

European Union's Carbon Border Tax Mechanism

Why in news?

The European Union (EU) introduced Carbon Border Tax Mechanism which will impose a levy on imported carbon-intensive goods from countries (including India) where climate rules are less strict.

What is carbon border tax mechanism (CBAM)?

- **Level playing field** - CBAM aims to create a level playing field for EU and non EU manufacturers to reduce carbon footprints.
- **Carbon leakage** - CBAM was introduced to address the carbon leakage.
- **Tariff on carbon intensive import products** - CBAM plans to impose a tariff on a set of carbon-intensive imports, which will have to be paid by EU importers and companies who export such goods to EU countries.
- **Carbon intensive import products** - Includes iron and steel, cement, fertilizers, aluminum and electricity.
- **High tax on developing countries** - The highest tax under CBAM is on developing countries like India.
- **Green hydrogen** - The tax is zero if steel is made using green hydrogen as fuel and a reducing agent.

Carbon leakage is when companies, in order to meet climate policy requirements or to avoid restrictions on carbon emissions in their home country, relocate the production or manufacturing of carbon-intensive materials to countries with less stringent climate rules.

What are the impacts on India?

- **High CBAM** - The share for many Indian exports covered under CBAM going to the EU is high.
- **Less market share** - Indian firms risk losing market share to EU-based producers or those in other more carbon-efficient nations.
- **Affects exports** - CBT will affect substantial exports as the EU is an important trade partner for India.
- **Expensive** - Even though a product from India may be cheaper than an American product tax plus product price will make Indian products more expensive.
- **Trade divisions** - CBT will lead to sharper trade diversion and more trade among developed countries.

What is the way forward?

- Many Indian steel firms use electric furnace, a more carbon-efficient process, so India must use its strength to avoid the carbon tax.
- CBTM may force many European steel firms to shut down will provide an opportunity for Indian steel firms to increase its market share.
- The manufacturing process needs to be transformed to sustainable being climate friendly.
- The government provide low carbon technologies for production of carbon intensive products to combat climate change.

References

1. [The Hindu | About CBAM](#)
2. [The Hindu Business Line | CBAM Impacts On India](#)

