



EU-India rekindled trade negotiations in 2022, yet significant gaps remain on TSD considerations.



Leveraging the FTA to support the Paris Agreement objectives could be transformative for both partners on climate and air quality challenges.



The EU-India FTA risks increasing the environmental impacts of the agricultural sector in India.

PRE-FTA BRIEFING



EU-India

Basic trade figures

In 2021, the EU represented 10.8% of India's total trade in goods, or €88 billion worth, making it India's third-largest trading partner¹. Concerning exports, the EU is the second-largest destination for Indian goods, accounting for 14.9% of the total exports. In terms of services, trade between the EU and India reached €30.4 billion in 2020². Moreover, the EU's foreign investment stock in India increased from €63.7 billion in 2017 to €87.3 billion in 2020³, thus becoming a leading foreign investor in India⁴.

Political context for negotiations

The EU and India resumed trade talks in the summer of 2022 after a prior attempt of seven years of unsuccessful negotiations, which eventually stagnated in 2013. The EU is searching for new ties with Indo-Pacific countries to "de-risk" its trade and investment relationships across the globe. Though the duo had high ambitions to conclude the negotiations before the end of 2023, they were unsuccessful, with the last round of discussions occurring in February 2024. Yet the agreement is unlikely to be concluded before the EU elections.

Summary of sustainability in India

India faces several sustainability issues due to its reliance on fossil fuels for energy generation, industrial activities, and its agricultural sector, which feeds approximately 18% of the world's population. As trade is liberalised between the partners, these pressures will likely worsen as sectoral activities are expected to expand with less stringent climate and environmental regulations.

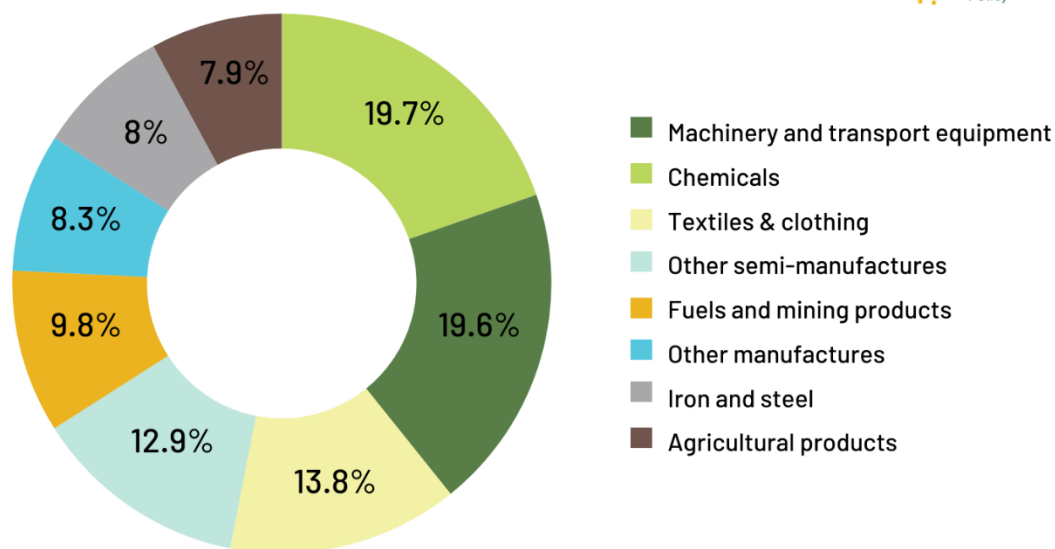
India's GHG emissions, including CO₂ and agriculture-related emissions, are expected to rise, which is especially concerning as India's air quality ranks remarkably poorly.

Furthermore, the pressures of agricultural expansion on biodiversity are particularly harmful as India harbours nearly 7-8% of the recorded species of the world due to its diversified habitat and climatic conditions due to years of geological stability resulting in a wide range of ecosystems and habitats such as forests, grasslands, wetlands, deserts, and coastal and marine ecosystems.

What are the next steps?

