

# ECONOMIC POLICY DIALOGUE



## THE FREE TRADE AGREEMENT BETWEEN INDIA AND THE EUROPEAN UNION: OPPORTUNITIES AND CHALLENGES FOR NEPAL



**DATE:** 2082 Magh 18, Sunday



**TIME:** 11:30 AM - 1:30 PM



**VENUE:** Subarna Hall, Ministry of Finance, Singh Durbar



Organized by:  
**Economic Policy Analysis Division,**  
Ministry of Finance, Government of Nepal

# ECONOMIC POLICY DIALOGUE

## The Free Trade Agreement between India and the European Union: Opportunities and Challenges for Nepal

Organized by:

**Economic Policy Analysis Division (EPAD)**

Ministry of Finance, Government of Nepal

 **Sunday, 1 February 2026 (18 Magh 2082)**

 **11:15 a.m. – 1:30 p.m.**

 **Suvarna Hall, Ministry of Finance**

The dialogue aims to bring together policymakers, economists, private sector representatives, and other stakeholders to discuss the potential implications of the India-EU Free Trade Agreement for Nepal and explore strategic policy options.

Your participation will greatly enrich the discussion.

| Time          | Session/Activity                                     | Speaker/Responsible                           |
|---------------|--|---|
| 11:15 – 11:30 | Arrival of Participants;<br>Registration; Tea/Coffee | EPAD Team                                     |
| 11:30 – 11:35 | Welcome Remarks &<br>Objectives of the Dialogue      | Mr. Mahesh Bhattarai, Division Chief, EPAD    |
| 11:35 – 12:00 | Keynote Presentation                                 | Mr. Ram Prasad Ghimire, Secretary, MoIICS     |
| 12:00 – 12:15 | Technical Commentary I                               | Dr. Posh Raj Pandey, Trade Policy Expert      |
| 12:15 – 12:30 | Private Sector Perspectives<br>(5 minutes each)      | Chairman/Representatives (FNCCI, CNI,<br>NCC) |
| 12:30 – 1:00  | Open Floor Discussion                                | All Participants                              |
| 1:00 – 1:15   | Keynote Response                                     | Keynote Presenter                             |
| 1:15 – 1:20   | Remarks  | Governor, NRB                                 |
| 1:20 – 1:25   | Remarks  | Hon. Vice-Chairman, NPC                       |
| 1:25 – 1:30   | Remarks  | Hon. ICS Minister, MoIICS                     |
| 1:30 – 1:30   | Closing Remarks and Key<br>Takeaways                 | Hon. Finance Minister, MoF                    |
| 1:30          | Closing Remarks<br>& Key Takeaways                   | Hon. Finance Minister, MoF                    |

**RSVP: Mr. Gobinda Raj Acharya, Under-Secretary (9851067882); Mr. Sagar Pokharel, Section Officer (9857030047)**

# An Assessment of India-EU Free Trade Agreement (FTA) & Its implications for Nepal

Dr. Ram Prasad Ghimire  
Secretary

Ministry of Industry, Commerce and Supplies (MoICS)

# Outline

- Background
- Salient features of India-EU FTA
- Major Provisions
- Impact on Indian and EU economies
- Implications for Nepal

# Background

- FTA: opportunity for trade expansion and economic growth
- Multilateral deals: taking time to conclude and recently in crisis, so FTA more relevant
- Supportive in liberalizing trade between the like-minded trade partners
- Strategic steps for easy market access
- Revenue losses but the possibility of expansion of economic activities
- Challenges in domestic industries where liberalized
- New US Tariffs regimes: FTA initiations increased
- Trade is not only economics but also politics and strategic deal as well

- India-EU FTA: initiated in 2007 and concluded 27 January 2026 (suspended in 2013 due to farmers' and automobiles' concerns and relaunched in 2022)
- India: 25 % tariff plus 25 % punishment; Volatile, uncertain and complex global situation
- EU: at a time of rising geopolitical tensions and global economic challenges
- Indian side: A Strategic Breakthrough in India's Global Trade Engagement, and it links to one of the world's largest trading blocs, 27 countries and more than 450 million consumers
- Trusted Partnership between 4th and 2nd largest economies comprising 25% of Global GDP and two billion population
- Signal to the World: rules-based cooperation still delivers great outcomes, at a time of global supply chains and trade policy being driven by geopolitics rather than economics
- Negotiations for a GI Agreement and Investment Protection Agreement are ongoing

