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Carbon Border Adjustment Mechanism and its implications for Insurance and Arbitration

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Abstract
On October 1, 2023, European Union (EU) started the transition phase of Carbon Border Adjustment Mechanism (CBAM) which is a carbon tax initially imposed on any goods entering into the EU countries belonging to Energy Intensive industries like Cement, Iron & Steel, fertilizers etc. After the transition phase is over, in 2026 it will be implemented for types of goods. While it is a right step for EU to move significantly towards its carbon neutrality targets, it poses serious issues to other countries who have trader relationships with the EU. Any kind of carbon tax triggers development of carbon pricing mechanisms in every country, arriving at a common mechanism to account for the greenhouse gas emissions and differential treatment required for emerging and frontier economies. In this paper a thorough review of literature was done to understand various aspects of CBAM and its impact on cross-border trade; approaches followed by various countries towards a carbon tax; impact on consumer prices to arrive at the future directions of research and implications for insurance and arbitration. It is concluded that any carbon tax will put a stress on insurance and arbitration of trade disputes till the time a common platform is developed for accounting for an emission-based tax or carbon tax which is acceptable to all countries of the world. It also highlights the risks associated with insurance and arbitration and possible mitigation mechanisms for the same.
Keywords: CBAM, Carbon tax, international trade, Insurance, International Arbitration, International Business

Introduction

Global warming has a significant impact on both the environment and human populations. According to the Intergovernmental Panel on Climate Change (2014), fossil fuel emissions are a major contributor to global warming, with carbon dioxide from fossil fuels accounting for 65% of Greenhouse Gas (GHG) emissions (European Environment Agency, 2021). Carbon Border Adjustment Mechanism (CBAM), also known in the literature as a carbon border tax or carbon tariff, refers to border adjustments designed to level the playing field for products from countries with and without carbon regulations, thereby equalizing the carbon prices they face (Cosbey *et al*., 2018). During the past years several studies have been conducted on various aspects of CBAM. This includes competitiveness studies, how it is one-sided approach by the EU not considering the trade relationships with other countries or even its feasibility in the long run. Cosbey et al. (2018) have explored the angle of distributional impact meaning how certain countries shift the burden of Greenhouse gas (GHG) emissions to other countries to project themselves to be clean.

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Carbon pricing is an important aspect in this context. While many countries are yet to develop a carbon pricing mechanism related to GHG emissions in case it is introduced in a country, its impact depends upon their country of residence, lifestyle, income, i.e. higher or lower and the like (Ohlendorf et al., 2021). It is assumed that while the higher income groups might not have any impact of carbon pricing yet the relatively lower income groups may be impacted by a price hike. As per International Energy Agency, global CO_2 emissions reached 36.3 gigatonnes in 2021 (IEA, 2022). For effectively reducing carbon emissions (Song et al., 2022) to combat climate change EU implemented the CBAM legislation in October 2023 (Gu et al., 2023).

A carbon tax is levied on any item producing GHGs based on the carbon content (World Bank, 2020) and often follows "polluter pays principle" (Pigou, 1952; OECD, 1993). As a general analogy, any tax increases the consumer prices and stress on capital investment (Conefrey at al., 2013) and if these taxes are present in one country and absent in another it does not make a company competitive. This is the reason of withdrawal of US from the Paris agreement (Xie et al., 2018, Zhao, 2011). CBAM was essentially an initiative to avoid carbon leakage (Research Institute for Sustainability, 2021) by certain companies in the EU who were emitting their GHGs outside EU. Understanding the gravity of introducing a carbon tax, EU made 1744 public consultations between 2016 and 2021 to gauge the nuances of introducing the same (Nørbech, 2023).

The effects of CBAM on trade and trading partners are still largely uncertain. It aims to force other countries to adopt higher carbon pricing similar to the EU, but it is unclear if this will be achieved. CBAM presents significant challenges and risks for Multinational enterprises as well as small and medium enterprises trading with the EU. As a new and complex system, it will raise the costs of trade with the EU for many exporters. Importing CBAM goods and reporting on carbon emissions will be limited to authorized CBAM declarants registered with the European Commission. The market for CBAM certificates will fluctuate over time based on the carbon price within the Energy Trading System and only accreditated entities by the EU will be allowed to do the verification of certificates (Curran & Carrasco-Farré, 2024).

