



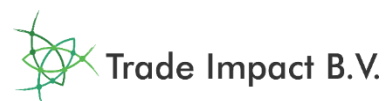
Trade Sustainability Impact Assessment (SIA) in support of Free Trade Agreement and Investment Protection Agreement negotiations between the European Union and the Republic of India

Draft Final Report

Case studies

October 2023

Prepared by consortium led by Trade Impact B.V.
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The views expressed in the report are those of the consultant,
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1. CASE STUDY NO. 1: IMPACT OF THE EU-INDIA FTA ON EMPLOYMENT AND RESPECT FOR LABOUR STANDARDS IN THE TEXTILE, APPAREL, AND LEATHER SECTORS.

1.1 Introduction, the scope of the case study

The economic model estimates an increase in India's production, employment, and exports to the EU in products of the textile, garment, and leather sectors, as a result of the future EU-India FTA, with a possible negative impact on the EU's output and jobs in these sectors. Therefore, it is important to analyse potential impacts in those sectors, as well as measures that can be applied to avoid or to mitigate potential negative impacts.

The case study focuses on the analysis of the current situation in the three analysed sectors in the EU and India, in terms of employment, working conditions and the respect for labour standards. It then moves to analyse potential impacts which may result for those sectors in both Parties from the future EU-India FTA. It finishes with a set of recommendations.

Given that economic aspects, i.e., potential trade liberalisation to be agreed as part of the EU-India FTA talks and the following increased production and trade flows are likely to drive the social impacts, the case study touches also upon the economic considerations, such as the size of the sectors and trade in their products, and the estimated economic FTA effects.

1.2 The current situation in the EU and India in the analysed sectors

1.2.1 Economic aspects

European Union

In 2021, the EU textile and clothing industry generated €147 billion of turnover¹ which marked an 11% increase compared to 2020 (EURATEX, 2022a). The comparison of long-term data is more difficult, given that figures provided in the reports for previous years are for the then EU28, including the UK. The rough estimation suggests that the outcomes for 2021 were slightly below the long-term trend.² Both sectors combined were represented in 2021 by 143,000 companies (3.3% less than in 2020) (EURATEX, 2022a). Also in this case, the analysis of long-term trend suggests a decrease³ (employment-related data is discussed in the next section). Regarding international trade, EU exports⁴ in both sectors reached €58 billion in 2021 (10.6% more than in 2020), while imports equalled €106 billion (7.5% less than in 2020) leaving a trade deficit of -€48 billion (EURATEX, 2022a). In this case, the performance improved compared to long-term trends⁵.

Regarding turnover, Italy (with 36% in 2021) leads before Germany (15%), France (9%), Spain (7%), Portugal (5%) and Poland (4%), with Belgium, Austria, and Romania, each having a 3% share and Czechia 2%. Regarding shares in exports, Italy (with 27% in 2021)

¹ In 2022, the turnover was of €167 billion.

² According to the UK data, the UK textile and fashion industry generated in 2020 a turnover of £20 billion, i.e., €23.2 billion (UKFT, 2020). Given that the EU28 turnover increased from €168.5 billion in 2014 to €178 billion in 2018 (EURATEX, 2019), the corresponding figures for EU27 could be of around €145.3 billion and €154.8 billion.

³ Between 2014 and 2018, the number of EU28 companies first increased from 171,437 in 2014 to 177,684 in 2016, to fall later to 171,072 in 2018. The number of UK companies increased over the last decade to 8,245 in 2020 which leaves 162,827 for EU27, according to 2018 data (EURATEX, 2019; UKFT, 2020).

⁴ In 2022, exports reached €67 billion and imports €137 billion. This mean a trade deficit of -€70 billion.

⁵ EU28 exports increased from €43.0 billion in 2014 to €50.0 billion in 2018 (EURATEX, 2019), i.e., were lower than 2021 data for EU27. While UK exports reached €11.2 billion in 2019 (UKFT, 2020), they were mainly destined to the EU which means that previously (under EU28 data), a large part of their value was included in the EU internal trade and not shown in EU exports (and if any value of UK exports to third countries was included in data for 2014-2018, this meant EU27 exports were even lower than the above figures and lower than in 2021). At the same time, international trade deficit in both sectors (for EU28) increased from €50.1 billion in 2014, to €64.8 billion in 2018 (EURATEX, 2019), i.e., was larger than in 2021. The UK trade deficit of €18.8 billion in 2019 (UKFT, 2020) may have contributed to that previous trend, although also in this case, UK imports originated mainly from the EU and therefore were previously largely covered under EU internal trade. In any case, the comparison of data suggests an improved EU27 performance in 2021, with larger exports and smaller trade deficit than before.

leads before Germany (19%), Spain and France (11% each), the Netherlands (7%)⁶, Belgium (6%), Poland (3%), Austria, Portugal, and Sweden (2% each) (EURATEX, 2022a).

Regarding bilateral trade relations, in 2010-2019, EU exports to India increased in all HS chapters related to textile and garment (for details, see Table 1.3 in the Annex to the main Report). Nevertheless, sector representatives point to several tariff and non-tariff barriers imposed by India and limiting access to its market.

As for non-tariff barriers, EURATEX (2022) and CIRFS (2023), name several subsidy and support schemes for the textile and garment sectors launched by India: “the Remission of Duties and Taxes on Exported Products, the Merchandise Exports from India Scheme, the Rebate of State and central Taxes and Levies Scheme, the Focus Market Scheme, the Focus Product Scheme, the Incremental Export Incentive Scheme, the Status Holder Incentive Scrip, the Duty Drawback Scheme, the Duty Entitlement Passbook Scheme, the Export Promotion Capital Goods Scheme, the Advance Authorisation Scheme, the Export Oriented Units, the Special Economic Zones, the Income Tax Exemption Scheme and the Export Credit Scheme”. Further examples include “Mega Investment Textiles Parks, the Production Linked Incentive Scheme, the Capital Investment Incentive Scheme of the Government of Gujarat, the Gujarat Sales Tax Incentive Scheme and Electricity Duty Exemption Scheme, the West Bengal Subsidy Schemes, and the Maharashtra Electricity Duty Exemption Scheme”.

Moreover, in 2021 and 2022 India introduced Quality Control Orders for man-made fibres. This includes “QCO of 15 April 2021, covering Polyester continuous filament fully drawn yarn, Polyester industrial yarn, Polyester partially oriented yarn, Polyester staple fibres, Polyethylene material for moulding and extrusion, Styrene Butadiene rubber latex, Synthetic micro-fibres for use in cement-based matrix” and “QCO of 29 December 2022, covering Viscose Staple Fibres” (CIRFS data shared with the study team). The former has been in force since April 2023 (further to the transition phase having been extended four times, up to two years in total), while the latter entered into force in March 2023, after a transition phase of only 90 days (original 30 days extended by further 60). Both are very cumbersome for the exporting industry, given the requirement of in-person audit in every exporting production site by BIS (Bureau of Indian Standards) auditors and the obligation of licence renewal every one-two year(s) (the initial one is issued for one year only). Also, the packaging needs to comply with BIS standard and products need to hold BIS hallmark of conformity. The procedure is expensive. The certification costs around €13,000 (this does not include administrative costs related to preparation of the application and renewal, nor costs of the visit of auditors). Moreover, if the company does not have its representation in India, costs of consultancy may amount to additional €8,000-€12,000. Moreover, given the insufficient BIS capacity to conduct audits, the waiting time may extend of up to seven months. As a result, the QCOs has imposed a de facto ban on EU exports as to-date only two or three companies received certificates which in addition do not cover all of their production facilities (CIRFS data shared with the study team).

In 2019, the EU27 leather industry covered 1,545 companies, with a total turnover of €7 billion and the main role played by Italy, Spain, Portugal, France, and Germany, with further places being taken by the Netherlands, Sweden, Romania, Hungary, Austria, and Denmark (COTANCE, IndustriALL, 2020).

India

In the textile and garment sectors, India’s exports were decreasing over the last few years (the total value of exports covering such product groups like ready-made garments, cotton textiles, man-made textiles, wool and woollen textiles, silk products, handloom products, carpets, jute products and handicrafts fell from €31.8 billion in 2017-2018 to €26.7 billion in 2020-2021, with a gradual decrease in value every year which means that the fall cannot be attributed only to the COVID-19 pandemic). After a rise to €42.2 billion in 2021-2022, the value fell again to €33.8 billion in 2022-2023. Moreover, a similar trend has been

⁶ The relatively high figures for exports for the Netherlands and Belgium may be related to the location of ports.

recorded for each product group within the sector (Ministry of Textiles, 2023). The US have been the main market for India's textile and garment exports, accounting for 29% in 2022-2023. They were followed by the EU (21% or €7.1 billion), Bangladesh (7%), the UK (6%) and UAE (6%) (Ministry of Textiles, 2023a). The main EU destination markets included Germany (4.3% in 2022-2023), France (2.9%), the Netherlands and Spain (each 2.6%), Italy (2.4%), Belgium (1.3%) and Denmark (1.0%) (Ministry of Textiles, 2023b).

With €144.5 billion of turnover in 2021, the textile and garment sectors jointly contribute 2.3% to India's GDP and account for 7% of the industrial output. They are also the second largest employer in the country (45 million people), after agriculture. Moreover, India is the largest cotton producer in the world, with cotton cultivation providing livelihoods to 5.8 million farmers, while further 40-50 million people are engaged in cotton processing and trade (Invest India, 2023).

In the leather sector, in 2021-2022, India exported to the world goods worth €4.6 billion, with leather footwear accounting for 42% of the total, followed by leather goods (26.4%), finished leather (9.4%) and leather garments (7%). The main destination markets included the US (23.8%), Germany (11.0%), the UK (9.4%), Italy (5.9%), France (5.7%), Spain (4.4%), the Netherlands (4.4%), China (2.8%), Belgium (2.4% and UAE (2.2%). Exports to all EU Member States jointly accounted for 40.9% (Council for Leather Exports, 2023).

Regarding non-tariff measures considered or introduced by the EU, India raised in 2022 a concern at the WTO TBT Committee in relation to the proposed reduction of Chromium VI concentration from 3mg/kg to 1mg/kg in leather and textile items. India explained that chromium is used in the process of tanning leather. There are other available methods of tanning, however, the leather may have different properties afterwards. Also, according to the Committee for Socio-Economic Analysis of the European Chemicals Agency, it may not be feasible to carry out a reliable analysis and measuring of the chromium level below 3mg/kg. Given that every regulation of this type needs to be based on scientific evidence, India requested the EU to withdraw the proposed reduction of Chromium concentration (WTO e-ping database).

1.2.2 Social aspects

Employment, including women and vulnerable groups of workers

European Union

In all three analysed sectors, employment has been falling over the last decade: in textiles, from 663,700 jobs in 2010 to 600,500 in 2022, in garment, from 1.3 million to 927,300 and in the leather sector, from 434,000 to 407,500 in the same period (EUROSTAT, no date). The estimated employment in the man-made fibres sector (part of the textiles) decreased from 26,638 in 2019 to 25,000 in 2022 (data shared by CIRFS).

A few Member States have larger shares in employment in the textile and garment sectors (Italy, 22%; Romania, 11%; Poland, 11%; Portugal, 9%; Germany, 9%; Bulgaria, 7%, Spain, 6% and France 6%) (EURATEX, 2022a). Therefore, in the following sections, we will analyse the situation there, as far as data is available.⁷

In 2022, women represented 53% of workers in the textile sector, 81.3%⁸ in garment and 58.5% in the leather sector. Given that 85.8% of EU jobs lost in the garment sector since 2010 (319,400 jobs out of 372,200) (EUROSTAT, no date) had been occupied by women, and also given their current high representation in the sector, one can conclude that women are overall more exposed to negative impacts in the sector than men.

⁷ Given that evidence related to working conditions identified for Poland and Portugal comes from 2015-2016 (Fair Wear Foundation, 2016; Clean Clothes Campaign, 2016) and may not reflect accurately anymore the situation in both countries, it will not be used.

⁸ According to EURATEX (2022a), women represent 70% of workers in the textiles and clothing sectors combined. This has been confirmed by EUROSTAT data for 2022 (70.1%) (EUROSTAT, no date).

Also, elder workers (55-74 years old) had higher shares in the textile and garment sectors in 2022 (24.0% and 23.5% respectively) than their share in the total EU employment (21.8%) (EUROSTAT, no date). In the leather sector (tanneries), while the share of elder workers is still below the average, it increased from 9.9% in 2012 to 16.6% in 2020, with workers aged 46-55 years accounting for further 30.9% (COTANCE, IndustriALL, 2020). This means that elder workers may potentially be more exposed to risks related to additional pressures in these sectors, like increased imports from India.

Data related to employment of young people (15-24 years of age) in individual sectors is very fragmented, therefore it is difficult to draw precise conclusions. However, it suggests that at least 31,600 young people worked in the EU garment industry in 2022, with larger groups identified in Italy (6,100), Spain (2,900) and Portugal (3,500) (EUROSTAT, no date). In the leather sector (tanneries), young people (19-25 years) accounted for 7.5% of workers in 2018 (COTANCE, IndustriALL, 2020), i.e., their share was slightly lower than their 8.2% share in the total EU employment (EUROSTAT, no date).

There is no comparable EU-wide data available regarding persons with disabilities and migrants working in the analysed sectors, therefore it is not possible to conduct a detailed analysis for these groups. That said, the literature (Fair Wear Foundation, 2020) refers, e.g., to migrants from China, Africa, Bangladesh, and Pakistan working in the garment and leather sectors in Italy (for details, see the section on working conditions further down). Also, data for the leather sector (EU tanneries) indicates that the share of non-EU citizens increased from 8.5% in 2012 to 10.0% in 2020 (COTANCE, IndustriALL, 2020).

India

According to the Annual Survey of Industries, employment in registered establishments⁹ in the garment sector increased from 872,962 persons in 2010-2011 to 1.2 million in 2019-2020, while in the textile sector it went up from 1.4 million to 1.6 million in the same period (MoSPI, 2013; 2022b)¹⁰. The total employment in both sectors together, including informal jobs, is estimated at 45 million workers, out of whom 60% (27 million) are women (Agarwal, 2022; Kane, no date). Women also own businesses in both sectors (Wangchuk et al, 2020) and represent a large proportion of informal home-based workers. Moreover, in some areas of northern and southern states of India, almost all such workers (98%-99%) belong to the Muslim community or Scheduled Castes (Kara, 2019). The evidence also suggests that apprenticeships or contractual work in the textile and garment sectors often represent the only income generation opportunity for young girls from rural areas originating in vulnerable groups, e.g., 60% of women working in analysed spinning mills in Tamil Nadu were of Dalit background (Global Slavery Index, 2018; India Committee of the Netherlands, 2016), and women from Scheduled Castes and Tribes have been recruited to garment factories in Karnataka (India Committee of the Netherlands, 2016a and India Committee of the Netherlands, Clean Clothes Campaign, Garment Labour Union, 2018).

Employment in registered firms in the leather sector increased from 292,657 jobs in 2010-2011 to 426,093 in 2019-2020 (MoSPI, 2013; 2022b)¹¹. In total, the sector provides 4.4 million jobs, out of which around 40% are occupied by women¹². Women also represent a

⁹ A factory needs to be registered under the Factories Act (1948) if in that factory "ten or more workers are working, or were working on any day of the preceding 12 months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on, or where twenty or more workers are working, or were working on any day of the preceding 12 months, and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on; but this does not include a mine, or a mobile unit belonging to the armed forces of the union, a railway running shed or a hotel, restaurant or eating place" (Legal Service India, no date). However, the Code on Occupational Safety, Health, and Working Conditions, 2020 increased those thresholds to 20 and 40 workers respectively which means that less production units will be obliged to register and to comply with labour-related regulations (PRS Legislative Research, no date).

¹⁰ The number of establishments registered under Factories Act in the garment sector increased from 9,226 in 2010-2011 to 11,573 in 2019-2020. In the textile sector, the number of registered establishments fell from 18,584 in 2010-2011 to 17,996 in 2019-2020 (MoSPI, 2013; 2022b).

¹¹ The number of establishments in the leather sector registered under Factories Act increased from 4,072 in 2010-2011 to 4,857 in 2019-2020 (MoSPI, 2013; 2022b).

¹² In 2016, in Tamil Nadu leather sector, women represented 20%-30% of workers in tanneries, 80%-85% in factories and 100% of home-based workers (Arisa, 2021).

majority of informal home-based workers (Ravi, 2020; Homeworkers Worldwide, 2019). The leather footwear production and exports, accounting for 42% of the sector in 2022, have been growing (Council for Leather Exports, 2023). However, the sector has faced challenges with supply of raw material due to sensitivity of handling cattle hides and was forced to import them which put jobs and businesses at risk and prompted international buyers to place orders in other Asian countries (Bhardwaj, Kumar, 2017). For reasons related to sensitivity of handling cattle hides, the leather sector traditionally employs Dalit and Muslim workers (Ravi, 2020; Homeworkers Worldwide, 2019).

Working conditions, including informality levels

European Union

In Italy, in 2018, the cluster of textile, garment, leather and footwear sectors provided jobs for around 500,000 workers employed in 82,000 companies (46,000 garment, 20,559 leather and 15,493 textile). Orders in these sectors are often delivered by a lead company passing part of the work to two or three sub-contractors to increase speed and flexibility. Reportedly, to keep the costs low, some companies engage Chinese sub-contractors who own in Italy around 20,000 companies and often employ Chinese nationals some of whom reside legally and have work permits, some do not. Some sub-contractors also hire migrant workers from Pakistan, Bangladesh, or Sub-Saharan Africa, either on temporary contracts or informally. They often work long hours and receive low wages (illustratively, reports spoke of €300-€400 paid to them for work for which Chinese workers in Italy received €1,300). Women and migrant workers usually occupy lower positions while high-level roles are allocated to men. In 2019, wages in the analysed sectors were regulated by collective agreements, set separately for large establishments, SMEs, and crafts. Those in large establishments were considered as comparable to living wages, notably compared to living costs in the southern regions of Italy, while wages in SMEs and crafts were lower and those in Chinese-owned establishments were often paid at piece rate. Long working hours were reported in Chinese-owned garment companies (12 hours a day with no weekly rest) and shoemaking (nine hours a day), with workers being paid for overtime by cash, often at a normal rate, and not a higher rate as foreseen by the law. Risks related to the occupational safety and health were linked to the lack of training, the lack of personal protective equipment and removal of protective devices from the machinery to speed up its work (Fair Wear Foundation, 2020).

In Romania, in 2019, the cluster of textile, garment, leather and footwear sectors provided jobs for 214,577 workers¹³ (4.1% of the total workforce) employed in 8,190 companies (80% of production was foreseen for exports). Wages offered by all these sectors are low. In 2020, they ranged from RON (Romanian Leu) 3,058 in the garment sector, over RON 3,475 in the leather and footwear sector to RON 3,889 in the textile sector, compared to the minimum wage of RON 2,230 and the national average of RON 5,452. Moreover, while wages have been increasing over time, the gap between wages in these three sectors and the national average has been widening since 2018. Despite this fact, several factories and brands either closed down in 2019 or relocated their production to countries with lower production and labour costs. There are reports that workers have to do overtime (10-15 hours per week), in some cases to meet their production targets, without getting additional payment or paid at lower rates than foreseen by the law. This means that the actual wage covering regular working hours may fall below the minimum wage or be around that level. The work is largely formal. In 2019, labour inspections conducted in 1,575 factories in the sector identified 88 persons exercising undeclared work. Inspectors also imposed fines for breaches of legislation related to working hours. In 2017-2019, in the cluster, there were one or two fatal accidents per year and 131-156 non-fatal accidents per year resulting in a temporary disability. Many workers have received training in the occupational safety and health however, the awareness of its practical application is rather low. Moreover, there are

¹³ 39,980 in the textile sector, 117,791 in the garment sector and 56,806 in the leather and footwear. Women accounted for 79.5% and men for 20.5% of the total workforce in the cluster. The total number of employed in 2019 represented a decrease from 327,449 in 2008 (Fair Wear Foundation, 2021).

risks related to inadequate ventilation, inappropriate storage of chemicals, the lack of maintenance of fire extinguisher and others (Fair Wear Foundation, 2021).

In Bulgaria, in 2018, the textile and garment sector provided jobs for 143,000 people, out of whom women represented 85%. Around 90% of exports were directed to EU Member States, while Bulgaria held the second rank globally in production of protective workwear. In 2019, wages in the textile and garment sectors were comparable with the minimum wage. This, together with the overall poor working conditions caused workers' outflow from the sector forcing some companies to decline orders and to reduce production, while other companies raised wages to avoid the same fate. Moreover, it was acknowledged that in case of a difficult time in a company, firms were cutting bonuses and other social benefits and delaying payments of wages and social security contributions using their workers as de facto creditors. Long working hours, including overtime, were reported seasonally and some workers considered this as an opportunity to earn some extra money. However, this has been less of a problem more recently as companies prefer not to risk losing more workers due to hard working conditions. There is an equal treatment of men and women, with women also holding managerial positions. There were no migrant workers employed in the sector in Bulgaria (Fair Wear Foundation, 2019a).

There are also reports describing practices of some international brands sourcing garments in the EU Member States (Bulgaria, Croatia, Romania, and Czechia) and EU neighbouring countries. The common features include very low prices paid to suppliers which makes it very difficult for them or impossible to invest, make a profit or pay decent wages to workers and in some cases forces them to further outsource work to informal establishments or to request workers to do excessive overtime. Sometimes, prices offered by brands are too low for a legally operating, formal company which needs to pay taxes and social security. There are high production targets and irregularities regarding statutory rights, like annual leave, sick leave, or overtime. Brands tend to place in the EU small orders, with very short lead times and frequent changes at short notice, using the proximity of European suppliers to the market. It is also very difficult for suppliers to change anything in the contract once an order has been placed even if the production costs increase. Brands have also been delaying payments further to the receipt of the shipment. This puts pressure especially on small EU suppliers who often depend on one main customer. They are aware that brands place in Europe small orders that cannot be outsourced overseas while larger orders are placed in Asia (Ljarja, Musiolek, Vanpeperstraete, 2023; Clean Clothes Campaign, 2020).

In the leather sector (tanneries) across the EU (including countries not mentioned above) the share of workers having a permanent contract increased from 87.5% in 2012 to 90.9% in 2020. The share of those having a fixed-term contract slightly decreased from 8.7% to 8.1% in the same period. Workers are also more educated. The share of those with the first and second degree of European Qualification Framework, comparable with compulsory education decreased from 70.5% in 2012 to 52.6% in 2020, while the share of those with degrees 3 and 4 (secondary education) increased from 24.9% to 38.1% and those with a degree 5 or higher (tertiary education) from 4.6% to 9.3%. Workers also tend to stay in the sector for a long time (around a half work there for more than ten years) which may reflect the companies' approach to building relations with their workforce but also the fact that tanneries are often based in areas not offering many other job opportunities (COTANCE, IndustriALL, 2020).