- Upgrade the Paris Agreement and the CBD to essential elements of the FTA.
- Introduce a dedicated article on water quality use in the TSD chapter covering the conservation of (fresh)water as a scarce resource, water management plans and wastewater treatment.
- Include provisions on biodiversity and water use in the Sustainable Food Systems Chapter in addition to provisions to support the uptake of sustainable agricultural production techniques.
- Accompany the final FTA with a roadmap setting targets and milestones for their delivery, relating to the sustainability provisions throughout the FTA.

Indian exports to the EU



Source: European Commission (2023)⁵

Political context of the negotiations

The EU resumed negotiations on a free trade agreement with India during the summer of 2022 to strengthen the strategic partnership between both parties. In addition, the EU and India launched parallel negotiations concerning an Investment Protection Agreement and an Agreement on Geographical Indications (GIs)⁶. The latest round of FTA negotiations took place in February 2024, although an agreement was initially expected to be concluded by the end of 2023.

After seven years of unsuccessful negotiations, the initial attempt to reach a free trade agreement stagnated and failed in 2013 due to irreconcilable disagreements over various issues, including environmental aspects and labour rights⁷. More specifically, India resisted the EU's demand to include a Trade and Sustainable Development Chapter in the agreement⁸, contending that this would infringe upon its sovereignty. Negotiations formally restarted in 2022 in the context of both parties' strategy to diversify their economic relations. The EU seeks new ties with Indo-Pacific countries to support its objective of "de-risking"⁹ its trading and investment relationships across the globe.

India and the EU are already essential trading partners. The EU is India's third largest trading partner, accounting for almost 11% of Indian trade in 2021. India is the EU's tenth most significant trading partner, accounting for over 2% of EU trade in 2021. These new negotiations have focused on various aspects, including industrial goods, agricultural tariffs, services, market access, an investment framework, intellectual property rules, and competition. Sustainable development considerations encompass environmental, social, and labour rights.

India has historically had a protectionist trade policy since its inception as an independent state in 1947. However, this approach was altered with the announcement of the 1991

Union Budget¹⁰, which paved the way for economic liberalisation, mass privatisation, and a more global outlook on trade matters. Despite a continued cautious approach toward trade and cooperation agreements, including recently with the Regional Comprehensive Economic Partnership (RCEP)¹¹ in 2019, India is now actively seeking free trade agreements with various countries, including the United Arab Emirates¹², Australia¹³ and the United Kingdom¹⁴.

Despite the rekindling of trade negotiations, ongoing tensions still linger beneath the surface. The EU, for instance, mentioned that accepting sustainable development clauses will require India to participate in the EU rules-based order¹⁵. However, India still feels negatively about EU autonomous measures, such as the carbon border adjustment mechanism (CBAM)¹⁶, being perceived as green protectionism and discriminatory trade barriers. India recently announced its intention to lodge a formal grievance with the World Trade Organisation (WTO) concerning the EU's proposed levying tariffs ranging from 20% to 35% on imports of high-carbon commodities such as steel, iron ore, and cement from India¹⁷.

Sustainability challenges in India

The main sustainability challenges in India are linked to CO₂ emissions, air quality and the environmental impacts of the agricultural sector. The FTA would likely exacerbate these sustainability challenges as it is expected to increase sectoral production in India. Several considerations included in this brief are extracted from the contribution of IEEP to the official EU-India Sustainable Impact Assessment conducted in 2023¹⁸.

