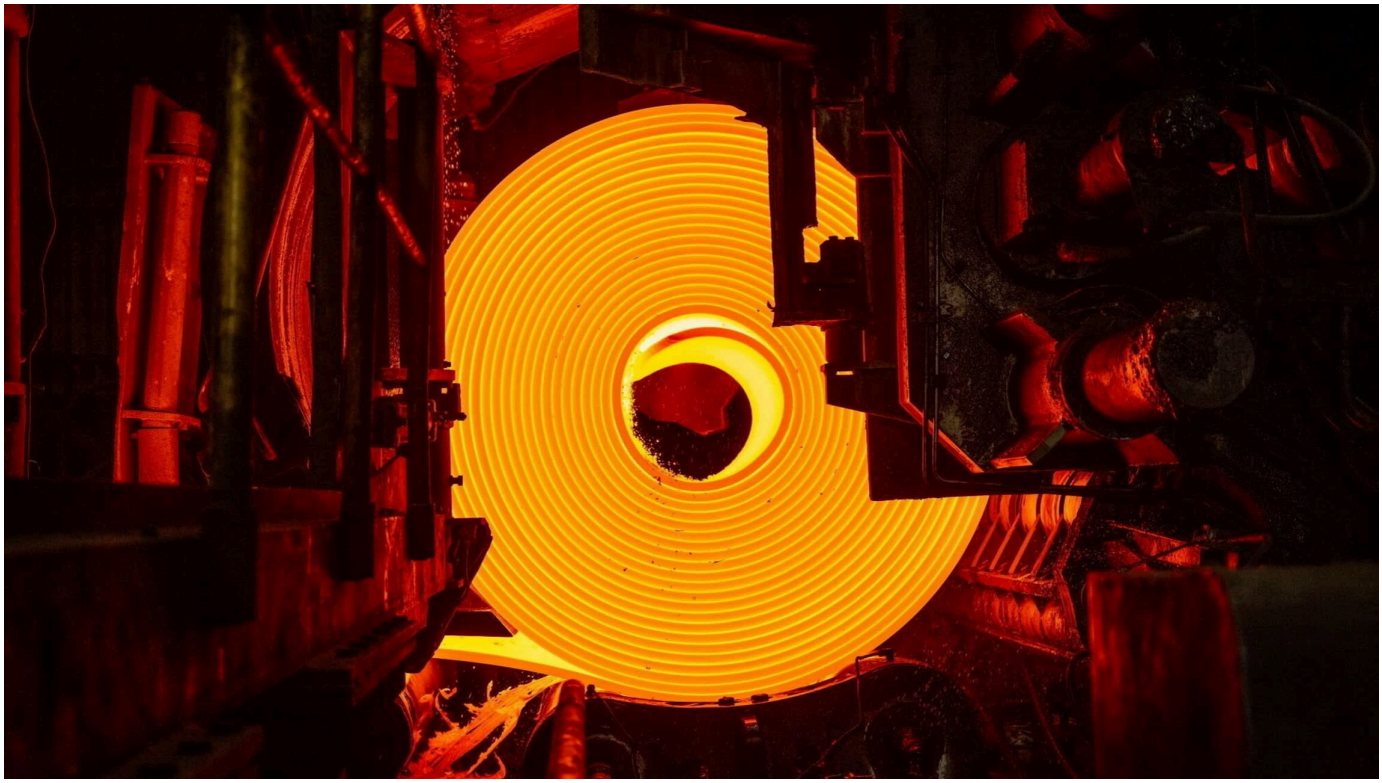

India's steel sector is highly carbon-intensive and is expanding rapidly © Anindito Mukherjee/Bloomberg

INDIA

May 21, 2026

Steel decarbonisation: a test case for a new EU-India partnership

By Pascal Lamy and Colette van der Ven

At a glance

- Economic openness, climate ambition and sustainable development need to go hand in hand

- The evolving relationship between the EU and India on steel offers an opportunity to demonstrate how this triangle can work in practice
- For domestic reasons and to meet EU and other regulations, the question for India is no longer whether to decarbonise steel, but how

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India's own strategic interests create a compelling case for decarbonising its steel sector

One of the defining challenges of our time is reconciling economic openness with climate ambition. But this cannot happen without factoring in a third component: sustainable development. The evolving relationship between the EU and India offers an opportunity to demonstrate how this triangle can work in practice.

