

Govt fears EU's draft due diligence law may hit small biz

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KEEPING A WATCHFUL EYE

- Due diligence legislation aims to make companies accountable for issues such as child labour, exploitation of workers, deterioration of environment
- European Union's law is still at the initial draft stage
- Germany's supply-chain due diligence law has kicked in
- India has taken up carbon tax and deforestation regulations bilaterally on a priority basis

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New Delhi, 27 June

After the European Union's (EU's) decision to introduce a carbon border tax and a regulation on deforestation, India is keeping a close watch on the trade bloc's other proposed new law that aims at making companies accountable for issues such as child labour, exploitation of workers, and deterioration of the environment.

Government officials said while legislation is in the draft stage in the case of the EU, Germany was the first nation in the trade bloc to introduce a law of supply-chain due diligence earlier this year.

The law, if implemented, has the potential to become yet

another non-tariff barrier and affect small businesses, they said, adding that India is watching the developments closely.

However, India's immediate concern is related to the EU's carbon border adjustment mechanism, also known as the carbon border tax, as well as another law to fight global deforestation.

"India has time and again taken up both issues with the EU bilaterally," said one of the officials referenced earlier.

The development comes against the backdrop of developed nations' growing priority on issues such as environment, labour, sustainability, and gender, which are becoming part of trade. These issues have been traditionally considered non-

trade. However, developed nations believe such issues go hand-in-hand with trade.

"The law on due diligence is complicated since it is based on the importer's responsibility. For instance, if an EU-based firm imports from an Indian supplier, the burden of proof will be on the importer, not on the EU firm," said the official.

According to Germany's Supply-Chain Due Diligence Act, German companies will have to make sure that environmental and social standards are adhered to in their supply chains. It aims at tackling issues such as child labour, mistreatment of workers, and denial of basic wages, among others. There will also be penalties for non-compliance.

Last year, the European Commission adopted a proposal for a directive on corporate sustainability due diligence to enable sustainable and responsible corporate behaviour throughout global value chains.

"They (companies) will be required to identify and, where necessary, prevent, end, or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example, pollution and biodiversity loss. For businesses, these new rules will bring legal certainty and a level playing field. For consumers and investors, they will provide more transparency," said the European Commission.

Arpita Mukherjee, professor

at the Indian Council for Research on International Economic Relations, said that the EU's proposed Corporate Sustainability Due Diligence Directive is designed to bring some clarity across businesses as the process is random at present.

"It will be important to understand the implications of this for exporters. While they may face uniformity of standards and requirements, they may be required to implement processes that can increase costs in the short term," said Mukherjee.

"India may look at capacity-building programmes with the EU on human rights and environmental sustainability for its exporters," she observed.