Although the primary objective of CBAM is to reduce carbon emissions, it may also impact international trade. The implementation of a multi-country scheme is sometimes viewed as protectionism, as the tax on foreign goods will raise the price of imports to the EU, giving domestic goods a price advantage. Practically the root cause of implementing CBAM was to develop a fair playing field for those organisations who were honestly working towards their carbon neutrality targets but were surmised by the carbon leakage by other entities who were shifting their burden to emerging economies (Zhong & Pei, 2022). For example, China is the largest partner of EU and US in terms of trade (Hayes, 2022), which means most of the products sold in these countries are actually made in China.

All countries having any trade dependency with EU might reconsider exporting to EU (Mealy & Teytelboym, 2020, Ameli et al., 2021) due to CBAM unless they have options to divert the trade to other countries. In order to achieve its carbon neutrality targets by 2050, and in the meantime to reduce its carbon emissions to 55% below 1990 level, also called 'Fit for 55' program (Access2Markets, 2023) for enforcing a fair carbon price and reduce carbon leakage (Clora et al., 2023) CBAM was a right step towards the goal.

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There is an anticipated resistance or retaliation by countries having huge export dependencies with EU like China which exports electronics, textiles, machinery and equipment etc. to the EU (Overland & Sabyrbekov, 2022). For developing countries, it's a bit premature to have a carbon tax when they have even not developed as an economy (Han et al., 2018) and for some other countries it's a new tool in their arsenal for energy geopolitics (Wang et al., 2012).

Carbon Border Adjustments have been officially introduced as part of the EU Green Climate Deal to help achieve the EU's goal of carbon neutrality by 2050 and to enhance the competitiveness of its energy-intensive industries. Although global efforts to limit climate change require collective action, the EU's commitment to implementing CBAM by 2025 was expected to influence other countries, including China and the US (Perdana & Vielle, 2023).

Winchester (2018) explores the implementation of the Paris Agreement's targets with and without US involvement. In scenarios where the US chooses to withdraw, the author simulates the effects of a CBAM on US exports and a full-scale tariff war, where both the US and the rest of the world adopt welfare-maximizing tariffs. While these studies provide important insights into CBAMs and possible retaliatory trade actions, they only consider hypothetical situations and do not address the first real international CBAM policy introduced by the EU (European Commission, 2021).

With the implementation of CBAM, domestic prices might rise especially in the energy intensive industries but in the long run in multiple scenarios the emissions do get reduced (Clora *et al*., 2023). In all practicality, while developing any carbon tax policy, it should consider the country's exposure to exports (Eicke et al., 2021), might lead to trade diversion by the affected countries (Voβwinkel & Birg, 2018), influence Foreign Direct Investment (Oates, 1972) or promote adoption of renewable energy (Bashir et al., 2022) due to complications involved in implementation of such a tax (Bashir et al., 2021)

Literature Review

CBAM transition phase started from October 1, 2023 and is expected to be fully operational on January 1, 2026 (European Parliament, 2021). The goal is to provide a level playing field for energy-intensive and trade-intensive industries in EU so that they are not penalized due to some other industries who outsource their production to countries having less stringent emissions norms (Tarr et al., 2023). This CBAM is also called provisional (European Commission, 2023) till the time full-fledged CBAM is implemented in 2026.

The world took a major call on climate action when during the UN Climate Change Conference (COP21) on December 12, 2015, 196 countries agreed to commit to systematic climate actions to be reviewed and revised every five years (UNFCCC, 2016). Called the Paris agreement, it came into effect on November 4, 2016.

In the EU itself CBAM is going to affect people with lower income who spend most of their income on essential goods (Budolfson et al., 2021) and may be called a regressive tax (Flues and Thomas, 2015; Feindt et al., 2021) which might have minimum impact to the economy as these people will keep buying the essential goods and services like fuel (Semet, 2023). Additionally, these compensations contribute to greater tax burden inequality both within and between income groups.

