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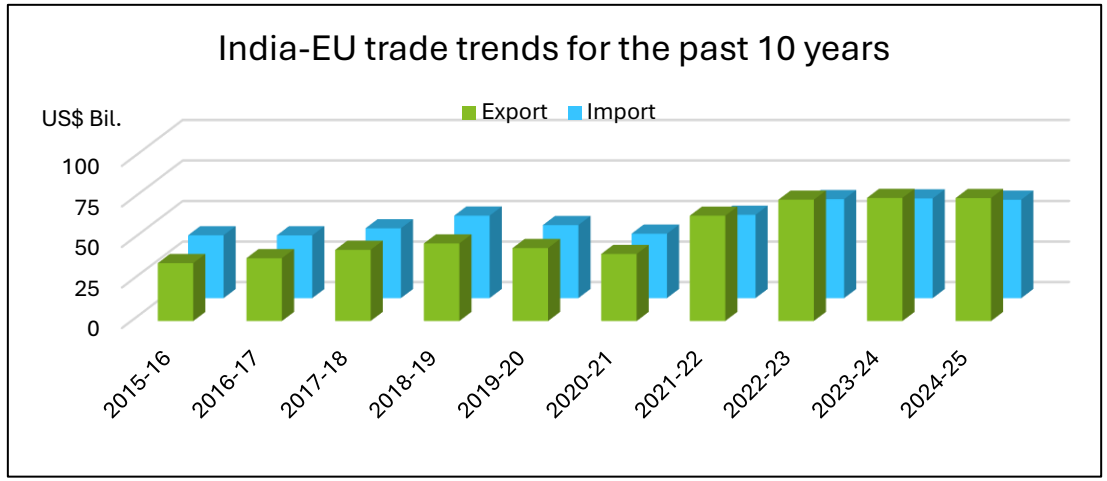
India–EU Free Trade Agreement

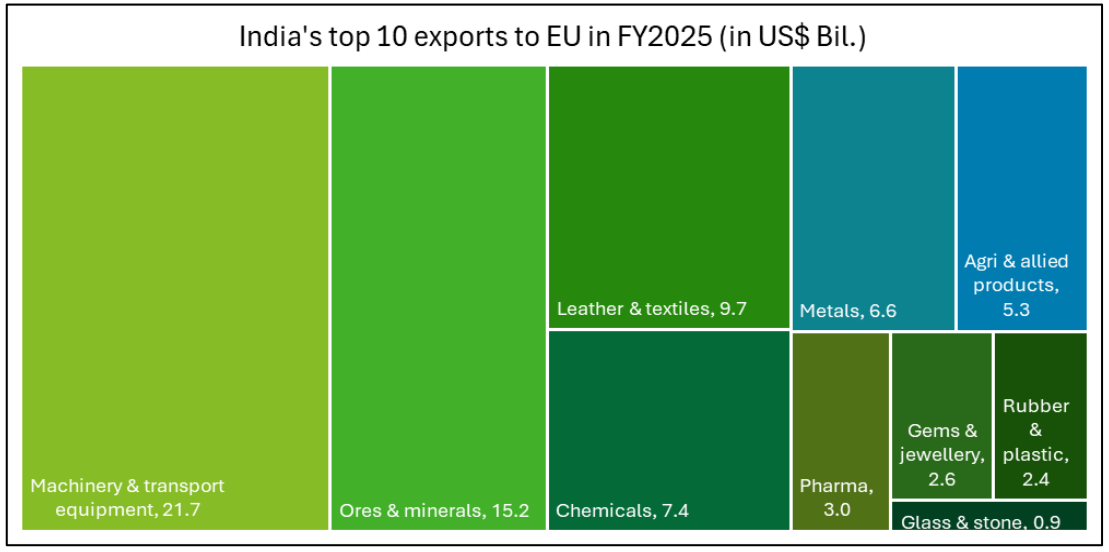
Economic Opportunities, Strategic Shifts & The Road Ahead

February 2026

India-EU ties: Assessing the scale, growth and strategic depth between the two

India and the European Union (EU) jointly announced the conclusion of the India–European Union Free Trade Agreement (India-EU FTA) at the **16th India–EU Summit** in New Delhi on 27 January 2026. The deal, which has integrated two economies that account for 25% of world GDP and triggered opportunities for over 2 billion people, has been termed as the ***"mother of all deals"***.





4th

India is world's 4th largest economy

2nd/9th

EU is India's 2nd largest /India is EU's 9th largest trading partner

2nd

EU is world's 2nd largest economy

$137.1 Bil.

EU's FDI India (2024)

$50 Bil.

Indian EU export basket could gain by FY31

6000

European companies provide around 3 million jobs in India

- EU becomes India's **22nd** FTA partner.
- India's total bilateral **trade of goods** with EU was **~US$136 billion** last year, making the bloc to be India's **largest goods trading partner**.