India

The structure of the garment and leather sectors in India is complex and the sectors are composed of a few tiers of companies, each with its different features which in turn has an impact on working conditions in each of those. An example of such a structure has been provided by Save the Children (2015) study identifying five tiers. Tier one included export-oriented companies producing for international markets, tier two were companies producing for both international and domestic markets, and tier three produced for Indian brands and acted as supplier for tiers one and two. Companies within these three tiers usually had a factory size and structure and belonged to the organised sector. On the other hand, tiers four and five included informal units and home-based workers focusing on a

certain outsourced activity which in the garment sector could include dying, printing, buttonhole making, button stitching, embellishment, embroidery, and thread cutting. Given the informal nature of the last two tiers, they are likely to offer the worst working conditions and involve other labour rights violations, like child labour (for this reason, working conditions of home-based workers are analysed further down, jointly with child labour). Regarding the top three tiers, the literature often provides summary findings from different factories or does not state which tier the analysed factory represents therefore, it is difficult to make a clear distinction between each of these and the working conditions they offer. When this has been mentioned, we have made a reference to it. In most cases, the monitoring focuses on tier one establishments due to their contracts with international brands. Moreover, the literature highlights that while in the northern states of India the analysed sectors have a fragmented nature, in the south, there are more large, integrated establishments covering sometimes the whole production process.

Work in the textile and garment sectors in India remains largely informal, while both formal (organised) and informal (unorganised) establishments, and different workers' categories are involved. Data provided in the previous section suggests that formal employment in registered establishments represented 6.2% of the total employment in both sectors (2.8 million jobs out of 45 million) (MoSPI, 2013; 2022b; Agarwal, 2022; Kane, no date). Some establishments have their own employees complemented by casual (contractual) workers and the work is distributed between them and subcontractors who in turn may pass orders to informal, home-based workers. Subcontractors may include informal establishments, in particular for activities such as fabric dying to fall below the threshold of certain regulations (Kumar, Sharma, 2020; Damle, Singh, 2019). Likewise, other activities downstream the value chain, like weaving, knitting, and printing the fabric are carried out by small informal enterprises¹⁴ while the upstream spinning is delivered by businesses 92% of which are organised (Mishra, 2021). The work fragmentation and the complex network of engaged businesses mean that leading businesses are not accountable for working arrangements further down the chain, notably regarding vulnerable home-based workers (Khandelwal, Phansalkar, CMLS in: Access, 2020).

Moreover, while in both sectors working conditions may vary between factories and hubs of New Delhi, Bangalore in Karnataka and Tirupur in Tamil Nadu, there are trends common to most of the sector¹⁵. The factories increasingly recruit migrant workers from other states and rural areas, including members of Scheduled Tribes (Adivasi) or Scheduled Castes (Dalits), as they are less aware of workers' rights, have lower expectations and are easier to control or manipulate, as they sometimes do not speak the local language (this also means that they may not understand the terms of contract they agree to in case they have a contract at all). Working long hours (up to 12-hour shifts) is common and overtime is sometimes compulsory, and often either not paid or paid with a delay or at lower rates than foreseen by the law. Depending on the worker's category and factory's size, workers either do not qualify for social security payments or see sometimes payments deducted from their wage but not paid on their account. Minimum wages vary across states and are often below the living wage level. Also, workers, notably women and Dalits, may not be promoted for a long time or may not receive wage increase which keeps their wages close to the entry level. Verbal and physical abuse and sexual harassment are frequent, affecting notably women. Migrant workers may be accommodated in hostels without basic facilities, such as safe drinking water. Moreover, some receive wages lower than promised and need

¹⁴ In some hubs, like New Delhi or Bangalore, there are also large enterprises which cover several activities, from fabric dyeing to finishing and packing the product (López, 2023; Mezzadri, Srivastava, 2015).

¹⁵ While in the north, the sector is more fragmented, than in the south, larger factories are often connected with a network of smaller, informal sub-contractors and home-based workers. Additionally, in Bangalore and Tirupur, some factories are moved to rural areas where there is expectation of cheap labour and lower production costs, and where more dispersed workforce have more difficulties to unionise (Fair Wear Foundation, 2019). In a similar context, our interlocutors pointed out that the new Labour Codes adopted in 2020, which in some states have not entered into force yet, have raised the threshold of certain actions which were meant to protect workers. For example, according to the Industrial Disputes Act (1947), the closure of a factory employing 100 or more workers had to be reported to the appropriate government and receive permission while the new Industrial Relations Code (2020) in section 77(1) and section 80 has raised that threshold to 300 workers. Given the overall small size of establishments in India, this means that most companies will fall below the bar, thus not having this obligation any longer (interview with trade union from Tamil Nadu).

to pay for hostels or food, also contrary to the original job offers. On the other hand, workers new to the sector may follow vocational training for a month or two, run by private training institutes, while there are diverging reports as to whether that training is paid by the Government or participants (Fair Wear Foundation, 2019; Change Alliance, 2021; Ray, Pepercamp, 2018;).

Labour inspections are reported as infrequent (due to the insufficient number of labour inspectors and schedule) and not having much influence on working conditions. Moreover, according to trade unions, actions taken by the Government recently seem to aim at dismantling labour inspection (interview with a trade union from Tamil Nadu)¹⁶. Similar working conditions were reported in earlier studies, e.g., an ILO survey conducted in 2012-2013 in New Delhi and Bangalore. However, in those, less workers reported to be contract workers hired through intermediaries (15% compared to the current 60%-80%) and more were registered for social security than now which may suggest that working conditions have even worsened over time (ILO, 2015b; Fair Wear Foundation, 2019; interview with a trade union from Tamil Nadu).

Also, several sources coincide in a view that there are no differences (or very limited ones) in working conditions offered by export-oriented textile and garment factories compared to the rest of the sector¹⁷ (interviews with academic labour experts and a trade union from Tamil Nadu). There is evidence of high production targets in export-oriented factories and tight control, forcing workers to work during breaks or take overtime to achieve them (López, 2023). Likewise, there is evidence that at least in some factories working conditions have not improved, despite their membership in certification schemes, with several failures observed in conducting audits. For example, companies are reported as running double recording systems, one being compliant with the requirements, audits are commissioned and paid by manufacturers, collected data is not verified with other sources, workers are often not allowed to talk to auditors and the auditing schemes may not wish to issue critical reports to not discourage members (Fair Wear Foundation, 2019). The above predicted trends have been confirmed by trade union representatives (interview with IndustriALL). According to them, the already delivered orders for international brands, for exports to the EU, have not changed working conditions in the analysed sectors. Moreover, the to-date experience shows that additional orders (which may also be generated by the future FTA) are delivered based on existing capacities, while workers are requested to work to higher production targets, do overtime and resign from breaks during the day. In such cases, there is also a higher incidence of abuse, given the pressure put by brands on factories which then goes down to managers and workers.

Doubts are also raised regarding effectiveness of measures applied by some international brands sourcing in India, such as Codes of Conduct or Global Agreements, in particular if these are seen jointly with other practices applied by brands, such as delayed and reduced payments, the lack of price increase while the production and living costs go up, shortened lead times or last minutes order changes forcing workers to do overtime to deliver them (Cernansky, 2022; Vaidyanathan, 2020; López, 2023). Also, while some brands announce commitment to paying living wages to garment workers, instead of paying adequate prices, they pass the entire responsibility to certification schemes and manufacturers. However, certification schemes do not have tools to enforce such a commitment (some only provide advice) and audits include flaws, as mentioned above. There is also evidence showing the lack of progress in implementing such commitments (LeBaron, 2021). Some brands also reportedly focus on keeping most of the profit margin for themselves and drive production

¹⁶ Evidence provided in section 3.6 in the Annex confirms a decrease in the number of labour inspectors in India since 2011, as well as a lower than before number of inspections and inspected facilities. Moreover, labour inspection has been weakened allowing employers to provide self-declaration of compliance with labour laws, while larger enterprises will be inspected according to the plan, every three or five years. There will be no possibility to conduct unannounced inspections, further to signals about labour rights violations. Inspectors will become facilitators providing advice to employers and workers (Jayaram, 2019, Anti-Slavery International, 2021).

¹⁷ In some large export-oriented factories, e.g., in Bangalore, the process of design and cutting fabric has been automated. This means lower production costs and fewer jobs for skilled workers who otherwise would carry out that task. Such factories reduce the roles for skilled and semi-skilled workers and keep low-skilled staff hired from among migrant workers or people from rural areas (López, 2023).

costs to the bottom¹⁸. They maintain a wide supplier network in and outside India and threaten to move orders from India to countries where wages are lower, and which benefit from tariff preferences under the EU EBA scheme (López, 2023). Finally, while some of the CSR initiatives from international brands or certification schemes may have been designed in good faith, they often fit in the context of large factories with permanent workers, while the sector in India is informal and divided into many small units, along with homeworkers (Mezzadri, 2014) with an overall approach to avoiding compliance with labour regulations.

Trade union representatives also claim that while brands engage with employers and sometimes with NGOs, they do not seek contact with trade unions as recognised workers' representatives (interview with trade union from Tamil Nadu). On the other hand, a positive aspect related with production for exports, including for international brands, may be in the size of tier one suppliers which in some states, e.g., Bangalore in Karnataka, become large and therefore need to be registered under the Factories Act (or a legislation replacing it) and comply with labour regulations. Some sources also suggest that elements of health and safety at work in such factories, like ventilation or presence of fire extinguishers, may be better than in the rest of the sector (López, 2023; interview with academic labour expert).

The leather sector, based mainly in Uttar Pradesh and Tamil Nadu, has a similar, complex structure like the one described above. There are bigger businesses operating integrated shoemaking and tanning units, however, there is also practice of passing orders to a wide network of sub-contractors and home-based workers, mostly women. Given the sensitive nature of handling cattle hides in India, the sector traditionally employs Dalit and Muslim workers, most of them based on informal arrangements of daily wages or piece rate. Such arrangements are supposed to ensure low production costs and flexibility in taking orders or delivery at short notice, while – on the other hand – they also mean the lack of workers' protection against risks related to the occupational safety and health and the lack of rights, such as to maternity leave. While some international buyers requested social audits in the Indian leather companies, they have been limited to the first tier suppliers, not capturing the reality of the whole network (Ravi, 2020; Homeworkers Worldwide, 2019). Informality is widespread. Data provided in the previous section suggests that formal jobs in registered establishments accounted in 2020 for 9.7% of the total employment in the sector (426,093 jobs compared to 4.4 million) (MoSPI, 2013; 2022b; Council for Leather Exports, 2023).

The evidence also suggests that even in large factories, working conditions fall below the statutory minimum. For example, field research conducted in 2021 in Tamil Nadu revealed that in large shoe factories, monthly wages ranged from INR 6,000 to INR 12,000 (€69 to €138) while the minimum wage in Tamil Nadu was set at INR 9,103 (€105). This means that some workers received wages lower than the minimum. At the same time, almost all interviewed workers said the wages did not cover their needs, such as essential household expenses. Also, only 20% of interviewed workers had all three documents that confirmed their employment (contract, company ID card and payslips), while 27% did not have any of these and 53% only one or two. Trade union representatives informed that only skilled workers had the status of permanent employees and only those were paid at least the statutory minimum wage while the rest were hired as casual workers with wages below that level. Permanent workers had access to social security and other benefits. Most workers reported overtime, sometimes mandatory or applied as punishment, as well as high production targets. Abuse and harassment were also noted. While around half of the interviewed workers operated machines or handled chemicals, not all had received training or protective equipment going beyond masks and gloves. Moreover, the factories used to prepare workers and the plant floor for social audits, instructing workers what they should

¹⁸ Such practices exacerbate effects of the pre-pandemic economic slow-down in India (when real wages of regular workers started falling and wages of casual workers increased only in a limited way) and two waves of COVID-19, with a temporary significant unemployment increase and the loss of income among urban workforce and migrant workers, and a fall of wages in rural areas where migrant workers returned (Mehrotra, 2021).

say to auditors, distributing protective masks and shoes and asking temporary workers not to come to work on the day of the audit¹⁹ (Chatterjee, Ravi, 2023).

Literature covering the whole leather sector also mentions low wages, long working hours, involuntary overtime, labour casualisation, the exclusion of informal workers from access to social security and healthcare insurance, occupational health and safety risks related to handling toxic chemicals and machinery, the lack of or low level of freedom of association and the lack of or ineffectiveness of grievance redressing mechanisms (INKOTA Netzwerk, 2018; Ravi, 2020). A 2017 study conducted in tanneries also speaks about workers kept on daily wages for a long time as employers wanted to avoid compliance with labour laws. Additionally, in the informal part of the sector, including small establishments and home-based workers, orders were irregular, providing work and wages for a few months in year. Workers were also likely to develop allergies, and skin and respiratory diseases. Moreover, wastewater from tanneries (containing chromium) polluted waterways and groundwater, affecting peoples' health and yields in agriculture. Some informal establishments lacked basic facilities, like toilets or proper light and ventilation, and workers did not get protective equipment beyond gloves (INKOTA Netzwerk, 2018). Similar problems including non-paid (or underreported) overtime, low wages (comparable with poverty line in Tamil Nadu), the social security deductions from wages, without a proof of them being paid to the pension scheme, or health problems resulting from long working hours and poor working conditions have also been reported by other sources (e.g., Anti-Slavery International, 2021) and our stakeholder engagement (interview with Anti-Slavery International).

A complex structure of the sector, with many actors and intermediaries involved, has been named among drivers of this situation, as it makes it difficult to oversee the operation of the whole value chain. High informality levels, the weakening of the labour inspection and anti-union practices, limited job opportunities for unskilled workers, including workers from lower Castes or certain communities and the government's approach towards the ease of doing business on the expense of respect for labour standards are also mentioned. Moreover, even if the legislation foresees establishment of different committees in factories (on health and safety or complaints), they either exist only on paper or are ineffective as workers are reluctant to submit complaints or support those submitted by others, out of fear of losing a job (Anti-Slavery International, 2021).

A survey conducted by the ILO in 2014 among over 3,000 micro- and small enterprises²⁰ from three states (Maharashtra, Tamil Nadu, and Odisha) operating in the textile, leather, food processing and auto components sectors revealed that while there were differences in results between the states, overall, the awareness of employment and tax-related laws was low and so was the compliance rate (except for business income tax in Maharashtra). Moreover, in most cases, the non-compliance was deliberate, as a way to avoid additional costs and work, and given the lack of enforcement by the authorities. In some cases, the enterprises had also decided to remain below the threshold of application of certain laws which in turn limited their potential. Between 40% and 60% of all workers in surveyed firms were kept on short-term contracts, as casual labour force (ILO, 2014a).

A separate consideration should also be given to Special Economic Zones (SEZs). In 2022, they provided employment for 2.8 million persons (Ministry of Commerce and Industry, 2022). According to the literature, jobs in SEZs are formal and offer working conditions

¹⁹ The above-mentioned research was conducted in export-oriented shoe factories. Results of the same research in export-oriented tanneries were even worse in some elements, e.g., none of the interviewed workers had a contract while half of them did not have any documents (like payslips or company ID card) confirming their employment. Also in this case, a group of workers, incl. permanent and with long-term experience, received wages below the statutory minimum and almost all workers admitted the wages did not cover their needs. Permanent workers had access to social security and annual bonuses. While there was right to paid leave, in some cases, using it in practice was difficult. Also, most workers reported overtime. While most of the interviewed workers used either chemicals or machinery, only half had been trained to this end. Workers in informal tanneries received daily wages which could sum up to a minimum monthly wage, provided there were continuous orders, which was not guaranteed. There was no work in the rainy season (Chatterjee, Ravi, 2023).

²⁰ The surveyed enterprises included both registered and informal, as well as those above and below thresholds for application of certain employment and tax legislation. However, the results do not show a considerable difference in law awareness and compliance between different categories of surveyed enterprises.

that are on average better than in similar jobs outside SEZs (Sharma, Jat, 2021). Sectors, like chemicals, pharmaceuticals, textiles, apparel, and leather operate in SEZs, however, other sectors, such as computer, electronics (hardware and software) and engineering seem to play a more prominent role in employment, exports, and investment in several SEZs and Export Oriented Units (Ministry of Commerce and Industry, no date).

Labour standards – child labour²¹

European Union

Given that according to the available data, child poverty in the EU has not been linked to a concrete set of sectors, the analysis in this section will focus on child labour in India.

India

A study conducted in the garment sector in Delhi (Save the Children, 2015) revealed work of 8,044 minors, 65% of whom were of 15-18 years of age and 34% were under the age of admission to work (6-14 years). All worked either in households or small informal units. According to the authors, formal export-oriented businesses and their immediate suppliers did not engage child labour out of fear of losing orders in case international buyers detect child labour during audits. However, simple, or time-consuming tasks, like thread cutting, and embroidery, were passed (through intermediaries) to small informal units and home-based workers, i.e., the part of the sector with no oversight and no regulatory compliance. In such cases, family members, including children, were also engaged in work to support the household's budget. Most of the school-age children (92%) working at home attended school and worked for a few hours later in the day, while minors working in small informal units (Addas) were largely early school dropouts (45% of them had attended school in the past). These tended to work longer (six to ten hours a day). In both groups, 40%-45% of children worked every day. While children working at home, usually did not get money for work (or very small amounts) and their part supported the family's budget, those working at Addas earned monthly INR 1,000-5,000 (€14.3-€71.5)²². Working minors and children were either migrants themselves or were born in Delhi in families of migrant workers from Uttar Pradesh, Bihar, Jharkhand, and West Bengal. Poverty was the main reason for work.

Another study (Kara, 2019) conducted among 1,452 home-based garment workers from the northern and southern part of India found out that 85% of them worked exclusively for supply chains exporting garments to the EU and the US, while the remaining 15% for a mix of companies producing for exports and domestic market. Children aged 10-17 years represented 19.1% of workers in the north and 11.2% in the south. However, this may be an underestimation, given that the study protocol did not allow for interviewing children younger than 10 years (and such were seen working alongside their mothers) and there were cases where parents did not give consent for interviewing children working at home. Among home-based child labourers in the north, 33.6% attended school, while 91.9% of those in the south did so. It was explained that children in the north had dropped out of school when parents could not afford any longer paying school fees. At the same time, the main reason provided by women in the south on why they had started working in the

²¹ Child labour is understood in line with the ILO approach. Accordingly, child labour is a matter of concern and subject to elimination, when it means an economic activity engaging a child (below the minimum age for admission to work or below 18 years of age for hazardous work) which interferes with the child's physical or mental development. Child labour may prevent the child from attending school, force it to leave the school early or make it difficult to combine the school attendance with long working hours. In such cases, it does not allow for having enough time for rest or leisure activities, which are adequate for the age and the stage of personal development. Regarding data used in this section, to the extent more granular data is available, we refer to child labour essentially in cases related to children under the minimum age for admission to work in India (i.e., under 14 years of age) and to working minors when they are 15-18 years old. In such cases, we also provide reference to their exact age. However, in cases where the information source does not include such details, we speak about child labour in relation to persons under 18 years of age (given that hazardous work is prohibited for all minors).

²² In the case of children working at home, the male heads of household usually received low income as unskilled workers or daily wage earners, and this forced women to become home-based workers in the garment sector. The low piece rate payments, as well as orders placed at short notice forced them in turn to engage other family members, including children, in helping to deliver orders and to support the household's budget.

garment sector was to be able to pay school fees for their children. The earnings reported by home-based workers were very low. In the north, a daily wage for an eight-hour day paid on a piece rate basis to a female worker was USD 1.05 and, in the south, USD 1.44. At the same time, the minimum daily wage was between USD 3.08 for unskilled work in Rajasthan to USD 8.44 for semi-skilled work in Delhi. Therefore, all home-based female workers were paid between one third and a half of the lowest minimum wage. Almost all (99.7% in the north and 97.9% in the south) of interviewed workers belonged to Muslim community or Scheduled Castes. Moreover, as many of these women were not allowed to leave their homes, home-based work was the only one available to them. The findings regarding child labour and working conditions of home-based workers were confirmed in stakeholder engagement (interview with an NGO working in the Indian garment sector).

Child labour cases were also detected following the COVID-19 pandemic when employers saw an opportunity to hire minors when schools were closed and families needed additional income. There is anecdotal evidence, like a rescue of 35 children from a spinning mill in Tamil Nadu. They were forced to work 14 hours a day without days off (Nagaraj, 2020).

A similar picture has been provided by another study analysing the leather sector and shoe making in Agra. Child labour has been detected in small informal units and in households of informal home-based workers. Poverty (too low income earned by parents) and the lack of school facilities were named as the main reasons. As a result, only half of the children aged 12 or less attended school. For 95% of the surveyed families, footwear sector was the main source of income, with most family members contributing. Despite this fact, families of five to seven members had total monthly income below INR 9,000 (€122,4) and 40% of them, below INR 6,000 (€81.6). At the same time, the minimum wage of one unskilled worker was set at INR 7,107. This means that in 40% of families, the total income was below the minimum wage established for one unskilled worker. The export-oriented factories claimed to employ only adults and to check the identity documents, due to the buyers' policy of zero tolerance for child labour. However, the majority of their workforce were not regular employees, but piece rate workers hired informally and not being on the company's payroll. Moreover, while sub-contracting work was prohibited, some companies admitted using it and not disclosing to their buyers (Fair Labour Association, iMentor, Stop Child Labour Coalition, 2017). Findings related to informal, home-based work, engaging children, and low incomes are confirmed by another study (INKOTA Netzwerk, 2018). This one also highlights the fact that work in the informal part of the leather sector means the availability of raw materials and orders only for part of the year (up to six months) while during the remaining time, families of home-based workers need to live of loans.

Child labour has also been reported in seeds companies, including vegetable seeds and cotton seeds production, both being relevant for this study given links with the textile and potentially vegetable oils sector. In 2015, children under the minimum age of admission to work represented 16%-25% of workers in these companies and the number of minors aged 15-18 years working at cotton seeds farms increased from 190,450 in 2006-2007 to 281,200 in 2015 while the number of those working at vegetable seeds farms increased from 48,360 in 2009-2010 to 69,800 in 2014-2015 in Karnataka and from 19,538 in 2009-2010 to 35,390 in 2014-2015 in Maharashtra. In 2017, only a few of the previously analysed companies shared their records with the study team claiming that child labour incidence fell to below 1% (there were some doubts, however, regarding the accuracy of the reported figures given the audits were performed only once a year and there were cases of children hiding or leaving the farm when someone unknown to them entered). Estimations made for some of the non-reporting companies spoke about child labour accounting for 10% of the total workforce and minors accounting for 30%. Some companies also reported about awareness raising actions among migrant workers and their own staff regarding child labour (India Committee of the Netherlands, Stop Child Labour, 2018). In 2021, in villages living from seeds production, 78.9% of children attended school in Karnataka and 90.4% in Maharashtra. Among children not attending school or going there not regularly, around 50% worked in seeds production and close to one third in commercial agriculture (cotton, soyabean, red gram, corn, rice, and sunflower). Although interviewed persons were not able or willing to name companies they worked for, the area

also provided seeds for international brands, including some from the EU (Arisa, BASF, Syngenta, 2021).

