

CBAM rules strain India's steel MSMEs

At least 10 consignments held at European ports this month; order cancellations on the rise

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India's small steel exporters are reporting the first wave of shipment seizures at European ports and order cancellations due to missing compliance reports, marking the most serious disruption yet for the country's steel micro, small and medium enterprises (MSMEs) since the European Union's (EU's) Carbon Border Adjustment Mechanism (CBAM) entered its payment phase on January 1.

India was unable to secure any concession on CBAM in the free trade agreement signed with the EU on January 27.

CBAM is the EU's tool to impose a "fair price" on carbon embedded in carbon-intensive goods — such as steel, cement, and aluminium — entering the bloc. It is mandatory for imports exceeding 50 tonnes per calendar year.

According to Nilesh Bhattad, founder of CleanCarbon.ai, which has generated around 8,000 CBAM compliance reports for smaller exporters, at least 10 Indian consignments have already been held at European ports this month for missing or incomplete carbon declarations. One shipment from a Mumbai-based tractor manufacturer was stuck in a Polish port, accruing heavy detention charges.



"We have mapped over a thousand suppliers, generated 8,000 CBAM reports, and are already handling multiple cases of stuck shipments. The disruption is spreading fast," Bhattad said.

Order cancellations are surfacing as well.

A Mumbai-based exporter recently had a 7,000-tonne steel order cancelled after CBAM increased the final cost by ₹5–6 crore, rendering the deal unviable, Bhattad added, referring to a client his company serves.

The EU accounts for 32–45 per cent of India's annual steel exports (2–4 million tonnes). In an October 2025 report, rating agency Icra warned that CBAM could constrain export volumes and profitability.

Another report released last month by the Global Trade Research Initiative observed that Indian steel and aluminium exporters may have to cut prices by 15–22 per cent to retain access to the EU market once CBAM

Steeling the thunder

- Under CBAM, compliance costs push production expenses up by 5–8%
- Over 30,000 MSMEs now exposed to EU's carbon levy
- Carbon taxes for MSMEs tripled to 240–300 euros per tonne
- Small suppliers risk losing orders due to data gaps
- Even India's green steel fails EU's tax-free benchmark

enters its payment phase.

Fresh data from CleanCarbon underscores the potential scale of disruption. The company estimates that 25,000–30,000 MSMEs exporting indirectly to the EU are now exposed to CBAM risk, along with 3,000–4,000 direct exporters.

Carbon levies for most MSMEs have trebled — from 70–80 euros to 240–300 euros per

tonne — because they are being pushed into the EU's punitive default emission values, a near-universal outcome in India's fragmented MSME ecosystem, Bhattad said.

Across industrial clusters, exporters describe a mounting compliance burden.

"The most significant hurdle under CBAM is the lack of reliable carbon data across the supply chain. While CBAM aims to promote transparency, it imposes additional costs and compliance burdens on companies without providing infrastructure or readiness support. As a result, compliance costs and operational complexity have increased substantially," said a senior executive at a Kolkata-based fasteners manufacturer.

Based in the Ludhiana forging and agri-parts belt, Yerik International, which exports tractor and agricultural machinery parts to 15 European countries, including Germany and Poland, has seen a surge in compliance requirements since January 1. "Requirements have increased sharply, and small suppliers will lose orders because they don't have the infrastructure," said Kishan Yadav, general manager (process and system improvements). Yerik has begun shifting to biodegradable cutting oils, reducing furnace oil use, and incorporat-

ing solar energy into its processes. "All these changes have already raised our production costs by 5–8 per cent," Yadav said.

Bhattad said the default-value trap is the biggest danger for MSMEs. "Even if one supplier in the chain fails to provide compliance data, MSMEs are pushed into punitive default values. No small exporter has the margins to absorb that kind of shock," he said, adding that reporting expectations are unrealistic for micro units. "A workshop with 15 workers has to meet the same emissions reporting standards as a billion-dollar steelmaker. The compliance burden is completely disproportionate," he said.

Most MSMEs cannot secure emissions data from dozens of small vendors in their supply chains. "Indian MSME supply chains are not prepared to comply with CBAM rules. We are seeing exporters struggle to collect emissions data from their vendors," Bhattad said.

He also warned of a structural disadvantage for Indian exporters. "Even India's best 'green steel' emits 1.7–1.9 tonnes of carbon dioxide per tonne of output. The EU's tax-free benchmark is 1.34. So even the cleanest Indian steel will attract CBAM," Bhattad said, adding that this threatens the competitiveness of thousands of micro suppliers who lack audit systems, energy-efficient furnaces, or waste-handling infrastructure.