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EDITORIAL ANALYSIS

The India-EU FTA: Green Tape and the New Protectionism

 **INDIAN EXPRESS**

28 January 2026

SUBJECTS COVERED**ECONOMY** **IR****GS PAPERS****GS2** **GS3****CURATED & WRITTEN BY****Bharat Choudhary**

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GS2

GS3



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MAINS RELEVANCE:

GS Paper 2

GS Paper 3



INTERVIEW ANGLE

“The EU's CBAM, EUDR, and CSDDD are non-tariff measures that could negate India's tariff gains under the FTA. Are these legitimate environmental regulations or protectionism by another name? How should India respond?”

WHY IN NEWS

The India-EU Free Trade Agreement, concluded in January 2026 after 19 years of negotiations, has been celebrated as a diplomatic triumph. But even as trade ministers announced the conclusion, EU regulations — the Carbon Border Adjustment Mechanism (CBAM), EU Deforestation Regulation (EUDR), and Corporate Sustainability Due Diligence Directive (CSDDD) — were quietly building a parallel wall of non-tariff barriers that could negate India's hard-won market access.

THE NEW PROTECTIONISM — GREEN TAPE

The history of trade liberalisation in the 20th century is largely a story of reducing **tariff barriers** — the simple import duties that raise the price of foreign goods. That battle, largely won by the WTO, has given way to a more complex contest over **non-tariff barriers (NTBs)**: technical standards, sanitary regulations, environmental requirements, and now, sustainability due diligence.

The EU has become the world's leading architect of what critics call “green tape” — regulations framed as environmental or human rights protections that have the practical effect of making it harder for developing-country goods to enter the European market. The India-EU FTA provides unprecedented tariff access; the EU's regulatory agenda simultaneously erects new, harder-to-negotiate walls.

Three instruments are at the heart of this concern:

CBAM — TAXING CARBON AT THE BORDER

The **Carbon Border Adjustment Mechanism (CBAM)** is the EU’s most significant trade measure in decades. It imposes a carbon cost on imports of:

- Steel and aluminium
- Cement
- Fertilisers
- Electricity
- Hydrogen

How it works: EU producers pay for their carbon emissions under the EU Emissions Trading System (ETS). To prevent “carbon leakage” (EU companies relocating to lower-cost, higher-emission jurisdictions), EU importers must buy CBAM certificates equivalent to the carbon content of their imports. The certificate price mirrors the EU ETS price — currently EUR 60–100 per tonne of CO₂.

What this means for India:

India’s steel exports to the EU (~USD 2 billion/year) are carbon-intensive by EU standards

The FTA may bring steel tariffs to near-zero; CBAM adds back a cost equivalent to a carbon levy of EUR 60–100/tonne

Net effect: FTA gains for steel partially neutralised by CBAM

India’s argument: CBAM violates the **WTO’s non-discrimination principles** (GATT Articles I and III) and the **principle of Common But Differentiated Responsibilities (CBDR)** under the UNFCCC, which recognises that developing nations have contributed less to climate change and have less capacity to reduce emissions. India has formally protested CBAM at the WTO.

The EU’s counter: CBAM is not a tariff — it is a domestic carbon pricing extension. All EU producers face the same cost; foreign producers are merely equalised. The measure is WTO-compliant because it applies equally based on carbon content, not on country of origin.

Who is right? The legal battle will play out at the WTO Dispute Settlement Body, but the economic reality is clear: CBAM disadvantages carbon-intensive developing economies regardless of its legal framing.

EUDR — TRACING TREES TO THE DOORSTEP

The **EU Deforestation Regulation (EUDR)** requires exporters to the EU to prove that products were not produced on land that was deforested after December 31, 2020.

Covered commodities: Coffee, cocoa, palm oil, soy, timber, cattle, rubber — and products derived from them (chocolate, leather, paper, tyres).

Traceability requirement: Operators must be able to provide GPS coordinates (or polygon geolocation data) for the precise plot of land where the product originated.

