

#EUGreenDeal

# CARBON BORDER ADJUSTMENT MECHANISM

a Brief

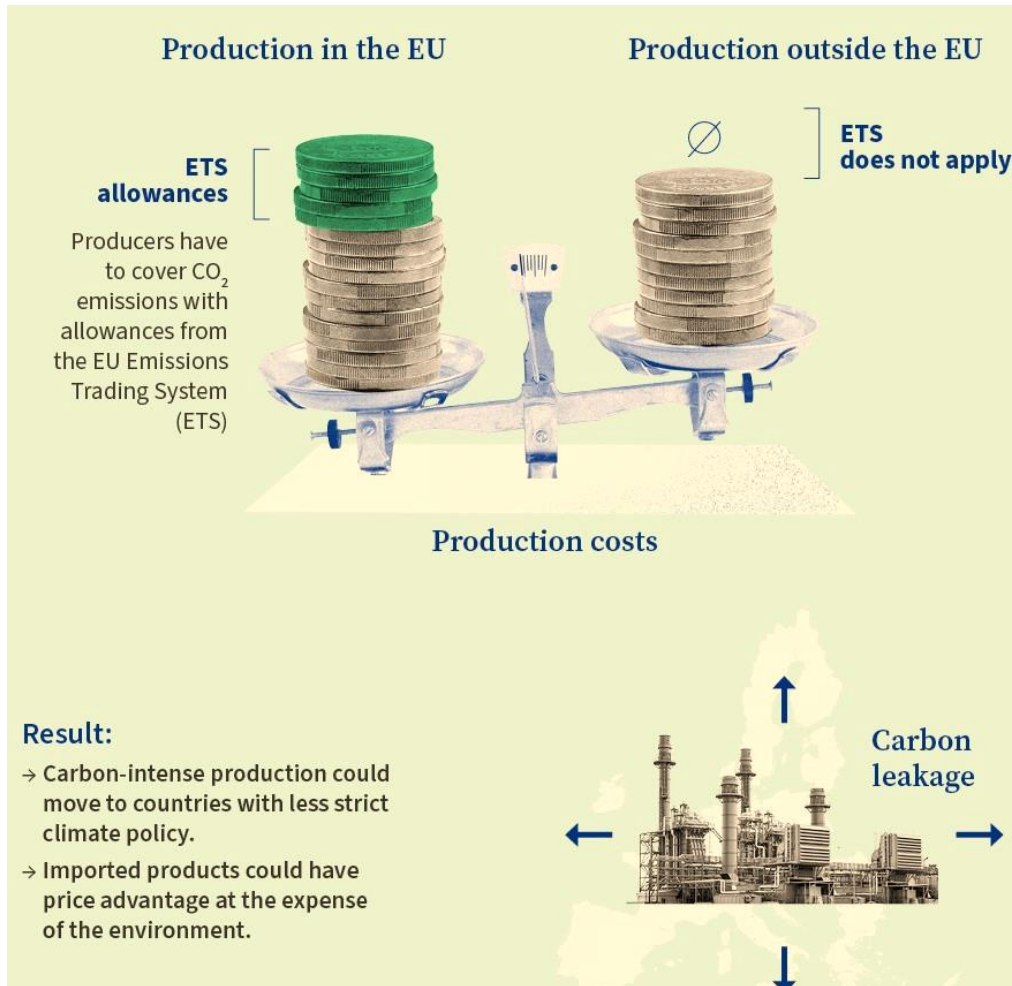


# CBAM



- ❖ The world is facing a profound climate crisis and the challenges of climate change require a global response.
- ❖ EU has set itself a target to be a carbon neutral continent by 2050.
- ❖ As a part of their “Fit For 55 Package” the European Commission presented 13 policy measures to reduce greenhouse gas emissions by 55% in 2030, from their 1990 levels.
- ❖ The Carbon Border Adjustment Mechanism (CBAM) is one of the European Green Deal initiatives to prevent carbon leakage.

# CARBON LEAKAGE



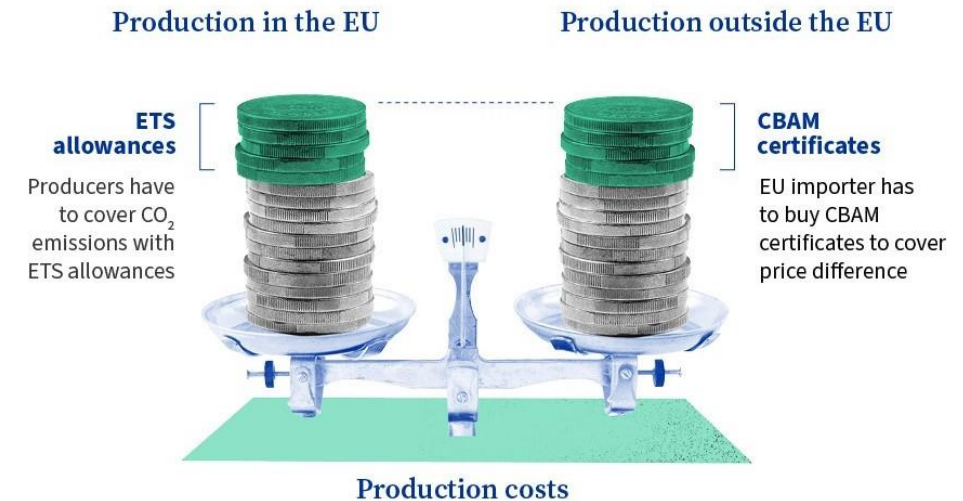
CBAM is a tool to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries that export into EU.

