

CARBON BORDER ADJUSTMENT MECHANISM: ENVIRONMENT

NEWS: What is the European Union's CBAM, and why has BRICS condemned and rejected it?

WHAT'S IN THE NEWS?

The EU's Carbon Border Adjustment Mechanism (CBAM) imposes a carbon tax on imports from countries with lower climate standards, drawing criticism from BRICS nations for violating the equity principle and hindering the low-carbon transition in developing economies.

Context

- The **European Union's Carbon Border Adjustment Mechanism (CBAM)** has been **criticized by BRICS nations** as a **restrictive and unilateral climate trade policy** that disproportionately burdens developing countries like India.
- CBAM is part of the EU's broader climate ambition under the **"Fit for 55" package** aimed at reducing greenhouse gas emissions by 55% by 2030 from 1990 levels.

What is CBAM?

1. Definition and Nature

- CBAM is an **import-based carbon tax** designed to ensure that **imported goods into the EU** bear the **same carbon cost** as products made within the EU under stringent emission norms.
- Introduced by the **European Union in 2023**, it is currently in a **transitional phase** (2023–2025) and will be **fully operational from 2026**.

2. Core Purpose

- **Prevent Carbon Leakage:** To stop companies from relocating production to countries with **weaker climate regulations**.
- **Ensure Fair Competition:** To maintain a level playing field between **EU industries** (which follow strict emission rules) and **foreign exporters**.
- **Encourage Global Decarbonization:** To indirectly push non-EU countries to adopt **cleaner production methods**.

3. CBAM as a Climate Policy Tool

- Part of the EU's **"Fit for 55 in 2030" climate legislative package**.
- Aims to integrate **climate action into trade policy**.
- Designed to be **compatible with WTO rules**, although this remains contested.

How CBAM Works

1. Carbon Pricing Mechanism

- EU importers must purchase **CBAM certificates** equivalent to the **carbon price** applied under the **EU Emissions Trading System (ETS)**.
- The cost of these certificates will reflect the **carbon intensity** of the imported product.

2. Targeted Sectors

Initially, CBAM applies to **carbon-intensive goods** such as:

- **Iron and Steel**
- **Cement**
- **Aluminium**
- **Fertilisers**
- **Electricity**

3. Emission Calculation

- Emissions are calculated based on the **direct emissions** during the manufacturing process.
- If the exporting country (like India) already imposes a **carbon price**, it will be **deducted** from the CBAM cost to avoid **double taxation**.

Impact of CBAM on India's Trade

1. Trade Disruptions

- India exports significant volumes of **iron, steel, aluminium, and cement** to the EU.
- CBAM will likely increase trade friction and disrupt India's **export supply chains**.

2. Higher Export Costs

- Indian exporters must **purchase CBAM certificates** to access the EU market, increasing **compliance and production costs**.
- Reduces the **price competitiveness** of Indian goods in European markets.

3. Iron and Steel Sector Most Affected

- Over **76% of India's CBAM-impacted exports** fall under the **iron and steel category**.
- Indian manufacturers may face major **adaptation costs** to meet EU carbon intensity norms.

Why Has CBAM Been Condemned by BRICS Nations?

1. Unilateral and Protectionist Nature

- CBAM is a **unilateral measure** introduced without **international consensus**.

- BRICS countries argue it is a form of **green protectionism**, disguised as a climate initiative but serving **trade interests of developed countries**.

2. Violation of Climate Equity and CBDR Principle

- The **Paris Agreement** enshrines the principle of “**Common But Differentiated Responsibilities and Respective Capabilities**” (CBDR-RC).
- BRICS argue that CBAM **shifts the burden of climate compliance to developing countries**, despite the **historical emissions of developed nations**.

3. Undermines Multilateralism and Global Trust

- CBAM was imposed without **consultation with global partners or the UNFCCC framework**.
- The **BASIC group (Brazil, South Africa, India, China)** has repeatedly stated that such measures **erode trust in global climate negotiations**.

4. Hampers Transition in the Global South

- Instead of aiding the **clean energy transition** in the developing world, CBAM **punishes them economically** for lacking green infrastructure and climate finance.
- This goes against the **support-based approach** envisioned in the global climate architecture.

Broader Concerns and Challenges

1. WTO Compatibility Questions

- Though the EU claims CBAM is WTO-compliant, it may **violate non-discrimination rules and equal treatment principles**, especially for developing country products.

2. Risk of Retaliatory Measures

- Affected countries like **India, China, and Russia** may challenge CBAM at the **World Trade Organization** or impose **counter-tariffs**.

3. Inadequate Climate Finance from Developed Nations

- BRICS highlight the **failure of developed nations to deliver the promised \$100 billion per year** in climate finance, even as they impose cost-heavy policies like CBAM.

Conclusion

The **Carbon Border Adjustment Mechanism** marks a major shift in how climate action is integrated into **trade policy**. While its environmental intent is commendable, its **economic impact on developing countries** is deeply contentious.

For India and other BRICS nations, CBAM represents a **climate justice issue**, highlighting the growing tensions between **environmental goals and equitable economic development**.

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