

Climate and Trade

Strengthening Cooperation through the UNFCCC

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First trade dialogue at 64th session of the Subsidiary Bodies, 13 June 2026 at Bonn, Germany.

Executive summary

Countries are increasingly deploying unilateral measures such as carbon border adjustment mechanisms (CBAM) to advance domestic climate and industrial policy objectives. The European Union (EU) introduced the first CBAM in 2023, with its definitive regime beginning in 2026 (European Commission n.d.-a). A similar UK CBAM will take effect in 2027, while Australia, the US, Türkiye, and others are planning or considering similar measures. While these measures may support domestic transitions, their effects often extend beyond national borders, with implications for trade flows, market access, and

competitiveness, particularly for developing countries. For example, India's unwrought aluminium exports to the EU declined by 41.7 per cent in the year leading up to January 2026 (Climatora 2026), and steel exports have declined by 24.4 per cent in 2024–25 (Tyagi and Ghosh 2026), for which CBAM is one of several possible factors.

Globally, EU CBAM is projected to have a modest impact on emissions, with an estimated reduction of only 0.54 per cent (Dechezleprêtre et al. 2025), while generating EUR 9.1 billion in annual revenues by 2030

(Pleeck and Mitchell 2023). This is concerning, given the shortfall in climate finance from developed countries and the growing reliance on loans (rather than grants), which further increases developing countries' debt burdens (Oxfam and CARE 2025). Calls to redistribute CBAM revenues have also been sidelined, adding to the distress (Scott 2026). In effect, the disproportionate burden such measures impose on developing countries, and their modest global emissions reduction, show the limitations and inequity of unilateral measures.

Climate forums — in particular, the UNFCCC — broadly recognise the climate–trade nexus, but it has remained a peripheral topic in discussions. The Global Mutirão decision (FCCC/PA/CMA/2025/19/Add.1) at the 30th Conference of the Parties (COP30) established a set of dialogues to be held at the 64th, 66th, and 68th subsidiary sessions to explore opportunities, challenges, and barriers to international cooperation on trade, with the participation of countries and key stakeholders, including the World Trade Organisation (WTO), UN Trade and Development (UNCTAD), and the International Trade Centre (ITC) (UNFCCC 2026). It was also decided to exchange experiences and views on related matters at a high-level event in 2028.

In June 2026, the first climate and trade dialogue was held at the 64th session of the Subsidiary Bodies (SB64) — an important first step. However, our analysis of countries' statements at this dialogue reveals deep-seated differences between developed and developing countries over the dialogue's nature and objectives. To bridge these differences, the UNFCCC needs a coordinated approach grounded in the principles of equity and Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). Drawing on our analysis of countries' statements and an extensive review of existing research and policy discussions, **this brief proposes a roadmap that defines the UNFCCC's role, recommends themes for forthcoming dialogues, and suggests a strategy that India can use to shape this evolving agenda.**

Climate–trade under the UNFCCC: Key areas of divergence

- Trade and unilateral measures are anchored in **Article 3.5 of the UNFCCC**, which states that **“measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade”** (UNFCCC 1992, art. 3, para. 5). However, trade was not included in the core negotiation process. Over the years, several developed countries have argued that the WTO and UNCTAD are the appropriate forums



to address these issues. Unfortunately, the foundational principles of the UNFCCC and Paris Agreement, namely CBDR-RC and equity, are not articulated in the WTO or UNCTAD, which are guided by other principles (non-discrimination, fair competition, transparency, etc.).

