

Girding up for CBAM, Emerging Countries on the Front Line of Carbon Tax

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What is the Scale of Impact of CBAM on Developing Countries?

According to a press release issued by the United Nations Conference on Trade and Development (UNCTAD), the EU Carbon Border Adjustment Mechanism (CBAM) could have a negative impact on the income of developing countries. Based on the EU carbon price of US\$44 per ton, developing countries would see a total income reduction of US\$5.86 billion. CBAM's targeting of high-carbon-emitting industries at this stage could have a dramatic impact on developing countries once it is extended to more industries in the future or if advanced countries are to adopt similar measures.



The impact of CBAM on the global steel and fastener industries is significant and far-reaching. It has been the subject of intense debate among government, industry, and society in Taiwan. The impact of CBAM on Taiwan has been analyzed in a series of detailed articles in our bimonthly Fastener World Magazine. In this issue of Emerging Fastener Markets Special Edition, we focus on emerging countries and developing countries. **In this article, we look at how these countries are currently assessing the impact of carbon tax that will be introduced on a trial basis and implemented in the near future, and what they have done so far to cope with it.**

India

According to the latest report by the Global Trade Research Initiative (GTRI), which is an Indian economy think tank, **CBAM covers 777 tariff codes on India's exports to the European Union (EU) and will affect nearly US\$10 billion worth of India's exports to the EU.** The Federation of Indian Export Organizations (FIEO) has warned that CBAM could make the Free Trade Agreement between India and the EU as well as other countries redundant, as many exporters will see prices of their goods go up by nearly 20%, prompting companies affected by the tax to dump their goods in India. As 27% of India's steel and aluminum exports (US\$8.2 billion in total) went to the EU in 2022, CBAM will pose a serious challenge to India's metals industry.

In response, **India intends to file a complaint with the World Trade Organization.** The Indian government believes that the carbon tariff proposed by the EU is discriminatory and amounts to a trade barrier that will hit exports from India and many other developing countries. From India's point of view, their steel companies and small manufacturers need more time to meet the EU standards. India is working

In addition, **India's steel minister said in a press interview that India has no choice but to move quickly towards green steel.** He further hinted that the government may make it mandatory for local steel companies to dedicate part of their capacity to green steel production and expand the use of green steel. Speaking at the International Conference on Green Hydrogen, the Renewable Energy Minister said that India is constructing a 13,000 MW renewable energy plant in Ladakh to transmit green power across the country. This green power will also be used to produce green hydrogen. India is planning to supply 11 million tons of green hydrogen annually to the EU and Singapore which in turn will invest in India's clean energy projects.

Indonesia

Indonesia has set a target of reducing 30% of carbon emissions by 2023 and achieving net zero by 2060. In October last year, Indonesia sought about US\$4 billion from World Bank and Asian Development Bank donors to help it detach from reliance on coal, with a view to stepping up its carbon reduction measures, including the development of solar, geothermal and nuclear energy as alternatives to coal.

In addition, **Indonesia originally planned to impose a carbon tax of Rp30 per kilogram of carbon dioxide equivalent (CO₂e) in April last year, with the tax to be extended from 2025 onwards. However, due to the pandemic and geopolitics, the carbon tax was postponed twice, and no new date has been announced yet.**

Before the carbon tax, however, Indonesia has already set carbon trading rules in 2021, confirming the adoption of a "cap-and-trade" mechanism, as well as the establishment of carbon credit exchange. The exchange is scheduled to open in September this year, which means that if Indonesia does impose carbon tax in the future, it will provide two options, either carbon taxation or carbon trading.

Vietnam, Malaysia, Thailand

Vietnam plans to reach net zero by 2050, and its Ministry of Finance presented a draft carbon market development plan in July. The Ministry of Natural Resources and Environment (MNRE) will work on a carbon credit management mechanism in the second quarter of 2024. Vietnam has set a target of establishing a carbon trading platform by 2025, with a view to launching it in 2026.

Malaysia has revised its Nationally Determined Contribution (NDC) target to reduce 30% carbon emissions by 2030 and is developing a strategic roadmap to accelerate its energy transition program.

Thailand is also considering establishing a national carbon market.

Brazil, Chile

This June, the Brazilian government expressed its attention to the draft Carbon Credit Market Bill reviewed by the Congress and hoped to establish an internationally recognized "Brazilian Carbon Emission Measurement Mechanism" (BCEMM). In order to break away from the constraints from international carbon measurement organizations and to accelerate the progress of negotiations between Mercosur and the European Union, **Brazil is proposing the issuance of a "Brazilian Carbon Emissions Certificate" (BCEC). In the future, Brazilian importers of EU products will have the option of purchasing CBAM certificates on their own, or Brazilian exporters will have the option of presenting proof of purchasing carbon emissions for compliance with CBAM, which is expected to attract US\$25 billion in investment by 2030 if the bill is passed.**

Chile is considering establishing a carbon trading market along with considering the implementation of carbon tax.

with other developing countries to explore the feasibility of pushing for a delay in the implementation of CBAM.