Greenhouse gas (GHG) emissions and air quality

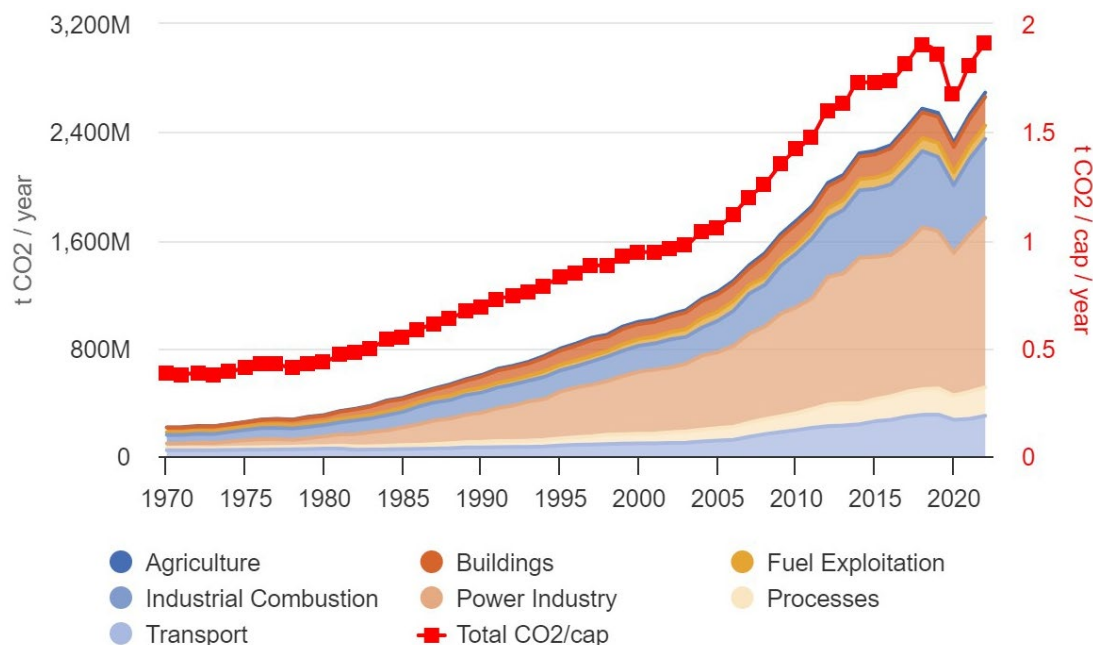
India's rapidly rising population and fast-growing economy have caused an increase in annual CO₂ emissions by nearly 350% since 1990 to reach a record high of almost 2.7 billion metric tons in 2022, see Figure 1. This figure places India as the third-largest carbon emitter, accounting for 7% of global emissions. However, considering India's share of the worldwide population (18% of the world's total)¹⁹, these emissions levels are relatively low per capita but consistent with the country's share of global GDP (7.24%).

India's power and energy sector is responsible for almost half of CO₂ emissions, having increased by 36% since 1990. This share of CO₂ emissions is primarily due to the country's continued dependence on fossil fuels such as coal, which comprise 72% of India's energy generation. The share of coal for electricity generation in India has reached an all-time high, with the country expecting to overtake the EU and become the world's third-largest energy consumer by 2030²⁰.

In 2021, India was the world's second most air-polluted country, with an annual average PM_{2.5} particle level of 58 µg/cubic meter²¹, vastly exceeding the WHO recommended levels of 5 µg/m³. India is also home to 63 of the 100 most polluted cities, and these high levels of air pollution pose significant health risks. For example, air pollution is estimated

to account for approximately 12% of global deaths, ranking it as the fourth major risk factor for global disease and mortality²². In India, air pollution is the second most significant risk factor for disease. It bears an estimated economic cost of nearly USD 150 billion annually due to factors such as hindered labour productivity and absenteeism^{23,24}.

