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## The EU “Green Deal”: An opportunity to strengthen EU-India relationship

Souvik Bhattacharjya, Senior Fellow and Associate Director, Integrated Policy Analysis Division, TERI

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KAS-MDPD, the German Development Institute (DIE) and the Finnish Institute of International Affairs have launched a new publication series on the external dimension of the EU's Green Deal, with inputs by experts from the biggest (re-)emerging powers.

How is the Green Deal perceived by (re-)emerging powers across the world? And what does the Green Deal mean for the EU's global power ambitions? The publication series involves perspectives from eight countries/regions: Brazil, China, the EU, India, Indonesia, Mexico, Russia and South Africa.

# 1. Introduction

India and Europe's relationship has been continuously improving since the cooperation agreement was signed by both regions in 1994, an event that took the relationships beyond economic cooperation and trade. Within ten years, the agreement was upgraded to a 'Strategic Partnership'. In 2020, at the 15th India-European Union Summit, "India-EU Strategic Partnership: A Roadmap to 2025" was endorsed jointly. This aimed at preserving the rules-based international order and effective multilateralism. The countries jointly committed to pursuing common interests of achieving prosperity, security and, most importantly, sustainable development.

The EU Green Deal is perceived as being a key driver in further strengthening this relationship. In a recent statement, India's foreign minister said, *"India's relationship with the EU is underutilised and has not reached even half of its full potential"*. The lofty ambition of EU Green Deal is not only looked at as capable of promoting sustainability in the EU region but also as an opportunity to foster ties between India and EU in areas not yet adequately exploited. These newer areas of opportunities include bilateral trade in clean technologies, enhanced cooperation for technology development and transfer, increased investment in sunrise sectors, skill development, knowledge sharing and cleaner finance. (1)

## 2. India's Environmental Challenges

Growing consumerism, human aspirations and growing income has driven demand for certain abiotic resources. While it may have been possible to lift people out of poverty and destitution in recent decades, consumption of resources in India has also led to various environmental challenges. Major cities in India continue to face poor air quality, solid wastes littering, depletion of groundwater resources and overstretched landfills. More than 70% of electricity in India is still generated in coal-fired power stations in India. Recent assessments by the Central Pollution Control Board reveal that there are more than 350 stretches of river in India that are polluted, with 45 of these being critically polluted.

The good news is that there is growing awareness and changing perceptions among citizens and policy makers. A survey of more than 1000 citizens in major cities on public awareness and perceptions of, and attitudes to, air quality has revealed that two-thirds are well aware of the increasing air pollution. (2) A recent youth perception survey by Indian think tank TERI revealed that environmental pollution is the major development challenge, with more than half the respondents perceiving this challenge as yet to be addressed adequately. (3)

The Indian government has introduced a number of policies for greening both production and consumption value chains across various resources and sectors. India has an ambitious renewable energy target of 175 GW by 2022. Up to 2010, India had added a total renewable capacity of nearly 17 GW. However, between 2010 and 2020 India has witnessed a fivefold increase in the installed base amounting to more than 90 GW. While the country has no absolute emissions reduction targets, it aims to reduce the GHG emissions intensity of GDP by 33-35% of 2005 levels as a part of its commitment under the Paris Climate Agreement.

In this vein, India aims to increase the share of non-fossil-based generating capacity to 40% while adding a carbon sink of 2.5-3 billion tonnes CO<sub>2</sub>, largely through forest cover. Bharat Stage VI is the new emission standard that all vehicles in the country will have to meet from 1 April 2020; this represents a major step in reducing transport sector emissions. In 2016, India saw the introduction of the Extended Producer Responsibility (EPR) rules, with an objective of making manufacturers responsible for their product once they reach the end-of-life – a boost for the circular economy. In line with this, in 2016, the Government of India launched the 'Zero Effect, Zero Defect' certification, to increase awareness among India's vast Micro, Small and Medium Enterprises (MSME) sector. This would help them reduce waste significantly, increasing productivity and expanding their market potential. India also has a number of certification and labelling schemes of environmentally responsible products.

