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News: At COP27, India and three others oppose ‘carbon border tax’

- A group of countries, including India, opposed the European Union proposal of “Carbon Border Adjustment Tax”.

Carbon Border Adjustment Tax (CBAT)

- A Carbon Border Adjustment Tax (CBAT) 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.

Reasons behind Imposing Carbon Tax

- **European Union 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 CO_2 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.

Issues regarding Carbon Border Adjustment Tax

- **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 imply 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'.