

# India misses chance to tackle UK carbon tax in trade pact. Why is it concerning?

*The UK's CBAM, which is set to come into effect from January 1, 2027, is expected to impact India's exports of steel, aluminium and other carbon-intensive goods.*

Written by [Ravi Dutta Mishra](#)

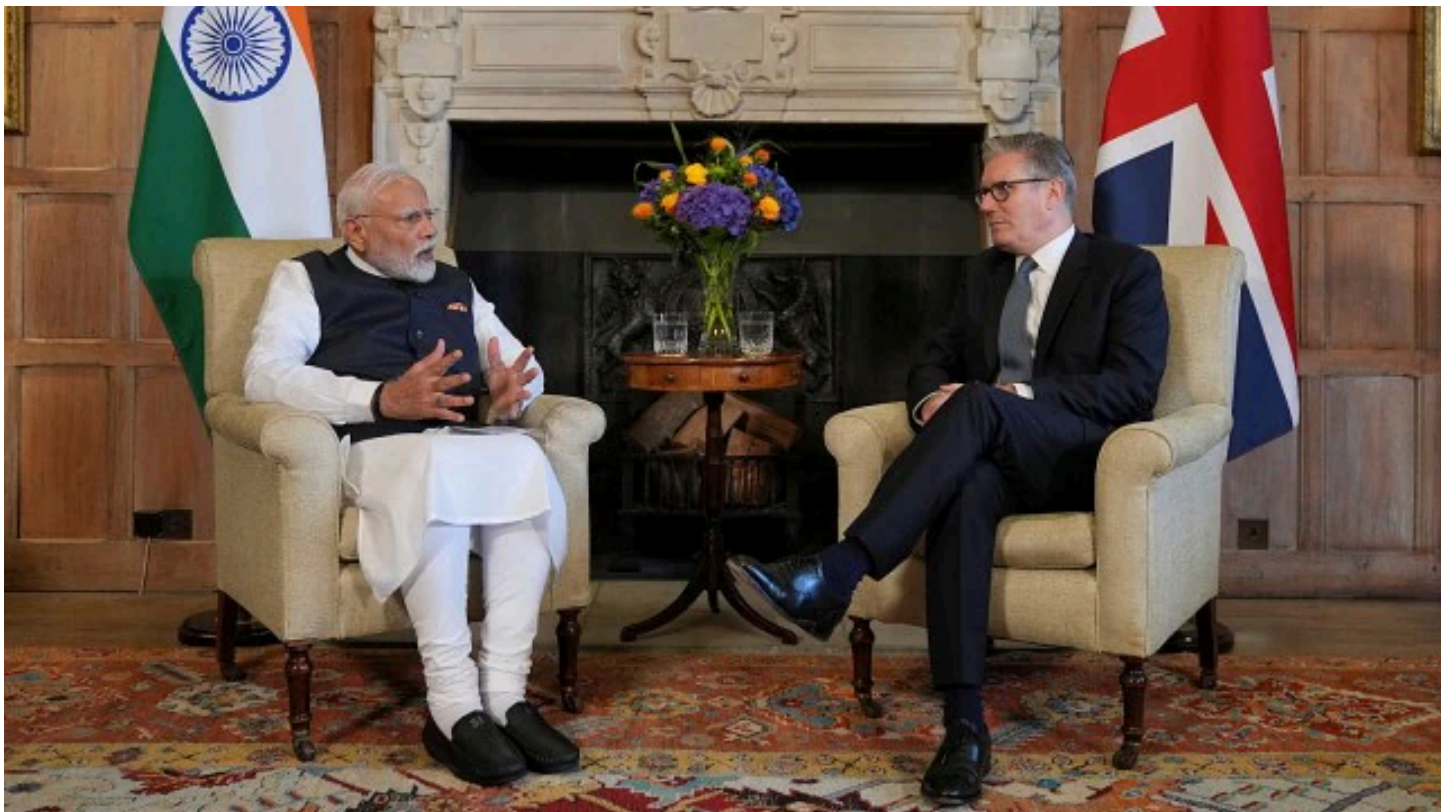
New Delhi | July 25, 2025 12:32 IST



🕒 4 min read



2



Prime Minister Narendra Modi and British PM Keir Starmer hold bilateral talks at Chequers on Thursday. (Photo: AP)

India's efforts to secure a concession for its small and medium enterprises under the UK's Carbon Border Adjustment Mechanism (CBAM) did not materialise, as the text of the [India-UK Free Trade Agreement](#) (FTA) released on Thursday made no mention of a resolution on the contentious issue.

