



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**A START FOR NORTH-SOUTH  
CARBON MARKET COOPERATION**

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## A START FOR NORTH-SOUTH CARBON MARKET COOPERATION

### Context

- Recently, **India and the European Union (EU)** announced a **New Strategic EU-India Agenda**, which includes a **proposal to explore** the integration of **India's Carbon Market** with the **EU's Carbon Border Adjustment Mechanism (CBAM)**, marking a step toward aligning carbon market mechanisms **between the Global North and South**.

### About India's Carbon Market (ICM)

- It is designed to help India meet its climate commitments — particularly the goal of reducing the emissions intensity of **GDP by 45% by 2030** (compared to 2005 levels).
  - It aims to create a national framework for carbon credit trading, where entities can buy and sell carbon credits based on their emissions performance.
  - Its working involves cap-and-trade systems, voluntary and compliance markets, and Carbon Credit Certificates.

### EU's Carbon Border Adjustment Mechanism (CBAM)

- It aims to prevent carbon leakage — where companies relocate production to countries with looser climate regulations.
- It ensures that imported goods face the same carbon costs as those produced within the EU, leveling the playing field and encouraging global decarbonization.
- Its working involves *carbon pricing on imports, and sectoral coverage* like cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen.

### Linking India's ICM with EU's CBAM: New Strategic EU-India Agenda

- It aims to align carbon pricing mechanisms across borders, ensuring that Indian exporters are not unfairly penalized under the EU's climate regulations.
- It outlines **five key pillars**: *prosperity and sustainability; technology and innovation; security and defence; connectivity and global issues; and enablers across pillars*.
- What Is Being Proposed?**
  - Recognition of India's Carbon Credits**: The EU may allow Indian exporters to offset their CBAM liabilities using carbon credits purchased under India's domestic carbon market.
  - Avoiding Double Carbon Taxation**: This would prevent Indian industries from paying both domestic carbon prices and CBAM levies on exports to the EU.
  - Mutual Trust in MRV Systems**: For this linkage to work, both sides need to agree on **Monitoring, Reporting, and Verification (MRV)** standards to ensure transparency and credibility.

### Key Challenges in Proposed Linking

- India's Underdeveloped Carbon Market**: India's **Carbon Credit Trading Scheme (CCTS)**, commonly called the **ICM**, is still in its infancy.
  - In contrast to the EU's **Emissions Trading System (ETS)** mature market with clear caps, verification, and enforcement, India's scheme relies on **intensity-based improvements** and **project-level offsets**, not absolute emission caps.
- Lack of Institutional Parity**: The EU's ETS operates under **independent regulators and verified registries**, ensuring integrity and transparency.
  - India currently lacks equivalent institutions, making EU authorities reluctant to recognize Indian credits as valid for CBAM deductions.
- Price Gap Problem**: Carbon prices under the EU's ETS hover between **€60–€80 per tonne**, while India's range between **€5–€10 per tonne**.

- ♦ Without **comparable and enforceable carbon prices**, the EU is unlikely to grant meaningful deductions, leaving Indian exporters exposed to **both domestic compliance costs and CBAM levies**.
- ♦ It could provoke political backlash and industrial resistance within India, potentially weakening the integrity of its carbon scheme.
- **Political and Legal Contradictions of CBAM:** Beyond technicalities, **CBAM's unilateral nature** makes it controversial.
  - ♦ India and several developing countries have criticized CBAM at the **WTO** as **protectionist and discriminatory**.
  - ♦ By linking ICM to CBAM, India risks **legitimizing** a system it has opposed in global forums.
- **Sovereignty and Trust Issues:** The EU's ability to judge whether India's carbon price is 'sufficient' raises sovereignty concerns.
  - ♦ If the EU refuses full deductions, India may face **diplomatic disputes** or **legal challenges**, straining bilateral relations.
  - ♦ Furthermore, any **domestic rollback** of carbon compliance due to political or industrial pressure could instantly expose exporters to higher CBAM costs — making the linkage fragile and dependent on mutual trust.

### Pathways to a Real Partnership

- The proposed linkage offers an unprecedented opportunity for **North-South cooperation in carbon markets**, despite its risks. For the integration to succeed:
  - ♦ **India** needs to enhance its carbon market design with stronger caps, verifiable accounting, and regulatory independence.
  - ♦ **The EU** should provide **technical and financial assistance** to support India's market maturation.
- **Both sides** should negotiate a **realistic carbon price floor** and create **transparent verification mechanisms** to build trust.

### Conclusion: From Promise to Practice

- The **ICM–CBAM linkage** could redefine global carbon governance, aligning trade and climate goals between two major economies.
  - ♦ But, without credible reforms, price alignment, and sustained political commitment, the agreement risks remaining **a paper breakthrough** rather than a real-world success.
- Turning it into action requires a **delicate balance of economics, diplomacy, and trust** — the true test of the new EU-India strategic agenda.

Source: TH

### Daily Mains Practice Question

**[Q] Discuss the significance of linking India's Carbon Market (ICM) with the EU's Carbon Border Adjustment Mechanism (CBAM) in promoting climate equity and global trade fairness. What challenges could hinder this cooperation, and how might they be addressed?**

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