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India & Europe: Towards global green leadership

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1. Identification of the problem & relevance to the strategic partnership

Problem: The pandemic has significantly altered development trajectories in India and the broader Indo-Pacific. Fiscal stress and economic pain have exposed the social and physical infrastructure as insufficient.

India is the standout democratic development story in the Indo-Pacific, with enormous influence over the emerging world's green transition. The European Union is the largest source of development co-operation globally. With exceptional regulatory capacity and early action, it exerts disproportionate impact over the behaviour of institutional finance and the structure of technological regulation.

The pressing problem therefore is to identify mechanisms towards a sustainable and institutionalised structure for India-EU partnership on greener development trajectories.

Two specific constraints need addressing: First, EU's development outreach in India and the region has not sufficiently enthused private sector cooperation; and, second, India's state capacity to mobilise resources and administer projects within and especially beyond its borders is limited.

We seek to lay out a rhetorical, sectoral, and institutional foundation for India-EU cooperation on climate change.

Relevance: Since the 2016 announcement of a Clean Energy and Climate Partnership, cooperation on climate has been a significant aspect of the relationship. The European Commission in 2018 conveyed to the Parliament and the Council that a crucial element of the EU's India strategy was “an enhanced EU-India partnership on sustainable modernisation”, and coordinated “multilateral and bilateral approaches to climate change and energy security”.² It argued India's policies and priorities “will have a huge impact on international action on climate change; global energy security;

¹ Prabhu is a Junior Fellow and Sharma is Director at the Observer Research Foundation, New Delhi. This draft policy paper is a submission for the EU-India Think Tanks Twinning Initiative. It is 1708 words in length.

² European Commission, 'Explaining the European Union's partnership with India', Nov 2018, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_18_6483

resources efficiency”, among others. The 16th EU-India Summit resolved to step up cooperation on climate by accelerating the “deployment of renewable energy, promoting energy efficiency, collaborating on smart grid and storage technology and modernising the electricity market”³. The Joint Statement specifically mentioned the new Circular Economy and Resource Efficiency Partnership would “intensify bilateral exchanges on relevant regulatory approaches, market-based instruments and business models”.

It is clear from these statements that (1) greener development is at the heart of the India-EU strategic partnership; (2) India’s future growth trajectory will play a crucial role in determining regional and global effectiveness on climate targets.

2. Critical analysis of the issue

Three pillars: We structure our analysis by considering three possible pillars for cooperation on the worldwide green transition: norms, finance, and technology. We recognise that cooperation on climate change must cut across policy domains, with multiple points of engagement essential – and therefore requires whole-of-government interaction.

These three pillars are chosen because the EU and India have a special global role to play in each. The EU is a superpower of norms, and India seeks to be a leader in setting norms for the emerging world; the EU is the major reserve of long-term institutional capital, and India has to become capital’s major destination if emissions goals are to be met; and both countries have demonstrated both development and absorption capacities for technology while also seeking to prevent the build-up of dangerous economic concentrations in the sector.

These three pillars are also central to the broader Indo-Pacific’s attempts to construct a congenial, green development paradigm.

Norms: The India-EU green development partnership should be built around shared values – of regulated, but open, free markets that put citizen welfare first. Can these values inform, energise and shape whole-of-government interaction on the other two pillars below? We argue they can, if expressed explicitly through a series of shared norms and principles meant to underlie the investment and other protocols that will serve as the structure for the partnership.

Finance: India and its peers face a hard choice between financing the SDGs, carbon mitigation, and state services. The gap between resources and

³ MEA India, ‘Joint Statement on India-EU Leaders’ Meeting’, May 2021, https://www.mea.gov.in/bilateral-documents.htm?dtl/33853/Joint_Statement_on_IndiaEU_Leaders_Meeting_May_08_2021

requirements can only be bridged by mobilising global capital – which will only flow if a mutually comprehensible regulatory environment is created with the EU, built on shared norms and values.

Technology: Growth, climate action, and governance in India increasingly depend upon new technological advances. India seeks an autonomous development-focused digital regulatory environment which reflects values that it shares with the EU. Europe, a digital regulation superpower, and India, a digital swing state, must develop a harmonised approach to harnessing technological innovation and tech value. Such agreement will shape the trajectory of greener growth in the 21st century.

Bilateral interests & constraints:

The EU: Europe seeks a larger role in the Indo-Pacific, with recent Council Conclusions noting its “growing recognition of this region as an economic and strategic centre of gravity”⁴. It also identifies cooperation in the Indo-Pacific as crucial for attaining the SDGs in the long run. It has signed bilateral agreements on infrastructure with Japan and the U.S., and upgraded its strategic partnerships with India and ASEAN (in December 2020). However, this experience has not aided it generalise models and norms for sustainable finance or technology transfer in the region, which are crucial for the Indo-Pacific’s green transition. In spite of its commitment to multilateralism, it has not created a genuinely multilateral architecture that can finance sustainable social and physical infrastructure on its own terms. Steps towards developing such an architecture are necessary to operationalise the Commission’s goal of Europe “playing a leading role in global economic governance”.⁵

India: India seeks a reliable north-south pipeline of investment, as well as a more inclusive and equitable distribution of the benefits of digitalisation. While committed to multilateralism, it is uncomfortable with novel and untested multilateral structures. It has an interest in democratising greener development pathways, but values regulatory autonomy and independence – leading to policy-making in isolation. Finally, its outreach to the broader region has suffered from implementation hazards due to insufficient financial and administrative capacity.