- India: increasing trend of FTA after 2021
- In the last 4 years: trade/economic deals with EU, EFTA, UK, AU, NZ, UAE, Mauritius and Oman (though IN-EU deal signed in Jan. 2026)
- CEPA concept emerged in 2010 but stalled for about 10 years
- No RCEP ( Regional Comprehensive Economic Partnership) after 2019 <14 of 15>
- Termed as “the mother of all trade deals” affecting 1/3 of humanity
- India: most comprehensive trade deal to date; landmark deal
- EU: historic, ambitious and commercially significant free trade agreement
- Bilateral trade in goods: €120 Bln in 2024 (EU’s imports €71 Bln & EU’s export €49 Bln)
- Urgency: India and Europe faced threat of higher tariffs from US (India 50% and EU 15%)





# Bilateral trade between European Union and India



| European Union Imports from India          | Value (USD Bn) |
|--|----------------|
| Electrical, electronic equipment           | \$12.68        |
| Organic chemicals                          | \$12.08        |
| Mineral fuels, oils, distillation products | \$7.67         |
| Machinery, nuclear reactors, Boilers       | \$5.68         |
| Iron and steel                             | \$4.25         |
| Pharmaceutical products                    | \$2.88         |
| Pearls, precious stones, metals, coins     | \$2.67         |
| Apparel                                    | \$4.53         |
| Vehicles other than railway, tramway       | \$2.11         |
| Articles of iron or steel                  | \$1.88         |
| Rubbers                                    | \$1.46         |
| Others                                     | \$20.63        |
| <b>Total</b>                               | <b>\$77.06</b> |

| European Union Exports to India              | Value (USD Bn) |
|--|----------------|
| Machinery, nuclear reactors, Boilers         | \$12.52        |
| Aircraft, spacecraft                         | \$6.96         |
| Electrical, electronic equipment             | \$5.10         |
| Optical, photo, technical, medical apparatus | \$3.76         |
| Plastics                                     | \$2.35         |
| Pearls, precious stones, metals, coins       | \$2.23         |
| Organic chemicals                            | \$2.06         |
| Vehicles other than railway, tramway         | \$1.70         |
| Iron and steel                               | \$1.57         |
| Miscellaneous chemical products              | \$1.43         |
| Pharmaceutical products                      | \$1.17         |
| Others                                       | \$11.49        |
| <b>Total</b>                                 | <b>\$52.34</b> |

Source: Trading Economics | 2024 UN COMTRADE Database on International Trade  
 Note: There may be some minor rounding errors

# Salient features of India-EU FTA

- Unprecedented Market Access:
  - EU will eliminate tariffs on over 90% of tariff lines, and 99% in terms of value
  - India will eliminate tariffs on over 86% of tariff lines, and 93% in terms of value
- New opportunities for MSMEs, jobs opportunities for women, artisans, youth and professionals
- Covered all aspects: trade in goods, trade in services and intellectual property
- Key sectors of both sides benefitting
- Provisions of rules of origin, trade facilitation, good regulatory practices, SPS and TBT measures, sustainable food systems under trade in goods
- Visa facilitation and easy access of Indian service providers in the EU market
- Linkage of trade with sustainable development, support MSMEs & digital trade
- Dispute settlement, Remedial measures and anticompetitive conduct
- Protection of domestic interest through sensitive products such as beef, sugar, ethanol, rice and poultry in EU, and high food safety standards

# Major provisions of India-EU FTA

# Trade in goods

India will remove high duties on **industrial products (which, on average, are above 16%)**, such as:

- Chemicals (current tariffs of up to 22%, to be removed mostly at entry into force of the agreement)
- Cosmetics (current tariffs of up to 22%, to be removed mostly after 5 or 7 years)
- Car parts (most tariffs to be removed after 5 to 10 years)
- Textiles and apparel (most tariffs removed at entry into force)
- Machinery (half of the tariffs liberalised at entry into force and the rest in periods of up to 10 years)
- Olive oil (current tariff of up to 45%, to be eliminated at entry into force or after a 5-year staging period)
- Non-alcoholic beer and several fruit juices (current tariff of up to 55%, to be eliminated after 5 years)
- Processed food such as confectionery, breads, pastry, pasta, chocolates, pet food (current tariff 33%, to be eliminated at entry into force or after staging)
- Sheep meat (current tariff 33%, to be eliminated over staging)

# Trade in goods....

- In agri-food sector, agreement is balanced: it opens market access in key export interests of EU while preserving sensitivities of India
- Significant market access improvement for wine, spirits, and beer, as well as fruits,
- Indian tariffs on wines will be cut from 150% to 75% at entry into force and eventually to levels as low as 20%, tariffs on olive oil will go down from 45% to 0% over five years, while processed agricultural products such as bread and confectionary will see tariffs of up to 50% eliminated.
- EU: no concession for sugar and ethanol, rice and soft wheat, beef and poultry, milk powders, bananas, and honey but other open fully
- EU continues high SPS standards and EU's stringent rules on animal and plant health, and food safety will be maintained with no exception
- India will lower tariffs on up to 250,000 cars from the EU
- Liberalise a significant additional number of lines, bringing the overall coverage of trade liberalisation to 96.6% for India and 99.3% for the EU

# The *Mother* of All Deals

India-EU Trade Pact Analysis ↗



## LUXURY CARS

Quota-250K Units/Year

110% DUTY

**40%**

UPTO 10% IN FUTURE

New Tariff



## WINE & SPIRITS

French & Italian Estates

150%  
**20%**  
Tariff



## GORMET FOOD

Chocolate & Olive Oil

50%  
**0%**  
Tariff



## LUXURY FASHION

Designer wear & Perfumes

35%  
**10%**  
Tariff



## MEDICAL DEVICES

Advanced Health Tech

20%  
**0%**  
Tariff



## INDUSTRIAL GEAR

Precision Machinery

10%  
**0%**  
Tariff



## FRESH FRUITS

Apples & Pears

50%  
**15%**  
Tariff

# Trade in services

- Expansion of opportunities for services suppliers, ensure stable & predictable trade env.
- WTO's GATS and WTO Domestic Service Regulation main basis
- Includes clear commitments related to senior management and boards of directors, as well as local presence, which are new for India
- Ensures greater clarity and enforceability of India's commitments
- Comprehensive mobility framework for professionals: Indian engineers, IT professionals, doctors, and even traditional medicine experts can find it easier to work short-term in Europe
- FTA explicitly expands IT and IT-enabled services, professional services, education, and research sectors
- Indian students and young professionals to gain
- Framework for student mobility and post-study work: talented Indian graduates may find it easier to study in Europe and stay on to work
- This “brain circulation” can build global skills and networks

# Digital Trade

- Predictable, secure, and fair digital trade environment
- Rules to build consumer trust and ensure legal certainty for business
- Supports innovation while maintaining the right to regulate for public policy, privacy, and security
- Expected to deepen EU–India cooperation on the digital economy
- Rules on protection of software source code, which protects businesses from the mandatory disclosure of source code and supports innovation in the EU technology sector
- Rules on online consumer protection and the prevention of spam
- Guarantees consumer protection in electronic commerce transactions and protects users from unsolicited direct marketing communications (spam)

# Intellectual Property

- Effective protection and enforcement of intellectual property (IP) rights, namely:
  - copyright and related rights;
  - trademarks;
  - designs;
  - protection of trade secrets and undisclosed information, and;
  - plant varieties
- Promotes innovation and creativity in India and the EU
- Facilitates trade of innovative and creative goods and services between India and EU
- IP protection as per the relevant international agreements on IP that the Parties are required to comply with

# Small and Medium-Sized Enterprises

- Dedicated chapter for SMEs with provisions benefitting small companies
- Publication of information on how to access and do business in each other's markets through a publicly accessible digital platform
- SME contact points for cooperating and helping SMEs
- Tariff reductions, removal of regulatory barriers, and additional transparency will help SMEs to reduce costs, streamline procedures, improve efficiencies, and provide business certainty and a stable regulatory environment

