

EU's Carbon Border Adjustment Mechanism (CBAM)

Prelims: Current events of national and international importance | Environment

Why in News?

The Carbon Border Adjustment Mechanism (CBAM) of the European Union (EU) commenced its definitive implementation phase on 1 January 2026.

Carbon Border Adjustment Mechanism (CBAM)

- **CBAT** - It is a fee or tariff imposed on imported goods according to the greenhouse gas emissions generated during their production.
- **Introduced by** - European Union.
- **Objective** - To prevent carbon leakage by ensuring that selected carbon-intensive imported goods are subject to a carbon price equivalent to that imposed on goods produced within the European Union.
- **Revenue** - It is designated as an own resource for the EU budget under the proposed arrangements.
- The European Commission proposes the following allocation:
 - 75% of certificate-sale revenue to the EU budget.
 - 25% to a proposed Temporary Decarbonisation Fund for energy-intensive EU industries.
- The proposed arrangement does not include provisions for returning this revenue to exporting countries.



CBAM

Carbon Border Adjustment Mechanism



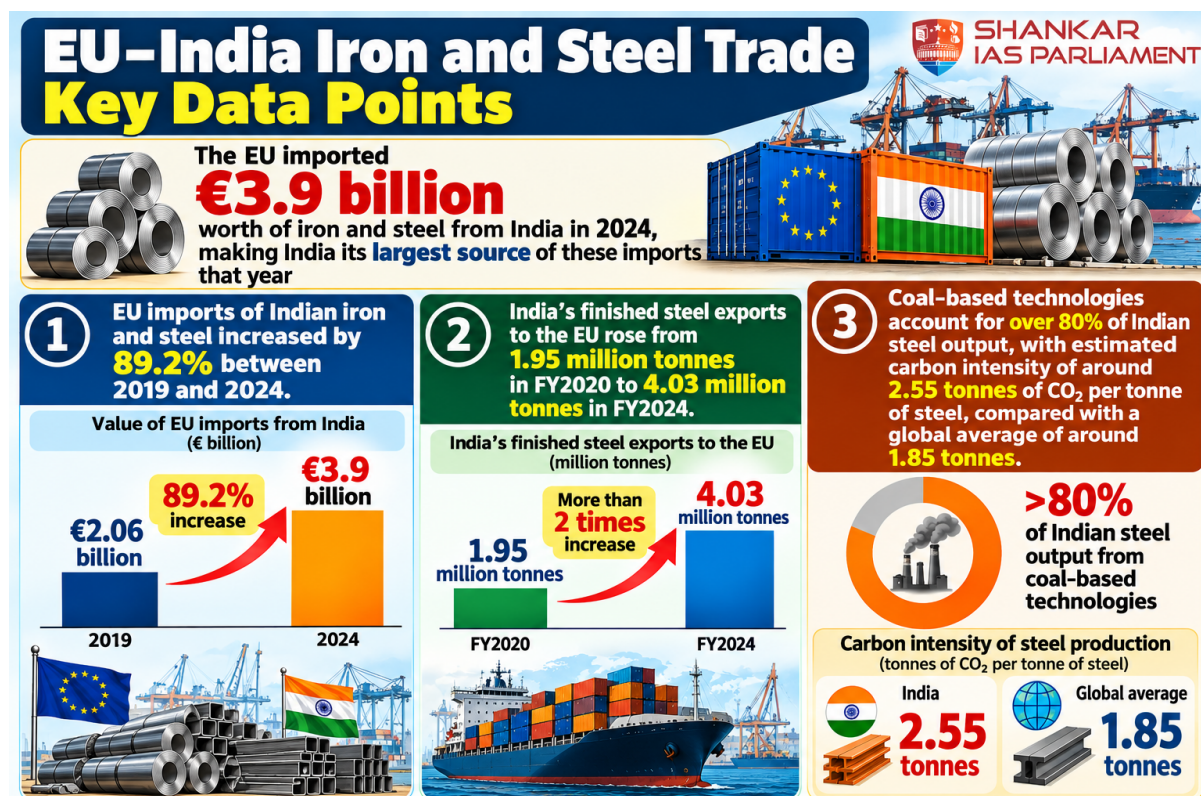
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Feature	Details
 Implementing authority	European Union
 Transition phase began	October 2023
 Definitive phase began	1 January 2026
 Initial coverage	Iron and steel, aluminium, cement, fertilisers, electricity and hydrogen
 Certificate payments for 2026 imports	Scheduled to begin in February 2027
 First annual declarations and corresponding certificates	Due by 30 September 2027, according to the article
 Primary objective	Prevent carbon leakage and encourage decarbonisation



• Key Purposes

- **Prevent Carbon Leakage** - It discourages EU companies from relocating manufacturing to countries with less stringent environmental regulations to reduce expenses.
- **Level the Playing Field** - It requires foreign producers to incur carbon costs equivalent to those paid by EU manufacturers under the EU Emissions Trading System (EU ETS).
- **Encourage Global Decarbonization** - It incentivizes non-EU manufacturers to lower their greenhouse gas emissions.



Factors Affecting Indian MSMEs

- **High compliance costs** - The processes of emissions assessment, certification, and verification often incur significant expenses.
- **Data gaps** - Obtaining emissions data from raw material suppliers and electricity providers is frequently challenging.
- **Limited technical capacity** - Many MSMEs lack specialised personnel required for accurate calculation of product-level emissions.
- **Supply-chain complexity** - Emissions are influenced by the characteristics of raw materials, components, electricity sources, and manufacturing processes.
- **Market uncertainty** - Compliance requirements may prompt European buyers to delay orders or change suppliers.
- **Commercial confidentiality** - Emissions reporting can necessitate the disclosure of sensitive information regarding suppliers and production processes.

Potential Impacts on India

Area	Possible impact
Exports	Reduced competitiveness of carbon-intensive goods
MSMEs	Higher compliance and certification costs
Employment	Potential pressure on export-dependent manufacturing
Trade	Possible decline in exports to the EU
Investment	Greater incentives to adopt cleaner technologies
Supply chains	Increased demand for verified emissions data
Domestic industry	Greater pressure to improve energy efficiency and decarbonise

Reference

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