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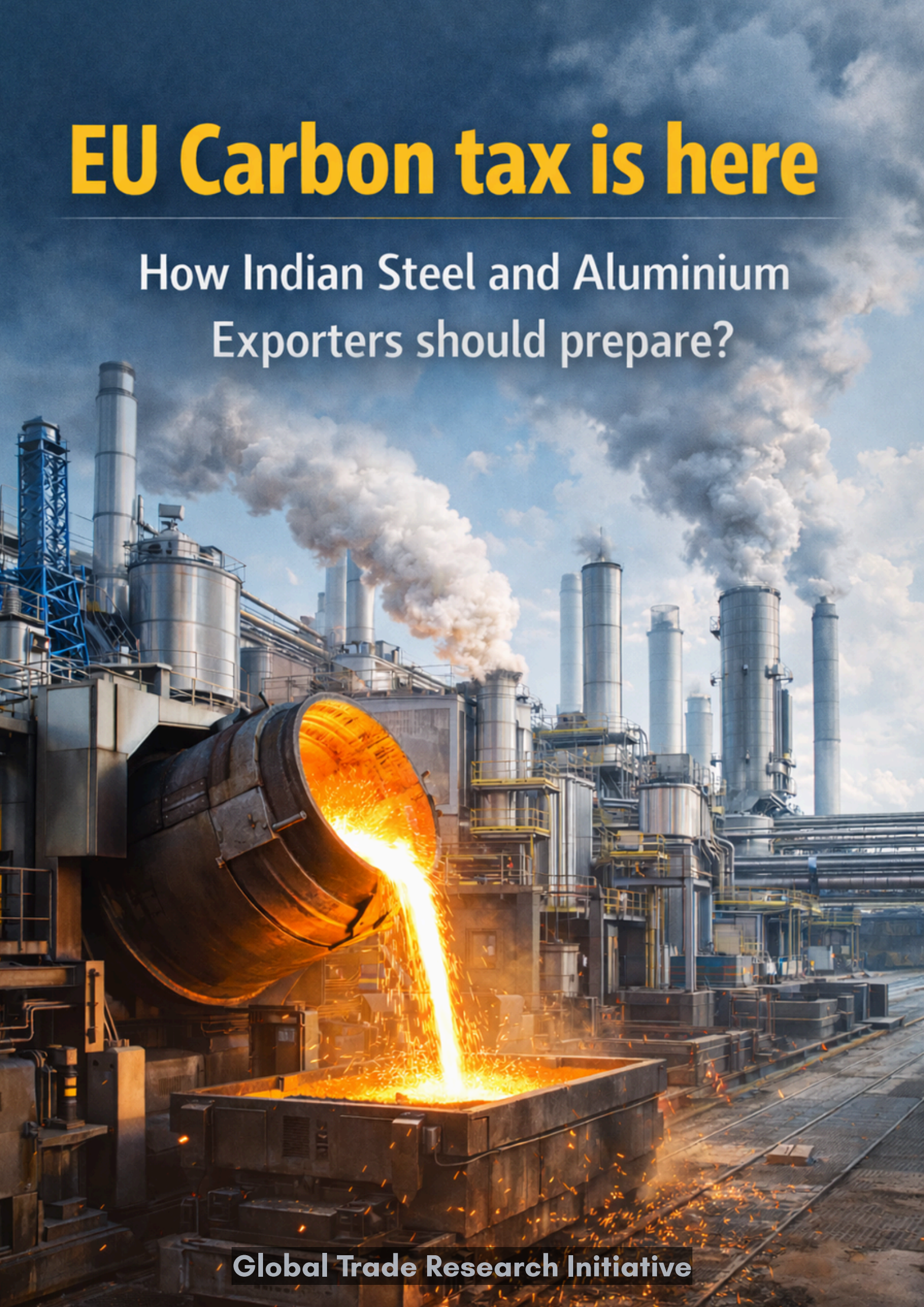
How Indian Steel and Aluminium Exporters should prepare?



Global Trade Research Initiative

GTRI Report
31-12-2025

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CBAM Liability Starts from Jan 1: How Indian Steel and Aluminium Exporters Should Prepare?

Highlights

- From January 1, 2026, every shipment of Indian steel and aluminium to the EU will carry a carbon cost under CBAM.
- Indian exporters may need to cut prices by **15–22%** to absorb the carbon cost passed on by EU importers.
- Although EU buyers pay the tax, CBAM's real burden will fall on Indian exporters through lower prices and tougher contracts.
- Exporters using high-emission production routes like blast furnace for making steel will face the steepest loss of competitiveness in the EU market.
- Without verified plant-level emissions data, exporters risk punitive default values that can inflate carbon costs by up to 80%.
- From 2026, CBAM will be embedded in every price negotiation, contract clause and supplier selection decision.
- Low-emission producers can turn CBAM into a competitive advantage by becoming "cheaper after carbon.
- Firms that fail to prepare risk losing EU market access—not due to quality or price, but compliance gaps.
- CBAM marks a shift where carbon intensity, not just cost efficiency, will determine global trade competitiveness.

Report

From 1 January 2026, every shipment of Indian steel and aluminium entering the EU will carry a carbon cost as the Carbon Border Adjustment Mechanism (CBAM) moves from reporting to payment phase.

