank's Climate Investment Fund, or establishing an in-built mechanism to channel resources directly to developing countries, would serve a dual purpose. First, it would strengthen the legitimacy of CBAM under WTO rules by establishing a clear and credible nexus with its stated climate objectives, an essential element for successful justification under Article XX of the GATT (Holzer et al. 2022). Directing CBAM revenues toward financing green technology deployment and low-carbon projects in developing countries would provide tangible evidence of the measure's climate objectives (Gu et al., 2023). Second, by assuming a larger share of the financial burden in view of its historically higher contribution to global emissions, the UK can ensure that its CBAM remains in alignment with the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC).

8.2 LDC exemptions

Taking advantage of the WTO's Enabling Clause, the UK should consider exempting Sierra Leone and other LDCs from the CBAM levy (Zhang et al., 2023). Such an exemption could be implemented in a phased manner, beginning with mandatory emission reporting in the initial stage followed gradually by introducing CBAM requirements. Sierra Leone constitutes a negligible share (0.1 per cent) of UK total trade – hence exemption would impose minimal market distortion while delivering substantial relief to a fragile economy. It would also prevent the diversion of supply chains from LDCs and instead encourage their exports to the UK,

given preferential treatment over other suppliers, helping mitigate the risk of supply-side shortages and consequent inflation pressure in the UK.

8.3 Recognition of non-pricing mitigation measures

It is important for the UK to recognise non-pricing and implicit pricing mechanisms when determining eligibility for CBAM discounts. In practice, most countries rely heavily on non-pricing measures such as voluntary carbon offsetting programmes, deforestation controls and regulatory standards, and on implicit pricing instruments such as fuel taxes or the reform of fossil fuel consumption subsidies as their primary policy tools (WTO 2024). While it is administratively challenging to incorporate non-pricing measures into a CBAM discount, largely due to the absence of a unified methodology for evaluating their impact, this difficulty should not preclude the recognition of such measures. International organisations such as the World Bank, OECD and IMF have already developed various carbon pricing metrics to estimate a country's effective carbon price (ECP), incorporating both explicit and implicit pricing instruments. The UK may consider adopting these established methodologies to allow CBAM credits that recognise the genuine mitigation efforts of its trading partners.

8.4 Technology transfer mechanisms

The UNFCCC has consistently advocated the necessity of technology transfer in its various provisions (including Articles 4 and 11), recognising it as essential for supporting sustainable development in developing countries. The Paris Agreement reinforces this commitment by providing for the establishment of a dedicated 'Technology Mechanism and Framework'. Similarly, Article 66 of the WTO-administered Agreement on Trade-Related Aspects of Intellectual Property

Rights (TRIPS) requires developed countries to actively promote and encourage technology transfer to developing countries and LDCs. The implementation of the UK CBAM presents a strategic opportunity to institutionalise technology transfer by embedding mechanisms that support low-carbon innovation, capacity building and cleaner production pathways in trade partner countries, leveraging multilateral development banks to de-risk joint ventures.

8.5 Jurisdiction-specific default values

A jurisdiction-specific default value for key trading partners and major producers of CBAM goods is a more effective approach for addressing carbon leakage than a general default value. Such values can better capture the emission intensities of imported products, thereby preserving the environmental integrity of CBAM without imposing undue penalties on exporters (CITP 2024). However, determining these default values depends heavily on the availability and accuracy of emissions data from each trading partner. A comprehensive data-collection effort is therefore critical, while the CBAM design should incorporate a transition period to allow for the systematic gathering, verification and harmonisation of this information.

8.6 Income-differentiated carbon price floors

Adopting differential carbon price floors based on the income level of a country, as proposed by the IMF and the Global Climate Policy Project (GCPP), would allow carbon prices to be aligned more closely with the CBDR-RC principles. The report's findings, which show that a graduated carbon price delivers greater emission-reduction effectiveness than a CBAM-only approach, merits serious consideration (Parry et al. 2021). Such a system would be more equitable and economically viable for developing countries, while also encouraging them to adopt domestic carbon-pricing mechanisms.

