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EU's Carbon Border Tax - India's Concerns

Why in news?

Indian Environment Minister expressed concerns at the European Union's (EU) plan to levy an additional 'carbon border tax' to discourage import of carbon-intensive goods.

What is the EU's proposal?

- Earlier, the EU Parliament had adopted a resolution to implement a 'Carbon Border Adjusted Mechanism' (CBAM).
- To begin with, by 2023, the CBAM would cover energy-intensive sectors.
- These may include cement, steel, aluminium, oil refinery, paper, glass, chemicals as well as the power sector.
- A recent draft regulation pertaining to the CBAM proposed that goods entering the EU would be taxed at the borders.
- Such a tax would promote "low-carbon, resource-efficient manufacturing."
- The UK and the US are also considering such proposals.

What is the rationale?

- Two keys reasons for the carbon tax proposal are EU's environmental goals and its industries' global competitiveness.
- Recently, the EU declared it would cut its carbon emissions by at least 55% by 2030 compared to 1990 levels.
- EU's greenhouse gas emissions have fallen by 24% compared to 1990 levels.
- But emissions associated with imports are increasing.
- These contribute 20% of the EU's carbon dioxide emissions.
- So, a carbon tax would incentivise other countries to reduce GHG emissions.
- This can further shrink the EU's carbon footprint.
- Secondly, the 27 EU member states have much stricter laws to control GHG emissions.
- It has an 'Emissions Trading System' that caps how much GHG individual industrial units can emit.
- This makes operating within the EU expensive for certain businesses.

- So, the EU authorities fear that these firms might prefer to relocate to countries that have more relaxed or no emission limits.
- This is known as 'carbon leakage' and it increases the total emissions in the world.

Who all have opposed it?

- The BASIC (Brazil, South Africa, India, and China) countries' grouping had opposed the EU's proposal, terming it "discriminatory."
- It is said to be against the principles of equity and 'common but differentiated responsibilities and respective capabilities' (CBDR-RC).
- These principles acknowledge that richer countries have a responsibility of providing financial and technological assistance to developing and vulnerable countries to fight climate change.
- Developing nations feel that the developed nations have failed to fulfil the Green Climate Fund commitments.
- Under this, developing nations were to receive $100 billion for green development by 2020. This has now been delayed to 2025.

How does this impact India?

- A carbon tax would increase the prices of Indian-made goods in the EU.
- That would make Indian goods less attractive for buyers and shrink the demand.
- This would create serious near-term challenges for companies with a large greenhouse gas footprint.
- It would get to be a new source of disruption to a global trading system.

- Notably, EU is India's third largest trading partner.
- It accounted for $74.5 billion worth of trade in goods in 2020, or 11.1% of India's total global trade.
- India's exports to the EU were worth $41.36 billion in 2020-21.

What are the larger implications?

- The carbon tax mechanism may spur adoption of cleaner technologies.
- But without adequate assistance for newer technologies and finance, it would amount to levying taxes on developing countries.
- It is currently unclear how the EU would assess emissions of an imported product.
- There are many small businesses that will face difficulty in quantifying their emissions.
- And the additional costs will be passed on to the consumers, eventually.
- Also, possibly, the tax could discourage sectors and industries that are

already adopting cleaner technologies.

- In that case, it becomes another procedural and compliance hassle, and prove to be counterproductive.

Source: Financial Express

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