

15 July 2026

EY Policy Alert

India-UK FTA comes in effect from 15 July

Tax and Policy Alerts cover significant news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax and policy issues. For more information, please contact your EY advisor.

Executive summary

- The India-UK Comprehensive Economic and Trade Agreement (CETA) marks a significant step in strengthening economic ties, extending beyond tariff liberalization to cover digital trade, government procurement, MSMEs, innovation, labor, environment and regulatory cooperation. Bilateral trade, currently valued at nearly **US\$56 billion**, is targeted to double by 2030.
- For businesses, CETA offers substantial market access opportunities. **Of Indian exports by value, 99%** are expected to benefit from duty-free access to the UK, while India is set to progressively reduce tariffs on **90% of tariff lines, covering 92% of UK imports**, over a transition period of up to 10 years. Companies can now evaluate tariff benefits, product-specific concessions, Rules of Origin, certification requirements, and supply chain strategies to leverage the opportunities under the Agreement.
- In this update we have broadly covered the impact on Textile, Automotive, Defence, Chemical and FMCG sectors.



The better the question.
The better the answer.
The better the world works.



Shape the future
with confidence

Key highlights



1. FMCG

Impact

- Immediate tariff elimination has been provided for a number of tariff lines covering products such as malted milk preparations (including powder form), certain cereal- and grain-based preparations, mineral and packaged drinking water, toilet soaps, shaving preparations, washing preparations and other surface-active agents, household cleaning products, polishing preparations, ball-point pens and selected stationery products. The precise treatment would depend on the relevant tariff classification and applicable tariff commitment for the product concerned. For importers of qualifying UK-origin products in these categories, the Agreement may provide an immediate reduction in landed costs, subject to satisfaction of the applicable Rules of Origin requirements.
- The Agreement also provides for phased tariff reductions across a range of premium food, beverage, personal care and household product categories. These include selected tariff lines relating to products such as chocolates, cocoa preparations, confectionery, biscuits, bakery products, breakfast cereals, processed food preparations, soups, packaged food products, skincare products, cosmetics, hair care products, oral care products, fragrances, deodorants and other personal grooming products. Depending on the relevant tariff line and product-specific commitment, Customs duties on such products are scheduled to be reduced progressively over staging periods of up to 10 years.
- Certain sensitive FMCG categories remain outside the scope of tariff liberalization and continue to attract the existing Customs duty structure. These include selected dairy products and certain food and beverage categories that have been excluded from tariff concessions under the Agreement. In addition, certain products fall within partial liberalization baskets, under which Customs duties are reduced over the prescribed staging period but are not eliminated entirely. Upon completion of the staging period, the applicable Customs duty would continue at the residual rate prescribed under India's tariff commitments rather than being reduced to nil.

Way forward

A product-level assessment of existing import and sourcing portfolios would be important to identify tariff concessions available under the India-UK FTA, quantify potential duty savings and evaluate sourcing opportunities. FMCG stakeholders may align procurement, pricing and portfolio strategies with phased tariff reductions while assessing the competitive implications of increased UK market access. A robust review of product classification, Rules of Origin, certification and Customs documentation would be critical to secure preferential benefits and mitigate compliance risks. Periodic monitoring of future tariff reductions and supply chain optimization opportunities would also help leverage commercial advantages arising under the Agreement.



2. Chemicals and Agriculture

Impact

- The agreement provides substantial benefits for Indian chemical manufacturers and exporters by removing Customs duties that historically made Indian products less competitive compared to suppliers from countries with preferential access to the UK market. This could potentially increase exports of specialty chemicals, agrochemicals, dyes and pigments, organic and inorganic chemicals, pharmaceutical intermediates and performance chemicals
- Indian importers sourcing organic/inorganic chemicals, fertilizers, specialty chemicals, additives, pharmaceutical intermediates and certain other industrial inputs from the UK may benefit from elimination of and reduced or phased-down Customs duties under the FTA, leading to lower landed costs and improved supply chain competitiveness. Majority of such products, which are primarily leviable from 7.5% to 10% (with a few at 2.5%, 5%, 20%, etc.) basic Customs duty shall benefit from either immediate duty elimination or phased elimination over a period of five or 10 years.
- Certain chemicals have been excluded from the scope of tariff benefits, including caustic soda, bromides and bromide oxides, calcium hypochlorites, nitrates, dichloromethane, methanol, isopropyl alcohol, ethylene glycol, propylene glycol, acetone, acetic acid, acetic anhydride, ethyl acetate, certain pesticides/insecticides containing specified hazardous substances, certain textile finishing agents, dye carriers, dye-fixing preparations, some of the supported catalysts with precious/non-precious active

