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EU CBAM Full Compliance — India's IBAM Response and Carbon Market Expansion

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WHY IN NEWS

The European Union's **Carbon Border Adjustment Mechanism (CBAM)** entered its **full compliance phase on January 1, 2026**, meaning exporters to the EU in six covered sectors must now purchase **CBAM certificates** equivalent to the carbon price they would have paid under the EU Emissions Trading System (EU ETS). For India, which exports significant quantities of steel, aluminium, and chemicals to the EU, this creates a structural cost burden. India is exploring a domestic **India Border Adjustment Mechanism (IBAM)** to recapture carbon revenues and fund its own green transition, while expanding its **Carbon Credit Trading Scheme (CCTS)** to 490 entities.

WHAT IS CBAM?

CBAM (Carbon Border Adjustment Mechanism) is an EU policy tool to prevent **carbon leakage** — the risk that industries in the EU relocate to countries with weaker carbon regulations, or that EU imports from less-regulated countries undercut EU producers who pay a carbon price.

How CBAM Works

- 1 EU importers must declare the **embedded carbon** in imported goods
- 2 They purchase **CBAM certificates** at a price linked to the EU ETS carbon price (currently ~€55–65/tonne CO₂)
- 3 If the exporting country already charges a domestic carbon price, the difference is credited
- 4 No domestic carbon price in the exporting country → full CBAM cost payable

CBAM Timeline

PHASE	PERIOD	ACTION REQUIRED
Transitional/Reporting	Oct 1, 2023 – Dec 31, 2025	Embedded carbon reporting only; no payment
Full Compliance	Jan 1, 2026 onwards	Purchase of CBAM certificates required
Gradual phase-in	2026–2034	Free EU ETS allocations phased out; CBAM fully in

SIX CBAM SECTORS

SECTOR	INDIA'S EXPORTS TO EU (APPROX.)
Iron and Steel	Significant — structural steel, pipes, flat products
Cement	Limited direct exports
Aluminium	Significant — primary and semi-fabricated
Fertilizers	Ammonia, urea-based products
Electricity	Minimal (cross-border power)
Hydrogen	Emerging sector

India's at-risk exports: Steel and aluminium are the most immediately impacted — India exports ~Rs 8,000–10,000 crore annually to EU in these sectors combined.

INDIA'S RESPONSE — IBAM

India is exploring an **India Border Adjustment Mechanism (IBAM)** — a domestic carbon price or levy on the same six CBAM sectors that would:

- 1 **Retain carbon revenues in India** rather than allowing them to flow to the EU
- 2 Fund India's own **green transition** (renewable energy, EV, clean hydrogen)
- 3 Signal to the EU that India has a domestic carbon pricing regime — qualifying for CBAM credit offsets
- 4 Strengthen India's negotiating position in India-EU FTA discussions

IBAM vs CBAM — Key Difference

- **CBAM** = EU border tax on imported goods' embedded carbon
- **IBAM** = India's domestic carbon charge on the same industries — credited against CBAM liability

INDIA'S CARBON CREDIT TRADING SCHEME (CCTS)

India launched the **Carbon Credit Trading Scheme (CCTS)** under the **Energy Conservation (Amendment) Act, 2022** — establishing India's first regulated domestic carbon market.

FEATURE	DETAIL
Legal basis	Energy Conservation (Amendment) Act, 2022
Regulator	Bureau of Energy Efficiency (BEE) under Ministry of Power
Carbon unit	1 Indian Carbon Credit (ICC) = 1 tonne CO ₂ equivalent
Phase 1 entities	Aluminium, cement, chlor-alkali, fertilisers, iron & steel, petrochemicals, pulp & paper, textiles (282 units)
January 2026 expansion	Petroleum refineries, petrochemicals, secondary aluminium, textiles — 208 new units added
Total entities now	490
Compliance cycle	Annual
Market	Indian Carbon Market (ICM) — trading on BSE/NSE approved exchanges

EU ETS VS INDIA CCTS

FEATURE	EU ETS	INDIA CCTS
Carbon price (2025–26)	~€55–65/tonne	Nascent — not yet price-discovered
Coverage	~40% of EU emissions	~30–35% of India's industrial emissions (target)
Type	Cap-and-trade	Perform, Achieve, Trade (PAT) + carbon credit
Mandatory	Yes	Yes (for covered entities)
Mechanism	Auction + free allocations	Credit-based initially

IMPACT ON MSMEs AND INDUSTRY

- Indian **MSMEs** in the steel and aluminium value chain face the highest risk — they lack the capital to decarbonise rapidly
- **Compliance documentation burden:** Embedded carbon reporting requires product-level carbon accounting — a new capability most Indian exporters lack
- **Competitiveness:** EU producers pay carbon costs too; CBAM ensures a level playing field — but Indian exporters face additional administrative burden

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Environment	CBAM, carbon markets, EU ETS, climate finance, carbon leakage
GS3 — Economy	India's industrial exports, MSME, trade competitiveness
GS2 — International Relations	India–EU trade, carbon diplomacy, WTO compatibility of CBAM

Mains Keywords: CBAM, IBAM, EU ETS, Carbon Credit Trading Scheme (CCTS), Indian Carbon Market (ICM), Bureau of Energy Efficiency (BEE), Energy Conservation Act 2022, carbon leakage, embedded carbon, India–EU FTA, CBAM certificates, green transition

Prelims Facts Corner

ITEM	FACT
CBAM full compliance	January 1, 2026
CBAM sectors (6)	Cement, iron/steel, aluminium, fertilizers, electricity, hydrogen
CBAM transitional phase	Oct 2023 – Dec 2025 (reporting only)
India's response	IBAM (India Border Adjustment Mechanism) — under exploration
CCTS	Carbon Credit Trading Scheme; Energy Conservation Amendment Act 2022
CCTS regulator	Bureau of Energy Efficiency (BEE), Ministry of Power
CCTS entities (Jan 2026)	490 (up from 282; 208 added)
ICC	Indian Carbon Credit = 1 tonne CO ₂ equivalent
EU ETS carbon price	~€55–65/tonne CO ₂ (2025–26 approximate)

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