CBAM's supply chain impact worries firms

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Carbon taxes in various jurisdictions are likely to impact their supply chain, 67 per cent of the respondents surveyed in PwC's tax transparency in ESG study said.

The study said carbon taxes, such as the EU's Carbon Border Adjustment Mechanism (CBAM), will require companies to proactively assess their implications across different jurisdictions, including potential cost increases, compliance requirements, and shifts in consumer behaviour.

Half of companies surveyed in the PwC study say they are actively taking steps to reduce carbon footprint and align with environmental sustainability goals

CBAM aims to set a fair price on the carbon emitted during the production of energy-intensive products, like iron, steel, cement, fertilisers, and aluminium, entering the EU.

The carbon tax will come into effect from January 1, 2026. During the trial period, which started on October 1, 2023, companies from seven carbon-intensive sectors, including steel, cement, fertiliser, aluminium and hydrocarbon products, have to share emissions data with the EU.

Half of the companies surveyed had made net-zero commitments and were actively taking steps towards reducing their carbon footprint and aligning with environmental sustainability goals (ESG). Of these, 48 per cent aimed to achieve net-zero emissions by 2030.

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quarters, however, include the erstwhile Housing Development Finance Corporation (HDFC), which merged with HDFC Bank in July this year. The housing finance major had reported a net profit of ₹3,691 crore on a standalone basis on a net interest income of ₹5,536 crore in Q3FY23. It was the 13th most profitable firm on the index last year. For the first time in many years, four of the five most profitable index companies -- HDFC Bank (including HDFC), Tata Consultancy Services, Oil & Natural Gas Corporation, and State Bank of India -- will either report a Y-o-Y decline or low single-digit growth in their net profit in Q3FY24, estimate brokerages. Reliance Industries could be an outlier with an estimated 13 per cent Y-o-Y growth in net profits in the third quarter. These five companies together contributed 40 per cent to Nifty 50 earnings in Q3FY23.

CBAM...

The PwC survey said businesses should consider implementing digital solutions for strategically assessing carbon emissions and managing related tax incentives in order to achieve long-term cost advantages. “By taking a proactive stance, businesses can reduce risks and take advantage of opportunities presented by changing carbon tax regimes.”

However, 59 per cent of participants believe there is a need for policymakers to incentivise ESG practices. Thirty-four per cent of respondents said combining environmental taxes and incentives can help implement sustainable practices.

“Such policies can provide the necessary impetus for companies to prioritise ESG investments, foster responsible tax conduct, and pace climate change mitigation and adaptation, as well as contribute towards sustainable economic development,” the PwC report said.

The net-zero or decarbonisation commitment of companies refers to their pledge to reduce their greenhouse gas emissions as much as possible and to remove the balance emissions through nature-based solutions or carbon capture and storage.

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