Figure 1: Gross CO₂ emissions in tons of CO₂ per year in India by sector

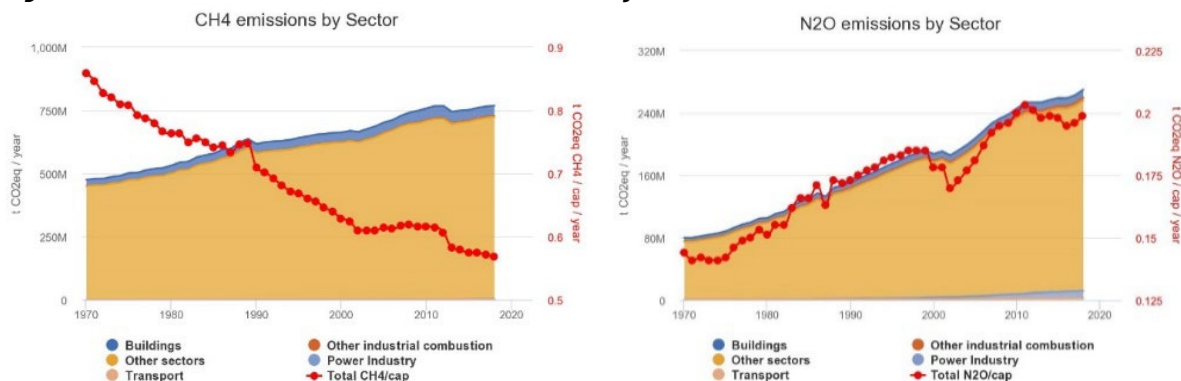


Source: EU EDGAR database²⁵

Beyond CO₂, India releases close to 1,300 million tonnes of GHG other than CO₂, such as nitrous oxide (N₂O), methane (CH₄) or ammonia (NH₃) in the atmosphere each year. Emissions of N₂O and CH₄ increased by 260% and 67% in India since 1970, including by 15% and 5%, respectively, during the last decade.

The EU-India SIA concludes that the trade agreement is expected to increase CO₂ emissions in both the EU (0.1%) and India (0.4% in the ambitious scenario, 0.2% in the conservative scenario). Moreover, due to trade diversion effects, the FTA is expected to have a positive yet minimal impact on emissions in the rest of the world (less than 0.03% decrease in CO₂ emission). Under the FTA, overall air quality is expected to continue to worsen, with the emissions of PM_{2.5} estimated to increase by another 0.5% in India due to sectors such as the power industry and other industrial combustion, buildings, agriculture, and transport sectors, see Figure 2.

To mitigate the increase in overall CO₂ emissions under the FTA, the EU proposed that Indian counterparts agree on a Trade and Sustainable Development (TSD) Chapter with specific provisions to address this issue. The current text proposed by the European Commission calls for both Parties to effectively implement the UNFCCC and the Paris Agreement, including commitments regarding their Nationally Determined Contributions (NDCs).

Figure 2: CO₂, CH₄ and N₂O emissions in India by sector

Source: EU EDGAR database²⁶

However, regarding air quality, the latest TSD Chapter proposal does not include direct intentions or concrete actions to improve air quality policies. As a result, the FTA's expected impact on both Parties' efforts to strengthen their air quality policies is limited. Therefore, any potential improvements in air quality will primarily rely on Multilateral Environmental Governance and Agreements, as each Party is expected to "effectively implement the multilateral environmental agreements (MEAs), protocols and amendments that it has ratified"^{27,28}.

Climate and environmental pressures from agriculture

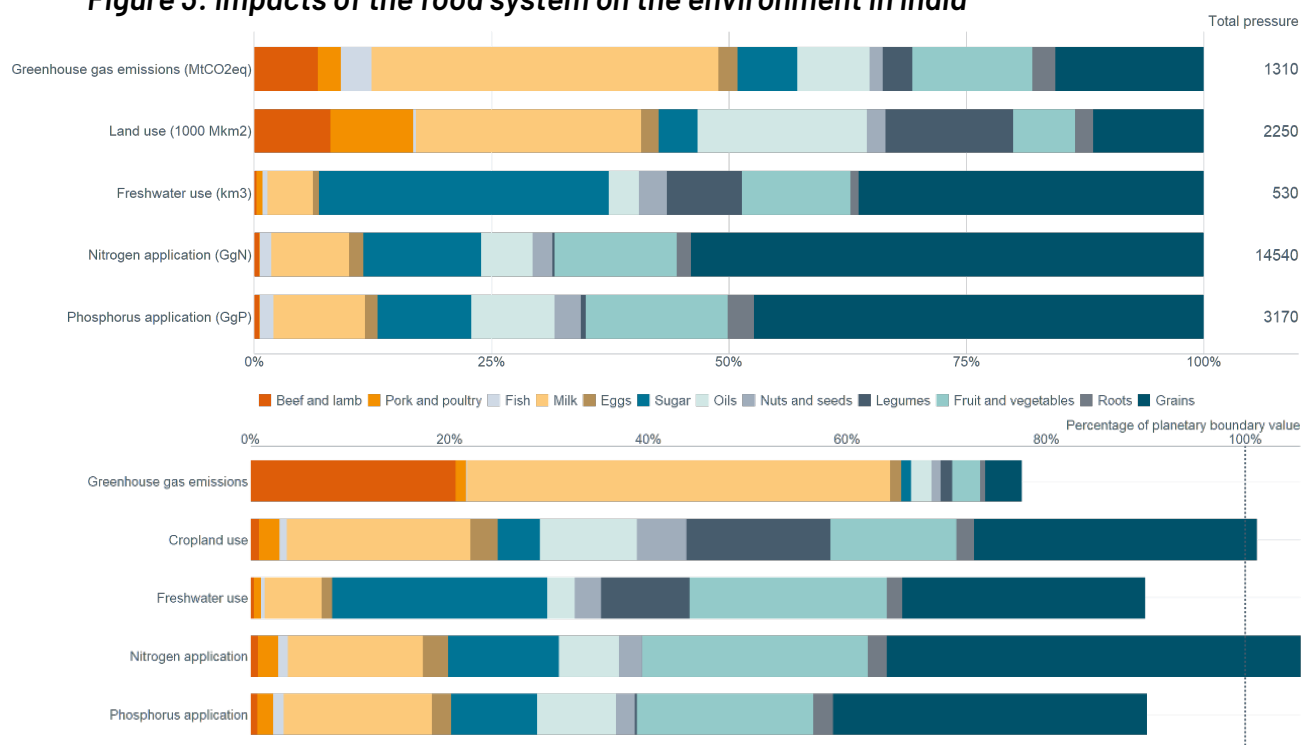
Almost two-thirds of the Indian population still live in rural areas²⁹, most of which depend primarily on agriculture for their livelihood³⁰. The subsistence of an increasing population, projected to grow to 1.6 billion by 2050³¹, will require a significant increase in India's food production. This anticipated growth in food demand will be challenging as India already provides food to 18% of the world's population³² and has experienced profound land use changes related to agricultural productivity, including deforestation, in the past decades.