⁴ EEAS, ‘EU Strategy for Cooperation in the Indo-Pacific’, April 2021,

https://eeas.europa.eu/headquarters/headquarters-homepage_en/96741/EU%20Strategy%20for%20Cooperation%20in%20the%20Indo-Pacific

⁵ European Commission, ‘Commission takes further steps to foster the openness, strength and resilience of Europe’s economic and financial system’, January 2021,

https://ec.europa.eu/commission/presscorner/detail/en/IP_21_108

The above critical analysis will inform our recommendations, which are designed to serve shared interests and address individual constraints – and to *overcome any inertia preventing closer collaboration*.

3. Recommendations

Recommendation 1: India and the EU should begin *an informal but structured process of consultations*, including civil society and legislators, to arrive at a *limited but common set of norms and principles* underlying financial and digital regulation that can be presented to the Leaders for their endorsement. As we argue above, a statement of common norms endorsed at the highest level is a necessary prerequisite to *catalyse whole-of-government energy* towards cooperation.

Recommendation 2: An EU-India Sustainability Dialogue, where under ministerial auspices a whole-of-government conversation focusing on sustainable approaches to finance and technology can be held.

Recommendation 2a (Finance): India is part of the International Platform on Sustainable Finance, launched by the EU in 2019.⁶ This platform has, however, not led to sufficient bilateral exchanges between India and the EU. India's own green taxonomy for finance is in development; current disclosure requirements are limited to green bonds listed on recognised stock exchanges, and not to all financial products and large undertakings as is the case with the EU taxonomy.⁷ Those drafting India's taxonomy need to be sensitised to the advantages of harmonising norms with the EU taxonomy, given the latter's first-mover advantage. Meanwhile, the EU's financial regulators need a clearer understanding of how restrictive aspects of the EU taxonomy may be counter-productive in reducing the flow of finance from the EU to the green transformation in emerging economies. This understanding can only be built by *structured and repeated bilateral exchange between regulators, motivated by a statement of common norms at the highest level*.

Recommendation 2b (Technology): India is currently finalising its data, storage, supervision, security and privacy regime. The General Data Protection Regulation came into force in May 2018, giving the EU considerable expertise in

⁶ European Commission, October 2019, 'International Platform on Sustainable Finance', https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_en

⁷ IPSF, 'Annual Report 2020', October 2020, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/international-platform-sustainable-finance-annual-report-2020_en.pdf

this area. As argued above, India and the EU both recognise the centrality of data use, intellectual property, and technological innovation to their green growth trajectory. Also, unlike other relevant geographies, they both seek a middle way between state control and corporate control of data and innovation. *A regulatory conversation on harmonised norms between tech policy makers, following a statement of common principles at the highest level, is necessary to build a bubble of trust between the two powers.*

Such vital exchanges are difficult to organise bilaterally outside an umbrella forum such as we propose. *A periodic Sustainability Dialogue will ensure that existing barriers to discussion are overcome not just once, but on a regular basis.*

Recommendation 3: The Sustainability Dialogue should expand to cover dialogue between the EU's DG-INTPA⁸ and the Indian MEA's DPA⁹. This will help catalyse a common approach to blended financing of green infrastructure and development projects in the Indo-Pacific. Currently the DG-INTPA's EFSD¹⁰ Guarantee Fund operates only in sub-Saharan Africa and the immediate European neighbourhood. Yet external evaluation¹¹ suggests the EFSD pipeline “enables the EU to do two things that are difficult to do with other EU instruments: (1) engage much more broadly in support of private sector development and sub-sovereign investments, and (2) support broad innovation.” These outcomes map precisely into the areas, laid out the Problem section above, where greater European engagement with India is sub-par, and India's own engagement with the Indo-Pacific has been short on capacity.

India has advantages in development partnerships in the region: as a developing-economy leader, capacity-building and knowledge-sharing are easier; and, through the International Solar Alliance and Coalition for Disaster Resilient Infrastructure, it has gained experience in addressing climate-related vulnerabilities of the region. Its constraints have been financial and administrative capacity, which could be overcome alongside capacity and learning from the EFSD. Smooth channelising of private financing for regional initiatives that enhance India and the EU's shared values will build out a broader regional model for the global green transition.

⁸ The Directorate-General for International Partnerships

⁹ The Development Partnership Association

¹⁰ The European Fund for Sustainable Development

¹¹ BKP Development, January 2020, 'Independent evaluation of the European Fund for Sustainable Development', https://ec.europa.eu/eu-external-investment-plan/sites/default/files/efsd-implem_report-external_support_study-final.pdf