Carbon border tax

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In news– A group of countries including India has opposed the carbon border taxes policy at the COP27 in Egypt, saying it could "result in market distortion".

Opposition by BASIC group-

- During the COP27 the BASIC group, comprising India, China, Brazil and South Africa, said in a joint statement that unilateral measures and discriminatory practices, such as carbon border taxes, that could result in market distortion and aggravate the trust deficit amongst Parties, must be avoided.
- BASIC countries called for a united solidarity response by developing countries to any unfair shifting of responsibilities from developed to developing countries.
- The Carbon Border Adjustment Mechanism is a plan from the European Union (EU) to tax carbon-intensive products, such as iron and steel, cement, fertiliser, aluminium and electricity generation, from 2026.

What is Carbon border tax?

- It **involves imposing an import duty on a product manufactured in a country** with more lax climate rules than the one buying it.
- While **its advocates, like the EU,** claim the tax will benefit the environment and provide a level playing field to companies, those opposing it call the tax unfair and protectionist.
- They say it puts the burden of climate compliance on developing countries, when historically, they have done much less to pollute the environment and yet are often more vulnerable to effects of climate change.
- Some developed nations, in efforts to cut emissions, impose high costs on carbon-intensive businesses in their own countries.

- Businesses can potentially sidestep this simply by moving production to a country with less stringent rules, a practice called carbon leakage.

EU's Carbon Border Adjustment Mechanism(CBAM)-

- The EU came up with the Carbon Border Adjustment Mechanism in 2021.
- As per EU, it was designed in compliance with World Trade Organization (WTO) rules and other international obligations of the EU, the CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules.
- Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer.
- On carbon leakage, it says, "**As we raise our own climate ambition and less stringent environmental and climate policies prevail in non-EU countries, there is a strong risk of so-called 'carbon leakage**' – i.e. **companies based in the EU could move carbon-intensive production abroad to take advantage of lax standards**, or EU products could be replaced by more carbon-intensive imports."
- **The CBAM, it says, "will equalise the price of carbon between domestic products and imports** and ensure that the EU's climate objectives are not undermined by production relocating to countries with less ambitious policies."

What is India's position?

- India has maintained that **developed countries cannot push the burden of doing more to tackle climate change**

while they evade responsibilities themselves.

- At COP27, India said all fossil fuels needed to be phased down and not just coal, which has been targeted by the developed countries and which India is heavily reliant on.