An intensification of diplomatic relations with major trading partners in redefining specific rules and modalities of CBAM application and obtaining their co-operation for its smooth implementation will help in enhancing its effectiveness (Holzer 2022). A stakeholder dialogue process aimed at primary jurisdictions in a collaborative fashion will create a bridge to cover information gaps regarding CBAM requirements. As the UK plans to rely on the WTO Exceptions Clause (Article XX) to defend CBAM, prior consultation with trading partners, which is mandated under the Chapeau of GATT Article XX, becomes crucial.

Box 8.1 Carbon price floors: Harvard-MIT Global Climate Policy Project (GCPP, September 2025)

The GCPP proposes a climate coalition where member countries commit to minimum carbon price floors for emissions from four key industries (steel, aluminium, cement and fertiliser) representing over 20 per cent of global CO₂ emissions.

There were three modelled scenarios: (i) baseline (current policies + EU/UK CBAM); (ii) uniform carbon price floor (US\$50/t for all coalition members); (iii) graduated price floor (US\$75/\$50/\$25 differentiated by income group + uniform border carbon adjustment (BCA) at US\$75/t).

The results were as follows: The graduated price floor achieves 650–770 MtCO₂/year in reductions – seven times the baseline – and generates

~US\$200 billion/year in revenue, primarily through domestic pricing rather than BCAs. Even with developing countries at US\$25/t, global emission reductions match the US\$50/t uniform floor, as high-income country ambition (US\$75/t) compensates for lower developing country prices.

Lower middle-income countries (LMICs) and low-income countries (LICs) see output increase relative to the baseline as they become more cost-competitive – demonstrating that equity and effectiveness are complementary, not opposed. COP30 (Belém, Brazil, 2025) endorsed the Open Coalition on Compliance Carbon Markets, creating political space for the UK to position its CBAM as part of a co-operative global carbon pricing architecture.

Table 8.1 Carbon price scenario comparison (Harvard-MIT GCPP 2025)

Metric	Baseline (EU/UK CBAM only)	Uniform floor (US\$50/t all)	Graduated floor (US\$75/\$50/\$25)	Trade tensions	Equity/ CBDR-RC
Annual emission reduction (MtCO₂)	~100	650–770	650–770	Mod–High	Weak
Coalition revenue (US\$ billion/year)	~25	~200	~200	Reduced	Moderate
Revenue source	Primarily BCAs	Domestic (8×)	Domestic (8×)	Minimised	Strong
Output impact (4 sectors)	Minimal	<2% decline	<2% (LMICs gain)		

Note: BCA = border carbon adjustment.

Sources: Harvard-MIT GCPP 2025; Chateau *et al.* 2023

Box 8.2 India–EU Free Trade Agreement

India has recently signed a free trade agreement with the European Union (EU), which includes significant concessions on EU CBAM. It comprises commitments to include a forward-looking most favoured nation (MFN) assurance, ensuring equal treatment is granted to India with any other nation in case of any flexibilities within the CBAM design. It also includes enhanced technical co-operation on recognition of carbon

price, recognition of verifiers, along with a commitment on financial assistance and targeted support to reduce greenhouse gas emissions and other emerging carbon compliances. With respect to steel exports, India has secured a duty-free export quota for metal products to the EU of 1.6 million tons, which is half of India's annual supplies to the EU.

9. COP30 Outcomes and Emerging Trends

The recently concluded COP30 succeeded in bringing unilateral trade measures onto the formal negotiation agenda after multiple unsuccessful attempts in earlier COPs. The issue was taken up in Belém through presidency-led consultations and ultimately included in the summit's central outcome package. The final text establishes a series of three annual 'dialogues' under the UNFCCC 'subsidiary bodies' to examine trade-related climate measures, scheduled to take place during the Bonn sessions in 2026, 2027 and 2028. The Belém outcome also 'reaffirms' that climate actions including unilateral measures should not amount to trade restrictions that are 'arbitrary' or 'discriminatory', echoing the language of Article 3.5 of the 1992 UNFCCC. In addition, parties to the convention requested the subsidiary bodies to convene a dedicated dialogue involving governments and relevant stakeholders, including the World Trade Organization, UN Trade and Development, and the International Trade Centre.

COP30 also celebrated the formation of a 'Coalition of the Willing' – a group of countries committing to accelerate the phase-out of fossil fuels and scale up investment in clean energy systems. Although voluntary, the coalition represents a political tipping point: it demonstrates that a growing number of economies are prepared to align trade, industrial and climate policies in a mutually reinforcing direction.

