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Insights

Historic India–EU Trade Pact Integrates a 2 Billion-Consumer Market

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January 2026

Key Takeaways

- On January 27, 2026, India and the European Union (EU) announced a major Free Trade Agreement (FTA), during the 16th India-EU Summit held in New Delhi. Coming on the heels of the EU's trade pact with MERCOSUR, and a series of Indian trade deals over the last four years, the EU-India deal is the latest sign of countries trying to diversify their trading partners to protect against the perceived risks posed by China and, increasingly, the United States.

- With a bilateral trade relationship already valued at over USD 190 billion, both sides are expected to reap major benefits from the agreement, widely described as the "mother of all deals," creating a market of two billion people and covering about 25% of global GDP.

- The EU will liberalize tariffs on 99.5% of the value of its imports from India, encompassing 96.8% of its tariff lines, while India will liberalize tariffs on 97% of the value of imports from the EU over 7-10 years, covering 92.1% of its tariff lines.

- The agreement is expected to come into force within a year, following EU parliament ratification and approval by the Indian cabinet. The EU parliament's ratification could present possible legal challenges and political opposition from some parties, linked to human rights and climate concerns, though, at this time, it is not expected to derail the deal.

- Despite the comprehensive scope of the agreement, which spans trade, services, and investment, sensitive agricultural sectors like dairy are exempt, while the contentious issues of geographical indications (GIs) and stronger investment protection for European firms have been left to parallel talks.

- The specific outcomes of chapters on government procurement, intellectual property, labor, environment, and sustainability will only be clear once the legal texts are released, likely in five to six months.

- India also continues to face structural impediments from the EU Carbon Border Adjustment Mechanism (CBAM). Plans for an EU–India cooperation platform on recognition of carbon prices and verifiers and EU funding of nearly USD 600 million for India's green transition do not address exporters' carbon-tax burden, leaving CBAM as a significant unresolved issue, potentially eroding some of the FTA's tariff benefits.

- The comprehensive agreement embeds the India-EU economic partnership in a more predictable, rules-based framework amid increasing fragmentation of the global economy and growing concerns about "great powers" weaponizing trade and economic integration.

Background

India and the EU announced the historic conclusion of FTA negotiations at the 16th India-EU Summit held in New Delhi on January 27, 2026. The meeting was co-chaired by European

Commission President Ursula von der Leyen, European Council President António Costa, and Indian Prime Minister Narendra Modi. The agreement is expected to come into force by early 2027. Both sides' legal review of the deal is expected to take five to six months, after which the deal will require signing and ratification. Hailed as the EU's largest-ever trade deal and India's most comprehensive pact with any major partner, the agreement will slash tariffs on top Indian exports like textiles, pharmaceuticals, engineering goods, and auto components, while granting EU firms greater access to India's USD 4.2 trillion market for automobiles, wines, medical devices, and high-end manufactures. The deal will also bolster trade in IT, finance, and telecoms. It excludes historically sensitive sectors for India like agriculture and dairy. Amid 50% U.S. tariffs on most Indian products, the deal signals India's continued efforts to secure expanded market access, with over 99% of Indian exports by trade value getting entry into the EU market. At the same time, it points to the European Union's efforts to diversify its supply chains away from China and, increasingly, to help reduce the bloc's vulnerability to economic pressure from the U.S.

Tariff Liberalization and Services Commitments Across Sectors

The sides committed to the following:

- India will reduce or eliminate tariffs on 97% of EU exports by trade value, which currently face an average duty of 9.3%.
- Indian duties on sectors such as chemicals, machinery, and pharmaceuticals — previously as high as 44% — will be largely eliminated, alongside full tariff removal on aircraft and spacecraft.
- Indian automotive tariffs will be phased down from 110% to 10% on 250,000 passenger vehicles. However, access for European electric vehicles (EVs) will be deferred, with India delaying market opening to safeguard its nascent EV industry; quota-based entry will begin after five years to allow domestic manufacturers time to scale.
- Indian tariffs on wine will fall sharply to 20–30% from 150%, spirits to 40%, and beer to 50%. Olive oil duties will be cut to zero from 40%. Most processed foods and fruit juice exports from the EU will also become duty-free, but sensitive sectors such as beef, sugar, and rice will remain exempt from liberalization.
- The EU will also provide nearly USD 600 million in support over the next two years to help India cut greenhouse gas emissions and for Indian companies get their carbon data verified and understand CBAM rules better.
- Indian goods were already facing relatively low average tariffs in the EU of about 3.8%. Nonetheless, India's labor-intensive sectors such as textiles, apparel, leather, footwear, marine products, gems and jewelry, handicrafts, engineering goods, and automobiles will see tariffs of up to 10% eliminated.