substances, etc. Duty on these products are primarily at 7.5% (with a few at 2.5%, 5% and 10%).

- The India-UK FTA is expected to lower Customs duty costs, improve the competitiveness of Indian exports and reduce the landed cost of eligible UK imports, supporting supply-chain diversification, improved margins and enhanced sourcing opportunities. However, businesses must address Rules of Origin requirements, Customs compliance and documentation obligations, while adapting to increasing sustainability, traceability, quality and sanitary and phytosanitary (SPS) standards. In addition, industry may face increased competition from lower-cost UK imports where tariff concessions have been granted.

Way forward

Businesses may undertake a detailed product-wise review of their imports and exports to identify whether products qualify for immediate concessions, phased tariff reductions or remain excluded under the FTA. This assessment should be supported by an evaluation of potential duty savings against existing duty rates, while also considering the overall commercial impact, including logistics, compliance and operational costs. In parallel, companies may review their supply chains to ensure compliance with Rules of Origin requirements and implement robust processes for obtaining, maintaining and evidencing origin documentation required to claim preferential benefits.

Given the increasing focus on sustainability and responsible sourcing in the UK market, businesses can further strengthen their ESG credentials, traceability systems and supply-chain transparency. Investments in low-carbon operations, sustainability reporting and product traceability can not only support compliance requirements but also enhance competitiveness and attractiveness to UK customers who might prioritize environmentally responsible and transparent supply chains.



3. Defence¹

Impact

- The India-UK CETA is expected to strengthen India's defence industrial ecosystem by providing preferential tariff access to a wide spectrum of UK-origin military

weapons, ammunition, naval vessels, UAVs, their parts, components and subsystems, etc. While certain defence imports undertaken by or on behalf of the armed forces may already benefit from exemptions or concessional Customs duty treatment under existing Customs notifications, the CETA broadens the availability of tariff concessions beyond specific end-use or project-based exemptions and creates a predictable long-term framework for sourcing from the UK. This is particularly relevant for defence manufacturers, system integrators and aerospace companies operating in India, as reduced duty incidence on critical inputs, assemblies and high-technology components can improve manufacturing economics, enhance supply-chain resilience and support faster access to advanced defence technologies.

- More importantly, the strategic significance of the CETA extends beyond immediate Customs savings. The Agreement aims to facilitate deeper industrial collaboration between Indian and UK defence companies through technology transfer, co-development, joint manufacturing and supply-chain integration. By reducing the landed cost of specialized components and enabling greater participation of UK suppliers in India's defence value chain, the Agreement complements the government's *Make in India* and *Aatmanirbhar Bharat* initiatives by improving the competitiveness of domestic production rather than merely incentivizing imports of finished military platforms and strengthening indigenous capabilities in sectors.

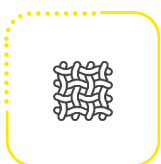
Way forward

Defence companies may undertake a comprehensive review of their procurement, sourcing and manufacturing strategies to identify products, components and technology inputs that could benefit from preferential tariff treatment under the India-UK CETA. Such an assessment should not be limited to immediate Customs savings but should also evaluate opportunities to restructure supply chains, deepen engagement with UK technology providers and enhance sourcing of high-value components, assemblies and specialized defence inputs. Businesses can additionally examine whether products currently imported under defence-specific Customs exemption notifications can derive incremental commercial value through the CETA framework, particularly where the Agreement provides a more predictable and long-term basis for duty mitigation.

