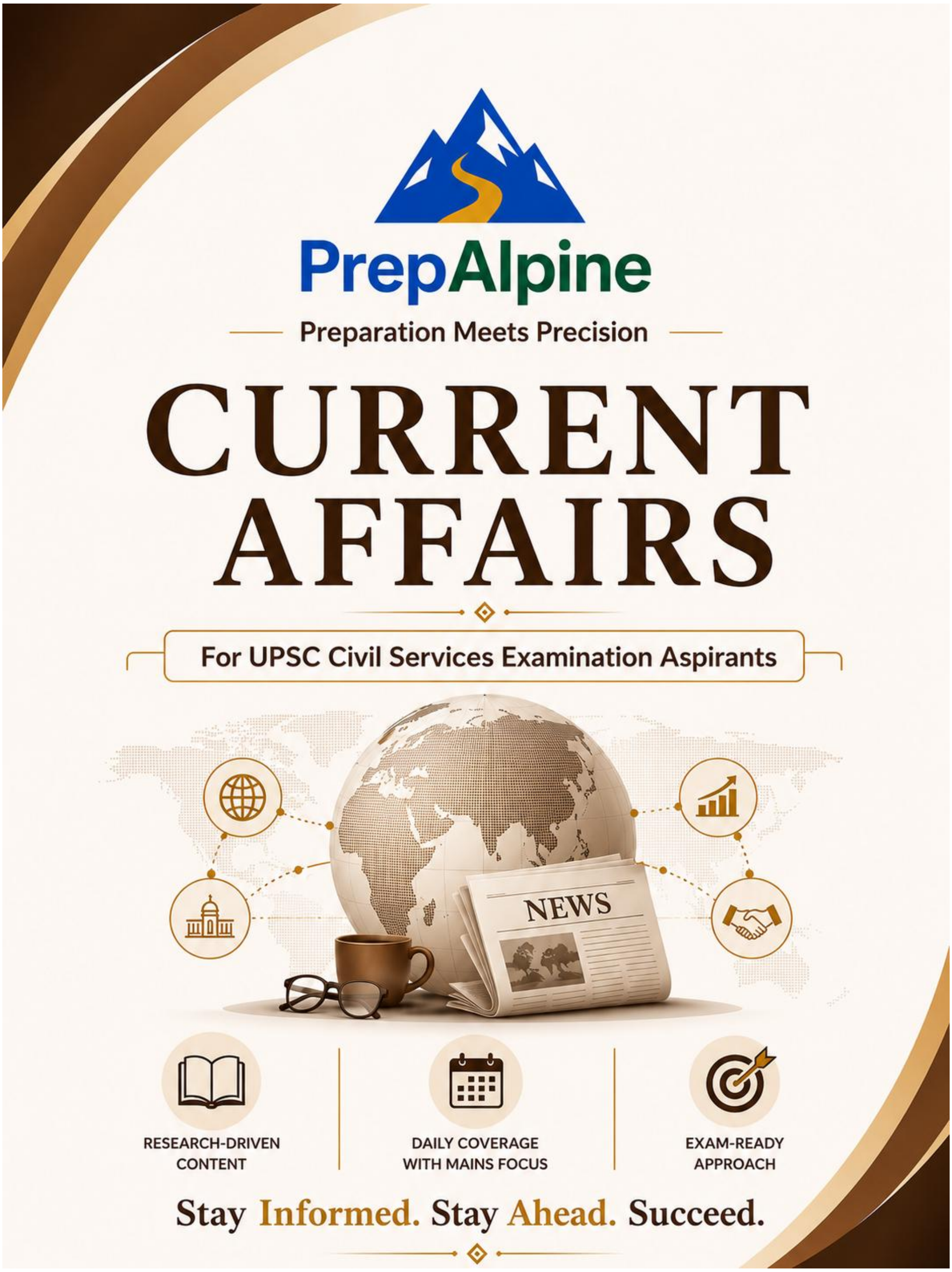
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DAILY CURRENT AFFAIRS DATED 28.05.2026

