A seismic trade shift from the Alps to the Himalayas

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Some tropes should be retired because they've become hackneyed clichés. Others should be set aside because they are almost always inapposite.

Then there is the "Mother of All" trope – risible when it was first uttered; tragic given the consequences; and ridiculous in the light of what happened to its progenitor.

And yet, against all logical odds and historical sense, it persists.

So it was that European Commission President Ursula von der Leyen described the agreement reached by the European Union and India on Tuesday as "the mother of all deals". We should all bury the trope six feet deep in an unmarked grave; but there can be no doubt that the announcement is momentous. Another thing we can say with near absolute certainty, it would not have – could not have – come about without the New World Order that was the buzz of the town in Davos and in major capitals since.

As with the EU-Mercosur deal that we wrote about last year, the EU-India free trade agreement has been in the works for decades. And as with the EU-Mercosur deal, the pace of negotiations no doubt accelerated because of the upheavals in the world of trade, international relations, and international law – that is, the rules-based international trading order – that we have observed since Jan. 20, 2025. Finally, as with the EU-Mercosur deal, we should not expect a smooth ride in EU institutions. Nevertheless, that there is an agreement is nothing short of astonishing. Game-changing, if you will. (Not all tropes are bad.) The harbinger, if more were needed, of the emergence of a New World Order.

The EU is the second largest economy in the world; India is the largest country by population. The free trade agreement, once it enters into force, will create the largest free trade area by population (around two billion) and the second largest in wealth ($28 trillion in combined GDP, give or take). The deal represents a seismic movement in the world of trade not just because of the numbers, as impressive as they are, but also given its scope, which – for India at any rate – is unprecedented.

How did it happen? Why now?

The elephant in the room

Trying to explain what is going on in simple(r) terms risks not just overusing tired tropes but also overreaching through mixed metaphors. So, let's be as direct as possible: the deal, right now, would not have been possible without the disruptions we have been experiencing since shortly after the November 2024 elections, first rhetorically, then through active trade measures culminating in threats of annexation.

After all, India and the EU are not natural allies. There is the ongoing concern about close India-Russia relations even as a war of annexation rages on along the EU's Eastern borders. There is also India's recent history in the World Trade Organization.

But old alliances are fraying. There is a new framework in place, in which the rule of law has been replaced by the persuasive force of the rattled tariff. When neither India nor the EU can safely rely on agreements with the United States for predictability and security in their trading relations, it is to be expected that they would seek other, more reliable, partners. In that context, it is no coincidence that the EU and India deal follows less than two weeks after Canada announced its "preliminary agreement-in-principle" with China, marking a rapid change from the trade war that was ongoing between the countries less than a year ago.

So, what's the big deal?

Vehicles are a central aspect of the agreement, with the EU gaining notable access to India's protected market. Tariffs on European cars are expected to gradually drop from 110 per cent to 10 per cent, with a quota allowing 250,000 to enter India annually at the lower rate. In turn, the EU will allow 625,000 Indian-made vehicles to enter *its* market. EU auto makers, particularly in Germany, are expected to benefit from a first-mover advantage in the rapidly growing Indian car market as vehicle ownership continues to increase.

The parties also reached a significant compromise on steel products. After Chinese steel threatened to flood EU markets in recent years, concerns grew over protecting local manufacturers. Despite that risk, 1.6 million metric tons of Indian steel will now enter the EU duty-free each year. That figure represents about 45 per cent of India's total steel exports to the EU, which reached 3.5 million tons in 2024. Indian steel imports will remain subject to the EU's carbon border policy (which we have written about only recently).

The EU will further benefit from the removal of tariffs on agri-food exports, which hovered at 36 per cent on average. Products like olive oil and bread will gradually become tariff-free, having previously been subject to tariffs of 45 per cent and 50 per cent respectively. As was to be expected, "sensitive agricultural products", such as beef, chicken, rice, sugar, dairy, and cereals did not form part of the agreement. (The EU was already dealing with pushback from European farmers over its deal with South America's trading bloc, Mercosur.) (Incidentally, the exclusion of chicken and dairy products from the agreement should put to bed the constant refrain in Canada that supply management blocks trade agreements; we addressed *that* tired trope in an episode of our hit trade podcast.)

Finally, the EU will gain access to India's rapidly growing market for alcohol, as tariffs on premium wines drop to 20 per cent from 150 per cent. Future negotiations are set to focus on India's willingness to recognize geographical indicators on products like champagne, without which EU producers continue to raise concerns about imitation products.

Implications for Canada

The EU and India concluded this agreement on the heels of Prime Minister Carney's now-famous Davos speech, and they seem to have taken his advice: two parties that have struggled to navigate trade agreements with the United States have looked to each other to compensate.

The Prime Minister will likely look for opportunities to follow suit at a visit to India which is expected in March of this year. Uranium, energy, and minerals are slated to be potential subjects of discussion at this visit, which follows Foreign Affairs Minister Anita Anand's trip to India last October.

Having agreed to restart trade negotiations in November of 2025, Canada, like the EU, is willing to look past political disagreements in the pursuit of alternatives to reliance on trade with the U.S. India presents the world's largest market in terms of population, and this new deal has increased the pressure to find an arrangement which will allow Canadian products to compete with tariff-free European goods.

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