

India, EU set to discuss carbon border tax today

One of first bilateral discussions on controversial levy, which partially kicks in from Oct 1

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Top officials from India and the European Commission are scheduled to hold virtual discussions on Thursday to address India's concerns over the European Union's (EU's) Carbon Border Adjustment Mechanism (CBAM), people aware of the matter said.

The European Commission is the EU's politically independent executive arm. It is alone responsible for drawing up proposals for new European legislation. The CBAM, which is set to enter a transition phase on October 1, with full implementation planned by January 2026, will result in the imposition of a levy on imported carbon-intensive products such as cement,

fertiliser, and metals. Several countries, including India, have raised concerns about its impact on their exports.

Considering that India and the EU are 'trusted partners', especially after setting up a Trade and Technology Council last year, the trade bloc is prepared to engage with New Delhi on potential challenges it could face due to the CBAM's implementation.

"The EU has acknowledged the fact that there are concerns. It is talking to India as a trusted partner. One of the first bilateral discussions that the EU is starting on the CBAM is with India," one of the persons cited above told Business Standard.

"There are teething issues such as the impact on downstream industries, the violation of the CBDR (common



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TALKING POINTS

- There should be a carve-out for MSMEs under CBAM
- Violation of WTO's CBDR principle
- Mutual recognition of carbon credit system with EU's emissions trading system

but differentiated responsibilities) principle, a carve-out for MSMEs, and equal recognition of embedded taxes. These will be among the scope of discussions," the person said.

According to the EU, the CBAM is

a tool to put a fair price on the carbon emitted during the production of carbon-intensive goods entering the bloc. Through the levy, it wants to encourage cleaner industrial production in non-EU countries. India believes that

measures like these will result in a market-access issue with the EU's trading partners. Specifically, India fears adverse effects on its steel and aluminium industries. In recent months, New Delhi has communicated these concerns to Brussels and submitted a paper to the World Trade Organization, arguing that the CBAM contradicts the CBDR principle. Exemptions for India's small businesses from the mechanism have also been sought.

According to the think tank Global Trade Research Initiative, the CBAM is expected to pose a significant challenge for India's metal industry. As much as 27 per cent of India's iron, steel, and aluminium exports, worth \$8.2 billion, went to the EU in 2022.

In May, Commerce and Industry Minister Piyush Goyal had said India and the EU had decided to work together to find the right solution ahead of the CBAM's implementation.