

## **Seminar**

# **Carbon Border Adjustment Mechanism**

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### **Speaker(s)**

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### **Moderator(s)**

**Sanjay Kathuria**, Visiting Senior Fellow

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**Laveesh Bhandari:**

May I invite the panellist to be here please. Good afternoon and welcome. To those of you who managed to make it here despite the traffic outside. Thank you for being here today to discuss the ramifications and solutions of CBAM. And the challenges facing India and of course many other countries. Governments, companies and other interested stakeholders are working on assessing the cost and also possible solutions. Not just India, but across the world and indeed some of the work that we are doing at CSEP illustrates the really interesting actions that are being thought of and being taken. The CBAM is indeed a game changer given its impact as an extension of the carbon tax regime, relative ease of implementation and of course its differential impact on domestic versus international firms. The fact that CBAM today is also being assessed by many other countries both in the western world and also the global south only shows that it seems this kind of a mechanism may actually grow with time. Therefore, it is imperative that policy makers, industry and even research groups such as ourselves have an enhanced understanding of CBAM and CBAM type of approaches. At CSEP this initiative is being driven with precisely this objective. I am really grateful to all of you to be here. Our chair, Mr Ahluwalia who unfortunately is also stuck in traffic, has been inspiring us and talking about some of these issues as well. I am very grateful to him for his help with this whole meeting together. I am really grateful to Ananth, moderator Mr Sanjay Kathuria and the panellists for taking out the time. And of course, all of you. Ananth and I have worked together for some time before he took on less important responsibilities as the CEA. (laughter) It's been really a pleasure to work with him for one really important aspect of Ananth's character. And that essentially has to do with the sincerity with which he approaches problems. It is really nice to have someone who is a recognised researcher, understands policy unlike many others, who has an understanding of both industry, research side and of course policymaking as well and who also bring up something which is very honest to his work. So, thank you so much Ananth for being here. He has authored many books. I am going to name two. 'The rise of finance – causes, consequences and cures' and 'Can India grow?'. That to me is one of the more interesting question that he asks. But that's a question that we all ask ourselves. We all know the answer, of course, it can and it can grow very fast. He was a part-time member of the EAC to the Prime Minister from 2019 to 2021. And has had a corporate career spanning 17 years from 1994 to 2011. He was the currency economist at the union bank of Switzerland, head of research and investment consulting at credit Suisse private banking in Asia, head of Asia research and global chief investment officer at the bank Julius Baer. Thank you Ananth for being here. Mr Ahluwalia is a distinguished fellow at CSEP and former deputy chief chairperson of the planning commission. He joined the government in 79 as an economic advisor in the ministry of finance. After which he has held a series of positions including the special secretary to the Prime Minister, commerce secretary, secretary in the department of economic affairs, finance secretary in the ministry of finance, member of the planning committee, member of the EAC to the Prime Minister. For his outstanding contribution to economic policy and public service, he was conferred the prestigious Padma Vibhushan in 2011, the India second highest civilian award for exceptional and distinguished service. And now of course, Mr Ahluwalia has as Dr Mohan says has much more important responsibilities which is he is the distinguished fellow at CSEP and guiding some of our work. Thank you, Mr Ahluwalia, for being here. Sanjay Kathuria is a visiting fellow in the growth, finance and development vertical at CSEP. He has vast experience of more than 40

years with specialisation in high level policy dialogues, south Asia globalisation, trade and regional integration, economic growth, macroeconomic policy, technology development and there are a few other terms which I am going to skip. He was also the lead economist at the World Bank in Washington DC. He spent 27 years working on south Asia, Latin America, Caribbean and surprisingly not Africa. That is the only part of the global south that you seem to have missed. Before joining the World Bank, he was a fellow at the Indian council for research on international economic relations in New Delhi. He is currently working on a new book 'the future of south Asia'. Now without taking too much time I would like to request Mr Ananth to please deliver the key note address. After Ananth speaks Mr Ahluwalia, I would request you to provide your expert overview. Thank you so much for agreeing to do this. I would also like to thank Sanjay for agreeing to moderate the panel. Ananth will need to leave at 4:30.

**Anantha Nageswaran:**

Good afternoon, everybody and thanks Laveesh for those kind words of introduction. Mr Montek Singh Ahluwalia, Mr Sanjay Kathuria and distinguished fellow panellists. I am happy to be here. Although this topic has now been with us for quite some time, almost close to a year, it is none the less important to keep engaging on this issue because as we keep engaging multiple dimensions and perspectives will emerge, enabling us to handle it. Both in terms of dealing with it, coping with it, responding to it, but also taking counter measures if possible and also maybe pushing it back if we can. So, there are multiple ways of dealing with this and the more we engage with the topic the more useful it will be. So, in that sense I think the fact that we are having this conversation today is important. By now a bulk of the issues with respect to the carbon border adjustment mechanism are well known. On the face of it, it is a well packaged idea from the European union perspective. As Laveesh put it other countries are now thinking about it, variance of it. It is primarily seen as a domestic measure by them. Basically, telling European producers that if you are importing from countries which are relatively lax on carbon emission mitigation and carbon control, then you have to make sure that you are importing products and maybe even later services from those countries, do not disadvantage those domestic producers within European union who are complying with higher emission standards. It is therefore... we are doing anything to outsiders, we are only telling our producers not to import from those countries which are more lax standards on carbon emission. Of course, the very fact that countries at the receiving end of this CBAM are contemplating, preferring this issue at WTO, clearly tells you that it is an international measure packaged as a domestic measure. Of course, by now even in the COP28 declaration you can see that, the Paris agreement has been kind of relegated to being a footnote. Because the Paris agreement article 2 does talk about 'common but differentiated responsibilities and respective capabilities'. But then now no longer they want to spell it out. They kind of say as per Paris agreement and that is put in the footnote. Clearly because, they know that CBAM and CBDRs are not necessarily compatible. CBDR-RC is kind of being delegated to the footnote. And of course, we know about the compliance burden it poses, we know about the specific requirements on so called hard to abate sectors, steel, cement and in particular India's exports of these products to European union. And not only that, not only understanding once own emissions but also emissions of forward and backward linkages of these manufacturers... you could be having a most efficient technology, but if you are using coal produce or some other fuel which is highly carbon emitting then you have a problem. So, it is not just direct emission but also indirect emissions that product carries that has to be measured etc. So, more than the emission angle, there is also the efficiency angle of complying with it. There is an efficiency from the production process point of view, there is efficiency from the compliance

process point of view and naturally it also raises the cost of imports from Europe. Because European producers will also be bearing this cost. Because many of the free allowances will also be phased out as part of this etc. In that sense these issues, the more operational issues of this CBAM are by now well known. And I think partly we are preparing for it. And partly we are also trying to come up with alternative measures or counter proposals to deal with it. So, these I won't go there. But let's just step back look at what is the motivation to have happened in the first place. One is, personally speaking, I see two reasons. One is of course, the issue of economic competitiveness which is being there with them for quite some time. Especially since the new millennium when emerging economies began to close the gap with developed nations in terms of per capita income convergence. The second issue is the genuine fear, whether it is misplaced or not is a different issue. There is a genuine fear with respect to emissions. Standing here in this place I have spoken many times about how fear drove the response to covid pandemic in the developed world. And the same fear is also driving the response to global emissions, regardless of the fact... of course, it is much easier to ignore the historical emissions despite the fact that we all know carbon once emitted stays there almost for ever. But that is something that they kind of treat it as water under the bridge. So, if you really look at this fear aspect, the emission fear aspect, the economic competitiveness aspect is much larger and \_\_\_ we will go into it. That is something which we need to address independent of the CBAM threat or not. Because when China liberalised and began to grow faster from 1980 onwards, they were aided by three factors. One is that the climate, global warming were not big issues. So, they could basically emit their way to exports so to speak. Then the second is that... let me also point out the other issues they were lucky with. The second issue is given their decision making structure, a single party in the office, both in the national level and at the local government level etc. there was no question of these forms of democracy and the forms of governance coming in the way of decision making and quick responses. And third of course is, they were able to very well sort of co-opt the elite of the west into their growth agenda. The technology sector or other manufacturers, they could co-opt into their growth process. So, China had these three advantages which India doesn't necessarily have. But to improve therefore our competitiveness in the face of these threats, in the face of global warming means we actually have to get our act together whether it is \_\_\_technology... for example in the steel industry, blast furnace versus electric arc technology, furnace etc... so those issues are plenty. But I will focus on this one aspect which is the fear of emissions that is driving the west particularly Europe towards what in the paper that I co-wrote with Gulzar Natarajan and hosted by CSEP is that, the impossible trinity of net zero. Fiscal prudence, economic competitiveness and net zero. All three don't go together. So, it is the net zero aspect that we want to focus on. On this I have a few slides to share. Because they don't really look at the trade-offs, the developed world. I have taken these... these are verbatim extracts, I don't know how many of you can see from there. I will read the important ones. The assumption of a swift and cost efficient transfer from high to low emitting economic activity disregards the immense inertia that defines our fossil fuel based economy, particularly in sectors which are hard to abate like cement and steel. Both of which are carbon intensive, but more importantly they are necessary materials for de-carbonising infrastructure. From renewable energy to energy efficient homes. Again, some of you might have heard this from me before. The amount of copper we will require in the next 27 years is going to be more than the copper we have used since the metal was discovered. So, for net zero the amount of copper we need is going to be far more humongous than any amount that you have consumed since the metal was discovered. So, these are energy intensive processes. And then by reducing the complexity of the challenges, the question of energy efficiency concerning a single issue, reducing carbon emissions, which is what it is. There is a misplaced emphasis on efficiency achievable through the price mechanism which CBAM is. It is an implicit price