# Trade and Sustainable Development (TSD)

- Enhancing environmental protection and addressing climate change
- Protecting workers' rights
- Supporting women's empowerment
- Providing platform for dialogue and cooperation on trade related environmental and climate issues
- Ensuring effective implementation mechanism
- Monitoring mechanism
- Active role of civil society to monitor implementation of FTA
- MoU to be signed to establish an EU-India platform for cooperation and support on climate action

# Next steps

- The FTA must pass through the legal scrutiny in Brussels and New Delhi
- On the EU side, the negotiated draft texts will be published shortly
- The texts will go through legal revision and translation into all official EU languages
- The Commission will then put forward its proposal to the Council for the signature and conclusion of the agreement
- Once adopted by the Council, the EU and India can sign the agreements.
- Following the signature, the agreement requires the European Parliament's consent, and the Council's decision on conclusion for it to enter into force
- Once India also ratifies the Agreement, it can enter into force
- Expected to come into force from early next year (2027)

# What India gains under the FTA

- Immediate tariff elimination on 70.4% tariff lines covering 90.7 percent of India's exports, including textiles and garments, leather and footwear, tea, coffee, spices, sports goods, toys, jewellery, precious stones and selected marine products
- India's nearly all exports would receive preferential access to the EU
- Safeguarded India's sensitive sectors, including dairy, cereals, poultry, soybean meal, and certain fruits and vegetables, balancing export growth with domestic priorities
- Order may swing from Bangladesh and Vietnam to India for exporting to the EU
- Zero-tariff within 3-5 years on 20.3 percent of tariff lines accounting 2.9 percent of exports, including processed food items, selected marine products, & arms & ammunition
- Reduced tariffs and preferential access on 6.1 percent of tariff lines covering about 6 percent of exports, including poultry products, preserved vegetables and bakery items

# What India gains under the FTA...

- Preferential quotas will apply to automobiles, steel, shrimp and prawns
- Well-positioned rubber industry can be key supplier to global tyre & automotive value chain
- Ageing European population: greater healthcare demand for Indian pharmaceuticals
- Now India will enjoy mostly same as EBA as tariffs on major sector going to be zero
- Protection of EV for five years
- labour-intensive industries and growing service exports will benefit
- could reshape India's trade, talent, and industrial linkages with the World
- Overall: boost growth, jobs, and innovation in India, as well as Europe
- Indian fisheries, chemicals, textiles, footwear and pharmaceuticals will benefit more

# Challenges to India

- FTAs rarely create only winners: several gains yet others may find slightly challenging
- Indian automobile: heavy protection by tariffs but may suffer (70-100% to 10-40%)
- India's wine and spirits industry (phased reduction from 150% to 20%) may also suffer
- EU to help fund India's efforts to reduce carbon emissions to ease concerns about Europe's strict climate regulations
- Indian brands in early-stage vs European benefitting from scale, subsidies & mature supply chains
- As talent and skills become tradeable as products, balancing between brain gain and brain drain is challenging
- CBAM (Carbon Border Adjustment Mechanism) may force steel, aluminium exporters to cut price by 15 to 22 %

# What EU gains from FTA

- Opportunities for European businesses of all sizes
- Tariffs ranging up to 44% on machinery, 22% on chemicals and 11% on pharmaceuticals to be mostly eliminated
- EU and India trade over €180 billion ( goods & services) per year (800,000 EU jobs)
- Expected to double EU goods exports to India by 2032 (tariffs elimination/reduction of 96.6% of EU goods exports to India)
- Wine and spirits from 150% to 20% to 40% and non-alcoholic drinks 50% to zero
- Automobile to benefit: tariffs from 110% to 40% and then 10% premium cars, will be fully abolished for car parts after five to ten years

# What EU gains from FTA...

- Tariff reductions will save around €4 billion per year in duties on European products in India
- EU companies' privileged access to Indian services market: financial services
- Sensitive agriculture sectors protected (beef, chicken meat, rice and sugar) and respect EU's strict health and food safety rules
- Removal/reduction of tariffs (over 36% on average) on EU exports of agri-food products, opening a massive market to European farmers in India
- It may add more than \$19 billion to European exports each year and offset nearly a quarter of export losses from higher American tariffs