CBAM was crucial for protecting the EU's climate action goals as it moved away from freely allocating carbon allowances to industries vulnerable to carbon leakage. To avoid penalizing exporters already

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subject to carbon taxes or an ETS in their home countries, it was necessary to credit 'carbon prices paid' in a third country (European Commission, 2023). An authorized CBAM declarant can request a reduction in the number of CBAM certificates to be surrendered by considering the carbon price paid in the country of origin for the declared embedded emissions. This reduction is applicable only if the carbon price has actually been paid in the country of origin. Additionally, any rebates or other forms of compensation in that country that would lower the carbon price must be considered (*Regulation - 2023/956 - EN - CBAM Regulation - Eur-Lex*, 2023).

After an extended negotiation period, the agreement was reached in May 2023. It remains controversial, partly because it was part of a broader set of EU trade-related measures aimed at addressing sustainability issues (Moens & Mathiesen, 2023).

Typically increase in carbon costs can be a deterrent to polluters (Böhringer et al., 2017) and CBAM was aimed as an equalizer for domestic and foreign goods in terms of emissions (European Commission, 2021). There are two possibilities of enforcing it, viz. a carbon tax or an Emissions Trading System (ETS). While carbon tax is direct intervention, an ETS starts the demand and supply of emissions units where some organisations would like to buy and others would like to sell them (Grantham Research Institute on Climate Change and the Environment, 2022).

CBAM was an attempt to provide a level playing field to the countries who were actually working towards reduction of emissions vs. those who were not (Branger & Quirion, 2013) by phasing out free allowances (Bellora & Fontagné, 2023), being a shortfall in the Emissions Trading System which provided undue profit to those who were misusing it and losses to those who were ethically working towards a reduction of their emissions (Drake, 2018).

Whether CBAM would actually be effective in the goals it aimed at was a question of debate based on if it was implemented unilaterally (Winchester et al., 2011) or as a border charge (Evans at al., 2020) and it weighed against the Subsidies and Countervailing duties (Cosbey et al., 2018). The methodology used to assess the carbon content (Martini, 2013) and whether it would act as a trade-off affecting trade and welfare in developing countries (Larch & Wanner, 2017) were also points of concern.

While EU implemented CBAM to take care of interests of some member nations who were at a disadvantage due to carbon leakage (Korpar et al., 2022) larger economies like Russia was out of the picture from the global carbon market scene (World Bank, 2022) despite being one of the largest producers of CO_2e amounting to 1,50,000 tonnes per annum (Safonov et al., 2020) and contributing 5% of global CO_2 emissions alone (Friedlingstein et al., 2020). The disintegration of USSR gave natural advantage to Russia to project that they reduced their carbon emissions to half since 1990 (Rűstemoğlu & Andrés, 2016). The costs of consequences of the financial and operational risks arising out of such things will likely be borne by one or more of the parties or stakeholders involved in the integration of CBAM (Lestan *et al*., 2023).

The textile industry is a prominent manufacturing sector with a considerable negative impact on the environment (Plakantonaki *et al*., 2023). According to the International Energy Agency (IEA), the textile and apparel industry accounted for 10% of global carbon emissions (United Nations, 2018). To examine the effects of environmental policies on the economy and environment, Angelopoulos *et al*. (2010) introduced the Dynamic Stochastic General Equilibrium (DSGE) model to study their

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macroeconomic impacts. Research indicated that a combination of environmental policies was more effective in reducing emissions than implementing a single policy.

Methodology

This is a review paper. The author collected all major papers having high citations from the Scopus and Web of Science database and arrived at 35 academic papers by using an inclusion criterion of keywords: Carbon tax, insurance, global trade, international trade. Combining these papers with industry and regulatory reports of various countries like USA, Russia and India alongwith the EU an analysis was made to arrive at the conclusion.