mechanism which ignores that some form of carbon reduction is far more durable, effective and just than others. Not all carbon emissions are bad. That is an important thing to remember. The success of the CBAM measure is to make us focus more on emissions than we should be focusing on adapting to their emissions in the past. So, it shifts the focus of our priorities from adaptation to mitigation which shouldn't be our priority right now. Third, carbon pricing does not allow societies discriminate between spurious uses of carbon, which are sending billionaires to space and vital uses such as building the infrastructure for a non-carbon economy. In a successful transition, the first would be made impossible and the second would be as cheap as possible. As such a unique carbon price becomes a clear pathway to failure and CBAM is a unique carbon pricing in that sense. And IMF research and others have also said that the appropriate time for a carbon price is toward the tail end of the decarbonisation process rather than at the early stage and primary stage. As Gareth Bryant has argued, on the political economy of carbon market, the economic notions of market failure tend to displace attention away from the origins of and disperse responsibility for addressing climate change. These are direct verbatim quotes from Adrienne Buller's very good book, "The value of a whale". And of course, if there is global warming, there are costs and there are also benefits. For example, you may have higher temperature, but you also have far lower deaths from cold related deaths. And this is from the paper published in Lancet, for example, the authors looked at the 2000 to 2019, the global cold related excess death ratio changed by -0.5% annually and the global heat related excess death ratio increased by 0.21% points leading to a net reduction in the overall ratio. Why I am showing this is, this obsession of the fear of emission needs to be dispelled with facts that it is not just a one way street. There are net costs and benefits to this which developed countries are refusing to take cognizance of. Then, if you look at the overall period, globally in general, 5 million deaths happen due to non-optimal temperatures per year. But out of which 90% occur from cold related deaths and only 10% occur from heat related deaths. So, there again, if you talk about global warming, this will come down drastically a lot more than this might go up. Specifically with respect to India, moderate and extreme cold cause about 600,000 deaths. Moderate to extreme heat, we are talking about 25000, roughly speaking. So, if you look at the headlines, you wouldn't get these information basically. They only focus on this. They will ignore this. Then, if you look at the paper, related to the US, and this is where I think, the assumption made by all these researchers who talk about the dangers of global warming, is to assume that human beings will not adapt. It is like discussing inequality without taking into account fiscal transfers and taxes. So, discussing global warming without giving any allowance for human adaptation is simply unrealistic, it is scaremongering. You look at this. Mortality due to extreme temperatures is one of the most worrying aspects of climate change, of course. In this analysis, the author says, we use historic mortality and temperature data from 106 cities in the US to develop a model that predicts death attributable to temperature. With this model and projections of future temperatures from climate models, we estimate temperature related deaths in the US due to climate change, changing demographics and adaptation. We find that temperature related deaths increase rapidly as the climate warms, but it is mainly due to an expanding and aging population. For global average warming below three degree centigrade, above pre-industrial levels, we find that climate change slightly reduces temperature related mortality in the US because the reduction of cold related mortality exceeds the increase in heat related deaths. Above 3 degree C warming, whether the increase in heat related deaths exceeds the decrease in cold related deaths depends on the level of adaptation. Southern cities are already well adapted. Reduction of cold related mortality drives overall lower mortality. Cities in the north... I will skip this last bullet. The point is human beings are going to adapt. And below 3 degrees centigrade actually the death rates, there is a net reduction rather than net increase. Therefore, now talking about keeping the temperature increase to 1 1/2 degrees

below pre-industrial levels and CBAM in a way is indirect contributor to that, is to impose a huge amount of cost and burden on countries recovering from post covid, struggling with lower growth, higher debt etc. and at the same time also hurting their economic competitiveness, is therefore more than a triple whammy. It may be a quadruple or even a higher one. Lastly, all these arguments that I am making do not come from a defensive position, defensive mindset or defensive excuse for non-performance on climate. Because I have seen report on blended finance in India clearly says India has significantly developed its climate action resulting in a path to achieving its NDCs well before 2030. It is the only G20 nation in line with 2 degrees warming compared to its fair share contribution to climate action. However, these efforts have also been mainly due to public initiatives. So, it is not that India has not been investing, its investing mainly through government fore sources, the much anticipated technology and funding from developed world hasn't really come through. At the same time there is this indirect and direct push to make us concentrate on emission reduction of which CBAM is a very integral part. So, my limited submission here is that, we are doing whatever we can to resist CBAM at the same time preparing our industry to respond to it as well. So, we need to approach this on both fronts. Also think of measures that we can take in response. But at the same time, we need to look at the root cause of the CBAM which is the fear of emissions and global warming, which in turn isn't an unmitigated disaster as is being made out to be if you really scan only the headlines of columns and papers and newspapers. Because there are trade-offs here. So, CBAM ignores those trade-offs, both in terms of consequences and in terms of cost. And that is what we need to focus on while we are also looking at the operational aspects of it. Thank you very much.

**Sanjay Kathuria:**

Thank you very much, Ananth. For a very succinct presentation. Whether for good or for bad since you have finished five minutes ahead of schedule, you have left yourselves open to some questions. I know you are running away at 4:30. I will allow if it is ok, one or two questions before we start the formal set of presentations including from the panel if anybody from the panel wishes to do. But Mr Sharma?

**Audience (Mr Sharma):**

I was wondering, both India and China are the coal-based product economies. USA and EU are largely the \_ based product economies. How we could adjust the carbon based on the fuel use for the different products, by the different regions, and the different countries. Thank you.

**Sanjay Kathuria:**

Anyone else?

**Anantha Nageswaran:**

Yes, we do have coal as one of the important fossil fuels in our mix. Our focus has been to increase the non-fossil fuel share and also try to shift away from coal towards natural gas. But let's not forget that this year, anticipating winter shortages Germany has fired up many of its coal-based power plants. So, in that sense we basically need the time to move away from coal towards other fossil fuels and later on towards renewable energy as I said in the case of cement and steel. Even to move towards renewable energy you need extensive use of energy. And that is the paradox. The book that came up as a runner up in the FT Schrodgers book of the year, Ed Conway's 'Material world' is something that we need to pick up. Because all the

shift to renewable energy is going to involve unprecedented amounts of energy consumption. And there is no getting away from the fact that you will have to use coal and you will have to use fossil fuels for quite some time.

**Audience:**

Just a point on the analysis that you have given on the fact that we may not... rise in temperatures may not be as bad as is suggested. Let's keep that point aside for a second. But India's entire response in the global forums is accepting the orthodox on the rise of temperature. So, wouldn't it be hard for us to resist CBAM on the basis that its not so bad as you suggest, while at the same time having commitments to net zero which are based very much on 2 degrees or 1.5 degrees, may not be an argument that will fly with respect to CBAM?

**Anantha Nageswaran:**

It is a fair point you are making. It is a balancing act and one cannot exactly have a formulaic approach to this. And basically, we can't have a mutually exclusive approach. We need to go along at the same time through behind the scenes indirectly or directly we need to influence the intellectual discourse as well as in a way, thankfully for us, Jean Pisani-Ferry is doing in Europe at the Bruegel institute. He is actually beginning to alert the European Union itself on the short-term economic cost and short-term he defines as seven to ten years. Short-term economic cost of their net zero. And I didn't even talk about the labour market dislocation that could happen everywhere. So, I personally feel that we do for reasons of geopolitical balance and calculations and other considerations, we need to go along with orthodoxy and that is why I said this is not stemming from a defensive position. That is why I showed towards the end of my presentation that we are actually well ahead of other nations in meeting our fair share. But in spite of that we do need to address the root cause. That is why I said operationally you get prepared for CBAM, then strategically you think of counter responses and maybe WTO measures and continue to focus on diversifying away from fossil fuels, improving energy efficiency, do all of that. At the same time also focus on the root cause of why these things arise in the first place. And I don't see all of them as mutually exclusive.

**Sanjay Kathuria:**

So, there are a lot of questions for Ananth and given that we do have a Q&A session, but since you are going away, I am going to let two more questions come in before he leaves. One gentleman...

**Audience:**

Now we have CBAM by EU, we are also hearing that other jurisdictions are also coming up like CBAM. Like UK has put out a draft. These are jurisdictions with which we are entering into FTA negotiations as well. There are also some developments that the government is looking at alternatives including a similar mechanism here, ETS type where we can collect this carbon taxes and also possibilities of repatriation. So, could you throw some light on how you are looking at these alternate mechanisms?

**Anantha Nageswaran:**



These are measures that are at very different stages of evaluation, it will be premature to comment on them.

**Sanjay Kathuria:**

Montek?

**Montek Singh Ahluwalia:**

Ananth. Just a factual point. When I checked up what climate action guys are saying, you quoted them as saying we are ahead of the curve. The latest thing says, it is highly insufficient. So, I think there is some factual discrepancy.

**Anantha Nageswaran:**

It is well advanced with respect to its own nationally determined contribution. Maybe its insufficient with respect to 1.5 degrees.

**Montek Singh Ahluwalia:**

Somewhere you say compared to its fair share.

**Anantha Nageswaran:**

Yeah. India is well ahead of other G20 countries in meeting its... if I may go back to the last slide, please. This is a verbatim quote from the... I have the slide here... India has significantly developed its climate actions resulting in a path to achieving its NDC well before 2030. It is the only G20 nation in line with two degrees warming compared to its fair share contribution. So, I guess there is a... in proportion to what is expected of it in line with two degrees warming India is the only G20... this was stated in climate action tracker, 2021. However, these efforts have been mainly due to public investments. This is verbatim quotes from the IFC report.

**Montek Singh Ahluwalia:**

Well, I give you climate action tracker itself and what it is saying, is a catch overall rating of India's climate targets and action remains highly insufficient. I think that's...

**Anantha Nageswaran:**

It could be because... we have to guess what is making them say so. I am just guessing that maybe because post 2030, India's action plans for getting to net zero are probably not well defined. That could be one reason.

**Audience:**

One is that. Yeah. And the second is that... one is where we are with respect to our commitments. The second is with respect to what the climate action tracker guys feels we need to do in order to reach 1.5. So, that is the gap. That is the main source of the gap.

**Aradhana Aggarwal:**

Actually, India promised 33% reduction in 2015. Now this was in terms of energy intensity, which means emission divided by GDP...

**Montek Singh Ahluwalia:**

Emission intensity, not energy.

**Aradhana Aggarwal:**

Emission intensity. Actually, this target has been met. This cut has been met. It could be due to expansion in the GDP. But this is what the...

