

Freedom to 'rebalance': India on UK carbon border tax

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India will take "appropriate measures" if Britain's proposed Carbon Border Adjustment Mechanism (CBAM) undermines the trade benefits secured in the just-signed free-trade agreement (FTA), a senior government official said on Friday.

The Comprehensive Economic and Trade Agreement (Ceta) — formally inked between India and the United Kingdom — sidesteps any explicit reference to the UK's CBAM, which is expected to take effect in January 2027. While New Delhi has consistently flagged concerns over the proposed levy, seeking safeguards within the agreement, London is understood to have argued that CBAM is still in its preparatory phase and therefore could not be written into the FTA text.

Economic impact: The estimates

GDP gains

- The deal may boost India's GDP by 0.06% (£5.1 bn annually) in the long run; the UK's GDP by 0.13% (£4.8 bn)

Tariff reductions

- UK exporters to benefit from an immediate £400 mn cut in Indian import duties, rising to £900 mn over 10 years
- UK import duties on Indian goods to fall by £220 mn

Automobiles

- Indian tariffs on UK cars to fall from 110% to 10%, within quota
- UK car exports to India projected to grow by £890 mn (310%)

Indian textiles & leather exports

- UK imports from India to rise by £2.9 bn (85%)

Clothing: +£475 mn (45%)

Textiles: +£175 mn (40%)

Footwear: +£55 mn (30%)

Whisky duties

- Indian tariff on Scotch whisky to drop from 150% to 40% over 10 years
- UK beverage and tobacco exports to India could rise by £700 mn (180%)

Source: UK Department for Business and Trade

However, if CBAM adversely impacts Indian exports covered by the deal, the government will act to

ensure that the agreed market access terms are not diluted.

Turn to Page 6 ►

PAGE 14

Trade deal fails to lift stocks

The trade pact between India and the UK did little to buoy up Indian equity markets, as a broad selloff overshadowed sector-specific optimism. While companies across textiles, pharmaceuticals, jewellery, automotive, and agriculture are positioned to benefit from Ceta, stocks in these segments closed lower.

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"If CBAM is implemented and if it negates trade benefits of India under the agreement, India will have the freedom to rebalance it. This understanding has been made in the form of note verbale," the official said. Such a move would allow India to roll back concessions, using a built-in mechanism, should it come to that. "Note verbale" is a diplomatic communication between two governments.

India not a 'tariff king'

CETA is also seen as part of India's effort to shake off its image as a high-tariff nation or "tariff king" – an image repeatedly invoked by the Donald Trump administration in the US.

The trade pact targets a doubling of bilateral trade from \$56 billion to over \$100 billion by 2030. Under the deal, 99 per cent of Indian exports will enter the UK duty-free, while 90 per cent of British goods will enjoy zero tariffs in India. The agreement slashes India's applied trade-weighted average tariff on UK imports from 15 per cent to just 3 per cent. Although the Indian Cabinet has cleared the agreement, it still awaits ratification by the UK Parliament, a process expected to take up

to a year. India plans to use that time to educate exporters on how to leverage the FTA. "Tariff is only one part of the deal," said Commerce Secretary Sunil Barthwal. He said the agreement includes timelines for mutual recognition arrangements, aimed at providing greater certainty to businesses in both countries. On concerns about dumping, Barthwal pointed to rules of origin and product-specific criteria embedded in the agreement as adequate safeguards.

Concerns over intellectual property chapter

The agreement does not dilute New Delhi's right to issue compulsory licences and does not introduce any new preconditions for their issuance, another official said, adding that the sovereign authority to issue such licences remains entirely with the Government of India. "The agreement's reference to voluntary licensing simply acknowledges global best practices that encourage collaborative solutions. It does not limit or dilute India's well-established right to issue CLs under a section of the Indian Patents Act, 1970," the official said.