Results and Discussion

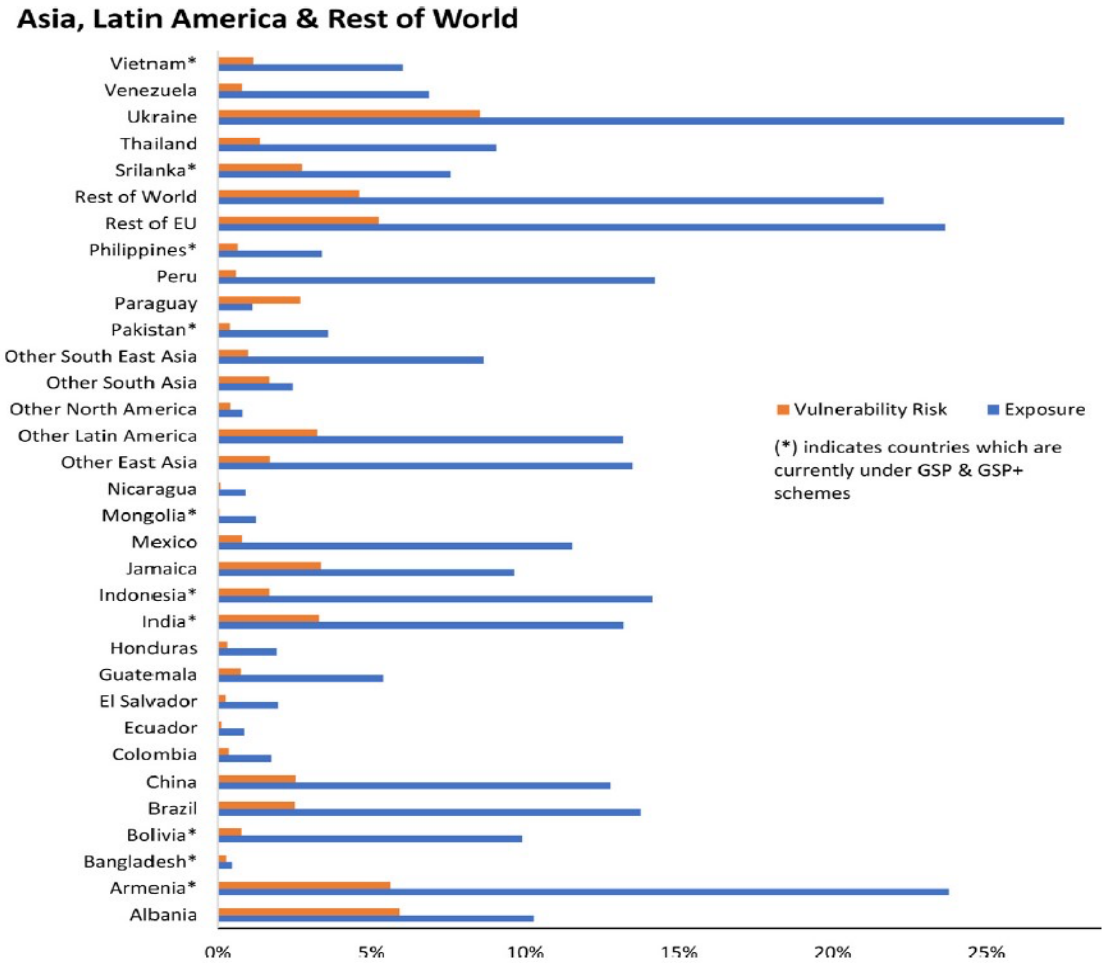

Table 1: Developing countries EII (Energy-Intensive Industries) sectors exposure and vulnerability risks of EU CBAM — Asia, Latin America & Europe

Source: Perdana and Vielle (2022)

Eicke *et al*. (2021) defined countries' exposure and vulnerability in the context of the EU CBAM. Exposure refers to the total exports of energy-intensive industries (EIIs) relative to the overall exports to the EU, highlighting the importance of trade with the EU for a country's economy.

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Vulnerability, on the other hand, reflected the degree of export diversification and was measured by the share of EIIs exported to the EU compared to the country's total global exports. The CBAM Opposition Index indicates that the strongest opposition is expected from countries such as Iran, Ukraine, the USA, the United Arab Emirates, Egypt, China, India, Kazakhstan, Russia, and Belarus. These nations face significant risks due to their high volume of CBAM-exposed exports to the EU, combined with high carbon intensity and limited technological innovation, making CBAM a major concern for them (Overland & Sabyrbekov, 2022).