**Montek Singh Ahluwalia:**

My limited point is look, the very difficult situation. I think what we are facing is, on the one hand at the political level, a target has been set. Net zero by 2070. I mean, not too many people want to question it internally for sure. But I personally feel that if you are serious about global warming its not a bad target. I think the question we should be addressing is are we anywhere near achieving that. The correct answer is we have only said what we are going to do in one dimension, maybe two. Emissions intensity target is irrelevant. Because a 45% reduction is still consistent with huge increases in emissions, right? So, basically, we need to look at what is really the situation compared to our net zero for 2070. Now, one view you could take is that 2070 is 40 years after 2030. And we will unleash all kinds of things after 2030 and as Ananth said we don't know what they are. Okay, so then we should discuss what they are.

**Anantha Nageswaran:**

Also, I would say if I may add, 20 years after 2050 which is the target year for other countries and again, based on what they have announced it is not very clear that they are also on their track to getting to net zero by 2050, isn't it? So, those fellows... so, our target was also announced contingent on the assumption that materials, technology, resources will be made available. So, all these issues cannot be I suppose looked at in isolation.

**Sanjay Kathuria:**

You can come back in the Q&A. There is one online question I want to be fair to them as well. But I also have one question of mine. If I may. So, Ananth your metric that you have used was about deaths. You used that a lot. My question is that if you use other metrics like displacement of people and the misery from climate related catastrophes which happen all the time with increasing frequency, if we turn to such metrics would the picture be different?

**Anantha Nageswaran:**

Absolutely. I just took it as an example. But then you talk about displacement, but will also be displacement of workers and unemployment in the near term, if you are going to be moving in a direction from hard to abate sectors and that is why I do not disagree with the idea that we need to have adaptation measures in place. So, the question is do I invest limited resources on

adaptation because regardless of what I do today on carbon emission, I am going to face the consequences of the emissions that are already out there. Even if all carbon emissions stop today, global warming will continue to happen. Because of the fact that there is carbon, so much of carbon, out there. So, naturally I need economic growth and I need to adapt for that. And only when I grow, I am going to get the resources to be able to invest as they say in the energy transition. So, you need to have hard to abate sectors growing before I can find the resources for energy transition. So, I think it's a question of sequencing, it's a question of near-term prioritisation. So, nobody is denying there is global warming. But it is important to recognise the trade-offs, it is important to recognise the prioritisation over different horizons. That's all.

**Sanjay Kathuria:**

So, there is a last question online from Manu Seshadri. If you want to read it and answer that.

**Anantha Nageswaran:**

The question is CBAM is designed to prevent carbon leakage but not emission. I was reducing CBAM into the question of eventually it is a question of emission reduction. I understand that it is technically about carbon leakage which is a very euphemistic term actually. CBAM is designed to prevent carbon leakage, not emissions control to my understanding. Could we answer CBAM by having our own equivalent law in some way? I think that was also partly a question already asked here. And it will be premature for me to answer them at this stage.

**Sanjay Kathuria:**

So, I am afraid we will have to stop this part of our intermediate Q&A. Thank you Ananth for doing that. So, let me now turn to Montek for his thoughtful, I am sure. I am really looking forward to you.

**Montek Singh Ahluwalia:**

Maybe let the presenters go first.

**Sanjay Kathuria:**

Ok. Renu and Kritima, they are our in-house folks. So Renu is in research and practical experience on macro and related issues. She has worked with the RBI, with IMF, ICRIER, IG. And Kritima is a research analyst with the macro economics team. And she was a young professional at DEA. We are looking forward to hearing from both of you. So, how much time do you think you will need? 15 minutes?

**Renu Kohli:**

Just to introduce, everybody now knows that CBAM is perhaps one of the most foremost issue surrounding climate action in the broader climate space today. So, this is the right moment to actually have a discussion and debate around it with the intent on the EU's proposed tax on carbon embedded emissions into the products it imports. Now, this is expected to have a major impact upon the exporter countries and especially those which are significantly exposed by way of their exports to the EU and exports, may also be a significant share of their domestic production. The heavy reliance has obviously triggered a lot of

dynamics around it and in several dimensions. But some of which has been touched upon by Ananth and the preceding discussions. So, we are pleased to present this, what is a very early initiative, very much a work in progress with complete openness at this point whether it will lead to any eventual publication. But the basic intent is to prompt a discussion, a debate and flag the issues or the challenges which are left wide open for the attendees, all of us and our experts to contribute towards and shape the agenda. With the ultimate objective of informing and guiding policy actions. So, responses of my colleague here, Kritima has compiled a range of responses to the EU's CBAM and this covers responses which are very early. But progressing very rapidly actually across governments and across individual exporter firms and this is not exhaustive by any means but I think we have sufficient information. She has put out enough information for all of us to talk about it eventually, identifying the issues, gaps and challenges towards the end to which everybody else is most welcome to contribute. With that I will hand it over to Kritima.

### **Kritima Bhapta:**

Very good afternoon, everyone. Thank you for joining us today. Before I discuss the potential challenges of CBAM and the potential mitigation strategies for governments as well as businesses, I will give a very brief overview of CBAM. The European union's carbon border adjustment mechanism is a policy tool which aims to address the issue of carbon leakage. Carbon leakage occurs when industries they relocate their production to countries with less stringent environmental policies in order to avoid paying carbon prices. So, the EU CBAM would levy a carbon tariff on the production of emissions that are produced during the production of goods that are imported to EU. Another reason why EU is considering CBAM is to equalize the price of carbon between the domestic industries and imports. So currently the EU has imposed the emission trading system in which it charges its own domestic industries on the emissions that they produce. So, the CBAM will initially cover six sectors. Namely, iron and steel, aluminum, cement, fertilizer, electricity and hydrogen with emissions coverage for direct as well as indirect emissions. Direct emissions are the emissions that are produced during the production process of the good. Whereas indirect emissions are the emissions that are produced during the production of electricity which is further consumed in the production processes of the goods that are covered under CBAM. So, all non-EU countries would fall under CBAM except Iceland, Norway and Switzerland. Because these countries they have either linked their domestic ETS system with the EU ETS system or they have fully adopted the EU ETS system. If a country for instance has paid a carbon price in its own domestic country, then that price will either be fully or it will be partially deducted from the CBAM obligation. The roll out road map of CBAM basically consists of four phases. Starting with the 27 month transition period which will not involve any tax payment at the moment. Only details related to the carbon content will have to be shared. Then starting January 2026 exporters will start paying carbon tax on the products covered under CBAM. This will extend from 2026 to 2034 when new products will be taxed under CBAM. Mostly organic chemicals and polymers are likely to be included in this phase. Then starting 2034, all products that are exported to the EU and the products that currently fall under the EU ETS system will come under CBAM. Moving on to the challenges of CBAM. First and foremost, the CBAM would disrupt global trade by leading to a substantial increase in import costs of CBAM products. Consequently, causing a decline in trade flows. So, in this slide we have showed absolute exposure and relative exposure of some of the most exposed countries to the EU CBAM. And for this we have used the World Bank's exposure index. Absolute exposure basically means the potential direct price of the CBAM certificate which is basically the export share of the good that is exported to the EU times the emission intensity of that

particular good times the assumed CBAM certificate price which is taken to be dollar 100 in the World Bank index and it also lies in the range of the ETS price that the EU imposes right now. Relative exposure basically measures how much more or less an exporter is likely to pay in comparison to its EU counterpart. So, for India we can see that the absolute exposure is almost four basis points above the mean value. And the relative exposure is almost three basis points above the mean value for iron and steel. And for aluminum the absolute exposure and relative exposure values are almost close to the mean values. But the sector still remains vulnerable. One very important point that I would like to highlight here. India's vulnerability is not only because of its large share of exports to the EU, but also because of its high carbon emission intensity. Carbon industries in India are extremely reliable on carbon. There are countries like the US, the UK and Turkey, which export a much larger share to the EU. However, because their carbon emission intensity is not as high as India, they are not as vulnerable as India. When we also talk about the challenges of CBAM, it is also very important to look at extensive compliance obligations and massive data reporting requirements that come with it, as the reporting of data must adhere to specific formats. So, in the table we can see that along with the quantity of goods that is exported to the EU, information also needs to be shared on the type of greenhouse gas that is emitted along with the quantity of the greenhouse gas that is emitted. Direct as well as indirect. And accurately measuring and then tracking all these emissions throughout complex supply chains can be a difficult process due to data gaps, due to inconsistencies and lack of standardization. In order to come under CBAM, the goods have to come under specific CN and HS codes which have already been defined by the EU and hence it will be very important for the businesses to actually review these codes in order to see if the products that they are exporting to the EU actually fall under CBAM or not. Additionally, other information includes country of origin, the installation where the product was produced, for example the identification number of the steel mill where the batch of raw materials originated. The production route will also have to be specified for the manufacturing of the product. For example, in case of iron and steel, details pertaining to every process in the production will have to be disclosed starting from combustion of fuels to cutting to welding and finishing of iron products. And all this information has to be verified by a third party. For this energy auditors will come from the EU to verify. And India right now does not have a carbon verification and accreditation system in place. So, it may find it difficult to determine its own carbon emissions. And if the information is not supplied, the EU importers will use default values on carbon di oxide emissions. The exporters, they will have to register this basic information about their facilities in an EU central database which will be accessed by prospective importers. And in case the information is not provided, the exporters will be liable to pay a penalty. And yes, the countries will also have to consider the carbon price that they are paying in their own countries in order to get it subtracted from their total CBAM obligation. Moving on to mitigation measures. We have divided the mitigation strategies into two categories. We will first be looking at what governments across the world are doing in order to prepare themselves for this transition and later on we will be seeing how industries are acting. When it comes to the governments, the actions can broadly be classified into the following categories. Negotiations with the EU, providing guidance and support to businesses, developing their own domestic carbon markets, improving their monitoring reporting and verification systems, promoting renewable energy by funding research and development, imposing regulations, giving incentives, setting targets, etc. collaborating with international institutions such as EBRD, World Bank to fund their projects and assessing country's exposure to CBAM. So, here we have a list of countries that are actively taking actions against the EU CBAM. We wanted to include Mozambique, Zimbabwe and other LDCs in our analysis. But because of lack of information, we were not able to include them. When we say almost all 11 countries

