

## EU-India FTA – Entering India’s Automotive Market

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The conclusion of negotiations for the European Union-India Free Trade Agreement (**EU-India FTA**) represents a significant development in the bilateral trade relationship between two major automotive markets. While the agreement remains subject to legal scrubbing, ratification, and phased implementation, it reflects a clear policy intent to improve market access, reduce tariff and non-tariff barriers, and deepen regulatory cooperation, including for motor vehicles and automotive components.

For European automotive manufacturers and suppliers, the EU-India FTA introduces phased and quota-based reductions in duties on fully built vehicles, focused on the luxury and premium segments, with tariff reductions for electric vehicles deferred by five years. In parallel, the agreement envisages progressive reductions in duties on a broad range of automotive components, while preserving a tariff differential between fully built imports and locally assembled vehicles. Taken together, these features support multiple market-entry and expansion pathways. Depending on commercial strategy and regulatory readiness, companies may pursue import-led models for finished vehicles or components within the applicable tariff framework, or evaluate local assembly and localisation in India as volumes scale and supply chains deepen. Across these approaches, early alignment with Indian certification, customs, and supply-chain requirements remains central to managing market-entry risk.

These developments operate alongside India’s broader market characteristics, including its scale, an established auto-component ecosystem, and a policy emphasis on localisation and advanced automotive technologies. The EU-India FTA operates within, and does not displace, India’s existing legal and regulatory framework governing automotive imports, manufacturing, and distribution.

Set out below is a high-level **Dos and Don’ts**’ guide for European original equipment manufacturers (**OEMs**) and Tier-1 suppliers assessing entry into, or expansion within, the Indian automotive market under the EU-India FTA framework.

## I. Market Access and Entry Models

### ***A. Distributors And Dealer Networks***

#### **Do**

- Recognise that India does not have a comprehensive statutory dealer-protection regime; dealer relationships are primarily contract-driven.
- Invest in robust, India-specific dealership and distribution agreements addressing territory, performance metrics, termination rights, after-sales service obligations, spare-parts supply, and dispute resolution.
- Assess competition-law risk under Indian anti-trust law, particularly in relation to exclusivity arrangements, resale restrictions, and vertical restraints.

#### **Don’t**

- Rely on informal termination practices; poorly managed dealer exits can result in prolonged disputes and reputational risk in a relationship-driven market.

### ***B. Direct-to-Consumer and Digital Sales Models***

## Do

- Evaluate state-level requirements under India's motor vehicles and local trade laws, as licensing and retail conditions vary across states.
- Ensure compliance with India's consumer-protection regime, including statutory product-liability exposure under Indian consumer protection laws.

## Don't

- Assume that digital sales models can fully bypass traditional dealer or service infrastructure, particularly where statutory warranty, service, and product-liability obligations are scrutinised by regulators and consumer authorities.

### ***C. Customs And Indirect-Tax Consideration***

## Do

- Factor customs duty, integrated GST, and valuation exposure into initial pricing and distribution models, particularly where vehicles, kits, or components are imported prior to localisation.
- Align contractual allocation of indirect tax and customs exposure between OEMs, distributors, and logistics partners, including responsibility for compliance support and audit engagement.

## Don't

- Treat customs duty and indirect taxes as automatic pass-through costs. Classification disputes, valuation challenges, or origin-related adjustments can materially affect landed cost, working capital, and post-clearance audit exposure.

### ***D. Regulatory Compliance And Technical Standards***

India maintains a comprehensive framework governing vehicle safety, emissions, and technical standards.

## Do

- Plan early for mandatory type approval and homologation under the Central Motor Vehicles Rules (CMVR) and Automotive Industry Standards (AIS), with testing conducted by authorised agencies such as the Automotive Research Association of India (ARAI).
- Monitor regulatory-cooperation mechanisms under the EU-India FTA, including dialogue on conformity assessment and standards, which are intended to facilitate cooperation and progressive convergence over time.
- Ensure compliance with Bharat Stage VI emission norms and mandatory safety requirements prior to commercial launch.

## Don't

- Assume that EU type approvals or certifications substitute Indian homologation requirements in the near term; in practice, CMVR/AIS compliance remains the primary gating item for market entry.
- Treat homologation and type approval as back-end formalities. Vehicles lacking CMVR/AIS approval cannot be registered or sold in India and may expose vehicle manufacturers or importers to statutory enforcement action, import restrictions, and recall risk.

*Import-led or distributor-based entry does not, in itself, require the establishment of an Indian legal entity. However, as regulatory exposure, customer interface, and after-sales responsibility increase,*

*many OEMs and Tier-1 suppliers evaluate whether a local corporate presence is required to manage risk, oversight, and future scalability. These considerations are addressed below.*

## II. Corporate Presence, Control And Risk Allocation

### A. Wholly Owned Subsidiaries or Joint Ventures

#### Do

- Consider an Indian subsidiary or joint venture as a long-term platform for manufacturing and localisation, particularly where participation in incentive schemes, supplier ecosystems, or regional exports is contemplated.
- Leverage India's foreign direct investment (**FDI**) regime, which permits 100% FDI under the automatic route for most automotive manufacturing and auto-component activities, enabling establishment without prior governmental approval.
- Factor incorporation and post-incorporation compliance into entry timelines, including ongoing obligations under company law, tax laws, and sector-specific regulations.
- Where an Indian subsidiary sources vehicles, kits, or components from group entities, assess customs valuation exposure associated with related-party imports, including the potential for enhanced scrutiny and post-clearance verification. Pricing, royalty, and inter-company arrangements should be structured and documented in a manner consistent with applicable customs valuation requirements.