# Implications for Nepal

- India–EU FTA presents more risks/challenges and may have few opportunities for Nepal
- **Erosion of Export Preferences:** Nepal exported goods worth around Rs 12.26 billion to EU's 27 member states in FY 2024/25 where readymade garments, felt products, handmade carpets, pashmina, handicrafts, tea, coffee, honey, musical instruments, handmade paper and others will face increased competition from Indian products
- **Squeeze the Garment Sector:** Garment (NRs 6 bn export to Europe), already experiencing a decline, may face further pressure
- **LDC Graduation Vulnerability:** Nepal enjoys EBA scheme in EU, a facility granted to LDCs but not available after 2029, creates a severe challenge to export in EU
- Even before FTA, India-EU trade is already huge, India's access to duty-free treatment on about 99 percent of its exports will significantly weaken Nepal's preferential advantage immediately once the FTA comes into force

# Implications for Nepal...

- Low production costs, scale economy, and reliable supply capacity of India will immediately affect Nepal's market share in EU unless it strengthens competitiveness
- Improvements in productivity, cost reduction, product diversification and proactive trade diplomacy will remain crucial to retain the EU market
- RMG and textiles, carpets and floor coverings, pashmina and woollen products, leather goods, handicrafts and felt products are most vulnerable and tea, coffee, spices and honey are also expected to face hard competition
- Similar labour-intensive & price-sensitive sectors with but less developed supply chains
- **High-Cost Disadvantage:** Nepal's higher logistics costs, lack of direct flights, and limited production capacity, making it difficult to compete with Indian suppliers

# Implications for Nepal....

- Opportunity if we could well integrate ourselves in regional value-chain with Indian final products for EU markets
- Short-term losses can be converted into long term opportunities if Nepal could be a reliable supplier of raw materials such as yarn, fabrics, leather inputs, bamboo, banana, herbs (Allo) as there will be massive industrial growth in India especially in the border states
- Increased demand for Nepali hydropower, construction materials and services in India can also be opportunity for Nepal

# Way forward

- We should focus on improving productivity, lowering logistics costs, differentiating products and, product & value chain development
- Amendment to trade treaty with India with broad coverage and special privileges to Nepal
- Initiate PTA with EU & major export destinations for securing markets of Nepali products
- Advocacy for the continuation of existing facilities & flexibility of the L/LDCs
- Collaboration with India in value chain and supply chain integration
- Special attention to challenging sectors such as RMG, textiles and others
- Capacity building in trade negotiations & trade policy management: proactive trade diplomacy

- Boost up production and productivity through technological advancement, increased scale of production and capacity enhancement
- Focus on selective products with comparative and competitive advantage
- Diversify exports both in terms of product as well as geographical location
- Advocate for equitable and fair development among the countries
- Optimum use of core mechanisms in multilateral forums for a just international trade (S&DT; non-discrimination and transparency etc.)
- Dynamic and practical trade diplomacy and adopting evidence-based trade policy measures essential as per need of global trade regimes

# Final points

- India-EU FTA, India-UK FTA: challenge for Nepali goods being exported to these economies
- These challenges start immediately once FTAs come into force and more severe after graduation as Nepali goods will face higher tariffs than similar Indian goods
- Building productive capacity and enhancing export competitiveness is extremely important
- FTA between and among big players pose challenge to weak/small economies like Nepal
- If similar FTA concluded between India and US then further severe impact in Nepali exports
- Multilateralism is for weak/small economies where they can benefit equally

- Multilateralism is dying in the lap of big economies
  - Ineffective institutions
  - Inward-looking big economies
  - Rise of economic nationalism
  - Rise of unilateralism
- Erosion of international norms
  - Collectivism, shared responsibility, shared prosperity, inclusivity, stable and just global order
- Rule-based trade may exist but for sure multilateralism is dying if the trend persists
- “The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty.”-Winston Churchill

*WE ARE ALL OPTIMISTS: LET US CREATE THE OPPORTUNITIES*

**THANK YOU**