

## EDITORIAL ANALYSIS

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### International trade has a carbon problem

- Source: THE HINDU

#### Prelims:

Current events of international importance, carbon tax, EU, CBAM, emissions trading system (ETS), COP, G20 etc

#### Mains GS Paper II:

Bilateral, regional and global grouping and agreements involving India or affecting India's interests, Important international institutions etc

**Context:-** The European Union's (EU) key climate law, the Carbon Border Adjustment Mechanism (CBAM), has spooked India.

#### About CBAM:

1. It is aimed at addressing this quagmire(leveling the playing field for the EU industries).
2. Imports of certain carbon-intensive products, namely cement, iron and steel, electricity, fertilizers, aluminum, and hydrogen, will have to bear the same economic costs borne by EU producers under the ETS.
3. The price to be paid will be linked to the weekly average of the emissions priced under the ETS.
4. However, where a carbon price has been explicitly paid for the imported products in their country of origin, a reduction can be claimed.

## The underlying issue

- New Delhi fears that CBAM will cripple the export of its carbon-intensive products to the EU.
- While India's exports may be limited to aluminium, iron, and steel, and affect only 1.8% of its total exports to the EU, India has reportedly decried CBAM as being protectionist and discriminatory.
- There is also talk of challenging the CBAM at the World Trade Organization (WTO)'s dispute settlement body.
- This debate brings to the forefront the inter-linkages between trade and the environment.
- While the international trade regime allows countries to adopt unilateral measures for safeguarding the environment, environmental protection should not become a smokescreen for trade protectionism. The CBAM needs to be viewed from this standpoint.

## Challenges associated with CBAM:

India's exports may be limited to aluminum, iron, and steel, and affect only 1.8(one point eight)% of its total exports to the EU

Protectionism: India has reportedly decried CBAM as being protectionist and discriminatory.

WTO: It allows countries to adopt unilateral measures for safeguarding the environment  
environmental protection should not become a smokescreen for trade protectionism.

## Background of ETS and CBAM :

- In 2005, the EU adopted a climate change policy known as the Emissions Trading System (ETS).
- ETS is a market-based mechanism that aims at reducing greenhouse gas (GHG) emissions by allowing bodies emitting GHG to buy and sell these emissions amongst themselves.
  - It has a **mechanism for its domestic industries**
  - Emissions embedded in products imported from other countries may not be priced in a similar way due to a lack of stringent policies or due to less stringent policies in those countries.
- The impacted industries in the EU receive free allowances or permits under the ETS.
- The EU apprehends the phenomenon of ‘carbon leakage’, that is, due to the application of ETS, European firms operating in carbon-intensive sectors might possibly shift to those countries that have less stringent GHG emission norms.

## Impacts on India:

As per data from the commerce ministry, India’s third-largest trading partner, the EU accounts for 11.1% of India’s total global trade.

By increasing the prices of Indian-made goods in the EU, this tax would make Indian goods less attractive for buyers and could shrink demand.

The tax would create serious near-term challenges for companies with a large greenhouse gas footprint—and a new source of disruption to a global trading system already impacted by tariff wars, renegotiated treaties, and rising protectionism.

The carbon tax mechanism may spur adoption of cleaner technologies. But without adequate assistance for newer technologies and finance, it would amount to levying taxes on developing countries.

## Way forward:

- The EU is a market that India needs to nurture and protect. Currently, India has surplus in both trade and services with the EU.
- India should talk to the EU bilaterally to ensure that its exports with the latter are protected either through a Free Trade Agreement or by other means and if there are adjustments and standards that India needs to meet then it should look forward to fulfilling it.
- India is not an exporter of cement or fertilizers to the EU and on steel and aluminium too, it is relatively smaller than other countries.
- India is not the target of this policy of the EU, the target is Russia, China and Turkey which are large emitters of carbon and major exporters of steel and aluminium to the EU.
- There is little reason for India to be at the forefront of the opposition. It should rather talk directly to the EU and bilaterally settle the issue.
- India already has measures of climate change mitigation in the country, it just needs to convert them, devise them in ways which are compatible with important markets of India.