

European Union's CBAM a worry for Indian steel exports

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The proposed EU Carbon Border Adjustment Mechanism (CBAM), a tariff on import of carbon-intensive goods, is likely to impact steel exports from India, putting manufacturers here in a quandary.

The CBAM, aimed at preventing "carbon leakage", will be phased in gradually. As things stand, starting October 1 in the European Union, importers of products from specific sectors such as iron and steel, aluminium, electricity, certain fertilisers, cement and hydrogen would have to start collecting and reporting carbon data. CBAM will come into force in 2026, with a levy linked to the EU carbon market price.

The EU is a key market which, according to Crisil Market Intelligence, accounted for 25-30 per cent of India's finished steel exports over the last three fiscals (FY20-FY22).

India has committed to carbon neutrality by 2070 and firms are charting a decarbonisation road map aligned to it. Some have set much earlier goals. But the CBAM is more imminent, and could potentially put competitiveness of exports in question.

Jayant Acharya, deputy managing director, JSW Steel, said CBAM would disrupt global trade with little impact on climate. "Developed countries have generated 79 per cent of the historical carbon emissions and that is why it is agreed that they will bear a higher share of the carbon mitigation plan."

"In its current form, we consider CBAM to be a trade barrier and not based on the basic principles of CBDR (common but differentiated responsibilities) to achieve the Paris agreement," Acharya added. "We would request the government of India to engage with the EU to communicate that

India will follow its own NDC (nationally determined contribution) as per the Paris agreement."

Alok Sahay, secretary general, Indian Steel Association, also said that the implementation of EU-CBAM would act as a trade barrier as it is not based on the principle of level playing field and is not World Trade Organization (WTO)-compliant. It also forces developing countries to toe the line of accepting EU NDCs.

Kalyan Bhattacharjee, Chief Sustainability Officer at Jindal Stainless, said CBAM was expected to impact Indian steel and stainless steel industry as EU is one of India's major exporting geographies.

"What we have to understand is that CBAM is going to be applicable to all manufacturers, European or otherwise. However, how it will play out in pricing of Indian manufacturers vis-à-vis European and other counterparts is something that will unfold with time," Bhattacharjee said.

He added that clean energy was a clear advantage that European manufacturers enjoy, owing to the green grids in EU, which are not available in countries like India. "So for Indian manufacturers, own efforts for aggressive greening are as important as the country's strength in providing clean energy to its industries."

India has already raised its concerns at the WTO. The CBAM, however, will be subject to the EU's internal legislative process that is expected to be finalised in May 2023.

But even in the trial phase, the reporting of carbon data may throw up challenges. Producers would need to set up systems and processes for collecting, collating, monitoring, reporting and verifying data, Acharya said. The EU is yet to notify the methodology.

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