# CBAM @ WORK

CBAM is designed to function in parallel with the EU's emissions trading system (EU ETS), to mirror and complement its functioning on imported goods. It will gradually replace the existing EU mechanism, in particular the free allocation of EU ETS allowances.



## How will CBAM work?



# COVERAGE

The 1<sup>st</sup> phase of CBAM covers the following high emitting sectors

CEMENT

IRON & STEEL

ALUMINIUM

FERTILISER

ELECTRICITY

HYDROGEN

# IMPACT



- ❖ EU producers of CBAM covered goods and subject to ETS must adopt and reduce carbon emissions even quicker to stay competitive.
- ❖ Likewise the import of CBAM covered goods will be subjected to higher landed costs as the price of CBAM certificates (necessary to place such goods in the EU) will be linked to the price under EU ETS.
- ❖ Exporters of CBAM covered goods may therefore find it extremely difficult to enter EU unless they adopt a low carbon pathway.

# TIMELINES

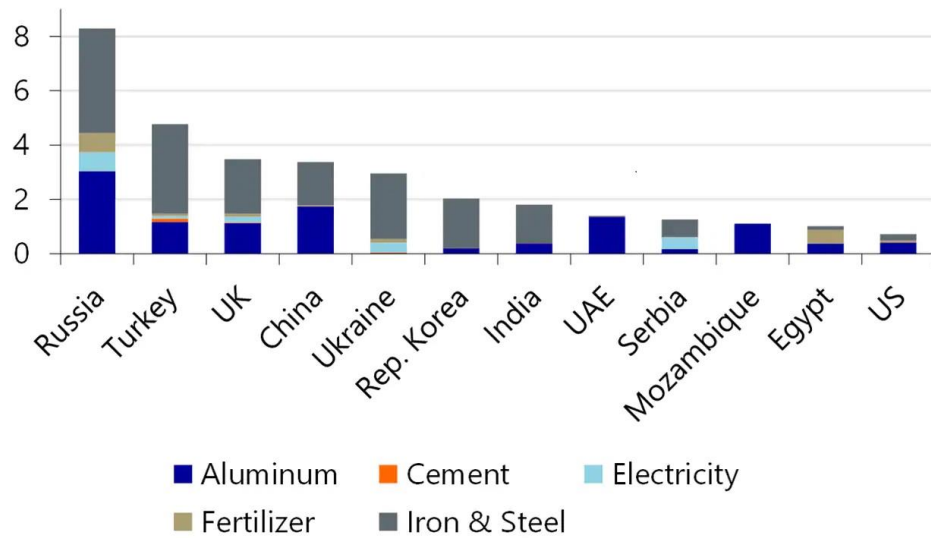


- ❖ Council and the European Parliament reached a political agreement on the implementation of the new CBAM on December 13, 2022.
- ❖ The CBAM will enter into force in its transitional phase as of 1 October 2023.
- ❖ The permanent system enters into force on 1 January 2026, importers will need to declare each year the quantity of goods imported into the EU in the preceding year and their embedded GHG.

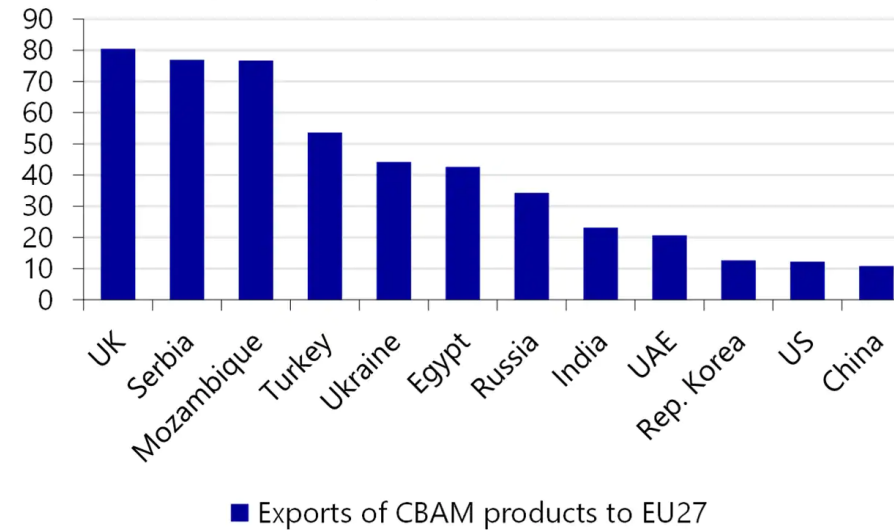
# INDIA



EU27 imports in USD, billion



As a % of total exports of CBAM products



India exports ~USD 2bn of CBAM covered goods annually to EU. This comprises over 20% of its total exports of its CBAM exports.



# NEXT STEPS



- ❖ Indian entities that exports CBAM covered goods to EU need to, on a high priority, put in place initiatives to reduce its carbon emissions. This will enable it remain competitive vis-à-vis players from other markets.
- ❖ The first phase CBAM covers sectors with high carbon emmissions and high risk of carbon leakate, gradually the scope will be enlarged to cover product that are above or below in the value chain.
- ❖ In future the scope of CBAM is expected to extend to more sectors.