



INDIA – EU FTA: A SUMMARY OF THE “MOTHER OF ALL DEALS”

Introduction

On January 27, 2026, the Republic of India and the European Union (EU) formally concluded negotiations for a historic Free Trade Agreement (FTA), effectively ending an eighteen-year hiatus in trade diplomacy between the two economic giants. Hailed by European Commission President Ursula von der Leyen and Indian Prime Minister Narendra Modi as the "mother of all deals," this comprehensive pact creates a free trade zone encompassing nearly 2 billion people and representing approximately 25% of the global Gross Domestic Product (GDP). While the treaty has been formally signed it is not in force yet. The text of the India-EU treaty is subject to legal review ("**scrubbing**") and ratification by the European Parliament and the Government of India before entry into force, which may take up to one year. It may be mentioned that the Indo-UK FTA which was signed in July 2025 is yet to come into effect as the process of ratification by the respective Parliaments of both countries still remains to be completed.

The detailed text of the Indo – EU FTA is presently not available in public domain. This note has been prepared basis the information readily available in the form of communiques, factsheets, press releases, etc. provided by both nations.

Core Provisions

Goods Trade Liberalization: The Tariff Slash

The most quantifiable impact of the FTA is the dramatic reduction in customs duties. The tariff elimination schedule is asymmetric, reflecting the development gap between the two economies.

- **EU Commitments:** The EU will eliminate tariffs on 99.5% of Indian exports by value. Crucially, tariffs on labour-intensive goods - textiles, leather, footwear, and gems - will be eliminated *immediately* upon entry into force. This provides Indian exporters with a level playing field against competitors like Bangladesh which currently enjoys zero-duty access under the Everything But Arms (EBA) scheme reserved for Least Developed Countries and Vietnam which previously enjoyed zero-duty access under the GSP + scheme (a special incentive for 'vulnerable' developing countries) and presently enjoys zero duty access on account of the EU-Vietnam FTA.
- **India Commitments:** India will reduce or eliminate tariffs on 96.6% of EU exports by value. While many tariffs will be eliminated immediately (e.g., certain machinery, raw diamonds), others will be phased out over 5, 7, or 10 years to allow domestic industry adaptation.

Sectoral Analysis: The Automobile Compromise

- **Tariff Reduction:** India will reduce import duties on European cars from the current 100-110% to 10%.
- **Quota System:** This reduction is not unlimited. It applies to a fixed quota of 250,000 vehicles per year, split between ICE and EVs. This concession will primarily apply to vehicles priced



above **INR 16 Lakhs (USD 17,984.7)**, a segment where European luxury manufacturers have a strong presence.

- **Transition Period:** The tariff cut will be phased over 5 years for 160,000 Internal Combustion Engine (**ICE**) vehicles from 110% to 10%. For Electric Vehicles (**EVs**), the transition is slower to protect India's nascent EV manufacturing ecosystem, hence tariffs will be reduced to 10% only by year 10 for 90,000 units. (e.g., Tata Motors, Mahindra).
- **Components:** Tariffs on auto components will be fully eliminated over a 5-10 year period, a move welcomed by European suppliers but one that will force Indian component makers to move up the value chain.
- Outside the quota, tariffs on fully built fossil-fuel cars will be reduced in stages to around 35% over a decade, still providing a protective buffer.
- In return, Indian manufacturers (such as Tata Motors, Mahindra & Mahindra, and Maruti Suzuki) gain access to an EU import quota of up to about 625,000 vehicles, with EU tariffs on Indian EVs phased down to zero over ten years.

Sectoral Analysis: Wines and Spirits

- **Wines:** Import duties on wines will be slashed from 150% to 20% for premium wines and 30% for mid-range wines. This tiered structure ensures that cheap bulk wine does not flood the Indian market, protecting domestic grape farmers in India.
- **Spirits:** Duties on spirits (Whisky, Cognac, Vodka) will be reduced from 150% to 40%.
- **Beer:** Tariffs will drop from 110% to 50%.

Sectoral Analysis: Industrial Goods and Machinery

India has agreed to eliminate tariffs on capital goods, which currently face duties up to 44%.

