ERGO

KHAITAN & CO ADVOCATES SINCE 1911

The UK Recognises India's Carbon Credit Trading Scheme Under CBAM:

A Positive Step Forwards

18 September 2026

Introduction

His Majesty's Treasury (HM Treasury) of the United Kingdom (UK) has formally recognised India's Carbon Credit Trading Scheme (CCTS) as a qualifying carbon pricing mechanism under the United Kingdom's Carbon Border Adjustment Mechanism (CBAM). The recognition was communicated to the Bureau of Energy Efficiency (BEE), under the Ministry of Power, confirming that the CCTS has been added to the UK's indicative list of overseas carbon pricing schemes meeting the qualifying criteria under the Carbon Border Adjustment Mechanism (Calculation of CBAM Rate and Determination of Carbon Price Relief) Regulations, 2026 (2026 Regulations).

For Indian industry, this is more than a technical regulatory development. It is the first time a major trading partner has considered the Indian Carbon Market sufficiently reliable for recognition under its CBAM. This vote of confidence, coming barely a year after the CCTS was notified, carries significance both for exporters facing immediate CBAM exposure and for a domestic carbon market still building its institutional foundations.

Once the UK CBAM takes effect on 1 January 2027, UK importers of eligible Indian goods will be able to claim relief against their CBAM liability, corresponding to the carbon price already borne by those goods under the CCTS. This is a formal recognition of India's compliance carbon market by a major trading partner, and it arrives roughly seven weeks after the India-UK Comprehensive Economic and Trade Agreement (CETA) entered into force on 15 July 2026. For Indian exporters in carbon-intensive sectors, and for a carbon market still finding its feet, the development carries both immediate commercial value and longer-term regulatory significance.

Regulatory Background

The UK CBAM traces back to a December 2023 government decision to introduce a carbon border tax from 1 January 2027, with primary legislation published for technical consultation in April 2025. The mechanism applies to imports in five sectors, namely aluminium, cement, fertiliser, hydrogen, and iron and steel, after ceramics and glass, which were considered at the consultation stage and dropped from the final scope. Liability falls on UK importers of covered goods above a registration threshold of GBP 50,000, calculated by reference to the direct and indirect emissions embodied in the goods, and set off against any qualifying carbon price already paid in the country of origin.

India's CCTS, on the other hand, has a different lineage. It originated with the Energy Conservation (Amendment) Act, 2022, which inserted clause (w) into Section 14 of the Energy Conservation Act, 2001 to empower the Union Government, in consultation with BEE, to specify a carbon credit trading scheme. The Ministry of Power duly notified the Carbon Credit Trading Scheme, 2023 (the Scheme), building on the Perform, Achieve and Trade (PAT) scheme that has operated since 2012. For industry participants familiar with PAT, which focused on energy efficiency rather than carbon pricing, the CCTS represents a meaningful evolution: from energy savings certificates to tradeable carbon credits, and from facility-level benchmarks to economy-wide emission intensity targets.

The Regulatory Framework of the CCTS

The Scheme runs two parallel tracks. The first is a compliance mechanism, under which obligated entities, typically large industrial emitters, are assigned greenhouse gas emission-intensity targets and must surrender certificates to cover any shortfall. Think of it as cap-and-trade, Indian-style: meet your target, and you can sell surplus credits; miss it, and you must buy to make up the difference.

The second is an offset mechanism (added by a subsequent 2023 amendment) under which non-obligated entities may register projects, such as renewable energy installations, afforestation, and methane capture, to earn Carbon Credit Certificates voluntarily. For project developers and ESG-focused corporates, this voluntary track opens a distinct opportunity.

Governance under the Scheme is deliberately layered, a design choice that reflects the cross-ministerial nature of carbon policy in India. At the apex sits a National Steering Committee for the Indian Carbon Market, chaired by the Secretary, Ministry of Power, with the Secretary, Ministry of Environment, Forest and Climate Change (MoEFCC) as co-chairperson and the Director General of BEE as member-secretary. The BEE functions as administrator of the market, issuing Carbon Credit Certificates on the Committee's recommendation and with Central Government approval. The Grid Controller of India Limited operates the registry, while the Central Electricity Regulatory Commission regulates trading on registered power exchanges. For industry participants accustomed to engaging with a single regulator, this multi-agency architecture will require careful navigation.

Importantly, the Scheme itself does not fix which sectors fall under the compliance mechanism. Section 11 leaves this power to the Ministry of Power, acting on BEE recommendations, with the resulting emission-intensity targets then notified by MoEFCC under the Environment (Protection) Act, 1986. Sectors currently covered include iron and steel, cement, aluminium and thermal power, with compliance trading expected to begin later this year. This modular design gives the government flexibility to expand sectoral coverage over time, a feature that will be relevant as India's CBAM exposure widens.