- The agreement also gives EU service providers preferential access to India's services market, including financial and maritime services. India will open 102 sub-sectors, while securing some intellectual property protections and enforcement. A dedicated small and medium enterprises (SMEs) chapter is set to improve transparency, access to information, and regulatory cooperation, making it easier for small businesses to trade and operate across both markets. The EU will open 144 services sub-sectors out of 155 to India.

- The EU has made commitments regarding post-study work visas for Indian students, a significant provision given that the Trump administration is currently undertaking a review of Optional Practical Training rules that could limit access to post-study work visas for foreign students in the U.S.

Outstanding Issues

Two contentious issues — GIs and investment protection — are being negotiated separately. On GIs, the EU is seeking automatic recognition in India for products such as Champagne, Roquefort, and Prosciutto di Parma, while India insists these follow its domestic registration process, as Indian GIs like Darjeeling tea, Basmati rice, and Alphonso mangoes must do in Europe. Additionally, despite EU foreign direct investment (FDI) stock in India exceeding EUR 100 billion (~USD 119.5 billion) as of 2024, uncertainty persists after India dismantled most of its bilateral investment treaties in 2016. New Delhi wants the investment chapter anchored in its Model Bilateral Investment Treaty framework, which limits investor protections to preserve regulatory autonomy, while the EU is pressing for stronger safeguards — an approach India remains wary of after terminating 22 of its 27 investment treaties with EU countries in 2015.

Two other critical issues will persist for India. First, the EU's CBAM, fully effective from January 2026, threatens to dilute the benefits of tariff liberalization for India by effectively imposing a new border charge on Indian exports such as steel and aluminum, with micro-, small-, and medium-sized enterprises particularly exposed to high compliance costs and default emissions penalties. However, for now, India has managed to secure a commitment that any CBAM flexibility offered to any other country later will also apply to India. Additionally, persistent non-tariff barriers could also blunt some of the impact of the tariff cuts, though the two sides have reportedly committed to improving transparency in technical barriers to trade, including enhanced regulatory cooperation and streamlined sanitary and phytosanitary procedures.

Finally, ratification by the European Parliament could take six to 12 months or longer, with potential legal challenges similar to those seen in other EU pacts, such as in the recently concluded EU FTA with MERCOSUR. EU parliamentary resistance could arise over India's human rights record and carbon emissions.

Business Implications

A comprehensive FTA is a mutually beneficial deal for EU and India, anchoring the economic partnership in a more predictable, rules-based framework at a time of growing fragmentation in the global economic order. Announced only days after Canadian Prime Minister Mark Carney's speech at Davos

charting a path for "middle powers" — and after nearly 20 years of negotiation — the EU-India FTA is a significant move toward diversifying and securing global supply chains. Along with recent free trade agreements with Australia, the UK, EFTA (Norway, Iceland, Switzerland, and Liechtenstein), the UAE, and Oman, and planned negotiations with Canada and other partners, India is moving aggressively to secure its export markets in the face of U.S. tariff pressures. Greater mobility will open avenues for Indian students and professionals to share their technological skills and entrepreneurialism to an EU economy that has lagged behind the U.S. in terms of innovation. Strategically, the EU deal bolsters the growing strategic partnership between Europe and India, with the potential to accelerate collaboration in defense, nuclear technology, semiconductors, artificial intelligence, and other critical and emerging technologies.

The FTA strengthens access to one of the world's richest markets, especially for India's labor-intensive exports such as garments and footwear — a major boost to Indian workers in these sectors who are struggling in the face of 50% U.S. tariffs — while opening India further to European wines, automobiles, and industrial goods over time. Given the complementary nature of India-EU bilateral trade, the FTA is expected to expand trade and lower input costs for businesses. According to some estimates, the agreement could boost India's exports to the EU by as much as USD 50 billion by 2031 and nearly double the total value of EU goods exports to India by 2032, saving USD 4.75 billion annually in duties.

