Europe's Green Wall: Is European Union's Carbon Border Tax a new Economic Barrier?

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Introduction

The European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) marks one of the most far-reaching attempts yet to link climate ambition with international trade. Framed as a tool to prevent 'Carbon Leakage' and protect the integrity of Europe's climate policies, the CBAM will impose a carbon price on imports of selected carbon-intensive goods such as steel, cement, aluminium, fertilisers, electricity, and hydrogen from 2026 onwards.[1] While the EU presents the CBAM as a climate-friendly reform, many developing countries, including India, see it as a new kind of economic barrier—one that could reshape global trade under the banner of decarbonisation.[2]

For India, which sits at the intersection of industrial growth, export dependence, and climate vulnerability, the CBAM is not merely an environmental measure. It is a structural challenge to its development model and its position in global value chains. Europe may call it a green shield, but for India it increasingly resembles a green wall.

Understanding Carbon Border Adjustment Mechanism

The European Union's CBAM is a climate policy tool that extends the its internal approach to pricing carbon emissions to certain imported goods.[3] Inside the EU, the Emissions Trading System (ETS) requires companies to hold allowances for each tonne of carbon dioxide they emit, creating a cost for pollution.[4] The CBAM is intended to prevent carbon leakage, a situation where production might relocate to countries with weaker climate regulations to avoid these costs, by ensuring that imported products face a similar carbon price to those made within the EU.[5]

Under the mechanism, importers must track and report the greenhouse gas emissions embedded in their goods and, as of 2026, purchase CBAM certificates equal to those emissions. The price of these certificates aligns with the carbon cost set by the EU ETS, aiming to put foreign producers on a level playing field with European firms. Ultimately, the policy reflects a broader effort to integrate climate considerations into trade while discouraging carbon-intensive production outside the EU.

India's Vulnerability to Carbon Border Adjustment Mechanism

India's industrial expansion still depends heavily on fossil fuels, especially coal. Even as renewable capacity grows, coal continues to power much of India's electricity and heavy manufacturing. Energy-intensive sectors such as steel, aluminium, cement, and

chemicals—those covered by the CBAM—are also key export industries. Even a modest carbon price differential can make Indian products less attractive compared to European or other low-carbon alternatives.[6]

What makes this especially problematic is that Indian firms have little control over the carbon intensity of their production in the short term. Retrofitting blast furnaces, switching to green hydrogen, or redesigning cement kilns requires massive capital investment and long-time horizons. CBAM, however, moves on Europe's political timetable, not India's industrial one.

CBAM sector (EU)	EU imports from India in 2024 (USD)	Share of India EU exports (of USD77.06 Bn)
Iron and steel	USD 4.25 bn	~5.52 per cent
Aluminium	USD 919.4 mn	~1.19 per cent
Fertilisers	USD 9.82 mn	~0.013 per cent

Table 1: Commodities exported by India to European Union,

which are impacted by Carbon Border Adjustment Mechanism

Source: UN Comtrade Database[7]

A New Form of Trade Barrier

From New Delhi's perspective, THE CBAM risks functioning like a tariff only when justified by environmental language. While the EU insists that CBAM is compatible with World Trade Organization's (WTO) rules, many developing countries argue that it violates the principle of 'Common But Differentiated Responsibilities' adopted during the 1992 Rio Earth Summit.[8]

This principle recognises that developed countries have historically contributed far more to global emissions and therefore bear greater responsibility for climate mitigation. India's per-capita emissions remain a fraction of Europe's roughly two tn per person per year compared with the EU's 10.7 tn per person per year. Yet Indian exporters will now face the same carbon price as European firms under the EU's CBAM.[9]

In effect, the CBAM shifts part of the cost of Europe's green transition onto countries that are still struggling to meet basic development needs.[10]

Moreover, the CBAM does not take into account differences in technological and financial capacity. European firms benefit from decades of industrial upgrading, government subsidies, and access to cheap green finance. Indian firms, by contrast, operate in a capital-constrained environment where green technologies are still

expensive and often imported. The playing field that CBAM claims to create is, therefore, structurally tilted.