GS Paper III: Environment

1. EU Carbon Border Adjustment Mechanism (CBAM): New Rules Reshaping India's Trade

a. Introduction

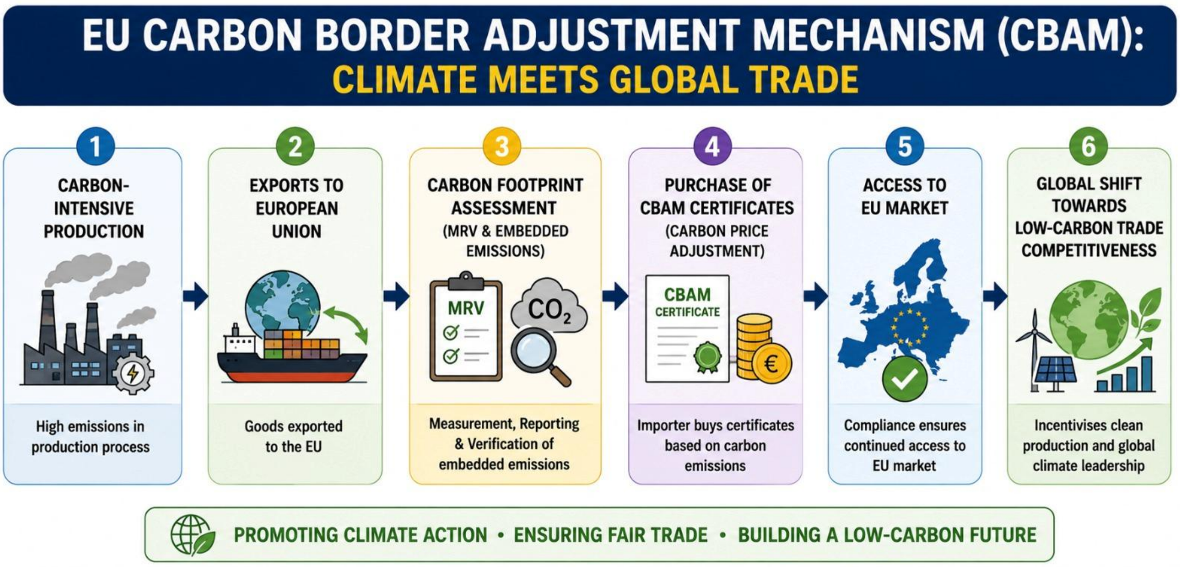
The European Union's Carbon Border Adjustment Mechanism (CBAM) entered its definitive phase on 1 January 2026. As India continues negotiations on a Free Trade Agreement (FTA) with the European Union, CBAM is expected to increase compliance costs for India's carbon-intensive exports, making carbon standards an increasingly important determinant of market access alongside conventional tariffs.

The emergence of climate-linked trade measures reflects a significant transformation in the global trading system, where environmental sustainability is increasingly shaping market access and competitiveness.

b. Background Context

Global trade is increasingly being influenced not only by tariffs and quotas but also by environmental and climate-related standards. Developed economies are introducing measures aimed at reducing greenhouse gas emissions across global supply chains by incorporating the carbon footprint of imported products into trade policy.

The European Union's Carbon Border Adjustment Mechanism (CBAM) represents the first large-scale attempt to integrate carbon pricing with international trade. It reflects the growing convergence of climate policy and trade policy, requiring exporters to demonstrate not only price competitiveness but also environmental sustainability.



c. What is the Carbon Border Adjustment Mechanism (CBAM)?

The Carbon Border Adjustment Mechanism (CBAM) is the European Union's carbon pricing mechanism for imported goods. It seeks to prevent carbon leakage, a situation in which industries relocate production to countries with less stringent climate regulations to avoid carbon costs.

Under the mechanism, importers are required to purchase CBAM certificates corresponding to the embedded greenhouse gas emissions associated with imported products. The number of certificates required depends on the emissions generated during the production of those goods.

During its initial phase, CBAM covers six sectors:

- Steel
- Cement
- Aluminium
- Fertilisers
- Electricity
- Hydrogen

The long-term objective is to ensure that imported products bear a carbon cost comparable to that faced by producers within the European Union under its Emissions Trading System (EU ETS), thereby creating a level playing field between domestic and imported goods.

As one of the European Union's major trading partners, India is expected to experience significant economic and policy implications arising from the implementation of CBAM.

d. Why is CBAM Important for India?

The European Union is one of India's largest export destinations, and several Indian industries fall within the scope of CBAM. Products such as steel, aluminium, cement and engineering goods are likely to face additional compliance obligations and higher costs while entering the European market.

Importantly, CBAM operates independently of tariff concessions under a Free Trade Agreement. Even if tariffs are reduced or eliminated through future trade negotiations, exporters will still need to comply with the European Union's carbon reporting and pricing requirements.