Many Indian exporters may have to cut prices by 15–22% so EU importers can use that margin to pay the CBAM tax.

Indian exporters will not pay the tax directly. EU-based importers—registered as authorised CBAM declarants—must buy CBAM certificates linked to the embedded emissions in imported goods. But this cost will be pushed back to Indian exporters. From the first shipment of 2026, CBAM becomes a commercial reality, even though formal certificate surrender will happen in 2027. EU buyers will factor carbon costs into procurement decisions from Jan 1,2026, reshaping pricing, contracts and supplier rankings.

Exporters' Guide: Preparing for EU CBAM

From Jan 1, 2026 onward, the EU's Carbon Border Adjustment Mechanism (CBAM) will be embedded into every price negotiation. EU buyers will assess whether steel imported from India—**including the carbon cost**—remains competitive against EU or third-country suppliers. If it does not, pressure will emerge through price cuts, carbon-linked contract clauses, or outright supplier substitution.

How Production Choices Affect Competitiveness

Production process matters. In steel, emissions are highest for blast furnace–basic oxygen furnace (BF–BOF) routes, lower for gas-based direct reduced iron (DRI), and lowest for scrap-based electric arc furnace (EAF) routes. In aluminium, electricity source and power intensity are critical. Power generated from coal significantly raises the carbon burden and, therefore, the CBAM cost.

Emissions Data: The New Basis of Competition

Accurate emissions measurement becomes the foundation of competitiveness. CBAM is not a corporate sustainability exercise; it is a **plant-level emissions accounting regime**. Emissions must be calculated for each installation, covering direct fuel combustion (Scope 1) and electricity consumption (Scope 2). Corporate averages, ESG disclosures, or sustainability reports have no legal relevance. What matters is plant-specific, verifiable data that EU importers can submit with confidence.

This requires robust internal accounting systems. Exporters must track fuel use, electricity consumption, production volumes, and emission factors on a quarterly basis. Records must be auditable and aligned with EU methodologies. Without this discipline, exporters face default emission values set by the EU—intentionally conservative and often **30–80% higher** than actual emissions. Once applied, these default values can sharply raise the effective carbon cost and destroy competitiveness overnight.

Verification Becomes Mandatory

From 2026, independent verification of emissions data becomes mandatory. Only EU-recognised or ISO 14065–compliant verifiers will be accepted. The process will resemble a financial audit, involving document review, emissions validation, and formal certification.

Contracts Will Change

Contracts will also evolve. From 2026, CBAM clauses will become standard. Buyers will demand cost pass-through provisions, verification obligations, and renegotiation triggers linked to EU carbon price movements. These clauses will determine how carbon risk is shared. Exporters who fail to negotiate safeguards may see margins erode without remedy.

Operational Discipline Is Critical

Operational discipline will be essential. Documentation must align across production, logistics, and compliance teams. Any mismatch increases audit risk for EU buyers, who may delay shipments or shift to alternative suppliers.

Opportunity for Low-Emission Producers

For low-emission producers—especially those using gas-based DRI, scrap-based EAFs, or cleaner electricity—CBAM can become a competitive advantage. In a carbon-

priced market, being *cheaper after carbon* matters. Verified low emissions can protect margins and help win market share as higher-emission suppliers lose ground.

Understanding Exposure

The first task for Indian exporters is to understand their exposure. This means mapping EU-bound products, customers, shipment volumes, and production sites. Such mapping will identify which shipments face the highest price pressure and which buyers will demand the strictest documentation.

Building a CBAM Pricing Framework

Indian exporters must develop an internal **"CBAM shadow price."** This involves calculating embedded emissions per tonne and applying the EU carbon price to it. Exporters should assume buyers will use this calculation. Quoting without a CBAM-adjusted price risks quiet exclusion from procurement.

Many exporters will need dual pricing—one base price and one CBAM-adjusted price—so negotiations are anchored in verified data rather than assumptions.

Creating a CBAM Data Pack

To support buyers, exporters should prepare a standardised **CBAM data pack** for each plant. This should include:

- Production routes
- Quarterly output
- Embedded emissions per tonne
- Verification statements

- Audit contact details

In practice, this data will travel with the shipment and become as essential as invoices or certificates of origin.

What Readiness Means

To be CBAM-ready in 2026, exporters must be able to:

- Calculate product- and plant-level emissions
- Obtain independent verification
- Provide a standardised CBAM data pack
- Price exports using a CBAM shadow price
- Embed protective clauses in contracts

Those who do will remain competitive as carbon pricing reshapes global trade.
CBAM will hit Indian steel and aluminium exports to the EU hard, with MSMEs bearing the heaviest burden. The CBAM's complex data and verification requirements will sharply raise compliance costs, pushing many smaller exporters out of the EU market altogether.

A critical challenge is that large producers often do not share plant-level emissions data with MSMEs that source steel or aluminium from them. As a result, MSMEs lack the verified carbon information required under CBAM. In such cases, EU authorities may apply default emission values—typically the highest benchmarks—rather than actual emissions, sharply inflating the carbon cost even when real emissions are lower. This asymmetry risks penalising MSMEs disproportionately and accelerating their exit from EU supply chains unless corrective mechanisms are introduced.🟥

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GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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FEEDBACK

Your feedback on this report is most welcome. Please write to ajay@gtri.co.in

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