

## BUDGET BUZZ

# Climate & Environment: Energy Security and Green Industrial Strategy

### BUDGET PROPOSAL

Reflecting the increasing intersection between climate policy, energy security and international trade, the Budget 2026–27 has introduced a set of targeted fiscal and policy measures aimed at supporting decarbonization of hard-to-abate sectors, strengthening access to critical minerals, and removing tax distortions affecting low-carbon and green fuels. Together, these measures seek to enhance the competitiveness and resilience of India's industrial and energy ecosystems in the context of tightening global climate-linked trade measures.

#### Carbon Capture Utilization and Storage (CCUS)

In her speech introducing the budget, Finance Minister Nirmala Sitharaman proposed a CCUS Roadmap with a dedicated outlay of INR 20,000 crore over the next five years. For FY 27, a budget of INR 500 crore has been allocated. This scheme is targeted at scaling CCUS readiness in five carbon intensive sectors - power, steel, cement, refineries and chemicals. CCUS plays a critical role in decarbonizing the industrial sector, which remains difficult to electrify because fossil fuels are not just used for energy but also within core industrial processes. This need is further underscored by increasing pressure on carbon intensive sectors, such as steel, aluminium, and cement, from carbon border measures introduced by the EU and the UK.

#### Critical Minerals & Energy Security

The Budget deepens the critical minerals agenda on both the tax and trade sides:

- **Tax incentive for exploration of critical minerals:** The Finance Bill has proposed amendments to the Income-tax Act to include specified critical minerals in Schedule XII, so that prospecting and exploration expenditure on such minerals

becomes deductible under section 51 of the Income Tax Act.

- **Basic Customs Duty (BCD)** has been exempt on import of capital goods required for processing of critical minerals in India.
- To lower input costs, strengthen domestic manufacturing, and enhance export competitiveness, customs duties on Monazite (a key source of rare earth elements) has been removed.

#### Biogas, Green Fuels & Gas Blending

On low-carbon fuels, the Budget has made targeted changes to remove any tax distortions that would affect the Green Fuels Sector. These include:

- **Excise duty relief on CNG blended with biogas:** For blended CNG, the value of biogas and the GST paid on it will now be excluded from the transaction value for computing Central Excise on the blended CNG. In effect, excise duty will apply only to the CNG component, improving the economics of biogas blending.
- **BCD Exemption for lithium-ion cells:** BCD exemption on capital goods used for manufacturing lithium-ion cells for batteries has been extended to capital goods used for lithium-ion cells for Battery Energy Storage Systems (BESS).
- **Coal / lignite gasification:** In 2024, the Central Government launched an incentive scheme for promotion of coal and lignite gasification projects. This scheme was open for both PSUs and private sector. In FY 27, the government has increased the budgetary outlay of this scheme by 1,100% and increased the total allocation to 3,525 crores.

- **BCD Exemption for Nuclear Power Projects:** The budget has proposed to extend existing BCD exemption on imports of goods required for Nuclear Power Projects till 2035. Additionally, this exemption will now apply to all nuclear plants, irrespective of their generation capacity, broadening the scope of the exemption.

The budget announces key customs duty exemptions for capital goods used in manufacturing Lithium Ion Cell for BESS to enhance the storage and transmission infrastructure of renewable energy. This move will greatly benefit private operators to enhance grid balancing operations undertaken by the Ministry of New and Renewable Energy (**MNRE**).

**Green Fuels:** Targeted tax and duty rationalization measures seek to improve project viability in the green fuels' ecosystem. BCD exemption for goods required for nuclear plants, provides long-term regulatory certainty for developers and supports India's strategic move toward reliable, low-carbon energy. Excise relief for biogas blending, extension of BCD exemptions for energy storage infrastructure, and enhanced support for gasification collectively reinforce the commercial case for low-carbon fuel deployment.

## ELP's INSIGHTS

**Decarbonization Drive:** While the government is separately working towards greening the grid, the Budget outlay for CCUS shows the government's intent on decreasing the direct emissions of carbon intensive sectors. This capital investment may improve India's preparedness for emerging carbon-border and climate-linked trade measures and supports the broader policy direction underlying the Carbon Credit Trading Scheme (**CCTS**) for hard-to-abate sectors.

**Critical Minerals:** The Budget articulates a coherent approach across the critical minerals value chain. The introduction of tax deductions for exploration activities, coupled with processing-linked customs duty exemptions, signals a full-supply-chain strategy aimed at strengthening domestic capabilities and reducing external dependencies.