The UK's CBAM, which is set to come into effect from January 1, 2027, is expected to impact India's exports of steel, aluminium and other carbon-intensive goods. India's steel and aluminium exports are already facing steep tariff restrictions from the US after US President [Donald Trump](#) raised the tariffs on the items to 50 per cent.

An absence of a resolution not only weakens India's position—as it missed the opportunity to address the levy within a legal framework—but also casts a shadow over the duty concessions won for 99 per cent of its exports to the UK under the long-negotiated trade deal as UK could raise tariffs on industrial imports once it implements CBAM.

Trade experts believe that if the UK has not conceded ground on the carbon tax, the EU may also refuse to offer any concessions on its own carbon measures. Hervé Delphin, EU Ambassador to India, told [The Indian Express last month](#) that the EU's CBAM is not part of negotiations. "CBAM is not a trade measure. It is not part of trade and the FTA. It's about compliance with our climate agenda to accelerate decarbonisation," Delphin told the newspaper.

---

### **Also Read** | The UK trade deal, and cues for the big one — the pact with the US

---

While the Ministry of Commerce and Industry claims that the UK trade deal will allow around 99 per cent of Indian exports to benefit from zero-duty access to the UK market, CBAM significantly could alter that. The UK government has said that the carbon tax will apply to both "direct and indirect emissions" embodied in imported CBAM goods, "including those emissions embodied in relevant precursor goods at a point further up the value chain".

This means that London, based on its carbon calculations, could impose duties on Indian intermediate exports as well as finished products. Indian goods exports worth at least \$775 million to the UK, therefore, continue to face the risk of higher duties under its carbon tax mechanism.

### **CBAM's scope could widen**

As per the CBAM regulation, the UK will place a carbon price on some of the most emissions-intensive industrial goods imported to the UK—covering the aluminium, cement, fertiliser, hydrogen, and iron & steel sectors—which are considered at risk of carbon leakage. But the scope will increase going forward.

"The sectoral and product-level scope of the CBAM will be kept under review beyond 2027 as new evidence comes to light to reflect changes to carbon leakage risk, as well as



methodological and technological advances,” a statement read.

India's exports to the UK rose by 12.6 per cent to \$14.5 billion, while imports grew by 2.3 per cent to \$8.6 billion in 2024–25. Bilateral goods trade between India and the UK increased to \$21.34 billion in 2023–24 from \$20.36 billion in 2022–23.



UK Prime Minister Keir Starmer and Prime Minister Narendra Modi pose for a photo after the free trade agreement was signed on Thursday. (Photo: AP)

## Challenge at the WTO

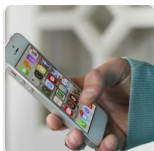
As no concession was secured under the FTA, India could challenge the regulation at the WTO on the grounds that CBAM violates special and differential treatment (SDT) provisions, which advocate longer implementation periods for developing countries to safeguard their trade interests.

However, trade law experts warn that the CBAM regulations in both the UK and EU may be in effect by the time the WTO rules on the matter, given the dysfunction of the organisation's Dispute Settlement Body (DSB).

They also said there is limited likelihood of an adverse ruling on CBAM at the WTO, as the EU remains one of the strongest supporters of the institution. A more probable outcome would be

adjustments to the regulation rather than its complete withdrawal.

## STORIES FOR YOU



**1 in 3 US smartphone imports now made in India, China's lead shrinks**



**Line of credit, trade talks, direct flights: Modi, Muizzu mark turnaroun...**



**Ravi Dutta Mishra**

Follow

*Ravi Dutta Mishra is a Principal Correspondent with The Indian Express, covering policy issues related to trade, commerce, and banking. He has over five years of experience and has previousl* **... Read More**

© The Indian Express Pvt Ltd

This article went live on July twenty-fifth, twenty twenty-five, at thirty-two minutes past twelve in the afternoon.

**TAGS:** India Uk Trade