A notable disappointment was the omission of any reference to 'fossil fuels' in the final text, despite strong advocacy from several parties. In response, the governments of Colombia and the Netherlands announced their intention to co-host the 'First International Conference on the Just Transition

Away from Fossil Fuels', scheduled for April 2026.

More than 80 countries also joined a call on the sidelines of COP30 for the establishment of a global roadmap to phase out fossil fuels, backed by more than 140 cities and subnational governments, the WHO, the European Parliament, over 4,000 civil society organisations, more than 3,000 scientists and academics, 101 Nobel laureates, over 900 parliamentarians worldwide, and many businesses.

COP30 also marked the launch of the Open Coalition on Compliance Carbon Markets, endorsed by a wide group of countries including the UK. The coalition is committed to improving co-ordination, sharing standards and exploring long-term interoperability between compliance carbon markets. For the UK, this development is especially relevant: it strengthens the case for internationally aligned MRV systems, clearer recognition of foreign mitigation efforts and a more co-operative framing of border measures.

The occasion of COP30 also marked the release of a landmark report by leading scholars from Harvard and MIT, presenting new modelling on internationally co-ordinated carbon price floors. According to the study (Harvard-MIT GCPP 2025), minimum carbon prices differentiated by the income levels of countries lead to significantly greater global emission reductions (up to seven times higher) than unilateral border carbon adjustment measures alone. These findings provide compelling grounds that the UK could achieve better climate and economic outcomes by redesigning its CBAM within a co-operative model of international income-differentiated carbon pricing commitments, rather than relying solely on unilateral border adjustment measures.

10. Conclusion

The CBAM emerged to pursue the dual objectives of preventing carbon leakage and reducing global emissions. Its architecture is designed to protect the competitiveness of domestic producers by imposing a levy on carbon-intensive imports that could otherwise undermine domestic climate ambitions. However, the effectiveness of CBAM in achieving these objectives remains uncertain due to inherent design limitations and a complex implementational architecture. Practical challenges such as resource reshuffling by exporters and widespread reliance on default values for determining CBAM liabilities, particularly by high carbon-intensity exporters, makes the mechanism inefficient in curbing carbon leakage. Robust data collection and accurate verification of actual emissions will be essential, though these tasks are likely to be demanding and resource intensive. The European Union's experience with CBAM offers valuable lessons that can inform improvements to the UK's approach.

The CBAM's weak alignment with WTO rules and the Paris Agreement raises questions about its legitimacy, concerns that become more pronounced in the absence of a clear and demonstrable nexus with climate objectives. The unilateral imposition of CBAM as a mitigation tool also runs counter to long-standing principles of international law that emphasise co-operative, rather than unilateral, approaches to global climate challenges.

As a result, many unprepared and economically weaker countries find themselves at a difficult crossroads, disproportionately bearing the greater share of climate burden through an increased cost of exports, financial and administrative burden, and loss of market access.

Commonwealth countries will experience these impacts unevenly, depending on their export profiles and economic structures. The fiscal burden is expected to fall most heavily on countries in Asia and Africa, given their larger share of CBAM-covered exports and relatively weaker economies. Immediate attention is needed for highly vulnerable countries such as Sierra Leone and Trinidad and Tobago. Major CBAM-covered products – including

iron and steel, aluminium, and fertilisers – are characterised by inelastic demand, meaning that the pass-through of CBAM costs to UK consumers is likely to raise prices and make the green transition costlier domestically.

For many developing countries, a complex web of challenges is created by carbon-locked economic structures, the absence of carbon-pricing mechanisms or MRV systems, rudimentary voluntary carbon markets or acting as mere suppliers of carbon credits, and limited access to green technologies. Navigating this new carbon-priced global trade regime will require a carefully designed action plan to mitigate the negative impacts while improving competitiveness.

A UK review of CBAM that includes exemptions for LDCs, institutionalises technology transfer, and recycles CBAM revenues toward environmental and developmental objectives would significantly strengthen its compliance with international law. More importantly, such reforms would generate incentives for developing countries to amplify their own decarbonisation efforts, which is a critical step for ensuring the planet's climate system stabilises within safe limits.