The recent COVID-19 outbreak, and the subsequent public health crisis, has brought economic activities to a complete halt. Kickstarting the economy following the disruption presents an opportunity not only for economic revival but also for environment improvement – even though the health crisis has produced some environmental challenges for India. For example, the current pandemic has led to a surge in the consumption of materials - including plastics - through facemasks and sanitizers that are not conducive to the environment in the absence of appropriate recycling. Increasing energy consumption, greater personal mobility and e-consumerism are some of the other potential environmental challenges witnessed as we gradually come out of the current pandemic. Moreover, some critical observers from Indian think tanks, such as the Observer Research Foundation (ORF), have noted that the government's economic package launched in response to the COVID-19 crisis does include spending on coal infrastructure, including commercial mining. In a similar vein, the government initiated the auction of 41 coal mines, which may run counter to the country's climate change commitments on reducing its dependence on coal power.

However, despite these challenges, the recovery from COVID-19 may open up considerable opportunities for environmental and climate protection in India. Indeed, while the economic recovery and livelihood revival had found prominence in policies announced following the pandemic, the Indian government has put an emphasis on selected areas to ensure that the recovery is both green and sustainable. Importantly, the Prime Minister of India, announced in May 2020 a special economic package based on five pillars: (1) Economy; (2) Infrastructure; (3) System; (4) Vibrant Demography and (5) Demand. Not only does it have the potential to create jobs and support economic activities in the short run but also can pave the path to an economic recovery driven by domestic innovations using local resources and strengthening sustainable consumption and production. The recent budget of the union government has also announced schemes and incentives to provide additional impetus for renewable energy generation and an accelerated transition through newer clean energy sources like Hydrogen. A voluntary scrappage policy has also been announced in the budget, which will provide financial incentives in the form of road tax rebates on the purchase of a replacement vehicle. This will ensure the phasing out of polluting vehicles and the adoption of cleaner and more environmentally friendly vehicles. It will also complement the recently announced Green tax on different types of old vehicles across India. Budget 2021 shows a strong focus on energy transitions, as it allocates INR 25 billion (EUR 275 million) to the Solar Energy Corporation of India (SECI) and Indian Renewable Energy Development Agency (IREDA) to help boost the penetration of renewables.

# 3. EU India relationship in the context of the Green Agenda

In recent years, India and EU have not only been able to strengthen partnerships but have also witnessed new areas of engagement and co-operation. The EU is India's largest trading partner, a relationship worth US\$ 90 billion (11% of total Indian trade). India is also EU's tenth-largest trading partner, accounting for almost 2% of EU's total trade in goods. The trade in services has steadily increased over the years and stands at US\$ 33.69 billion for 2018. The EU is also the largest source of foreign direct investment.

The traditional partnership around trade and economy has entered into newer areas including environment, climate change and clean technologies. India and the EU have acknowledged that climate change mitigation cannot be achieved alone. The recent joint declaration by India and EU at the 15th India-EU Summit in 2020, among other areas, reiterated the need for a resolute and coordinated action for tackling the challenge of climate change and environmental degradation and reaffirmed their commitment to implementing the Paris Agreement.

During the recent 2020 summit, India and the EU renewed their agreement on scientific and technological cooperation for the next five years. This will facilitate joint technology development in sustainable and newer materials, biotechnology (and nanotechnology) sectors, ocean research, food processing and the sustainable food packaging sectors. Cooperation is envisaged between Indian and European research entities as well as collaboration with industries for demonstration projects and reducing lead times for technology and product commercialisation. The experience of collaboration in the last five years has been encouraging, witnessing the development of innovative technologies for addressing societal challenges in the fields of water treatment technologies, food and nutrition and healthcare. Researchers have been able to secure joint patents, joint publications, the sharing of technology development platforms and facilities as well as strengthening human capital. (4)

As developing countries like India are relatively more vulnerable to climate change, they understandably have significant interest in mitigation efforts. They need to develop technical, institutional and human capabilities to face the increasing challenge of adaptation. In this context, the EU-India Clean Energy and Climate Partnership, launched in 2016, deserves particular mention, as it has a catalytic role for the energy transitions in India. The partnership has promoted enhanced access to, and dissemination of, clean energy technologies, while encouraging R&D for innovative solutions. Key sectors and/or technologies included roof top solar and solar parks, storage technologies, offshore wind energy and smart grids. Similarly, there is strong cooperation between the EU and India on the energy transition under the Mission Innovation, a global initiative of 24 countries and the European Commission. This aims to strengthen global energy innovation around clean and affordable energy solutions. Overall, the existing partnerships on renewables serve as a unique opportunity, one that can be leveraged in developing knowhow in offshore wind generation in India. This has been a priority area under the clean energy and climate partnership.

