European Union’s Carbon Border Tax Mechanism

Why in news?

The European Union (EU) introduced Carbon Border Tax Mechanism which will impose a levy on imported carbon-intensive goods from countries (including India) where climate rules are less strict.

What is carbon border tax mechanism (CBAM)?

- **Level playing field** - CBAM aims to create a level playing field for EU and non EU manufacturers to reduce carbon footprints.
- **Carbon leakage** - CBAM was introduced to address the carbon leakage.
- **Tariff on carbon intensive import products** - CBAM plans to impose a tariff on a set of carbon-intensive imports, which will have to be paid by EU importers and companies who export such goods to EU countries.
- **Carbon intensive import products** - Includes iron and steel, cement, fertilizers, aluminum and electricity.
- **High tax on developing countries** - The highest tax under CBAM is on developing countries like India.
- **Green hydrogen** - The tax is zero if steel is made using green hydrogen as fuel and a reducing agent.

> *Carbon leakage is when companies, in order to meet climate policy requirements or to avoid restrictions on carbon emissions in their home country, relocate the production or manufacturing of carbon-intensive materials to countries with less stringent climate rules.*

What are the impacts on India?

- **High CBAM -** The share for many Indian exports covered under CBAM going to the EU is high.
- **Less market share -** Indian firms risk losing market share to EU-based producers or those in other more carbon-efficient nations.
- **Affects exports -** CBT will affect substantial exports as the EU is an important trade partner for India.
- **Expensive -** Even though a product from India may be cheaper than an American product tax plus product price will make Indian products more expensive.
- **Trade divisions -** CBT will lead to sharper trade diversion and more trade among developed countries.

What is the way forward?

- Many Indian steel firms use electric furnace, a more carbon-efficient process, so India must use its strength to avoid the carbon tax.
- CBTM may force many European steel firms to shut down will provide an opportunity for Indian steel firms to increase its market share.
- The manufacturing process needs to be transformed to sustainable being climate friendly.
- The government provide low carbon technologies for production of carbon intensive products to combat climate change.

References

1. The Hindu | About CBAM
2. The Hindu Business Line | CBAM Impacts On India

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