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EDITORIAL ANALYSIS

CBAM and India – Turning Carbon Border Taxes into a Strategic Opportunity

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INTERVIEW ANGLE

"Should India implement a carbon price on its steel and aluminium industries now, or wait until it secures adequate climate finance from developed nations — and what are the trade-offs for India's industrial competitiveness?"

THE EDITORIAL ARGUMENT

The EU's **Carbon Border Adjustment Mechanism (CBAM)** entered full compliance on January 1, 2026. From this date, EU importers must purchase CBAM certificates for the embedded carbon in goods arriving from the six covered sectors — cement, iron and steel, aluminium, fertilizers, electricity, and hydrogen — at a price linked to the EU Emissions Trading System (currently ~€55–65 per tonne CO₂).

India's initial response has been, understandably, one of protest: [bilateral](#) diplomatic channels, WTO consultations, and the argument that CBAM is a form of carbon colonialism — rich countries imposing transition costs on developing ones without commensurate finance. This argument has merit. But it is insufficient as a policy posture.

The smarter frame: CBAM is not primarily a threat to India's exports — it is a revenue opportunity that India is currently ceding to the EU.

THE REVENUE LOGIC

Under CBAM's architecture, if an exporting country already imposes a domestic carbon price equivalent to the EU ETS, its exporters receive a credit against their CBAM certificate liability. This means the carbon revenue flows to the exporting country's government — not to Brussels.

Without an **India Border Adjustment Mechanism (IBAM)**, the mechanism works as follows:

- Indian steel exporters embed carbon in their production (higher-emission processes than EU peers)

- EU importers purchase CBAM certificates from the EU
- The EU treasury receives the revenue
- India gets nothing; Indian exporters face cost pressure without any domestic policy benefit

With IBAM:

- India levies a domestic carbon charge on the same six sectors
- Indian exporters' CBAM liability is reduced by the equivalent domestic payment
- Revenue stays in India — available for clean energy subsidies, green hydrogen investment, worker transition support

The question is not whether India should decarbonise its industry. It will have to — for economic competitiveness, [energy security](#), and climate commitments under its Nationally Determined Contributions (NDCs). The question is whether it collects the revenue to fund that transition itself, or hands it to Europe by default.

MSME RISK AND COMPLIANCE BURDEN

The editorial acknowledges a legitimate concern: India's MSME-heavy steel and aluminium value chains face a double burden under CBAM. First, they must measure and document embedded carbon at the product level — a sophisticated accounting capability most Indian MSMEs lack. Second, if they cannot demonstrate low-carbon production, their EU market access is progressively impaired as CBAM phases in to 100% coverage by 2034.

The structural problem: India's integrated steel producers (SAIL, Tata Steel, JSW) can absorb compliance costs; India's ~2,000 secondary steel processors and re-rollers cannot. If the government does not provide compliance support infrastructure — third-party carbon measurement services, carbon accounting templates, sector-specific guidance — CBAM will disproportionately disadvantage small manufacturers.

INDIA-EU FTA: CBAM AS LEVERAGE

India and the EU have been negotiating a **Free Trade Agreement (FTA)** since 2022 (resumption of talks first started in 2007). CBAM gives India a concrete bargaining chip:

- 1 India agrees to accelerate carbon market development (CCTS expansion — already 490 entities covered as of January 2026)
- 2 In exchange, the EU recognises India's CCTS carbon credits toward CBAM obligations, reducing the compliance burden
- 3 The EU provides technology transfer and climate finance to support India's industrial decarbonisation

- ④ This becomes a chapter in the India-EU FTA — a “carbon and clean trade” agreement

This transforms CBAM from a unilateral EU measure into a bilateral negotiating platform.

WHAT WOULD A MATURE IBAM LOOK LIKE?

A well-designed IBAM would:

- ① Apply a sector-specific carbon intensity benchmark (not a flat carbon tax) — starting with steel and aluminium
- ② Phase in gradually — 2027–2034 — mirroring the EU’s own CBAM phase-in schedule
- ③ Collect revenues into a dedicated **Green Transition Fund** managed transparently
- ④ Provide automatic CBAM credit generation — so Indian exporters’ EU liability reduces automatically
- ⑤ Exempt MSMEs below a threshold from the first phase — allow voluntary early adoption with incentives

This is not an alien concept. India already operates the **PAT (Perform, Achieve, Trade)** scheme under the BEE — a performance-based energy efficiency market. IBAM would be an extension of this existing institutional architecture.

WHAT WOULD NOT CHANGE

IBAM does not resolve the fundamental equity concern: **India did not cause the historical emissions** that created the climate problem requiring costly transitions. The **Green Climate Fund (GCF)**, established under the UNFCCC, has consistently fallen short of its \$100 billion annual commitment from developed nations. The 2024 COP29 Baku commitment of \$300 billion annually by 2035 remains far below what climate science and equity require.

India must continue pressing this argument at UNFCCC, WTO, and G20. IBAM is a tactical adaptation to the world as it is; advocacy for climate finance is the strategic imperative for the world it should be.

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Environment	CBAM, CCTS, EU ETS, carbon markets, carbon leakage
GS3 — Economy	India-EU trade, MSME competitiveness, industrial decarbonisation
GS2 — International Relations	India-EU FTA, WTO compatibility, climate diplomacy, Green Climate Fund

Mains Keywords: CBAM, IBAM, EU ETS, Carbon Credit Trading Scheme (CCTS), India-EU FTA, PAT scheme, BEE, embedded carbon, carbon leakage, Green Transition Fund, Green Climate Fund, Nationally Determined Contributions (NDCs), WTO non-discrimination

Prelims Facts Corner

ITEM	FACT
CBAM full compliance	January 1, 2026
CBAM 6 sectors	Cement, iron/steel, aluminium, fertilizers, electricity, hydrogen
CBAM certificate	Purchased by EU importers; price linked to EU ETS
EU ETS carbon price	~€55–65/tonne CO ₂ (2025–26)
IBAM	Proposed India domestic carbon charge — would retain carbon revenue in India
CCTS	Carbon Credit Trading Scheme; Energy Conservation Amendment Act 2022; BEE
CCTS entities (Jan 2026)	490 (up from 282; 208 new units added)
PAT scheme	Perform, Achieve, Trade; BEE; energy efficiency market — existing architecture
India-EU FTA	Negotiations resumed 2022; original talks started 2007
GCF	Green Climate Fund; \$100 billion/year commitment from developed nations (unmet)

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