Labour standards – forced labour²³

European Union

While the available evidence does not suggest forced labour incidence in the EU textile, garment and leather sectors, one cannot exclude cases of labour exploitation, precarious working conditions, and informal employment, with employers seizing the opportunity of presence of migrant, non-EU workers (e.g., from Africa, South Asia, or China) to hire them in sectors which cut costs, as it is already the case in the garment and leather sectors, e.g., in Italy (for details, see the section on working conditions above).

India

Bonded labour has been identified in the silk industry in Karnataka (Pokharel, Page, 2021). Other examples include bonded labour used in 351 out of 743 spinning mills in Tamil Nadu in 2016²⁴ (around 30% of cotton yarn produced in that state is used in export factories producing for EU brands). In that case, employers recruited young women from poor rural areas (60% of them being from a Dalit background), promising them well-paid jobs, comfortable accommodation, three meals a day and payment of a lump sum for a dowry at the end of the contract. The offer was, however, misleading. The women were forced to work long hours (in 367 spinning mills the working week exceeded 60 hours), including in nightshifts and their wages were withheld (there was an intention to pay them at the end instead of the promised lump sum). Also, only 39 out of 743 mills paid minimum wages for apprentices, while the rest paid less. 31% of the mills were not covered by any social security, while 67% provided pension fund and 9% contributions for social and medical insurance. Moreover, hired women lived in poor conditions in hostels under movement constraints, their mobile phones were removed, and they were isolated from the outside world and not allowed to talk to their families other than in the presence of a warden. They couldn't change employer either as this would mean losing the promised lump sum (Global Slavery Index, 2018; India Committee of the Netherlands, 2016). A study conducted in 2019-2020 in 29 spinning mills in Tamil Nadu confirmed most of the previous findings regarding workers' vulnerability, deceptive job offers, pressure to work overtime (12-hour shifts or two 8-hour shifts one after the other), low wages, several deductions from them, and poor living conditions. Moreover, the study identified links between the investigated mills and international brands, including from the EU. One of the companies, who responded, claimed to have organised awareness raising training as a way to improve the situation of workers (Overeem, Theuws, Heyl, 2021).

All cases were raised with the EU brands and the Ethical Trading Initiative (ETI) however, a response has failed to bring about a change. ETI developed measures in consultations with brands in Europe rather than with the European and Indian civil society and limited them to awareness-raising. There was no enforcement of workers' rights and no incentives for Indian suppliers to comply with them. Subsequently, EU and international civil society has called for binding measures (Delaney, Connor, 2016; Anti-Slavery International, ECCJ, 2020). Moreover, there was at least one assistance project implemented with an objective to end the above-mentioned practices in spinning mills. It finished, however, with mixed results. While a number of young women from rural areas received training to open to them alternative job opportunities, the project failed to create systemic changes. It was too short and small to overturn the overall lack of job opportunities for low-skilled women

²³ The analysis refers to forced labour as defined by the ILO Convention No. 29. Accordingly, forced labour is understood as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily." Moreover, there are 11 indicators defined by the ILO which help to identify forced labour. These include abuse of vulnerability, deception, restriction of movement, isolation, physical and sexual violence, intimidation and threats, retention of identity documents, withholding of wages, debt bondage, abusive working and living conditions, and excessive overtime (ILO, no date c).

²⁴ While bonded labour has been prohibited by the Indian Constitution and the Bonded Labour System (Abolition) Act (1976), it has not been eliminated in practice.

from rural areas, address deceptive recruitment practices of spinning mills or help improve enforcement of domestic labour laws (Laudes Foundation, 2020).

Moreover, there are at least two studies (India Committee of the Netherlands, 2016a and India Committee of the Netherlands, Clean Clothes Campaign, Garment Labour Union, 2018) describing deceptive recruitment practices, and poor living, and working conditions in garment factories in Bangalore (Karnataka). The factories have been identified as supplying international brands, including from the EU. Also in these cases, young women from Scheduled Tribes and Castes have been recruited from rural areas, increasingly from distant states (Odisha, Uttar Pradesh, Jharkhand, Maharashtra, and Madhya Pradesh) to be trained and work in garment factories, with often misleading information provided at the recruitment stage. The studies admit that individual experiences of workers vary and while some tick off a few forced labour indicators (e.g., misleading information, wage below the minimum, abuse by supervisors, and restriction of movement), others should rather be defined as precarious working conditions. While after the initial report some brands committed to take an action, two years later, this was still pending (Russell, 2018).

The literature draws in this context attention to the fact that following the latest labour reforms in India, notably the adoption of the Wage Code (2019), the fight against forced labour and other labour rights violations is likely to be more challenging. While the ruling of the Supreme Court (1983) considered non-compliance with minimum wage regulations as amounting to forced labour and imposing a criminal charge against employer, the Wage Code changed it into a civil liability and removed courts' jurisdiction in wage-related cases. Instead, there will be a quasi-judicial body, without a possibility to refer the case later to the court. Moreover, labour inspection has been weakened allowing employers to provide a self-declaration of compliance with labour laws, while larger enterprises will be inspected according to the plan, every three or five years. There will be no possibility to conduct unannounced inspections, further to signals about labour rights violations and inspectors will become facilitators providing advice to employers and workers (Jayaram, 2019, Anti-Slavery International, 2021).

Labour standards – freedom of association and the right to collective bargaining

European Union

In Italy, social partners signed in July 2021 a National Collective Agreement covering the textile, clothing, and fashion industry (some 46,000 companies and 400,000 employees). It will remain valid until 31 March 2024²⁵ and includes provisions on wage increase and combating subcontractor-related dumping, among others. Social partners emphasised the need to take the responsibility for the sector that had been under pressure and had been hit by the COVID-19 pandemic (Mind RH, 2021; ETUI, 2021). Beforehand, in 2018, trade unions and one of the Italian international clothing brands reached a collective agreement covering 1,200 company's workers in its Italian headquarters. The agreement (valid until the end of 2023) includes provisions on training, work organisation, work-life balance and passing skills from more experienced to younger workers, among others (ETUC, 2018). In 2022, another Italian international brand reached with trade unions a collective agreement valid until the end of 2025. It covers 2,000 workers (ETUI, 2022; Mind RH, 2022). It is possible that there were more such agreements.

In Romania, freedom of association and collective bargaining have been affected by the Law on Social Dialogue (2011) that abolished collective bargaining at the national level (keeping it at the sectoral and company level) and raised threshold for establishing a trade union and an employers' organisation. A trade union can be formed by 15 workers from the same company and only those who have employment contracts which excludes the possibility of setting up trade unions in smaller companies and prevents workers, who have different forms of contracts, from joining a trade union. Trade union membership in the garment sector is overall low and so is the awareness related to freedom of association

²⁵ There have also been collective agreements, set separately for SMEs, and crafts, as well as for the leather and footwear sector (Fair Wear Foundation, 2020).

(Fair Wear Foundation, 2021). In the past, there was only one collective agreement in the textile and garment industry (2007-2011). The current restrictions affecting freedom of association and the small size of garment companies mean a difficulty to protect workers' rights and to improve working conditions (Clean Clothes Campaign, 2018).

In Bulgaria, there has been no collective bargaining agreement at the industry level in the garment sector in the last decade. However, there has been some social dialogue and such agreements at the company level. Nonetheless, the situation in the sector is difficult and the competition from Asian producers has made employers generally unwilling to negotiate collective agreements and to uphold them. In some cases, they suggested that additional concessions for workers, such as wage increase, may come as a trade-off for redundancies. As a result, wages in the sector are at the minimum wage level, working conditions are poor, and workers face cuts or delays in payments of social benefits and social security contributions. On the other hand, trade unions do not have coverage for the whole country (in some smaller towns they do not have their representation) and workers do not believe that trade union membership may be beneficial for them (Fair Wear Foundation, 2019a).

India

As outlined in the preceding sections and in the Annex (section 3.5.3), some developments from the last decade or two have contributed to weakening the trade unions' presence and position in the textile and garment sector. These include replacing permanent workers with contractual ones, hiring migrant workers and vulnerable people from rural areas (who are not aware of their rights), moving factories to rural areas and active anti-union practices by employers. The latter include dismissals of trade union members, threats of contract termination, physical abuse, intimidation, rise in individual production targets, and non-authorisation of leave. Female workers often face a prohibition by male family members to join an organisation. Moreover, migrant workers and workers from rural areas are not willing to raise any issues with employers out of fear of losing jobs and in addition, when they work as contract workers or daily wage earners, they change their employer every few months or more frequently and may not be eligible to join trade unions (Fair Wear Foundation, 2019; interview with a trade union from Tamil Nadu).

As a result, in trade unions' own estimation, they are present in some 5%-10% of textile and garment factories in India, including hubs such as Tamil Nadu.²⁶ The increasing number of migrant and contract workers, not having access to trade unions, makes it difficult to raise awareness about workers' rights and applicable legislation. There are also obstacles in a dialogue with international brands which engage with NGOs but not necessarily with trade unions (interview with a trade union from Tamil Nadu).

Labour standards – non-discrimination and occupational safety and health

For the sake of a more consolidated presentation, non-discrimination, and the analysis of the situation of women and workers from other vulnerable groups in the analysed sectors have been included into sections on employment, working conditions and child labour (the latter in relation to female home-based workers). In a similar way, evidence related to the occupational safety and health has been included into the section on working conditions.

1.3 Impact analysis

1.3.1 Economic aspects

The economic model estimates (under the ambitious scenario) an increase in EU's exports to India in the textile sector by 296.2% (€1.4 billion), in garment by 273.5% (€384 million) and in the leather sector by 223.7% (€970 million). India's exports to the EU are predicted

²⁶ According to findings from Fair Wear Foundation study (2019), there were no trade unions active in garment factories in another hub, New Delhi and there was a very low unionisation level in Bangalore (Karnataka). There is anecdotal evidence of individual factories (e.g., one in Karnataka) launching (not without difficulties) a dialogue with trade unions and using them as intermediaries in engagement with workers (Fair Wear Foundation, 2019b).

to grow less in relative (percentage) terms, however, by much more in value: in the textile sector, by 112.6% (€8.4 billion), in garment, by 148.4% (€23.9 billion) and in the leather sector, by 80.3% (€5.3 billion). All these estimates are for a longer-term and compared to a situation without the future FTA in place.

Part of the growth in India's exports in the analysed sectors, although a limited one, may represent a diversion of trade flows from other countries. For example, the model estimates a reduction in garment exports from Least Developed Countries and Türkiye in the region of €5 billion in total. This trade diversion would represent 21.2% of the total estimated increase in India's exports to the EU in garment products, therefore the remaining 78.8% of the growth would represent new trade flows and therefore a substantial negative impact for the EU sector would remain likely.

Indeed, the economic model estimates in the ambitious scenario a fall in EU's production (output) by -2.4% in the textile industry (-€6 billion), by -2.9% (-€5.6 billion) in garment and by -1.1% (-€1.7 billion) in the leather sector. At the same time, it projects production increase in all three sectors in India, by 3.6% (€11.2 billion) in the textile sector, by 15.4% (€16 billion) in garment and by 7.0% (€3.6 billion) in the leather sector.

Information provided by CIRFS²⁷ suggests that while the EU has a wider range of products in the man-made fibres sector (as part of textiles) than India, increased imports from India are likely to compete directly with EU production in most popular fibres. Given that imports may be of a lower quality and be sold at a lower price, they will have a potential to push EU products out of the market, also triggering a negative domino effect in the chemicals sector which provides inputs for man-made fibres. Additionally, as noted in the economic analysis of non-tariff measures, the certification requirement imposed by India in relation to Quality Control Orders of 2021 and 2022 means (at least temporarily) a de facto ban on EU exports in man-made fibres to India. Until July 2023, only two or three companies have received certificates to export to India, and these do not cover all of their production sites (interview with CIRFS). A similar analysis would be needed for the rest of the analysed sectors to compare the range of goods manufactured in the EU and those likely to be imported in the future from India to conclude if there is a high risk of direct competition and potential negative effects, as estimated by the economic model.

Given the current situation with restricted access for EU companies to the Indian market and several support and subsidy schemes in India applicable also to the analysed sectors, EURATEX and CIRFS advocate opening of the Indian market to achieve reciprocity for EU companies, transparency and level playing field. While textile and clothing representative organisation (EURATEX) advocates tariff dismantling for textile and garment products, it emphasises, that this should be done gradually, in a balanced and reciprocal way, to open markets and to take into consideration the specificity and sensitivity of certain product categories on both sides (EURATEX, 2022) which may include the impact on related jobs. This is echoed by CIRFS which calls for a full and reciprocal elimination of tariffs except for a selected group of products (tariff lines) for which a gradual opening over a period of 15 years should apply (CIRFS, 2023).

Both organisations also call for removal and reduction of non-tariff measures in access to the Indian market (EURATEX, 2022; CIRFS, 2023). Regarding the Quality Control Orders for polyester (2021) and viscose (2022), CIRFS requests extension of the transition period for at least one year (the 2022 QCO on viscose entered into force only three months after its adoption), a revision of QCOs to ensure their proportionality, e.g., a clear identification of covered products (through their HS code), introduction of ranges for certain properties, and removal or unreasonably high burdens (e.g., requirement to keep hazardous chemicals in companies' laboratories for testing based on prescribed, outdated, methods). Moreover, the QCO should envisage recognition of international standards and product certification, and India should further develop its testing, and auditing capacity before introducing QCOs (BIS accredited only one laboratory for the QCO on viscose, already two weeks after the QCO's entry into force, and it has too few auditors, so that waiting for their visit at the

²⁷ European Man-made Fibres Association

production site may extend to seven months). There should be also more transparency in announcing planned regulations and proper consultations with stakeholders (CIRFS, 2023). India should also use adequate HS codes for man-made fibre products as currently diverse are used for the same product which generates confusion and administrative burden for EU companies. Moreover, both organisations call for a market surveillance mechanism to ensure that products imported to the EU comply with requirements set out in the EU laws. India should also ensure compliance, in law and practice, with its international obligations in areas related to labour, environment and climate change, and align with requirements of the EU legislation on chemicals. They also ask for safeguard mechanisms to be included into the FTA and a concrete set of provisions on the rules of origin (detailed in their position papers). All this should help to ensure a level playing field and more reciprocity in EU-India trade in textiles and garment (EURATEX, 2022; CIRFS, 2023).

Regarding rules of origin, the positions of CIRFS and EURATEX differ, with their emphasis being on different parts of the textile and clothing value chain. CIRFS (as representing the upstream part of it) asks for more stringent rules of origin, with double transformation or – if possible – triple transformation, substantial transformation, only bilateral cumulation between the EU and India, prohibition of duty drawback and non-inclusion of a tolerance rule for man-made filaments, fibres, and yarns from chapters 54 and 55 (CIRFS, 2023). If the above requests are included into the EU-India FTA, they should support the resilience of the EU textile supply chain which belongs to the EU strategic and trade objectives, while the textile industry has been listed for this study as one of the priority sectors. EURATEX (2022) advocates double transformation but supports revised, product-specific PEM rules.

Additionally, CIRFS has suggested inclusion into the EU-India FTA of a clause enabling the EU to reintroduce tariffs in case India continues to raise further market access barriers or does not remove or reduce the already identified ones, and – as a result – the situation of EU exporters to India does not improve in terms of EU exports' share on the Indian market (CIRFS, 2023). This request with others (mentioned above) calling for a better access to the Indian market are in line with the EU strategic objective No. 1 which sees the EU-India FTA as a tool helping to increase EU's share in the Indian market.

The representatives of EU leather industry (COTANCE), in a joined position with IndustriALL (trade union) stressed that a competitive leather industry with a quality stable employment needs fair rules in international trade and this means no agreement for environmental and social dumping and a situation where production and exports from partner countries are detrimental for EU industry but also for their own environment and people, due to violations of labour and environmental standards (COTANCE, IndustriALL, 2018).

1.3.2 Social aspects

Employment

European Union

The economic model estimates for the EU textiles, garment and leather sectors increased imports from India, with a resulting fall in the EU's own production and employment. In the ambitious scenario, the textiles sector may experience employment reduction by -2.5% for unskilled workers and -2.3% for skilled ones, garment by -3.1% and -2.8% and the leather sector by -1.2% and -1.0%, respectively. Under the conservative scenario, the fall would be more limited. In illustrative terms, in case the reduction in the ambitious scenario was compared to the number of workers employed in each EU sector in 2022, then imports from India could cause an outflow of between 13,811 and 15,012 workers from the textile sector (for comparison, the whole employment in the EU man-made fibres sector, which is part of the textile sector, was estimated to be of 25,000 in 2022, according to data shared by CIRFS). Moreover, outflow of between 25,964 and 28,746 workers would be seen from the garment sector and between 4,075 and 4,890 workers from the leather sector.

As outlined above, in some parts of the analysed sectors, for which we have managed to get evidence, it suggests that e.g., in man-made fibres, the expected imports from India

that can result from the future EU-India FTA, are likely to represent a direct competition for EU products. Moreover, in this particular case and more widely, in the textile and garment sector, products imported from India are likely to benefit from subsidies, be of a lower quality and be manufactured under terms of a breach or in circumvention of India's own domestic labour legislation and international commitments. Hence, they are likely to be cheaper than the EU like products and have the potential to push the EU products out of the market, thus generating negative impacts for the affected sectors, including for jobs. In this context, due to their large representation in the affected EU sectors, women and elder workers may be more exposed to negative impacts than other groups.

Therefore, as discussed under the economic aspects above, the proposed measures to apply to avoid or to mitigate the estimated negative consequences include a gradual (over 15 years) opening of the EU market for sensitive tariff lines in the textile sector, stringent rules of origin, a reduction of tariffs and non-tariff measures in the EU access to the Indian market to ensure reciprocity and an increase in the EU production and exports to support jobs, as well as an improvement in production methods and working conditions in India to ensure compliance with India's domestic legislation and international commitments (those measures are discussed in detail in the next few sections). Other possibilities to soften any negative impacts include (on the EU side) the use of EU funds, such as the European Globalisation Adjustment Fund and the European Social Fund, as well as support measures available under the Common Agricultural Policy.

India

The economic model estimates an increase in India's output and exports to the EU in the textile, garment, and leather sectors, combined with job creation in all of them. In the ambitious scenario, employment in the garment sector is likely to increase by 15.1% for unskilled workers and 16.2% for skilled ones, while in the textile sector, employment for both groups would grow by 2.7% and 3.8% and in the leather sector, by 6.5% and 7.6%. Trade union representatives (interview with IndustriALL) note, however, the existing excess capacities in the garment sector. This means, in their view, that at least initially, the future FTA, and the related additional EU orders, would not create new jobs but would utilise the existing capacities.

Based on the existing evidence provided in the preceding sections, one can conclude that the future trade agreement is likely to generate some formal jobs in large, export-oriented factories, while the majority of additional employment will probably be taken by contract workers, workers hired by small informal units and informal home-based workers. Also given the current employment structure in all three analysed sectors and the recent trends, it is likely that a high share of new jobs will to be offered to people from Scheduled Castes and Tribes (incl. Dalits), Muslim community and migrant workers, both men and women.

For example, given the sensitive nature of handling cattle hides in India, the leather sector employs Dalit and Muslim workers, most of them based on informal arrangements of daily wages or piece rate. The sector structure also includes informal home-based workers, mostly women (Ravi, 2020; Homeworkers Worldwide, 2019). Likewise, the garment sector offers jobs to informal home-based workers, often women. Sometimes they are not allowed to leave the house on their own and therefore, home-based work may represent for them the only job opportunity. In some areas of northern and southern states of India, almost all such workers (98%-99%) belong to the Muslim community or Scheduled Castes. While the job provides an additional income for the household, studies like (Kara, 2019) show that a piece rate or daily wage of a female home-based worker may be very low and equal one third or a half of a minimum wage for an unskilled worker. Moreover, informal home-based work may also involve child labour. Similarly, apprenticeships or contractual work in the textile and garment sector often represent the only income generation opportunity for young unskilled girls from rural areas originating in vulnerable groups, e.g., 60% of women working in analysed spinning mills in Tamil Nadu were of Dalit background (Global Slavery Index, 2018; India Committee of the Netherlands, 2016). Women from Scheduled Castes and Tribes have also been recruited to garment factories in Karnataka (India Committee of the Netherlands, 2016a and India Committee of the Netherlands, Clean Clothes Campaign,

Garment Labour Union, 2018). The garment sector also increasingly hires migrant workers from rural areas and other Indian states. In all these cases jobs are related with precarious working conditions and in the spinning mills, conditions of employment have been identified as forced labour.

Therefore, while creation of job opportunities for different groups of vulnerable workers is a positive effect of a trade agreement, enabling them to generate income and to contribute to the household budget, with a potential of some poverty reduction, low wages (below the statutory minimum) and the overall precarious working conditions in those jobs mean that a potential to improve the situation of those people may be fulfilled only to a limited extent. Moreover, certain job characteristics (like handling chemicals, work in high temperatures, and dust, with poor ventilation, doing overtime), abusive treatment and low-standard living conditions in hostels at garment factories and spinning mills are also likely to negatively affect workers' health and wellbeing. Hence, the overall employment-related effects for the above-mentioned groups are likely to be mixed.

Working conditions

European Union

As indicated above, in sectors, for which we have managed to get evidence, it suggests that regarding man-made fibres (part of textiles), the expected imports from India that can result from the future EU-India FTA, are likely to represent a direct competition for EU products. Moreover, in the garment sector, India's exports to the EU are likely to replace exports from other countries only to a limited extent (21.2%) while the remaining 78.8% are likely to represent new trade flows triggered by the Agreement. Therefore, while further analysis of the remaining parts of the textile, garment and leather sectors is required to better understand to what extent the estimated increased imports from India may represent a direct competition to the EU-based production and to what extent they may be complementary, it becomes clear that they are likely to put the sectors under further pressure. This pressure may be felt even more in case EU exports in all three sectors do not get sufficient additional access to the Indian market to support EU production and jobs.

Based on the above evidence, one may assume that any further pressure on the EU textile, garment and leather sectors is likely to have a negative impact on working conditions. This may include keeping wages close to the minimum wage and not differentiating them across skills categories, reducing bonuses and other benefits, underreporting overtime, delaying payment of wages and social security contributions, and the lack of or minimal investment in training and facilities to secure better health and safety at work, such as light, ventilation or ergonomic chairs for workers. It is also important to highlight that jobs that are likely to be put under pressure are formal and based in formal establishments, and in a majority (e.g., in tanneries, in 90.9% in 2020) (COTANCE, IndustriALL, 2020) are permanent, while jobs in India, which may replace them are largely informal and linked to precarious working conditions.