- **Machinery & Electronics:** Tariffs will be eliminated (mostly immediately or over 5 years). This is strategic for India: cheaper European machinery reduces capital costs for Indian manufacturers, aiding the "Make in India" initiative.
- **Chemicals & Pharma:** Tariffs up to 22% on chemicals and 11% on pharmaceuticals will be eliminated. This benefits the EU's chemical giants (BASF, Bayer) and India's generic drug manufacturers who rely on specialized chemical intermediates.

Services Trade and Professional Mobility (Mode 4)

While goods trade garners headlines, the services chapter is arguably more transformative for the Indian economy. The agreement covers 144 subsectors for EU access and 102 subsectors for Indian access.

- **Mode 4 (Movement of Natural Persons):** The EU has granted access in 37 subsectors for Contractual Service Suppliers (**CSS**) and 17 subsectors for Independent Professionals (**IP**),



covering areas like engineering, IT, R&D, and education. **Mutual Recognition Agreements (MRAs)** for professional qualifications (e.g., degrees, certifications for accountants, architects). This would allow Indian professionals to work in the EU without retraining.

- **Visa Facilitation:** While immigration remains a member-state competence, the FTA establishes a "European Legal Gateway Office" to act as a one-stop hub for visa information and processing, reducing the administrative friction that historically plagued Indian tech workers.
- **Social Security (Totalization):** A persistent grievance for Indian companies has been the "social security tax" where Indian workers in the EU pay social security contributions without receiving benefits upon return. The FTA establishes a constructive framework to negotiate bilateral Social Security Agreements (**SSAs**) with individual EU states within a 5-year timeline.
- **Financial Services:** The EU secured "privileged access" to India's financial sector, allowing European banks and insurers to operate with greater ease and ownership rights than permitted under standard WTO rules.

Sectoral Analysis: Digital Trade and Data Flows

The Digital Trade chapter navigates the tension between the EU's General Data Protection Regulation (**GDPR**) and India's data sovereignty ambitions.

- **Cross-Border Flows:** The agreement commits both parties to facilitate cross-border data flows and prohibits unjustified data localization requirements.
- **Data Adequacy:** Notably, India did *not* receive immediate "Data Adequacy" status (which would allow unrestricted personal data transfer). Instead, the agreement creates a pathway for India to be recognized as a "data-secure" nation, contingent on the alignment of India's Digital Personal Data Protection (**DPDP**) Act with GDPR standards.
- **Source Code:** The deal includes protections against the mandatory transfer of source code, a key demand of EU technology firms concerned about IP theft.

Sectoral Analysis: Sustainability and the CBAM Compromise

- **Labour and Environment:** The agreement legally binds both parties to uphold International Labour Organization (**ILO**) conventions (including freedom of association and abolition of child labour) and the Paris Climate Agreement.
- **CBAM (Carbon Border Adjustment Mechanism):** A major sticking point was the EU's carbon tax on imports. India did not secure an exemption. However, a pragmatic compromise was reached: a technical dialogue mechanism to help Indian exporters meet EU carbon standards, coupled with €500 million in EU funding to support the decarbonization of India's steel and cement sectors.



Kept Outside the Core Deal

- Most primary agriculture is intentionally left out of the main FTA to respect sensitivities on both sides. However, Duties on EU olive oil and some other vegetable oils are cut to zero, making these products more affordable in India.
- Sanitary and phytosanitary (SPS) provisions focus on transparency and cooperation but largely maintain the EU's existing safety and quality standards; they do not radically rewrite those rules.
- India has not opened up its government procurement (GP) market in its free trade agreement (FTA) with the European Union, a departure from its approach in the trade deal with the United Kingdom.

Conclusion

The India-EU FTA is more than a trade agreement; it is a geopolitical declaration. It signifies that in an era of fragmentation, two of the world's largest democracies can find common ground. By skilfully navigating their respective red lines - protecting Indian farmers and European standards - negotiators have crafted a pragmatic blueprint for shared prosperity.

While challenges regarding implementation, carbon taxes, and investment protection remain, the agreement fundamentally rewires the economic relationship. It integrates India into the high-value supply chains of the West aligning with India's vision of "*Viksit Bharat 2027*" and provides Europe with a trusted partner in the Indo-Pacific. As the ratification process begins, the success of this "mother of all deals" will ultimately depend on the agility of businesses in both regions to seize the unprecedented opportunities it creates.



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