India is one of the largest producing countries of agricultural commodities worldwide, with over half of its territory used as cropland³³. The country is the largest global producer, consumer, and importer of pulses, the largest producer of milk and jute, and the world's second-largest cattle population, which grew to 190 million in 2012. It is the second-largest producer of rice, wheat, sugarcane, cotton, groundnuts, fruits and vegetables.

The food and land use sectors make up to 21% of India's total GHG emissions³⁴ and account for a significant share of CH₄ and N₂O emissions, approximately 50% and 60% of emissions of these gases, respectively³⁵. Cropland use and nitrogen application are already unsustainable and disproportionate in the context of an equitable distribution of environmental resources and mitigation efforts. This is particularly true for specific commodities such as cereals or milk, which have already reached unsustainable levels concerning planetary boundaries, see Figure 3.

As Indian agricultural production and exports are expected to increase under the FTA, this will likely exacerbate existing pressures on India's air quality and environment. In particular, meat and dairy production will likely grow under the FTA, resulting in higher CH₄, N₂O, and NH₃ emissions, approximately 0.5% to 0.8% from the meat sector alone. This reflects the current difficulties in reducing agricultural GHG emissions in the EU and India.

Figure 3: Impacts of the food system on the environment in India



Source: Global Nutrition Report (2022)³⁶. Note: The footprints consider all food production, including inputs such as fertilisers and feed, transport, and processing, e.g., oil seeds to oils and sugar crops to sugars.

The pressures of agricultural expansion can also be felt by local biodiversity. India is one of the 17 megadiverse countries in the world, harbouring nearly 7-8% of the world's recorded species due to its diversified habitat and climatic conditions³⁷. Years of geological stability have resulted in various ecosystems and habitats, such as forests, grasslands, wetlands, deserts, and coastal and marine ecosystems. The country includes four of the 34 identified biodiversity hotspots globally (i.e., regions with significant animal and plant species threatened by human habitation). Yet, India has already lost almost 90% of the area under its four hotspots in recent years. Due to water contamination, India's freshwater biodiversity has also experienced a steep 84% decline³⁸.

Forest loss is a powerful marker of the decline of biodiversity in the country. From 2002 to 2021, India lost 371kha of humid primary forest, making up 19% of its total tree cover loss in the same period. India's total area of humid primary forest decreased by 3.6% in this period³⁹. The Convention on Biological Diversity (CBD) links habitat fragmentation, degradation, loss, and over-exploitation of resources stemming from agricultural production to biodiversity loss.