that we have taken for our analysis, all of them are in some way or the other negotiating with the EU. And these negotiations mainly revolve around negotiations related to seeking exemptions for MSMEs or getting their domestic emission trading systems verified or linked with EU's ETS or getting their domestic carbon verifiers recognized by the EU. Then a lot of countries are also considering their domestic carbon markets, either in the form of ETS systems or they are also thinking of coming up with their own CBAM mechanisms. For example, south Korea, UK and US, they are thinking of coming up with their own CBAM in order as a retaliatory measure against the EU's CBAM. Countries are also conducting studies in order to assess their exposure to CBAM, so that they can know what could be the mitigation strategies that they could adopt in order to minimize the risks and maximize the opportunities that the CBAM offers. India is extensively working on improving its MRV mechanisms along with countries like China, south Korea, UK and Ukraine. Countries like Turkey and Egypt are collaborating with institutions like World Bank and EBRD in order to mobilize financial resources and technical expertise to carry out their transition. So, here we have detailed country-specific examples. So, for India, India plans to have its fully functional carbon credit system as per the notification which came this year. Although there is no clarity on the eligibility of the sectors and industries under the scheme. However, if we see the composition of the steering committee the Indian ETS appears to include those sectors which are currently covered by the CBAM. India is also actively seeking exemptions for MSMEs through free trade agreement. India initiated discussions with the EU to get its domestic carbon verifiers recognized. Then the steel ministry is pushing for green steel by preparing a blueprint for green steel production which will involve changes in technology and processes by steel companies and it is also assessing their preparedness to deal with the carbon tax measures that are being considered globally. Then, initiatives to scale up net zero technologies like carbon capture and storage plants are also underway. India may also consider its selective export tax which will basically include levying tax only on goods that are exported to the EU. And the goods imported from EU. However, its compatibility with the WTO norms can pose a challenge. Turkish government also plans to establish its own emission trading system under its green deal action plan. The EBRD is working in Turkey in multiple ways through its carbon market development support program. Turkey is also developing sector specific decarbonization road maps for its crucial industries. Indonesia launched its Indonesia carbon exchange recently. Then Egypt also unveiled its national climate change strategy 2050 and in order to execute the strategy the Egyptian government plans to spend the equivalent of approximately dollar 324 billion through issuance of green bonds and procurement of funds from the World Bank and the EBRD. Japan, launched a voluntary national market for carbon offsets which will work alongside an existing regional capNtrade policy in Tokyo. China already has an ETS system, but it is planning on expanding it to the... right now it covers only the power sector... but it is planning on extending it to the sectors that are covered under the CBAM. Then UK and US are also coming up with their own CBAM mechanism. So, now moving on to the reactions that industries are taking in order to prepare themselves for this transition. Industries are considering internal carbon pricing which is basically a voluntary mechanism in which they start charging themselves for their own carbon emissions once their carbon emission exceed a particular limit. They are conducting thorough assessment of their carbon emissions, assessing the impact of CBAM on their exports. They are investing in low-carbon technologies such as carbon capture technologies. Industries are engaging with different stakeholders such as suppliers, customers, investors, employees and policy makers. They are also preparing documents related to emission related data. These documents will be very crucial for the firms in order to establish a baseline understanding of their current carbon footprint. They are also reworking their contracts, this may involve modifying existing contracts with the suppliers and customers in order to incorporate CBAM related clauses.

These clauses may specify how the carbon costs associated will be allocated between the parties that are involved. And additionally firms they may also need to negotiate new contracts with their suppliers to ensure that they are able to provide the necessary emissions data. These are some of the examples which we have taken for Indian industries and because the two most exposed sectors for India are iron and steel and aluminum. We will just be restricting to iron and steel and aluminum. Companies like Hindalco which is the largest aluminum company in India, it incorporated an internal carbon price of \$31. Vedanta is also planning to incorporate a price of almost \$15 per carbon ton of emission. Tata steel is carrying out trials with hydrogen injection in its blast furnaces. It also set up its first steel recycling plant. Kalyani steel is utilizing solar power in its electric arc furnaces. Vedanta launched 'Restora', which is India's first low carbon green aluminum. Hindalco has implemented various technologies like carbon capture, red mud neutralization with carbon di oxide, zero waste to landfill etc. in order to reduce carbon reliance. Firms like Tata steel again is regularly engaging with its suppliers to assess their environmental performance through sustainability screening. Jindal stainless in involving third parties for automating emissions reports. And it started recording emission data since January 1<sup>st</sup> 2023 to ensure compliance with CBAM reporting guidelines. Steel authority of India is bolstering its domestic cooking coal production and exploring alternative market for its steel exports. Steel firms in China, Ukraine and EU are using hydrogen in their blast furnaces for smelting iron instead of cooking coal. Companies are also exploring the option of hybrid technology which involves replacing the blast furnace process with fossil free hydrogen produced from water using electricity from fossil free energy sources. Brazil's leading steel company started a joint venture with shell for solar energy generation to be used in steel products. EU's H2 green steel signed contracts with automotive and construction companies that need low emission steel. Aluminum, Egypt's Egyptalum joined the aluminum stewardship initiative which is an industry-led initiative that aims to promote sustainability throughout the aluminum value chain. Russia's Rusal is promoting enhanced product traceability. It has launched a digital passport called 'Allow' which will provide their customers with easy access to a fully set off environmental social and governance information.

### **Renu Kohli:**

So, with that we put out a set of issues as we can all see. There has been a range of responses from all stakeholders from all sides. And it has been flagged earlier and maybe one should again flag whether choice this is dynamic because there are three other countries in the queue which are already setting up their own CBAM. So, its something which seems unstoppable. And the choice eventually will boil down to whether constructive engagement towards mitigation or confrontation or retaliation or a mix of both. So, with that we put out these issues for discussion. I am not going to... out because I have Sanjay breathing down my shoulder. I am not going to... you know the issues broadly. We are seeing that what is the state of India's preparedness. What is the mode of engagement? Are there any deficits and gaps from the industries perspective, from the firm's perspective, from the standpoint of international cooperation? Would that help it whether there are issues surrounding compatibility with the WTO? And what are the potential measures that could assist MSMEs because all we have here is the responses of large companies who have all the resources and the might including technology shifts if required. So, with that ending our presentation. And let the floor open for discussion. But that's the prerogative of the chair. Thank you.

### **Sanjay Kathuria:**

Thank you Kritima and Renu. This was very clear. Lots of nice interesting issues have come up and I am sure people will want to raise issues of methodology as well and how to come to these conclusions. First, we would like to hear from Montek. And then we will go over to the other discussants.

**Montek Singh Ahluwalia:**

Actually, I have no.... this is such a diffused subject, I just want to ask one question to Renu. If I want to comment, I will comment at the end. The question is you talked about internal carbon pricing. What does that mean? Are they going to price the product on the basis of internal carbon pricing? What is internal carbon pricing?

**Renu Kohli:**

This is the company's own assessment.

**Montek Singh Ahluwalia:**

If a company is putting an internal price on carbon which is different from the market price it will raise the price in the market to reflect that.

**Renu Kohli:**

No, it would be a deduction to that extent that has already been paid, right?

**Montek Singh Ahluwalia:**

What on earth is the use of that? We are just keeping an account. That is all.

**Renu Kohli:**

No, why would that just be an account.

**Montek Singh Ahluwalia:**

If I am producing steel, and if I were to actually price this carbon appropriately, the cost of steel could go up 40%. Some estimates show by the way that 40 to 50% even 100% if you go to green hydrogen. You come to the calculation that that's the cost. The real cost which I am not bearing. Now when you say an internal price, is that just for announcement purposes or are we saying therefore we should only be able to sell this steel if we can pass this on.

**Renu Kohli:**

Yes. I mean, obviously that is the... there is the fiscal or the tax counterpart to it, which is that this is the amount of credits that you earn, right? Is that the way and that's what underlies the CCTS, ETS, as well and move on? But there has to be some kind of verification or acceptability at the other end. Or some alignment to the EU's ETS at the end of it all, I guess.

**Montek Singh Ahluwalia:**

Okay. We will come back.



**Renu Kohli:**

Do you have anything to add to this? You can come here. She has to just supplement my answer.

**Kritima Bhapta:**

In internal carbon pricing, companies usually set a limit to the carbon emissions. And once suppose, if that limit is exceeded, they will put a price on the limit that is the quantity of emissions that has been exceeded. So, for example, it could be like \$15 for one unit of carbon di oxide that has crossed the limit. So, that is usually how carbon pricing works for firms.

**Montek Singh Ahluwalia:**

How is it reflected in the price they charge in the market? Or is it just an accounting thing?

**Kritima Bhapta:**

It is not reflected in the price they charge.

(Audience discussion not audible)

**Montek Singh Ahluwalia:**

Basically, what you are saying is that the board will say, your rate of return is actually 1/10<sup>th</sup> of what you are showing. And hopefully they think, lenders will not lend to such a company. Because if the carbon price were properly priced, the company is not profitable.

**Sanjay Kathuria:**

We will come back to these issues hopefully. And right now, we have three designated discussants. We will start with Aradhana Aggarwal who is professor at Copenhagen business school in Denmark. Also has been associated with Delhi university and NCRIER, NCR institute of economic growth. I will not go into the impressive CV. Aradhana you have 7 – 8 minutes. Is that good?

