

# India should hold its ground in trade negotiations with the EU

*Indian industry needs a wide range of European barriers lowered for it to make export headway*



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**T**he World Trade Organization (WTO) has been of scant effectiveness against US President Donald Trump's sweeping unilateral tariffs. Wielding the shield of 'national security,' the first Trump presidency levied 25% tariffs on imports of steel and 10% on aluminium. India challenged these and later withdrew its case at the WTO on account of a 'mutual settlement,' though the US never withdrew those additional tariffs. WTO panels initiated by other members, including Norway, Switzerland and China, ruled in 2023 that the tariffs did not pass the 'national security' test. The US, however, ignored these rulings. Trump's second presidency has seen the national security shield cast wider, first for sweeping Liberation Day tariffs against over 90 countries, and more recently, for a 50% tariff against steel and aluminium imports. A group of businesses in the US successfully challenged the Liberation Day tariffs, but the administration has appealed the decision. India has so far not retaliated. The UK may reportedly get a conditional exemption from the 50% tariff on steel under a US-UK free trade agreement (FTA), although Tata Steel as a big UK steelmaker may not get that benefit as US import rules require steel to be "melted and poured" in the country of origin, in this case the UK. It is difficult to envisage a more stark repudiation of the rule of law.

Amid the disarray, FTAs have become more relevant than ever to India's trade interests. New Delhi is in the thick of negotiations with the US and EU, having recently announced a deal with the UK. The EU, however, is no stranger to unilateral actions. It is, in fact, the chief architect of 'green protectionism'—steps sought to be justified at the altar of climate change. At the heart of both the US and EU measures is the purported belief that these would protect the competitiveness of local industries.

While Trump's trade policy antics grab headlines, the EU's measures—ranging from its Carbon Border Adjustment Mechanism (CBAM) and EU Deforestation Regulation (EUDR) to environmental reporting and sustainability due-diligence mandates for corporates—pose significant challenges for Indian industry.

India's exports of nearly \$100 billion to the EU, comprising mainly fuels, textiles, machinery, chemicals, automobiles, gems, steel and pharma products, account for about 14% of its total merchandise exports. Given this strategic relationship, key concerns must be addressed before finalizing the India-EU FTA.

For steel and aluminium, even if the EU's current Most Favoured Nation (MFN) duty rates are reduced to zero in the FTA, the CBAM would negate that benefit. Also, the CBAM's impending expansion to indirect emissions from electricity will make the duty impact much greater, effectively blocking exports to the EU. The EU's proposed *de minimis* threshold exempting small importers from CBAM obligations offers little relief, particularly for smaller producers which already face numerous non-tariff barriers. In addition, the EU has safeguard measures in place for various categories of steel imports, including tariff rate quotas that may be extended to other metals. The recently announced European Steel and Metals Action Plan will further

tighten trade defence measures, presenting further challenges for our exports to the EU. India will need to negotiate each of these aspects carefully under the bilateral FTA to mitigate the impact on Indian industry.

The EU proudly claims the EUDR will guarantee that the products EU citizens consume do not contribute to deforestation or forest degradation worldwide. Underneath that claim, however, lies clever legal drafting that will advantage EU's own producers over importers. The EUDR obligates importers to ensure that imports are not from land that has been deforested or subject to forest degradation since 31 December 2020. Degradation is defined as conversion of primary forests or naturally regenerating forests into plantation forests or other wooded land. It is estimated that the EU has only 2-3% primary forest cover, while India has almost 23%, which makes the disproportionate impact evident.

The EU's sustainability directives, while aiming to increase business transparency and accountability, will raise India's Inc's cost of doing business in that region. It is no longer sufficient for a company to ensure compliance with labour and environmental laws; it will also have to take responsibility for compliance by each player in its direct and indirect supply chain.

The EU is also reportedly seeking a chapter on Energy and Raw Materials in the FTA. We should be wary of obligations curtailing India's policy space for local sourcing or putting in place export restrictions and offering fiscal incentives for its own capacity creation. The EU's emphasis on securing access to raw materials for its own green transition can be in sync with our goals only if there is a level playing field for Indian access to resources and technologies, and India not treated as a mere raw material supplier.

Achieving a win-win in EU-India negotiations needs us to take each of these aspects into account.