India-UK FTA Ignores Carbon Tax Relief, Raising Export Concerns

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India-UK FTA Carbon Tax Latest News

- India's push to secure relief for its small and medium enterprises from the UK's Carbon Border Adjustment Mechanism (CBAM) has failed to find space in the final text of the India-UK Free Trade Agreement (FTA) released recently.
- Despite India's efforts, no resolution or concession on the contentious carbon tax issue was included in the deal — raising concerns about potential cost burdens and trade disadvantages for Indian exporters in the future.

UK's Expanding Carbon Tax Regime

- The UK's Carbon Border Adjustment Mechanism (CBAM), set to begin in January 2027, will initially apply to high-emission sectors such as aluminium, cement, fertiliser, hydrogen, and iron & steel.
    - CBAM will levy carbon taxes on imported carbon-intensive goods.

- However, the UK government has stated that the scope of CBAM could expand beyond 2027 based on evolving data, carbon leakage risks, and technological developments.
- This poses a growing challenge for India, as future exports across a wider range of sectors may face carbon-based tariffs.
- Despite a **12.6% rise in India's exports to the UK in 2024–25**—reaching $14.5 billion—and total bilateral goods trade rising to $21.34 billion, the expanding CBAM regime could threaten India's competitiveness in the UK market.

India-UK FTA Ignores Carbon Tax Relief: Concerns for Indian Exporters

- India's attempt to secure exemptions for its small and medium enterprises under the UK's upcoming Carbon Border Adjustment Mechanism (CBAM) has failed, as the final text of the India-UK Free Trade Agreement (FTA) does not address the issue.
- This omission is significant, as it undermines the broader benefits of the FTA, which promises zero-duty access for 99% of Indian exports.
- Indian exporters of carbon-intensive goods, **valued at around $775 million annually**, now face the risk of additional duties based on the UK's carbon emission calculations.
- The situation is further complicated by similar measures planned by the EU, which also refuses to treat CBAM as a trade issue.
- The absence of legal safeguards in the FTA could weaken India's negotiating position in future trade deals and affect its industrial competitiveness in Western markets.

India May Challenge UK's Carbon Tax at WTO

- With no concession secured on the UK's CBAM in the recent FTA, India may consider challenging the measure at the WTO, citing violations of **Special and Differential Treatment (SDT) norms** meant to protect developing nations.
    - SDT norms in trade agreements allow developed countries to give preferential treatment to developing nations.
    - These provisions recognize the developmental challenges faced by poorer countries and aim to help them better integrate into and benefit from the global trading system.
- However, trade law experts caution that delays due to the WTO's dysfunctional Dispute Settlement Body (DSB) could render such a challenge ineffective by the time CBAM is fully enforced.
- Moreover, given the EU and UK's strong influence at the WTO, experts say a ruling against CBAM is unlikely.
- At best, India may push for regulatory adjustments rather than full withdrawal of the carbon tax.

Source: IE | ET