Table 1 suggests the developing countries' Energy-Intensive Industries (EIIs) sectors exposure and vulnerability risks of EU CBAM for Asia, Latin America and Europe Whereas table 2 shows the impact on African and countries in the middle-east given by Perdana and Vielle (2022). The Starred countries are those countries that have ratified the Generalized System of Preferences (GSP) and GSP + which reduces the tariffs for developing countries importing into the EU.

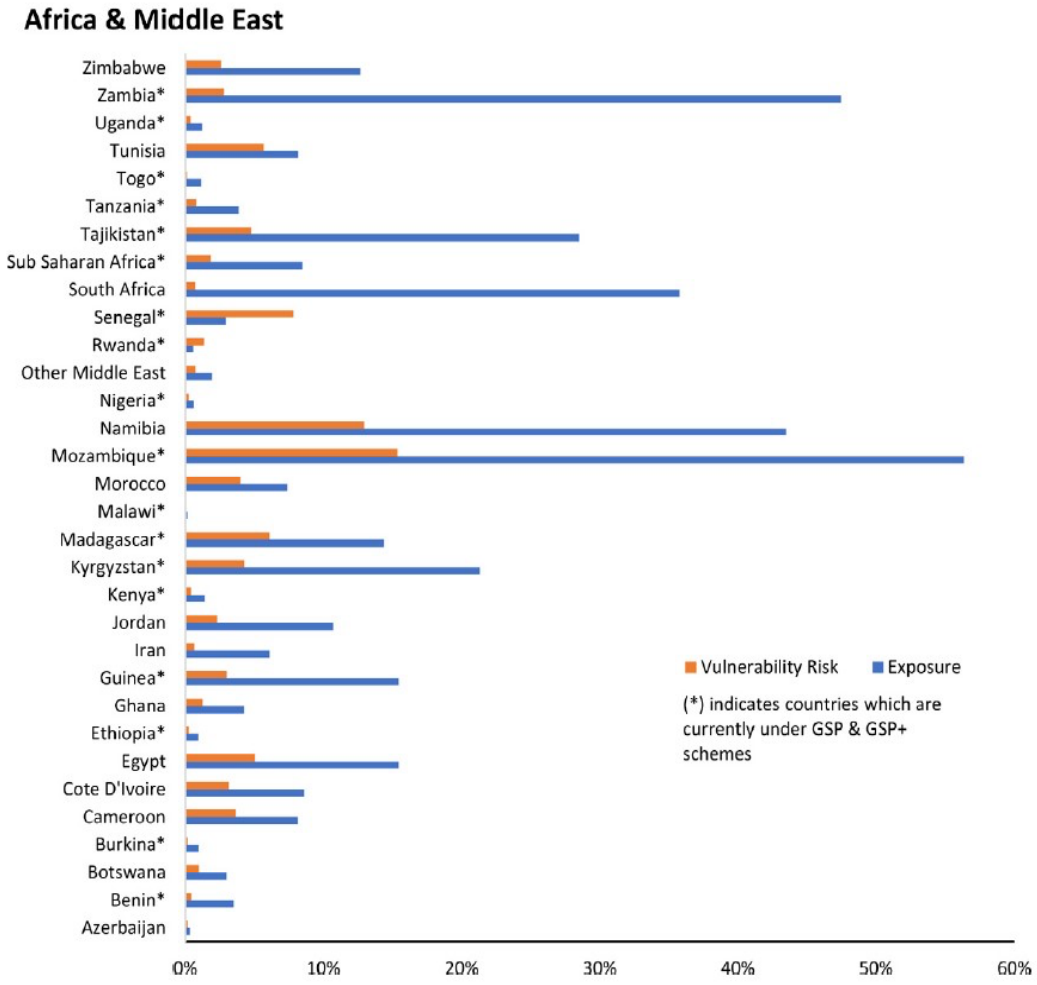

Figure 2: Developing countries' EII (Energy-Intensive Industries) sectors exposure and vulnerability risks of EU CBAM - Africa & Middle East

Source: Perdana and Vielle (2022) If EU producers are unable to absorb the increased production costs resulting from CBAM in the long term, it could reduce the competitiveness of EU products in

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the global market. Ultimately, the development of green technologies becomes crucial for addressing both competitiveness and climate challenges. CBAM can act as a guide for other countries (Zhong & Pei, 2022) who might like to accelerate their efforts towards a carbon neutral world. Green power generation can also help reduce the carbon footprint especially in the long term (Du & Li, 2023).