Moreover, there may be inclination to move some production outside the EU (e.g., to the EU neighbours) where production costs may be still lower, or to outsource production to informal establishments or those employing Chinese nationals or other migrant workers.

To help to avoid such consequences, the EU should seek to achieve in negotiations requests outlined by sector representatives, including gradual opening of the EU market, notably for sensitive products, and further substantial opening of the Indian market for the EU exports which includes reduction or removal of tariff and non-tariff barriers, as discussed above.

India

In case the current trends continue, one may assume further establishment and operation of large factories producing for exports and benefitting from the future EU-India FTA. In such a case, they will need to be registered under the Factories Act (or the Occupational Safety, Health and Working Conditions Code replacing the Factories Act) and comply with

labour regulations. Moreover, at least part of their workers (although probably a decreasing one) will likely to be permanent and qualify for social security and other social benefits²⁸. The buildings may also offer slightly better health and safety at work conditions than the rest of the sector, notably than informal establishments. However, it is also likely that given the global competition and practices of international brands, trends of cutting down costs will continue and so will recruitment of migrant workers, moving factories to rural areas, reducing the number of jobs for skilled workers, and replacing permanent workers with contractual staff²⁹. It is also likely that wages remain low, and workers will do overtime to meet high production targets and continue to work on precarious terms. This will also include risks to health and safety at work related to handling chemicals in tanneries and in the process of dying fabrics, as well as with managing machines in factories, as workers do not receive adequate personal protection equipment and training. Therefore, while some workers may benefit from better working conditions, their number will probably be limited to thousands while the sector employs 45 million people. It is also likely that due to the recent relaxation of labour legislation the general avoidance of the need to comply with it, high informality levels will continue to exist in all analysed sectors, and this will imply the continuity of very precarious working conditions in the informal part of the three sectors, whether in small informal establishments or among home-based workers. The predicted trends have been confirmed by trade union representatives (interview with IndustriALL). According to them, the already delivered orders for international brands, for exports to the EU, have not changed anything in working conditions in the analysed sectors. Moreover, the to-date experience shows that additional orders (which may also be generated by the future FTA) are delivered based on existing capacities, while workers are requested to work to higher production targets, do overtime and resign from breaks during the day. In such cases, there is also a higher incidence of abuse on the plant floor, given the pressure put by brands on factories which then goes down to managers and workers.

This would also mirror previous developments. According to studies carried out in India, in early 2000s, further to trade liberalisation, informal establishments became linked to formal, export-oriented enterprises through a variety of relationships, as their suppliers or sub-contractors. As a result, the informal economy grew along the export-oriented part of the sector, and informal enterprises also adopted new technology to keep up with the pace of market development. Other studies, conducted in the garment sector in Delhi and Tirupur (southern India) indicate that even factories which formed part of the global value chains hired informal work, e.g., casual, temporary, or daily paid workers. This involved a few types of relationships, incl. sub-contractors and home-based workers. In each case, better paid jobs and those requiring higher skills were allocated to men and factory workers, while low-paid activities, requiring low skills, to women and home-based workers. This in turn meant that women working from home were at the bottom of the ladder, in terms of wages and working conditions. In both regions, garment factories provided jobs for people from lower Castes and migrant workers (Jansen et al, 2011).

In this regard, the literature and interviews suggest that the EU-India FTA on its own is not likely to bring about any substantial changes in working conditions in the analysed sectors. To achieve any positive results, the trade agreement would need to be accompanied by range of other measures, examples of which have been provided further down.

There is a need for steps to be taken by the EU, India, international buyers, and the private sector in India to improve the current situation in the analysed sectors, in addition to any

²⁸ Only 7%-8% of all workers in India are covered by social security (Mehrotra, 2020; Agewell Foundation, 2019).

²⁹ The literature, e.g., Bhardwaj (2023) highlights that the Contract Labour (Regulation & Abolition) Act (1970), which aimed to abolish contract work in roles related to core functions of the enterprise, was repealed by the Occupational Health and Safety Code (2020). The Code has introduced new provisions prohibiting contract work in core activities of a business, however, with exceptions, therefore a lot will depend on whether and how these new provisions will be implemented. Moreover, the new Industrial Relations Code (2020) introduced a new type of fixed-term contract under which a worker may be hired in any role, incl. a similar one to those exercised by permanent workers. The new fixed-term contract foresees the same benefits as for a permanent worker (medical insurance and pension), and the person would be on a payroll of the company and would be hired directly, not through a contractor which means a difference compared to contract workers. There is a question, however, how these contracts will be used in practice (PRS Legislative Research, no date).

provisions that may be included into the future EU-India FTA³⁰. India should reverse the latest trend of relaxing labour protection and instead of reducing the share of companies that need to be registered and comply with labour regulations, it should extend the formal requirements to all companies and gradually include all workers into the remit of labour regulations, such as about the minimum wage and social security schemes. This protection should also apply to contract workers and other fixed-term workers to eliminate incentives to hire them only for cost cutting reasons. Likewise, weakening of labour inspection should be reversed and the inspection services should be strengthened in terms of capacity and their mandate, in line with the ILO convention No. 81 ratified by India. There is also a need to strengthen the legislation and practice regarding the occupational safety and health, like provision of training and personal protection equipment to workers or reporting accidents.

Further measures include a need for international buyers to take their part of responsibility for working conditions in their supply chains, pay prices allowing for decent wages, avoid or stop applying unfair purchasing practices (e.g., cancelling contracts at a short notice, non-paying for already delivered orders or delaying payment well beyond the commercial practice applicable in the sector) and ensure that workers of Indian suppliers are treated in the same way, in line with Codes of Conduct or global policies as elsewhere in the world. Trade union representatives also raised a need for international brands to take their part of responsibility for environmental effects caused by orders delivered to them. They have questioned the ethical dimension and sustainability of increasing garment production (and this implies fabric dyeing, with an intense water use and pollution) in areas where there is water scarcity and already now, the local community faces shortages of safe drinking water (interview with IndustriALL).

In our engagement with labour experts and trade union representatives knowing the sector, it was suggested that brands should engage with suppliers for a longer-term to pursue stable business relations, reduce uncertainty and support planning and risk management for both sides. Also, in addition to prices set for finished products, contracts with suppliers should define the share to be paid to workers to secure decent wages and to avoid a situation that a too low final price leads to cost cutting at all production stages, including labour costs. More transparency is also needed in defining on a label the establishment in which a piece of clothing was produced (the same may also apply to products manufactured in the leather sector) to enable a link between the two and the possibility of tracing the product back to manufacturer in case of the latter's incompliance with labour standards (apparently, such detailed labels are used in garment products manufactured for the Indian domestic market). Furthermore, there is a need for a wider mapping of suppliers and their monitoring along the supply chain. This should go beyond the current tier one suppliers and include – as far as feasible – also small units and the informal part of the analysed sectors. Longer-term business relations should support this activity as the supply chains would be more stable over a longer time. Indian suppliers should receive incentives for compliance, including long-term business relations and continuous orders, while those who do not comply could face consequences (e.g., a need to ensure compliance within a given time frame or lose contracts and be named as non-compliant).

According to our interlocutors, including trade union representatives, the future EU-India FTA should be accompanied by an effective complaint mechanism enabling trade unions and other relevant stakeholders, like NGOs, from the EU and India or international ones to submit complaints to the EU, including against international brands based in the EU when in factories delivering orders for them, there are acts violating trade union activity or other workers' rights are violated. Such a mechanism should be transparent, with information provided on how and when the complaint will be addressed and engaging with interested parties. Such a mechanism should complement the overall dispute settlement mechanism and enable a reaction and problem solution in cases of labour rights violations that are serious and related to EU-India trade relations, however, may be limited in scale (e.g., emerging in one factory) and therefore unlikely to trigger a dispute under a general system. Moreover, the aim of the mechanism would be to look for solutions and remedying the

³⁰ Provisions proposed by the EU in the text of TSD chapter are discussed in the main part of the Report, as they apply to EU-India trade relations in all sectors.

situation to enable as many people as possible to benefit from the EU-India FTA, and in this case, this would enable workers to enjoy their rights while contributing to trade between the Parties. Also, while we refer to this solution in this section, the mechanism would also apply to labour standards discussed further down.³¹

In this context, we note that the European Commission has established a Single Entry Point (SEP) as a mechanism for EU stakeholders to submit complaints regarding market access barriers and non-compliance with sustainability in the context of Trade and Sustainable Development.³² While it may provide a solution meant by our interlocutors, to play that role effectively, its proceedings need to be accessible for international stakeholders (like international trade unions or NGOs) and at least the main recognised organisations from partner countries, like India. In the absence of a possibility to submit a complaint directly (SEP is available only for EU-based stakeholders), under the current rules governing SEP, the international or third country stakeholders would need to act in a cooperation with EU counterparts (or EU-based office or branch of own organisation) and ask them to submit the paperwork. Concerns could also be raised, or complaints formally submitted by civil society Domestic Advisory Groups from the EU and India, in case they are agreed by the EU and India and established under the Institutional chapter under the EU-India FTA and are operational.

Other measures include the currently discussed proposal for a Directive on corporate sustainability due diligence³³ In this context, EU civil society called for extending its scope beyond large companies to also include SMEs, given their share in the EU economy and an increasing participation in international trade. Moreover, due diligence should cover the entire supply chain and all orders (not only established business relationships), given that international brands tend to change their suppliers or to use randomly additional ones, and the worst working conditions and human rights (or environmental) violations often happen further down the supply chain, in parts which are often outside audits and the monitoring mechanisms. For transparency, EU companies should also disclose their suppliers. Also, the Directive should take a more balanced approach with regard to remedying adverse impacts. While it currently focuses on steps to be taken by suppliers, including action plans or codes of conduct, it should acknowledge that some adverse impacts are caused by EU companies and their unfair purchasing practices and that these may need to be changed in the first place to remedy the situation. Therefore, brands should take their part of the responsibility for conditions in their supply chain, as indicated above (11.11.11 et al, 2022).

Labour standards - child labour

India

In the absence of recent comprehensive official data regarding child labour in India, one-off research reports and interviews provide insights in the situation in chosen states and export-oriented sectors. Accordingly, child labour has been detected in value chains of the analysed sectors and engaged in production for exports, including to the EU, mainly in their informal part, which is not regulated and, in most cases, falls outside audits and monitoring mechanisms.

Therefore, one can assume as likely that the current and future exports to the EU in the analysed sectors may include products involving child labour, as they are projected to grow

³¹ There are also other existing initiatives for the garment sector which go beyond the EU-India FTA and which have as objective to improve working conditions, respect for workers' rights and social dialogue in cooperating factories (e.g., ILO-IFC Better Work Programme; see: <https://betterwork.org/>). Some of those initiatives also engage international brands, e.g., International Accord for Health and Safety which started after the Rana Plaza collapse in Bangladesh and recently has been extended to Pakistan (see: <https://internationalaccord.org/>). Such initiatives could be considered to be extended to India. This would require engagement of the Government and sector representatives, including business, brands, and trade unions.

³² Single Entry Point: <https://trade.ec.europa.eu/access-to-markets/en/content/single-entry-point-0>

³³ Proposal for a Directive on corporate sustainability due diligence:

https://ec.europa.eu/commission/presscorner/detail/en/IP_22_1145

Directive on Corporate sustainability reporting: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

thanks to the EU-India FTA. In this context, there is a need to consider provisions of India's Child Labour (Prohibition and Regulation) Act, 1986 (as amended in 2016), according to which children under 14 years of age (or the upper age established for free and compulsory education) are not permitted to work, except when they help their family or family enterprise after school or during holidays, provided the type of work is not hazardous.³⁴ In addition, Rules³⁵ to the Act explain that the permission does not apply to any manufacturing process for which the child or the family is remunerated. Moreover, the work cannot be performed for more than three hours a day, in the evening, at night, or in a way interfering with education. Therefore, the cases described in the preceding sections would most likely fall in the category of child labour, not permitted for children under 14 years of age, also under India's domestic legislation.

While the proposed TSD chapter in the EU-India FTA includes provisions about the effective implementation of ratified ILO fundamental conventions (including on elimination of child labour) and the Proposal for EU Corporate Sustainability Due Diligence Directive may focus on preventing and eliminating child labour, they may only be effective if applied also to the informal part of the exporting Indian sectors. However, on their own, they are not likely to address root causes of child labour. According to stakeholders (interview with an NGO working in the garment sector), the future EU-India FTA may only perpetuate the current situation or even worsen it in the sense that additional orders may create space for more home-based garment workers and more children engaged in work destined for exports. Therefore, as outlined in detail above, in the section on working conditions, there is a need for additional measures to be taken by India, the private sector and international brands who should assume more responsibility for decent working conditions in the exporting sectors and do not treat India as a source of cheap labour.

There is also a need for the Government and the private sector to develop and make widely available vocational training programmes in the analysed sectors to offer young people and existing workers an opportunity for upskilling and receiving higher income. An improved availability of school facilities and affordability of school fees may also help to increase school attendance among children of home-based and other informal workers which is considered as one of the effective means to tackle child labour. This also applies to the availability of school facilities and courses for children of migrant workers and support in attending classes either in their native language or learning the language of the hosting state in case it is different. Likewise, the quality of education and the availability of teachers should improve to encourage children to continue learning until graduation. Furthermore, there is a need for a continued awareness raising among parents from rural areas and unskilled workers who often do not appreciate the value of education and the possibility for their children to have improved prospects for work and life.

Labour standards - forced labour

India

Provided evidence confirms forced labour occurrence in Indian sectors projected to grow as a result of the EU-India FTA, including in supply chains of the EU and other international brands. While the lack of comprehensive data does not allow for a full estimation of the scale of the problem, nor trends over time, based on individual research studies, one can conclude that this is not about isolated cases but a more systemic issue. Moreover, there are examples of limited measures taken by ETI in cooperation with EU brands (awareness raising) which failed to bring about any change or an assistance project which was useful but also failed to produce more sustainable results. Workers affected by different forms of forced labour practices or labour exploitation in the analysed sectors belong to vulnerable groups who usually don't have other income generation opportunities and are not able to

³⁴ Child Labour (Prohibition and Regulation) Act, 1986 (as amended in 2016), Part II, paragraph 3: https://msme.gov.in/sites/default/files/TheChildandAdolescentLabourProhibitionRegulationAct1986_0.pdf

³⁵ Child Labour (Prohibition and Regulation) Rules, 1988 (as amended in 2017): https://labour.gov.in/sites/default/files/the_child_labour_prohibition_and_regulation_amendment_rules_2017.pdf

defend their rights. Given that forced labour situations persist over time and this includes supply chains of international brands, one may assume as likely that this will continue, also under the EU-India FTA, unless there is a resolve of all decision makers (authorities, the private sector, and international brands) to bring such practices to an end. The latest labour reforms in India relaxing companies' obligations and weakening labour inspection represent another obstacle in improving the situation. Moreover, labour inspection is understaffed, lacks resources, is not allowed to make unannounced inspections, and may not have access to the informal sector where some of labour rights violations occur.

While the proposals for the EU Regulation banning products manufactured with the use of forced labour and the Corporate Sustainability Due Diligence Directive may be useful, a lot will depend on their final scope and enforcement.

Additionally, all recommendations made in the section on working conditions also apply in this case, including a need for international brands to take more responsibility for the state of play in their supply chains and monitoring of their suppliers, as well as measures to take by the Government of India. This includes a need to move towards formal economy, reverse the latest weakening of labour inspection, and ensure an improved implementation of the domestic legislation related to working conditions and labour standards such as elimination of forced labour. In this context, the adoption by the EU and India of as precise as possible TSD provisions related to the effective implementation of ratified ILO conventions, strive towards higher levels of labour protection, not lowering them to attract trade or investment and not taking a recourse to labour rights violations to gain comparative advantage should provide further support, along with provisions on maintaining effective labour inspection.

Labour standards - freedom of association

European Union

The overview provided as part of the analysis of the current situation in the EU outlines a few examples of industrial relations in EU Member States hosting the textile and garment industry. The situation between them varies, depending on national circumstances, laws, social partners' capability, and tradition in collective bargaining. The example of Italy suggests that social partners have the capacity and an institutional framework to conduct social dialogue and to reach an agreement in a situation of a crisis facing the sector. On the other hand, examples of Bulgaria and Romania point to inability of social partners, notably employers, to cooperate at the sector level and this leaves workers either on their own, as individuals, or with a chance to bargain at the company level, provided the employer is willing to do so. Moreover, the 2011 Law on Social Dialogue introduced in Romania makes it more difficult to establish and join trade unions as it requires at least 15 workers from the same company, all having an employment contract. This may represent a challenge in a sector where many companies are small, and workers may have contracts of different types. Therefore, either a challenge, such as increased imports from India, mobilises everybody in the sector in countries like Romania and Bulgaria to act jointly, or it may exacerbate the current situation and the pressure on jobs, wages, and other working conditions. It may also contribute to further fragmentation and weakening of freedom of association in practice as workers may not have trust any more in social partners.

In 2023, the Council of the EU adopted a Recommendation to strengthen social dialogue at the national level. Accordingly, Member States should create an environment enabling social dialogue and involve social partners into design and implementation of employment and social policies, as well as economic and other relevant policies. Member States should also enable collective bargaining at all levels and ensure that social partners have access to information about the situation in their sectors and corresponding policies and other measures (European Commission, 2023a; EU Council, 2023). The Recommendation may create a momentum to refresh social dialogue. The situation in the EU garment sector (and likewise, the leather sector) may also be discussed in the sectoral dialogue committee at the EU level.

India

As a result, of developments and actions taken in the textile, garment, and leather sectors in India (outlined in the section describing the current situation), trade unions are present in some 5%-10% of textile and garment factories, including hubs such as Tamil Nadu.³⁶ The increasing number of migrant and contract workers, not having access to trade unions, makes it difficult to raise awareness about workers' rights and applicable legislation. There are also obstacles in a dialogue with international brands which engage with NGOs but not necessarily with trade unions. Against this background, if the EU-India FTA creates in the analysed sectors more jobs which are likely to be largely taken by contractual or informal workers, it may exacerbate the current situation in the sense that there will be even more workers left on their own, with no access to trade unions and no channel or representation to talk to employers about their rights and working conditions (interview with trade union from Tamil Nadu). This would also happen in a situation where structures envisaged by the law, like company level committees on health and safety or complaints do not exist or are not effective given that workers are afraid of submitting complaints or raising issues related to working conditions, as this may cost them their job.

That said, there is anecdotal evidence of individual factories (one in Karnataka) launching (not without difficulties) a dialogue with trade unions and using them as intermediaries in engagement with workers (Fair Wear Foundation, 2019b). Otherwise, there seems to be an overall climate of mistrust between trade unions and employers, not helped by anti-union discrimination activities applied by companies, and the lack of awareness of how to approach a dialogue and what kind of benefits it may bring, as well as the lack of willingness to even try. The NGO activities provide (again anecdotal) evidence of workshops bringing together representatives of both sides to raise awareness and give them the opportunity to talk to those already having an experience in social dialogue (like representatives of that factory from Karnataka) (Fair Wear Foundation, 2019b).

Therefore, in addition to the effort to secure the commitment of the Parties in the TSD chapter to ratify the remaining ILO fundamental conventions (analysed in detail in the main part of the Report), there should be an attempt to include social dialogue and an exchange of experience in this area into cooperation activities between the EU and India and into a dialogue with international brands in the analysed sectors. The assumption would be that trade union representatives and business representatives from textile, garment and leather sectors would participate in this exercise. It could be organised in cooperation with the ILO

Labour standards – non-discrimination and occupational safety and health

For the sake of a more consolidated presentation, non-discrimination, and the analysis of the situation of women and workers from other vulnerable groups in the analysed sectors have been included into sections on employment, working conditions and child labour (the latter in relation to female home-based workers). In a similar way, evidence related to the occupational safety and health has been included into the section on working conditions.

As in the case of working conditions, regarding occupational safety and health, the future FTA is not likely to bring about changes on its own and may rather perpetuate or exacerbate the situation in the sense that more jobs may be created for contract workers and informal workers in the analysed sectors where there are risks to health and safety and insufficient workers' protection against them.

In addition, as outlined in the main part of the Report, there is quite a long list of actions which may need to be taken by the Government of India prior to the ratification of the ILO fundamental conventions No. 155 and 187 and which may help to improve the situation. Therefore, a regular dialogue with India on progress in this area or cooperation activities should be considered in parallel to India's cooperation with the ILO (DWCP 2023-2027).

³⁶ According to findings from Fair Wear Foundation study (2019), there were no trade unions active in garment factories in another hub, New Delhi and there was a very low unionisation level in Bangalore (Karnataka).

1.4 Recommendations

Related to employment effects

- To support production and employment in the EU textile, garment and leather sectors, the EU negotiators should seek and obtain further opening of the Indian market through reduction and removal of tariff and non-tariff measures to facilitate EU exports. They should also consider including into agreement a clause enabling reintroduction of tariffs in access to the EU market in case India raises new or does not dismantle existing market access barriers and – as a result – EU's exports do not increase their share in the Indian market. This request is related to the EU strategic objective No. 1.
- Regarding reduction and removal of market access barriers related to Indian QCOs for textile products (polyester and viscose), EU negotiators should request that those QCOs become applicable after a longer transition period to enable EU exporters to comply with their requirements. Moreover, their current versions should be revised to ensure proportionality e.g., a clear identification of covered products (through their HS codes), introduction of ranges for certain properties, and removal or unreasonably high burdens (e.g., requirement to keep hazardous chemicals in companies' laboratories for testing based on prescribed, outdated, methods). The QCOs should also envisage recognition of international standards and product certification, and India should further develop its testing, and auditing capacity (i.e., increase the number of laboratories and auditors) before introducing QCOs. There should also be more transparency in announcing planned regulations and proper consultations with stakeholders should take place.
- India should also use adequate HS codes for man-made fibre products as currently diverse HS codes are used for the same product which generates confusion and administrative burden for EU companies.
- To protect EU industry and jobs from negative impacts of increased imports from India, EU negotiators should request a gradual opening (over a period of 15 years) of the EU market for selected, sensitive products (tariff lines) as identified by EU industry representatives. EU negotiators should also agree with India adequate provisions on safeguards and rules of origin, based on proposals provided by industry representatives to balance interests and ensure more level playing field and resilience and diversity of EU supply chains, in line with EU strategic objective No. 2.

Related to consumers

- Moreover, to protect EU industry and consumers, EU should ensure effective operation of market surveillance mechanism to ensure that products imported to the EU comply with requirements set out in the EU legislation and do not represent unfair competition for EU products nor risks for EU consumers. In this context, the analysis in the main Report highlights findings from the EU RAPEX system (register of unsafe imported non-food products) according to which unsafe products from India have been found, such as leather products including excessive levels of chromium or apparel involving either toxic substances or excessive levels of certain substances, making them non-compliant with EU legislation. India should also improve quality control and adapt production methods to ensure that goods exported to the EU comply with EU requirements.