#### Don't

- Treat incorporation as a purely procedural step. Ongoing corporate governance, statutory audit, tax compliance, transfer pricing, and regulatory filings impose recurring compliance costs and exposure to regulatory scrutiny that must be factored into operating models.
- Proceed with land acquisition for manufacturing facilities without early assessment of applicable state land laws, title-diligence requirements, zoning restrictions, and environmental approvals, which can materially affect project timelines.
- Finalise plant location or investment structure without considering state-level incentives, labour rules, and infrastructure readiness. Deferring such decisions often has lasting cost and compliance implications.

*The establishment of an Indian subsidiary or joint venture is therefore best viewed not solely as a manufacturing decision, but as a broader question of control, liability allocation, regulatory engagement, and preparedness for scale.*

## III. Manufacturing, Localisation, And Scale-Up

*Once operations move beyond import-led entry towards local assembly or manufacturing, additional regulatory, workforce, and localisation considerations become central.*

### A. Labour and Workforce Considerations

#### DO

- Factor in India's new Labour Code compliance into entry structuring and localisation planning at the outset, particularly where manufacturing facilities, supplier parks, or large workforces are contemplated.
- Assess the impact of revised wage definitions, expanded employee coverage, social security

- obligations, and workforce-size-linked regulatory thresholds on workforce cost structures.
- Review the use of contract labour in core activities in light of the consolidated framework governing contractor engagement, safety, and employer liability.

## **DON'T**

- Assume legacy workforce arrangements or historical labour practices will remain viable as operations scale or localisation deepens.

## ***B. Incentives, Local Content, and Supply Chains***

### **DO**

- Assess eligibility under ongoing incentive schemes such as the PM E-Drive Scheme, Scheme to Promote Manufacturing of Electric Passenger Cars, and Scheme for Automobiles and Auto Components in India, and factor compliance conditions and performance-linked requirements into investment and localisation assumptions.
- Align manufacturing and sourcing strategies with applicable rules of origin under the EU-India FTA to qualify for preferential tariff treatment once implemented.
- Evaluate customs and GST exposure on royalties, licence fees, and software components embedded in imported vehicles, kits, or components – particularly where payments are linked to post-import activities or global IP pools.
- Maintain robust documentation to substantiate origin claims, as Indian customs authorities have enhanced verification and post-clearance audit powers.
- Model downside scenarios for customs disputes, including provisional assessments, bank guarantees, interest exposure, and multi-year litigation timelines. Even strong technical positions can translate into short to medium term blockage of working capital.
- Use pilot shipments or phased rollouts to test customs positions before scaling volumes.

### **DON'T**

- Treat the EU-India FTA as a customs only instrument. Incentives, tariff preferences, and localisation obligations are closely interlinked.
- Assume that meeting incentive thresholds automatically ensures compliance with rules of origin. Misalignment between localisation metrics, existing global sourcing models and origin rules can erode expected benefits despite significant capital investment.
- Overlook infrastructure and logistics constraints; port congestion, inland transport bottlenecks, and warehousing capacity continue to affect automotive supply chains in practice.
- Assume consistency between port practices or audit approaches. Divergent interpretations across ports and audit groups are common and require centralised issue management and precedent tracking.

## ***C. Capability Led Diversification And Regulatory Risk***

### **DO**

- Assess market entry and localisation strategies against existing manufacturing, engineering, and quality-control capabilities from a regulatory and compliance perspective, including the ability to meet statutory certification, homologation, and customer-mandated quality requirements. For European OEMs and Tier-1 suppliers, misalignment between proposed operating models and internal capabilities often manifests as regulatory non-compliance, approval delays, and downstream contractual exposure with customers and suppliers.

### **DON'T**

- Structure India entry or expansion models solely by reference to market access, tariff treatment, or customer proximity, without testing whether internal capabilities can support applicable statutory compliance, certification timelines, and localisation commitments. In practice, gaps between operational capability and regulatory obligations remain a recurrent source of delayed approvals, enforcement risk, and transaction or supply-chain disputes.

## Conclusion

The EU-India FTA presents a significant opportunity for European OEMs and Tier-1 suppliers, but it does not alter the fundamentals of entering and operating in India's automotive market. In practice, success depends on disciplined execution across entry structuring, regulatory approvals, dealer and distribution relationships, localisation and incentive alignment, and labour and sustainability compliance. For companies prepared to take a long-term, compliance-led approach, the FTA can serve as a platform for durable participation in one of the world's most strategically important automotive markets.

A more comprehensive and general summary on the FTA can be found [here](#).

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