Some questions still need to be answered like how will the subsidies play out in the wake of a carbon tax when all countries also have to promote their economic growth and a carbon tax might reduce the GDP of countries or increase even poverty rates in some countries (Liu et al., 2024). Any tax is supposed to have a negative correlation with FDI into a country (Gao & Liu, 2021; Xu & Wu, 2021) and a reduction in corporate taxes boost FDI inflows (Boly *et al*., 2020).

Table 1 shows some of the major research papers on CBAM, their findings, research gaps and suggests the future research agenda in terms of research questions that can be studied by researchers in future.

S. No.	Author & Year	Research Findings	Research Gaps	Indicative Research Questions for future research
1	De Bruin and Yakut (2024)	The paper posits that all tax reduction revenue recycling measures can lower the emissions, boost GDP and welfare. However, it increases inequalities amongst various income groups. If these tax reductions are transferred to the households, the efficiency of lowering emissions improves as well as improvement in equity.	Can carbon tax revenues be used to increase green energy initiatives and in turn reduce taxes in energy intensive industries?	How can carbon tax revenues be invested in other decarbonization initiatives? Can carbon tax revenues be used to subsidize taxes in less carbon-intensive industries?
2	Yang *et al.* (2024)	Both CBAM and Russia-Ukraine war have affected macroeconomic trends across the world as well as international trade.	Simulation based studies can be conducted on how these events like implementation of CBAM or Russia-Ukraine war can affect other countries' interests.	What is the effect of any geopolitical disturbance on CBAM? How to profile the geopolitical risk for the purpose of underwriting of insurance?
3	Yu *et al*. (2023)	The strategic decisions of the government, manufacturer, and retailer are interdependent. The likelihood of the	Future research could explore topics involving consumers and third-party testing	Can an evolutionary game model be used to understand the response of various stakeholders

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		government adopting a "carbon tax and subsidy" strategy is inversely related to the government subsidy coefficient and directly related to the low-carbon tax rate. Adjustments in the subsidy coefficient and the low-carbon tax rate have a significant influence on government strategy.	institutions by developing an evolutionary game model that incorporates additional participants, providing deeper insights into supply chain low-carbon transformation (SC-LCT).	in the wake of a carbon tax? How can insurance companies manage the evolutionary nature of carbon tax? How can law international trade laws evolve over a period of time when all countries are moving towards carbon neutrality, albeit variably?
4	Yiadom *et al*. (2024)	The impact of a carbon tax on foreign direct investment (FDI) tends to be repressive. However, if carbon tax revenue is effectively managed or recycled back into the economy, the tax can positively influence FDI. Policy implications suggest that (i) a carbon tax rate below USD $3 per tonne or above USD $25 per tonne negatively impacts FDI, and (ii) the adverse effect of the carbon tax on FDI can be mitigated by efficiently reinvesting the tax revenue.	Future research should aim to improve carbon tax measurement methods and evaluate alternative approaches to enhance the effectiveness of carbon tax policies.	How will FDI get affected due to Carbon taxes? How will carbon tax affect the assessment of value of shipment and stress associated with the asset? How will insurance underwriting undergo a change due to decarbonization policies of the countries?
5	Fang *et al*. (2023)	This research used Carbon Footprint and Water Footprint to assess the impact of Carbon tax without affecting the economic benefits. E.g. in many countries, now carbon and water credits are equivalent to some amount of money used to offset the cost involved in developing sustainable solutions.	Researchers can consider interregional sector disparities, economic development priorities, and resource availability to create more region-specific carbon tax strategies.	How will the taxation on goods and services take into account (compensate or penalize) the carbon/water footprint of an organization?