**Aradhana Aggarwal:**

10 minutes at least. First of all, my thanks to CSEP in particular Laveesh for this opportunity. This is my first visit to CSEP. I am not much familiar with the research agenda. And I am very happy that you are working on CBAM. Which is something which is very contentious I would say as I have mentioned in my title as well. Actually, I am not really getting into much of this introduction and I am just coming to the point. This is because much has been said. I think that the whole notion is that CBAM is for carbon emission cut. It is not. It is for stopping the leakage. It is for striking a balance between domestic producers and importers as for as carbon tax is concerned. So, this point has to be kept in mind that this is not about emission cut. It is about leakage cut. This is something... I think there was a question as well which I really liked. What is this leakage? Leakage means relocation of energy intensive production to other countries. So, it is basically a sort of a measure to discourage relocation of production to other countries. This must be kept in mind. So, from the EU perspective this is something which is really a sort of boon for the world. Because it is going to have a major impact on climate change. That is how here it is projected. EU actually has been trying to take this leadership so

far as climate change is concerned. Right from the early years of WTO. They tried to push this agenda through WTO twice. But they were not successful. So, then they started putting it as a condition in their GSP agreements, in their bilateral agreements and now this CBAM has come which actually is universally applicable to all the importers and all the exporters who will be exporting to the EU. Domestic politics is also something which is pushing such measures because public opinion is quite in favour of climate change and sustainability. So, this is also a sort of push to the EU leaders. Finally, actually this European union is given the authority to monitor this and this is actually strengthening European commission in a big way. European council actually is not really given that kind of mandate. So, this many people see that this is also sort of indication of the strengthening and integration within the EU. So, this is something which actually they have displayed to the world. The driver is that they actually are currently giving some free allowances to producers. And these free allowances are given to those producers who are producing highly energy intensive products. Now, these leakages are going to vanish now. They are going to retire. And the retirement will start from 2026. And that is the date when CBAM will start. So, the entire thing is that they just don't want that leakage to happen after the retirement of these free allowances. That is the sort of driver and it has to be kept in mind that this is what is very important for them because they don't want this kind of relocation. From the perspective of developing countries or the exporting countries, I won't say developing countries. But developing countries are quite uncomfortable I think because I have been working for a few. And I know that the officials are very unhappy about these things. But I think the US is not very happy with CBAM. So, it is said that this is essentially an import tax and the whole objective is to discourage imports. It will increase compliance and costs. Discourage relocation of production to non-EU countries. They are already actually are into in a big way reshoring, back shoring, near shoring. So, if you are there, you will continuously hear these terms. And they are very much monitoring this kind of relocation back to Europe. So, maybe this is one of the factors there. This is unilateral, so its compatibility with international agreements is not well established. And then the fear is that US is now trying to have make in US kind of movement. So, they are actually encouraging relocation back to the US. Now this tool has come from EU, which is also trying the same thing. And then they are also making imports or exports of the developing or exporting countries expensive. So, it is also kind of import tax. So, these countries putting these kinds of measures can lead to trade war. That is what is feedback. Then there is a problem of data sharing. I think this should not be really taken lightly. Because this means that you have to share your data on production processes. There is confidentiality about a lot of data. I have worked on anti-dumping and I know that how much data is kept confidential by the companies. They don't just share it. So, this data has to be manufactured. So, similarly here, but here we are working in that. You have to give the entire data. So, I think this is something which is very discomfoting. According to one ministry of India, this data is being collected. But on anonymous basis. That is, we do not know that this company is doing this. Okay. But now with this kind of tool, this has to be revealed. Smaller firms and less developed countries, they are going to face the music because they don't have carbon markets. Then they are not really ready for this kind of tool. So, these smaller companies and less developed countries in particular the less developed countries, are really very uncomfortable with this. International, yes, actually Ananth talked about this common and differentiated responsibilities. Yes, now people are less talking about it. But actually, Rio declaration has made this very clear that the responsibility will be common but it will be differentiated. Because historically they were the countries who were responsible for this kind of climate change. So, they have to share. But it is not only about the historical thing. They are technologically very strong, they are financially strong, they have big pockets. So, both ways they are supposed to actually help the developing countries through technology transfer, through finance to achieve these kinds of

objectives. Sustainable development is already there. These SDGs. So, the developing countries are actually looking for some sort of support for that. So, but in this particular case what is happening is that revenues are generated through these tools. And these revenues will be used by the EU in their own country. So, rather than EU helping the developing countries, developing countries will be funding their program and their program or target is 55% cut in emission. So, that is the extent. That is what they are going to achieve through this...

**Montek Singh Ahluwalia:**

A question just to clarify. You talked about responsibility to transfer technology. I mean this just keeps coming up. What do you mean by that?

**Aradhana Aggarwal:**

There are environment friendly techniques. You have to change your processes. You have to change your products. It requires huge technology transformation. If you really want to cut your emissions...

**Montek Singh Ahluwalia:**

Of course, what I mean is all these technologies are in the market purchasable. Now there is no security restriction on them. So, what is your definition of transfer.

**Aradhana Aggarwal:**

Transfer means you need to... if you go to the market and purchase these technologies you need money. You need funding. So, some sort of subsidies, some sort of... I mean even at the government levels. They have to be some agreements even at the government levels. So that such technologies are provided to developing countries. Two minutes are left. We can discuss. So, WTO compatibility I actually personally, this is my personal view, I look at it as an anti-dumping tax. Because this is not associated with reciprocity. It is all about making the imports expensive. Addition tax on that. No discrimination yet. No reciprocity as well. So, that is something and all the problems that we have with anti-dumping can come here because like products. How will you establish like products? How will you calculate estimate the kind of this carbon tax? So, there are many issues that will come up and it is said that this will actually lead to disputes and WTO dispute settlement body is not really functioning very well and we all know that. So, this will create a sort of problem. Then actually I am not getting into this, but the previous example actually is about tuna and dolphin case in the US and at that time the panel's decision, WTO panel's decision was that for the environment conservation laws of America, they cannot really impose the penalty on Mexico. That was the kind of... I don't know what will happen now. Then there is also a kind of... these measures are not sufficient this is also a point those experts are talking about. And the reason is that they say that the main emission in developed countries is coming from the heating and cooling of buildings. And that is not really covered in this scenario. Overall, this is my last slide. We do not know what will be the impact. It may have the positive impact as the presenter said. They are just talking about how they are going to actually encouraging companies, motivating companies and the countries to adopt climate mitigation measures. So, that is one scenario. But there is another scenario and the scenario is that there may be increasing protectionist trade policies and trade war. There could also be status quo. We do not know that. So, there are these different scenarios and I think you need to develop some sort of framework for your paper because you have a lot of information, but you have to develop some \_\_ or hypothesis

to really develop a paper which can be publishable. One thought is that instead of having such kinds of tool, lets have some mutual industrial policies which can actually collectively sort this problem out. So, this may not lead to this kind of trade wars in the future. Thank you.

**Sanjay Kathuria:**

Thank you very much, Aradhana. I am sure there will be lots of questions. Counter questions. So, let me quickly turn to Atul Sharma who is a lawyer. and co-founder and advocate of Sarvada and worked with the government very closely and including the WTO. So, I think we will be very keen to hear what you have to say.

**Atul Sharma:**

Thank you for the invitation first. I am going to do two unusual things. Lawyers love to talk. But I have four slides. So, I will restrict to seven minutes. Second thing I will do is I will not talk about the legality. Because the legality I would only comment, both sides have dug into their heels. EU says it is justifiable. Developing country says it is not. So, it is going to be a lengthy expensive litigation. So let me talk about what \_ referred to as export tax. So, as part of our assignment with ministry of steel, we wrote a short paper about 800 words on what we call as carbon price adjustment on exports. So, I will explain that in two slides. And then I will also expound on certain deeper issues which will arise from CBAM. I as a lawyer don't have necessary tools to quantify it. But probably that's where I thought is appropriate to present it to CSEP. There is a reason EU doesn't call it a tax. Because under the EU system fiscal measures require unanimity. Non fiscal measures do not. They passed it as a non-fiscal measure. So, I term my response also as a carbon price adjustment rather than calling it an export tax. Why CPAE? There are four reasons we wrote about this. First is regulatory autonomy. So, I as India I could have various options. I could respond to it. Some of those actions could hurt me. So, what we believe and I talk about as the second bullet here, any horizontal response to CBAM which is applicable across the industries on all the imports is going to have inflationary effects. So, for a targeted measure should I have a targeted response or should I have a horizontal response. That's the first question. Second, I think Mr Nageswaran touched upon fiscal management. Do I have the capability to provide the necessary subsidies? Third, of course he also covered CBAM funds become part of the general budget. If you see the CBAM recitals, there are some bullet points that EU will continue to commit to support least developed countries from this fund. But budgets till 2026 are available. They become part of general budget. And it will be used to fund the EU economy. So, we as developing countries can't really rely on the largesse of the EU. So, the PR exercise by the EU is we don't want your fund. We want a level playing field within our economy. So, we call the bluff and we call the bluff by enacting CPAE. What is CPAE? Carbon price adjustments on exports. What we suggest will be administered by the Indian customs. It will have the mirror image formula of CBAM. So, whatever declaration the exporter gives it to the importer in EU, he will file a copy with the Indian customs. Indian customs will rely on the EU ETS price of carbon and multiply the declaration with the formula, collect the tax. CBAM has a provision called article 9. Which is, it gives you a rebate of the carbon price paid in your country. So, there you take a deduction because have paid it to the Indian customs. You take a deduction under that provision. So, you get a seed fund. So, for subsidisation we may not have the fund. But we have seed funds. So, all the targeted and the affected sectors which have contributed this to the Indian budget, this fund can be utilised to give them transaction specific rebates. So, like RoDTEP or other export incentives it is prohibited under the CBAM regulation. So, this general budget is utilised to give capital type subsidies. Or R&D type subsidies to the contributing industry which have been affected by