India’s affected sectors:

Coffee (Karnataka, Kerala — India exports ~USD 1 billion in coffee to EU)

Rubber (Kerala — ~3 lakh rubber plantation holders)

Tea (with deforestation linkages in plantation expansion)

The smallholder problem: India’s coffee and rubber sectors are dominated by smallholder farmers with 2–5 hectare plots. Requiring GPS-level traceability from these farmers — most of whom operate informally, often through cooperatives and multiple layers of middlemen — imposes compliance costs that are:

Technically impossible for small farmers without mobile/digital infrastructure

Commercially prohibitive (cost of compliance may exceed value of EU export contract for small traders)

Administratively challenging for the Government of India to certify at scale

The FTA secured a **2-year grace period** for smallholder-dominated value chains — but this is a delay, not an exemption. By 2028, India must have a traceability system in place or lose EU coffee and rubber market access.

Broader concern: EUDR creates a private regulatory jurisdiction over Indian land use. The question “Was this land forested before December 31, 2020?” is decided using EU-defined satellite imagery, EU-approved databases, and EU-certified auditors — not Indian regulatory determinations. This represents a form of extraterritorial regulatory sovereignty.

CSDDD — AUDITING INDIA’S SUPPLY CHAINS

The **Corporate Sustainability Due Diligence Directive (CSDDD)** requires large EU companies to identify, assess, and address actual or potential adverse impacts on human rights and the environment across their entire supply chain — including upstream suppliers in third countries like India.

What this means for Indian exporters: Indian textile mills, component manufacturers, and agricultural processors supplying to EU companies will face social and environmental audits conducted by or on behalf of EU buyers. Non-compliance can lead to contracts being cancelled, not by government action, but by commercial decisions of EU companies protecting themselves from CSDDD liability.

India’s garment sector: India’s USD 4 billion garment export to EU passes through thousands of small and medium factories — many of which have informal employment arrangements, lack formal grievance mechanisms, or have environmental compliance gaps. CSDDD compliance requires formalisation of supply chains that has taken developed countries decades to achieve.

HOW SHOULD INDIA RESPOND?

The challenge is that CBAM, EUDR, and CSDDD are not trade measures in the traditional sense — they are domestic regulations with trade effects. The WTO is not well-equipped to adjudicate them because they target process and production methods (PPMs), not the product characteristics at the border.

India's responses should be multi-pronged:

- 1. Domestic carbon pricing:** The most effective defence against CBAM is to develop India's own carbon pricing mechanism (India's Carbon Credit Trading Scheme, launched under the Energy Conservation Act 2022 Amendment, needs accelerated development). If India has an equivalent carbon price, CBAM certificates would be zeroed out.
- 2. Traceability infrastructure:** The government should invest in building a national commodity traceability platform for EUDR-affected commodities — linking APMC mandi records, farmer IDs, and satellite data to create EU-acceptable compliance chains.
- 3. Plurilateral WTO challenge:** India should build a coalition of developing countries (Brazil on soy, Indonesia on palm oil, Vietnam on coffee, Malaysia on rubber) to collectively challenge CBAM and EUDR at the WTO — individual challenges are weaker.
- 4. FTA renegotiation safeguards:** Future FTA review clauses should include provisions that automatically adjust tariff preferences if new non-tariff measures are introduced that reduce the effective market access value.
- 5. Domestic sustainability upgrades:** Ultimately, India cannot avoid the global shift toward ESG-linked trade. The strategic response is to move India's manufacturing up the sustainability curve — through PLI schemes with environmental conditions, green certification for export-oriented industries, and incentives for formal-sector adoption by suppliers.

THE LARGER LESSON

The India-EU FTA is a genuine achievement — and the EU's market opening is substantial. But the negotiating team that secured zero-duty access for Indian textiles must now be deployed against CBAM's effective reversal of those gains for steel. The FTA is a beginning, not a conclusion.

