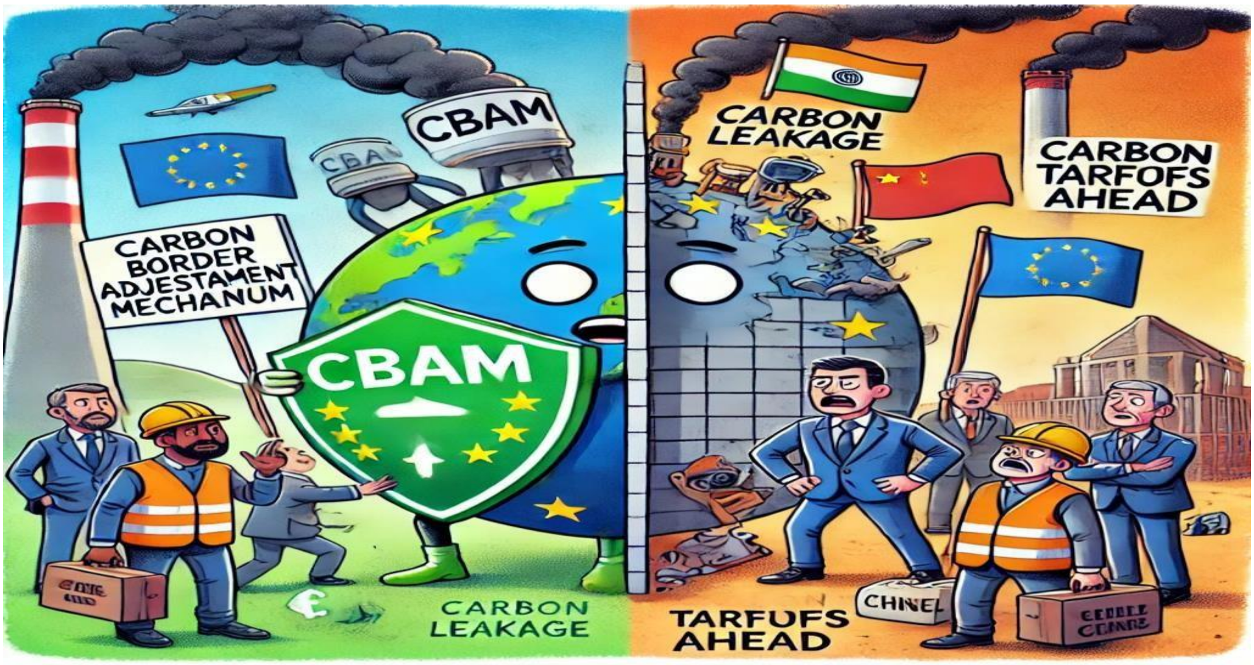
Carbon Border Adjustment Mechanism (CBAM): COP29



The European Union's (EU) **Carbon Border Adjustment Mechanism (CBAM)** has emerged as a contentious issue in global climate negotiations, particularly at COP29, the 29th Conference ofthe Parties to the United Nations Framework Convention on Climate Change (UNFCCC). This mechanism, set to be implemented by 2026, has sparked intense debates about fairness, economic impacts, and its compatibility with international climate goals.

Understanding CBAM

The CBAM is a proposed carbon tariff designed to impose costs on goods imported into the EUbased on the carbon emissions generated during their production. Targeted industries includesteel, cement, aluminium, fertilisers, and electricity—sectors notorious for their carbon intensity.

The EU justifies CBAM as a tool to prevent **"carbon leakage,"** a phenomenon where companiesmove production to countries with lax in environmental regulations to avoid stringent climate policies.

During its trial period, which began in October 2023, companies exporting to the EU from thesesectors are required to report emissions data. From 2026 onwards, non-compliant imports will face financial penalties, effectively incentivizing exporting countries to adopt greener production methods. While the EU argues that CBAM aligns with its climate goals, developing nations see it as a unilateral measure that disrupts global trade dynamics.

Impacts on Developing Countries

Developing nations like India, China, Vietnam, and Taiwan are among the hardest hit by CBAM,as they export significant quantities of carbon-intensive goods to Europe. The measure poses several challenges:

1. **Increased Costs**: Exporters will face higher production costs to meet EU emission standards or pay carbon tariffs, reducing their competitiveness in European markets.
2. **Economic Disruption**: CBAM threatens industries that are critical to the economies of developing nations, potentially leading to job losses and slower economic growth.
3. **Subsidy Scrutiny**: Countries like India and China, which provide subsidies to supportlocal industries, are likely to face increased pressure to justify these measures underinternational forums.

