



TITLE:

Carbon Border Adjustment Mechanism and the EU-India Relations

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Identification of the problem and relevance to the EU-India strategic partnership

The recently released IPCC report on climate change has set off alarm bells. It signals at the rising sea-levels, melting glaciers and shrinking food and drinking water resources.¹ UN Secretary-General António Guterres said, “The alarm bells are deafening, and the evidence (of human interference) is irrefutable”.² Moreover, he called the report as a ‘Code Red for Humanity’. In its quest of becoming the first climate-neutral continent by 2050, the EU has set ambitious target of reducing green house gases (GHG) emissions by at least 55% by 2030 from its 1990 level. This is to be achieved through climate change mitigation mechanisms like the European Climate Law and the Carbon Border Adjustment Mechanism (CBAM).

The CBAM, complementing the already existing Emissions Trading System of the EU, involves an import ‘charge’ on carbon-intensive goods like electricity, aluminum, iron and steel and fertilizers in its first phase.³ With this, the EU intends to solve the problem of ‘carbon-leakage’ by encouraging non-EU countries to embrace environment-friendly production processes in a progressive manner. Such a novel proposal of CBAM has met with criticism from certain emerging economies and major trading partners of the EU like Russia, China as well as India.

India has criticized the mechanism as “the most regressive proposal” with “no principle of equity adhered to”.⁴ Moreover, with the other BASIC countries, it has issued a joint statement in April 2021 expressing “grave concern regarding the proposal for introducing trade barriers, such as unilateral carbon border adjustment, that are discriminatory and against the principles of Equity and CBDR-RC”.⁵ Thus, India and the EU find themselves at the opposite sides of the spectrum of debate concerning climate change mitigation.

In recent times, the India-EU ties have seen a positive trajectory, especially in sustainable development and climate change domain. With the launch of several initiatives and partnerships like sustainable and comprehensive Connectivity Partnership, India-EU High-level Dialogue on

Climate Change, India-EU Clean Energy and Climate Partnership, India-EU Energy Panel, India-EU Water Partnership and the International Platform on Sustainable Finance, India-EU Strategic Partnership is getting further fortified. Moreover, the EU is India's third largest trading partner with total trade in goods amounting to € 62.8 billion in 2020 accompanied by a visible increment of 72% in the last decade.⁶ But, the CBAM could become a massive stumbling block in the recently resurfaced talks on India-EU FTA. It could become a major bone of contention in the contemporary times when India and the EU are finding more areas of policy convergence than before.

Critical analysis of the issue

The CBAM has been termed as a 'carbon price on imports' in Brussels, whereas New Delhi thinks that it is a 'levy' or a 'tax'. The debate moves beyond just the nomenclature and touches the issue of 'Equity versus Equality'. India, among other developing countries, has vouched for Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) and distinct levels of obligations for battling climate change as a mantra for its climate change mitigation strategy. Considering these principles, the CBAM seems to push the EU's trading partners towards adopting greener means of production without taking into consideration non-availability of necessary technology and the principle of CBDR-RC. India has decided to oppose the CBAM at the COP-26 as its core concerns on the equity principle remain unaddressed.⁷

The International Energy Agency's recent study suggests that existing climate pledges by several governments around the world would fall short of meeting the net zero emissions target by 2050.⁸ In light of this study, the EU's idea of CBAM seems to be ambitious in achieving climate change mitigation goals for not just the EU but also for the world. But is it revolutionary enough to contribute sufficiently towards global fight against climate change? A recently released UNCTAD report suggests otherwise. Though it validates the fact that the CBAM along with carbon pricing would help in reducing carbon dioxide emissions all over the world, it ascertains that such a reduction would constitute just a small fraction (0.1 per cent) of global emissions.⁹ Moreover, developing countries like India are set to witness decline in exports in comparison to developed countries.

There are growing tendencies of protectionism, incidences of trade war and retaliatory tariffs in these uncertain times of SARS-CoV-2 pandemic. For instance, as the EU has put quota restrictions on steel imports from India, the latter is considering imposing retaliatory tariffs on select products from the EU.¹⁰ The EU has reiterated that the CBAM is in lines with WTO rules and other international obligations. The possibilities of retaliatory tariffs from developing countries, including India, that believe the mechanism to be an unjust one and contrary to WTO rules one cannot be denied.