From a strategic perspective, the CETA presents an opportunity for Indian defence companies to reposition themselves within global defence value chains by expanding collaborations with UK partners through

¹ For UAVs, elimination of tariff shall be in 10 equal annual stages. However, for components of UAVs, 0% tariff is with immediate effect.

technology transfer, co-development, licensed manufacturing, joint ventures and long-term supply arrangements. Companies may proactively identify product segments where access to UK-origin technology and components can enhance indigenous manufacturing capabilities, improve export competitiveness and support localization objectives under the Make in India and Aatmanirbhar Bharat programs. At the same time, businesses intending to claim preferential treatment should establish robust governance and documentation processes to ensure compliance with the applicable Rules of Origin requirements and the verification framework prescribed under Customs (Administration of Rules of Origin under Trade Agreements) Rules 2020 or CAROTAR, thereby safeguarding the availability of benefits and mitigating Customs risks.



4. Textile

Impact

- The India-UK FTA provides extensive tariff liberalization across the textile and apparel value chain, including silk, wool, cotton, man-made fibers, yarns, fabrics, technical textiles, home textiles, carpets, knitted fabrics, apparel and made-up textile articles. A substantial proportion of textile tariff lines have been granted immediate duty-free treatment, creating opportunities to reduce import costs and improve supply chain efficiency for businesses sourcing qualifying UK-origin products.
- The most significant gains under the Agreement are concentrated in textile raw materials and intermediate products. Several tariff lines covering cotton yarns, sewing threads, woven fabrics, flax and jute products, synthetic filament yarns, man-made staple fibers, non-wovens, coated fabrics, industrial textiles, technical textiles and home textile materials have transitioned from Customs duty rates that were previously as high as 10% to 30% to nil duty while certain textile products like carpets and floor coverings, knitted shirts among others enjoy concessional duty benefit under the agreement. This is expected to facilitate sourcing diversification, improve access to specialized materials and reduce landed costs for manufacturers operating across the textile value chain. The Agreement is likely to enhance the competitiveness of Indian textile manufacturers by reducing input costs, improving access to advanced UK-origin materials and encouraging investments in higher value-added segments such as technical textiles, performance fabrics, sustainable textile materials, industrial textiles

and premium home furnishings. While apparel manufacturers are also expected to benefit from lower-cost inputs and opportunities for product innovation, the impact may vary across product categories as certain finished textile and apparel products continue to remain subject to residual duties or specific duty structures.

- Beyond direct tariff savings, the FTA is expected to promote technology adoption, quality enhancement, supply-chain optimization and greater focus on value-added manufacturing across the sector. Increased market access may intensify competition; however, it is also likely to drive productivity improvements and product differentiation among domestic manufacturers. Traders and end consumers are expected to benefit through wider product availability, improved quality and potentially lower prices arising from preferential duty treatment, thereby supporting the development of a more quality-focused textile ecosystem. Further, the traders and end consumers are expected to benefit from wider product choice, improved quality and potentially lower prices. Greater access to high-quality textile products through a regulated FTA framework may also support the development of a more quality-focused market and reduce reliance on lower-quality imports.

Way forward

Businesses may undertake a detailed HSN-level assessment of textile, apparel and technical textile portfolios to identify products eligible for full duty elimination, products continuing to attract residual duties, and opportunities for sourcing improvement, supplier restructuring and margin enhancement.

They may also evaluate Rules of Origin compliance requirements and reassess procurement, pricing and sourcing strategies to better leverage tariff benefits while addressing the competitive implications of increased UK market access.



5. Auto

Impact

- The India-UK CETA adopts a calibrated and phased approach towards automotive sector liberalization, balancing market access with domestic industry interests. While Customs duties on completely built vehicles (CBUs) are being progressively reduced, access to concessional tariffs remains subject to tariff rate quotas (TRQs) and prescribed volume thresholds.

This framework is expected to provide greater access to qualifying UK-origin vehicles while limiting the pace of import penetration. The structure of the Agreement also signals a policy intent to encourage global automotive manufacturers to establish manufacturing, assembly and supply-chain operations within India.

