

UK, EU carbon tax: Govt considers compensation for affected exporters

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THE CENTRE IS EXPLORING a range of relief measures to soften the blow of the carbon tax introduced by the European Union (EU) and the UK, which includes offering compensation to exporters affected by the tax to help them remain competitive in the global markets, a government official told *The Indian Express*.

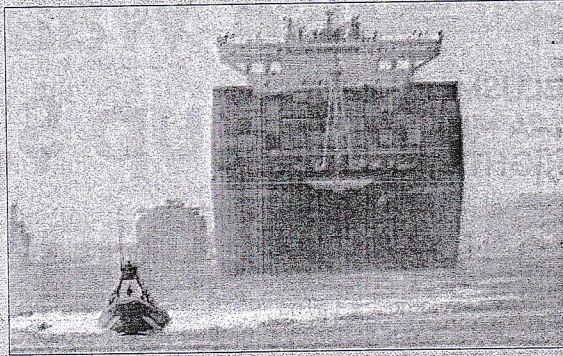
The carbon border adjustment mechanism (CBAM), or carbon tax, is expected to have an impact on India's iron, steel, and aluminium exports worth \$8-\$9 billion headed into Europe and the UK. But going forward, the CBAM has provisions to include more products with a high carbon footprint. This could mean India faces a greater impact over the years.

"There are various options on the table to tackle carbon tax such as seeking longer transition time and repatriation of the duties. We are also looking at other collaborative mechanisms where we devise a way to come out with supportive measures to make the product more competitive. We are discussing and deliberating along these lines," said the official, requesting anonymity.

The CBAM kicked in on October 1 with carbon emissions reporting requirements on imports at the borders. But the EU will impose the actual tax from 2026. The period between 2023 to 2026 is known as the transition time.

"Addressing these kinds of measures in an FTA is a challenge. These kinds of measures emanate from WTO provisions that we all have committed to. It allows members to take measures for the protection of human lives, plants, and health. It includes the environment as well," official added.

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THE STORY SO FAR

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lenged the carbon tax at the WTO as it believes CBAM is in violation of special and differential treatment (SNDT) provisions of the WTO that advocates longer periods for implementing agreements and commitments for developing nations to safeguard the trade interests of developing countries.

"CBAM undermines SNDT... they argue that if we follow the principle the whole objective gets defeated. But then a country like India will always argue for a longer transition time," the official said.

Trade experts have also criticised CBAM for violating the principle of international environmental law that says that all states are responsible for addressing global environmental destruction yet not equally responsible. Common but differentiated responsibilities (CBDR) assumes more significance for India which contributes to under one-seventh of world's carbon emissions.

"The key emissions source that the EU seeks to tackle is energy, which it imports, and which will be consumed in manufacture of these products. However, the EU creates a very different landscape in its textual proposals in the India-EU FTA. Export pricing discipline under the Energy and Raw materials chapter specifically forbids any incentives by India to its own industry to consume green energy," said Sangeeta Godbole, a former revenue officer who was part of the Indian team negotiating the India-EU free trade deal.

After the EU notified the CBAM earlier this year, the UK this week said its CBAM version will come into effect by 2027. A UK government fact-sheet said its mechanism will place a carbon price on some of the most emission-intensive industrial goods imported to the UK from the aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron and steel sectors.