In addition to renewable energy, the EU and India have recently partnered to accelerate implementation of many of the sustainable development goals, particularly SDG 12 (i.e. sustainable consumption and production). The EU-India Resource Efficiency Initiative aims to support the government of India in adopting measures to foster resource efficiency across priority areas. The initiative has helped facilitate exchange of learning, increase capacity building and strengthen collaboration between private and civil society organisations. Based on this, the Ministry of Environment, Forest and Climate Change (MoEFCC) recently drafted a policy for resource efficiency to provide an overarching framework to enable efficient use of resources and the upcycling of waste in all sectors along product and service life cycles. This is likely to support India's ambition of further strengthening sustainable consumption and production and creating local livelihood and investment opportunities in various economic sectors. The earlier EU-India circular economy symposiums have fostered partnerships where greater knowledge sharing and selected pilot projects are expected to be demonstrated particularly in the areas of waste management and material recovery. As a part of this initiative, Goa was the first federal state in India to launch a strategy document on the circular economy, focusing on coastal tourism, construction and plastics and developed.

There are however certain sticking points that are preventing upscaling and commercial-scale deployment of technologies in India through joint ventures. Intellectual property sharing and absence of mutual trust are frequently reported impediments to sharing various technologies, and the clean energy space is no different. India has a strong intellectual property regime, hence there is a need to raise awareness of intellectual property management rules among parties. A lack of capacity and knowledge is another challenge that can be overcome by training and capacity building by the public and private sector.

# 4. Future potential areas for cooperation and conflicts around the EU Green Deal

## 4.1 The trade and border carbon adjustment dilemma

The Green Deal makes a call for addressing the risk of carbon leakage through a border carbon adjustment mechanism. Any such adjustment may have short- to medium-term impacts on developing and least-developed countries through trade. A review of previous studies (Bhattacharjya, et al, 2016) indicates that such actions may pose certain competitiveness challenges for products imported into the EU, particularly those products whose substitutes may be available and/or for products with high price elasticities. Furthermore, questions may be raised to on the extent to which the carbon border adjustment mechanism is in line with the Principle of Common but Differentiated Responsibilities. This is a key feature of the UN negotiations on climate change and a fundamental tool to ensure global climate justice.

Whether trade measures can be used to combat climate change, or to be more specific, if trade can be restricted on the basis of climate friendliness of production process is still the subject of considerable debate. There has been a demand that if developed countries are required to cut emissions, they must have some border carbon adjustment mechanism for imports coming from countries that do not make emission cut commitments. However, it is not clear whether such unilateral measures would be compatible with the WTO rules. These measures may be targeted at the way products are produced, rather than the inherent qualities of the products. Thus, the PPMs (processes and production methods) issue and the definition of a 'like' product are relevant to the examination of climate change measures. There are certain provisions under the WTO that allows members to 'adopt and enforce' a measure, inter alia, to protect human life, health or environment. However, the treatment of border carbon adjustment under the WTO remains inconclusive. Technical regulations and standards, such as the border carbon adjustment mechanism, should not be restrictive and fulfil legitimate objectives. Despite this, the understanding of what constitutes a legitimate policy tool in international trade frequently remains subjective.

