

The India–US Interim Trade Agreement: Implications for the Aerospace Industry under International Economic Law

Ishita Das

NALSAR University of Law, India

India and the US signed the Interim Agreement to deepen their trade relations across several sectors, including aviation. This agreement serves as a bridge to a full-fledged BTA, which is expected to be executed very soon. The aviation sector primarily relies on bilateral agreements to fulfil its core commitments vis-à-vis other countries. Therefore, the applicability of International Economic Law to this sector is complex, given several factors, including national security. This article explores the background to the signing of the Interim Agreement, the geopolitical landscape, the legal position from an International Economic Law lens, and provides the concluding remarks.

Keywords: Interim agreement, BTA, trade, aviation, India, US

Introduction

India and the US signed the framework for an Interim Agreement regarding reciprocal and mutually beneficial trade [hereinafter “Interim Agreement”] on 7th February 2026, deepening their commitment to the broader Bilateral Trade Agreement [hereinafter “BTA”] obligations.¹ The BTA negotiations were launched by Prime Minister Narendra Modi and President Donald J. Trump on 13 February 2025, with a focus on increasing market access, reducing tariff and non-tariff barriers, and strengthening supply chains.² The Interim Agreement has been touted as a “historic milestone” that seeks to balance the domestic trade interests of both countries. As per the Joint Statement issued by India and the US, India intends to purchase USD 500 billion worth of US products over the next five years, including aircraft and aircraft parts.³ Therefore, the Interim Agreement has the potential to boost India's aerospace sector significantly.

The Interim Agreement states that tariffs on certain aircraft and aircraft parts from India, imposed under specified US national security proclamations on aluminium, steel, and copper, will be removed. It specifically provides for the removal of tariffs on certain aircraft and aircraft parts from India imposed under: (i) Proclamation 9704 of 08 March 2018 (deals with aluminium imports), as amended; (ii) Proclamation 9705 of 08 March 2018 (deals with steel imports), as amended; and (iii) Proclamation 10962 of 30 July 2025 (deals with copper imports), as amended.⁴ Further, pursuant to the successful conclusion of the

Corresponding Author : Dr. Ishita Das, Department of Law, NALSAR University of Law, Justice City, Shamirpet, Medchal District, Hyderabad, Telangana-500101, India Email : ishita.das@nalsar.ac.in

Interim Agreement, the US will remove the reciprocal tariff on a wide range of goods identified in the Potential Tariff Adjustments for Aligned Partners Annex to Executive Order 14346 of 05 September 2025 (as amended), including aircraft parts.⁵ The Interim Agreement, as regards the aircraft industry, reflects a strategic move by India to promote its bilateral relationship with the US, not only from a trade and investment lens, but also from a security and defence perspective.

As per the India-US Joint Statement dated 13 February 2025, India and the US affirmed their unwavering commitment to a dynamic defence partnership across multiple domains, including cooperation in the aerospace sector.⁶ India's growing need to strengthen its defence and civil aviation sectors can be addressed through a robust partnership with the US. Union Commerce and Industry Minister Piyush Goyal highlighted that India needs to invest about USD 80-100 billion to keep pace with the rapid expansion of the civil aviation sector in the near future.⁷ With specific regard to the Interim Agreement, he stated that growth in this sector would drive significant demand for aircraft, engines, and spare parts in India.⁸ Therefore, the Interim Agreement has significant potential to address India's domestic interests in its aerospace sector. However, without strict local-content rules or co-production arrangements, India might rely heavily on US imports, which could adversely affect domestic producers.⁹

Geopolitical Landscape

I need to better understand the geopolitical landscape before discussing the legal implications of the Interim Agreement. The Interim Agreement is more of a 'bridge' framework, signed by India and the US, until the full-fledged BTA comes into force.¹⁰ This agreement can be dubbed a 'historic reset' of trade relations between the two countries, following escalating tensions due to the imposition of a 26% reciprocal tariff in April 2025. Later, the 26% tariff was suspended for 90 days until 09 July 2025, while the 10% baseline tariff remained in place. In July 2025, the tariff pause was extended till August 2025; however, before the end of the month, a new 25% tariff was levied on all Indian goods. By August 2025, an additional 25% penalty tariff was levied on India's dependence on Russian oil, bringing the total to 50%, effective from 27 August 2025.¹¹

By the end of 2025, Indian exporters were grappling with cumulative tariff imposition, which led to a sharp decline in export volumes. In October 2025, trade negotiations between India and the US intensified, with Indian officials visiting Washington to resolve differences over tariff imposition. The officials engaged in six formal rounds of trade negotiations to pave the way for relief from the tariff disputes. By the end of January 2026, Mr Goyal announced that the trade agreement between the two countries was being finalised.¹² Finally, the Interim Agreement was announced in February 2026, after months of strained Indo-US trade relations. The Interim Agreement serves as an early-harvest framework deal, and, based on the current trajectory of negotiations, the full-fledged BTA is expected to come into force by late 2026 or 2027.¹³ However, given the dynamic nature of geopolitical developments, the trade relationship between India and the US might need to be tempered by realism.