The mechanism therefore marks a structural shift in global trade, where environmental performance is becoming as important as price competitiveness in determining market access. It signals that future export competitiveness will increasingly depend upon the carbon intensity of production.

While CBAM has the potential to accelerate global decarbonisation, it also presents important economic, developmental and strategic challenges for countries such as India.

e. Significance

- **Promotes Low-Carbon Industrialisation:** CBAM encourages industries across the world to adopt cleaner production technologies, improve energy efficiency, expand renewable energy use and reduce greenhouse gas emissions.
- **Strengthens Carbon Markets:** The mechanism is expected to accelerate the development of carbon markets, improve emissions accounting and enhance transparency regarding the carbon footprint of industrial products.
- **Supports Global Climate Mitigation:** By assigning a monetary value to carbon emissions embedded in traded goods, CBAM reinforces international efforts to achieve climate mitigation objectives and incentivises sustainable production practices.
- **Redefines International Competitiveness:** The mechanism demonstrates that access to international markets will increasingly depend upon environmental compliance alongside traditional factors such as cost, quality and productivity.

f. Challenges for India

- **Higher Export Costs:** CBAM is likely to increase the cost of exports for carbon-intensive industries, thereby reducing the price competitiveness of Indian products in the European market.
- **Technology and Investment Requirements:** Industries dependent on conventional energy sources may require significant technological upgrades and capital investment to comply with stricter carbon standards.

- **Impact on MSMEs:** The compliance burden is particularly challenging for micro, small and medium enterprises (MSMEs), many of which lack the financial resources and technical expertise required for carbon accounting, reporting and verification.
- **Risk of Wider Adoption:** There are growing concerns that other developed economies may introduce similar carbon border measures, increasing compliance costs across multiple export destinations.
- **Equity Concerns:** From India's perspective, CBAM raises important questions regarding equity in climate governance, as developing countries have historically contributed a much smaller share of cumulative greenhouse gas emissions while continuing to pursue industrialisation and economic development. The mechanism therefore revives the debate over the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC).

Recognising these emerging challenges, India has already initiated several policy measures aimed at strengthening domestic preparedness for a low-carbon trading environment.

g. India's Policy Response

India has initiated multiple policy measures to facilitate its transition towards a low-carbon economy while protecting the competitiveness of its industries.

- The Carbon Credit Trading Scheme (CCTS), 2023 seeks to establish a domestic carbon market that encourages industries to reduce emissions through market-based incentives.
- The Government is promoting renewable energy, green hydrogen, energy efficiency and cleaner industrial technologies to reduce the carbon intensity of manufacturing.
- Schemes such as the Perform, Achieve and Trade (PAT) programme encourage industries to improve energy efficiency while reducing emissions.
- At the international level, India continues to engage with the European Union and other trading partners to ensure that climate-related trade measures remain fair, transparent, non-discriminatory and consistent with the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC).

While these initiatives provide an important foundation, sustained policy reforms and international engagement will be necessary to safeguard India's long-term export competitiveness.

h. Way Forward

- **Develop a Robust Domestic Carbon Market:** India should accelerate the development of a credible domestic carbon market that aligns with international best practices while reflecting national developmental priorities.
- **Support Industrial Decarbonisation:** Greater financial and technological assistance should be extended to industries, particularly MSMEs, to facilitate the adoption of low-carbon production technologies and cleaner manufacturing processes.
- **Strengthen Carbon Accounting Systems:** India should establish robust systems for carbon measurement, reporting and verification (MRV) to improve the credibility of Indian exports and facilitate compliance with evolving international standards.
- **Diversify Export Competitiveness:** Alongside expanding green manufacturing, India should diversify export markets to reduce excessive dependence on any single destination and improve resilience against emerging climate-related trade measures.
- **Continue International Negotiations:** Bilateral and multilateral negotiations should continue to ensure that climate-related trade measures remain equitable, transparent, WTO-consistent and mindful of the developmental concerns of emerging economies.

Conclusion

The European Union's Carbon Border Adjustment Mechanism marks a fundamental shift in global trade by linking market access with environmental performance. For India, adapting to this emerging trade landscape will require accelerating industrial decarbonisation, strengthening carbon accounting systems and pursuing balanced international negotiations so that climate objectives are achieved without compromising the developmental aspirations of emerging economies.

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