

# Europe's regulations must ease for India to score on trade with it

*New Delhi should press beyond the trade pact to resolve challenges such as its unfair carbon tax*



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It was a momentous day: 27 January saw the signing of the EU-India Security and Defence Partnership, conclusion of trade negotiations for the India-EU free trade agreement (FTA), adoption of an MoU on an EU-India Comprehensive Framework on Mobility, launch of negotiations on a Security of Information Agreement and endorsement of a EU-India Education and Skills Dialogue. Close on the heels of India's Republic Day celebrations, where EU representatives were state guests, this was a moment of high symbolism in the shifting tides of global geopolitics. Prime Minister Narendra Modi hailed it as a "tide-turning moment" and start of a new era for India-EU relations. The FTA has been hailed as the "mother of all deals" by both sides.

The EU and India are moving towards cooperation through trade, defence and security partnerships at a time when international rules are being undermined and rewritten. Underlying this is the recognition that trade and economic security are intrinsically linked with peace, security and defence. The uplifting spirit of this moment must be carried forward to ensure that it works well for both India and Europe. This requires addressing the real impediments and challenges on both sides in a sustained and committed manner.

For India, steps towards customs

reform, investment facilitation, deregulation and labour reform are all significant in making the country an attractive destination for trade and investment. The FTA's success will also be measured by whether Indian businesses have sustained market access to the EU. Effective tariffs in the EU are only in a range of 4-5%. The real challenge is the high cost of compliance with its regulatory labyrinth.

Take services. Despite India's competitive strengths, our exports to the EU are in a modest range of €37 billion, led by IT and consulting services but with a low EU market share. A regulatory impediment for IT services is that India does not yet have "data secure" status under the EU's General Data Protection Regulation (GDPR). With India's Digital Personal Data Protection (DPDP) Act coming into force, it is time to revisit this aspect. The DPDP Act applies to all digital personal data processed in India and provides a robust framework for privacy protection. Recognition of India as "data secure" could play a big role in boosting our IT and ITeS exports.

Indian exporters of goods will have to contend with several EU regulations. The 2024 report on the future of European competitiveness by Mario Draghi, former president of the European Central Bank, identified over-regulation, high compliance costs and complex and fragmented regulation as problems for EU industry, especially small businesses. Many of those dampeners could get in the way of our exports.

The Draghi report highlighted the EU's Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive and its rules for the registration, evaluation, authorisation and restriction of chemicals as amounting to regulatory over-reach. Each of these applies to EU imports as well. Additionally, India's farm exports often struggle with EU's Maximum Residue Limits that often exceed global norms. The EU's recent Deforestation Regulation will add further burdens.

Indian industry, particularly small enterprises, will need to be equipped to handle the EU's complex traceability, reporting, monitoring and verification requirements.

The FTA reportedly provides a unique 'Rapid Reaction Mechanism' to address concerns that may hamper bilateral trade. This will need a responsive domestic system for exporters to raise concerns with the government.

The EU's Carbon Border Adjustment Mechanism (CBAM) will have an immediate impact on India's aluminium and steel exports and is expected to extend progressively to other sectors. This levy will likely burden Indian exports of affected products. It works on the principle of price equalization of carbon emissions; so imports from India will have to pay the EU the difference in the price of embedded emissions. It does not value the actual quantum of embedded carbon and focuses entirely on the carbon price—any difference has to be paid for market entry, even if embedded emissions are exactly the same as a domestic product's. It is estimated that even after India's carbon market becomes functional under the recently announced Carbon Credit Trading System, the price difference will be in the range of over €60 per tonne of carbon. This will significantly dilute the benefits of any tariff reductions under the FTA. A government release on the FTA suggests that India's CBAM focus is only on support for carbon verification and calculation of its price, but not on the principle of our exports paying the carbon-price difference. Note that India has complied with its commitments under the UN Framework Convention on Climate Change and Paris Agreement. A basic question of fairness thus remains unanswered.

The success of the India-EU deal will be determined by its implementation, which needs to be just and equitable. The "mother of all deals" awaits its true test: How it helps us achieve our goals.

*These are the author's personal views.*