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News: Carbon Border Adjustment Mechanism (CBAM)

- Finance Minister Nirmala Sitharaman on Thursday called out the European Union's initiatives such as the Carbon Border Adjustment Mechanism (CBAM) and Deforestation rules as 'unilateral' and 'arbitrary' measures that will hurt countries like India and stifle economic growth as well as green energy transition goals.

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, emissionsfrom 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.
- Several countries, including India, have been opposing the implementation of Carbon Border Adjustment Tax.

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'.

European Union (EU)

- European Union is founded by Maastricht treaty in 1993 (amended thrice by Treaty of Amsterdam 1997, Treaty of Nice 2001 and Treaty of Lisbon 2007).
- EU is a Political and Economic Union of 27 member states.
- Combined area is 4,233,255.3 $km^2$and population is about 447 million.

- Combined GDP of European Union members are $20 trillion (25% of Global GDP).
- Members: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU countries are having High Human Development Index.
- EU is funding Electronic Auto-rickshaw in India named "Namma Auto".
- In the recent India visit, Ambassador of EU to India announced the setting up of India's first major off-shore wind energy power plant in Gujarat.
- On 1 December 2009, the Lisbon Treaty entered into force and reformed many aspects of the EU. In particular, it changed the legal structure of the European Union, merging the EU three pillars system into a single legal entity provisioned with a legal personality, created a permanent President of the European Council, the first of which was Herman Van Rompuy, and strengthened the position of the High Representative of the Union for Foreign Affairs and Security Policy.
- There are five recognised candidates for membership of the European Union: Turkey (applied in 1987), North Macedonia (applied in 2004), Montenegro

(applied in 2008), Albania (applied in 2009), and Serbia (applied in 2009). All have started accession negotiations.

- Kosovo, whose independence is not recognised by five EU member states and Bosnia and Herzegovina are recognised as potential candidates for membership by the EU.
- The accession criteria are included in Copenhagen criteria.

Eurozone

- Eurozone is a currency union of 20 member states of the European Union (EU) that have adopted the euro as their primary currency and sole legal tender, and have thus fully implemented EMU policies.
- Countries in European Union but out of Eurozone are Bulgaria, Czech Republic, Denmark, Hungary, Poland, Romania and Sweden.
- Countries in Eurozone have to fulfill 5 economic criteria, known as euro convergence criteria or the Maastricht criteria. These criteria are based on Article 140 of the Treaty of functioning of the European Union.
- There are countries which are not in Eurozone, but uses Euro with formal agreement (Andorra, Monaco, San Marino and Vatican City) and without any agreement (Kosovo and Montenegro).

- Broad Term – Based Trade and Investment Agreement is a trade agreement between EU and India.
- EU is the largest trade partner of India and India is the 9th largest trade partner of EU.
- 3 % of EU trade is with India, whereas 11% of Indian trade is with EU.
- BTBI will bring a Free Trade Agreement with EU.
- European Union is the co–manager of BIOFIN initiative along with UNDP where, National Biodiversity Authority (NBA) is the partner in India. (Statutory bodies).

Green Passport

- The European Union Digital Covid Certificate (EUDCC), or the Green Passport, which is in the form of a digital QR code, attests that a person has been vaccinated against COVID-19, and also if they have had a recent negative test and/or are considered immune having previously contracted the illness.
- It is recognised by all 27 EU countries, as well as Switzerland, Liechtenstein, Iceland and Norway for passengers within Europe, who are bound not to need separate documentation for intra EU travel.

- The move led to a sharp protest from India, as well as the African Union, as concerns grow over vaccine passports that discriminate against travellers from developing countries with limited access to vaccines.