Related to working conditions and informal economy

- India should reverse the latest trend of relaxing labour protection and instead extend to all companies the requirement to register and to comply with labour regulations. It should also gradually include all workers into the remit of labour regulations, such as about the minimum wage and social security schemes. This protection should also apply to contract workers and other fixed-term workers to eliminate incentives to hire them only for cost cutting reasons and to reduce the number of cases where workers are hired on precarious terms.

- Likewise, weakening of labour inspection in India should be reversed and the inspection services should be strengthened in terms staff, resources, and their mandate, in line with the ILO convention No. 81 ratified by India. There is also a need to strengthen the legislation and practice regarding the occupational safety and health, like provision of training and personal protection equipment to workers or reporting accidents. It would reduce the risks for workers at workplaces and help India to get closer to the ratification of the ILO conventions No. 155 and 187.
- International buyers should take their part of responsibility for working conditions in their supply chains, in the EU and India, pay prices allowing for decent wages, and avoid or stop applying unfair purchasing practices, e.g., cancelling contracts at a short notice, non-paying for already delivered orders or delaying payment beyond the commercial practice applicable in the sector. They should also ensure that workers along their supply chain are treated in the same way, in line with Codes of Conduct or global policies.
- Brands should also engage with Indian suppliers for long-term to pursue stable business relations, reduce uncertainty and support planning and risk management for both sides. This should also support long-term engagement of Indian manufacturers with their staff, the move towards workers' regularisation and putting more emphasis on skills and development instead of focusing only on cost cutting.
- Also, in addition to prices set for finished products in contracts with suppliers, brands should define the share to be paid to workers to secure decent wages and to avoid a situation that a too low final price leads to cost cutting at all production stages, including labour costs. More transparency is also needed along the supply chain, with a need for brands to map suppliers and monitor compliance beyond tier one companies.
- While priority should be given to voluntary actions in the private sector, legislative measures may also support the move into the right direction to encourage international brands to stop or avoid unfair purchasing practices. An adaptation in the proposal for a Directive on corporate sustainability due diligence may provide a solution to this end. The Directive should take a more balanced approach with regard to remedying adverse impacts of business activity. While it currently focuses on steps to be taken by suppliers, it should acknowledge that some adverse impacts are caused by EU companies and their unfair purchasing practices and that these may need to be changed in the first place to remedy the situation (for details, see section on working conditions above).

Related to respect for labour standards

- India should improve implementation of ratified ILO fundamental conventions, notably those on child labour and forced labour and eliminate both forms of labour exploitation from the textile, garment, and leather sectors, as well as other sectors of its economy. Labour inspection services should also be strengthened (as recommended above) and have the possibility to conduct unannounced visits in establishments and in the informal economy. Also, as outlined above, monitoring by international brands should include the whole supply chain, beyond tier one companies, to identify labour rights violations.
- Moreover, to eliminate child labour, there is a need to address its root causes, notably poverty and insufficient income generated by adult members of the household. To this end (as recommended above) Indian authorities should make a decisive move towards formalisation of the economy and inclusion of all workers into the remit of labour laws, including those on the minimum wage.
- There is also a need for the Government of India and the private sector to develop and make widely available vocational training programmes in the analysed sectors to offer young people (including those from rural areas) and existing workers, notably women and workers from lower Castes, an opportunity for upskilling to receive higher income.
- While the availability of school facilities and the affordability of school fees have been improving, the available evidence regarding child labour suggests that there are still

areas where this may require further efforts. School attendance in particular among children of home-based and other informal workers is considered in this context as one of the effective means to tackle child labour. This also applies to the availability of school facilities and courses for children of migrant workers and support in attending classes either in their native language or learning the language of the hosting state in case it is different. Likewise, the quality of education and the availability of teachers should improve to encourage children to continue learning until graduation.

- Furthermore, there is a need for a continued awareness raising among parents from rural areas and unskilled workers who often do not appreciate the value of education and the possibility for their children to have improved prospects for work and life.
- There is a need to support freedom of association and social dialogue in the analysed sectors and wider, in the EU and India, consistent with the ILO 1998 Declaration on the Fundamental Principles and Rights at Work, as amended in 2022. In the EU, a proposal for a Recommendation to strengthen social dialogue at the national level published by the European Commission in 2023 may create a momentum to refresh social dialogue. At the same time, measures to improve conditions for it need to be taken by individual Member States³⁷. The situation in the EU textile, garment and leather sectors may also be discussed in the sectoral dialogue committee at the EU level.
- India should take steps towards ratification of the remaining fundamental conventions which is supported by the social partners and by the cooperation with the ILO under the consecutive Decent Work Country Programmes (now, 2023-2027).
- Building on the EU textual proposal, the EU and India should agree in the ongoing negotiations precise commitments in the TSD chapter regarding ratification of the remaining ILO fundamental conventions and the effective implementation of those already ratified. Likewise, the chapter should have clear commitments regarding not lowering the levels of labour protection, not failing to implement and enforce them and not derogating from them in order to attract trade or investment. There should also be commitments on maintaining an effective system of labour inspection and not considering violation of fundamental rights and principles at work as a way to gain legitimate comparative advantage.
- The EU-India FTA should also be accompanied by an effective mechanism allowing for submission of complaints in case trade unions rights or other labour rights are violated in any factory producing for exports to the EU. The mechanism should be transparent and complement the general dispute settlement. The existing EU Single Entry Point mechanism may potentially play this role; however, it currently does not allow for a direct submission of a complaint by stakeholders from outside the EU. In the absence of a possibility to submit a complaint directly, under the current rules governing SEP, the international or third country stakeholders would need to act in a cooperation with EU counterparts (or EU-based office or branch of own organisation) and ask them to submit the paperwork (for details, see section on working conditions above).
- Also, in addition to the effort to secure the commitment of the Parties in the TSD chapter to ratify the remaining ILO fundamental conventions, there should be an EU attempt to include social dialogue and the occupational safety and health into cooperation activities between the EU and India and into a dialogue with international brands in the analysed sectors. The assumption would be that trade unions and business representatives from the textile, garment and leather sectors would participate in this exercise. It could be organised in cooperation with the ILO and include exchange of experience.

³⁷ For example, in the case of Romania, the ILO Committee of Experts requested the Government in relation to convention No. 87 to review, with social partners, the minimum number of workers needed to set up a trade union given the high prevalence of SMEs in its economy. It also requested the Government to ensure that workers engaged in non-standard forms of work can also benefit from trade unions rights (CEACR, 2023).

- While the proposals for the EU Regulation banning products manufactured with the use of forced labour and the Corporate Sustainability Due Diligence Directive may be useful as complementary measures, a lot will depend on their final scope and enforcement. In this context, EU co-legislators should consider proposals submitted, e.g., by civil society to strengthen their provisions.

2. CASE STUDY NO. 2: IMPACT OF A POTENTIAL FTA ON THE TRANSITION OF INDIA TO A LOW-CARBON, CLIMATE-NEUTRAL AND RESOURCE EFFICIENT ECONOMY, FOCUSING ON THE ELECTRIC MOBILITY / VEHICLES SECTOR, AND THE CONTRIBUTION TRADE IN RELEVANT SERVICES SECTORS CAN BRING TO THIS TRANSITION.

2.1 Introduction

In an era where the impacts of climate change are becoming clearer by the day, low carbon development has gained policy prominence. Since 2015 and the signature of the Paris Agreement, governments agree to limit global warming to levels “well below 2°C” relative to pre-industrial levels and to pursue efforts to limit it to 1.5°C. This requires staying within the remaining emissions budget of approximately 420–1200 Gt of CO₂ by 2100. The Agreement also recommends for parties to “formulate and communicate low GHG emission development strategies” (Article 4.19) considering common but differentiated responsibilities. These low-emission strategies aim to describe how a nation could reduce emissions while enhancing its socio-economic development by outlining their medium and long-term emissions trajectories compatible with the Paris objectives and ensuring the implementation of their climate targets.

The EU was an early advocate of ‘low carbon economy’ as a system characterised by higher resource productivity—producing more with fewer natural resources and less pollution—and contributing to higher living standards and a better quality of life (DEFRA, 2003). India as a developing economy has approached the concept with the view of emphasising harmony with the over-riding priority of poverty eradication and sustainable development. India's National Action Plan on Climate Change (NAPCC) highlights the co-benefit approach for low carbon activities that could in turn ensure energy security, reduced local pollution, and increased access to energy through distributed and decentralised forms of energy systems (Government of India, 2008).

This case study aims at outlining how an EU-India FTA could support India in its long-term objective to transition to a low-carbon, climate-neutral and resource efficient economy. It will focus in particular on the electric mobility / vehicles sector as a strategic sector identified by partners to benefit from the FTA and which sits at the heart of the decarbonisation strategy of both India and the EU. Electric vehicles (EVs) are positioned as an alternative green and clean technology which potentially can enable the efficient transition to sustainable low-carbon emission transportation system and preservation of scarce natural resources.

Trade and / or investment in EVs, as part of trade in environmental goods and services, can contribute to reducing environmental pressures in India related to the transport sector, notably air pollution and climate change, while other categories of environmental goods and services may further support transition towards the low-carbon economy in other sectors and reduce additional pressures.

2.2 Current situation and recent trends

The transport sector is a major contributor to GHG and other pollutants emissions in both the EU and India.

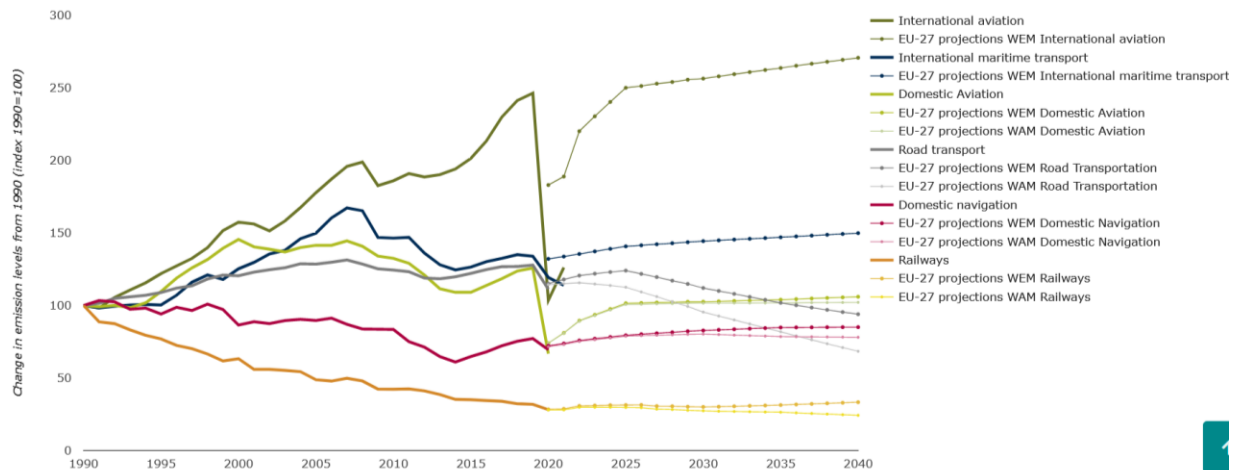
European Union

In the EU, transport accounts for 24.6% of total GHG emissions, half of which comes from passenger cars³⁸, while road transport accounted for 77% of total inland freight transport

³⁸ European Commission, DG Climate action. CO₂ emission performance standards for cars and vans: https://climate.ec.europa.eu/eu-action/transport/road-transport-reducing-co2-emissions-vehicles/co2-emission-performance-standards-cars-and-vans_en

(2020)³⁹. The decarbonisation of the sector is proving more challenging and slower than in other sectors in the EU. Only road transport emissions are projected to decrease to below 1990 levels until 2030, based on Member States' measures focusing on this sector⁴⁰. The aviation sector and international marine transport are even expected to increase in terms of GHG emissions. Efforts should be made to improve the efficiency and electrification of motor vehicles⁴¹.

Figure 2.1: Greenhouse gas emissions from transport in the EU, by transport mode and scenario



Source: European Environmental Agency. [Link](#).

To mitigate these effects of GHG emission, electric vehicles (EVs) are being promoted all over the world.

The objective of the EU is to achieve a 90% reduction of GHG emissions in the sector by 2050 (European Commission, 2020I). The EU strategy sets a target of 30 million electric vehicles by 2030 in parallel with the new car emissions standards set to effectively phase out internal combustion engines by 2035. This strategy is implemented through a number of regulations such as the Regulation (EU) 2019/631 on setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles⁴², the Directive 2009/33/EC on promoting clean and energy-efficient road transport vehicles⁴³, and Directive (EU) 2019/1161 setting minimum national targets for the procurement of clean vehicles⁴⁴.

India

The Indian transport sector accounts for 13.5% of total energy-related CO₂ emissions, 90% of which is contributed by road transport (IEA, 2020a), and is also a major source of air pollution. It is estimated that 20% to 35% of total urban PM_{2.5} concentrations is directly or indirectly due to internal combustion engines in motor vehicles (Brook and al., 2007,

³⁹ EEA, Greenhouse gas emissions from transport in Europe:

<https://www.eea.europa.eu/ims/greenhouse-gas-emissions-from-transport>

⁴⁰ EEA, Rail and waterborne — best for low-carbon motorised transport:

<https://www.eea.europa.eu/publications/rail-and-waterborne-transport/rail-and-waterborne-best/#notes>

⁴¹ EEA, Rail and waterborne — best for low-carbon motorised transport:

<https://www.eea.europa.eu/publications/rail-and-waterborne-transport>

⁴² Regulation (EU) 2019/631 of the European Parliament and of the Council of 17 April 2019 setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No 443/2009 and (EU) No 510/2011 (recast): <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R0631-20210301>

⁴³ Directive 2009/33/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of clean and energy-efficient road transport vehicles: <https://eur-lex.europa.eu/legal-content/EN/AUTO/?uri=celex:32009L0033>

⁴⁴ Directive (EU) 2019/1161 of the European Parliament and of the Council of 20 June 2019 amending Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles: <https://eur-lex.europa.eu/EN/legal-content/summary/clean-and-energy-efficient-road-transport-vehicles.html>

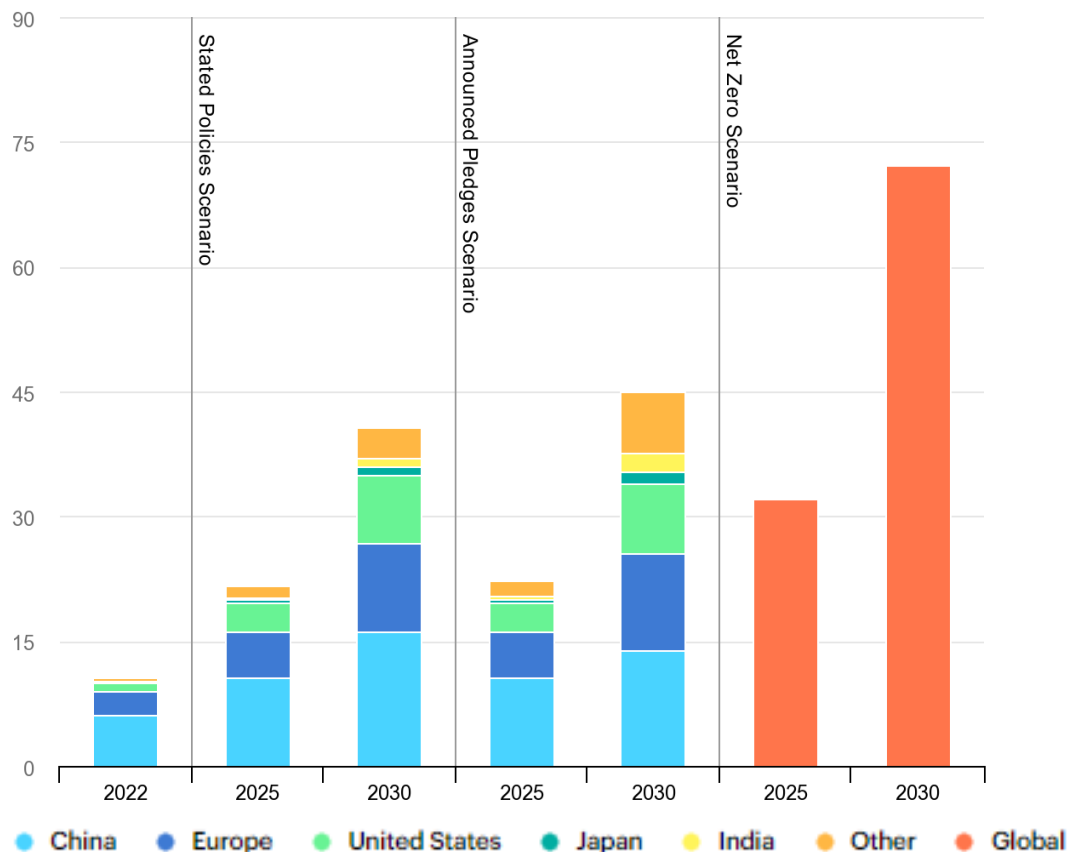
Jain et al., 2016). The automobile sector in India, in particular accounts for 7.5% of the country’s GDP and is one of the largest employment generators⁴⁵. Yet the sector remains heavily dependent on imported crude oil (Tarei et al. 2021).

In terms of trend, annual vehicle sales in India are also expected to increase, with an estimated fleet number reaching 10.5 million in 2030⁴⁶. The increase in household income and urbanisation levels are also likely to support an increasing share of personal transport, further exacerbating the environmental and energy concerns related to the transport sector (Dhar et al., 2017).

The uptake of Electric Vehicles (EVs) in India is therefore a crucial aspect for the decarbonisation of the sector in particular, and of the economy in general. EVs offer multiple advantages such as improvement of air quality and diminution of GHG emission, but also in terms of better efficiency and lower operational cost (Tarei et al. 2021).

The Government of India launched several initiatives through the call for ‘only Electric Vehicles’ on Road by 2030 and announced joining the “EV 30@30” campaign⁴⁷ at the eighth Clean Energy Ministerial meeting in 2017. This campaign aimed at increasing the uptake of electric vehicles in India thereby supporting the climate commitments of the GoI and moving towards low carbon economy. Similarly, India aims to boost domestic manufacturing of electric vehicles and batteries through Production Linked Incentive (PLI) and FAMEs schemes (see below).

Figure 2.2 : Electric vehicle sales by region, 2022-2030



Source: IEA (2023).

There are promising signs for emerging electric vehicle (EV) markets in India, albeit from a small base. Electric car sales are generally low outside the major markets, but India is a

⁴⁵ Society of Indian Automobile Manufacturers (SIAM), available at: <http://siaminfo.in/>

⁴⁶International Organization of Motor Vehicle Manufacturers. (2020):

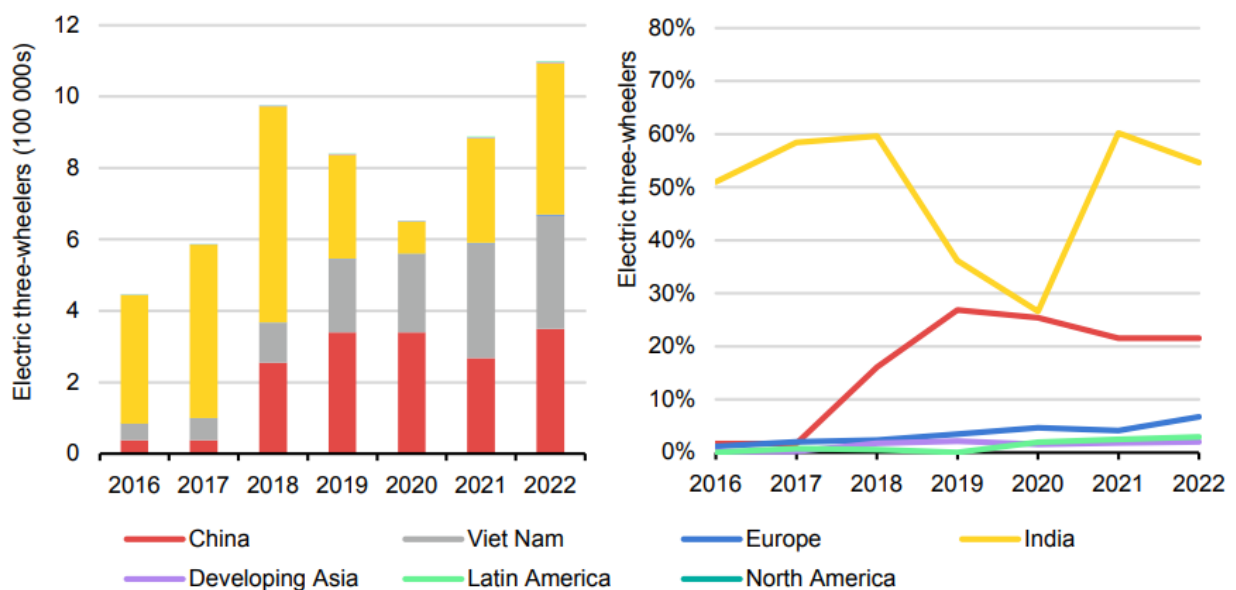
<https://www.oica.net/category/production-statistics/2020-statistics/>

⁴⁷ More information here: <https://www.cleanenergyministerial.org/initiatives-campaigns/ev3030-campaign/>

major growth market, as the sales of electric cars more than tripled compared to 2021, while sales in the first quarter of 2023 are already double what they were in the same period in 2022. EVs and component manufacturing is ramping up in the country, supported by the government’s USD 3.2 billion incentive programme that has attracted investments totalling USD 8.3 billion. Despite this, the share of electric car sales in India are expected to remain low as they represent only 2%-3% of car sales in 2023, a small albeit growing share especially in the context of higher fuel prices (IEA, 2023).

We note that this growth is particularly evident in the two-wheelers and three-wheelers markets, which are particularly used in India as its market remains geared towards shared and smaller mobility. For instance, Ola as India’s top EV company by revenue, does not yet offer electric car. Sales of electric three-wheelers for both cargo and passenger services, soared to 425,000 units in 2022 representing over half of India’s three-wheeler registrations during that year due to government incentives and lower lifecycle costs compared with conventional models (IEA, 2023).

Figure 2.3: Electric two- and three-wheeler sales and sales share by region, 2016- 2022



Source : IEA, 2023.

The barriers to the uptake of EVs differ depending on the market yet key motivators appear to be environmental, economic, or technical benefits associated with EVs and a number of common (perceived) concerns can be identified, such as a lack of charging infrastructure and long charging time, economic restrictions, or higher EV costs (Bireselioglu et al. 2018). She et al. (2017) identify similar barriers specifically in China noting financial and technological (high battery cost), poor public charging infrastructure, and behavioural barriers such as a “wait and see” attitude by a large share on potential users.

