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Tariffs to Carbon: The New Rules Reshaping India's Trade Under CBAM

THE HINDU

28 May 2026

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INTERVIEW ANGLE

"If CBAM's charging phase is making carbon efficiency a competitive variable in global trade, should India fight it at the WTO as a "green trade barrier" — or accept it and accelerate domestic decarbonisation with its own carbon-equalisation mechanism?"

THE HINDU

| Op-Ed | May 28, 2026

The EU CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

, now in its **definitive (charging) phase from January 1, 2026**, is reshaping global trade by turning **carbon efficiency into a competitive variable**. The shift has sharp implications for India's **steel, aluminium, cement, fertiliser, hydrogen and electricity** exports. The editorial recommends a **twin-track response**: domestic decarbonisation reforms (including a possible **India Carbon Equalisation Mechanism**) alongside multilateral negotiations against CBAM as a **"green trade barrier"** on developing economies.

THE ARGUMENT IN ONE LINE

CBAM is now operational reality, not a future risk; India should simultaneously contest it on principle (CBDR-RC, WTO Article XX) and prepare for it on practice — domestic carbon pricing, MRV infrastructure, decarbonised production — because both tracks are needed.

WHAT CBAM IS

PARAMETER	DETAIL
Full name	EU Carbon Border Adjustment Mechanism
Statutory basis	EU Regulation 2023/956
Transitional phase	October 1, 2023 – December 31, 2025 (reporting only)
Definitive phase	January 1, 2026 onwards – financial obligation begins
Covered sectors (initial)	Iron & steel, aluminium, cement, fertilisers, hydrogen, electricity
CBAM mechanism	EU importers must buy CBAM certificates equal to the embedded emissions in imported goods minus any carbon price paid in the country of origin
Carbon price reference	EU Emissions Trading System (ETS) carbon price
Free allowance phase-out	Free EU-ETS allowances phased out 2026-2034 in tandem with CBAM ramp-up

WHY THIS MATTERS TO INDIA

Trade Exposure

India is a **major exporter to the EU** in CBAM-affected sectors:

SECTOR	INDIA'S EU EXPORT (ANNUAL)	CBAM EXPOSURE
Iron & steel	~USD 6–8 billion	High
Aluminium	~USD 1.5–2 billion	High
Cement	Small (low-margin); CBAM bites disproportionately	Medium
Fertilisers	Limited exports	Low (but inputs imported)
Hydrogen	Nascent	Future-relevant
Electricity	Negligible	Negligible

Combined CBAM-exposed exports: ~USD 8-10 billion/year, roughly 20% of India's EU goods exports.

Tariff Equivalent

A 2024 NITI Aayog estimate: CBAM-equivalent tariff on Indian steel exports could be **20-35%** depending on embedded carbon intensity. For aluminium, **15-25%**.

Why It's a "Green Trade Barrier" from India's View

- **CBDR-RC violation (perceived)** — Common But Differentiated Responsibilities and Respective Capabilities under the **UNFCCC (1992)** and **Paris Agreement (2015)** suggest developed economies bear historical climate responsibility; CBAM treats developed and developing economies symmetrically.
- **Carbon revenue capture** — CBAM revenue flows to the EU budget, not to developing-country adaptation.
- **Asymmetric MRV burden** — Indian SMEs cannot easily measure embedded emissions; documentation cost falls on producers.
- **Free allowance asymmetry** — EU producers got free ETS allowances for years before CBAM; Indian producers face the full carbon price from day one.

WHAT CBAM FORCES INDIA TO DO

1. Reduce Carbon Intensity at Source

- **Direct reduced iron (DRI)** routes vs blast-furnace routes in steel.
- **Hydrogen-DRI** under the **National Green Hydrogen Mission (Jan 2023, ₹19,744 crore)**.
- **Solar/renewable PPAs** for aluminium smelters (Vedanta, Hindalco, Balco, Nalco).
- **Waste-heat recovery + co-generation** in cement.
- **Green fertiliser ammonia** (Hazira, Tuticorin pilots).

2. Build Domestic Carbon Pricing

- **Carbon Credit Trading Scheme (CCTS)** — notified **June 28, 2023**; **first compliance cycle 2026**.
- **Voluntary carbon market** complement.
- **Carbon tax** debate (vs ETS) — currently no broad-based carbon tax in India.

3. Establish Measurement-Reporting-Verification (MRV)

- **ICAT** (India CDM Authority) capacity scale-up.
- **National GHG Inventory** updates (Biennial Transparency Report under Paris).
- **Verifier ecosystem** — accredited third-party emissions verifiers.

4. Negotiate Multilaterally

- **WTO challenge** — non-discrimination + GATT Article III (national treatment) + Article XX (general exceptions). Brazil, China, Turkey, India have all raised concerns.
- **G20** — climate-trade nexus in agenda.
- **BRICS** — common position drafting.
- **CBDR-RC** restoration at UNFCCC.