The agreement's legal review, ratification, and implementation — including the phasing of tariff reductions, quota administration, and the rollout of services commitments — is expected to run into early 2027. **For businesses, the short-term impact of the deal will depend in part on effective government execution. Delays in rulemaking, certification procedures, or regulatory alignment could dilute near-term gains, making early compliance planning and engagement with regulators critical to capturing the full benefits of the FTA.**

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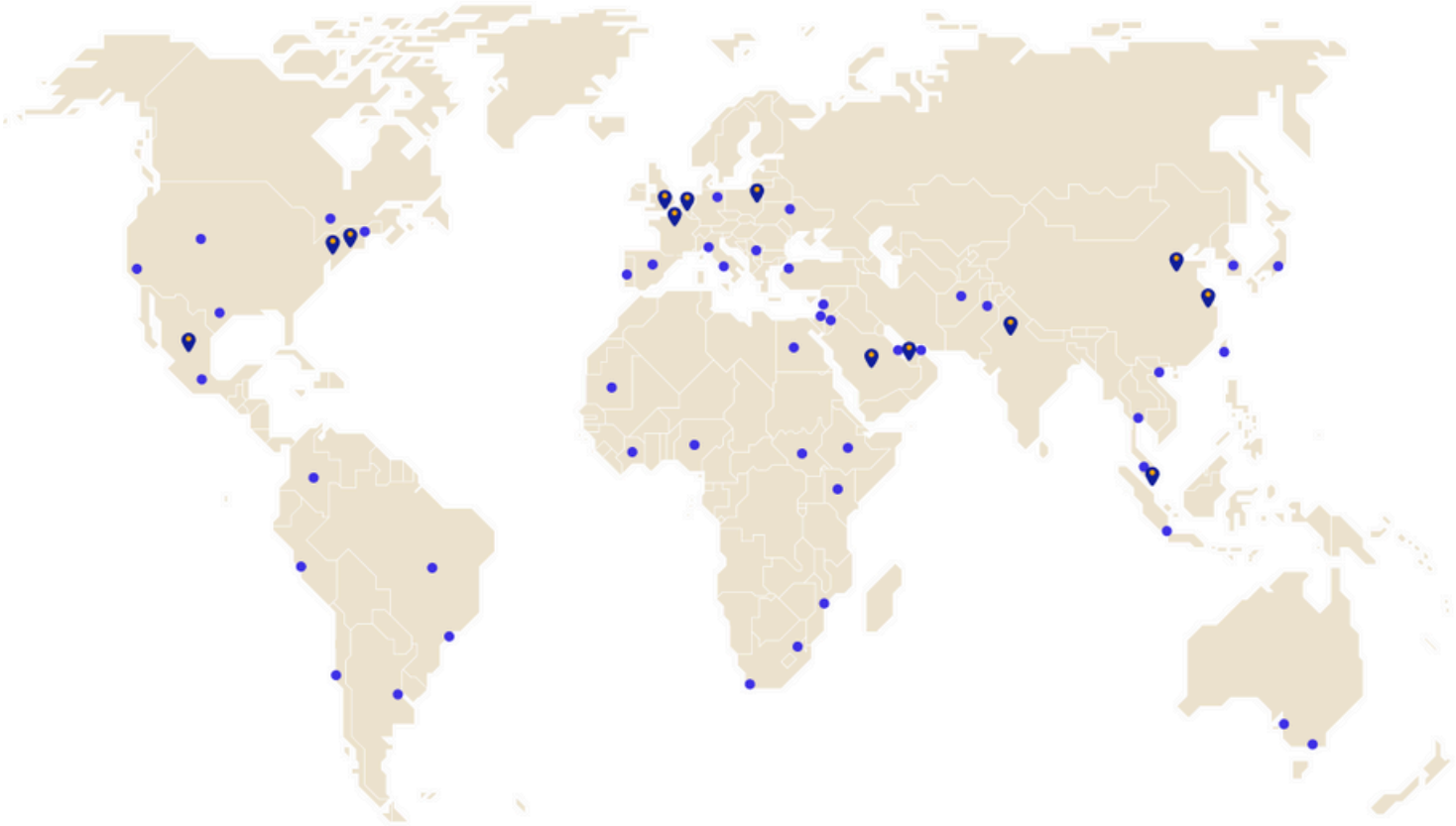

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