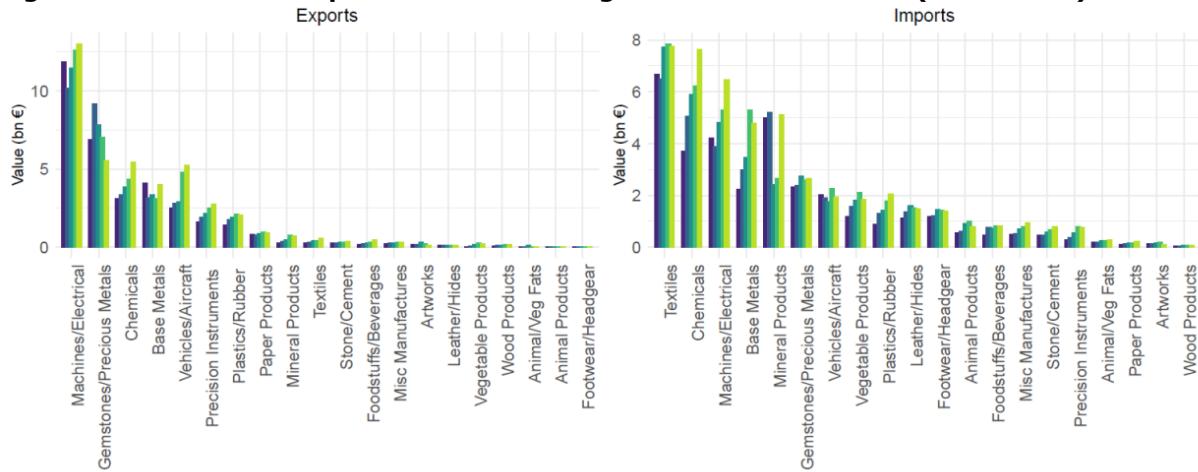
Yet, and despite these barriers, the Society of Indian Automobile Manufacturer (SIAM) estimate, albeit perhaps optimistically, that EVs would make up 40% of new car sales by 2030 and 100% by 2047 to coincide with 100 years of the country’s independence (Khurana et al, 2020).

The EU-India FTA aims to be a key support to that effort.

2.3 Impact of the FTA / IPA.

Vehicles (including electric vehicles) fare well in the EU-India trade relations, especially from the EU side as the sector ranked 4th (9.3%) in EU goods exports to India in 2010-2019 after machinery/electrical equipment (31%), chemicals (11%) and base metals (9.6%).

Figure 2.4: Sectoral composition of the EU's goods trade with India (2010-2019)



Source: Poitiers et al. (2021).

The economic modelling results estimate an increase in trade in motor vehicles in both directions, with EU exports increasing by €6.6 billion and India’s exports, by €6.9 billion (both in the ambitious scenario). The EU negotiators and sector representatives also emphasised importance of the sector. It provides 19 million direct and indirect jobs in India⁴⁸ and in the EU, automotive industry generates 8% of the GDP and offers 3.4 million jobs, while the wider auto industry employs 13 million people, according to ACEA, sector representative organisation. The EU-India FTA is expected to bring a 0.2% employment increase for unskilled workers in the sector and 1.2% for skilled ones in India under the ambitious scenario. On other hand, the FTA is also expected to bring a 0.7% increase of CO2 emissions in India due to the upscale of associated industrial production. In the EU, employment is estimated to remain the same for skilled workers, with a limited outflow of unskilled workers (-0.1%) in the ambitious scenario. There is no projected increase in CO2 either.

Furthermore, an analysis on the potential impact of the tariff reforms on the India-EU bilateral trade flows indicates that India’s automotive export benefits from an FTA would be limited vis-à-vis the EU, due to competition from countries already conforming to common standards such as the UNECE 1958 standards⁴⁹. This is especially true due to the growing inclination towards such standards among some other partners in the region such as ASEAN members (Chakraborty et al. 2021). Non-tariff measures in the automotive sector in the EU-India trade relations and proposals to address them, e.g., through the Car Annex and provisions in the TBT and Good Regulatory Practices chapters are analysed as part of the NTM analysis in the main Report.

Looking specifically at EVs, the Government of India introduced the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme in April 2015. Under the programme, hybrid vehicles then attracted excise duty at 12.5% and electric vehicles at 6%, against the excise duty of 30%, 27%, 24% and 12.5% applicable to vehicles with conventional fuel (IBEF, 2016). Its successor FAME II introduced in 2019 aims at supporting the electrification of around 7,000 electric and hybrid buses, 500,000 electric 3-wheelers, 55,000 electric four wheeler passenger cars, and 1 million electric 2-wheelers (IEA, 2023). Such progresses may be improved in the context of the EU-India trade negotiations thus furthering the incentive for EU and Indian stakeholders in the sector to comply with the emerging global demand for hybrid and electric vehicles.

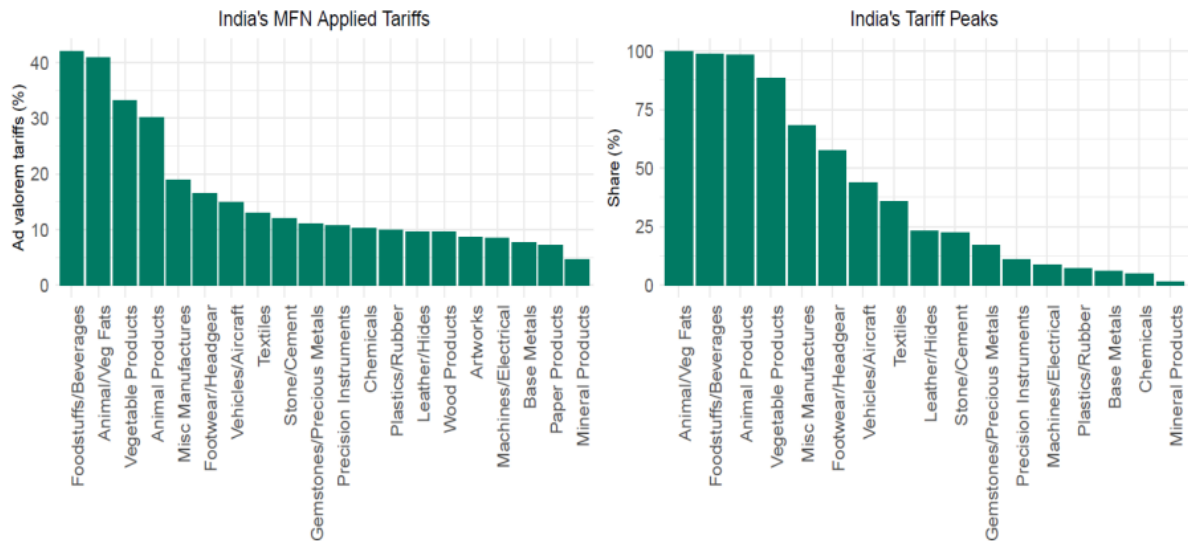
⁴⁸ See: <https://heavyindustries.gov.in/UserView/index?mid=1319>

⁴⁹ The UNECE World Forum for Harmonization of Vehicle Regulations (WP.29) is a unique worldwide regulatory forum within the institutional framework of the UNECE Inland Transport Committee providing the legal framework allowing members to establish regulatory instruments concerning motor vehicles and motor vehicle equipment. More information at: <https://unece.org/transport/vehicle-regulations>

This is consistent with a study for the European Parliament from 2021 which estimated (based on India’s tariff schedule under the India-Korea CEPA) the Effective Tariff Rate for vehicles between the EU and India to drop from 8.7% pre-FTA down to 5.3% post FTA, bringing a total net benefit for the sector of USD 143.5 million (Poitiers et al. 2021).

Reaching ambitious objectives in lowering tariffs specifically on EVs and related sectors could be beneficial for both partners. While the automotive sector does not display the highest Indian tariffs, nevertheless, it includes some tariff peaks (Figure 2.5).

Figure 2.5: India’s MFN tariff schedule, 2020 (Ad-valorem tariffs only)



Source: WTO Tariff Download Facility. <http://tariffdata.wto.org/>

Although not among the sectors almost ready for full liberalisation, the vehicles sector should provide some opportunities for breakthrough between both Parties (except perhaps for certain specific sensitive peaks). In this context, ACEA (2023), the automotive industry representative organisation, called for tariff liberalisation between the EU and India for cars, automobile parts and components, while it expressed its readiness to consider some asymmetry in tariff dismantling periods due to the local markets sensitivities.

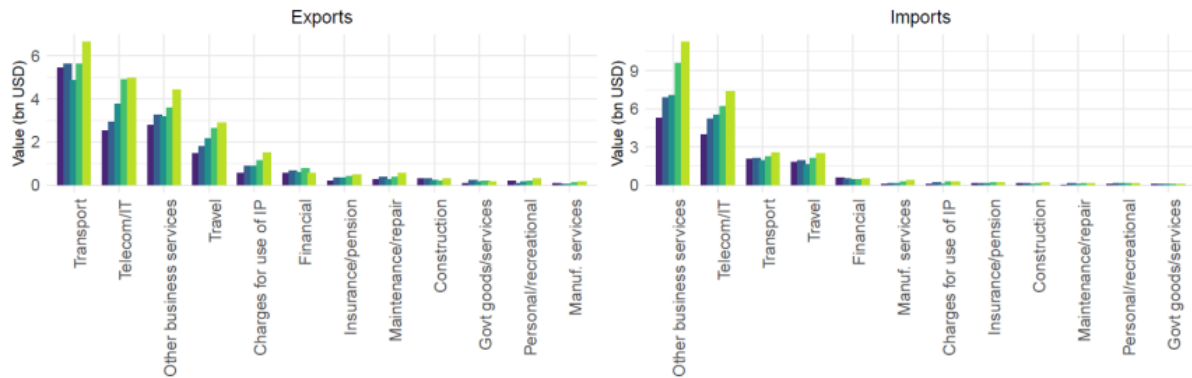
2.4 EU-India trade in services

Transport services rank first in the EU services trade with India since 2010 (Figure 2.6), followed by telecom/IT, other business services and travel. Together, these sectors account for more than 80% of EU’s services exports to India and more than 90% of EU’s services imports from India. Furthermore, there has been strong growth in bilateral trade in this key sector between 2010 and 2019 especially in the last years noting a strong potential between the two partners.

Some specific services can be particularly relevant in the EU-India context and would benefit from dedicated focus by the partners such as battery swapping services. Battery swapping aims to improve battery management and extend battery lifetime through controlled and co-ordinated charging to reduce the impact on the grid, increase utilisation of renewable electricity, and even provide grid services that can generate revenue by leveraging the aggregation of batteries.

This is particularly relevant for India as the analysis by the International Council on Clean Transportation suggests that battery swapping for electric two-wheelers in taxi services offers the most competitive total cost of ownership compared to point charging EVs or two-wheelers with combustion engines (Dash et al. 2021). Considering the importance of such vehicles in India as described above, such services are strong candidates for dedicated focus on the EU-India negotiations on trade in services.

Figure 2.6: Sectoral composition of the EU's services trade with India (2010-2019)



Source: Poitiers et al. (2021).

Yet, battery swapping presents some disadvantages compared to conventional charging as capital investment required for a battery swap station can be very high. Furthermore the need for the presence of more than one battery required per vehicle to ensure sufficient availability at swap stations could inflate the battery demand in India beyond realistic levels. It would in particular affect India's critical material demand with potentially detrimental associated environmental impacts.

2.5 Recommendations

- The EU and India should aim towards ambitious trade negotiations results on goods and commodities related to the uptake of electric vehicles in both Parties. This can take the form of lower tariffs and non-tariffs barriers in relevant value chains to reduce the total cost of ownership for EVs.
- Particular efforts should be made on electric two-wheelers and three-wheelers which are particularly used in India and represent a huge potential in the short to medium term.
- Specific efforts in terms of services and investments must be applied to improve charging infrastructures in India as an identified key barrier for potential users.
- Outside of the FTA, analysis shows that direct financial incentives to EV buyers and support to upfront investments in infrastructure can help increase the share of EVs in India in the short to medium term (2030).

3. CASE STUDY NO. 3: IMPACT OF A FUTURE EU-INDIA FTA ON EMPLOYMENT AND RESPECT FOR LABOUR AND ENVIRONMENTAL STANDARDS IN AGRICULTURE, NOTABLY IN THE RICE AND SUGAR SECTORS

3.1 Introduction

The economic model estimates an increase in India's exports to the EU in rice and sugar, as a result of the future EU-India FTA, with a possible negative impact on the EU's output and jobs in these sectors. Both sectors have been named by EU stakeholders as sensitive and already facing challenges. In addition, cultivation of both crops has environmental impacts. Therefore, it is important to analyse potential FTA impacts in those sectors in the EU and India, as well as measures that can be applied to avoid or to mitigate potential negative impacts.

The case study focuses on the analysis of the current situation in the analysed sectors in the EU and India, in terms of employment, and the respect for labour and environmental standards. It then moves to analyse potential impacts which may result for these sectors in both Parties from the future EU-India FTA. It finishes with a set of recommendations.

Given that economic aspects, i.e., potential trade liberalisation to be agreed as part of the EU-India FTA talks and the following increased trade flows are likely to drive the social and environmental impacts, the case study touches also upon the economic considerations, such as the size of the analysed sectors in the EU and India, trade in their products, and the estimated economic FTA effects.

3.2 The current situation in the EU and India in analysed sectors

3.2.1 Economic aspects

Sugar sector

European Union

In interviews, EU sugar sector representatives highlighted challenges faced by the sector in the last few years, such as price fall in the follow-up to the end of the quota system in 2017, and more recently - increase in production costs, including fertilisers, energy, fuel, and wages, as well as a need to comply with more stringent sustainability standards. This in turn means a difficulty in competing with imports from a country like India, as there is no level playing field (they mentioned issues with the use of pesticides, water use, land use and the recourse to forced labour in the Indian sugar sector) (interviews with CEFS and ASSUC). The available data suggests that production of beet sugar in the EU fluctuates over time. It decreased from 19.6 million tonnes in 2017-2018 to 14.6 million in 2020-2021 to increase again, to 16.6 million in 2021-2022. In 2022-2023, it is expected to fall to 14.6 million tonnes due to severe summer drought in many EU regions. The number of sugar processing factories decreased from 189 in 2006 to 103 in 2017-2018 and further, to 89 in 2021-2022 (the majority of factories are located in France, Germany, and Poland) (CEFS, 2023; CEFS, EFFAT, 2022). The number of sugar beet growers (EU27 and the UK together) has also fallen from 133,878 in 2017-2018 to 100,442 in 2022-2023⁵⁰ (data shared with the study team by CIBE). EU sugar exports (HS 1701)⁵¹ to India fluctuate heavily over years, without a clear trend, while exports in HS 1702 have been increasing over time and exports in HS 1703 have been very infrequent (mostly in 2013-2017, with volumes fluctuating heavily from one year to the other). As outlined in Table 3.1, exports

⁵⁰ According to the UK National Farmers Union, in 2021, there were 2,500-3,000 sugar beet growers in the UK (NFU, 2021). This means that around 97,442-97,942 sugar beet growers are in the EU27.

⁵¹ HS 1701: Cane or beet sugar and chemically pure sucrose, in solid form. HS 1702: Other sugars, including chemically pure lactose, maltose, glucose, and fructose, in solid form; sugar syrups not containing added flavouring or colouring matter; artificial honey, whether or not mixed with natural honey; caramel. HS 1703: Molasses resulting from the extraction or refining of sugar.

to India represent a small share in EU total exports in these products, with the value and volume of HS 1701 exports to India decreasing from around 3% of the total EU exports in sugar in 2010 to 0.3% in 2022. Sugar imports from India to the EU have been limited by a quota, therefore their quantity and value do not reflect accurately India's production or export potential (in 2021-2022, India became the world's largest sugar producer and consumer, and the second largest sugar exporter, after Brazil). These imports have also been fluctuating strongly over time. Table 3.2 outlines their comparison with total EU sugar imports. The fluctuations observed both in the EU and India exports (as well as in the EU imports) mean that the figures for 2022 (on both sides and in both tables) are not always the highest or the lowest in the last few years.

Table 3.1: EU exports in sugar (2010 and 2022)

| Product | Volume in tonnes | | Value in €million | |
|-----------------------------|------------------|---------|-------------------|---------|
| | 2010 | 2022 | 2010 | 2022 |
| Exports to India | | | | |
| HS 1701 | 55,913 | 1,782 | 25.6 | 1.4 |
| HS 1702 | 11,033 | 29,533 | 15.6 | 68.2 |
| HS 1703 | no data | no data | no data | no data |
| Exports to the world | | | | |
| HS 1701 | 1,862,130 | 698,550 | 860.8 | 418.1 |
| HS 1702 | 343,064 | 910,862 | 290.7 | 1,123.5 |
| HS 1703 | 54,935 | 247,962 | 6.1 | 57.9 |

Source: EUROSTAT

Table 3.2: EU imports in sugar (2010 and 2022)

| Product | Volume in tonnes | | Value in €million | |
|-------------------------------|------------------|-----------|-------------------|---------|
| | 2010 | 2022 | 2010 | 2022 |
| Imports from India | | | | |
| HS 1701 | 4,752 | 10,036 | 3.4 | 10.1 |
| HS 1702 | 82.6 | 2,078 | 0.1 | 3.6 |
| HS 1703 | 67,425 | 587,695 | 8.2 | 140.0 |
| Imports from the world | | | | |
| HS 1701 | 2,592,387 | 1,819,338 | 1,075.3 | 1,194.0 |
| HS 1702 | 123,074 | 223,716 | 143.9 | 376.9 |
| HS 1703 | 1,332,678 | 1,419,109 | 167.4 | 318.6 |

Source: EUROSTAT

As sugar beets cannot be transported on long distances, sugar processing plants need to be established in beet growing regions and have enough of raw material to process. Most of the processing plants work as cooperatives, with sugar beet growers having shares in them. If a processing plant stops operating when its activity is no longer economically viable, sugar beet growers need to turn to other crops, removing the sugar beet from the crop rotation plan. Likewise, if any factors affect sugar beet growing, processing plant(s) in the region may need to close. This means that further pressure affecting either sugar beet growing or processing may have detrimental multiplying effects for the sector and for the sugar beet growing regions. For reasons mentioned above, EU sugar sector has been named as sensitive by Copa Cogeca, CEFS and CIBE and the Regional Council of La Réunion (the latter, due to importance of sugar production – of the sugar cane - and exports to the EU for the small economy of the island) (The Regional Council of la Réunion, 2023; CEFS and CIBE, 2023; Syndicat du sucre de la Réunion, 2021; interview with Copa Cogeca).

India

In 2021-2022, India produced 500 million tonnes of sugarcane and out of it, sugar mills produced 35.9 million tonnes of sugar.⁵² Out of the total, India exported 10.9 million tonnes. With this, India became the world's largest sugar producer and consumer, and the second largest sugar exporter, after Brazil. Sugar exports from India have been increasing over the last few years, from 620,000 tonnes in 2017-2018 to 10.9 million tonnes in 2021-2022 (Ministry of Consumer Affairs, Food & Public Distribution, 2022). However, the insufficient rainfall during two consecutive seasons (2022-2023 and 2023-2024) in the main producing states (Maharashtra and Karnataka) means lower yields and most likely also lower exports (Jadhav, 2023). In the last decade, India's sugar production fluctuated from one year to the other, with an overall trend to grow. The lowest production was recorded in 2017-2018 (20.2 million tonnes) and the highest, in 2021-2022 (35.9 million tonnes). The number of operating sugar mills increased from 524 in 2017-2018 to 531 in 2022-2023, fluctuating in the meantime. Out of these, the number of mills run by cooperatives decreased from 221 to 190, the number of mills operated by private sector increased from 293 to 330 (nine of them are on a lease from cooperatives) and the number of publicly owned mills remained almost the same (increasing from 10 to 11) (Ministry of Consumer Affairs, Food & Public Distribution, no date).

In 2022-2023, the EU ranked 47th⁵³, with a share of 0.2% (in terms of exports value) in India's sugar exports. The top ten destinations covered 65% of India's sugar exports and included Sudan (13.6%), Bangladesh (8.1%), Indonesia (7.5%), Somalia (7.1%), Djibouti (6%), UAE (5%), Saudi Arabia (5%), Iraq (4.8%), Sri Lanka (4.8%), and Türkiye (3.1%). (project team's own calculation based on Ministry of Commerce data).

EU stakeholders stressed that sugar production in India has been subsidised and does not represent a fair competition in the market. They referred in this context to the December 2021 ruling of the WTO Panel, according to which⁵⁴ India's support to sugarcane producers and export subsidies for sugar were inconsistent with India's obligations under the WTO Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures (The Regional Council of la Réunion, 2023; CEFS and CIBE, 2023; Syndicat du sucre de la Réunion, 2021; interview with Copa Cogeca).

Rice sector

European Union

Rice is produced in eight EU Member States (Italy, Spain, Greece, Portugal, France, Bulgaria, Romania, and Hungary) out of which in 2023, Italy accounts for 60% and Spain for 16% of area and production. The 2023 EU rice production amounts to 1.2 million tonnes (milled equivalent) out of which the sensitive japonica variety accounts for 76% (0.9 million tonnes milled equivalent). While the EU is mostly self-sufficient in japonica rice used mainly in Southern Europe, it imports other rice varieties, including indica rice. The latter accounts for 24% of EU's production and is used mainly in Northern Europe. To cover its rice consumption, EU needs to import around 1.6 million tonnes of milled rice a year (European Commission). In the context of the EU-India FTA negotiations, the representative EU farmers' organisation (Copa Cogeca) has underlined a need to consider the current situation in the EU sector and different sensitivities regarding imported rice varieties (e.g., husked Basmati rice is less sensitive for EU producers, although milled Basmati is sensitive

⁵² This means that India's sugar production is more than twice the EU sugar production. Moreover, depending on which tariff lines have been covered by the total figure on India's sugar exports, it means that India's exports are 15 times higher than those of the EU (for HS 1701) or around six times higher if HS 1701, 1702 and 1703 in total are considered for the EU.

⁵³ While reasons of this EU position would need to be further investigated, most likely the import quota for India's sugar exports to the EU, the EU quality requirements and geographic distance play a role. It is to note that India exports sugar mostly to the developing countries, as well as countries in Asia and Middle East region.

⁵⁴ See the ruling of the Panel established by the WTO Dispute Settlement Body (India has decided to appeal): https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds580_e.htm

for EU millers) to facilitate imports that are complementary to the EU production rather than competing with it (India already provides 21% of rice imported to the EU).

