

FTA: India sets up guardrails against EU's green measures

SAFETY VALVE. Rapid response mechanism, non-violation complaints provisions to help Delhi address any bloc move that can impair market access, including an expanded CBAM

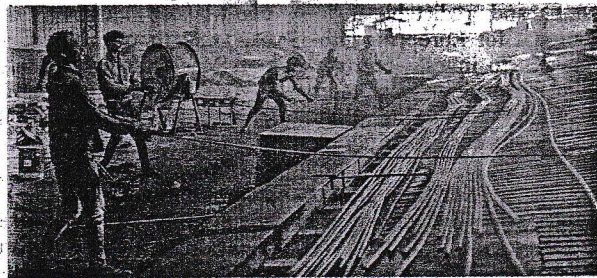
Amiti Sen
New Delhi

India's strategic inclusion of a rapid response mechanism (RRM) and a non-violation complaints (NVC) provision in the India-EU Free Trade Agreement is extremely significant in the context of regulations, such as the EU's Carbon Border Adjustment Mechanism (CBAM). India's guardrails in the FTA are especially critical as Brussels has previously indicated that the CBAM could be expanded beyond its current sectoral scope.

The provisions give India an early consultation channel to flag and negotiate the trade impact of future EU sustainability measures, such as CBAM expansion to downstream products, or regulations like the EU Deforestation Regulation that could erode market access even without a formal breach of the agreement.

TRADE SAFEGUARDS

Both the NVC and the RRM mechanisms will help India in dealing with the challenges of the EU's regulations in fu-



CARBON BURDEN. Without any flexibilities offered under the FTA on current CBAM measures, Indian steel and aluminium exporters are expected to take a substantial hit REUTERS

ture and protect the FTA benefits. All measures, including any sustainability on the grounds of the environment, come under their purview if they are violative of commitments made and if they impair market access causing disruption," an official noted.

The NVC provision can be invoked to find a solution to new measures which may not expressly breach the terms of the agreement but could nullify or impair the benefits, including market access concessions under the FTA, per the agreement.

"The second provision, the RRM, is a dedicated and fast-track mechanism to address concerns arising from existing and future measures/reg-

ulations that create or threaten to create significant disruption or impediment to trade between the parties," the official added.

CARBON CONCERNS

India is worried about the economic impact of the CBAM regulation, designed to prevent carbon leakage, which entered its "definitive phase" this month, officially imposing a direct carbon tax on imports of specific items — iron, steel, aluminium, cement, fertilizers, hydrogen and electricity.

Without any flexibilities offered under the FTA on current CBAM measures, Indian exporters of steel and aluminium are expected to

take a substantial hit (estimated at 15-22 per cent).

However, if as planned the EU expands the CBAM in 2028 to 180 downstream products, such as machinery, vehicles and components, household appliances (for instance, washing machines and refrigerators) and construction equipment, it could seriously impair market access for Indian exports.

Beyond this expansion, the bloc has also been weighing the option of including other carbon-intensive sectors to the list, such as chemicals and polymers, refinery products, and glass and ceramics. This could further nullify India's FTA gains.

"Such disruptions caused by future measures can be taken up for resolution under the RRM and the NVC," sources said.

As part of the FTA, India has managed to secure an annex on CBAM, which provides for MFN (most favoured nation) treatment that would ensure that if flexibilities are offered to other countries under the mechanism, it must be extended to India as well.