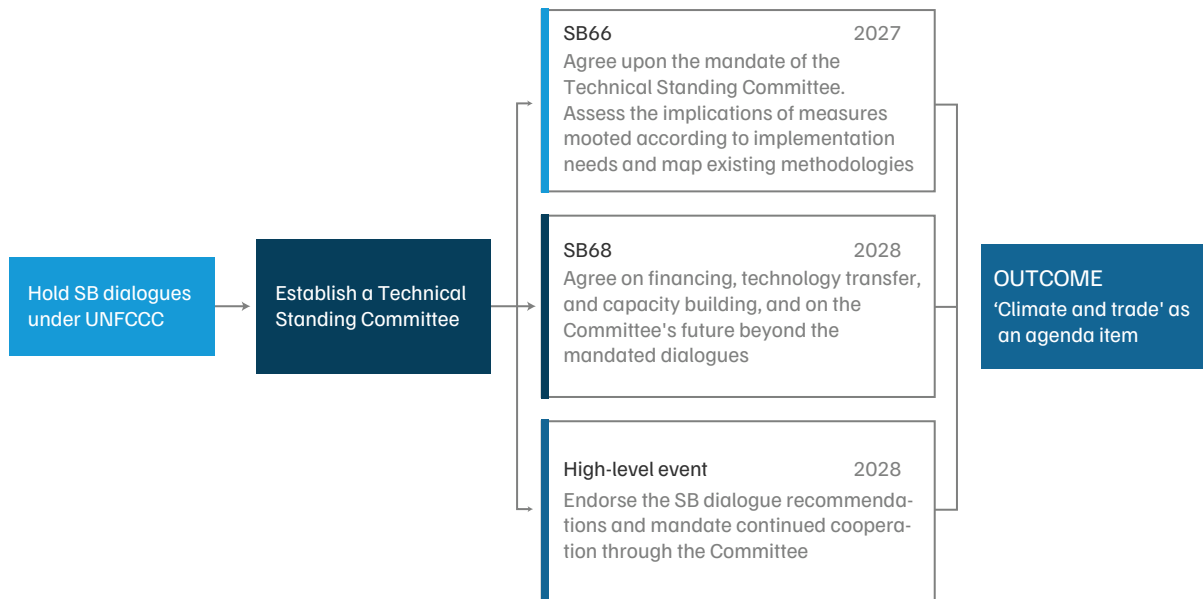
- India was the first country to formally propose including unilateral trade measures as a provisional agenda item for COP17 in 2011 (Government of India 2011). However, consensus was not achieved, and the COP did not adopt it as an agenda item.
- The **first climate and trade dialogue at SB64** represented an important step towards addressing the climate–trade nexus within the UNFCCC, bringing to the fore divergent views:
 - Countries differed on **the right forum for these discussions**. Developing countries called for a stronger UNFCCC role, anchored in Article 3.5 of the Convention and informed by equity, CBDR-RC, the right to sustainable development, and national circumstances, whereas developed countries emphasised facilitative dialogue that drew on, rather than duplicate, ongoing work at the WTO and other institutions.
 - Developing countries called for a Party-driven, outcome-oriented dialogue, as well as identifying corrective actions and cooperative alternatives. They also emphasised the need to assess the impact of these measures. However, developed countries proposed a non-negotiating dialogue, focused on exchanging views.
- This points to three challenges that are shaping the climate–trade debate: a **knowledge gap** in understanding of the accounting frameworks, associated costs, and impacts of unilateral measures; an **implementation gap**, linked to limited finance and technology, particularly in developing countries; and a **governance gap**, due to differences in institutions and policies across countries.

Transport and storage of coal and iron ore at a steel mill.

How, then, can a coordinated response be shaped?

- **Role of the UNFCCC:** We recommend that the UNFCCC play a stronger coordinating role in shaping the climate–trade nexus by establishing a **Technical Standing Committee** with experts from the WTO, UNCTAD, and the ITC, with balanced representation from developed and developing countries. Its mandate should be to:
 - Establish a **shared understanding** of unilateral measures and the **core principles** that should govern these measures.
 - Assess their **impact on developing countries**, identify implementation needs, and map existing methodologies.
 - Improve transparency by developing a **voluntary reporting template** to share information on objectives, sectoral coverage, emissions accounting methodologies, expected emissions impacts, and country-level implications for each measure.
 - Ensure that the measures are accompanied by **predictable financing, technology transfer, and capacity building**.
- **Roadmap for the dialogues:** We recommend that the forthcoming dialogues build a sequenced pathway from technical assessment to implementation, as highlighted in Figure ES1:
 - **SB66 (2027):** Agree on a mandate for the proposed Technical Standing Committee to assess the impacts and needs of developing countries, along with mapping existing methodologies.
 - **SB68 (2028):** Take stock of the committee’s findings and identify ways to address these needs through support in the form of climate finance, technology transfer, and capacity building.
 - **2028 high-level event:** Endorse the outcomes of the SB dialogues and establish ‘climate and trade’ as a continuing area of work (as an agenda item) under the UNFCCC.
- **India strategy:** A **SHIELD strategy** can be adopted by India, with a focus on:
 - **Strengthening** the domestic *Carbon Credit Trading Scheme*
 - **Harnessing** climate finance and technology transfer
 - Calling for **investment** of revenues earned through CBAM measures into developing countries
 - **Enhancing** multilateral cooperation through UNFCCC–WTO coherence
 - **Leveraging** India’s domestic climate action
 - **Diversifying** export markets, particularly through South–South trade

Figure ES1. A roadmap for establishing a dedicated climate–trade agenda under the UNFCCC



Source: Authors' analysis.

Abbreviations: SB – subsidiary bodies; UNFCCC – United Nations Framework Convention on Climate Change



1. Introduction

Economies are interconnected through trade, with production and consumption of goods and services spanning borders. In the first half of 2026, trade expanded by 12.5 per cent,¹ compared to the same period in 2025, with East Asia leading this growth (UNCTAD 2026). But as trade expands, so does its climate footprint. **Internationally traded goods account for nearly 22 per cent of global CO₂ emissions (Hasanbeigi and Darwili 2022).** At the same time, climate risks affect trade flows, production decisions, investment, and market access. This nexus varies across sectors:

- **Energy:** Trade is key for the global energy transition and energy security, enabling access to fossil fuels, which still account for 86 per cent of the global energy supply (Energy Institute 2026), as well as to low-carbon technologies and raw materials. This is critical for India, which imports 90 per cent of its crude oil, 60 per cent of its liquefied petroleum gas (LPG), and 50 per cent of its natural gas needs as liquefied natural gas (LNG) imports (Ernst & Young LLP 2026; P. Jain 2025). This trade dependence leaves countries highly vulnerable to geopolitical and supply shocks, such as the recent closure of the Strait of Hormuz, which significantly disrupted the global oil market (IEA 2026).
- **Metal industry:** Iron, steel, and aluminium are foundational to industrial growth and drive cross-border trade. However, these are hard-to-abate products, and their emissions intensity varies across producer countries. For developing countries with high emissions intensity of production processes, this could affect market access as importing countries tighten climate policies.
- **Minerals:** As the energy transition gains momentum, demand for critical minerals is rising, requiring countries to not only expand production and processing capacities, but also to sustain and expand international trade. Critical minerals are currently concentrated in a handful of countries, particularly China, which produces 70 per cent of the world's rare earths, and other countries depend on trade to access these resources (Nantulya 2025).

- **Agriculture:** Trade supports the flow of agricultural goods across countries, driving food security and supporting the livelihoods of farmers and other associated workers across the entire supply chain. However, climate change is altering production patterns and affecting cross-border access to and pricing of food supplies.

Taken together, these sectoral examples show that trade and climate are deeply interlinked through a scale effect, where changes in overall production across countries affect associated emissions, and a composition effect, where production shifts to countries with a comparative advantage. However, international trade also facilitates the cross-border diffusion of cleaner technologies and know-how. In addition, it is affected by extreme weather shocks such as floods and other disasters, which disrupt local/regional infrastructure and global supply chains, while also serving as an essential lever for affected countries' recovery from such events.

Because countries differ in their climate ambitions, level of development, and policy approaches, a question arises: How should countries account for emissions embedded in traded goods? Unilateral measures such as carbon border adjustment mechanisms (CBAMs) have gained traction, covering key sectors, including some discussed above, with significant implications for developing countries. These countries have tried to raise their concerns at the United Nations Framework Convention on Climate Change (UNFCCC) and have proposed that international trade and its climate impacts be treated as a separate agenda item. However, given the divergent positions of developed and developing countries, the UNFCCC needs a coordinated approach grounded in the principles of equity and Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). Accordingly, **this issue brief examines the evolution of unilateral measures within the UNFCCC and proposes a roadmap to define the UNFCCC's role, identify themes for forthcoming dialogues, and recommend a strategic plan for India to shape this developing agenda.**

¹ Part of this growth reflected higher trade prices rather than stronger trade volumes.

2. Impacts of unilateral measures on developing countries

With countries at different stages of development and decarbonisation, embedded emissions in production and trade vary. However, several countries have introduced or are considering CBAMs that target select

carbon-intensive sectors of economic importance by applying a common charge on the emissions embedded in imports.

Table 1. Carbon border adjustment mechanisms are expanding beyond the EU

 EU CBAM The definitive regime began on 1 January 2026, covering iron and steel, aluminium, cement, fertilisers, electricity, and hydrogen (European Commission n.d.-a)	 UK CBAM Takes effect from 1 January 2027, covering aluminium, cement, fertilisers, hydrogen, and iron and steel (HM Treasury 2025)	 Australia The <i>Carbon Leakage Review</i> recommends a phased border adjustment (DCCEEW 2025)
 US <i>The Clean Competition Act</i> was reintroduced in 2025, charging domestic producers and importers for emissions above a benchmark (US Senate 2025)	Others Few other countries have a basis for a future measure – for instance, Türkiye's <i>Climate Law</i> (Directorate of Climate Change 2025)	

Source: Authors' compilation.

Abbreviations: CBAM – carbon border adjustment mechanism; DCCEEW – Department of Climate Change, Energy, the Environment and Water (Australia); EU – European Union

As highlighted in Table 1, the European Union (EU) introduced the world’s first CBAM, which entered its definitive operational compliance phase on 1 January 2026 (European Commission n.d.-a). Similarly, the UK has announced its own CBAM, scheduled to take effect in 2027 (HM Treasury 2025), while Australia (DCCEEW 2025),² the US (US Senate 2025),³ Türkiye (Directorate of Climate Change 2025), and others are exploring similar measures. However, the key question is: **How much do these measures contribute to reducing global emissions and accelerating decarbonisation?** Estimates show that the **EU CBAM will decrease emissions by only 0.54 per cent** (Dechezleprêtre et al. 2025). This contrasts with the CBAM’s significant annual revenue flow, which could reach EUR 9.1 billion by 2030 (Pleek and Mitchell 2023). This is concerning given the continued shortfall in climate finance from developed countries, with greater reliance on loans deepening developing countries’ debt burdens (Oxfam and CARE 2025). Instead of providing additional resources to alleviate this burden, such instruments risk shifting wealth to developed countries and adding to the costs borne by developing countries.

This is especially troublesome for Africa, where it could reduce GDP by 1 per cent, equivalent to USD 25

billion – roughly three times the finance provided in total official development assistance by the European Investment Bank and the European Commission (Mitchell and Cichocka 2024). This would impact India also, as the EU is its third-largest trading partner, accounting for 11.1 per cent of India’s trade in 2025 (European Commission n.d.-b).