Overall, India's Biodiversity Intactness Index (BII) decreased by 3.1% between 1970 and 2014. This concerning trend is expected to worsen with a projected decrease of the BII of an additional 5.2% between 2015 and 2050. However, the BII's downward trend is projected to halt and reverse by the mid-2040s. Therefore, sustainability provisions in the EU-India FTA must be designed to support this reversal as soon as possible.

Reflections

India faces several sustainability issues due to its reliance on fossil fuels for energy generation, industrial activities, and its agricultural sector, which feeds approximately 18% of the world's population. These pressures will likely worsen as sectoral activities are expected to expand due to trade liberalisation with the EU and less stringent climate and environmental regulations. Therefore, the EU-India FTA should negotiate sustainability provisions to mitigate these detrimental environmental impacts. Moreover, accounting for India's relatively high poverty rate, its sustainability-related policies must be carefully designed to support its most vulnerable communities.

This briefing discussed the EU's proposal to tackle CO₂ emissions by including the effective implementation of the Paris Agreement in the TSD Chapter. This would commit India to implement its latest NDC to (i) reduce the emissions intensity of its GDP by 45% by 2030, from 2005 levels, and (ii) achieve about 50% cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030⁴⁰. Going further, although highly unlikely considering India's previous rejection of the inclusion of a TSD Chapter (a position which seems to hold firm as per the recent declaration from the Indian commerce Minister⁴¹), the Parties could increase the climate ambition of the FTA by agreeing to make the Paris Agreement an essential element of the FTA. This would allow the Parties to suspend the trade agreement in whole or in part following a breach of the Paris Agreement.

As it stands, the proposed TSD Chapter does little to incentivise the improvement of India's overall air quality or mitigate the negative environmental impacts from its agricultural sector. Therefore, the negotiations seek to include specific provisions targeting these issues. For example, the Chapter on Sustainable Food Systems should include binding provisions to support India's agri-food production and transition away from the most impacting consumption patterns. Recent findings indicate that dietary shifts, improved efficiency in livestock production systems (notably in terms of water use), lower fertiliser use, and higher yield through sustainable intensification can reduce GHG emissions from the sector by up to 80% by 2050⁴². Incentivising the transfer of technologies or circular economy business practices can also greatly alleviate environmental pressures such as water stress or chemical intrants in the country.

The EU-India SIA provides an extensive list of recommendations to tackle relevant climate and environmental impacts and improve the overall sustainability of the FTA, including through FTA provisions, cooperation mechanisms and capacity-building efforts. Therefore, this briefing focuses on recommendations for the uptake of sustainability provisions in the TSD Chapter or the Chapter on Sustainable Food Systems.

Recommendations

- Upgrade the Paris Agreement and the CBD to essential elements of the FTA to ensure cooperation on and regular and progressive updates of the Parties' NDCs and National Biodiversity Strategies and Action Plans (NBSAPs).
- Introduce a dedicated article on water quality and use in the TSD chapter covering the conservation of (fresh)water as a scarce resource, water management plans and wastewater treatment. Provisions should commit the Parties to the exchange on the implementation of best practices, laws, and regulations for sustainable water use.
- Include biodiversity and water use provisions in the Sustainable Food Systems Chapter and provisions to support the uptake of sustainable agricultural production techniques, such as water-efficient and chemical-free farming methods, energy from waste solutions, and agricultural optimisation techniques, and fostering circular economy approaches in the agricultural sector.
- Accompany the final FTA with a roadmap setting targets and milestones for their delivery, relating to the sustainability provisions throughout the FTA.
- Establish a list of environmental goods and services to be liberalised to expedite the diffusion of clean technologies and facilitate access to climate financing and investment.
- Support the set-up of the respective Domestic Advisory Groups (DAGs) to monitor the implementation of the TSD Chapter and provide direct technical and financial support to civil society organisations to ensure an adequate participation of environmental and human rights stakeholders.
- Deploy EU capacity-building activities to support Indian stakeholders' understanding of the new EU requirements embedded in the recent trade-related legislative measures, such as the CBAM, the EUDR and the Corporate Sustainability Due Diligence Directive (CSDDD).

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