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THE BIG PICTURE - CARBON BORDER TAX: WHY IS INDIA OPPOSING IT?

CONTEXT:

- At the two-day G-20 ministerial meeting on environment and climate change in Italy, **developing countries, including India, are expected to raise their concerns over the European Union's recent proposal on the first of its kind carbon border tax**.
- On similar lines, Democratic lawmakers, introduced a legislation establishing a carbon tariff on certain imports like steel as a means to fight climate change.
- **Indian environment minister had also opposed the plan to levy an additional 'carbon border tax' on imports from countries such as India that do not have strict norms for controlling industrial GHG emissions.**

BACKGROUND:

- Earlier, in March 2021, the **EU Parliament had adopted a resolution to implement a 'Carbon Border Adjusted Mechanism' (CBAM),** a June 2021 draft regulation pertaining to which 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 IT?

- A **carbon border tax is a tax on carbon emissions attributed to imported goods that have not been carbon-taxed at source**.
- The carbon border tax proposal **is part of the European Commission's European Green Deal that endeavours to make Europe the first climate-neutral continent by 2050.**
- A **national carbon tax is a fee that a government imposes on any company within the country that burns fossil fuels.**
- However, this often results in an increase of electricity costs in households and industry, which may lead to local business closures and other economic hardships for businesses and citizens.
- In contrast, a **carbon border tax is able to protect a country's local manufacturers, motivating them to adhere to green regulations**.
- Many EU companies are at a cost disadvantage as they have been paying a carbon border tax and for carbon emissions since 2005 under the EU's Emissions Trading System.
- The new carbon border tax can therefore **lead to a more level playing field against importers, especially those from nations with more lax environmental standards.**
- The border tax **would not take effect until 2026**.

THE CBAM PROPOSAL:

- Geographical Scope: The CBAM is **expected to apply to a limited category of goods that are imported from all third non-EU countries**.
- Product Scope: **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**. The Commission would have the power to increase or reduce the sectors covered.
- Authorized Declarants: Only persons authorized as declarants by a CBAM Authority to be created by the European Commission **would be able to import goods falling within the scope of the CBAM into the EU.**

- **CBAM Declarations and Certificates:** Every year, by May 31, authorized declarants would be required to submit to the CBAM Authority a CBAM declaration reflecting the emissions embedded in the covered goods they imported and the number of CBAM certificates corresponding to the total embedded emissions in the imported goods that the declarant is surrendering.
- One **CBAM certificate** will **correspond to one tonne of CO2 or its equivalent GHG emissions embedded in goods imported by an authorized declarant**.

WHY DOES THE EU WANT A CARBON TAX?

- For two reasons: its **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.
- But imports from emissions--which contribute 20% of the EU's carbon dioxide emissions--are increasing.
- Second, 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; those that fail to cap their emissions can buy 'allowances' from those who have made deeper cuts.
- This makes operating within the EU expensive for certain businesses, which 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?

- **As India's third largest trading partner, the EU 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, as per data from the commerce ministry.
- By increasing the prices of Indian-made goods in the EU, this tax **would make Indian goods less attractive for buyers and could shrink demand.**
- The tax **would create serious near-term challenges for companies with a large greenhouse gas footprint--and a new source of disruption to a global trading system already roiled by tariff wars, renegotiated treaties, and rising protectionism**.
- A levy of $30 per metric ton of CO2 emissions **could reduce the profit pool for foreign producers by about 20%** if the price for crude oil remained at $30-40 per barrel.

POSSIBLE IMPACTS:

- Such a mechanism to charge imported goods at borders **may spur adoption of cleaner technologies.**
- But **if it happens without adequate assistance for newer technologies and finance, it would amount to levying taxes on developing countries**.
- There are many small businesses that will face difficulty in quantifying their emissions and **additional costs will be passed on to the consumers, eventually**.
- The **design of such a levy matters**. If it discourages sectors and industries that are already adopting cleaner technologies, and becomes another procedural and compliance hassle, it could prove counterproductive.

CHALLENGES:

- It is currently **unclear how the EU would assess emissions of an imported product**. Would it be from the entire value chain, upstream and downstream.
- United States, China and Russia have all objected to the border carbon tax, **raising the prospect of retaliatory tariffs and trade wars.**
- Countries may also try to mount **challenges to the border adjustment at the World Trade Organization.**
- The EU proposal **still needs to be negotiated among the 27 member countries and the European Parliament before becoming law.**
- While many **EU companies support the idea, they are less keen on losing their free allowances under the current carbon-pricing program**.

https://youtu.be/STK_c05bRbg

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