CBAM. So, that's in simple how it works. There is a second unintended use also. And I believe Anil ji will probably talk about it. The smaller players, the secondary players who actually buy the primary material and convert it, they may buy it from Indian producers, they may import it from outside. Now, they don't have access to the declarations. The emission data. So, what do we do then? This measure can also as a side effect collect whatever imports of steel, aluminium cement etc. takes place into the country, that importer need not pay a tax. But he files a declaration with the Indian customs about his emission norms. And we aggregate and publish the anonymised tables can be used by the downstream sectors to declare their total emissions to the EU. So, that's how we can collect data, probably more data will lead to more robust policies in future. Kritima also touched about legality. Now, if you see article 1, prima facie you may have an issue that its only against EU and how can that be legal. But in this what we are doing is changing the point of levy and not the quantum. So, the competitive conditions are not changed. The ultimate price to the EU consumer remains the same. So, therefore it passes the test of GATT article 1. I have been a trade lawyer for 17 years. So, at least we have thought a lot about this and I believe that this would be GATT compatible. So, that's in a nutshell what CPAE is. Long term impact of CBAM. CPAE is a short-term tool. Probably works for a year or two years. After that what happens. We look at the overt effects of CBAM. Very visible. We don't look at the covert effects of CBAM. Covert effects, if you see the discussions behind CBAM, there was already a proposal by the EU parliament to extend it to other sectors. Other sector means chemical and of course when chemical comes... so, the steel goes into downstream, auto parts, machines etc. goes into automobile. They can't be in a situation where steel becomes expensive. Aluminium becomes expensive. But there is no measure on auto parts or steel. Because that kills their holy cow. Therefore, what you can reasonably expect is the scope of CBAM will be expanded in future. There are already talks, enough literature within the EU discussion and debates, it will happen. The second is the emissions scope enhancement. So, as of now, why aluminium probably is not touched a lot is because if you see, a block of aluminium is nothing but 60% energy. So, as of now tax is not proposed to be charged on electricity component. So, 14 out of 18 tons of aluminium is not covered within the taxation when it kicks in. Further 2 tons is also eliminated because precursors like alumina etc are also not covered. So, the target is about 2 to 2.5 tons of CO2 when you talk about aluminium. And that's why the net impact as of now is low. Why it is low? Because EU has something called as compensatory mechanism on electricity consumption. Electricity production is within EU ETS. That because electricity producer has to buy ETS certificate, product become expensive. The consumer of that electricity gets a subsidy from the same national government which sold the ETS certificates to the energy producer. So, because of this cycle as of now they don't want to charge a tax on electricity. But that is subject to revision somewhere in 2030 or 2034. Once that comes that is something which will trouble us a lot. So, that's the first I would say is expansion. Second is realignment. We talk about having a direct impact on our exports. What we do not talk about is lot of aluminium, lot of steel, goes into ASEAN, Middle East, processed and then further exported to European union. What happens? So, there will be realignment of the value chains because after first year declarations come in, then producers have to take a call, that whether I buy from India or whether I buy from UK or whether I buy from Korea or whether I buy from Japan. So, there will be a realignment. And there will be third country impact on exports also. So, CBAM will not only affect our exports to EU, it will also affect our exports to our neighbourhood. Second, widening emission gap. I think the previous presentation covered it in a way. Its developing countries who are funding the EU's decarbonisation. Then emergence of a super regulator. So, why I say super regulator. There is a computation where you have to declare your raw material consumption, oil consumption. But those are your internal tools. You don't have to file it with the European union. European union declaration is very simple.

Direct, indirect, two columns, what method you use, fine. But what is more important is, you have to identify your installation with a latitude longitude and an UN \_\_. So, imagine, that a regulator sitting in Brussels, has access to not just a few thousand installations within EU, but has access to verified location specific data from hundreds of thousands of installations across the world. So, what impact that it has? The amount of data it generates can strengthen its hand in trade and climate negotiations to a great extent. And I would say that is a lot more troublesome than probably doing your computations and the process related data. Fissures within the EU. Of course, EU is not uniform, EU is also divided. So, for instance, Poland is already litigating that CBAM is not compatible because it was passed as a non-fiscal measure rather than a fiscal measure. What should we do? In the short term as I said, I cannot quantify the long-term impacts. But short term what should be our ask? Yes, we are asking for MSME exclusion, it may not come. Realistic ask is clause prohibiting country exclusions. So, as of now they have excluded those countries which have a compatible EU ETS system. But at the on parallelly EU – USA have a dialogue going on called the GSA dialogue. So, as an FTA, a regulation can be unilaterally amended. So, our ask should be that this unilateral country exclusion should be prohibited by a clause in the FTA. That I would say is the first ask. Clause limiting sharing of data within EU institutions. So, if the data goes to CBAM registry, it can't go to the environment division of the EU. So, that should be our ask, if we have to really protect that data. Second, clause seeking recognition of energy taxes. This is a formulation issue. We have lot of taxes on petroleum, coal etc. it affects different industries in different manner. So, these energy taxes to be converted into a carbon price equivalent, seek a recognition as a valid deduction under that article 9 which I talked about. And clause seeking recognition of CPAE as a valid deduction. So, thank you.

**Sanjay Kathuria:**

Thank you very much, for that Atul. May I now request Anil Bhardwaj, secretary general of FISME, the federation of Indian micro small and medium enterprises. He is a specialist on trade. And he has worked with all kinds of international organisations. Given the focus on SMEs and everybody's feeling like they are going to lose out. We are very interested in what Anil has to say.

**Anil Bharadwaj:**

Thank you. Thank you Laveesh for this opportunity. I represent federation of Indian micro small and medium enterprises. It's a grassroots organisation where 743 SME associations both geographical and vertical are federated into it. We also have our counterpart associations in Europe. And particularly to this discussion I had occasions to talk to them also and with my recent visit to WTO public forum I had number of opportunities to interact with them. At the outset I would like to say as Aradhana ji was saying, what they told me is this CBAM is the outcome of greening of discourse in Europe. And the need to bring back industry in Europe. So, this has been the bottom line. So, they had to find some way to do it. And CBAM is the answer they had proposed or the tool they have proposed. My presentation is basically into three parts. One is about the conceptual part. Second is the MSME questions. And third what we need as support. Conceptually, see there is no... I would say there is absolute consensus on the issue of climate change being the most critical challenge before humanity. Or over the planet earth. But what is debatable however is what is leading to this change. What are the drivers. And this question is yet to be settled. We could also see that when we had the discussion in the beginning that there were contradictions that what is causing it, how much is being contributed for carbon emission by doing what, which activity is the main reason. So, we need to perhaps also at the same time don't take the west narrative as the gospel truth. And

we should research wherever needed, contest this narrative and help develop our own \_generated tech needed to mitigate it and not just copying blindly the western tech. Third I would like to also remind you about the classic of Ha-Joon Chang who had written about “kicking away the ladder”. A classic where they saw that western countries particularly European countries use technologies, processes, systems to reach to a level and once they reach there, they kick away the ladder and said that this is not workable, this is not allowed, this is anti-environment and so on and so forth. So, we should not forget this. And we need to develop our own narrative and contest it. So is the case in WTO also. Both Atul ji and Aradhana ji have touched upon the legality. But I think what we feel is that they could have leveraged existing international agreements such as the sustainable development goals, SDGs, to balance sustainability if they were really interested rather than coming out with a unilateral barrier like CBAM. Coming to the questions that MSMEs have, in context of CBAM, the first question is that what is the carbon footprint of my product. Currently we do not have any agency, any support, that can tell me that. So, assessing and quantifying of carbon emission is the first task. Before we ask for specific interventions. So, we need comprehensive life cycle analysis to identify areas of improvement. And second is how can I reduce the carbon footprint of my product. So, tech to reduce carbon footprint, energy efficiency measures, sustainable sourcing, all these three perhaps would be needed. Fourth, what certification or standard should I meet. So, there is a need to investigate specific environmental standards and certifications. Currently we do not have such a mechanism or levels. Then what are the regulatory and compliance requirements for CBAM. Atul ji has thrown some light, but I think it’s still... because currently we are in the process of just giving the data, sharing the data. The compliance has yet to come. But currently there is completely white spots for industry. For mitigation the first thing that perhaps we need is information and market intelligence. Information has the attributes of public good. Like, individual industries would not be able to create the information databases. And steel industry association would not be able to do it. So, perhaps what is also needed is public investment would be needed to create such information which is critical to take measures for mitigation. Then support for technology development or tech adoption. So, whether it is incentives or as Aradhana ji mentioned maybe subsidies to develop local technologies and also maybe some incentives for adoption. But I think certification and MRAs with the labs is something which is completely lacking at this moment. Then finally coming to reforms, suppose I have a small-scale industry and I am interested in tapping the open access and use green energy, theoretically open access is allowed in India, we have everything in place. Policy, act, everything is there. But in practice it is almost impossible. Particularly for the MSMEs. Because states are completely unwilling to stop or to allow the industry and the commercial consumers to shift from the grid-based electricity to green technology. So, typically what is happening is that, even if the incentives are there, one department of the state is giving the incentives to adopt or to have open access and they would say that theoretically you can put a plant in Bhutan or wherever and then you can pay for billing charges and then you can consume the green energy and gather the carbon credits. But practically it is impossible because the state is not allowing. So, I think one challenge that is going to be before us, particularly in the case of energy is how to take the states on board. So, these were some points I wanted to share.

**Sanjay Kathuria:**

Thank you very much, Anil, for the formidable challenges that the sector MSME sector faces. The floor is open. Please state your name and try to be brief. Even if you have a comment. I will also be looking for online questions. State also if you somebody to whom the question is directed in the panel.

**Audience:**

I have a comment and a question for the CSEP team. Just on the slides that you said in terms of discussion with respect to ESER, RPO and RCs which will not be compatible for carbon markets, actually BEE came out with a regulation and they had a workshop earlier this year. Actually, earlier last month. In which, all these certificates will be compatible in the new carbon markets which will be coming online next year. That is just a comment. The other part I wanted to understand was in terms of your analysis when you were looking at different systems, carbon trading systems for different countries. Did you look at if the governments were providing any tax incentives for the credits that are being shared. Because if you look at it, CBAM is going to happen. So, for the MSME sectors and the companies within those departments, if the incentive for them to share the credit if they get the tax incentive. So, in your analysis did you come across any such ruling or governance structures which are providing those tax incentives which will be very beneficial for India? Because we are the second largest trader for EU going forward and that will happen soon. Just that question.

**Sanjay Kathuria:**

We will collect a bunch of questions.

**Audience:**

There were couple of questions. CBAM's conformity to WTO principles on trade. Then, how India is going to be impacted by CBAM? Because the total aluminium and the iron and steel exports of India is close to about 5 billion dollars. So, whether that can be absorbed, if we don't comply with the CBAM principles. How are the CO2 emissions are going to be benchmarked by the EU nations for the product they produce? Whether they produce it with gas or coal or hydrogen or any other fuel? So, these are some of the basic questions which I was wondering that how its going to be resolved. Also, US exports 50 billion dollars of trash, the scrap and all to China and its imports about 550 to 600 billion dollars of finished goods. How these adjustments between different countries are going to happen?

**Audience:**

I had a brief chance to work on India EU FTA deal while I was working at CTIL. So, I had a question for Atul sir, particularly on India EU FTA. Are we looking at any reconciliation when it comes to CBAM? There has been a major issue on CBAM and earlier GDPR. So, what are the challenges that both the countries are dealing with, especially in case of India? The second question or rather it is a doubt. Pertaining to food industry. Sustainability in the food industry particularly in the EU? If I may quote a report that says that there is a dire consequence of the current EU meat and milk production system especially in the countries in Latin American countries which produce these materials. So, is there any relation or correlation between CBAM and the food industry and the regulations thereof? Thank you.