Carbon Border Adjustment Mechanism and India's Manufacturing Future

Manufacturing lies at the centre of India's growth strategy. Government initiatives such as 'Make in India' and the 'Production-Linked Incentive' schemes are intended to turn India into a major global manufacturing base, with exports playing a central role in that effort.[11] If the EU's CBAM raises the cost of selling carbon-intensive products such as steel and aluminium in European markets, it could weaken the momentum behind India's industrial expansion.[12]

Steel and aluminium are not only important export sectors but also key inputs for automobiles, construction, and heavy engineering. A decline in competitiveness in these materials would have spillover effects across employment, investment, and regional development.[13]

There is a wider strategic concern as well. Europe is a major trading partner and a leading source of regulatory standards. If CBAM becomes a model adopted by other advanced economies, India could face a growing web of carbon-linked trade barriers across multiple markets, reshaping the rules of global trade.[14]

Decarbonisation and the Development Dilemma

India supports strong climate action and has pledged to achieve net-zero emissions by 2070 while rapidly expanding renewable capacity and reducing emissions intensity.[15] However, its development priorities such as lifting people out of poverty, expanding infrastructure, and securing affordable energy must be balanced alongside decarbonisation goals.

The EU's CBAM has drawn criticism from India and other developing countries for risking disproportionate burdens on exporters that lack equivalent domestic carbon pricing or support for cleaner technology.[16] By imposing added costs on carbon-intensive goods without meaningful assistance for emission reduction, the policy risks acting not as climate cooperation but as an economic exclusion.

Questions of fairness also arise from history: Europe industrialised over decades using fossil fuels and built wealth and technological capacity in the process. Developing countries argue that expecting them to leapfrog to low-carbon production without similar historical benefit or support places an unfair external cost on their industries.[17] Such critiques frame CBAM less as a climate tool and more as a form of "green protectionism" that protects European markets while shifting decarbonisation costs onto the Global South.

India's Strategic Choices under Carbon Border Adjustment Mechanism

India's response to the European Union's CBAM needs to be guided by long-term strategy rather than short-term reactions. One option is to raise the issue at the WTO, where India and other developing countries have repeatedly raised concerns that CBAM may unfairly burden developing exporters and conflict with trade norms.[18]

A more practical route is engagement and adjustment. India can press the EU to recognise its domestic climate measures such as renewable targets and efficiency standards as equivalent to carbon pricing, ensuring producers with lower emissions intensity are not penalised simply because India lacks an ETS.[19]

CBAM also signals the need to decarbonise heavy industry. Cleaner production in sectors like steel and cement is essential for competitiveness in a carbon-sensitive trading world. However, without technology sharing, affordable finance, and institutional support, CBAM risks reinforcing inequality rather than cutting emissions.

Impact of India-European Union Free Trade Agreement (FTA) on Carbon Border Adjustment Mechanism

After nearly two decades of negotiation, India and the EU concluded the FTA on 27 Jan 2026, covering over 90 per cent of bilateral trade flows.[20]

However, the FTA does not exempt Indian goods from the CBAM; core carbon-intensive sectors such as steel, aluminium, and cement remain subject to EU carbon costs under the mechanism, which entered its financial phase in 2026 and applies a levy tied to emissions content.[21] While the agreement includes measures for technical cooperation, recognition of carbon pricing methodologies, and forward-looking provisions for carbon market alignment, these provisions function as capacity-building tools rather than direct fiscal relief from the carbon tax itself.[22]

The EU has also pledged approximately EUR 500 mn in climate support to aid India's decarbonisation, but this funding does not replace the tariff relief Indian exporters expected for carbon costs.[23] Therefore, although the FTA strengthens tariff competitiveness and may facilitate technology transfer and cleaner production pathways, it cannot fully offset the structural cost shock of the CBAM without additional, explicit mechanisms for carbon-cost recognition, or transitional tax relief.[24]

Conclusion

The debate over the EU's CBAM—a policy that places a carbon price on imports of emissions-intensive goods such as steel and cement goes beyond specific products and raises a broader question about whether global climate action can be aligned with development and fairness. The CBAM aims to extend carbon pricing to imports to prevent carbon leakage, but many developing countries view it as an unfair and potentially trade-distorting.[25] When climate policies begin to function like trade

penalties, they risk eroding trust between the developed and developing countries, making cooperation more difficult.

For India, the concern is not limited to immediate export costs. The CBAM creates a precedent where access to major markets depends on climate standards set largely by wealthier economies, potentially disadvantaging developing countries that lack similar carbon pricing systems.[26] If climate action is to be truly global, it must be inclusive. In its present form, the CBAM risks acting less like a bridge and more like a barrier.

Endnotes

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