In addition to striking back, India is also establishing domestic measures in response and developing a policy framework for building a carbon market. They have set up an inter-ministerial group to discuss the impact of CBAM. The group has assessed that exports of steel, iron and aluminum products made in India to the EU will be subjected to a duty of 20% to 35%. The group is discussing a number of measures to mitigate the impact of CBAM, including mutually recognized inspection and certification bodies, and the Carbon Credit Trading Scheme (CCTS).



China

China exports about 3.89 million tons of steel annually to the EU, valued at about US\$6.44 billion. Based on the current CBAM rules and the price of carbon in the EU carbon market, **the cost of export for China's steel industry will increase by about 4% to 6%, and China will need to pay a carbon tax between US\$200 million and US\$400 million per year to the EU.**

This June, France rallied 22 allied countries to support imposing carbon tax on ships. Ship transportation accounts for more than 80% of global trade, and shipping accounts for 2.9% of total carbon emissions, but this is not taxed. If the IMO (International Maritime Organization) imposes carbon tax, it will use the tax (hundreds of billions of dollars a year) to subsidize poor countries' response to climate change.

For China, this would be a blow to its own interests. China has warned that overly ambitious emission reduction targets will severely hamper the sustainability of international shipping, dramatically increase supply chain costs, and jeopardize the recovery of the global economy. The foreign press have revealed that China has asked poorer countries to join its opposition to the carbon tax on shipping and to tougher decarbonization targets.

In 2011, China launched carbon emissions trading pilot projects in Beijing, Tianjin, Shanghai, Chongqing, Guangdong, Hubei and Shenzhen, covering more than 20 industries such as power, steel and cement, and close to 3,000 emission organizations. On July 16, 2021, China launched the carbon emissions trading market. As of July 2022, the cumulative carbon emission transaction was 194 million tons, with a cumulative turnover of RMB 8.492 billion.

Russia, Ukraine, Turkey

A study by think tanks Sandbag and E3G predicts that by 2026, the CBAM fee on imported Russian products will reach US\$15.4 billion. By 2035, when the EU's free carbon allowances are reduced to zero, the CBAM fee will reach US\$65.7 billion. Ukraine and Turkey are expected to pay US\$976 million and US\$924 million respectively by 2035.

Russia has announced that it will achieve net zero by 2060, but its energy strategy is still largely based on the burning of fossil fuels. Russia has no carbon tax or emissions trading as of March this year, making it vulnerable to future carbon tariffs imposed by the European Union or other export partners.

Turkey has announced 41% reduction in carbon emissions by 2030 and net zero by 2053. The Turkish government will develop a national program to scale up the supply of carbon credits to help achieve its net-zero goal and detach from reliance on renewable energy projects.

New Zealand

New Zealand announced in May this year that it would implement the largest carbon reduction program in the country's history, spending US\$140 million to subsidize the steel giant Steel Corporation

of New Zealand (SCNZ), with the goal of shifting to renewable green power. This policy is equivalent to cutting carbon emission from 300,000 cars. If the program runs smoothly, New Zealand's carbon emission will be reduced by 800,000 tons per year, which is equivalent to the carbon emission of all cars in Christchurch, the largest city in New Zealand. This will help New Zealand to achieve the goal of net zero by 2050.

Africa

In estimation, that CBAM will cost Africa US\$25 billion per year, which will reduce Africa's GDP by 0.91%, three times higher than the EU's commitment of €6.3 billion to Africa in 2021. CBAM will become a major challenge to Africa's economic development.

As a result, most African countries are considering the establishment of voluntary carbon emission reduction mechanisms. Nigeria has announced a legal framework for the establishment of their respective domestic emissions trading systems and set up the Africa Carbon Market Initiative. The driving factors behind the initiative include the development of the international carbon market, the need for domestic revenue, the impact of international trade, and the need for political maneuvering, etc.

CBAM, a Double-edged Sword

Summarizing the above situations of emerging and developing countries, we can see that the economic impact of CBAM on these countries is no less than that of other advanced countries. Even in China, where a carbon trading platform was launched more than a decade ago, there are still many issues to be resolved. Many countries outside of China still have incomplete carbon markets. Even though carbon trading has been discussed and piloted for years in advance, the EU's carbon tax came as a surprise to many on the front line of trade.

Countries with immediate business interests that are directly impacted on a large scale, such as China and India, are looking to delay the official implementation of CBAM by joining forces with others. This buries concerns for political, economic, and trade conflicts after CBAM is officially implemented in the future. In addition, CBAM is still found to have loopholes that can be exploited by business organizations in some countries, and some experts doubt that CBAM can actually reduce global carbon emission by a large amount.

However, from another perspective, CBAM has indeed prompted some capable manufacturers to start conducting carbon inventories and planning for carbon neutralization. CBAM is like a double-edged sword, and all citizens of the earth must walk on a fine line, and find a new balance between the economy and environmental protection while looking for common grounds for each other. ■