Carbon Border Tax

For Prelims: Carbon Border Tax, European Union, COP-27, BASIC, CBDR-RC, Rio Declaration.

For Mains: Carbon Border Tax and Related Issues.

Why in News?

Recently, a consortium of countries that includes India has jointly opposed the Carbon Border Taxes proposed by the **European Union (EU)** at 27th edition of the **Conference of Parties (COP)** in Sharm El Sheikh, Egypt.

What is a Carbon Border Tax?

- A carbon border adjustment tax is **a duty on imports based on the amount of carbon emissions** resulting from the production of the product in question. As a price on carbon, it discourages emissions. As a trade-related measure, it affects production and exports.
- The proposal is part of the European Commission's European Green Deal that endeavours to make Europe the first climate-neutral continent by 2050.
- A carbon border tax is **arguably an improvement from a national carbon tax.**
    - A national carbon tax is a fee that a government imposes on any company within the country that burns fossil fuels.

What are the Causes Behind Imposing Carbon Tax?

- **EU and Climate Change Mitigation:** The EU has declared to cut its carbon emissions by at least 55% by 2030 compared to 1990 levels. Till date, these levels have fallen by 24%.
    - However, emissions from imports contributing to 20% of the EU's CO2 emissions are increasing.
    - Such a carbon tax would incentivise other countries to reduce GHG emissions and further shrink the EU's carbon footprint.
- **Carbon Leakage**: The Emissions Trading System of the EU makes operating within the region expensive for certain businesses.
    - The EU authorities fear that these businesses might prefer to relocate to countries that have more relaxed or no emission limits.
        - This is known as 'carbon leakage' and it increases the total emissions in the world.

What are the Issues?

- **Response of the BASIC Countries:** The **BASIC (Brazil, South Africa, India and China) countries'** grouping had opposed the EU's proposal in a joint-statement terming it "discriminatory" and against the principles of equity and **'Common but Differentiated Responsibilities and Respective Capabilities' (CBDR-RC).**
    - These principles acknowledge that richer countries have a responsibility of providing financial and technological assistance to developing and vulnerable countries to fight

climate change.

- **Impact on India**: The EU is India's third largest trading partner. 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 larger greenhouse gas footprint.
- **Non-Consensual with Rio Declaration:** The EU's notion of having a uniform standard all over the world for the environment is not borne out by the global consensus contained in the **Article 12 of the** Rio Declaration which says that the standards applicable to developed countries cannot be applied to developing countries.
- **Change in the Climate-Change Regime:** The greenhouse content of these imports would also have to be adjusted in the greenhouse gas inventories of the importing countries which essentially implies that GHG inventories would have to be reckoned not on the production basis but at the point of consumption basis.
  - This would turn the entire climate change regime upside down.
- **Protectionist Policy:** The policy can also be regarded as a disguised form of protectionism.
  - Protectionism refers to government policies that restrict international trade to help domestic industries. Such policies are usually implemented with the goal of improving economic activity within a domestic economy.
  - There is the risk that it becomes **a protectionist device, unduly shielding local industries from foreign competition** in so-called 'green protectionism'.

Way Forward

- 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.
- A mechanism like Carbon Border Tax for charging imported goods at borders may spur adoption of cleaner technologies.
  - But if it happens without adequate assistance for newer technologies and finance, it would rather become disadvantageous for the developing countries.
- As far as India is concerned, it must assess the advantages and disadvantages that it is likely to face with the imposition of this tax and talk to the EU with a bilateral approach.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q1. Which of the following adopted a law on data protection and privacy for its citizens known as 'General Data Protection Regulation' in April, 2016 and started implementation of it from 25th May, 2018? (2019)

(a) Australia
(b) Canada
(c) The European Union
(d) The United States of America

Ans: (c)

Q2. 'Broad-based Trade and Investment Agreement (BTIA)' is sometimes seen in the news in the context of negotiations held between India and (2017)

(a) European Union
(b) Gulf Cooperation Council
(c) Organization for Economic Cooperation and Development
(d) Shanghai Cooperation Organization

Ans: (a)

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