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6	Qi *et al*. (2023)	The results indicate that as a firm becomes more risk-averse, equilibrium production quantity, profit, and carbon emissions decrease for a given tax rate. They also suggest that adjusting risk attitudes appropriately can minimize a firm's risk while maximizing revenue. Additionally, the optimal production levels for both risk-averse and risk-neutral firms respond similarly to the carbon tax, aiming to maximize social welfare	Future research could consider integrating government incentives into the model to assess their effects. Additionally, examining how firms within the same industry respond to carbon pricing policies would offer valuable insights, given the likelihood of varied reactions.	How many of the government incentives given to a firm due to green initiatives can be cross compensated in case of cross-border trade? What are the supply-chain risks that need to be accounted for by the insurance companies due to decarbonization initiatives by the companies in general and carbon tax to be specific?
7	Wang *et al*. (2023)	When one generator possesses a substantial cost advantage, it will dominate the market regardless of the policy implemented. Conversely, if both generators have moderate cost advantages, they will share the market, and carbon emissions reduction policies can enhance overall social welfare. As the cost of low-carbon generators continues to decrease, their market share is expected to grow.	Future research should examine different carbon reduction strategies, such as investment tax credits and production tax credits.	What are the investment incentives that can be offered to companies with decarbonization initiatives willing to invest in a host market?

Table 1: Indicative Research Questions related to CBAM

Implications for Insurance

The Incoterms developed by the International Chamber of Commerce and Industry define the commercial terms of how the goods are transferred from the seller to the buyer across the countries. Out of 11 Incoterms, only in the CIF (Cost, Insurance and Freight) and CIP (Carriage and Insurance paid to) insurance has to be arranged by the seller. In all other 9 incoterms insurance is negotiable or typically the responsibility of the buyer to arrange for. With CBAM due to any taxation issue or any conflict arising out of the value of goods except CIF and CIP, it will be the responsibility of the buyer

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to manage the same. Since majority of electronics trade happens on CIF basis where we say that e.g. these many mobile phones where shipped from one country to another and not the actual sales. The secondary sales are yet to happen and that will be taken care of in the host market where the consignment has been shipped. The areas of risk, specific issue and mitigation measures related to insurance in cross-border trade is given in table 2.

Area of Risk	**Specific Issues**	**Mitigation measures**
Underwriting Risk	Underwriting the risks associated with energy-intensive products becomes difficult Underwriting may have to comply with multiple country's regulations related to carbon tax	A separate team might be required to take into account the decarbonization policies of countries as well as companies who suggest a premium to the underwriting team, lets say a multiplier. Keeping close watch to the evolving landscape of carbon tax across various countries
Investment related risks	Insuring investment might become more stress and tricky due to evolving carbon tax regimes Due to higher uncertainty the insurance cost may go up for all risks like political and country risks	The investment or FDI related risks can also use a multiplier, may be a country level rating or score need to be developed by the insurance companies to act as a guideline for avoiding any future dispute and having uniform treatment of various clients. Take part in all stakeholder consultations and sustainability accounting standards like Sustainability accounting standards board (SASB), Global Reporting Initiative (GRI) or local standards of a country. This is to keep a close watch on the developments in the area of carbon tax. Collaborate with world level institutions like World Bank, and WTO while a common carbon taxation system is developed
Supply chain risks	It will significantly affect the global and transnational organizations who currently use multiple countries to finally produce the finished goods. It	In order to pre-empt the need for measuring the supply chain risk and vulnerabilities due to a carbon tax, this information can be sought from the clients itself whether they

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	might just get more complicated for them For global and transnational companies, the whole supply chain may get stressed if we take all emission norms into account that too for multiple countries, eventually increasing the cost of insurance	anticipate any risk, and then it can be cross verified by the insurance companies. Do a thorough analysis of company level supply chain risks especially for global and transnational organizations as they are way more exposed to global supply chain risks. The end result can be a rating for each company.