The recent COP30 concluded with mixed outcomes: a successful inclusion of unilateral trade measures in the main agenda was a significant gain, while the omission of 'fossil fuel' from the final document was a notable failure. However, the conference brought together a large group of committed parties to form a 'Coalition of the Willing', dedicated to advance the momentum for global phase-out discussions and champion a shared aspiration of a larger humanity. Such developments, echoing the sentiments of a substantial segment of the global community, are motivating and an emphatic affirmation of our co-operative approach to saving the planet.

Ultimately, the goal of CBAM, reducing global emissions, can only be fully realised through a collaborative, equitable approach. Without such co-operation, border adjustment mechanisms risk causing significant harm to vulnerable economies while delivering only marginal environmental gains.

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Annex A. Case Studies

Case Study: Sierra Leone

Country overview

Sierra Leone is located on the south-west coast of West Africa, with a population of 8.9 million (World Bank 2020). It is classified as a least developed country (LDC), with 59.2 per cent of its population identified as multidimensionally poor (UNDP 2023). The country has endured prolonged conflict, leading to fragile institutional structures and limited government capacity, which has further deepened the cycle of poverty and inequality (Bertelsmann Stiftung Project (BTI 2024). The country is endowed with abundant natural resources, including one of the largest iron ore deposits in the world. Its economy is predominantly dependent on revenue from the extractive sector (iron ore, rutile, diamond and bauxite), which serves as the main source of both foreign exchange and government revenue (World Bank 2020). In 2020, exports of CBAM in-scope products, such as iron ore, slag and ash, were valued US\$32 million, accounting for 15.7 per cent of total exports (UN Comtrade 2020).

Sierra Leone experienced a period of rapid GDP growth, reaching 20.7 per cent in 2013, primarily owing to iron ore exports. However, this growth declined sharply following the closure of mines amid the Ebola outbreak, the COVID-19 pandemic and a fall in global iron ore prices (BTI 2024). As a result, the economy contracted by 20.6 per cent in 2015, highlighting the country's heavy reliance on the mining sector.

The main destinations for Sierra Leone's iron ore exports are China (accounting for 99 per cent of total) and South Africa (World Bank/WITS 2023). Trade with the United Kingdom has consistently declined, with total exports to the UK falling to US\$10.9 million in 2024 from US\$31.6 million in 2017. This includes an 85.2 per cent decrease in iron and steel exports (Department for Business and Trade, UK Government 2024a). A similar declining trend (85.2 per cent) has also been observed with the European Union (primarily Netherlands) (OECD 2022).

CBAM impact analysis

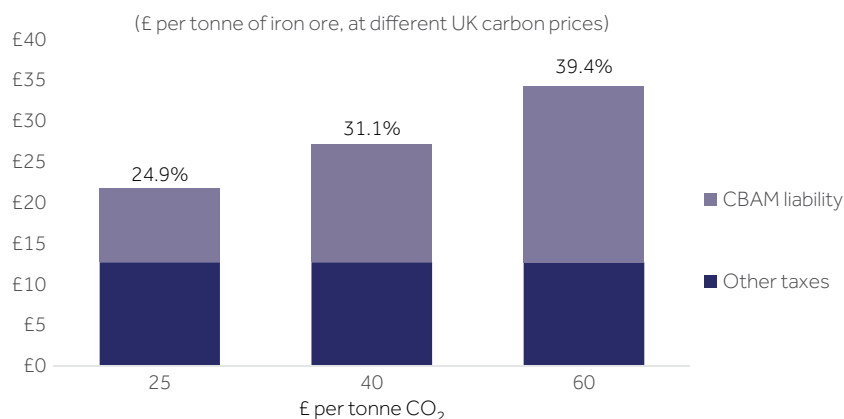
CBAM is expected to present several challenges to Sierra Leone's extractive sector-driven growth model, further complicating the Sierra Leone government's efforts to reform the mining sector for socio-economic development. The country's high dependence on iron ore exports (HS Code:26) is likely to adversely impact its export trajectory. CBAM liabilities will increase both production and export costs for iron ore. A tax burden estimation indicates that the exporters may experience a cost escalation of 25–40 per cent at the current UK carbon price. This excessive tax burden could deter conventional investment in the sector and may motivate existing players to explore opportunities in non-CBAM markets.