India's Finance Minister **Nirmala Sitharaman** has called CBAM "unilateral" and "arbitrary,"emphasizing that it unfairly burdens on developing nations already investing heavily in renewable energy and other green technologies. She also pointed out that the EU's **Deforestation Act**, a related policy aiming to reduce imports linked to deforestation, will disrupt supply chains without offering significant environmental benefits.

CBAM and COP29: A Controversial Start

At COP29, held under the UNFCCC framework, discussions on CBAM became a flashpoint. Developing nations, led by India and China, demanded that CBAM be included on the core climate finance agenda. They argued that the mechanism's economic implications warrantedglobal scrutiny and support.

However, EU negotiators, led by Jacob Werksman, moved the issue to the **Response Measures Forum**, a separate committee under the UNFCCC tasked with addressing the spillover effects ofclimate policies.

Werksman defended the EU's decision, stating that the UNFCCC is not the appropriate forum for resolving trade-related disputes, which fall under the purview of the **World Trade Organization (WTO)**. This move was seen by many as a strategic effort to sideline CBAM fromthe main climate discussions and avoid direct challenges to the policy.

By relegating CBAM discussions to this forum, the EU has effectively shifted the burden of proofonto developing countries, requiring them to justify their domestic subsidies and demonstrate the challenges posed by CBAM.

Developing Nations' Response

Developing nations have strongly opposed CBAM, viewing it as a tool that favors the interestsof developed economies while undermining the principles of equity and common but differentiated responsibilities outlined in the Paris Agreement.

1. **India's Stand**: India has argued that CBAM contradicts the spirit of global climate cooperation

by imposing additional costs on nations already making significant investments in clean energy transitions. India has also criticized the EU for prioritizingunilateral measures over climate finance, which is critical for supporting vulnerable economies.

2. **China's Stand**: China shares India's concerns and has called for a multilateral approach to address CBAM. As one of the largest exporters of carbon-intensive goods, China seesthe mechanism as a direct challenge to its economic interests.
3. **UNCTAD's Support**: The **United Nations Conference on Trade and Development (UNCTAD)** has backed developing nations, with its Secretary General **Rebeca Grynspan** describing CBAM as harmful to global trade and climate equity. While UNCTAD managedto delay certain components, such as the deforestation provisions, it remains critical of the overall policy.

The EU's Perspective

The EU defends CBAM as a necessary step to achieve its climate targets and ensure fair competition. By imposing a carbon price on imports, the EU aims to create a level playing fieldfor its industries, which are subject to strict emission regulations. EU officials argue that CBAMis WTO-compliant when framed as a green tax and stress that it complements broader climateefforts.

Broader Implications for Trade and Climate Policy

CBAM's introduction has influenced other developed nations, including the United States and Australia, which are now considering similar measures. While this trend underscores the growing importance of carbon pricing in global trade, it also risks creating a patchwork of unilateral policies that could exacerbate trade tensions and hinder international cooperation.

Finding Common Ground

The debate over CBAM highlights the complex interplay between trade and climate policies. While the EU sees the mechanism as a means to drive global decarbonization, developing nations view it as a threat to their economic sovereignty and a distraction from critical climatefinance discussions.

To bridge these divides, the following steps could be considered:

1. **Enhanced Climate Finance**: The EU and other developed nations should increase financial and technical support for developing countries to help them meet emissionstandards.
2. **Phased Implementation**: Allowing a longer transition period for developing nations toadapt to CBAM requirements could reduce its immediate impact.
3. **Multilateral Dialogue**: Engaging with international organizations like the WTO to ensureCBAM aligns with global trade rules and equity principles is essential.

4. **Incentivizing Green Transitions**: Instead of penalizing non-compliance, CBAM could be restructured to reward countries that adopt greener practices.

Conclusion

The CBAM debate at COP29 underscores the urgent need for a balanced approach to globalclimate and trade policies. While the mechanism aims to address carbon emissions and promote sustainability, its unilateral implementation risks alienating developing nations andundermining the collaborative spirit of the Paris Agreement.

Resolving these tensions will require a commitment to equity, inclusivity, and shared responsibility. As the world grapples with the dual challenges of climate change and economicdevelopment, finding common ground on policies like CBAM is critical to achieving a sustainable and just future.