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India to Cut Import Tariffs on EU Cars Under Proposed Free Trade Pact: Report

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India is preparing to significantly reduce import tariffs on passenger vehicles from the European Union, marking one of the most substantial openings of its tightly protected automotive market to date. According to a recent Reuters report, import duties on EU-made cars could be slashed to 40% from the current levels of up to 110%, as New Delhi and Brussels move closer to finalising a long-awaited free trade agreement (FTA).

The deal, which is expected to be formally announced in the next day or two, would represent a major milestone in India–EU trade relations and could reshape the competitive dynamics of the Indian auto market.

Phased Tariff Reduction for Select EU Imports

Under the proposed framework, the Indian government has agreed to immediately lower import taxes on a limited number of vehicles originating from the 27-nation EU bloc. The reduced duty would initially apply to cars priced above 15,000 euros (approximately ₹16.34 lakh), a category that largely includes premium and luxury models.

Over time, these tariffs are expected to be reduced further, potentially reaching as low as 10%. The move is aimed at improving market access for European automakers such as Volkswagen, Mercedes-Benz, BMW, Renault, and Stellantis. However, the discussions remain confidential, and the final structure of the agreement could still change. Both India's commerce ministry and the European Commission have declined to comment on the ongoing negotiations.

India–EU Trade Agreement Nears Conclusion

The proposed tariff reductions are part of a broader India–EU free trade pact that has been under negotiation for several years. Often described as the "mother of all deals", the agreement is expected to boost bilateral trade across multiple sectors.

For India, the pact could help revive exports of labour-intensive goods such as textiles and jewellery, which have faced headwinds following the imposition of steep U.S. tariffs in recent months. For the EU, improved access to India's fast-growing consumer market remains a key priority.

India’s Protected Auto Market Faces Gradual Opening

India is currently the world’s third-largest car market by volume, after the United States and China, with annual sales of around 4.4 million units. Despite its size, the sector remains highly protected, with import duties of 70% on completely knocked down (CKD) units and up to 110% on fully built imports (CBUs).

New Delhi has reportedly proposed an immediate reduction in duties to 40% for up to 200,000 internal combustion engine (ICE) vehicles annually. This quota-based approach would allow the government to open the market while limiting the impact on domestic manufacturers. Sources noted that battery electric vehicles (EVs) would be excluded from these concessions for the first five years, in order to safeguard investments by local players such as Tata Motors and Mahindra & Mahindra. After this period, EVs would also be brought under a similar tariff structure.

European Carmakers See Opportunity in Growing Market

Lower import duties could provide a significant boost to European automakers, many of whom already assemble vehicles locally but remain constrained by high tariffs on imports. Reduced taxes would allow companies to introduce a wider range of models at more competitive prices, enabling them to test consumer demand before committing to larger-scale local manufacturing.

At present, European brands account for less than 4% of India’s passenger vehicle market, which is dominated by Maruti Suzuki, Tata Motors, and Mahindra. However, with annual demand expected to rise to around 6 million units by 2030, global automakers are reassessing their India strategies. Renault has outlined plans for a renewed push in the market, while the Volkswagen Group is finalising the next phase of investment through its Skoda-led India operations.