

EXPRESS VIEW ON EU CARBON TAX: COSTS OF A LEVY

Relevant for: Environment | Topic: Environmental Degradation - GHGs, Ozone Depletion and Climate Change

According to a report in this newspaper, Indian industry has expressed concerns about the European Union's Carbon Adjustment Mechanism (CBAM). The regime came into effect on October 1 last year, but it won't be before 2026 that tariffs will be imposed on imports to the 27-nation bloc. India Inc's immediate worries are about a CBAM clause that requires exporters to submit nearly 1,000 data points about their production methods. Brussels contends that the requirement is meant to ascertain carbon footprint-related information but Indian exporters fear that they could lose critical competitive advantage in the process. Industry says that besides being a burdensome process, the data-sharing exercise could compromise sensitive trade secrets.

A more serious challenge for industry will be to navigate CBAM's definitive phase when tariffs start getting imposed. In 2022, more than a fourth of India's exports of iron, steel and aluminium were to the EU. According to industry estimates, the EU tariffs could raise the costs of Indian exports by 20 to 35 per cent. A multi-pronged effort will be required. For one, India will have to contest CBAM's protectionist underpinning. The government has already questioned the mechanism at the WTO. It will also need to join hands with other affected countries to contest CBAM at climate fora. The measure is being imposed in an already unequal context, due to the failure of rich countries to honour commitments to make clean technologies accessible to developing countries. One suggestion by experts is, therefore, to impose the tariff but channel the fund to developing countries — instead of the proceeds going to the EU's corpus. Given the already contentious nature of climate financing, implementing this recommendation will require tough talking. The government is reportedly contemplating a levy similar to CBAM to nudge industry to reduce its carbon footprint — the revenue would then be used to fund the domestic green transition. There are, however, imponderables, including whether the EU will play ball and withdraw its tariff.

There are apprehensions that other developed economies could follow in the EU's footsteps — the US, for instance, opposes CBAM, but conversations have already started in America about imposing a similar levy. Big companies like Tata Steel and JSW seem to be bracing for this challenge — they have ambitious decarbonisation targets. However, abating emissions from the steel sector is tough. Technological interventions — carbon capture and storage, for example — could be costly for small companies. They will require handholding by governments, regulators and financial institutions.

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