India

Rice is produced mainly in northern and eastern states, with Telangana having 22% in the total production in 2017-2020, West Bengal 11%, Uttar Pradesh 11%, Punjab 9%, Andhra Pradesh 6%, Bihar, Odisha, and Chhattisgarh (each 5%), Assam 4%, Madhya Pradesh 4%, and Tamil Nadu 3%. The total annual production increased from 105.2 million tonnes in 2012-2013 to 136 million tonnes⁵⁵ in 2022-2023, while the cultivation area increased from 42.7 million ha to 47.7 million ha in the same period (US Department of Agriculture, 2023). According to data from the All India Rice Exporters' Association, India exported to the EU in 2020-2021 basmati rice worth USD 147 million (167,331 tonnes) while in 2021-2022, the exports' value fell to USD 94 million (88,450 tonnes). Exports of non-basmati rice (which are understood as more sensitive for the EU producers) were more limited in both years and in 2020-2021 amounted to USD 30 million (66,322 tonnes) and in 2021-2022 to USD 24 million (59,184 tonnes). The Netherlands, Belgium, Italy, Spain, and Germany are reported as main destinations of non-basmati rice.⁵⁶ Also, according to the ITC Trade Map, India's rice exports to the EU were higher in 2012-2014 (up to USD 250 million annually and up to 309,573 tonnes in 2012) and fell since then.⁵⁷

Overall, India accounts for 40% of world's rice exports, with 22.2 million tonnes exported in 2022 (out of 55.4 million exported globally). In 2022-2023, the EU ranked 7th, with a share of 3.5% (in terms of exports value) in India's exports of basmati rice. Higher ranked Saudi Arabia (21.6%), Iran (20.5%), Iraq (7.8%), UAE (7.0%), Yemen (6.4%) and the US (5.0%) (project team's own calculation based on Ministry of Commerce data). Other types of rice were exported mainly to developing countries. For example, in parboiled rice exports, the EU ranked 30th, while the top ten destinations included Benin, Bangladesh, Guinea, Cote d'Ivoire, Togo, Somalia, Liberia, Djibouti, Sri Lanka and Sierra Leone. Exports of Indian other rice also list the EU as 30th destination, while in India's broken rice exports, the EU ranks 11th (project team's own calculation based on Ministry of Commerce data).

In 2022, India banned exports of broken rice and imposed a 20% export duty on different rice varieties. There were no restrictions on exports of basmati rice (4.4 million tonnes in total in 2022). In 2023, India imposed an export ban on non-basmati white rice the exports of which amounted to 10.3 million tonnes in 2022 (Jadhav, 2023a). The measure comes after increased exports in 2022 (despite the export duty)⁵⁸ contributed to the increase of rice price on the Indian market and the crop damage by heavy rains in the summer of 2023 raised a concern of a further price increase in case of an insufficient domestic rice supply (The Guardian, 2023). The recently observed increase in Indian rice exports was attributed to high prices in the international market and extreme climatic conditions in other rice producing countries. Against this background, the new ban has as an objective to ensure the availability of white non-basmati rice on the Indian market and to stabilise prices (the retail prices went up by 11.5% over a year and by 3% in June 2023) (Ministry of Consumer Affairs, Food & Public Distribution, 2023). The decision was announced by the Department of Commerce on 20 July 2023 and came into an immediate effect. It means a change in trade policy from unrestricted exports of non-basmati white rice (tariff line 1006 30 90) to export prohibition.⁵⁹ Moreover, in May 2023, India prohibited exports of broken rice (tariff line 1006 40 00). The latter is allowed now only in specific cases, to meet food security

⁵⁵ This means that India's total rice production is over one hundred times higher than the EU's rice production (136 million tonnes compared to 1.2 million tonnes).

⁵⁶ See: <https://airea.net/non-basmati-rice-export-last-3-years/>

⁵⁷ See: <https://www.trademap.org/Index.aspx>

⁵⁸ Exports of white non-basmati rice increased from 3.4 million tonnes between September and March 2021-2022 to 4.2 million tonnes in from September 2002 to March 2023 and from 1.1 million tonnes in April-June 2022 to 1.5 million tonnes in April-June 2023 (Ministry of Consumer Affairs, Food & Public Distribution, 2023).

⁵⁹ See: <https://content.dgft.gov.in/Website/dgftprod/53e7dc5e-aad9-4c5a-80d3-77f921d17d98/Notification-English.pdf>

needs of the destination countries, based on a permission granted by the Government of India in response to their governments' requests.⁶⁰

3.2.2 Social aspects

Sugar sector

European Union

Employment in the sugar industry has been decreasing since 2006 (European Parliament, 2018). The number of direct jobs engaged in sugar production (seasonal and permanent) decreased from 52,000 in 2006 to 28,675 in 2017-2018 (21,368 permanent and 7,307 seasonal) and further to 24,083 in 2021-2022 (18,635 permanent and 5,448 seasonal), i.e., by 27,917 since 2006 and by 4,600 since 2017. In 2021-2022, the highest number of jobs in the EU sugar production were recorded in Germany (5,558), France (5,532) and Poland (4,704) (CEFS, 2023; CEFS, EFFAT, 2022). The number of sugar beet growers (for EU27 and the UK together) also fell from 133,878 in 2017-2018 to 100,442 in 2022-2023⁶¹ (data shared with the study team by CIBE). Additionally, sugar industry in La Réunion (one of EU Outermost Regions) provides 18,300 direct and indirect jobs for the small economy of the island, with a population of around 800,000. Further pressure on the sector (e.g., through increased sugar imports) would have detrimental effects for jobs and production in the EU, as well as in cooperating sectors along the supply chain. In this context, it is important to note that every job in the sugar factory supports 14 other jobs along the EU supply chain⁶² (in 2017, there were 338,500 such jobs). Moreover, negative impacts would also affect interests of the EU Outermost Regions and other countries exporting sugar to the EU on preferential terms, like, ACP/EPA or EBA beneficiaries (Syndicat du sucre de la Réunion, 2021; The Regional Council of la Réunion, 2023; interviews with Copa Cogeca, CEFS and ASSUC; CEFS, EFFAT, 2022; Scholz et al, 2019).

Men account for the majority of workers in the EU sugar sector (80% in 2014), with the share of women improving slightly (currently 21%-22% on average, with shares in single companies varying between 10% and 25%, being higher in administrative or white collar jobs, where women account for up to 35% of workers). The workforce in the sector has also been ageing, with the average age being 46 years in 2015 and workers over 55 years representing 25% of the total (also in 2015, confirmed by more recent research). It has been a challenge to attract younger workers to the sector due to the localisation of sugar processing plants in rural areas, work in shifts (covering in total 24 hours through seven days a week which means a need to work at least from time to time at night or over the weekend) increasing during the harvesting and processing campaign (119 days a year on average), thus making work-life balance more difficult to achieve. On the other hand, the sugar sector offers for most its workers (80%) permanent contracts and wages above the average for food industry. Moreover, as discussed further down, the sector has been well-covered by collective bargaining agreements and more recently, offers more technical and other jobs for skilled workers. Further job and career development opportunities may also be created based on policies proposed by the European Green Deal (CEFS, EFFAT, 2022).

Changes in the sector and the related social aspects are discussed in the sectoral dialogue for sugar (established at the EU level in 1969), where producers are represented by CEFS and workers by EFFAT. CEFS currently represents 34 EU-based individual companies, 8 national associations and one associate member (from La Réunion).⁶³ EFFAT has 84 EU-based members, trade unions representing agriculture, food industry and tourism sector.⁶⁴ Over the last 20 years, social partners have adopted 12 joint positions regarding different

⁶⁰ See: <https://content.dqft.gov.in/Website/dqftprod/b8de36a7-ca7a-4b7c-b49f-6f40fdcd6075/Notification%20No.%2007-%202023%20dated%2024.05.2023%20English.pdf>

⁶¹ According to the UK National Farmers Union, in 2021, there were 2,500-3,000 sugar beet growers in the UK (NFU, 2021). This means that around 97,442-97,942 sugar beet growers are in the EU27.

⁶² According to the same source, that multiplier effect for automotive industry equals 4.4 jobs supported by one job in the industry (Scholz et al, 2019).

⁶³ CEFS website: <https://cefs.org/about-us/#>

⁶⁴ EFFAT website: <https://effat.org/members/>

aspects of the sector's operation, ranging from apprenticeships over occupational safety and health, to competitiveness. Moreover, in the last decade (2016 data), in most sugar producing EU Member States, the sector was covered almost fully by collective bargaining agreements, either at the sector or factory level (CEFS, EFFAT, 2022).

India

Employment

Sugarcane cultivation offers the source of livelihood for 6 million smallholder farmers in India, including women, and reportedly, around 60% of work in the sector are done by women (Teunissen, Dilshad, 2019). According to another source, 50 million of farmers were engaged in sugarcane cultivation in 2017 in total, along with 500,000 workers in sugar mills (Ministry of Consumer Affairs, Food & Public Distribution, no date a).

Labour standards

A study conducted in 2019 in sugarcane farms in two western states of India (Maharashtra and Madhya Pradesh), Uttar Pradesh in the north, and the southern states Andhra Pradesh, Karnataka, Tamil Nadu, and Telangana confirmed the use of child labour at the sugarcane harvest. Children travelled with their migrant parents from other parts of the country and stayed at farms for 4-6 months. Very few of them attended school at that time. The reports suggest that all working children observed at a sample of farms in Uttar Pradesh were below the minimum age of admission to work. In addition, there were minors aged 14-17 years coming on their own and being hired at farms. In the west, most of the identified working children were aged 13-17 years. In the south, in Karnataka, working children from migrant families were mostly aged 12-14 years. Many of them were involved in sugarcane cutting, bundling it, and loading onto vehicles. They worked long hours being exposed to high temperatures and risks related to handling sharp blades and carrying heavy bundles. While some of the sugar mills had policies or practices of not employing children, they did not monitor the situation at the supplying farms (Arche Advisors, 2019).

There are also reports about children being trafficked between the Indian states for work at sugarcane farms (Qadri, 2023). Another study (Oxfam India, 2018) conducted in sugarcane farms in Uttar Pradesh identified cases of children reportedly aged 12-16 years brought from Bihar, Chhattisgarh, and Madhya Pradesh by agents, based on false job promises. The agents used to pay to parents of hired children an advance lump sum due to which hired children could not withdraw from work. They faced verbal and physical abuse, and received low wages (INR 2,000-5,000 per month, i.e., €24.8-€62.0) which in addition were paid with a delay or withheld by agents.

According to the US Department of Labor, child labour still occurred in 2021 in sugarcane production in India (US Department of Labor, 2022).

Forced labour, including bonded labour, is also reported in the sugar sector in Maharashtra where around 500,000 migrant workers come every year for half a year for the sugarcane harvest. They often receive advance payment from intermediaries which equals their full estimated wages from work in fields. This means they cannot leave the area before they pay the whole amount back and they are not able to fall in productivity or take a sick leave as this would lower their income and put at risk the possibility of paying their debt back (Chandran, 2016). A study by the Fair Labour Association (referred to in Oxfam India, 2018) finds that farm workers were always paid much below the minimum wage prescribed by the state government. The same study also found evidence of late payments of up to 10-15 days.

Oxfam India report (2018) identifies a gender pay gap and highly discriminatory practices based on gender. The amount of wages paid to women is often less than half compared to man. Sexual harassment of female workers by farm owners and intermediaries has also been reported. Several women have been advised in that context to agree for a surgery to remove their uterus to get rid of periods (which would hold them off fields for 4-6 days a

month and cause income loss), avoid further pregnancies and be able to work without interruptions (Chandran, 2016). According to different sources, this may have affected some 13,800-30,000 women, however, these figures may be an underestimation (IANS, 2019; Shukla, Aggarwal, Upreti, Bhatia, 2022).

The available evidence (Oxfam India, 2018) details several labour rights violations for migrant workers including no extra payment for additional work (such as other work on the farm or odd jobs in the household), verbal abuse, and threats of getting fired. Moreover, workers only receive payments at the end of the season and do not have weekly rest or leaves. Health and safety issues are also reported in relation to the use of pesticides which can lead to different allergies, nasal congestion, and other acute symptoms.

Workers are hired as couples and often live during the harvest in very poor conditions, in make-shift tarpaulin shelters, without access to toilets, while provision of running water and electricity depends on the employer, i.e., a farm or a sugar mill (Arche Advisors, 2019; Chandran, 2016). Moreover, there are either no doctors and medical facilities available at farms or those in nearby villages are poorly equipped, thus limiting possibilities to provide medical care in case of an accident or to support female workers (who may suffer from a miscarriage, be pregnant or give birth to a child during the six months of sugarcane harvest) (Shukla, Aggarwal, Upreti, Bhatia, 2022).

While the national Government or state government of Maharashtra have proposed some measures to improve working conditions of informal workers and their access to social security, those measures have not been implemented (facing opposition from owners of sugar factories) or have not brought about expected results (Chadha, 2019).

Rice sector

European Union

The sector provides 18,350 direct and indirect jobs jointly in Italy, France, and Portugal (data for the remaining countries has not been identified yet) (European Rice, no date; European Commission, no date n).

India

Employment

Rice is grown in India by around 120 million farmers out of whom 80%-85% are small and marginal farmers owning farms of a size not exceeding one hectare. Most of them follow subsistence farming and cultivate rice for domestic consumption, with limited amounts being sold on the market (Janaiah, 2018).

Rice cultivation has been a major job provider for women. However, over the last decade, their employment decreased due to work mechanisation and the shift of female workers towards other crops like cotton or horticulture. The share of female workers increased only in those states which reported emigration of men (Niyati, Bora, 2021).

Labour standards

Regarding child labour, a similar situation like in the sugar sector has been reported from the rice sector. In Madhya Pradesh, large farmers (among them suppliers of processing factories exporting to the EU) contracted migrant workers, considered as a cheap labour source, with their entire families, including children. During the whole harvest season, i.e., at least a few months, children were out of school, living with their families in plastic tents in the fields, without access to toilets or other basic facilities. Given that work in rice fields implies remaining for long hours with legs in water and mud, people often developed feet injuries and infections. As a rule, workers were hired informally, with no written contract, no right to leave days and no access to the social security. They were paid on a piece rate basis or received daily wages. In that case, the rice processing factory exporting to the EU

was not in a position, despite its declaration to the contrary, to monitor working conditions at supplying farms and to request changes (Impact Buying BV, 2023)⁶⁵.

According to the US Department of Labor’s 2022 edition of the list of goods produced by child labour or forced labour, both forms of prohibited labour are still occurring in rice production in India, notably in rice mills in Tamil Nadu. Children are forced to work, often with their families, to produce rice through a system of bonded labour. Reportedly, over 1,000 families work in bonded labour in rice mills in one district of Tamil Nadu. Bondage occurs when families take advance payments from recruiters and then are forced to work to pay off the debt. Children of lower castes are particularly vulnerable. There are also reports of children facing harassment from mill personnel and restrictions in their movement (US Department of Labor, 2022a).

Several health and safety issues are also reported in the rice sector in India. According to Oxfam (2019), fertilizer overuse is rife, partly arising from subsidies to boost productivity. Herbicides and pesticides are also used to cope with labour shortages (e.g., for weeding). This can lead to different allergies, nasal congestion and other acute symptoms related to the use of pesticides. In addition, hazardous working conditions occur in rice production including high noise levels, working on slippery surfaces and sharp injuries.

3.2.3 Environmental aspects

Sugar sector

European Union

The sustainability of sugar beet production has gradually improved over the years through progresses in crop breeding and husbandry, for instance. Sugar production remains among the top energy-intensive agrifood industries in Europe through significant use of fossil energy for sugar beet processing. This particular environmental impact is arguably at least partially addressed as processing within the EU sugar sector is covered by the EU Emission Trading Scheme (ETS) and therefore subject to carbon pricing to limit the associated GHG emissions. A report for the industry estimates that the EU beet sugar industry is “well on track to reduce its GHG emissions by 55% by 2030, in line with the Green Deal objectives” (CEFS, EFFAT, 2022).

The sugar sector also produces products, such as ethanol, biogas and excess heat that can be used as a source of energy. Implementing renewable bioelectricity solutions, such as renewable energy and energy from waste, in sugar factories could significantly address environmental challenges, such as human health, ecosystem quality or climate change, and be the most favourable alternative to meet power requirements of the industry (Rajaeifar et al. 2019).

Harvesting of sugar beets is linked to Soil Loss by Crop Harvesting⁶⁶ which is an important aspect of soil erosion processes in the EU (Panagos et al. 2019).

A reduction of pesticide use in the sector (as for all other agricultural sectors) replaced by biological control and Integrated Pest Management approaches combined with other innovative approaches as required in the EU Farm to Fork Strategy approved in 2022⁶⁷ are estimated to bring significant environmental benefits (IEEP 2020, 2023). We note that, although the topic is highly debatable (and debated), reductions of pesticide use seem to be possible without impacting crop productivity and profitability in arable farms (Lechenet et al. 2017).

⁶⁵ At the same time, landowners (notably large ones) producing rice admit that rice cultivation has generated income enabling their families to improve living conditions, including housing and equipment, access to (better) schools for children and to health care for all family members (Impact Buying BV, 2023).

⁶⁶ SLCH: loss of topsoil sticking to the crop and removed from arable land during harvesting of crops such as potato, sugar beet, carrot, or chicory roots.

⁶⁷ https://ec.europa.eu/commission/presscorner/detail/en/QANDA_22_3694

Innovative agricultural practices, such as precision farming and Non-Genomic Techniques could also facilitate the availability of sugar beet varieties benefiting from key sustainability aspects such as resistance to biotic and abiotic stresses, and resilience and adaptability to lower input practices (Stevanato et al. 2019). The EU prohibition of certain neonicotinoids for instance (see below) challenged the control of aphids in sugar beet and eventually the effective management of associated Phytoviruses, posing a risk to the industry. Nonchemical alternatives such as the development of sugar beet varieties with aphid and/or virus resistance and/or tolerance, the use of plant volatile organic compounds and/or entomopathogenic fungi can all be part of a strategy to effectively replace banned neonics (Francis et al. 2022).

India

The sugarcane and sugar sector in India ranks second among the country's agro-based industries, after cotton. The increasing production and exports bring significant challenges as demand increases while productivity remains stagnant (70 tons/ha) at the national level (Solomon, 2016). Sugarcane has also been projected as the crop for the future, contributing to the production of not only sugar but also providing raw materials for many industries, including fertilizers, alcohol, and many biobased products, as well as a source of renewable energy in the form of bioethanol and bioelectricity. The sugar industry is transitioning towards that objective through integration of agro-technology, improved management practices, diversification, and farmers subsidies (CEFS, EFFAT, 2022).

Unfortunately, the sector is not immune from significant environmental challenges. A life cycle assessment (LCA) lists electricity, machinery, biocides, and nitrogen fertilizers as the main contributors to environmental impacts of sugarcane production (Kaab et al. 2019). Sugar industry processes have also been linked to the release of untreated effluents by sugarcane mills (Oxfam, 2019) and other large amounts of wastewater and pollution concentrations (Khair et al. 2023). Sugarcane burning before harvest is also present in India which has a negative impact in terms of GHG emissions and on the health of workers (Alemayehu & Egbert, 2018). Cane cutters in particular are exposed to silica present in burned cane ash which gets in their lungs. Although there is no direct proof of correlation, this situation has been linked to the high occurrence of chronic kidney disease (along with high temperature, dehydration, bad water quality and exposure to heavy metals and agrochemicals) in the country with at least 7.8 million Indians working or having worked in sugarcane fields affected by this disease (CIBE, 2022).

Last but not least, water shortage is also identified as an environmental concern for many farmers (Plaisier et al. 2017) in a global context where the decreasing level of natural groundwater resource threatens food security, economic growth, and livelihoods around the world (FAO, 2021).

Rice sector

Rice uses 34 to 43% of the global irrigation water and is responsible for the withdrawal of 24%–30% of the of World's total freshwater (Surendran et al. 2021) as conventional rice production systems require 2 to 3 times more quantity of water than for other cereals (Barker et al., 1998). This raises significant concerns on the impact of rice production for water access and water quality, notably in India. Furthermore, open field rice straw burning, which is common practice in India, has been linked to several other environmental impacts. The volumes and techniques of production for such a commodity have therefore a direct impact on water access for the population and other economic operators.

European Union

Rice production in Europe provides important ecosystem services that range from flood control to wildlife habitat yet also faces intensive water management requirement to withstand the decreasing level of natural groundwater resource.

Another environmental challenge for the rice production sector in the EU is the evolution of weed resistant populations due to over-reliance on herbicides and lack of crop operations range. Weeds are the main phytosanitary problem in rice crop, causing losses close to 30% of production and compelling European rice growers to rely on chemical control at significant costs to reduce yield loss (Oliveira et al., 2022). This dependence on herbicides, combined with the decreasing number of active substances and a lack of cultural diversity in the rice cultivation system, creates intense selection pressure for the evolution of resistant weed populations (Calha et al. 2023). The sector would therefore benefit from innovation policies to promote ecological and sustainable practices including non-chemical weed control.

India

Despite agriculture in India achieving grain self-sufficiency (FAO, 2022) the heavily subsidised and resource intensive production system still raises serious sustainability concerns related to water quality and water access. In Asia, irrigation consumes more than 80% of the freshwater resources available and among that, rice irrigation accounts for more than 50%, while temperature increase induced by climate change also increases the irrigation water requirement. Another environmental challenge related to rice production in the country is open field rice straw burning (Singh, 2021). Around 60% of rice straws are burnt in open field in India which causes air pollution, GHGs emission (7300 kg CO₂-equivalent per hectare), soil nutrient and biodiversity losses and human health hazards (Bhattacharyya et al. 2021).

Rice is a key food crop for India and the detrimental impact of climate change and depleting water resources on rice production in the country would have serious impact for food security. The IPCC projected the negative impacts of climate change and global warming on crop production to the tune of 10%–40% reduction in crop yields in India by 2080–2100 (IPCC, 2007).

Rice production and consumption has also been linked to methylmercury exposure. Mercury and especially one of its most toxic forms, methylmercury, is a global pollutant of air and water posing significant health risks to humans and wildlife (Driscoll et al. 2013). Rice may be a significant dietary source of human methylmercury exposure, especially in South and Southeast Asia, as the sector produces 14 times more mercury than global fisheries which is still considered as the main source of methylmercury (Liu et al. 2019).

The heavily subsidised system prevalent in India for agricultural production also covers the rice sector, through instruments such as Minimum Support Price for unfilled rice or a 5% subsidy on all rice exports. It also implies overreliance on and overuse of chemical inputs by Indian farmers. Most of them apply considerable volumes of chemical (mostly nitrogenous) fertilizers which has worsened the soil and water quality in several productive areas over time (Paul et al. 2023, Verschoor et al. 2022). Such overuse also induces methane production and emission from the soils.

3.1 Impact analysis

3.1.1 Economic impacts

Sugar sector

The economic model estimates an increase in India's exports to the EU by 176.7% (€266 million) under the ambitious scenario. While the EU exports are also predicted to grow by 368.1% (€187 million)⁶⁸ compared to the situation without the agreement in place, the new trade flows are likely to cause a fall in EU's output in the sector by -0.1% (-€36 million).

⁶⁸ Assumptions underpinning the ambitious and conservative scenario in the economic model have been provided in the introductory part of the main Report. Moreover, tables with full results of the modelling have been provided in the main Report and in the Annex.

