

India begins sector-wise analysis of EU carbon tax

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India is exploring all possible options to deal with the European Union's (EU's) proposed Carbon Border Adjustment Mechanism (CBAM) and has initiated sector-wise analysis of the carbon border tax's impact on its domestic industries, such as steel and aluminium, among others.

With countries getting more conscious towards climate change, the CBAM is a measure aimed at preventing carbon leakage. The measure is not India-specific and will be applicable to all countries.

On the one hand, India may consider any retaliatory measure at a multilateral — the World Trade Organisation — level, on the other hand, it's initiating a sector-wise analysis to assess if the CBAM can act as a non-tariff trade barrier, a person aware of the matter told *Business Standard*.

"Right now, India needs to understand the EU's point of view as well as the CBAM's impact on India. If CBAM starts acting like a non-tariff barrier, then we need to address that," the person cited above said, adding that the government also wants to explore if there is any 'positive impact' of the CBAM on India.

ALL ABOUT CBAM

- According to the European Union, Carbon Border Adjustment Mechanism (CBAM) will put a fair price on the carbon emitted during the production of carbon-intensive goods entering the EU
- It will encourage cleaner industrial production in non-EU countries
- Final set of rules, method for applying CBAM would be finalised eventually
- CBAM will be introduced in phases; the 1st phase of implementation will start in October 2023. Permanent system would come into force from January 2026
- CBAM would initially apply to import of steel, cement, aluminium, fertilisers, electricity, and hydrogen

The EU's CBAM tool aims at putting a fair price on the carbon emitted during the production of carbon-intensive goods that are entering the EU. The trade bloc also wants to encourage cleaner industrial production in non-EU countries. Starting October 1, exporters will not have to pay tax, but will share details of the carbon content in the covered products with the respective EU-based importers. This data will be shared with the European Commission. From January 1, 2026, the EU will start collecting carbon tax on each consignment. All products will be covered by 2034.

Apart from the commerce department, the steel ministry and the energy efficiency

bureau under the power ministry have started a thorough impact analysis on the measure. Although the final rules and text on carbon tax is awaited, the commerce department officials have been engaging with the EU bilaterally to explore if there is a scope for a collaborative measure as far as the mechanism is concerned.

"The government also feels that there may be some gains for India (under the CBAM). A clear picture will emerge after the rules are out. India will be watching out the reaction of other nations regarding the same as the intensity of the impact will be different from different countries," another person said.

An analysis done by Global

Trade Research Initiative (GTRI) showed that the carbon tax is expected to pose a significant challenge for India's metal industry, considering that 27 per cent of India's iron, steel, and aluminium exports worth \$8.2 billion went to the EU in calendar year 2022. Other sectors, such as electricity, fertiliser, hydrogen, and cement, will also attract carbon tax, but India will not be affected as it does not export these products to the EU.

According to GTRI Founder Ajay Srivastava, the carbon border tax will affect small and big firms and, as a result, Indian exporters must factor the carbon border tax into their costing and prepare to minimise its impact.

