

EU's protectionism has shades of green

With the India-European Union (EU) free trade agreement (FTA) talks sprinting to the finishing line, we may see a drop in the EU's already low tariff rates. After the recent meeting India-EU bilateral meeting, the Indian Government has indicated that EU's regulation on Carbon Border Adjustment Measures (CBAM) and other regulations require further discussion, as these issues have higher sensitivities. The real test of the FTA will be its ability to address the CBAM and EU's other complex regulations that increase the costs of any effective market access. While purporting to be in the interest of the environment, these EU measures are effectively aimed at keeping the cost-competitiveness of its domestic industry.

When the EU announced the Strategic EU-India Agenda in September, it claimed that carbon prices paid under India's upcoming carbon credit trading scheme (CCTS) will be deducted from the CBAM price. It was only stating the obvious: The EU's CBAM regulation allows all countries to deduct carbon price paid in any exporting country, subject to its verification by the EU. The worrying aspect was the EU's implicit suggestion that only the concrete price paid under CCTS may be discounted from the CBAM price, and not the various other costs and taxes paid in India, including fuel excise taxes and levies, mandatory requirements under Indian law for purchase of defined portions of renewable energy, or purchase of renewable energy certificates in lieu of that.

It is also important to contrast this with the EU's approach to the US in the framework agreement on reciprocal, fair and balanced trade that was announced in August, in which the EU "committed to work to provide additional flexibilities in the CBAM implementation". Any special treatment by the EU of the US would fall foul of the WTO's MFN (most-favoured nation) principle that prohibits countries from playing favourites. The EU's actions will, therefore, need to be watched closely.

India's exports of aluminium and steel are the ones to be hit most by the EU's CBAM. The government of India recently notified the first legally binding Greenhouse Gas Emission Intensity (GEI) Target Rules, 2025, under CCTS for four high-emission sectors—aluminium, cement, chlor-alkali, and pulp and paper. GEI targets for iron and steel are also expected to be notified soon. Trading under CCTS will begin in October 2026. CBAM compliance costs will, however, have to be factored in from January 2026 itself. This leaves a 10-month gap when even the minor adjustments under CCTS will not make a difference for India's exports.

Early estimates indicate that the carbon dioxide price determined through CCTS will

likely be below €10. In contrast, the EU's carbon price under the EU emissions trading system (EU ETS) is much higher, typically ranging from €60 to €90 per tonne of carbon dioxide, and is expected to rise further as CBAM is implemented. This price gap is likely to persist due to differences in market maturity, focus sectors and regulatory enforcement. As a result, Indian exporters will face higher CBAM-related costs when trading with the EU, despite being compliant with both domestic law and international obligations on climate. This is unfair. It is important to note that emissions are a factor of production, as is labour. Equalising costs of factors of production sets a troubling precedent for trade agreements.

CBAM is not the only problematic instrument for exporters to the EU; it is part of a series of measures enacted as part of the "EU green deal", a cocktail of regulatory instruments. EU deforestation regulation (EUDR) mandates companies trading in cattle, cocoa, coffee, oil palm, rubber, soya and wood, and products derived from these, to conduct extensive diligence on the value chain to place a check on forest degradation.

EU corporate sustainability due diligence directive (CS3D) and the corporate sustainability reporting directive (CSRD), described by the US as "serious and unwarranted regulatory overreach", place obligations on companies to undertake due diligence, track, report on environment and human rights compliance, not only in their own companies, but in entities across their upstream and downstream supply chains. The compliance burdens will be immense, which is why the US has asked the EU to exempt US companies from its ambit.

The EU green deal also highlights the abject inability of multilateral rules of trade (WTO), and multilateral rules of climate change (UN Framework Convention on Climate Change & the Paris Agreement), to address issues at the interface of trade and the climate crisis. To address this, Brazil has proposed establishment of an open coalition for carbon market integration and a new global forum to address how climate rules interact with trade—focusing especially on harmonising carbon markets, responding to trade barriers arising from climate policies, and promoting inclusive decarbonisation. It also envisions income redistribution mechanisms to ensure a fair transition to a low-carbon economy by channelling benefits to lower-income nations. India should consider co-leading such efforts, encouraging broader participation from the Global South to help drive a more just and equitable green transition globally.

Meanwhile, in the FTA negotiations with the EU, India needs to find the correct balance to ensure that the strategic relationship has at its core mutual respect and equity, and respect for multilateral principles. Environment and the climate crisis are a global concern, and measures designed solely to keep EU companies competitive, will not only not achieve any real solutions, but also run the risk of undermining multilateral solutions.



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