The impact is most significant for India’s iron and steel and aluminium sectors, which have among the largest exposure to the EU CBAM, as reflected in Table 2. For steel, India could face a 32 per cent rise in export costs by 2032 (Tyagi and Ghosh 2026), because it currently lacks a domestic carbon price eligible for an Article 9 deduction⁴ and has a coal-intensive production profile. The UK CBAM is likely to add further burden to India’s aluminium, cement, fertiliser, hydrogen, and iron and steel sectors from 2027. However, recently, the UK recognised India’s *Carbon Credit Trading Scheme* under its CBAM, which may provide some relief to Indian exporters (HM Revenue and Customs 2026).

Beyond the carbon cost, CBAMs create a compliance burden, as they require exporters to measure and report embedded emissions and have them verified, creating a challenge particularly for micro, small, and medium enterprises (MSMEs) in the affected sectors.

Table 2. Likely impact of the EU CBAM on Indian hard-to-abate sectors

Sectors	Impact
Steel	Exports declined by 24.4% in 2024–25 (Tyagi and Ghosh 2026)
Aluminium	Exports of unwrought aluminium declined by 41.7% in the year leading up to January 2026 (Climatora 2026)
Cement and fertiliser	Modest exposure (Gupta 2026)

Source: Authors’ compilation.

Abbreviations: CBAM – carbon border adjustment mechanism; EU – European Union

² Australia’s government-commissioned Carbon Leakage Review recommended a phased CBAM, initially covering cement and clinker and potentially extending to ammonia and its derivatives, glass, lime, and steel, although the Australian government has not yet legislated or adopted the recommendation.

³ The proposed Clean Competition Act (CCA) aims to establish a CBAM and a domestic performance standard to penalise carbon-intensive manufacturing, protect domestic companies from unfair foreign competition, and reduce greenhouse gas emissions.

⁴ Article 9 of the EU CBAM allows authorised declarant to claim in its CBAM declaration a reduction in the number of CBAM certificates to be surrendered in order for the carbon price paid in the country of origin for the declared embedded emissions to be taken into account (European Commission 2021).

Another relevant measure is the *EU Deforestation Regulation* (EUDR), which requires exports to the EU not to come from land deforested or degraded after 31 December 2020. This impacts products such as cattle, cocoa, coffee, palm oil, rubber, soya, and wood. For India, this adds risk to USD 1.3 billion (INR 122.7 billion) of agricultural exports (S. Jain 2025).

Therefore, these measures impose a triple burden on developing countries: **increased compliance costs** associated with monitoring, reporting, and verification; **institutional burden** arising from differences in carbon-pricing systems and governance capacities across countries; and the **social burden** of restructuring carbon-intensive industries, with consequences for employment and livelihoods (Zhang and Sovacool 2025). This uneven distribution of costs and benefits raises yet another question: **What role have multilateral regimes, particularly the UNFCCC, played in addressing the growing trade implications of such measures?**

3. Evolution of unilateral measures in the UNFCCC

As unilateral measures increasingly shape the terms of international trade, the UNFCCC provides an important forum for discussing their implications and strengthening multilateral cooperation in light of the principles of equity and common but differentiated responsibilities and respective capabilities (CBDR-RC). Against this backdrop, the following section traces how these concerns have evolved within the Convention.

3.1 Early recognition in the Convention

Trade and unilateral measures have been only broadly acknowledged within the UNFCCC through Article 3.5, which states that the “measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade” (UNFCCC 1992, art. 3, para. 5). Article 2.3 of the Kyoto Protocol states that Annex I countries shall strive to implement policies in a manner that minimises adverse effects, including effects on international trade, particularly for developing countries (UNFCCC 1997, art. 2, para. 3).

Nearly two decades later, Article 3.5 of the Convention was reiterated in the Cancun Agreement of 2010 (UNFCCC 2011a). This agreement established a forum on the impact of implementation of response measures⁵ (UNFCCC 2011a), but did not address trade-related implications directly. At the 34th session of the UNFCCC subsidiary bodies in 2011, Algeria, China, and Saudi Arabia proposed that the forum should consider the adverse effects of trade measures on developing countries (UNFCCC 2011b). However, these issues were not reflected in the modalities agreed for the forum that year.

3.2 The push for a dedicated agenda item

India was the first to formally submit a proposal calling for unilateral trade measures to be included as a provisional agenda item for COP17 in 2011 (Government of India 2011). Predictably, it could not be adopted in the absence of consensus.

Meanwhile, as the EU CBAM was being operationalised, these concerns gained traction again. Developing countries called for a formal space to discuss them within the UNFCCC. Ahead of COP28, Brazil, South Africa, India, and China as a group (BASIC) submitted a proposal calling for addressing “unilateral trade measures” as a separate agenda item for both the subsidiary bodies and the COP, since their disproportionate burden on developing countries contradicts the principles of equity and CBDR-RC (BASIC 2023). Developed countries opposed the proposal, arguing that the World Trade Organisation (WTO), rather than the UNFCCC, was the appropriate forum. No consensus was reached; the first Global Stocktake only reaffirmed Article 3.5 of the Convention in paragraph 154 (UNFCCC 2023).

