

# Carbon Border tax and its Opposition

written by iasexam.com | 18/11/2022



## [GS Paper 3 - Environment and Climate Change]

**Context** - BASIC countries that include India have jointly stated that carbon border taxes, that could result in market distortion and aggravate the trust deficit amongst parties, must be avoided. The European Union has proposed a policy — called the Carbon Border Adjustment Mechanism- to tax products such as cement and steel that are extremely carbon intensive, with effect from 2026.

BASIC, a group constituting Brazil, India, South Africa and China have opposed this move. These are large economies that are significantly dependent on coal, have for several years voiced common concerns and reiterated their right to use fossil fuel.

## About Carbon Pricing

- Carbon pricing is an approach to reducing carbon emissions that uses market mechanisms to pass the cost of emitting to emitters.
- Its goal is to discourage the use of fossil fuels, address the causes of the climate crisis and meet national and international agreements.
- Well-designed carbon pricing can change the behavior of consumers, businesses and investors while encouraging technological innovation and generating revenue that can be used productively.
- There are a few carbon pricing instruments, such as a carbon tax and cap-and-trade programmes.

## Carbon Border Tax

- A carbon border tax (CBT) is a tax on carbon emissions attributed to imported goods that have not been carbon-taxed at source.
- The carbon border tax proposal is part of the European Commission's European Green Deal that endeavors to make Europe the first climate-neutral continent by 2050.
- Its objective is to 'incentivize' greener manufacturing around the world and create parity with European manufacturers who are already subjected to substantial carbon levies.

## Benefit to Local EU Manufacturers

The carbon border tax has wide appeal in Europe. It is supported by the new president of the European Commission.

- A carbon border tax is able to protect a country's local manufacturers, motivating them to adhere to green regulations.
- Many EU companies are at a cost disadvantage as they have been paying a carbon border tax and for carbon emissions since 2005 under the EU's Emissions Trading System.
- The new carbon border tax can therefore lead to a more level playing field against importers, especially those from nations with more lax environmental standards.

## Political Motive of the proposed Policy

- Notably, China's continuing reliance on non-renewable energy to power its economy leaves it particularly vulnerable in this matter.
- For example, given that China produces steel with blast furnaces that release a large amount of carbon, it will have to pay an additional layer of carbon border tax, which will increase its costs and its market price.
- This will consequently reduce the competitiveness of steel produced in China, compared to steel from other countries that is made in more carbon-efficient mills that do not have to pay this additional tax.
- This suggests that the carbon border tax is also politically preferable to Europe as it slows down the gradually rising economy in China, and would therefore preserve the European countries' competitiveness.

## Impact on India

- As India's third largest trading partner, the EU accounted for €62.8 billion (\$74.5 billion) worth of trade in goods in 2020, or 11.1% of India's total global trade.
- India's exports to the EU were worth \$41.36 billion in 2020-21, as per data from the commerce ministry.
- The CBT would cover energy-intensive sectors such as cement, steel, aluminum, oil refinery, paper, glass, chemicals as well as the power sector.

- 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. Sadly, India's many 'self-reliance' tariffs are also a contributor to this.

## Way Forward

- Carbon taxing is just one way of holding large emitters accountable for their role in harming the environment. However, fundamental changes can't be forced by tariffs.
- If the planet is to have any hope of meeting the Paris Agreement goals, drastic measures that consider both the economic and social wellbeing of nations' inhabitants must be taken.
- This should take all nations into confidence rather than imposing such overnight tariffs.
- There is no doubt that India must be at the forefront in climate politics. But it must also be cautious about the negotiations in global laws to protect domestic interests.