

Carbon Border Adjustment Mechanism (CBAM) as an Opportunity for Industrial Decarbonisation in Pakistan

High-Level Policy Dialogue

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The European Union (EU) is advancing its long-term 'Fit for 55' strategy, aimed at reducing its carbon footprint and promoting climate action. The EU has rolled out the Carbon Border Adjustment Mechanism (CBAM), setting the stage for a seismic shift in global trade dynamics. This mechanism is meant to ensure that goods imported into the EU meet the same stringent environmental standards as those produced domestically, effectively putting a price tag on carbon emissions for all imports. The essence of the CBAM is also on preventing carbon leakage, where high-emission industries might move to regions with less stringent environmental regulations. While CBAM aims to curb these leakages, its success will be crucial in shaping the future of export competitiveness - a longstanding concern for the EU. The Union seeks to reinforce its climate objectives without sacrificing fair competition or global emissions reduction effort.

For Pakistan, a country with significant exports to the EU, CBAM presents both a challenge and an opportunity to adapt to new environmental regulations, improve industrial practices, and enhance competitiveness in the global market. The challenge is that industries here often operate with higher emission intensities compared to their European counterparts. Compliance requires not only substantial investment in advanced emission measurement technologies but also negotiating complex regulatory issues. Small and Medium-sized Enterprises (SMEs), the backbone of Pakistan's industrial landscape, may find it particularly daunting to shoulder the financial burden of CBAM certification and emission reporting standards.

Yet, within these challenges lies an opportunity for transformative growth and low emission industrial development in Pakistan. By investing in cleaner production technologies and robust national policies, Pakistan can not only mitigate the impact of CBAM but also emerge as a leader in sustainable manufacturing practices. This shift towards greener industries not only aligns with global climate goals but will also enhance Pakistan's global competitiveness in a carbon-cognizant market.

There is a need to have a broader regional consensus development, where stakeholders manage this new era of environmental trade policy. The outcome could set a precedent for how developing economies balance economic growth with environmental stewardship on the global stage. Under

this backdrop of opportunities and challenges, this *High-Level Policy Dialogue* has the following objectives:

- Provide a comprehensive overview of CBAM, its integration with the EU's Emissions Trading System (ETS), and the specific requirements for Pakistani exporters.
- Evaluate the current state of Pakistani industries in terms of emissions intensity, technological capabilities, and readiness to comply with CBAM requirements.
- Explore potential support mechanisms, including financial aid, technological assistance, and capacity-building initiatives, that can help Pakistani industries meet CBAM standards.
- Formulate policy recommendations for the Pakistani government to develop a national carbon pricing strategy, sector-specific MRV protocols, and other measures to support industries in their transition to greener production methods.

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