The UK's Recognition of the CCTS

Under the 2026 Regulations, a UK CBAM-liable importer's tax liability is reduced by the effective carbon price already paid on the embodied emissions of an imported good, provided that price was paid under a scheme the UK has recognised as qualifying. HM Treasury's communication to BEE confirms that the CCTS now meets this criterion. The practical upshot is that exporters shipping eligible goods to the UK should see their CBAM costs fall as a result. It is important to note, however, that the relief is not a blanket exemption. It is calculated by reference to the actual carbon price borne by the specific consignment under the CCTS, and UK importers must still satisfy prescribed evidence and verification requirements before claiming it. As ever, the practical value of the relief will depend heavily on the documentation.

There is a notable, and welcome, sectoral overlap between the two schemes. Iron and steel, cement and aluminium all fall within both the UK CBAM and the CCTS's currently notified sectors. This means that the Indian exporters most exposed to the new UK levy are also the ones positioned to benefit from the relief. It is not a coincidence: these are precisely the sectors where carbon intensity is highest and where border adjustment mechanisms have the greatest impact. Fertiliser and hydrogen, the remaining UK CBAM sectors, sit outside the CCTS's current coverage, so goods in those categories will not attract the same deduction unless the CCTS is extended to them.

This recognition should also be read against the backdrop of the CETA. When that agreement was concluded, India secured duty-free access for its goods into the UK market, but without any corresponding carve-out or exemption from the UK CBAM. The Global Trade Research Initiative flagged this as a missed opportunity, especially given that a similar outcome could recur in India's ongoing trade talks with the European Union. That the CCTS recognition came after, rather than as part of, the CETA suggests that it is the product of separate and continuing technical engagement between the two governments, rather than a negotiated treaty term. For Indian industry, the lesson is worth noting: trade agreements and carbon border measures may need to be addressed on parallel tracks.

Implications and Key Takeaways

The immediate commercial effect is straightforward: once the UK CBAM takes effect, Indian exporters of steel, aluminium and cement will face a lower effective tax on UK-bound shipments than they otherwise would, improving their price competitiveness relative to exporters from jurisdictions without a recognised domestic carbon price. For a steel plant in Odisha or an aluminium smelter in Chhattisgarh, this is tangible: it means a lower cost of access to the UK market, and potentially, a stronger negotiating position with UK buyers.

Beyond the immediate numbers, the recognition lends the CCTS something harder to quantify: international credibility. A purely domestic compliance market, however well-designed, can be dismissed by sceptics as untested or insufficiently rigorous. The UK’s willingness to accept the CCTS for cross-border tax purposes signals to Indian industry, and to the wider international carbon market, that the Scheme's verification architecture is considered sufficiently robust by a foreign regulator to be relied upon. That is a significant development for a market that has not yet commenced compliance trading.

This credibility may also strengthen India's hand in its ongoing negotiations with the European Union, where no comparable recognition has yet been extended and where the stakes are considerably higher. The EU CBAM entered its definitive, financially binding phase on 1 January 2026, with certificate prices for the first quarter set at EUR 75.36 per tonne of CO_2 (carbon dioxide). Steel and aluminium account for a substantially larger share of India's carbon-intensive exports to the EU than to the UK, making EU recognition the bigger prize. The UK’s decision also gives Indian negotiators a useful precedent to press for similar recognition from the EU.

The benefit, however, is bounded in several respects. Relief is proportionate to the carbon price actually paid under the CCTS, and therein lies the key consideration. Until CCTS prices rise closer to levels seen in more established markets (where they can exceed EUR 70–80 per tonne), the deduction available to Indian exporters under the UK CBAM will remain modest, even though the underlying legal recognition is unqualified. Put differently: the UK has agreed to credit the carbon price India charges, but India has not yet determined what that price will be.

There is also a question of durability. The recognition has been communicated administratively through HM Treasury's indicative list, rather than embedded in the CETA or any other binding bilateral instrument. An indicative list can, in principle, be revised by the UK government without renegotiation, leaving Indian exporters reliant on administrative goodwill rather than treaty commitment. For businesses making long-term capital allocation decisions, this is a relevant consideration: what the Treasury gives, the Treasury can take away.

More broadly, carbon border measures, including the UK CBAM, continue to attract criticism for shifting decarbonisation costs onto exporters in the Global South, regardless of relief provisions. India has been among the more vocal critics of such mechanisms in international fora, and this recognition does not fully resolve that tension. Finally, the same recognition that eases UK CBAM costs may create pressure, over time, for India to raise CCTS stringency and carbon prices in order to maximise the relief available to exporters. That is a trade-off environmental and industrial policymakers will need to weigh carefully: higher carbon prices mean greater CBAM relief, but also higher compliance costs for domestic industries that may not export at all.

Conclusion

The UK’s recognition of the CCTS marks a significant step, both for Indian exporters facing imminent CBAM exposure and for a domestic carbon market seeking international recognition. But it is important to be clear about what this is, and what it is not. It is not a blanket exemption from the UK CBAM; it is not embedded in a binding treaty; and it does not, by itself, lower the carbon price Indian exporters must pay. What it does is create a pathway and if India’s carbon market matures, the relief will grow with it.

- *Vanita Bhargava (Partner) and Vishal Shrivastava (Principal Associate)*

About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with 1300+ legal professionals, including 340+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.

To know more, visit **www.khaitanco.com**