

India Signals Reciprocal Action if UK Carbon Tax Harms Exports



India has made it clear to the United Kingdom that it reserves the right to implement countermeasures if the UK's proposed Carbon Border Adjustment Mechanism (CBAM) negatively impacts Indian exports. This firm stance was conveyed amidst the recent signing of a Free Trade Agreement (FTA) between the two nations, which, despite its broad scope, did not secure an explicit exemption for India from the forthcoming carbon levy.

The UK government plans to introduce its CBAM starting in January 2027, following a similar mechanism adopted by the European Union. This "carbon tax" aims to impose a levy on imports from carbon-intensive sectors like iron, steel, aluminum, fertilizers, hydrogen, ceramics, glass, and cement to ensure that imported goods bear a similar carbon cost to domestically produced ones. The intent is to prevent "carbon leakage," where industries might relocate to countries with less stringent environmental regulations to avoid carbon pricing.

While the newly signed India-UK FTA is expected to provide duty-free access for nearly 99% of Indian exports to the UK, the looming CBAM poses a potential challenge, particularly for India's carbon-intensive industries. Experts, such as Ajay Srivastava, founder of the Global Trade Research Initiative (GTRI), have highlighted this "serious asymmetry," noting that the UK could impose carbon taxes on Indian steel and aluminum from 2027 even as India grants UK goods duty-free access. GTRI estimates suggest that Indian exports worth approximately \$775 million to the UK could face tariffs ranging from 14% to 24% under the CBAM.

During the FTA negotiations, India reportedly discussed the CBAM issue, but the UK side indicated that the legislation was not yet finalized. Consequently, India formally conveyed that it

retains the freedom to "rebalance" concessions and take "counterbalance measures" should the CBAM erode the trade benefits gained under the agreement. This understanding has been documented, signifying India's preparedness to protect its export interests.

India has consistently voiced concerns over carbon border taxes, viewing them as potential trade barriers rather than purely environmental measures. Commerce and Industry Minister Piyush Goyal previously stated that India would "retaliate" if such taxes were implemented against friendly countries. The absence of a specific carve-out in the FTA means that future discussions and potential legal challenges, possibly at the World Trade Organization (WTO), remain on the table. However, trade law experts suggest that WTO rulings on such complex environmental trade measures can be lengthy and uncertain.

As the UK moves forward with its CBAM implementation, India's measured but firm response signals its determination to ensure that its growing export ambitions are not unduly hampered by evolving global environmental trade policies. The coming years will reveal how this delicate balance between environmental responsibility and trade equity will play out for key exporting nations.