Table A1 Sierra Leone estimated CBAM tax burden on iron ore exports

UK carbon price (£/t CO ₂)	Emission factor (mtCO ₂ e/t ore)	CBAM liability (£/t ore)	Iron ore price (Sep 2024)	Other taxes (royalty 3%, CIT 25%, fees 1%)	Total tax burden (£/t ore)	% tax burden over price
£25	0.36	£9.00	US\$113 / £87.18	£12.73	£21.73	24.9%
£40	0.36	£14.40	US\$113 / £87.18	£12.73	£27.13	31.1%
£60	0.36	£21.60	US\$113 / £87.18	£12.73	£34.33	39.4%

Notes: Global iron ore price September 2024; EU CBAM default emission factor for iron ore (0.36 mtCO₂e/t).

Sources: UK CBAM (2025); EU CBAM, 2025; National Revenue Authority-SL, 2024 IMF; UN Comtrade.

Figure A1 Sierra Leone escalating tax burden on export with increasing carbon price

Source(s): EU CBAM, 2025; National Revenue Authority-SL, 2024

Studies have demonstrated that the global iron ore price is directly linked to the world GDP growth rate, reflecting inelastic supply and demand dynamics. Approximately 98 per cent of iron ore is used for steel production, which is, in turn, driven by construction demands (Zhu 2012). The rapid growth of China's GDP over the previous decade has been a defining factor in global iron ore prices, as the country accounts for over two-thirds of global iron ore purchases (Warell 2018). A strategic shift of the supply chain towards non-CBAM markets is anticipated, as the CBAM liability will drive up export costs for exporters. Over time, the continuous increase in carbon prices will reduce its competitive advantage, making the UK a less attractive market. There is already a noticeable decline in iron ore supply to the UK and EU, and CBAM may exacerbate this trend (Department for Business and Trade, UK Government 2024a). As a resource reshuffling strategy, exporters may also divert low-carbon products to UK markets while sending higher-carbon products to non-CBAM countries, thereby fragmenting the world into high- and low-carbon zones (Tsafos 2020). It is also expected that exporters with higher emissions may benefit by using UK-determined default benchmark emission values, which could limit the ability of cleaner producers to distinguish themselves (Goyal 2024).

Key policy challenges

Investment deterrence. The government has consistently strived to attract foreign investment, recognising its role in bringing advanced technology

and fostering economic growth (Government of Sierra Leone 2024). Furthermore, the mining licence agreement obliges the licence holders to contribute to the development of mining communities (World Bank 2009). However, the implementation of CBAM will disincentivise such companies from investing in iron ore mining due to increased costs, which may lead to business closures due to investors lacking the financial capacity to decarbonise their businesses. This impact will eventually filter down to mining communities, perpetuating their hardships.

MRV capacity. Monitoring, reporting, and verification (MRV) of carbon emissions will place considerable strain on the Government of Sierra Leone's already weak capacity, further complicating an opaque and inefficient mining administration. The limited fiscal space makes implementing MRV regulations an excessive financial burden for the government. UK CBAM requires importers to submit returns detailing the accurate weight and embodied emissions of the final complex product and its precursor goods including direct emissions during the production process (UK CBAM 2025). Importers will rely on Sierra Leonean suppliers for this information. To mitigate the risk of faulty reporting, importers may include contractual conditions that indirectly hold suppliers accountable for complying with CBAM. Currently, Sierra Leonean exporters are required to submit customs declarations through a newly implemented digital gateway, which suffers from frequent interruptions due to unreliable power supply and technical issues (WTO 2017). In the absence of

effective government oversight, the MRV regime is susceptible to fraud and misreporting, resulting in recurring disputes.

Carbon pricing and exchange rate risk. Sierra Leone's National Development Plan 2024 (Government of Sierra Leone 2024), is considering imposition of a carbon tax to certain sectors and the issuance of green bonds to finance the green transition. However, any carbon price in Sierra Leone will never match UK prices, making such measures grossly insufficient to offset the impact of CBAM. The IMF-proposed model of International Carbon Price Floors (ICPFs), which envisages differentiated carbon price floors based on the GDP levels of countries, implies that the carbon price implemented in Sierra Leone must be significantly lower than that of the UK ([Chateau et al. 2023](#)). Furthermore, the floating exchange rate regime of Sierra Leone, characterised by excessive short-term fluctuations (WTO 2017), will become another source of recurrent disputes if Sierra Leone implements carbon pricing.