THE “INDIA CARBON EQUALISATION MECHANISM” — A POSSIBLE RESPONSE

The editorial floats an **India Carbon Equalisation Mechanism (CEM)** — symmetric tariff on imports from countries without comparable carbon pricing. The logic:

- If CBAM is OK for the EU, an Indian equivalent is OK too.
- Captures revenue domestically (rather than handing it to the EU).
- Forces partner countries to negotiate seriously.
- Provides a defensive shield for Indian producers in the domestic market.

Risks of an India CEM

- **Retaliation cascade** — could trigger WTO disputes.
- **Domestic complexity** — MRV burden falls on customs/CBIC.
- **Capacity constraint** — India’s MRV infrastructure is still early.
- **Trade-diversion** — non-EU partners may exit Indian market.

INDIA'S DECARBONISATION ARCHITECTURE — WHERE WE STAND

INSTRUMENT	STATUS
National Action Plan on Climate Change (NAPCC)	2008 — 8 missions
State Action Plans on Climate Change (SAPCC)	All states
Updated NDC (2022)	45% emissions-intensity reduction by 2030 (vs 2005); 50% non-fossil capacity by 2030
Net-zero target	2070 (announced at CoP26 Glasgow)
Carbon Credit Trading Scheme	June 28, 2023; phased compliance from 2026
PAT (Perform Achieve Trade)	Operational since 2012; merged with CCTS
National Green Hydrogen Mission	₹19,744 crore (Jan 2023); 5 MMT/year capacity by 2030
PM-Suryodaya / PM Surya Ghar	Rooftop solar acceleration
PLI for ACC battery + green steel + electrolysers	Multiple schemes
Climate finance need (India estimate)	~USD 2.5 trillion by 2030

WIDER SIGNIFICANCE

- **Trade-climate nexus** is the next decade's signature policy domain.
- **Domestic decarbonisation** is no longer just climate policy; it is export policy.
- **Friend-shoring + supply-chain resilience** — CBAM accelerates manufacturing shifts.
- **MSME sector vulnerability** — most exposed to MRV cost; needs targeted support.
- **AI + remote sensing** — emerging tools for embedded-carbon measurement.

COUNTER-ARGUMENTS — THE PRO-CBAM VIEW

ARGUMENT	SUBSTANCE
Climate urgency	Global emissions must come down; CBAM is one of the few tools that works
Carbon leakage	Without CBAM, EU producers move to lower-carbon-cost jurisdictions; net global emissions unchanged
Producer-pays principle	Embedded carbon should be priced; this is basic economics
Predictability	CBAM gives producers 2+ years notice; not arbitrary

WAY FORWARD

- **Accelerate CCTS** — finalise compliance rules; broaden coverage to CBAM-affected sectors.
- **Green-steel + green-aluminium policy** — production-linked incentives for low-carbon variants.
- **MRV infrastructure** — public-good carbon-measurement platforms for MSMEs.
- **EU bilateral dialogue** — recognition of CCTS compliance to offset CBAM liability.
- **WTO + G20 + UNFCCC** — multilateral CBDR-RC push.
- **India CEM (study, not deploy)** — comprehensive impact assessment first.

UPSC RELEVANCE

GS Paper 2 — International Relations:

- Effect of policies and politics of developed and developing countries on India's interests.
- Bilateral, regional and global groupings and agreements involving India.

GS Paper 3 — Indian Economy / Environment:

- Effects of liberalisation on the economy.
- Environment — conservation, environmental pollution and degradation.

Analytical hooks for Mains:

- CBDR-RC and trade-climate nexus.
- Domestic carbon pricing — design choices (ETS vs tax).
- Green-steel and green-aluminium policy.

FACTS CORNER

CBAM Regulation: EU 2023/956.

Transitional phase: October 1, 2023 – December 31, 2025 (reporting only).

Definitive phase: January 1, 2026 onwards (financial obligation).

CBAM-covered sectors: Iron & steel, aluminium, cement, fertilisers, hydrogen, electricity.

India's CBAM-exposed exports: ~USD 8-10 billion/year.

CBAM-equivalent tariff on Indian steel (NITI estimate): 20-35%.

India's net-zero target: 2070 (CoP26, November 2021).

Updated NDC (2022): 45% emissions-intensity reduction by 2030 vs 2005.

National Green Hydrogen Mission: ₹19,744 crore, January 2023; 5 MMT/year by 2030.

Carbon Credit Trading Scheme: Notified June 28, 2023; first compliance cycle 2026.

PAT scheme: Operational since 2012.

UNFCCC + Paris Agreement (2015): Anchor for CBDR-RC.

EU Emissions Trading System (ETS): Operational since 2005.

Editorial source: The Hindu, May 28, 2026 | Cross-link: Daily May 28 – India-China WMCC (trade angle)

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