**Sanjay Kathuria:**

Why don't we try answering the set of questions? There is a whole bunch of online questions which I have.

(Talk by Montek Singh Ahluwalia in audible few seconds.)

**Montek Singh Ahluwalia:**



I am intruding. Because I didn't want to comment right at the beginning. That would have taken the attention away from people who thought rather hard about what they want to say. I thought I will just make three or four comments on which it will be useful to see if you can get a reaction. Because one of my comments related to Ananth's who is not here. That is why I raised it then. I think the point is that he did assert that the international assessment is that we are on track. That is not the case. That was a 2021 report. The most recent carbon tracker actually says highly insufficient. Others are also highly insufficient. We are not worse than anybody else. But let's not slip into the feeling that we are doing so well that nobody should raise questions. They will raise questions. Then we have to ask ourselves what should be beyond 2030, what should be the NDCs to get to net zero and that's quite tough. Uthkarsh Patel who is one of our people and I are working on a paper which tries to outline how we might identify these things. So, I will ask Laveesh to circulate it to whoever is available. It will be finalised very quickly. The second question relates to CBAM. Now, obviously, an undercurrent in all this is, is CBAM fair? You can very easily argue that its not. And I think the point that Aradhana made about the tuna case, which quite clearly said, that just because you don't like the process, environmental implications of the way Mexicans process tuna, you can't prevent that from coming into the US. That's sort of not right. CBAM clearly junks that approach. CBAM takes... we have to accept that this is not just processing of tuna. We are talking about a major repricing of energy. I think what this... in order to put it the way the Europeans would want it to be put, I am not saying by the way that we should agree with that. But we need to look at it from their point of view. They view the under pricing of carbon as a major price distortion. Globally carbon through... I mean fossil fuel throw out carbon, that imposes a global cost, they don't want that. They want to discourage carbon. So, what they are doing is, they are imposing a cost on themselves which actually is a pricing of carbon. Really what they are saying is that, everybody in order to be fair because this is a global issue, you fellows should also price carbon the same. Put that way it doesn't look quite as unreasonable as you might otherwise think. Though there is... this is something I throw out for comment... the IMF had raised the issue that when you are pricing carbon, should carbon be priced the same for a rich country than a poor country. A sort of an inclusiveness and all these things, you could argue that the price burden should be progressive and the IMF had said the price of carbon should be 25\$ per ton for India, 50\$ per ton for China, 75\$ per ton for the developed countries, personally I think if offered that ... nobody has accepted it yet, but... it is the IMF which is run by European traditionally. If they were to actually accept it, it would be a good deal. Because what would happen is that when they price, they work out what is our tax. They will recover the difference between our tax and in our case 25\$, so they impose that as a CBAM. In the Chinese case, 50\$, in the case of US 75\$. So, the CBAM would become a function of the level of income of the exporter. I don't mind if less developed countries, you can put \$10. You know it doesn't matter. They don't produce these things anyway. So, it is not very crucial. But you could do that. But frankly other than that I really don't see what else we can do. I think we have to... this is a strategic decision that you guys representing industry, when you talk to the government... our approach generally tends to be, since we are so good at arguing, there is no position that we cannot argue. Sort of maximal position. After all we speak English as well as these fellows, so we can do it. Its kind of legal... as a lawyer you need to pronounce on that. But, the only credible hope we have is for people to accept that yes, this is a global cost, therefore its... I don't like the description they are just preventing leakage. Of course, they are preventing leakage. If they're taking on a cost, which is a global cost, they want you to take on the same cost. Otherwise, what will happen is they will suffer and everybody else will do the pollution. So, that is not a surprise. So, I think we really need to ask ourselves how do we handle. Now, we also need to combine this with knowledge that WTO is irreparably broke. But the only thing the WTO can do, ok, take me to dispute

settlement. Even in two days if the dispute goes against EU, EU will say I go to the appellate body, which is non-functional. End of story. Any notion of glorifying the... until we fix the WTO, we should assume that the WTO will give no benefit to us whatsoever. This raises the question if this is so, we are better off levying the taxes ourselves and retaining the proceeds. So, this notion that we are... it is not correct to say this is a way of financing EU. It's in our hands not to finance the EU by just levying the tax ourselves. In fact, not levying the tax is more or less inviting the EU to take away that revenue. Now the problem is to concede that you have to concede that you are accepting it. And if you adopt a maximal approach nobody will concede. And they will say we will go to the next whatever it is ministerial council. There are too many vested interests in arguing in Geneva to actually accept the proposition that that's a dead duck. And that's a provocative way of putting it. Whole point of these seminars is to provoke, right? What else? I think the real question is we should ask... the worry really is that the cost of meeting the CBAM requirements will be horrendous. They will raise question, who has certified... the idea that we will accept some sarkari estimates which are anonymised and averaged, it will not happen. They will say no, no, it should be done by Deloitte, and it should be done by recognised fellows and even those can be questioned. When we persuaded the Americans the we need to have vapour heat treatment for mangoes, the Americans prescribed a form of testing which only they could do. That we said OK, since mangoes are important. We had to pay for two of those guys to come to Bombay and do the testing. So, this question that assuming that they ram it through, are we going to do a lot of refinement? Or are we going to do some rough and ready thing which is accepted. This is a real choice. Because otherwise, we will be caught in an unbelievable amount of detail. My last question is something that I posed earlier. We keep bringing out under the fairness question that you must transfer technology. That is certainly true in defence technology. Because they restrict it. It certainly used to be true of atomic energy because they restrict it. But these are not technologies that are restricted. You want to buy it... if a company has a technology, you can buy the company. If you are saying, no, no, now you must help me buy the company, is that seriously something that we can ask. I don't think we can. Why would anyone help Tatas or L&T or Jindal with subsidies in order to transfer technology? That's just part of the cost. That also is a to my mind not really a credible... I have raised a few questions on which whoever wishes to answer.

**Aradhana Aggarwal:**

I just want to take one comment. You said that there should be differential carbon prices. Depending upon the stage of development. Now then, you cannot stop leakage. There will be relocation of production. I think this is not...

**Montek Singh Ahluwalia:**

You get them to agree because progressivity and inclusion is nice. And this is a consequence. Can't have it both ways.

**Aradhana Aggarwal:**

The whole purpose is to stop leakage. And here you cannot do that. The entire...

**Montek Singh Ahluwalia:**

When you say the whole purpose, either you fundamentally oppose the...

**Aradhana Aggarwal:**

I am not... they say that it will help the world because carbon leakage actually is leading us nowhere. You are not producing in your region, but you are producing somewhere else. So, eventually this is affecting the climate. This is what they say. So, let us look at it positively. So, this is what they say. But then what happens that if you have differential, then on India it is 25%, so people will be coming in India from China. So, the leakage will happen.

**Montek Singh Ahluwalia:**

By the way, there is a big difference between a hell of a lot of leakage and a little bit of leakage. The introduction of a differential will actually produce some of what you call leakage. I wouldn't call it leakage. I would just call it reallocation, in the light of whatever that thing is... ability to bear, differential responsibilities etc. part of that.

**Sanjay Kathuria:**

Thank you. Let me turn to the... I hope you have noted the questions that were directed. Let me first turn to the team. Should we run a little bit over. Because we have a whole bunch of questions from online. Maybe we do one round of answers. Because they already four or five questions from the floor. So, we have 15 more minutes. Renu and Kritima, do you want to start by answering some questions that were directed at you?

**Renu Kohli:**

The issue there was a question on how the accounting for tax... sorry that was a comment. Tax incentives and all, we haven't covered that. We acknowledge that REC is actually are building blocks and the Indian ETS is based upon that. So, we acknowledge that. We have not really covered the tax incentive part of it. Then there was a question about benchmarking and accounting from that side on the technicalities. Now, these are part of the possible mitigation measures those firms or countries on their behalf can actually undertake in consultation with EU. With what this whole thing is about that what can be done additionally or what. Because the accounting mechanisms have to converge or there has to be a certain acceptance or harmonisation if you will, across the board. From what I know is that the G7 is got a group which is working upon this and there is so is the OECD on evolving some kind of benchmarks and all, which are universal or best practices. The hope is that it will gravitate towards a larger fora such as the G20. But this is very much recent. On the carbon price and the tax that the proposal IMF has proposed, I am not clear about how this would correspond to the CBAM measures because the CBAM would be evaluated on the basis of the discovered price of carbon on their ETS mechanism of these products. And as long as any country has set up its own ETS which is aligned to that of the EU, so there is complete compatibility and so the offsets are fairly straightforward. So, I don't know how it comes up with the...

**Montek Singh Ahluwalia:**

Let me just... the issue is that their expectation is that if you got it compatible with us, the difference between your measures and our measures we will impose a tax. What I am saying is the difference between our measures and whatever the IMF says is appropriate for us, you

impose. Not what you do yourself. And that's a huge advantage if we can get it, but I don't think we will. That's a separate issue.

**Renu Kohli:**

On this the other thing just to respond to your remark about the maximal approach and contesting and arguing about it, from the responses of countries the number of exchange trading mechanisms, the ETS mechanisms which have been set up across the board, in Vietnam, in China and India is late relatively, it appears that there is complete... there is grumbling no doubt. But there is acceptance. And there is preparation nonetheless.

**Montek Singh Ahluwalia:**

Setting up an exchange... I am glad that we are doing that. We have amended the law, they are going to come up with something. The question is what is the tax burden of the thing you set up. If your target is net zero by 2070, then the exchange trading allowances should be sharply reduced over time. Is that the intention? If they are not reduced over time, they'll just say that look, the implicit carbon price that you've got is 1/10<sup>th</sup> of what it should be. Having it doesn't make a difference, it is the calibration that makes a difference.

**Renu Kohli:**

There is huge disparity right now and its very unclear as to how this is going to evolve, because current prices just like what is prevailing in the EU ETS is about 100 euros per ton. And in comparison, to that the China's ETS is as low as \$8. So, these are issues that have to thrashed out and thought over. (Question inaudible) It is to converge. It is for convergence because these are dominant steel exporters in Vietnam, China and all that.