Policy recommendations for Sierra Leone

Policy recommendations for Sierra Leone include the following.

- Establish a robust MRV system compliant with World Steel Association CO₂ Methodology, ISO 14404 and ISO 20915 standards; expedite automation of customs processes for CBAM reporting.
- Adopt advanced green technologies as a condition of new mining licence awards, facilitating decarbonisation and domestic technology transfer.
- Proactively diversify iron ore export markets towards China, other Asian economies and Economic Community of West African States (ECOWAS) partners to reduce dependence on CBAM-regulated destinations.

- Develop green bonds and explore concessional finance instruments to fund the green transition, including investment in renewable energy for mining operations.
- Pursue bilateral agreements with the UK for technical assistance, MRV capacity building and phased implementation of CBAM reporting obligations.

Recommendations for the UK regarding Sierra Leone

Recommendations for the UK regarding Sierra Leone include the following.

- Apply the WTO Enabling Clause to exempt Sierra Leone and other LDCs from the CBAM levy, commencing with a mandatory reporting phase followed by phased levy introduction.
- Design jurisdiction-specific default emission values calibrated to Sierra Leone's actual production processes, avoiding the penalty of global-average defaults.
- Allocate CBAM revenue to UK–Sierra Leone technical assistance for MRV system development and digital customs infrastructure.
- Provide extended transition timelines for LDC exporters to develop MRV compliance capabilities before levy obligations take full effect.

The implementation of CBAM will impose significant costs on Sierra Leone's fragile economy. However, it also presents an opportunity to comprehensively decarbonise the extractive sector. A coherent and collaborative approach – underpinned by the UK's commitment to a just and equitable transition – is the only pathway that can justify CBAM's climate objectives without causing disproportionate harm to one of the world's most vulnerable economies.

Case Study: Trinidad and Tobago

Country overview

Trinidad and Tobago is an island country located in the Caribbean Archipelago, with a population of 1.5 million. It is classified as a high-income country with a GDP per capita of US\$26,868 (2021), which ranks among the highest in the entire Caribbean region (UNDP – Human Development Index 2022). The country’s robust economic growth is largely attributable to its thriving oil and gas sector. Trinidad and Tobago is recognised as one of the world’s leading exporters of ammonia, fertiliser and liquified natural gas. The hydrocarbon sector accounts for more than 37 per cent of the country’s GDP and generates about 83 per cent of its export earnings (Central Bank of Trinidad and Tobago 2023). This over-dependence on the hydrocarbon sector results in considerable fluctuations in foreign exchange earnings, which are influenced by global energy prices and demand shocks. Although Trinidad and Tobago contributes less than 0.1 per cent to global emissions, its substantial petrochemical sector – combined with a relatively small population – places it among the world’s highest per capita CO₂ emitters (IEA 2022). As a small island nation, Trinidad and Tobago is particularly vulnerable to climate-related natural hazards.

The main trading partners of Trinidad and Tobago are the United States (US), Guyana, the European Union (EU) and the United Kingdom (UK). About 40 per cent of the country’s total exports are destined for the US. Exports to the EU are valued at US\$2.32 billion, accounting for 14 per cent of total exports, making the EU the second largest trading partner (World Bank/WITS 2020; [Mohan and](#)

[Jagessar. 2024](#)). Currently, 5.1 per cent of Trinidad and Tobago’s total exports (US\$446 million) are exposed to the EU’s CBAM (IMF 2024). Exports to the UK totalled US\$484 million, with the main products imported by the UK being gas (66.9 per cent of total), organic and inorganic chemicals, and processed fertilisers (Department for Business and Trade, UK Government 2024b).