Four highlights from the India-EU FTA

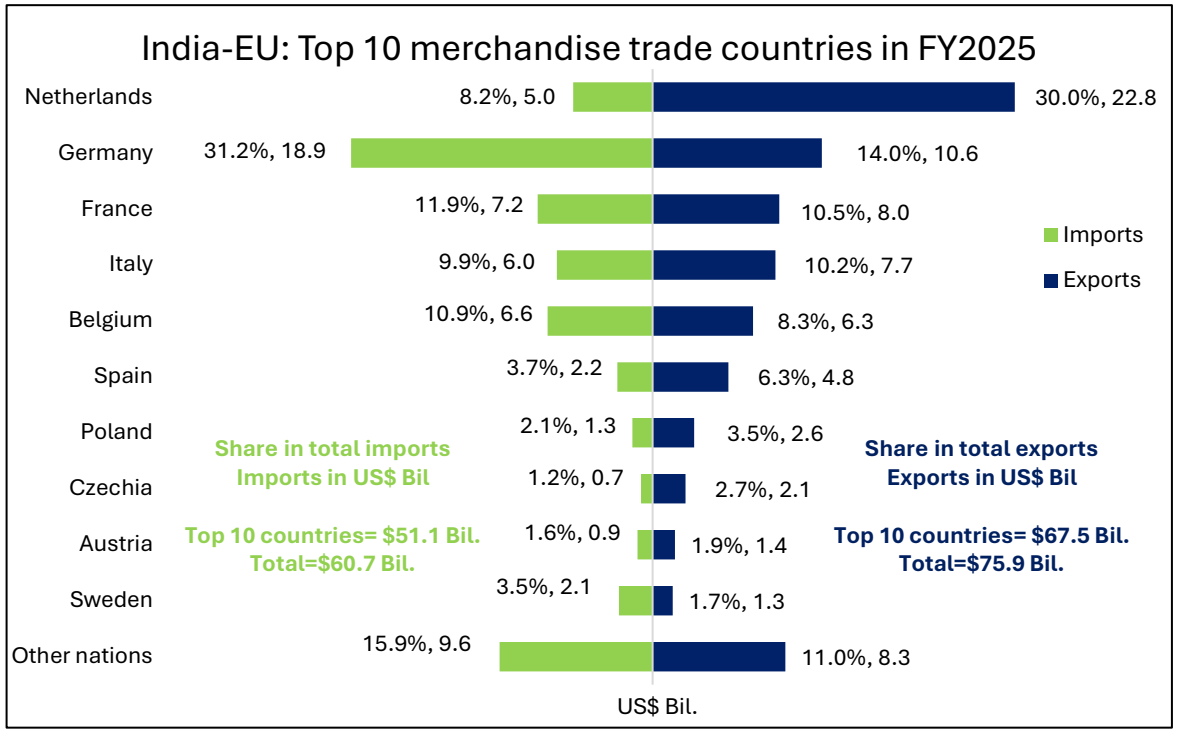
- EU exports to India are projected to **double by 2032**.
- The EU will liberalise **99.5%** of tariff lines of Indian imports over **seven years.**
- **European cars, chocolates and wines will likely become cheaper**.
- Increased textiles exports from India due to FTA could potentially create another **6-7 million jobs**.

