

India, China question EU's unilateral trade measures

Certain 'irritants' preventing from achieving full potential of trade: India

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India and other developing countries, including China, Indonesia, and South Africa, have questioned unilateral trade policy measures by the European Union (EU), such as the Carbon Border Adjustment Mechanism (CBAM) and the Deforestation Act at the World Trade Organization (WTO).

During the Trade Policy Review of the EU, India said that while bilateral economic and commercial relations have been on the upswing, certain "irritants" are acting as barriers, preventing both sides from achieving the full potential of their economic partnership.

"We note with concern that during the review period, there has been a general upswing in the unilateral trade policy measures implemented by the EU that have a negative impact on its trading partners, including India," it added.

"The adoption of climate and environment-related policies, particularly CBAM, regulation on deforestation and forest degradation, the proposal on corporate sustainability due diligence, maximum residue levels, and associated derogation power given to EU members, are problematic and are becoming non-tariff barriers to trade for the product categories included."

India said these measures have far-reaching implications for existing trade volumes and future trade potential.

"The WTO compatibility of these measures is also an open question and requires deeper discussions among the WTO members to ensure that these trade measures are compatible with the WTO rules and the multilateral trading system," it added.

China said it is "regrettable" to see the measures taken by the EU, such as CBAM, fail to follow the basic principles under the United Nations Framework Convention on Climate Change and the Paris Agreements, as well as the WTO rules.

"Such measures would discriminate against imported products and restrict

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WHAT OTHERS SAY

South Korea: Carbon Border Adjustment Mechanism (CBAM)'s regulation should reflect each country's carbon reduction mechanism

Singapore: Many uncertainties potentially caused by the CBAM, green taxation, and green government procurement need to be carefully addressed at the WTO

Russia: CBAM will fundamentally challenge the structure of global goods flows and the state of competition in the worlds' largest markets

Switzerland: CBAM should have as little effect as possible on global trade and not create discrimination between similar products

market access, especially for those from developing members. The EU Net-Zero Industry Act also limits the market share of net-zero products from third parties, which runs counter to market principles and the basic rules of the multilateral trading system," it added.

Indonesia, in its comments, said the EU's new trade strategy, including CBAM and the Deforestation Act, will generate "unnecessary" barriers to trade, particularly for non-EU and direct competitors with EU products such as coffee, rubber, processed wood, and palm oil. "This policy, we believe, will impact small and medium enterprises as well," it added.

South Africa said the EU's recent trade policy direction has "significant" implications for trading partners and their ability to access the EU market.

"This also raises the need to reflect on how we can promote multilateral cooperation and collaboration on issues of the global commons, whether unilateral and protectionist trade practices and policies are a solution, and what the implications are for WTO rules," it said.

The New Delhi-based think tank Global Trade Research Initiative has estimated that 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.

In its response, the EU clarified that CBAM is not a trade measure but a climate-oriented environmental policy tool to ensure that we can reach our climate targets.

"It will be applied to imported products in an even-handed, non-discriminatory manner based on their actual emissions. Any effective carbon price paid outside of the EU will be taken into account. It should be noted that the phase-in of CBAM will be gradual. No financial adjustment will be made before 2026. The transitional period starting in October 2023 is designed to give sufficient time for partners to prepare. The EU will provide opportunities for feedback and consultation with our trading partners when designing the implementing rules," it added.