**Montek Singh Ahluwalia:**

The EU will just levy the difference. Some of the discussion, I am not saying you are subject to that, some of the discussions is conducted as if, oh yes, you have an exchange trading mechanism, we are also having an exchange trading mechanism. That is not good enough. How tight is the exchange trading mechanism and what is the implicit carbon price? So, they will say, its wonderful. Now you have an exchange trade mechanism. You need to cut the allowances by half if you want to do it. I think we should be very clear, actually it is in our interest. If we are serious about net zero. If you are not then we just call it a mistake and get on with it if you are serious about net zero, in my view and I think we argue this in the paper, the best thing we can do is to have what the BEE is now doing, but to calibrate it so that you can clearly see that the total allowances of emissions allowed over the next let's say 20 years, they are going to be cut down to 50% of what it is now. And within that with the GDP growing, the pressure to economize would be enormous.

**Atul Sharma:**

So, the way the current formula works in European union, is your actual emission minus some allowances which EU ETS gets into ton of product into ETS price, you get a number. From that deduct the price in dollar terms which you pay in your country. And that becomes the net obligation. And what sir is talking about is, bringing in the differential carbon price, the way it would work and government has thought about it... is, take the deduction on emissions before multiplication with the EU ETS price. So, that is emission with your actual emission, minus

the allowance if any, minus the emission on which your country charged a tax. And then multiply the balance with the EU ETS price. And that becomes your net obligation. So, it depends upon where you place this subtraction factor. The fifth box whether before multiplication with the EU ETS or after multiplication of the EU ETS. I think that's what in a way sir is talking about.

**Montek Singh Ahluwalia:**

You agree with that?

**Atul Sharma:**

I would say that's a fairer approach that takes care of the Paris agreement but as of now EU has flatly refused to engage into those kinds of discussions. Because there was a public comment period and about 1400 comments or more than 1400 comments were filed. And EU simply flatly refused to consider it.

**Montek Singh Ahluwalia:**

Good negotiating \_\_\_.

**Atul Sharma:**

Couple of questions. There was a question on CBAM impact on steel and aluminum. Steel I will keep aside. Aluminum. Because I said two tons of emission per ton of aluminum is what is being targeted. And because you have a certain free allowance starting from 2026... it's a public position by the aluminum association of India to government of India... that the tax impact of CBAM would be about 3% at current prices. And will rise up to about 7% in 2034. So, that's the range we are talking about. Steel, although aluminum has more emission, steel has a much larger impact. But those impacts are yet to be quantified. We have not seen a concerted position. Second is scrap. Actually, CBAM presents a large opportunity to the scrap recyclers. Because the embedded emissions are low and you are not burning the coal to produce the primary material. There is a large opportunity for the recycler, for the secondary which is dependent upon scrap. When we talk about morality of CBAM, look at it also, scrap exports from EU are banned today. And they are banned so as to reduce the impact on the EU recyclers whereas scrap availability becomes very tough outside of EU. So, it works hand in hand. It's a package of about 16, 17 legislations and host of litigations are ongoing. So, scrap must be read as part of that CBAM. Then you will see probably the perspective slightly changes. On the food question I don't think its relevant as of now. CBAM has a sectoral coverage. Nothing to do with food items, FMCG goods. Reconciliation India – EU FTA, I think still slightly distant future as of now and I speak for myself. I am not the advisor for government of India for EU FTA. But I speak for myself, I think still distant future. And the four asks I said, should be the ask that we can ask that you delay the CBAM implementation for me, not going to happen. You can ask exempt my MSMEs, not going to happen. Because MSME definition varies from country to country. But the four clauses which are fair asks I think are possible and if we put a concerted effort, I think some reconciliation can be reached. On Is CBAM fair, as I said in my remarks both arguments are equally valid. It is fair, it is not fair. I have a slightly different question. If CBAM is fair, then is let's say a growth border adjustment tax is going to be fair. Because EU has a growth rate of 0.7%. India grows at

7.5%. So, you are devouring the planet because you are growing at such a large pace. Or a work life balance border adjustment tax is going to be fair? Because EU has a 35 hour work week, India has 70 hour work week. No. so, on the fairness question I would say I would take it as a stretch a bit further. And would say that if because to me CBAM is not an environmental measure. CBAM is an economic tool. Economic tool to adjust the inefficiencies, the higher cost of compliance existing within the Europe so to level the playing field this measure has to be exported out. And if this measure has to be exported out then CBAM is the only mechanism. So, that's what I would say. The CPAE as I said in my article it is a transitional tool. It's a short term tool. It doesn't mean we accept CBAM, all the efforts to resist CBAM can continue. Probably they are not going to lead us anywhere but probably at least get hold of this fund. So, in a way what could happen is probably European consumers who ultimately are going to pay for this are going to create a decarbonization fund within the country. So, that's what the best I could come about.

**Montek Singh Ahluwalia:**

One further question. I wonder what you think about that. My co-author has sent through WhatsApp that I should pose this to you. He is sitting in Berlin probably listening to this. That is, that the EU itself discriminates between the more advanced members and poorer members. The free allowances etc. are being continued for poorer members much beyond what they are for the bigger ones. So, the principle that if you are lower income, you deserve a pass is already conceded. So, why not do it across the border also.

**Atul Sharma:**

So, what we talk about in the CBAM context the free allowance is not any extra territorial exemption. It's a free allowance. Because EU has got a certain target. Which means every year they are permitted or industries are permitted to emit a level without paying a price to any regulator in EU. This allowance or this total abstract number is distributed among various industries. So, they don't have to buy a ETS price for polluting to this extent. Any pollution above this is subjected to a ETS tax. So, what they say, to be evenhanded, they say, whatever free allowance I give to my industry situated within EU, I am going to allow the same deduction to all the countries who are exporting to EU. That is the free allowance.

**Montek Singh Ahluwalia:**

Ok. Interesting.

**Sanjay Kathuria:**

I don't want to be completely unfair to online viewers. I am going to just raise a handful of questions. We have too many. So, anybody who feels like answering. Only one answer per question. Ganesh Dilip says – if CBAM jeopardizes the competitiveness of tradable sectors what has India done to notify the WTO on this matter? Jaideep Gadvi says – do we have some estimates of cost that might be imposed on Indian industries in case of an absence of carbon accreditation mechanism or not compliant with ETS? Victor Scott says- the question is how is the carbon price determined in India versus the European price in the market? Next question. Ravi Grover says – has the EU defined energy sources that qualify for the production of low carbon electricity? For example, will the use of nuclear power for manufacturing a product qualify as low carbon product? There are many more. But I am afraid we are completely out of time. If somebody can take up any one of those.

**Atul Sharma:**

If you see, this question about sources of energy becomes important because companies till now have been operating under voluntary disclosure regime. Private standard, you follow a third party certifier, he gives that certification and you take credit of certain clean energy. CBAM doesn't work that way. So, how it works is, let's say you have three sources of energy which is the grid, captive power plant and probably self-produced electricity. Let's say if it is solar assign zero, do a weighted average of your energy mix and give me the total emission which you make from which you don't take any credit. So, therefore nuclear energy, if everything is produced from nuclear energy, everything is produced from solar energy your emission account of electricity is going to be nil. But as the law stands, this doesn't affect. Because that's all indirect emission only for declaration purposes. Tax is not calculated on it. So, if the law changes, and if the tax takes into account your energy, then what would happen is if entire thing is produced by clean energy, the tax on that energy becomes nil. Otherwise, if it's a mix of energy, you calculate weighted average on your actual computation. That's what would be my short comment on the nuclear energy. How the carbon price is determined. Very straightforward. There is an EU ETS exchange on which certificates are bought and sold. You have daily prices available. What CBAM asks you to consider is average weekly price of the last week. So, if the consignment comes this week, you multiply the emissions with the average weekly price of the last week.

(Audience question not audible)

**Atul Sharma:**

As of now I would say precise reasons you would never know. Of course, Poland is a large thermal energy producer and consumer also. Challenge is limited. And challenge is on the legality of CBAM because it is passed as a non-fiscal measure rather than a fiscal measure. So, non-fiscal measure can be pushed through with a simple majority in EU parliament. A fiscal measure will require unanimity of all the 27 EU members.

**Sanjay Kathuria:**

I am not sure we have any conclusions here today. It was a very rich debate. I have on my schedule that Rajat Varma will make some final closing remarks. If you still want to do that Rajat, please do come up. I just want to say just a couple of thoughts. It is unfair to us or not fair to us. The question is it is a fait accompli. Do we have it accept anyway while exercising all the negotiating skills at our disposal? I think the issue that Montek raises, 25-50- 75. Bringing that into the equation and bringing other EMDEs on board in this would be I think brilliant. We bring sort of global south voice on that, it is a good idea. That would be very good. There is a new loss and damage fund just announced. Is this relevant at all to this issues that Aradhana has been raising about who is going to pay for all this stuff. Or is that in the context of broader climate debate only. It does not apply to CBAM issues? So, Rajat over to you.

**Rajat Verma:**

Having started to work on CBAM and attending these conferences as well, it has been a tremendous amount of confusion which would have been created. But I think because this issue is so contemporary, it is important to create some confusions in order to understand the nitty bitty details coming out from various perspectives. I think that's exactly what we have

tried doing here. And I must thank also the panelists over here and the presenters. We started off from the idea of the trinity of net zero and where we said that... Mr. Ananth said that CBAM ignores the tradeoff and then we really bring in some perspectives for CBAM and then we come up with the idea of the data issues. How the data issues can actually have to be secured and the amount of opportunities for the developed countries especially for the EU which it provides and which can be exploited. I think that was another important part of today's presentation. The third one was I believe is the idea of MSME. The data do show that we have especially in the Indian context we have and if we talk about iron and aluminum particularly the two sectors which are the most hit, do have some vulnerability. But the idea is that how can that be tackled. Though the CBAM is very difficult to oppose on the MSMEs particularly point of view and you need a balanced approach. That's really what came up. On one front you can keep on opposing even if it is not being heard as was pointed out by Mr. Ahluwalia as well. But on the other hand, you can also try to bridge up with your own domestic carbon policies because as how you know how our modeling exercises would also work. Given an exogenous factor being there, which is CBAM in this context, how do you prepare. That's the bottom line which we must take away I believe so. I would again thank all the participants as well as the presenters for giving such a rich discussion and as I said that being a contemporary issue, it has to be debated. Thank you. Thanks a lot, and thank you for all of you for joining us this evening. Thanks.