



CURRENT AFFAIRS



Argasia Education PVT. Ltd. (GST NO.-09AAPCAI478E1ZH)
Address: Basement C59 Noida, opposite to Priyagold Building gate, Sector 02,
Pocket I, Noida, Uttar Pradesh, 201301, CONTACT NO:-8448440231

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CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

This article covers “Daily Current Affairs” and the topic details “Carbon Border Adjustment Mechanism (CBAM)”. The topic “Carbon Border Adjustment Mechanism (CBAM)” has relevance in the Environment section for the UPSC CSE exam.

Relevance of the topic “Carbon Border Adjustment Mechanism (CBAM)”

For Prelims:

What is Carbon Border Adjustment Mechanism (CBAM)?

What is the impact of this move on Indian exports?

For Mains:

GS 3: Environmental issues

What is Carbon Tax?

What is the significance of the Carbon tax?

What are the challenges in the implementation of Carbon Tax?

Way Forward

Why in the news?

According to a senior trade official, the Commerce Ministry is considering multiple strategies to address the European Union’s proposed Carbon Tax. These strategies include implementing retaliatory tariffs, lodging a challenge at the World Trade Organisation, and providing assistance to smaller Indian exporters.

What is Carbon Border Adjustment Mechanism (CBAM)?

- The Carbon Border Adjustment Mechanism (CBAM) is a proposed policy by the European Union (EU) that aims to place a carbon price on imported goods from countries outside the EU, which have weaker carbon pricing or climate policies.
- The CBAM is designed to prevent carbon leakage, which occurs when companies move their production to countries with weaker climate policies to avoid paying higher costs for carbon emissions.
- Under the CBAM, importers would be required to purchase carbon credits or pay a carbon tax to compensate for the carbon emissions generated in the production of imported goods.
- The CBAM is intended to ensure a level playing field for companies that have invested in clean technologies and reduced their carbon footprint. The policy is currently under discussion and is expected to be implemented in the EU in 2026.

What is the impact of this move on Indian exports?

- The proposed Carbon Border Adjustment Mechanism (CBAM) by the European Union (EU) is expected to impact Indian metal and engineering products’ exports to the EU.

- As the CBAM would impose a carbon price on imported goods from countries outside the EU, including India, it could increase the costs of production for Indian exporters and make their products less competitive in the EU market.
- This, in turn, could lead to a decline in exports of Indian metal and engineering products to the EU, affecting the overall trade relationship between India and the EU.
- The Indian government is currently exploring various options, including retaliatory measures and support for smaller exporters, to mitigate the potential impact of the CBAM on Indian exports.

What is the significance of the Carbon tax?

The Carbon tax is significant for the reduction of GHG emissions and also raises revenue for investments in clean technologies.

- **Reduce the GHG emissions:** The tax encourages individuals, businesses, and industries to reduce their greenhouse gas emissions and shift to cleaner and more sustainable practices.
- **Financial Incentives for Energy Transition:** The carbon tax provides a financial incentive for individuals and businesses to reduce their carbon footprint by using energy-efficient technologies, adopting renewable energy sources, or improving their production processes.
- **Investments for clean technology:** The revenue generated from a carbon tax can also be used to fund initiatives that reduce greenhouse gas emissions, such as investment in clean energy, public transportation, and climate adaptation measures.

What are the challenges in the implementation of Carbon Tax?

The implementation of a Carbon Border Adjustment Mechanism (CBAM), which is a type of carbon tax on imports, can also face several challenges, including:

- **Complexity:** Implementing a CBAM requires accurate measurement and verification of emissions for each imported product. This can be a complex process, particularly for industries with complex supply chains and diverse production methods.
- **Trade disputes:** The implementation of a CBAM may lead to trade disputes and tensions, particularly if it is seen as protectionist or discriminatory against certain countries or industries.
- **Administrative costs:** The administrative costs of implementing a CBAM can be high, particularly for smaller businesses, which may struggle to comply with the new regulations.
- **Competitiveness concerns:** A CBAM can increase the cost of imported goods, making them less competitive in the domestic market.
- **Unequal distribution of costs:** A CBAM can have differential impacts on different countries and industries, with some being more heavily impacted than others. This can lead to concerns about fairness and the potential for negative impacts on developing countries.

Way forward

Overall, the implementation of a CBAM requires careful consideration of the various challenges and trade-offs involved, including the potential for trade disputes, administrative costs, and competitiveness concerns. It is important to design and implement the policy in a way that is equitable and takes into account the potential impacts on different countries and industries.

Source:

<https://www.weforum.org/agenda/2022/02/what-a-carbon-tax-can-do-and-why-it-cannot-do-it-all>
<https://www.thehindu.com/news/international/explained-why-is-the-eus-carbon-border-tax-worrying-other-countries-including-india/article66804351.ece>

Mohit Pratap Singh