How the EU's Carbon Border Tax is Reshaping Indian MSMEs

Falak Ali
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'The carbon questionnaire is becoming the new quality audit.'

A fastener and steel products exporter, a typical Indian MSME, was informed by its customers in Denmark and Germany that Carbon Border Adjustment Mechanism (CBAM) reports had become mandatory. Lacking any in-house capacity to comply, the firm hired a consultant at an annual cost of nearly Rs 2 lakh. This became a permanent overhead created overnight by a regulation made in Brussels. The company has since received compliance warnings and reported losing orders.

This is not an isolated case.

Nilanjan Banik, professor at Mahindra University, said, “The CCTS can help in principle but, in practice, its contribution to MSME CBAM readiness is limited before 2026–2027 because the scheme is still being operationalised and its design does not yet fully match CBAM requirements.”

Banik noted, “These administrative costs are independent of the tariff itself and, for MSMEs, may exceed the carbon payment.” Further he said, “CBAM cannot be seen as a departure from trade liberalisation. Instead, it should be understood as a non-tariff barrier with more stringent compliance mechanisms operating at the intersection of trade and environmental policy”.