The issue resurfaced at COP29, where the BASIC countries once again sought inclusion of these measures on the agenda (BASIC 2024). This became one of the principal issues delaying formal adoption of the agenda during the opening plenary session, reflecting the deep divisions between developed and developing countries. However, that same year, the issue found an avenue in a 2026–30 workplan on the forum of impact of response measures, which included – for the first time – an activity explicitly examining the cross-border impacts of mitigation measures (UNFCCC 2024).

⁵ It was decided that the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI) would convene such a forum at their 34th and 35th sessions. The aim would be for the 17th session of the COP to adopt modalities to operationalise the work programme and convene a possible forum for response measures.

The developing countries renewed their efforts during the 62nd session of the UNFCCC subsidiary bodies in 2025, through a submission by the Like-minded Developing Countries (LMDCs), which again called for a dedicated agenda item (Chatterjee and Raman 2025). As in previous years, no consensus was reached, and it could not be included. Instead, it was decided that issues relating to trade measures could be taken up for discussion under the Just Transition Work Programme⁶.

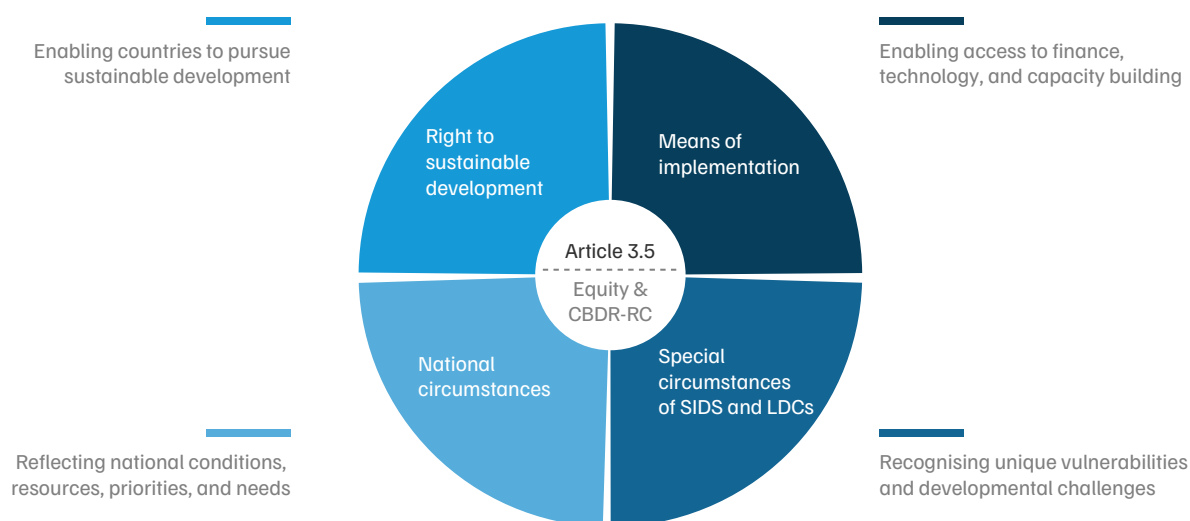
Similar efforts were made at COP30, but rather than pursuing another contentious debate on agenda-setting, the COP30 Presidency adopted a more consultative approach by convening Presidency-led consultations on trade-related issues (UNFCCC 2026). This led to the agreement that **dialogues would be held at the 64th, 66th, and 68th subsidiary sessions to explore opportunities, challenges, and barriers to international cooperation on trade**, with the participation of countries and other key stakeholders, including the WTO, UN Trade and Development (UNCTAD), and the International Trade Centre (ITC).

It was also decided to exchange experiences and views on related matters at a high-level event in 2028 (UNFCCC 2026).

3.3 Divergent views at the 64th sessions of the UNFCCC subsidiary bodies

The first climate and trade dialogue took place at the 64th sessions of the UNFCCC subsidiary bodies in June 2026, marking the first structured discussions on the intersection of climate change and trade in the UNFCCC. Despite broad recognition of the growing importance of the climate–trade nexus, countries and negotiating groups continued to hold divergent views on how these discussions should evolve within the UNFCCC. An analysis of the countries' statements⁷ during the dialogue indicates distinct preferences on whether the dialogues should evolve towards a more substantive one under UNFCCC-governed space or just remain a convening forum with existing trade institutions (WTO, UNCTAD, and ITC) taking substantive roles.

Figure 1. Developing countries called for the dialogues to be anchored in Article 3.5, equity, and CBDR-RC



Source: Authors' analysis.

Abbreviations: CBDR-RC – Common but Differentiated Responsibilities and Respective Capabilities; LDCs – least developed countries; SIDS – small island developing states

⁶ The Just Transition Work Programme (JTWP) is an initiative of the UNFCCC that aims to promote pathways to ensure that the goals of the Paris Agreement are achieved in a just and equitable way.

