

India may face 10% VAT under CBAM regime

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New Delhi, 26 February

Production in India may implicitly face tariffs to the tune of 10.5 per cent value-added tax (VAT) if the European Union's (EU's) Carbon Border Adjustment Mechanism (CBAM) comes into effect, according to a study by the Asian Development Bank (ADB) published on Monday.

CBAM is a carbon tariff on carbon-intensive products like steel, cement and some electricity imported to the EU. Legislated as part of the European Green Deal, it comes into effect in 2026, with reporting starting in 2023.

The report titled 'Decarbonising Global Value Chains' notes that CBAM's impact on the economy depends a great deal on the carbon intensity of production in products covered by the CBAM. The carbon intensity is driven by various factors, including the energy mix in production and the production technology in different economies and regions.

"Regions in developing Asia and Eastern Europe often have some of the highest emissions intensities, given different production techniques and heavy reliance on coal as a source of energy across much of developing Asia. [Thus] under the assumption of a carbon price of €100 per metric tonne of CO₂, current CO₂ intensities in developing Asia would be the equivalent of a value-added tax of between 3 per cent and 12 per cent when considering the aggregate economy, with the rates being relatively high for India, China, and central and west Asia," the study notes.

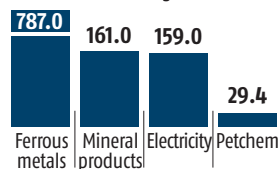
Correspondingly, China and South Korea are expected to face tariff equivalent of 11.4 per cent VAT and 4.88 per cent VAT, respectively. In India, sectors like ferrous metals (787 per cent) are expected to be worst impacted, followed by



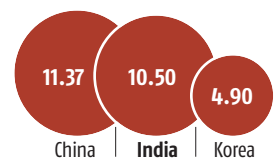
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Value-added tax equivalent of a carbon price of 100 per metric tonne of CO₂ (%)

Top 4 sectors of India to be affected by CBAM



Asian countries affected by CBAM



Source: ADB report

mineral products (161 per cent), electricity (159.7 per cent), petrochemicals (29.4 per cent) and non-ferrous metals (23 per cent). The study also notes that the impact of CBAM will depend on developing Asian countries' exports to the EU of products covered.

"The EU is generally not the primary market for CBAM products originating from developing Asia, though the tariff equivalents can be large in some cases. In only a couple of cases does the EU account for more than 10 per cent of core CBAM exports from developing Asia," the study said.

Meanwhile, the study also notes that while extending CBAM to other regions can lead to substantial reductions in CO₂ emissions, it can come at the cost of a significant decline in global trade and the estimated macroeconomic effects of extending it to other regions will be distinct to each region.