The EU is India's largest trading partner, accounting for 15% of total trade. The EU has also been one of the largest sources of FDIs to India. There are substantial trade complementarities holding immense potential for future opportunities. However, negotiations for a comprehensive FTA (Free Trade Agreement) between the EU and India launched in 2007, has been suspended since 2013. Various committees have been working tirelessly to address issues related to market access, technical barriers - including sanitary and phytosanitary measures - and investment facilitation. A recent assessment has estimated that the aggregate welfare gain for the EU through the FTA would be between EUR 3.6 - 8.5 billion, while the estimated welfare gains for India would be between EUR 3.8 - 9.0 billion. Exports from the EU to India may increase by 50% while exports from India to EU can increase by 35%. (5)



This demonstrates the enormous potential that exists in trade and - as can be inferred from the statement of India's foreign minister - the two regions have not been able to maximise the potential of their relationships. However, the good news emerging from the recently concluded India-EU Summit in May 2021, was that both sides announced their decision to resume negotiations in the stalled FTA. They also unveiled an ambitious connectivity partnership. At the same time, it was decided to launch negotiations on two other agreements, including investment protection and geographical indications. This is clearly a positive move, and a comprehensive trade agreement will promote better ties and collaboration on a number of newer areas of common interests, some of which are outlined below.

## **4.2 Emerging areas of collaboration**

### **Sustainable financing**

Sustainable finance at EU level aims at supporting the delivery of the objectives of the European Green Deal by facilitating private sector investments for a transition to a climate-neutral, resource-efficient and just economy. (6) An international platform on sustainable finance, launched in 2019 by EU in association with other major developing economies including India, can help in scaling up private capital investment towards environmentally sustainable investments.

As a member of the platform, India has introduced the Business Responsibility Reporting (BRR) with the idea of increasing accountability towards stakeholders, while ensuring that investments are environmentally sustainable. The Security and Exchange Board of India (SEBI) mandated top-100 listed companies by market capitalisation to file BRRs in 2012 based on the National Voluntary Guidelines. This was later expanded to the top-500 listed companies by market capitalisation in 2015. In a recent announcement, the SEBI had replaced the existing BRR with the Business Responsibility and Sustainability Report (BRSR). As per the recent statement, it will be applicable to the top-1000 listed companies (again by market capitalisation) on a mandatory basis from fiscal year 2022. With the introduction of the National Guidelines on responsible business conduct, by the ministry of corporate affairs Government of India, there will be improved ESG integration and reporting. As a result, India's financial sector can become sensitised to the opportunities of green finance, thereby creating space for cooperation with the EU, which is about to launch a new Green Finance Taxonomy for Europe's financial markets. In the long term, India and the EU may envisage setting up joint sustainable finance standards, thereby accelerating mobilisation of private capital for climate change mitigation and adaptation in both regions.

India has also witnessed an infusion of capital from EU for supporting sustainability related projects. In early 2020, the European Investment Bank (EIB) signed an agreement to provide EUR 800 million for supporting clean energy projects in India. Recently, the EIB announced its willingness to invest some EUR 650 million into developing Kanpur's metro rail project. The EIB had already invested EUR 450 million for developing metro rail system in Lucknow a few years previously. (7)

### **Carbon markets**

One of the critical elements that is yet to take shape in realising the objective outlined in the Green Deal document is the implementation of Article 6 of the Paris Agreement. Although it is still at the negotiation stage, Article 6 aims at promoting an integrated and harmonised approach that will help countries achieve Nationally determined contributions (NDCs) through voluntary international cooperation. A crucial role for market-based mechanisms is anticipated.

Market mechanisms in the context of climate policy are primarily the process of setting limits to the levels of emissions across sectors. Emitters can trade the allowances or permits at various designated trading platforms.

Given the diversity of India's industrial sector, as well as global environmental mandates and compliance demanded of the sector, participation in domestic carbon markets in India could prove beneficial for certain sectors and players from an efficiency and competitiveness perspective. The EU ETS (Emissions Trading Scheme) has a lot to offer in terms of learnings, particularly on structuring various aspects of the carbon market, including the allowance allocation, price stability measures and the monitoring and review mechanism. There is room for cooperation on international carbon markets and carbon pricing development in India. Although India is still quite far away from setting its own nationwide ETS, the key point for cooperation is the exchange of knowledge and learning platforms. The EU cooperates closely with China on ETS development, which possibly can be leveraged and transferred to India (8).