⁷ Countries and negotiating groups that have submitted their statements on the UNFCCC submission portal were analysed.

The developing countries' preferences were underpinned by certain principles that they stated should shape these discussions. As shown in Figure 1, developing countries – including India, Indonesia, BASIC, the LMDCs and others – called for these discussions to remain firmly anchored in the Convention's core principles, particularly equity, CBDR-RC, and Article 3.5, while recognising different national circumstances and the right to sustainable development.

Consistent with these principles, they stressed it should support, rather than constrain, sustainable development and industrialisation, and should not become arbitrary or unjustifiable barriers to trade. Several negotiating groups, including the Alliance of Small Island States (AOSIS) and the Group of 77 (G77) and China, further emphasised recognising the specific circumstances and vulnerabilities of the least developed countries (LDCs) and small island developing states (SIDS). They also underscored that meaningful discussions on trade and climate must be accompanied by adequate means of implementation, including access to finance, technology transfer, and capacity building.

Table 3. At 64th sessions of the UNFCCC subsidiary bodies, developed countries called for a facilitative process for the climate–trade dialogues

	Strengthen means of implementation	Undertake impact assessments	Identify corrective actions and cooperative alternatives	Adopt a Party-driven, evidence-based, and outcome-oriented process	Convene to exchange views and share experiences	Explore how trade policies can support NDCs and the Paris Agreement
Countries						
India						
The Philippines						
Egypt						
Indonesia						
Singapore						
EU						
UK						
New Zealand						
Switzerland						
Negotiating groups						
AGN						
LMDC						
AOSIS						
G77 and China						
BASIC						

Source: Authors' analysis of statements made at 64th sessions of the UNFCCC subsidiary bodies.

Note: Blue shaded cells indicate the countries/negotiating groups' stated positions

Abbreviations: AGN – African Group of Negotiators; AOSIS – Alliance of Small Island States; BASIC – Brazil, South Africa, India, and China; EU – European Union; LMDC – Like-minded Developing Countries; NDCs – nationally determined contributions

Another critical area of divergence was the **nature and the aim of the dialogues**, as shown in Table 3. In particular, developing countries called for an **outcome-oriented process**, focusing on:

- Assessing the **impacts of trade measures** on developing countries and **identifying corrective actions and cooperative multilateral alternatives**.
- Emphasised the need for **predictable support** through finance, technology transfer, and capacity building to address these impacts.
- Called for a **proper sequencing of the dialogues**, particularly by the LMDCs and the Philippines, proposing that discussions at the 66th sessions of the subsidiary bodies (SB66) move towards identifying corrective actions and cooperative alternatives, and if these alternatives could not be used, then remedial approaches be considered, including financial support equivalent to the economic impacts arising from these measures. At SB68, it was proposed that work should be consolidated and recommendations prepared for continued consideration by the COP and the CMA (Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement).

In contrast, developed countries wanted to focus on exchanging views, sharing experiences, and facilitating learning, while calling for exploration of trade measures to support nationally determined contributions (NDCs) and the Paris Agreement. They held that the dialogues should not be used to scrutinise or challenge domestic measures, as this would be inconsistent with the facilitative, non-punitive nature of UNFCCC.

The countries continue to diverge on **how to account for the outcomes of the dialogues**. Developing countries, including the African Group of Negotiators (AGN), G77 and China, and Egypt, emphasised that each dialogue should produce a report, all of which should feed into the final document to be presented in 2028, ensuring cumulative progress rather than picking up issues de novo at each dialogue. Conversely, developed countries, including Switzerland, the UK, and the EU, favoured preparation of a single report. Developing countries have also called for a separate agenda item on trade under the

UNFCCC, first raised by India in 2011; groups such as the AGN reiterated this ask.

Our analysis points towards three gaps: a **knowledge gap** due to incomplete understanding of the accounting frameworks, associated costs, and impacts of these measures; an **implementation gap**, since several countries, particularly developing countries, have limited capacity in terms of finance and technology; and a **governance gap**, due to differences in institutions and policies across countries.

4. Shaping a coordinated climate and trade strategy

To bridge differences between developed and developing countries, the UNFCCC needs a coordinated approach grounded in the principles of equity and CBDR-RC. So **we propose a roadmap that defines the UNFCCC's role, suggests themes for the two forthcoming dialogues and the high-level event in 2028, and recommends a strategy for India to shape this emerging agenda.**

4.1 Role of the UNFCCC in the climate-trade nexus

The UNFCCC should move towards a structured process to identify, assess, and respond to unilateral measures. It should establish a **Technical Standing Committee within the dialogues**, as highlighted in Figure 2, to ensure these measures accelerate, rather than hinder, the low-carbon transition, particularly for developing countries. It should include experts from the WTO, UNCTAD, and ITC, with balanced representation from developed and developing countries. Its mandate should be to:

- **Develop a common understanding and guiding principles for unilateral measures:** It should identify unilateral measures beyond the CBAM, such as the EUDR⁸ that could be discussed. In addition, the committee must develop common principles to govern these measures, including equity, CBDR-RC, and others stated in Figure 1.

