

Brace for climate tariff walls, FM cautions India Inc

Says the upcoming Budget will continue to push growth

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Union Finance Minister Nirmala Sitharaman on Friday cautioned Indian industry of impending cost to sectors such as steel from tariff walls being raised by developed economies and sought suggestions how the government could help in the green transition of such sectors.

Without naming the Carbon Border Adjustment Mechanism (CBAM), agreed upon by the European Union on Tuesday, Sitharaman said there were countries that wanted to fund their transition from not so green to green production of material for items like steel by raising tariff walls against countries that sent their products as a matter of normal export.

"When you export steel, you will be facing tariff walls in the name of climate action tax. This is going to affect us. For India, therefore, both for meeting our nationally determined commitments and also for industry to quickly understand the necessity for resetting yourselves so that tariff walls coming up newly in the name of climate change is something which we should face and be ready for," Sitharaman said at an event organised by the Federation of Indian Chambers of Commerce and Industry (Ficci).

"When you are readying yourselves for it, there is a role that the government and industry can play together. Diplomacy helps, and so does policy. I want industry to be fully seized of it, not just highlighting the burden that is going to fall on you, but how do we reduce the burden of that cost which is going to come on you," the finance minister said.

As part of a plan to decarbonise economies by 2050, the European Commission on Tuesday reached a political agreement on the CBAM, which will put a carbon price on imports of products such as cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen so that ambitious climate action in Europe does not push carbon-intensive production outside Europe.

However, many countries are likely to challenge any such action at the World Trade Organization because it would directly hit their industry and exports when it is implemented in a phased manner from October next year.



Nirmala Sitharaman
Finance Minister

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SEEING RED OVER 'GREEN'

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► **Many countries may challenge such action at WTO** as it would hit their industry and exports

► **India will be the biggest loser of exports,** followed by Brazil and South Africa, according to estimates

According to one estimate, India will be the biggest loser (\$3 billion) of exports, followed by Brazil and South Africa.

In a recent report on ESG (environmental, social, and governance), Ficci said trade competitiveness concerns could reshape the incentives of Indian actors once CBAM kicked in.

"Indian exporters will see direct links between international competitiveness and the extent of decarbonisation within their firm and supply chain, and within the electricity system of the states in which they operate," the report said.

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The report added: "This will impact decisions on the question of where production within India takes place: private firms may avoid states which have low economic freedom in purchasing renewables and where renewables make up a lower fraction of discom supply."

Sitharaman indicated her forthcoming Budget would continue to push growth following the spirit of earlier Budgets.

"We are going to set the template set earlier but follow it and take it further for India's next 25 years," she said.

The minister asked industry to work out strategies as to how businesses operating in developed countries could look at India as a production or sourcing hub amid recession fears in the Western countries.

"As much as you are preparing yourself for a long-drawn recession in the developed world, I think it is also the best time for you to work out strategies for drawing those manufacturers from there to India," she added.