CBAM impact analysis

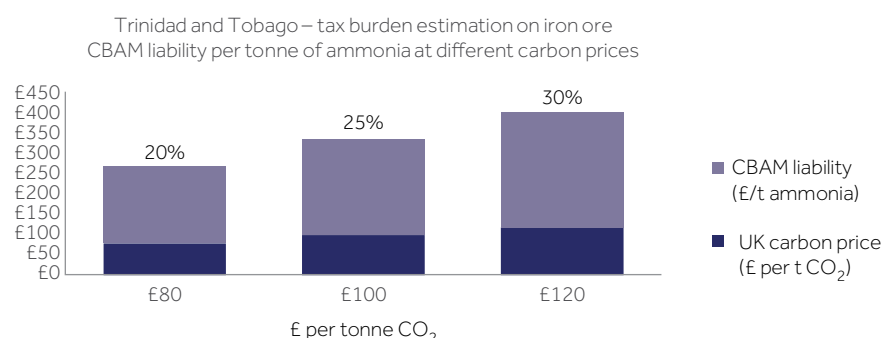
Given the substantial reliance of the country’s economy on CBAM-exposed sectors, the resulting challenges are expected to be extensive. The CBAM-induced increase in the cost of production for energy intensive trade-exposed (EITE) goods, coupled with a consequential decline in exports, is likely to adversely affect economic growth. The energy-intensive sector, which employs around 15 per cent of the workforce, may experience significant job losses. Furthermore, a substantial portion of government revenue, estimated at around 41 per cent, is derived from this sector, enabling the provision of generous social welfare programmes. Any downturn in this sector will directly impact the government’s capacity to fund these programmes ([Mohan and Jagessar. 2024](#)). Insurers are expected to incur higher reinsurance costs as climate-related hazards increase risk exposure. With increasing frequency of climate-induced damages, insurers may struggle with meeting large pay-outs, while banks could face elevated loan defaults tied to affected assets, threatening the overall financial stability of both banks and insurance companies (Central Bank of Trinidad and Tobago 2023).

Table A2 Trinidad and Tobago: estimated CBAM tax burden on ammonia fertiliser exports

UK carbon price (£/tonne CO ₂)	Emission factor (mtCO ₂ e/t ammonia)	CBAM liability (£/t ammonia)	Ammonia price (Sep 2024)	% CBAM burden over cost
£80	2.4	£192	US\$1,237 / £959	20
£100	2.4	£240	US\$1,237 / £959	25
£120	2.4	£288	US\$1,237 / £959	30

Notes: Average global ammonia price September 2024; EU CBAM default emission factor for ammonia (2.4 mtCO₂ e/t).
Sources: World Bank/WITS 2023; IEA 2021; Gasco News 2023.

Figure A2 Trinidad and Tobago: escalating tax burden on exports with increasing carbon price



Sources: WITS, World Bank, 2023

Trinidad and Tobago ranks among the world's largest producers of inorganic chemicals and fertilisers, competing with major players such as China, the US and Canada. These countries possess significantly greater technological and financial resources to decarbonise their production processes, rendering Trinidad and Tobago's high carbon-intensity products (1.6kg CO₂e/\$US) less competitive globally (IMF 2024). Ammonia manufacturing in Trinidad and Tobago has the highest emission intensity, at 2.4 tonnes of CO₂ per ton of production, nearly double that of crude steel (Gasco News 2023). Although low-emission production methods for ammonia are emerging, they are currently 10–100 per cent more expensive, making the transition particularly costly (IEA 2021). The IMF estimates that CBAM-related costs for EU importers could exceed 40 per cent of Trinidad and Tobago's annual fertiliser exports to the EU, and these costs are expected to rise as CBAM expands to additional products (IMF 2024).

Key policy challenges

Sectoral competitiveness and employment.

Trinidad and Tobago's energy-intensive sector employs around 15 per cent of the workforce. Government revenue of approximately 41 per cent is derived from this sector – so any downturn directly undermines the state's capacity to fund social welfare programmes. Financial sector stability is also at risk as climate-related hazards increase reinsurance costs and loan default risks.

Green transition financing. Trinidad and Tobago is actively enhancing its trade competitiveness through a comprehensive strategy for green transition, which includes the implementation

of a 'Roadmap for a Green Hydrogen Economy'. However, the estimated investment required for developing a Caribbean/regional hydrogen economy is approximately US\$50 billion (Mohan and Jagessar. 2024), underscoring significant financial challenges ahead. The country's existing financial infrastructure lacks the capacity and orientation necessary to support sizeable green investments. The country's high-income status places it at a disadvantage in accessing international financial assistance (ibid.).

