

Climbing the Customs Wall

After years of mixed signals, India and the EU are ready to take their relationship to the next level. On Tuesday, European Council President António Costa, Indian Prime Minister Narendra Modi, and European Commission President Ursula von der Leyen announced a free trade agreement (FTA) between India and the EU to the public in a media briefing held in the capital city.

This deal, which the Indian Prime Minister called "historic" and the EU Commission President called "the mother of all deals", will allow free trade between the subcontinent nation and the 27-nation bloc. If the deal is enforced, it will cover over two billion people (1/4 of the world population) and 25% of global GDP, making it one of the most, if not the most important international trade agreement.

Previously, bilateral trade in goods between the EU and India equalled \$136 billion in 2024-2025. EU goods imports from India stood at \$75.85 billion in 2024, while EU goods exports to India reached nearly \$60.68 billion during the same year. With the new development, the two sides hope to increase that to about \$200 billion by 2030.

According to the memo, the EU will eliminate tariffs on over 90% of tariff lines and 91% in terms of value. India, on the other hand, will eliminate tariffs on 86% of tariff lines, and 93% in terms of value.

The European Union will eliminate tariffs on fisheries, chemicals, textiles, footwear, and pharmaceuticals, while India will grant concessions to the European agri-food, chemical, pharmaceutical, machinery, medical devices, avionics, and automotive industries. Overall, the EU is giving India access to 144 services subsectors while India is opening 102 subsectors to the EU, including in the financial, maritime, and telecommunications industries.

It should be noted that sensitive farm and dairy items have been excluded from negotiations to protect the interests and livelihoods of Indian farmers and that India is still seeking improvements in tariff-free steel export quotas. Moreover, India is not exempt from the EU's carbon border adjustment mechanism (CBAM), under which "carbon-intensive" goods are taxed.

An interesting part of the deal is that India is opening up its domestic automobile market to EU imports. The EU had sought cuts on import duties on its cars that can exceed 100%, a dream which is being realised with this deal, as India is planning to slash tariffs on most cars.

from the EU from 110% to 30-35 per cent, which are to be then phased down to 10 per cent over several years. This is new as India has previously had very protectionist policies in place for its automobile sector. While the government has created safeguards for the local automobile market, these safeguards failed to reassure investors as shares in Indian carmakers dipped by about 1.6 per cent after the announcement of the trade deal.

But hey, the good news is that spirits, wines, and olive oil (all clear staples of average Indian households) are getting cheaper due to tariff cuts, so if you're losing money, worry not, arrangements have already been made for you to drown your sorrow.

Apart from tariff cuts, India will also provide EU firms improved access to financial and maritime services, and in return, Indian exports would get "preferential access" into the EU; besides this, both sides will be simplifying customs rules and providing stronger intellectual property protections.

But why? What has brought the two back to the negotiation table all of a sudden? Why, after 20 years, is there a possibility of a blossom in these barren lands of international trade?

Well, it is interesting to note that the world, yet again, owes this interesting development to the hegemon itself- the US. While not directly involved in any way, the US did play a catalyst to this deal, as experts widely believe that the deal was expedited due to the mounting economic and geopolitical pressure from the US. Both parties involved in the deal are looking to find alternatives as Delhi is struggling with 50% tariffs imposed by the US last year, and EU tensions with the Trump administration have been building as well, particularly over Trump's insistence that the US be allowed to buy Greenland, which is a territory of EU member Denmark.

According to Prime Minister Modi, this deal may help labour-intensive sectors in India, such as shrimp farming, textiles, gems and jewellery, which were hit hard by the US tariffs. On the European side, it helps the bloc diversify its trade and reduce risk, a fact supported by the recent pattern of EU trade deals (most recently with the South American bloc Mercosur, following deals last year with Indonesia, Mexico, and Switzerland).

That said, it is safe to say that the US isn't exactly delighted at this notion, as it believes, to quote US Treasury Secretary Scott Bessant, "They [the Europeans] are financing the war against themselves," referencing the India-Russia oil trade.

However, the deal is yet to be passed legally and has to go through legal scrutiny in Brussels and New Delhi, and then through the European Parliament and member states. Only then can the formal signing take place later this year. There is, however, some anxiety

surrounding the deal, given the rocky terrain the EU-Mercosur deal had to tread in the EU parliament. So the excitement is very valid, but it's still a bit too early to celebrate.