The recently concluded EU-India Free Trade Agreement, the Joint Comprehensive Strategic Agenda, and the forthcoming memorandum of understanding on climate co-operation are welcome steps forward and opportunities to pioneer a new model of trade and climate co-operation, grounded in industrial transformation rather than regulatory friction.

The steel sector reveals this most vividly. A recent report by Tulip Consulting, launched last month in New Delhi, explores how stronger EU-India co-operation on steel decarbonisation could generate economic, climate and sustainable development gains on both sides. The starting point for co-operation should not be Europe's regulatory agenda, but India's industrial decarbonisation imperative.

From a climate perspective, the case is compelling. Steel is among the world's most emissions-intensive sectors, accounting for around 7 per cent of global carbon dioxide emissions.

India's steel industry is highly carbon-intensive and is expanding rapidly. Emissions intensity remains significantly above the global average, while production is expected to grow dramatically. By mid-century, 20 per cent of global steel production could come from India, compared with 7 per cent in 2019.

This makes decarbonising Indian steel a global climate priority.

CBAM's limited influence

Yet, much of the EU-India debate remains narrowly centred on the EU's Carbon Border Adjustment Mechanism, a measure that requires exporters to the EU to pay the same carbon price as European producers. This is understandable.

For many in India and other developing economies, the CBAM raises legitimate concerns about fairness, development space and differentiated climate responsibilities, all of which must be addressed.

> **"Emissions intensity in India's steel industry remains significantly above the global average, while production is expected to grow dramatically"**

From a purely climate lens, the CBAM is unlikely to be the decisive lever for decarbonising Indian steel. This is partly because the overwhelming majority of the country's steel (94 per cent in 2024) is produced for domestic consumption, not export — a pattern likely to continue as domestic demand accelerates. This means that the CBAM's direct impact on India's steel transition will be limited.

Moreover, as highlighted in an earlier publication by Europe Jacques Delors, a broader package of EU steel-related regulatory measures — including low-carbon product standards, ecodesign requirements and new steel safeguards — could further reduce market access for Indian producers, further diminishing the CBAM's already limited decarbonisation effect.

If the objective is steel decarbonisation, the conversation must move beyond border measures.

India recognises decarbonisation need

In New Delhi, we heard from Indian policymakers and industrial leaders who increasingly recognise the need to decarbonise steel. This is not because the EU demands it, but because India's own strategic interests point in that direction.

Energy security, worsening air pollution, climate vulnerability and future industrial competitiveness all strengthen the case. The industries that will thrive in the coming decades will increasingly be those capable of producing competitively at lower carbon intensity.

The question for India is no longer whether to decarbonise steel, but how.

That is no small challenge. India's steel production remains heavily dependent on coal-based production. Natural gas availability is constrained, and steel scrap availability remains limited.

Access to affordable finance for low-carbon technologies remains a major obstacle, particularly for smaller producers, who account for around 40 per cent of the country's total steel production.

> **"If the EU and India can succeed in building a new climate partnership for steel, they will create an opportunity to accelerate steel decarbonisation in the world's fastest-growing steel producer"**

Yet, India also possesses some strategic advantages: abundant renewable energy potential, growing industrial capability and the prospect of comparatively low-cost green hydrogen and electrolyser manufacturing. This is where a new EU-India partnership becomes strategically compelling for both parties.

Indeed, there is a growing recognition, in the EU-India strategic agenda and beyond, that hard-to-abate industrial decarbonisation should become a core pillar of bilateral co-operation.

The challenge is to translate political momentum into practical outcomes. Doing so requires developing a broader and more strategic climate partnership. Investment protection and facilitation must be strengthened to encourage EU capital into India's industrial transition.

Financial de-risking mechanisms will be essential to crowd in private investment at scale. Technology co-operation must move beyond simplistic notions of transfer towards genuine co-development, particularly in hydrogen-based direct reduced iron, hydrogen infrastructure and electrolyser manufacturing.

Regulatory co-operation on carbon accounting and industrial standards will also be critical.

If the EU and India can succeed in building a new climate partnership for steel, they will create an opportunity to accelerate steel decarbonisation in the world's fastest-growing steel producer. They will also have pioneered a model for a trade, climate and development partnership that the next generation of global governance will require.

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EU Regulation 2023/956 establishing a carbon border adjustment mechanism

EU Carbon Border Adjustment Mechanism (EU CBAM)

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