Multiple CBAM exposures. The increasing adoption of border carbon adjustments by other trading partners is likely to pose significant challenges. An anticipated US CBAM (a Senate bill was introduced in December 2025), combined with the existing EU and UK CBAMs, would compound Trinidad and Tobago's exposure simultaneously across its three largest markets. With approximately 90 per cent of exports concentrated in energy-intensive products, the cumulative impact could be severe.

Carbon pricing considerations. Implementing a domestic carbon pricing mechanism is essential for Trinidad and Tobago, as it would enable the country to recapture some CBAM-induced outgoing revenues and incentivise its green transition (IMF 2024). Nevertheless, carbon pricing can negatively affect industrial competitiveness in the short term. Existing green taxes include a Green Fund Levy at a rate of 0.3 per cent on gross sales, payable annually by all business entities. While Trinidad and Tobago's fuel and electricity subsidies, amounting to about 2 per cent of GDP (IMF 2024), support industrialisation, they also promote carbon-intensive behaviour (Yarna 2024).

Policy recommendations for Trinidad and Tobago

Policy recommendations for Trinidad and Tobago include the following.

- Revamp the banking and financial sector to foster a green finance-friendly ecosystem; leverage blended finance instruments to mobilise climate capital and de-risk green investments (OECD, 2023).
- Allocate a portion of the Heritage and Stabilization Fund (US\$6 billion+) (Ministry of Finance, Government of Trinidad and Tobago 2024) to green bonds and sustainable energy projects.
- Implement a carefully calibrated domestic carbon pricing mechanism aligned with existing taxes and Nationally Determined Contribution (NDC) commitments; phase out fuel and electricity subsidies gradually with targeted consumer protections.
- Urgently diversify the export profile: develop untapped potential in non-energy-intensive products and explore Asian and Latin American markets. The large Caribbean diaspora in the US could be leveraged to expand the country's services sector exports.
- Develop a re-skilling roadmap for workers in the energy-intensive sector, funded from carbon revenues, the Green Fund Levy, and the Heritage Stabilization Fund (ibid).
- Consider replacing value-added tax (VAT) with a carbon-added tax on carbon-intensive goods, supplemented with exemptions to avoid disproportionately impacting vulnerable consumers. Revise engine size tax to increase tax on non-hybrid vehicles while reducing taxes on electric and hybrid vehicles (Yarna 2024).

Recommendations for the UK regarding Trinidad and Tobago

Recommendations for the UK regarding Trinidad and Tobago include the following.

- Redesign CBAM to channel revenues toward vulnerable developing countries in

alignment with CBDR-RC principles and provide appropriate flexibilities for genuine decarbonisation efforts by SIDS economies.

- Grant an adequate transition period for phased CBAM implementation, recognising limited capacity for rapid decarbonisation of the petrochemical sector.
- Conduct a comprehensive impact assessment of CBAM-induced fertiliser price increases and allocate CBAM revenue proportionately to subsidise fertiliser inputs for UK farmers, to buffer consumer price increases.
- Incorporate concrete technology transfer provisions into the CBAM framework, leveraging the Inter-American Development Bank (IADB) and other multilateral development banks to de-risk clean technology partnerships in the Caribbean.
- Strengthen multilateral diplomatic engagement to co-ordinate CBAM design across EU, UK and potential US regimes, reducing cumulative exposure for countries that trade heavily with all three jurisdictions.

The UK produces only 40 per cent of its total fertiliser requirements, relying on imports to meet the remainder. The sharp rise in fertiliser prices since 2022 has been a concerning trend highlighted by the UK Parliament. The price of domestically produced ammonium fertiliser surged by 152 per cent in one year, while the cost of imported ammonium rose by 171 per cent (UK Parliament 2022). The introduction of CBAM-related costs on fertiliser imports is expected to drive up prices of food and animal feeds even higher.

The Carbon Border Adjustment Mechanism presents a significant threat to the economic stability of Trinidad and Tobago, given its extreme dependence on hydrocarbon exports and the high-emission intensity of its GDP. There is an urgent need to reform the country's economic framework by promoting diversification and leveraging the untapped potential of alternative sectors. Support from developed trading partners – particularly the UK – is vital to mitigate CBAM-induced disruptions and advance the global emissions reduction that is CBAM's ultimate objective.

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