## **Just Transition: An imperative for coal dependent economies**

The 'Just Transition' is expected to offer a unique growth opportunity, as identified in the Green Deal. The EU has pointed to, in its climate strategy, the diversity of jobs and new activities that will result from the energy and climate transition. The EU Green Deal has proposed a Just Transition Mechanism, which includes the formation of a Just Transition Fund. Currently, the mechanism is focused only on EU Member States, with no external dimension. The Just Transition is about protecting workers and their livelihood in key activities along the fuel extraction, distribution and consumption network. This will help in extending fund's scope to include newer entrepreneurial opportunities in the areas of sustainable tourism, energy storage technologies, smart mobility solutions and microenterprises. Co-financing, green reward mechanisms for faster reductions in greenhouse gas emissions, etc., are instruments that will ensure that energy transitions create winning opportunities for all.

Coal has traditionally been India's largest source of energy, supplying more than half the country's primary energy requirements. The fossil fuel-driven energy sector has been responsible for significant environmental externalities such as air pollution, water scarcity, land appropriation and degradation, deforestation and climate change. The new proposals in EU also have the potential to offer the innovative solutions of a Just Transition in India.

India's need for clean and affordable energy is vital for supporting economic activities and for addressing numerous developmental challenges faced by the country. Over the years, India's strong coal economy has provided both direct and indirect employment as well as livelihood options to millions. It has contributed to local development, through local infrastructure such as road networks, water supplies and other forms of social capital. As we transition away from coal and formulate and implement measures to mitigate the threats posed by climate change, it is important that societal dimensions are also taken into consideration. This will require complex strategies that ensure that livelihoods are diversified, that there is sufficient capacity development and that institutions are sufficiently robust to ensure that the transition is smooth. This transition will change how land is used and where infrastructure is located. It raises an opportunity to recombine the struggles for land and livelihoods and those of labour. There are opportunities for both regions to exchange learning and to support each other through various capacity development programmes and to explore how national, sub-regional and local level policies can be designed to create winning opportunities for all. The EU need to step up its engagement on Just Transition across the world, either through a broadened Just Transition Mechanism or other policy tools such as climate finance, or the EU's new Neighbourhood, Development and International Cooperation Instrument (NDICI).

# 5. Conclusion

The EU's Green Deal reflects a strong commitment to achieving the sustainability agenda outlined in the Sustainable Development Goals. The growth strategy aims to transform the bloc to a low-carbon, resource-efficient region and achieve net zero emissions by 2050. The ambition is to revamp key economic sectors in Europe such as agriculture, energy, mobility, construction and waste management. Although the strategy is addressing regional sustainability challenges, given the importance of the EU's role in technology development, financing, trade and politics, the effects of the Green Deal are likely to be wide and far reaching. The expectation has substantially increased on how the renewed thinking can help the other global North and South in achieving sustainable development. Enhanced diplomacy, strengthened cooperation and greater collaboration will help deliver better and cost-effective ways of achieving climate goals and social inclusion. They will also ensure that many of the anticipated concerns are adequately addressed during implementation.

The real opportunity lies in how EU and India can work together in mitigating climate change while delivering economic and social benefits. There is an overall need to develop technical, institutional and human capabilities to face the increasing challenge of adaptation and mitigation. The dissemination and transfer of technology at a faster pace is required to deliver rapid transitions. The 15th EU India Summit presents a new beginning for the India-EU relationship, with both countries adopting a common roadmap to guide their actions and putting forward a joint declaration on resource efficiency in the circular economy. The areas of collaboration between India and the EU are enormous, and will further unfold as both countries travel towards sustainability. Both have set ambitious targets to promote environmental sustainability, most notably clean energy targets for India and net carbon neutrality in the EU. Through this timely collaboration, and proposed joint proactive measures, as outlined in the EU-India Strategic Roadmap 2025, the regions can set an example of how to become close partners in sustainable development.

*The views expressed in this paper represent solely the author's own analysis and not his employer's nor the publishers.*

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Konrad Adenauer Stiftung  
Avenue de l'Yser, 11 - 1040 - Brussels

+32 2 66931 70  
denis.schrey@kas.de

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