Studies suggest that the GHG emissions rose after the 2008 global financial crisis during the global economic recovery stage.¹¹ This was a situation when large emitter countries like China and India were not as much severely affected by the crisis as the developed countries. With supply chain disruptions, fall in global demand and economic slowdown, the current pandemic has taken an unprecedented toll on the global economy. The GHG emissions dropped dramatically last year, signaling a favourable impact on the world climate change mitigation actions. But, the phenomenon of a low-carbon and green recovery looks uneven while comparing the developed and the developing world in the post-pandemic world. Lack of adequate modern and green technology, insufficient renewable sources of energy production and financial constraints would push developing countries like India to rely on carbon-intensive technology to boost production and demand for recovery of their reeling domestic economies.

Policy recommendations

Humanity is at a critical juncture where climate change poses one of the biggest threats to human civilization. It requires collective efforts by countries to address such issues that are trans-boundary and global in character. India and the EU have larger stakes in addressing climate change mitigation collectively with the help of already existing mechanisms. The CBAM and its related issues involved should not be allowed to overshadow the progress achieved over several years in the India-EU Strategic Partnership. Opportunities for an active engagement should be garnered from the existing crisis. Following are policy recommendations that both the parties should consider for addressing the issues:

1) **Diffusion of cleaner production technologies:** Frans Timmermans and Josep Borrell, in an op-ed, have mentioned, “The EU has embarked on a green transition because science tells us that we must, economics teaches us that we should, and technology shows us that we can.”¹² But there is a widespread gap in Brussels and New Delhi’s ability to employ science, economics and technology for undertaking green transition. The EU should consider stimulating diffusion of cleaner production technologies to India for aiding New Delhi’s green transition. This would aid the latter in reducing its dependence on coal for meeting its increasing energy needs.

2) **Joint Climate Mitigation Fund:** Brussels and New Delhi should consider giving teeth to the paper tiger that the India-EU Clean Energy and Climate Partnership is and should move beyond issuing joint statements. For instance, a Joint Climate Change Mitigation Fund could be established for funding collective innovation and research projects specifically focusing on clean technology. Green Tech Startups and joint universities’ collaboration on climate resilient technology should be the primary focus groups concerning disbursement of such fund.

3) **Incentivising Internal Carbon Pricing:** The Government of India should incentivize firms that adopt Internal Carbon Pricing (ICP) mechanism. ICP allows companies to allocate a charge for every ton of carbon used that helps in fostering innovation and sustainable technology usage. MSMEs should be prioritized and encouraged to adopt ICP. Overall, incentivizing the ICP would be a huge step towards creating a low carbon economy and achieving India's Intended Nationally Determined Contributions (INDCs).

4) **Setting up a Consultative mechanism:** The EU should consider setting up a consultative mechanism for addressing concerns of Brussels' major trading partners like India about the CBAM. Brussels has stated that it has undertaken extensive bilateral consultations with public authorities of non-EU countries. But, the idea has received more criticism than appraisal from developing countries like India. A consultative mechanism would help in continuing the dialogue over the future trajectory of implementation and necessary reform in the CBAM.

5) **Forging a Green India-EU Broad Based Trade and Investment Agreement (BTIA):** The resumption of India-EU BTIA should include a significant component reflecting environmental objectives and INDCs at large. Green economy should be one of the foundational bases for constructing a solid BTIA. It would ensure achieving objectives of economic growth, sustainable development and carbon emissions cut simultaneously. Brussels should use its expertise built on in constructing the European Green Deal to forge a BTIA with New Delhi that focuses on green growth.

The CBAM, if implemented successfully, would become a cornerstone of economic growth based on resilient environment policy. It would be viewed as an ideal model to be replicated all around the world for carrying out responsible and sustainable trade while focusing on climate change mitigation. The EU is visibly marching towards assuming global climate leadership with innovative mechanism that the bloc is adopting in response to the phenomenon of climate change. But, collaborations and joint initiatives with strategic partners like India form a key to meeting the EU's objectives on sustainable development. India's concerns on CBDR-RC and equity principles are genuine and represent majority of the developing world's voices. Brussels should try and accommodate the same while implementing the CBAM.

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