

CBAM must be fair to developing world, says CEA

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Chief Economic Advisor (CEA) V Anantha Nageswaran raised concerns on Thursday about the carbon border adjustment mechanism (CBAM). He called for a more positive approach by advanced economies to ensure that developing countries don't face unfavourable conditions in supporting economic activity in the developed world.

"If developing countries are insuring the lives and property of people and businesses in developed nations, what are they getting in return? What is the premium that developed nations are willing to pay for it? Surely, it cannot be CBAM," the CEA said.

CBAM aims to establish a fair price for carbon emitted during the production of energy-intensive products, such as iron, steel, cement, fertilisers, and aluminum, entering the European Union (EU).

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

The CEA was speaking at the regional workshop on climate finance on the role of insurance in financing climate risk, organised by the Department of Economic Affairs and Asian Development Bank.

Nageswaran, while stressing that climate change involves geopolitical risks, said that countries moving towards renewable energy become more vulnerable than they were when they depended on fossil fuels. This is especially true concerning the supply of rare earths and critical minerals.

"Dependence on a few sources of supply is a risk that needs to be insured. Is the insurance industry better prepared to finance that kind of risk, or is it something that can be done only through international collaborative arrangements?" he asked.

Financial institutions themselves, the CEA said, need to protect themselves from the risk of stranded assets due to energy transition.

"How to insure banks? They may need more capital if assets have to be written off... Contingency capital needs to be brought on," he added.

Nageswaran also highlighted the need to insure against wrong policies arising out of excessive fear of emissions in the developed world that would result in the loss of output and employment in developing nations.

“ ADAPTATION IS THE BEST FORM OF INSURANCE, AND FOR THAT TO OCCUR, THE POLICY FRAMEWORK MUST FOCUS AS MUCH ON ADAPTATION AND RESILIENCE AS ON EMISSIONS ”

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