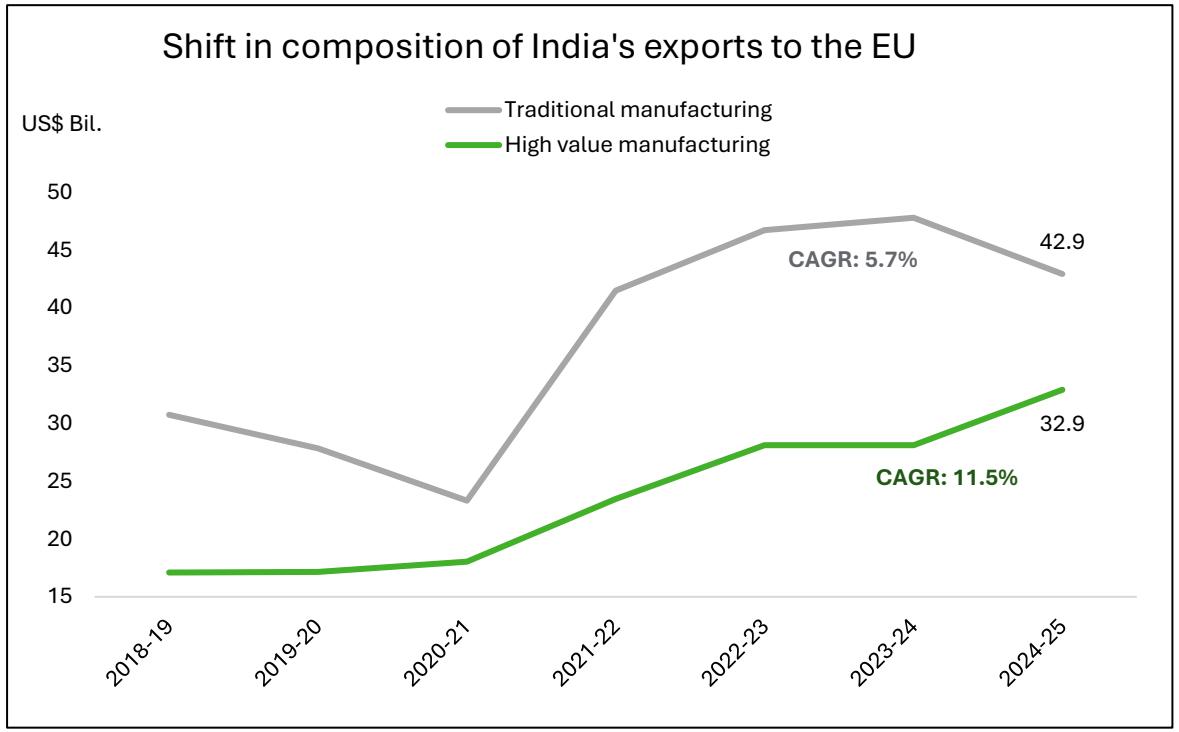
Source: Haver Analytics, Ministry of Commerce & Industry, Deloitte Research, Trade Stat

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High-value sectors drove India's EU export expansion (FY2019–FY2025), posting 11.5% CAGR

Traditional sectors grew 5.7%, with their EU-bound export value down to $42.9 billion in FY2025.





- India has moved up fast the value chain in EU exports, with growth increasingly concentrated in technology and knowledge-intensive categories since FY2019.
- Traditional labour-intensive exports remain important, but growth momentum has shifted decisively toward electrical machinery (31% CAGR), chemicals (5.1% CAGR), and pharmaceuticals (14.1% CAGR) over FY2019–FY2025.
- India ran a ~US$15 bn trade surplus, with EU imports from India rising 140% in the last decade; EU exports to India rose 58%.

Note: CAGR of exports by category of goods is between FY2019 and FY2025; Traditional: Agri, ores, leather, wood, glass, metals, rubber, gems etc. High value: Chemical, pharma, machinery etc

Source: Haver Analytics

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Unlocking three economic benefits of India-EU FTA:

Improved services reach, Resilience to geopolitics, and Integration in high-value manufacturing

Enhances services offerings

IT & ITES:

Trade in services with India amounted to $68.6 billion in 2024 (with EU exports of $29 billion).

- EU opens 144 services sub-sectors for Indian firms.
- India opens 102 sub-sectors to the EU.

Implication on business:

- Strengthens digital trade,
- Encourages EU investment in Indian GCCs,
- Enables R&D partnerships in AI, cleantech, and emerging technologies.

Sectors	Tariff rate	Post FTA
Marine products	26 %	Zero
Footwear & leather	17 %	
Apparel & textiles	11 – 12 %	
Chemicals	12.8 %	
Gems & jewellery	4 %	
Base metals	10 %	
Rail products & ship	7.7 %	
Consumer goods	10.5 %	
Toys & sports goods	4.7 %	

Reduce vulnerabilities to certain geopolitical developments

Marine Products:

EU seafood exports reached **$1.12 billion in 2024-25**, rising **40% post-U.S. tariffs**

The FTA will help:

- improve competitiveness versus Vietnam and Indonesia,
- expand capacity utilization and renew long-term contracts with EU retailers.

Auto Parts:

EU accounts for **~30% of India's auto parts exports ($3.7 billion H1FY26)**

The FTA will support auto businesses:

- strengthen their integration into EU supply chains,
- support incremental capex in EV components, precision parts and lightweight engineering

Textiles:

India holds **2.9%** of EU apparel imports ($202.8 billion in 2025); FTA to boost annual growth by **20–25%**, narrowing duty gaps with Bangladesh and Vietnam.

Gems & Jewellery:

EU represents **8.1% of India's gems & jewellery exports (~$2.4 billion** in 2025 till November**)**

The FTA will enable businesses:

- aim for higher-value contracts and market share expansion
- access to critical high-end machinery at cheaper prices.

Advance manufacturing toward higher-value segments

Pharmaceuticals:

FTA eliminates **11% import tariff** on Indian pharma, enables contract manufacturing, hospital tenders, and chronic therapy segments.

The FTA will help Indian Pharma and medical devices sectors through:

- cheaper access to EU devices and APIs,
- support process upgrades, quality compliance and portfolio expansion.

