



Carbon Border Adjustment Mechanism

For Prelims: [EU](#), [Carbon Trade](#), [Carbon Emission](#), [ETS](#), [Green Energy](#), [Decarbonization](#).

For Mains: Carbon Border Adjustment Mechanism and its Implication on India.

Why in News?

The [European Union \(EU\)](#) has announced that its **Carbon Border Adjustment Mechanism (CBAM)** will be introduced in its transitional phase from October 2023, which will levy a carbon tax on imports of products made from the **processes which are not Environmentally sustainable or non-Green**.

- CBAM will translate into a 20-35 % tax on select imports into the EU starting 1st January 2026.

What is CBAM?

▪ About:

- CBAM is part of the **"Fit for 55 in 2030 package"**, which is the EU's plan to reduce greenhouse gas emissions **by at least 55% by 2030** compared to 1990 levels in line with the **European Climate Law**.
- The CBAM is a policy tool aimed at reducing [Carbon Emissions](#) by ensuring that imported goods are subject to the same carbon costs as products produced within the EU.

▪ Implementation:

- The CBAM will be implemented by **requiring importers to declare the quantity of goods imported into the EU** and their embedded Greenhouse Gas (GHG) emissions on an annual basis.
- To offset these emissions, importers **will need to surrender a corresponding number of CBAM certificates**, the price of which will be based on the weekly average auction price of [EU Emission Trading System \(ETS\)](#) allowances in **€/tonne of CO2 emitted**.

▪ Objectives:

- CBAM will ensure its **climate objectives are not undermined by carbon-intensive imports** and spur cleaner production in the rest of the world.

▪ Significance:

- It can encourage **non-EU countries to adopt more stringent environmental regulations**, which would reduce global carbon emissions.
- It can prevent carbon leakage by discouraging companies from relocating to countries with weaker environmental regulations.
- The revenue generated from CBAM will be **used to support EU climate policies, which can be learned by other countries to support [Green Energy](#)**.

How can it Impact India?

▪ Impact India's Export:

- It will have an adverse impact on India's exports of metals such as [Iron](#), **Steel and aluminum products to the EU**, because these will face extra scrutiny under the

mechanism.

- India's major exports to the EU, such as iron ore and steel, face a significant threat due to the **carbon levies ranging from 19.8% to 52.7%**.
 - From 1st January 2026, the EU will start collecting the carbon tax on each consignment of steel, aluminum, cement, fertilizer, hydrogen and electricity.

▪ **Carbon Intensity and Higher Tariffs:**

- The carbon intensity of Indian products is **significantly higher than that of the EU and many other countries** because coal dominates the overall energy consumption.
 - The proportion of coal-fired power in **India is close to 75%**, which is much higher than the EU (15%) and the global average (36%).
- Therefore, direct and indirect emissions **from iron and steel and aluminium are a major concern for India as higher emissions** would translate to higher carbon tariffs to be paid to the EU.

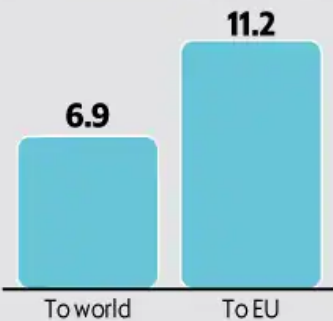
▪ **Risk to Export Competitiveness:**

- It will initially affect a few sectors but may expand **to other sectors in the future**, such as refined petroleum products, organic chemicals, pharma medicaments, and textiles, which are **among the top 20 goods imported from India by the EU**.
- Since India has no domestic carbon pricing scheme in place, **this poses a greater risk to export competitiveness**, as other countries with a carbon pricing system in place might **have to pay less carbon tax** or get exemptions.

RISING TENSION

The proposed tax has raised concerns among Indian metal producers, who fear it will create a new trade barrier for exports to Europe.

Share (%) of CBAM products in India's exports



India's total exports of CBAM products to EU:

\$8.22 bn

Impact on sectors covered under CBAM

mint

	Number of tariff lines affected	EU's share (%) in India's exports of CBAM products
↑ HIGH		
Iron ore, concentrates	16	19.9
Steel products	163	20
Iron and steel	473	31.4
Aluminium and products	85	27.7
↓ LOW		
Cement	14	6.1
Fertilizer	24	0.7
Hydrogen	1	0
Electrical energy	1	0

CBAM: Carbon Border Adjustment Mechanism

What Measures can India Take to Mitigate the Impact of CBAM?

▪ **Decarbonization Principle:**

- On the domestic front, the government has schemes like [National Steel Policy](#), and the [Production Linked Incentive \(PLI\)](#) scheme aims to increase India's production capacity, but carbon efficiency has been out of the objectives of such schemes.

- The government can **complement these schemes with a [Decarbonization Principle](#)**.
 - **Decarbonization** refers to the process of reducing or eliminating greenhouse gas emissions, especially carbon dioxide (CO₂), from human activities such as transportation, power generation, manufacturing, and agriculture.
- **Negotiation with EU for Tax Reduction:**
 - India could negotiate with the EU to recognize **its energy taxes as equivalent to a carbon price**, which would make its exports **less susceptible to CBAM**.
 - For example, India could argue that its **tax on coal is a measure to internalize the costs of carbon emissions**, and therefore equivalent to a carbon tax.
- **Transfer of Clean Technologies:**
 - India should negotiate with the **EU to transfer clean technologies and financing mechanisms** to aid in making India's production sector more carbon efficient.
 - One way to finance this is to propose to the EU to set aside a portion of their CBAM revenue for supporting India's climate commitments.
 - Besides, India should also begin preparing for the new system just as China and Russia are doing by establishing a **Carbon Trading System**.
- **Incentivizing Greener Production:**
 - India can **begin preparations** and in fact, seize the opportunity to make production greener and sustainable **by incentivizing cleaner production which will benefit India** in both remaining competitive in a more carbon-conscious future.
 - International economic system and achieving its **[2070 Net Zero Targets](#)** without compromising on its developmental goals and economic aspirations.
- **Take on EU's Tax Framework:**
 - India, as the leader of the **[G-20 2023](#)**, should use its position to advocate for other countries and urge them to **oppose the EU's carbon tax framework**.
 - India should not only focus on its own interests but also consider the negative impact that the CBAM will have on **poorer countries that heavily rely on mineral resources**.

Conclusion

- The CBAM is a policy to reduce carbon emissions from imported goods and create a fair-trade environment.
- It can encourage other countries to have stricter environmental regulations and reduce global carbon emissions.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q1. Which of the following adopted a law on data protection and privacy for its citizens known as 'General Data Protection Regulation' in April, 2016 and started implementation of it from 25th May, 2018? (2019)

- (a) Australia
- (b) Canada
- (c) The European Union
- (d) The United States of America

Ans: (c)

Q2. 'Broad-based Trade and Investment Agreement (BTIA)' is sometimes seen in the news in the context of negotiations held between India and (2017)

- (a) European Union
- (b) Gulf Cooperation Council
- (c) Organization for Economic Cooperation and Development
- (d) Shanghai Cooperation Organization

Ans: (a)

[Source: TH](#)

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