Table 2: Areas of risk for Insurance due to CBAM or a carbon tax (Source: Compiled by author, last column added by author)

Implications for Arbitration

CBAM is bound to create more conflicts and disagreements especially in the wake of rising tariff wars. With global agencies like World Trade Organization (WTO) becoming just taking forums and are off late not being able to solve any disputes, the only route for any dispute is international arbitration. Therefore, either the companies fully understanding the cost implications due to this new tax will still like to do trade with EU or any other region having a carbon tax or wait for a proper mechanism developed by WTO to bring convergence on the matter by taking into account the development needs of various countries, present carbon emissions, and mutual trade dependencies that can be often of critical nature between two countries. While a complete ban or trade diversion will be an option to bypass a country or region like EU, still the changing geopolitical scenarios, rising protectionism, national development goals, sustainable development goals and carbon neutrality targets of various countries by add fuel to the border carbon tax until a unified system of governance of carbon tax is devised at a global level. Since a majority of international trade related disputes take the arbitration route instead of legal, the areas of risk, specific issue and mitigation measures related to insurance in cross-border trade is given in table 3.

Area of Risk	**Specific Issues**	**Mitigation Measures**
Enforcement of contracts	A complete contract may be inadequate in a country which is more carbon sensitive Existing contract might go for litigation (or arbitration) if a carbon tax comes into picture It might be more time consuming to incorporate all possible risks associated with carbon tax due to its evolution across various countries	All contracts related to international transactions may have a clause related to carbon tax by default. Till the time a common carbon pricing mechanism is adopted by the world, relatively short-term (1-2 years) contracts are advisable.

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Jurisdiction issues	Suppose a non-carbon tax country does trade with a carbon tax country jurisdiction for disputes can be an issue as there is no level playing field. A carbon tax can initiate as well as prolong cross-border trade disputes and at least some parties may like to take advantage of weaker laws in certain countries.	The 'Subject to ……jurisdiction' clause may clearly specify the conditions
Volatility in the regulatory environment	While country level regulatory environment can be taken care of by local teams but inter-governmental issues might require experts having multi-country experience.	It can be minimized by collectively developing mechanisms to solve trade related disputes in coordination with arbitration teams of various countries. This is to be done to avoid increase in costs to the clients due to this.
Exchange rate fluctuations	There might be addition costs to the client due to added volatility in the currency translation risks due to carbon taxes.	Based on level of exposure to multiple currencies a factor can be added to the currency translation risk for each company.
Greenwashing and carbon leakage issues	Some companies would like to utilize the differential policies in various countries to their advantage to arrive at their reduced carbon footprint. Companies who are not involved in offsetting their greenhouse gas emissions to other countries might be at disadvantage.	In order to avoid such issues, for all global and transnational companies a common database can be prepared to avoid the disputes arising out of greenwashing and carbon leakage. This will also help companies to have a comprehensive view of what is being done at a different subsidiary of the firm.

Table 3: Areas of Risk due to CBAM for Arbitration (Source: Compiled by author, last column added by author)

Implications for Consumers

Any carbon tax definitely increases the inequalities amongst various income groups irrespective of the fact whether a country is developed or developing. The consumer prices will go up in the short run due to introduction of carbon tax, yet a comprehensive analysis of how to offset this increase by compensating through development of green energy solutions, giving a tax credit or incentives to those who are working towards reduction of GHG emissions and arriving at a common carbon tax mechanism with the trading partners can be some possible solutions.

Conclusion

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To conclude, though the European Union implemented the CBAM to achieve their carbon neutrality targets at an accelerated rate, any such carbon tax poses serious risks to countries from the insurance and arbitration angle. This is particularly in the context of cross-border trade amongst various countries. The assets in these countries become more stressed due to interdependencies among various nations and there can be an overgrowth of litigations and disputes. There will be more clarity on carbon taxes once all countries adopt a carbon pricing mechanism, implement it and then with the help of Global accounting standards and International organisations a common carbon pricing mechanism is agreed upon. In the race of carbon neutrality by all countries the common carbon pricing mechanism can be the next major this happening to the world. But till then, insurance companies, legal and arbitration firms can work together with their clients and respective national governments to minimize the impact to the growing cost of insurance and arbitration due to the stress created by carbon taxes especially till the world reaches a consensus. The paper suggests the areas of risks and indicative mitigation measures which are necessary in this transitioning phase towards a carbon neutral world. These are as much required by developed countries as are required by developing or transition economies who are brought into this conflict before even, they can develop.

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