Electronics:

India-EU electronics trade is **$18 billion**, exports projected to reach **$50 billion by 2031**;

The FTA will reduce

- machinery tariffs from **40-44% to 0%**, supporting semiconductor and high-end manufacturing sector growth.

Defence & Cybersecurity:

Landmark partnership covers maritime security, cybersecurity, and counterterrorism.

This open opportunities in:

- domestic defense manufacturing,
- reducing import dependency.

Source: Haver Analytics, European Council

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Mind the gaps: Where FTA gains risk dilution

Currency depreciation could offset the benefits:

While the trade deal is expected to reduce costs and lift competitiveness, INR depreciation against the Euro can erode or even negate the tariff benefits.

- In 2025, INR depreciated by 18 % YoY against the Euro and future depreciation of the INR against EUR will have to be monitored.

Regulatory challenges, environmental and sustainability-linked impacts:

The EU's expanding sustainability, environmental rules and regulatory powers often act as de facto market-access barriers, imposing heavy compliance demands on exporters and MSMEs.

Exporters will face heightened scrutiny under four key regulations:

- Carbon Border Adjustment Mechanism (CBAM).
- The EU Deforestation Regulation (EUDR),
- Corporate Sustainability Due Diligence Directive (CSDDD),
- Corporate Sustainability Reporting Directive (CSRD), and the

Together, CBAM and EUDR could impact $9.5 billion of India's exports.

1. Traceability:

EU rules like EUDR, CSDDD, and CSRD mandate **verifiable traceability**.

- These could put MSMEs at a disadvantage versus large partners.
- **Key sectors:** Agri-food, metals, chemicals, energy-intensive products, and engineering/electronics.

2. Compliance:

CBAM turns **environmental compliance** into a **structural cost** for India's exports.

- EU importers are mandated to **buy certificates for embedded emissions**.
- Even with minimal tariffs, CBAM acts as an effective **20-35% carbon cost**, compressing margins, especially in MSME-heavy sectors like steel and aluminium.
- **Key sectors to be affected:** Steel, aluminium, cement, fertilisers, hydrogen, electricity, and **~180 downstream products** including machinery, auto components, metal-intensive goods, and electrical equipment.
- Indian steel exports to the EU **fell 35.1%** to $3.05 billion in FY25 vs. FY24, while aluminium and steel industry faces a **potential 15-22% carbon cost** due to coal-intensive power inputs.

3. In-house Environmental, Social, and Governance (ESG) systems and oversight:

Environmental compliance is now a core business function, not just a corporate social responsibility.

- Exporters will have to manage **emissions accounting**, sustainability data, supply chain **due diligence**, and **climate reporting** internally.
- CBAM and CSDDD require verified emissions data and value chain risk oversight, while boards need to **monitor transition pathways**, **product-level carbon intensities**, and compliance readiness.

Source: GTRI, CEEW

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The road ahead: From agreement to execution

What's to be done?

- **Recalibrate the structure of trade and production:** Map sectors where the India–EU dynamics can shift comparative advantage (e.g., knowledge-intensive services, advanced manufacturing, green tech).
- **Strengthen domestic competitiveness before integration deepens:**
  - Invest in technology upgrading, logistics efficiency, and non-tariff compliance capacity (standards, certifications, traceability). This may result in taking advantage of the incentives provided by the Government.
  - Enhance labour productivity through skill programs tied to high-value export sectors.
- **Build institutional capacity for regulatory alignment:**
  - Prepare for EU-style regulatory demands (climate, digital, product standards).
  - Upgrade data systems, emissions measurement, and supply-chain transparency.

What's next?

- **Look out for value-chain integration:** India will increasingly plug into European value chains in electronics, EVs, pharmaceuticals, and machinery, driving higher demand for intermediate goods, components, and co-manufacturing.
- **Gear up for regulatory convergence:** EU rules on climate, data, and sustainability reporting will shape export eligibility, pushing India's regulatory institutions to align more closely with EU standards.
- **Prepare for investment reorientation:** EU capital will deepen in Indian manufacturing and clean tech, while Indian firms expand into EU distribution, design, and R&D to tighten supply chains.

What to watch out for?

- **Currency & Cost Risks:** INR depreciation vs. EUR could offset tariff gains; INR fell 18% YoY in 2025, a key risk for price competitiveness.
- **Uneven sectoral gains:** High-tech and services sectors may benefit far more than traditional manufacturing or agriculture. Inequality across regions and industries could widen if adjustment programs are weak.
- **Compliance as a binding constraint:** EU's regulatory environment – especially climate and sustainability mandates – can act as a de facto non-tariff barrier. MSMEs face disproportionate compliance burdens due to weak data systems and traceability gaps.

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