- The relatively modest and, in several cases, phased duty reductions for automotive components and raw materials provide a transition period for India's domestic auto-component industry, including MSMEs that form a significant share of the sector. The staggered liberalization is expected to allow manufacturers time to enhance productivity, deepen localization, strengthen technological capabilities and integrate more effectively into global supply chains before being exposed to increased international competition. At the same time, businesses may benefit from selectively lower duties on certain qualifying inputs and components, which could support cost efficiencies.
- Beyond tariff benefits, the Agreement places considerable importance on compliance and operational execution. The self-certification framework requires accurate origin declarations from exporters, while importers remain dependent on successful validation and procedural acceptance by Customs authorities. As a result, the actual realization of preferential benefits will depend not only on the availability of concessions but also on the efficiency, predictability and robustness of the origin verification and certification process. Businesses may need to strengthen documentation, supplier coordination and origin compliance mechanisms to mitigate the risk of disputes, delays or denial of preferential treatment.

Way forward

Businesses may establish a documented governance framework and SOPs clearly defining the roles and responsibilities of procurement, supply chain, Customs, finance, tax and business teams in relation to origin determination, supplier engagement, documentation maintenance and Customs verification.

Review and update supplier and procurement agreements to contractually require suppliers, exporters and producers to provide information necessary to substantiate origin claims, including product-specific rule analysis, bills of materials, value-content calculations, supplier declarations, supporting origin records and cooperation during Customs verification proceedings.

Develop a standard origin compliance file for each product or supplier, containing the Origin Declaration, URN, supplier declarations, bill of materials, cost sheets, origin calculations, transport documents, non-alteration evidence and information generally required for CAROTAR compliance, including information typically captured in Form I.

Maintain verification readiness by establishing internal processes for preparation of Form I and responding to Customs.

STRENGTHS

- Conduct a detailed assessment of product eligibility and supply chain implications under the India-UK FTA, including tariff concessions, product specific Rules of Origin, Tariff Rate Quota (TRQ) applicability, Customs valuation, procedural and documentation requirements under the FTA and Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR 2020).
- Establish robust internal governance frameworks and standard operating procedures (SOPs) for identifying eligible transactions, claiming preferential benefits, maintaining supporting documentation, monitoring compliance, and managing Customs verification and audit.
- Review and align procurement, supplier management and contractual arrangements to facilitate timely access to origin declarations, cost and production data, supplier declarations, and other supporting documentation required to substantiate preferential claims.
- Perform periodic compliance reviews and internal audits to validate origin determinations, identify compliance gaps and risks, and implement corrective actions where necessary.
- Evaluate opportunities to enhance sourcing, manufacturing and distribution strategies to better leverage benefits available under the FTA while ensuring compliance with applicable origin and Customs requirements.
- Monitor regulatory and policy developments by Indian and UK authorities to assess their impact on trade flows, compliance obligations and benefit entitlement under the FTA.
- Undertake periodic training and awareness programs for Customs, tax, procurement, logistics, and trade compliance teams to enable consistent understanding and application of the FTA's provisions across the organization.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskon Temple
Off SG Highway, Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Gandhinagar

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382 355
Tel: + 91 79 6608 3800

Bengaluru

12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallaya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Ecospace
1st Floor, Campus 1C
Ecospace Business Park
Outer Ring Road,
Bellandur - Sarjapura Area,
Varthur Hobli,
Bengaluru Urban - 560103

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar - 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

THE SKYVIEW 20
2nd Floor, 201 & 202
Right Wing, Survey No 83/1
Raidurgam, Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur - 302018

Kochi

7th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent Park,
Salt Lake Electronics Complex, Bidhan
Nagar
Kolkata - 700 091
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

18th Floor, Altimus
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: + 91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

© 2026 Ernst & Young LLP. Published in India.
All Rights Reserved.

ED None.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

ey.com/en_in



EY India



EY



EY India



EY Careers India



ey_india