

EU's CBAM to dent margins of steel and aluminium exporters

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The rollout of the Carbon Border Adjustment Mechanism (CBAM) by the European Union from Thursday will have a major impact on the margins of steel and aluminium exporters. This comes at a time when Indian metal companies are reeling under the hefty 50 per cent duty on exports to the US. India is the second-largest exporter of steel and aluminium to the EU after China.

Under the EU's new rules, steel and aluminium imports will be taxed based on the volume of emissions associated with production. Though CBAM covers other polluting industries such as cement, electricity, fertilizers and a number of other goods, India does not export much of these products to the EU.

Steel companies are exploring alternative markets, primarily in Africa and the West Asia, with exports to the EU becoming almost unviable.

HIGH ON EMISSIONS

Most of the steel produced in India is through blast furnaces, which generate more carbon dioxide emissions.

"We are still studying the impact as it is not yet clear whether CBAM will be company-specific or country-related," said an executive with a steel company.

In fact, the government is also seeking an exemption from CBAM under the new free trade agreement being negotiated.

Ajay Garg, Director & CEO, SMC Global Securities, said under the CBAM, EU importers will be required to pay a carbon cost equivalent to what European



producers bear under the EU's emissions trading system, making high-emission imports more expensive.

"This could compress the margins for Indian exporters or reduce their price competitiveness, unless producers improve energy efficiency or shift towards cleaner production technologies," he said.

Over time, the scope of CBAM may expand to include more sectors and downstream products, increasing compliance and reporting requirements for exporters, he added.

Overall, CBAM is likely to accelerate decarbonisation efforts among Indian manufacturers targeting the European market, said Garg.

Naveen Mathur, Director - Commodities and Currencies, Anand Rathi Shares and Stock Brokers, said steel and aluminium exporters to Europe will incur extra costs based on the carbon emission, which will raise landed costs, lower margins and improve the competitiveness of low-carbon producers in the EU market.

"In the first phase, CBAM also includes cement, fertilizers, electricity and hydrogen. The scope will likely grow to cover downstream products over time," he said.

Overall, the CBAM raises costs for carbon-intensive exports to Europe, and will gradually change trade patterns in favour of cleaner production, he added.