According to Ambassador Sergio Gor, who is also the President's Special Envoy to South and Central Asia, the bilateral deal between India and the US is in its final stages. His remarks were echoed by Mr. Goyal, who asserted the same position.¹⁴ Thus, while the US and Indian positions on the trade deal are overall aligned, the Washington-Islamabad equation should not be ignored. President Trump has repeatedly mentioned Pakistan's role in regional

diplomacy, suggesting that Islamabad may be gaining strategic relevance in Washington's calculations.¹⁵ If Pakistan succeeds in portraying itself as a key player in maintaining regional stability, it might try to leverage its status¹⁶ to the detriment of India's economic and political interests. Trade negotiations or economic interests are rarely insulated from geopolitical developments. Therefore, India should continue to balance economic priorities with strategic diplomacy as it moves forward with the BTA negotiations.

Legal Landscape

The Dispute Settlement Body [hereinafter "DSB"] of the World Trade Organisation handles trade-related disputes covered under the specified agreements, such as the General Agreement on Tariffs and Trade [hereinafter "GATT"] and the General Agreement on Trade in Services [hereinafter "GATS"]. The aviation sector is largely unfamiliar with the WTO and the GATS. It has viewed bringing air transport fully within the scope of the GATS with apprehension, except for some exceptions. It is worth noting that although several aspects of international air transport have been addressed at the multilateral level, relations between states in the aviation sector are still governed by bilateral treaties.¹⁷ Given the history of bilateral negotiations in the aviation sector and the limited interface this sector has with mainstream WTO agreements, it is crucial to examine the rights covered under the GATS.

The coverage of the Annex on Air Transport Services under the GATS is limited to three 'soft rights': (i) aircraft repair and maintenance, (ii) selling and marketing of air transport services and (iii) computer reservation system["CRS"] services. The Annex specifically excludes anything affecting traffic rights and the services directly related to their exercise.¹⁸ Traffic rights are sometimes referred to as 'hard rights', which refer to the basic authorisation needed to operate services to and from another country and are therefore distinct from 'soft rights'.¹⁹ While the Annex provides a positive list of services included within the scope of the GATS, there is some ambiguity regarding the expression 'services directly related to the exercise of traffic rights' as it has not been defined specifically. The primary reason it is tricky to multi lateralise air services under the WTO agreements is that it is difficult to apply multilateral trading principles to this sector.²⁰

For instance, the two fundamental pillars of the WTO regulatory system are (i) Most-Favoured Nation [hereinafter "MFN"] and (ii) the National Treatment [hereinafter "NT"]. As per Article II of the GATS, "each Member shall accord immediately and unconditionally to services and service suppliers of any other member state treatment no less favourable than it accords to like services and service suppliers of any other country."²¹ However, in the aviation sector, the rights granted to one partner may differ significantly from those granted to another, thereby making it difficult for the MFN principle to apply. For instance, the US has been comfortable with bilateralism and has shown reluctance to resort to multilateralism in the aviation sector.²² Further, given the history of bilateral negotiations in the aviation sector, the WTO members have used the GATS flexibilities to derogate from the non-discrimination principles.²³ The North American Free Trade Agreement ["NAFTA"], for example, specifically excluded air services from the MFN and NT provisions of Chapter 12.²⁴

Article XVII of the GATS provides that "each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment no less favourable than that it accords to its own like services and service suppliers."²⁵ However, the international aviation industry is riddled with discriminatory rules, including restrictions on foreign ownership and control of domestic airlines and domestic routes, which are permitted only to nationally owned carriers. In most bilateral

agreements and national laws, the nationals of the state concerned control ownership and management through clauses such as "substantial ownership and effective control".²⁶ As regards traffic on domestic routes or Cabotage rights, liberalisation is tricky due to national security concerns.²⁷ Therefore, it is difficult to expect complete liberalisation of the aviation industry due to inherent domestic and national security priorities.

Conclusion

India and the US are both members of the WTO and therefore must ensure that the BTA aligns with the core multilateral trading principles. As the scope and actual coverage of the BTA are currently unclear, it is difficult to ascertain the extent to which India pushes back against US pressure regarding the BTA negotiations. However, one can only hope that India upholds the international rules-based order in matters of economic security. While the aviation sector operates under a different regulatory framework, as already elucidated above, it would be wise for India to balance its strategic, defence, political, and economic interests vis-à-vis the aviation industry.

Notes

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³ Id.

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⁵ Id.

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⁷ "India Will Need Nearly USD 80 to 100 Billion in Civil Aviation-related Products," Says Piyush Goyal on India-US Interim Trade Agreement, ANI News (Feb. 8, 2026), <https://www.aninews.in/news/world/asia/india-will-need-nearly-usd-80-to-100-billion-in-civil-aviation-related-products-says-piyush-goyal-on-india-us-interim-trade-agreement20260208192700/>.

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- ¹⁹ IATA Discussion Paper, *supra* note xviii.
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Dr. Ishita Das is an Assistant Professor (Law) with the NALSAR University of Law, Hyderabad, India. Her main areas of academic interest include International Space Law, International Aviation Law, International Economic Law, and International Environmental Law. She has published extensively in areas concerning her expertise in both reputed journals and edited books.