The sugar sector has been named as sensitive by Copa Cogeca, CEFS and CIBE (sector representatives) and the Regional Council of La Réunion, with all of them calling the EU to exclude sugar sector from trade liberalisation, as part of the EU-India FTA. EU stakeholders stressed that sugar production in India has been subsidised and does not represent fair competition in the market. They referred in this context to the December 2021 ruling of the WTO Panel according to which⁶⁹ India's support to sugarcane producers and export subsidies for sugar were inconsistent with India's obligations under the WTO Agreement on Agriculture and the Agreement on Subsidies and Countervailing Measures (The Regional Council of la Réunion, 2023; CEFS and CIBE, 2023; Syndicat du sucre de la Réunion, 2021; interview with Copa Cogeca).

Moreover, given challenges faced by the EU sector recently, stakeholders emphasised that further pressure (e.g., through increased sugar imports) may have detrimental effects for jobs and production in the EU, as well as in cooperating sectors along the supply chain. In this context, it was emphasised that the EU own production is needed from food security point of view. In addition, increased imports to the EU from a country like India would also negatively affect interests of other countries or regions exporting sugar to the EU on preferential terms, like the EU Outermost Regions, ACP countries, parties to the Economic Partnership Agreements (EPAs) or EBA beneficiaries (interviews with ASSUC, CEFS).

Rice sector

The economic model estimates an increase in India's rice exports to the EU by 62.4% (€490 million) in the ambitious scenario. While EU rice exports to India would also grow (by 71.5% or €1 million), the new trade flows are likely to have a negative impact on EU's rice production, with output falling by -6.9% or -€349 million.⁷⁰

According to Copa Cogeca, further increase in imports from India, notably in rice varieties sensitive for EU producers, may have negative impacts for the sector. It may bring down market prices, discourage small farmers from continuing production or force them to sell their farms to big producers, reduce incentives for young persons to take over farms from the older generation and lead to a decline of the sector. While it is acknowledged that the EU needs to import some rice, as the domestic production is not sufficient to cover the entire demand, focus should be on encouraging trade in rice varieties (like basmati) that are complementary to the EU production rather than competing with it and therefore, less sensitive for the sector. At the same time, measures should be taken to limit imports in rice varieties that are competing directly with the EU production and may be detrimental for the EU sector (interview with Copa Cogeca). We note in this context India's measures limiting exports on non-basmati rice, however, as these measures (export duties or export ban) are taken unilaterally and ad hoc, depending on India's own needs, one cannot rely on them as a sole means to regulate India's exports to the EU in a longer-term.

3.1.2 Social impacts

Sugar sector

European Union

The economic model estimates employment reduction (or outflow of workers) in the EU sugar sector by -0.2% for unskilled workers and -0.1% for skilled ones under the ambitious scenario. The conservative scenario estimates no change of employment for unskilled workers and an increase of 0.1% for skilled ones.

⁶⁹ See the ruling of the Panel established by the WTO Dispute Settlement Body (India has decided to appeal): https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds580_e.htm

⁷⁰ In this context, it is to note the difference in the size of the rice sector in the EU and India, in terms of production and exports (for details, please, see section 3.2 above).

As outlined in the preceding sections, the sugar sector has been considered sensitive and sector representatives emphasise the lack of level playing field in competition with Indian imports. In interviews for this study, they expressed concern on the potential impact the increasing imports may have on jobs in the EU sector. Sugar processing factories are based in rural areas where sugar beets are grown and they provide mostly (80%) permanent, well-paid industrial jobs for skilled workers in areas, where not many other industrial jobs may be available. Moreover, the sugar sector creates the spill-over effect supporting not only the jobs of beet growers and people working in sugar processing plants but also jobs in other, cooperating sectors and services (interviews with ASSUC and CEFS). It has been estimated that one job in the sugar sector supports 14 indirect jobs in other sectors. This means that the around 24,000 jobs in the sugar sector support some 338,500 such jobs (Scholz et al., 2019). As a result, the sugar manufacturers are opposed to further trade liberalisation with India. Sugar traders acknowledge a need to import sugar in years when the EU yields are lower, however, are also concerned about the EU own sector and highlight interests of other countries, including developing ones, that already export sugar on the EU market. Their economies and jobs would be affected negatively if the EU opened its market to imports from a large producer like India.

India

According to the economic model, under the ambitious scenario, employment in the sugar sector will decrease by -0.7% for unskilled workers and increase by 0.3% for skilled ones. The conservative scenario estimates an employment reduction of up to -0.6% for unskilled workers and no change for skilled ones. Given that the same pattern of changes is reported for all agricultural sectors in India, it may mean job creation for skilled workers due to a technological change and application of modern techniques. In such a situation, unskilled workers may lose some jobs (if their work becomes mechanised), while some of them may have an opportunity to get upskilled and receive a new, better paid job. Another scenario, which has already been observed in India, means an outflow of unskilled workers from agriculture and rural areas to take jobs in other sectors, like textile, garment, and leather, that are estimated to grow thanks to the EU-India FTA.

As outlined above there are several labour rights concerns related to the sugar industry in India. Some of them relate directly to the violation of the fundamental principles and rights at work, like child labour, forced labour or non-discrimination of women and workers from lower castes, as well as occupational health and safety (CIBE, 2022). Given the opposition of the Indian sugar factory owners against changes proposed by the national Government and state government aimed at improvement of working conditions (Chadha, 2019), there is a low probability that such changes would happen just through an increased trade with the EU. On the contrary, increased Indian exports to the EU (or to any other partner) – if combined with an increased production – may perpetuate the current situation and engage more people in work on precarious terms.

The EU textual proposal for a TSD chapter of the EU-India FTA in Article X.3 (Multilateral Labour Standards and Agreements) includes commitments to respect, promote, and realize the principles concerning fundamental rights at work which are included in the amended ILO 1998 Declaration on Fundamental Principles and Rights at Work. The proposed commitments include a sustained effort to ratify the relevant ILO Conventions if the Parties have not done so yet and implement the ratified ILO Conventions. In addition, the draft chapter refers to promoting the ILO Decent Work Agenda and refers *inter alia* to wages and earnings and working hours. Article X.4 focuses on trade and gender equality. Furthermore, Article X.10 commits the Parties to promote transparent and credible fair and ethical trading schemes and Article X.11 contains commitments on trade and sustainable business conduct and supply chain management which *inter alia* refers to the UN Guiding Principles on Business and Human Rights. The provisions in the TSD-chapter, notably if combined with other FTA provisions and measures, might have a positive impact on the labour rights concerns identified above in the context of the already existing India's sugar exports to the EU within the currently applicable tariff quota. The EU proposal for a chapter on Sustainable food systems includes a provision on cooperation to reduce the use of chemical pesticides in agriculture. This could help improve the working conditions as

workers would need to handle less of those chemicals and would be exposed less frequently to their negative impacts. Concerning forced labour, the proposal for an EU regulation to prohibit products made using forced labour, including child labour, on the EU internal market fits in the EU efforts to promote decent work worldwide will potentially also be important since it applies to all products. The same would go for the Corporate Sustainability Due Diligence Directive, while both are under negotiations among the EU co-legislators yet and a lot depends on their final version and its implementation.

In the implementation of the TSD-commitments special attention can go to the uptake of ethical trading schemes and sustainability standards since they aim to address the labour rights and environmental concerns, and several schemes are available for producers to adopt. According to the International Trade Centre Standards Map⁷¹ there are currently 85 schemes related to sugar operational worldwide of which 45 are in India.

Rice sector

European Union

According to the economic model, under the ambitious scenario, employment in the rice sector is likely to decrease by -7.9% for unskilled workers and by -7.1% for skilled ones. The conservative scenario estimates a reduction of employment of up to -2.9 for unskilled workers and -2.6 for skilled ones. As discussed in the preceding sections, the sector has been named as a sensitive and already being under pressure. While the EU needs to import rice to cover part of the domestic demand, the farmer representatives (Copa Cogeca) emphasised a need to differentiate between rice varieties that are and those that are not sensitive for the EU producers, with limiting imports of the former and enabling the latter. Given a very detailed break-down by rice varieties and forms in the HS codes (tariff lines), there should be a possibility to keep or to further nuance such a diversified approach, with advice from sector representatives, to protect EU producers and workers employed in the sector on one hand (e.g., through tariffs and quotas) and to satisfy consumer demand, on the other.

One stakeholder expressed concerns on current Indian policies which might adversely affect trading partners. Some of Indian policies are considered not to be transparent and predictable. Adverse effects of such policies include the imposition of import duties with no advanced warning and impacts related to public stockholding policies (see also OECD, 2018). Along the same line, unilateral Indian measures, such as export ban or export duties, aiming to keep domestic prices under control and the market in balance and being introduced and implemented at short notice or without a prior warning may affect supply of rice to partner countries (although in the EU case, the majority of Indian exports cover basmati rice which – at least for now – remains outside the recent export restrictions).

India

According to the economic model, under the ambitious scenario, employment in the rice sector is likely to decrease by -0.9% for unskilled workers and increase by 0.3% for skilled ones. The conservative scenario estimates a reduction of employment of up to -0.5% for unskilled workers and an increase of 0.1% for skilled ones.

The findings and recommendations are in this case similar as above, for the sugar sector. Additionally, given the overall reluctance of the Indian private sector to improve working conditions, recommended could be a monitoring mechanism along the supply chain to identify and remedy violations of workers' rights, or an impact assessment by an external contractor conducted upon a request of EU importers (e.g., retail chains) with conclusions and recommendations to be implemented by Indian suppliers.

In the implementation of the TSD-commitments special attention can go to the uptake of ethical trading schemes and sustainability standards since they aim to address the labour

⁷¹ See: <https://www.standardsmap.org/en/home>

rights and environmental concerns and several schemes are available for rice producers to adopt. According to the International Trade Centre Standards Map, there are currently 79 schemes related to rice operational worldwide of which 41 in India. Some of them are rice specific such as the Sustainable Rice Platform.

Some stakeholders, however, expressed scepticism on the potential of the TSD chapter to address labour concerns due to a (traditional) lack of a strong enforcement mechanism based on sanctions in case of non-compliance. In that context it was recommended to strengthen the enforcement component of the TSD chapter, following the new model applied in the EU-New Zealand FTA, i.e., to include the TSD chapter into the general dispute settlement mechanism, with a recourse to sanctions (as a last resort) in case of non-compliance. In this context, we note that the dispute settlement mechanism for TSD chapter under the EU-India FTA has been included into provisions for the general dispute settlement mechanism, as tabled by the EU in negotiations with India.⁷²

3.1.3 Environmental impacts

Sugar sector

European Union

The economic modelling foresees a 0.1% decrease of CO₂ emissions for the sugar sector in the EU (the changes under the conservative scenarios are marginal). Furthermore, the impact of the sector on major air pollutants such as ammonia, nitrous oxide or PM_{2.5} is expected to be marginal in the EU (less than 0.1% change).

EU stakeholders interviewed on the matter (ASSUC, CEFS, CIBE) voiced concerns over a perceived lack of level-playing field due to the obligations for EU based operators to comply with higher sustainability standards. They expressed the views that countries exporting sugar to the EU should also meet such standards. So far, such an approach has been implemented in the EU solely on specific neonicotinoids such as clothianidin, imidacloprid and thiamethoxam. The EU bans these neonics on the basis of Maximum Residue Limits (MRLs) imposed on imported products (IEEP for WWF, 2022). Such an approach could be extended to other products, compounds or in general to other sustainability standards, yet the topic remains highly controversial at the EU and WTO level, hence not much movement has happened lately.

Processing activities within the sugar sector are covered by the Emission Trading Scheme (ETS) as an energy-intensive sector, but not by the Carbon Border Adjustment Mechanism (CBAM). The extension of the latter to other economic sectors will be discussed over the coming years and might involve more agricultural-related activities.

India

The economic modelling foresees an increase of 0.3% of CO₂ emissions for the sugar sector in India (the changes under the conservative scenarios are marginal). In terms of other GHG and major air pollutants, the emissions of ammonia and nitrous oxide are expected to see a 1% increase while the evolution of other major gases is expected to be marginal.

The version of the Trade and Sustainable Development (TSD) Chapter of the FTA tabled by the EU in negotiations with India requires both partners to “effectively implement the multilateral environmental agreements (MEAs), protocols and amendments that it has ratified”⁷³ under article X.5 on Multilateral Environmental Governance and Agreements. Some of these MEAs, to which both the EU and India are parties, are directly linked to the

⁷² See list of chapters tabled by the EU: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement/documents_en

⁷³ See draft EU-India FTA TSD chapter: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement/documents_en

environmental challenges outlined above, especially those related to the use of freshwater and chemical inputs:

- Rotterdam Convention on Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade. The objectives of the Convention are to promote a sustainable use and trade of certain hazardous chemicals, including some severely hazardous pesticides.
- The Stockholm Convention on Persistent Organic Pollutants aiming to protect human health and the environment from chemicals that remain intact in the environment for long periods, including pesticides such as aldrin, chlordane or DDT.
- The Minamata Convention aiming to protect human health and the environment from the adverse effects of mercury.

Beyond the TSD Chapter, the current text of the EU-India FTA (as tabled by the EU) also caters for a chapter on Sustainable Food System (SFS). Its Article 4 notably calls for both partners to cooperate to “ensure sustainable food production methods and practices” with a specific mention of the reduction of the use of antimicrobials, chemical pesticides, and fertilizers. Both Parties are also expected to commit to “reduce the environmental and climate impact of food production” for a transition towards “more sustainable food production contributing to decrease the GHG emissions of food systems, increase carbon sinks and reverse biodiversity loss”.⁷⁴ These objectives are very much in line with the identified challenges and may perhaps be specified in terms for instance of which sustainable food production methods and practices could be considered.

Both the TSD and SFS Chapters of the EU-India FTA may seek to support the introduction of innovative techniques for the production of sugar in India (their examples have been outlined below). The TSD chapter may also seek to empower small landholders by addressing key requirements for sustainable sugarcane cultivation, integrating good practices through on-farm efficient water usage, reduction in the use of chemical pesticides and fertilizers and mechanisation. A particular focus should be put on water conservation practices as they are not followed by farmers (Oxfam India, 2018). EU-India cooperation could also support farmer training on such good agricultural practices leading to capacity building and mill management systems to accelerate digitization and adoption of sustainable production standards. The regulation of sugar supply chain networks through carbon taxes on emissions from sugar industries is also listed among potential solutions to address notably the disorganised disposal of by-products from sugarcane mills. This would foster circular economy approaches by incentivising the reuse of these by-products and minimising by-product wastage (Chouhan et al. 2022).

To address challenges faced by the sugar sector in India, it appears crucial to improve the knowledge of farmers on sustainable agriculture practices, so steer away from the current system, which is defined by overreliance and overuse of freshwater and chemical inputs (see the analysis in the Annex), without jeopardising the production levels and related incomes, especially for small farmers. The review of the (over)use of pesticides in India merits a particular focus as the practice is currently regulated through the Insecticides Act dating back from 1968 and several of these pesticides under use in India are now banned in the EU.

Improved capacities to monitor productivity and yields is also a fundamental tool toward that goal. For example, the use of optimization techniques including Multi-Objective Genetic Algorithm but also Data Envelopment Analysis and Artificial intelligence models have shown significant successes in reducing environmental impacts and simultaneously enhancing farms productivity and energy use efficiency by assigning the best input combinations for sugarcane productions (Kaab et al. 2019, Ibid.).

⁷⁴ See draft text of the SFS chapter: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement/documents_en

Rice sector

European Union

According to the economic modelling, the rice sector is expected to see a decrease of CO₂ emissions by -7,1% (the most important decrease out of all analysed sectors). Figures are similar for major air pollutants, with a projected decrease of emissions of nitrous oxide, methane, ammonia and PM_{2.5} by, respectively, -6,9%, -3,2%, -6,9% and -5.5%. Yet, the emission share for the rice sector is very low (less than 1.0%) hence, an overall marginal effect of the EU-India FTA on the emissions of major air pollutants.

Stakeholders interviewed on the matter mentioned rather access to new water infrastructure to address the increasing freshwater scarcity challenge, combined with adequate farming subsidies, to adapt towards more sustainable practices, including on the use of non-chemical weed control.

The implementation of and adherence to relevant MEAs, such as those listed above for the sugar sector, should also be a priority for the EU.

India

The EU-India FTA is not expected to have a major impact on rice production in India, nor on the related emission of CO₂ and major air pollutants, with the exception of ammonia which is expected to see a 1.0% increase while the rice sector represents a significant share (13.5%) of emission of this GHG in India.

The environmental concerns of the rice sector should therefore not be approached from a direct trade perspective but rather through support measures for innovative and sustainable production methods that could be facilitated by the agreement. Such practices for sustainable rice production may include irrigation scheduling, drainage practises and other water saving techniques and/or technologies as well as reuse of straw to produce bioethanol, compost, mushroom, fuel-briquette, pulp, or animal-feed. This reuse rather than burning of straw can also bring significant economic opportunities to farmers. These new methods are absolutely essential to maintain future rice production and thereby food security in India, and the EU-India FTA should foster such a transition.

3.2 Conclusions and recommendations

3.2.1 Economic impacts

Conclusions

- Rice and sugar imports from India can undermine the position of European Union sugar and rice producers due to subsidisation of rice and sugar production in India and the absence of a level playing field in economic, social, and environmental terms.

Recommendations

- The EU should consider extending and possibly revising the application of import quotas for rice from India taking into account the considerations on EU production, the size of the EU market, and differentiating between sensitive and non-sensitive rice varieties. Sugar should be excluded from further liberalisation.

3.2.2 Social Impacts

Conclusions

- Rice and sugar imports from India can undermine the position of European Union sugar and rice producers due to subsidisation of rice and sugar production in India and the

absence of a level playing field in terms of upholding labour rights which reduces costs for Indian producers.

- For sugar, the economic model does not predict significant loss of employment in the EU or employment gains in India at the macro level. However, the limited negative effects for the EU sector would come within an already challenging situation for the sector, with a specific impact in small size economies such as the EU outermost regions where sugar is an important productive sector and employs a high proportion of the population.
- For rice, the economic model predicts a significant loss of sector employment in the EU.
- For both sectors, the economic model estimates a limited outflow of unskilled workers and job creation for skilled ones in India. Given that the same pattern of changes is estimated for all agricultural sectors in India, it may mean job creation for skilled workers due to a technological change and the application of modern techniques. In such a situation, unskilled workers may lose some jobs (if their work becomes mechanised), while some of them may have an opportunity to get upskilled and receive a new, better paid job. Another scenario, which has already been observed in India, means an outflow of unskilled workers from agriculture and rural areas to take jobs in other sectors, like textile, garment, and leather, that are estimated to grow thanks to the EU-India FTA.
- The possible negative effects on employment do not necessarily imply that producers and traders are against further liberalisation or continued imports from India, notably in the rice sector, where the EU needs to import rice to meet part of its demand. Further liberalisation or imports continued on current terms can be considered under certain conditions (e.g., quota), provided, there is a distinction between sensitive and non-sensitive rice varieties (from the point of view of EU producers). Regarding sugar, the EU producers are against further liberalisation of imports from India (going beyond the existing quota). EU traders acknowledge a need for the EU to import some sugar in years of lower EU yields, while they see risks of further imports from India, including for other countries and regions already exporting sugar to the EU on preferential terms.
- For both sugar and rice sectors in India, there are several reports which indicate serious violations of core labour standards. These include incidence of forced labour and child labour, discrimination based on gender and caste, and serious concerns related to health and safety at work.
- The TSD chapter may potentially play an important role in addressing social concerns since (in the EU textual proposal) it includes a commitment to the protection of labour rights which are under stress in the rice and sugar sectors in India.
- However, in the traditional EU version, TSD chapter is considered weak on enforcement to address labour rights violations and social concerns. This may change if the EU and India agree to cover the TSD chapter by the general dispute settlement mechanism, as proposed by the EU.

Recommendations

- The social and labour rights commitments included in the EU proposal for TSD chapter of the EU-India FTA address the social and labour rights concerns. Both Parties should agree with this proposal (or a text very close to it) and promote the full implementation of the agreed international commitments in the trade agreement and their trade relations. The Parties should also agree for a strong enforcement mechanism (the EU has proposed to include TSD chapter into the general dispute settlement mechanism).
- Both Parties should ensure that in the implementation of the future TSD chapter, there is enough attention paid to the adoption of ethical and sustainable trading schemes which can improve working conditions in the sugar and rice sector in addition to what is required by the domestic legislation in India. The institutional mechanisms for the

implementation of the TSD chapter can include specific monitoring commitments which focus on the adoption of these types of trading schemes. The monitoring of these commitments can be done by the Domestic Advisory Groups of both Parties (we note that the proposal for overall institutional structures has not been published yet).

- There are specific labour rights concerns related to forced labour, child labour and forced child labour in the sugar and rice sector in India. The EU should prioritise finalising the proposal for a regulation on a ban of products made under forced and child labour. This will help addressing these concerns and complement the commitments included in the trade agreement.

3.2.3 Environmental Impacts

Conclusions

- Both the sugar and rice sectors in India are linked to significant environmental challenges, mostly through a concerning overuse of freshwater and chemical inputs for production. Other impacts related to the sectors are on climate change and air quality due to unsustainable farming techniques such as open field burning.
- The economic model suggests a decrease of emissions of CO₂ and major air pollutants linked to the rice sector in the EU.
- Rice and sugar imports from India can undermine the position of European Union sugar and rice producers due to subsidisation of rice and sugar in India and the absence of a level playing field in terms of upholding environmental standards.
- The TSD chapter seems to only indirectly address the main environmental impacts identified through MEA implementation. The current version of the TSD chapter is therefore considered weak on enforcement of measures related to environmental concerns. The role of the dispute settlement system put in place within the EU-India FTA will play a key role in its enforcement capacities (the EU has proposed to include TSD chapter into the general dispute settlement mechanism).
- The EU-India FTA currently caters for a Chapter on Sustainable Food Systems which foresee the cooperation of partners towards sustainable food production methods and practices. The means to achieve this transition could be clarified within the SFS chapter, including through the inclusion of targets and roadmaps to facilitate the monitoring of progresses by both partners.

Recommendations

- Both partners should promote the full implementation of, and adherence to, the relevant MEAs they have ratified through the FTA.
- The EU should support the uptake of sustainable production methods both for the rice and sugar sector in India, with a particular emphasis on water-efficient and chemical free farming methods such as biological control, Integrated Pest Management approaches and other non-chemical alternatives for pesticide and fertiliser use reduction.
- Specific technical and financial support should be provided to empower small landholders in India through farmer training on sustainable agriculture practices to reduce the overreliance and overuse of freshwaters and chemicals intrants.
- Both India and the EU should support the deployment of renewable energies / energy from waste solutions to supply power to the sugar industry.

- The EU should support the deployment of agricultural optimisation techniques including precision farming, MOGA and AI systems to foster sustainable production in both sectors in India.
- Both partners should strive to improve their own regulations of sugar supply chain networks to foster circular economy approaches such as the reuse of by-products.

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