

INDIA-EU: GLOBAL DYNAMICS

Relevant for: International Relations | Topic: Europe, European Union (EU) and India

Prime Minister Narendra Modi interacts with President of European Commission Ursula von der Leyen during a meeting on the sidelines of G-7 Summit in Germany on June 27, 2022. External Affairs Minister S. Jaishankar looks on. Photo: Twitter/@vonderleyen via PTI

With carbon neutrality being the byword to a sustainable world, a host of countries — Norway, Sweden, the United Kingdom, France, Spain, Japan, Germany, Canada, Costa Rica, the United States, Brazil, India, and China among others — have set for themselves net-zero targets for the middle and later part of the century.

At the forefront of the commitment to net-zero is the European Union, which wants to be the first carbon-neutral region in the world by 2050. It brought out the 'European Union Green Deal' in July last year to focus on a new growth strategy that aims to transform the EU society into a fair and wealthy one with a modern, resource-efficient and competitive economy.

To attain carbon neutrality, the EU has set forth immediate targets and has brought out the 'Fit-for-55' package, a communication of its 2030 climate targets. A provision in the policy plan is the introduction of Carbon Border Adjustment Mechanism (CBAM), a carbon-pricing system proposed for imports into the EU. The CBAM suggests taxing the imported goods-based difference between carbon used in the production of domestic and imported goods.

Proposed to be complementary to the EU Emission Trading Scheme (EUETS), during the transition phase of CBAM — beginning January 1, 2023 — importers will only have to report emissions embedded in the production of goods and are not obliged to pay a financial penalty. The CBAM, however, will come completely into force from January 1, 2026 and the measure will see a gradual reduction of free EUETS allowance coverage of 10 percentage points per year and a complete phase-out by 2035. In the initial phase, five CITE (Carbon Intensive and Trade Exposed) sectors such as iron and steel, aluminium, cement, fertilizers and electricity will be taxed under CBAM. Eventually, all sectors under EUETS will be brought under its ambit.

The EU claims that CBAM is intended to reduce carbon leakage, create a level playfield for EU producers and encourage producers in other countries to adopt cleaner technologies. But several discussions have cropped up around CBAM. Developing countries have raised their concern on the legality of CBAM pointing out its conflict with World Trade Organization (WTO) and the United Nations Framework Convention on Climate Change (UNFCCC) norms, and are afraid that it encourages protectionism.

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History provides several instances of conflict between domestic restrictive policies stating environmental concern and trade openness such as the Shrimp-Turtle Case and *Air Transport Association of America vs Energy Secretary Case for Energy and Climate Change*. Rulings in these cases have been in favour of environmental laws, proving that the ongoing debate is a continuation of pre-existing issues and, in the past, environment concerns have outweighed those related to trade.

Developing countries also flag the use of revenue collected from CBAM. According to the EU, revenue collected from CBAM will be a part of the EU's budget, the NextGenerationEU, a recent initiative launched to provide economic support to EU member countries impacted by the

COVID-19 pandemic. Countries opposing the proposed revenue utilisation mechanism suggest that if CBAM is to be implemented, revenue collected from it should be used for cleaner technology adoption in developing countries.

India and the EU share a healthy trade relationship. The EU is India's third largest trading partner, while India is EU's 11th largest trading partner. In 2019-20, India-EU trade accounted for 63.8 billion (11.1% of total Indian trade) in goods, while a total of 1.9% of EU's total trade in goods in 2020 came to India. India exports almost 14% of its global exports to the EU.

Recently, there has been increasing initiative from both sides to deepen engagement with each other. Talks on India-EU Free Trade Agreement (FTA) that were stalled a while ago have picked up again and are scheduled to take place in June. The target to finalise the Free Trade Agreement has been set for 2023-24.

Both India and the EU are committed to climate change, and the recent progress in India-EU alliance opens prospects of a customised partnership and mutual growth. Rather than tax on exports to EU as proposed in CBAM, India and EU can cooperate better by investing in cleaner and greener technologies in India and helping in cleaning up production in India. Such a partnership will ensure that both India and the EU have their agendas of economic growth and sustainability fulfilled, a win-win situation for both entities.

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