The "New Protectionism" requires a new trade diplomacy: less focused on tariff schedules, more focused on the regulatory environment behind them. India's trade ministry needs to staff up on environmental law, supply chain auditing standards, and carbon market design — capabilities that barely existed a decade ago.

UPSC RELEVANCE

CBAM (Carbon Border Adjustment Mechanism) – what it taxes, which products; EUDR (EU Deforestation Regulation) – covered commodities; CSDDD; CBDR (Common But Differentiated Responsibilities); EU ETS (Emissions Trading System); India-EU FTA concluded 2026; Carbon Credit Trading Scheme (India, Energy Conservation Act 2022 Amendment); TRIPS Article 31 (compulsory licensing); GATT Articles I and III (non-discrimination, national treatment).

*India-EU FTA – provisions, benefits, challenges; WTO Dispute Settlement Body; principle of CBDR in climate negotiations; extraterritorial regulatory jurisdiction. **GS-3:** Carbon pricing mechanisms (ETS, CBAM, India's CCTS); non-tariff barriers and their WTO compatibility; traceability in agricultural supply chains; impact of EUDR on smallholder Indian farmers; India's textile and steel export competitiveness; ESG and supply chain sustainability; role of PLI schemes in meeting international standards.*

★ FACTS CORNER — KNOWLEDGEPEDIA

NON-TARIFF BARRIERS (EU) AFFECTING INDIA:

CBAM (Carbon Border Adjustment Mechanism): Levy on carbon-intensive imports (steel, aluminium, cement, fertilisers, H₂, electricity); mirrors EU ETS carbon price (EUR 60–100/tonne CO₂); fully effective **2026**

EUDR (EU Deforestation Regulation): GPS traceability for coffee, cocoa, palm oil, soy, timber, cattle, rubber on land deforested after **December 31, 2020**

CSDDD (Corporate Sustainability Due Diligence Directive): EU companies must audit supply chains (including Indian suppliers) for human rights + environment violations

INDIA-EU FTA KEY NUMBERS:

EU tariff lines opened: **97%** (covering **99.5%** of India's exports)

India tariff lines opened: **92.1%** (covering **97.5%** EU exports)

Zero-duty sectors from India: textiles, apparel, leather, footwear, gems, jewellery (~**USD 33 bn**)

India's steel exports to EU: ~**USD 2 billion/year** (CBAM-affected)

India's coffee exports to EU: ~**USD 1 billion/year** (EUDR-affected)

INDIA'S CARBON PRICING:

CCTS — Carbon Credit Trading Scheme: India's domestic carbon market; established under **Energy Conservation (Amendment) Act, 2022**; under Ministry of Power

If India develops equivalent carbon pricing, CBAM charges can be zeroed out

WTO PRINCIPLES VIOLATED (INDIA'S ARGUMENT):

GATT Article I: Most Favoured Nation (MFN) — non-discrimination between trading partners

GATT Article III: National Treatment — imported goods treated same as domestic

CBDR: Common But Differentiated Responsibilities (UNFCCC, Rio Declaration 1992) — developing nations acknowledged as having lower historical responsibility for climate change

INDIA'S AFFECTED COMMODITIES (EUDR):

Coffee: Karnataka, Kerala (~USD 1 bn exports to EU)

Rubber: Kerala (~3 lakh smallholder plantation holders)

Tea: Some deforestation linkage concerns

OTHER RELEVANT FACTS:

EU ETS (Emissions Trading System): World's largest carbon market; operates on cap-and-trade principle; established **2005**

India's carbon intensity per unit of GDP is falling faster than most G20 economies (RBI/NITI Aayog data)

PLI (Production Linked Incentive) schemes: 14 sectors; total outlay ~Rs 1.97 lakh crore; incentivises domestic manufacturing — potentially connectable to sustainability standards

APMC (Agricultural Produce Market Committee): India's wholesale market infrastructure — needs digitisation for EUDR-compatible traceability

Mode 4 in FTA: Movement of natural persons; India's major services export interest; EU's political resistance due to immigration concerns

Sources: Indian Express, European Commission, WTO, Mint

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