⁸ The EUDR requires companies to demonstrate that key agricultural commodities imported into or exported from the EU do not originate from land deforested or degraded after December 31, 2020.

- **Assess the implications for developing countries:** The committee should assess the impact of these measures on developing countries, including on trade flows, productive capacities, jobs, and livelihoods, in addition to added costs and benefits. It should also map these countries' needs and constraints when assessing the global impact of these measures.
- **Develop common technical guidance:** To improve transparency, countries developing these measures should use a voluntary reporting template. It should share information on objectives, sectors covered, methodologies, expected emissions reductions, and projected impacts on other countries.
- **Prioritise support:** These measures should be accompanied by predictable implementation support for developing countries, in addition to existing climate finance commitments from developed countries. This could involve revenue recycling, for instance, by redirecting funds collected through these measures back to developing countries.

4.2 The roadmap for the forthcoming dialogues

SB66 (2027): In the second dialogue, countries should agree on the mandate of the proposed **Technical Standing Committee**. The dialogue can task the committee to:

- Assess the implications of emerging unilateral measures for developing countries
- Map existing methodologies for accounting for embedded emissions and their monitoring, reporting, and verification (MRV)

- Assess the implementation needs of developing countries, including data infrastructure, certification systems, finance, and technology requirements
- Consider findings from the dialogues under way in the Integrated Forum on Climate Change and Trade launched at COP30⁹

Output: A report consolidating the findings on emerging measures, their implications for developing countries, and the corresponding implementation needs, with recommendations for consideration at SB68.

SB68 (2028): The dialogue must:

- Take stock of and evaluate all evidence generated by the committee
- Discuss measures to address the gaps and needs identified in terms of climate finance, technology transfer, and capacity building
- Determine whether and how the Technical Standing Committee should continue beyond these mandated dialogues

Output: A set of recommendations setting out priority areas for cooperation and the proposed next phase of work.

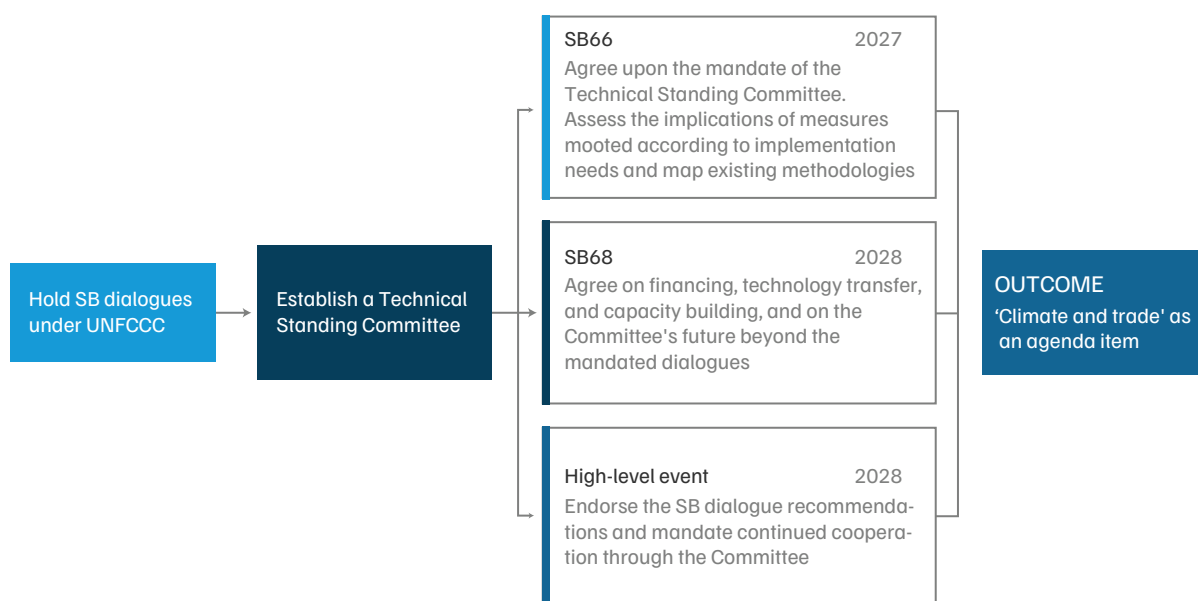
⁹ Operates independently outside of both the UNFCCC and the World Trade Organisation (WTO). It serves as a non-binding, politically supported platform for open dialogue.

High-level event (2028): Move beyond technical discussions and provide political guidance on the future governance of these measures, to:

- Endorse the recommendations emerging from the SB dialogues

- Provide a mandate for continued cooperation among the UNFCCC, WTO, UNCTAD, and ITC through the proposed Technical Standing Committee
- Establish climate and trade as a separate agenda item under the UNFCCC

Figure 2. A roadmap for establishing a dedicated climate–trade agenda under the UNFCCC



Source: Authors' analysis.

