

India plans to challenge EU's carbon border tax at WTO

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New Delhi, 16 June

India and South Africa, along with some other developing nations, are gearing up to challenge the European Union's (EU's) carbon border adjustment mechanism (CBAM) at the World Trade Organization (WTO), people aware of the matter said.

This is because developing nations say the mechanism, the EU's key tool to fight climate change and carbon leakage, compromises the "common but differentiated responsibilities" principle, established under the Paris Agreement on climate change in 2015.

According to the principle, all countries have a shared obligation to address environmental hazards. However, they are not "equally"



responsible as far as environmental protection is concerned, considering that every country is at a different stage of development.

That apart, at the WTO there are special provisions for developing nations, allowing them to avail themselves of a longer time frame to implement certain

commitments or agreements.

The CBAM is not compliant with this principle of the WTO because it will be applicable to all the partners of the trade bloc without any exemption for developing nations.

"We have taken South Africa and some other developing countries on board. We are trying to see that the

mechanism is postponed till there is some clarity on its WTO compatibility," one of the persons quoted above told

Business Standard.

"At the WTO we accept different countries are at different levels of development.

Especially in the context of the environment, there needs to be common and differential treatment. So the basic principle of common but differentiated responsibilities is being compromised. We have also taken up the matter bilaterally," 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 EU. The trade bloc also wants to encourage cleaner industrial production in non-EU nations.

The CBAM's transition

phase will kick in from October, followed by levying carbon tax from January 2026.

The Global Trade Research Initiative had earlier said the CBAM was expected to pose a challenge for India's metal industry because as much as 27 per cent of India's iron, steel, and aluminium exports, worth \$8.2 billion, went to the EU in calendar year 2022.

Malaysia had also raised a concern. According to the trade policy review released in April, Malaysia had said since the purpose of the CBAM was to meet the EU's climate ambitions, the EU was obliged to provide financial support and capacity building, to developing countries in line with the spirit of the UNFCCC and the Paris Agreement. Malaysia's response was based on a question raised by India on its concern over the CBAM.

THE FINE PRINT

What is EU's Carbon Border Adjustment Mechanism?

It's a tool to put a 'fair price' on the carbon emitted during the production of carbon-intensive goods that are entering the EU

How will it be applied?

CBAM will initially apply to imports of certain goods whose production is carbon intensive and at significant risk of carbon leakage: cement, iron and steel, aluminium, fertilizers, etc

When will it take effect?

It will come into force in its transitional phase as of October 1

What are the key objections?

Developing nations want CBAM to be postponed till there is clarity on its WTO compatibility. They say CBAM compromises the 'common but differentiated responsibilities' principle