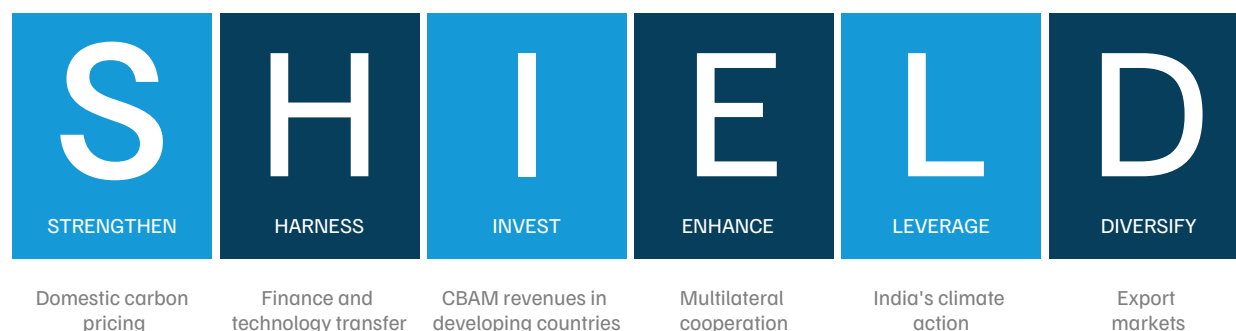
Abbreviations: SB – subsidiary bodies; UNFCCC – United Nations Framework Convention on Climate Change

4.3 The strategy India can adopt

For India, the challenge is not only to reduce embedded emissions, but also to boost its domestic MRV capabilities, as well as to secure access to finance and technology, while reducing excessive dependence on

a limited set of export markets. For this, **we propose a six-part SHIELD strategy for India**, as depicted in Figure 3. This strategy draws on inputs from the closed-door CEEW roundtable on *Navigating Climate Trade Frontiers: India's Strategy*, conducted in Delhi, in the run-up to SB64 in June 2026.

Figure 3. Six moves for India: SHIELD strategy



Source: Authors' analysis.

Abbreviations: CBAM – carbon border adjustment mechanism

- S | Strengthen domestic carbon pricing:** India's *Carbon Credit Trading Scheme* provides a credible domestic framework for encouraging industries to reduce their emissions; however, the framework should be further strengthened to enhance its effectiveness in preparing Indian industry by improving its MRV architecture and promoting greater methodological compatibility, while retaining flexibility to reflect national circumstances and progressively expanding sectoral coverage.
- H | Harness climate finance and technology transfer:** India should push to establish an adequate support mechanism for developing-country exporters affected by these measures. In addition, it must call for such support to be accessible and tailored to the needs of developing countries.
- I | Invest CBAM revenues in developing countries:** India should ask for transparent and equitable recycling of the revenues generated through these measures. These could be used to strengthen developing countries' domestic emissions monitoring systems, provide additional technical support for CBAM compliance, and finance an equitable climate transition in developing countries.
- E | Enhance multilateral cooperation:** These measures should not be addressed solely through the WTO, since their developmental implications extend beyond trade law and intersect with the principles and obligations of the international climate regime, including CBDR-RC and equity considerations. India should therefore work to promote greater coherence between the WTO and the UNFCCC on issues such as carbon-accounting methodologies, treatment of embedded emissions, MRV, and support for developing countries.
- L | Leverage India's climate action:** To strengthen the credibility of its climate action, there is a need to increase international visibility of India's domestic initiatives. Its *Carbon Credit Trading Scheme* demonstrates that decarbonisation pathways can be tailored to national circumstances rather than following a one-size-fits-all model, which should be clearly highlighted in multilateral forums.
- D | Diversify trade to newer export markets:** India should diversify its exports to other emerging markets across Asia and Africa to reduce dependence on a few countries and build resilience to geopolitical disruptions. It should leverage the expanding South–South trade by strengthening regional and inter-regional value chains.

Acronyms

AGN	African Group of Negotiators	LDCs	least developed countries
AOSIS	Alliance of Small Island States	LMDC	Like-minded Developing Countries
BASIC	Brazil, South Africa, India, and China	LNG	liquefied natural gas
CBAM	carbon border adjustment mechanism	LPG	liquefied petroleum gas
CBDR-RC	Common but Differentiated Responsibilities and Respective Capabilities	MRV	monitoring, reporting, and verification
CMA	Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement	MSMEs	micro, small, and medium enterprises
COP	Conference of the Parties	NDCs	nationally determined contributions
DCCEEW	Department of Climate Change, Energy, the Environment and Water (Australia)	SB	subsidiary bodies
EU	European Union	SBI	Subsidiary Body for Implementation
EUDR	European Union Deforestation Regulation	SBSTA	Subsidiary Body for Scientific and Technological Advice
G77	Group of 77	SIDS	small island developing states
GDP	Gross Domestic Product	UNCTAD	UN Trade and Development
IEA	International Energy Agency	UNFCCC	United Nations Framework Convention on Climate Change
ITC	International Trade Centre	WTO	World Trade Organisation

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