

VEHICLE SCRAPPING POLICY: IMPACT ON INDIA'S AUTO INDUSTRY

Introduction: Overview of Auto Industry

The automobile industry occupies a significant position in the world economy. In 2020, approximately 77 million units of automobiles were sold worldwideⁱ. India is the fifth largest manufacturer of commercial vehicles globally. With a sustained demand and its growing share in the global economy, the auto industry also has a considerable influence on other ancillary industries such as steel, aluminum, and plastic.

It is estimated that India's domestic automobile production increased at 2.36% CAGR between FY16-20, with 26.36 million vehicles manufactured in FY20. The domestic sales of automobiles increased at 1.29% CAGR between FY16-20 with 21.55 million vehicles were sold in FY20. There has been a significant influx of foreign capital in this industry; between April 2000 to September 2020, an aggregate of USD 24.62 billion was invested by foreign investors in this industry.ⁱⁱ

Need for Vehicle Scrapping Policy

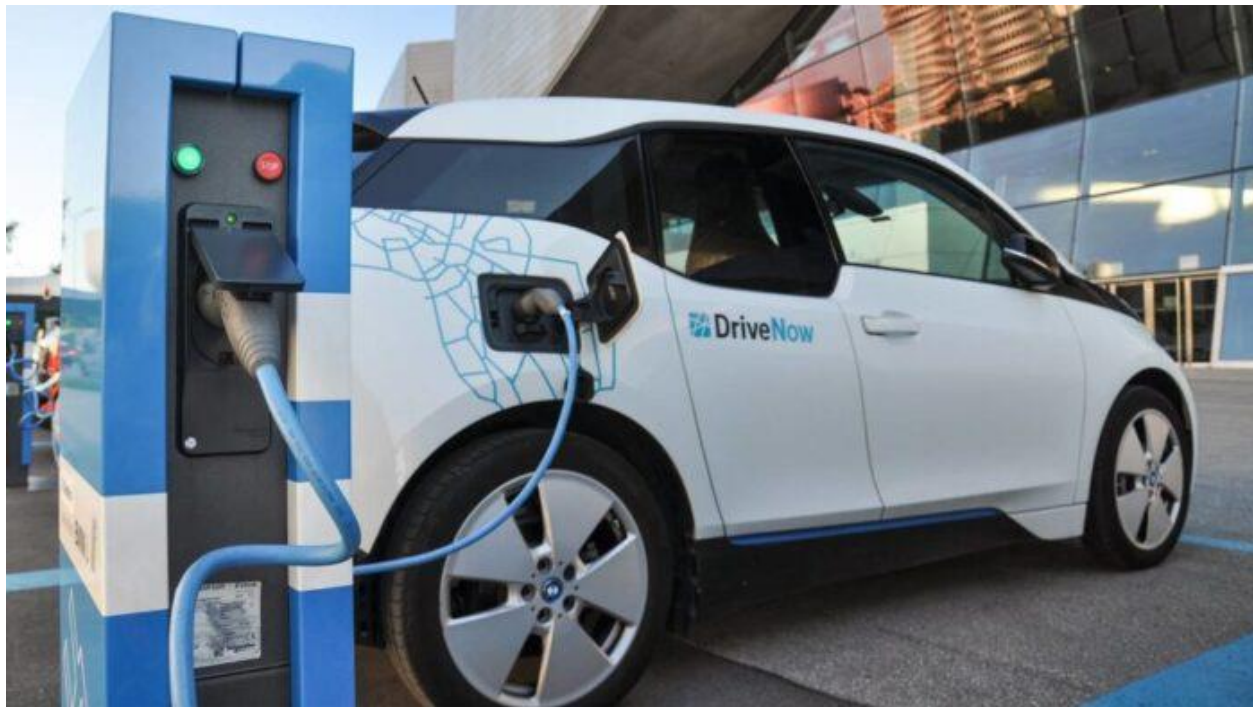
The global vehicle recycling market was worth USD 19.6 billion in 2019 and is expected to exceed USD 26 billion by 2025. Vehicles scrapping and recycling of parts play an important role in meeting demands of this industry for raw materials and for controlling environmental pollution.

Several countries including United States, Germany, Canada, and China have introduced vehicle scrapping policies to boost their respective automobile industries and control environmental pollution. For instance, the Car Allowance Rebate System of the United States offers credit incentives on scrapping older vehicles and replacing them with new units.

Vehicular pollution is a global challenge, and it poses serious health concerns in India as well, especially in the urban areas and metros since last few decades. For controlling vehicular pollution, each country has fixed emission standards to be followed by the auto manufacturers. In India, it is mandatory for all vehicles to adhere to the Bharat State VI (“**BS VI**”) emission norms.

As per Government estimates, currently there are approximately 5.1 million light motor vehicles (which are older than 20 years) and around 1.7 million medium and heavy commercial vehicles (which are older than 15 years old) that do not have a fitness certificate. These vehicles are not in compliance with the BS VI emission standards and thereby contribute significantly to vehicular pollutionⁱⁱⁱ.

In the Union Budget 2021, Government of India announced a voluntary vehicle scrapping policy to phase out old and unfit vehicles with the aim to reduce vehicular pollution and also the oil import bill. The proposal was made to encourage fuel efficient and environment friendly vehicles in India. Further to the said Budget announcement, the Ministry of Road Transportation and Highways had issued draft Motor Vehicles (Registration and Function of Vehicle Scrapping Facility) Rules, 2021 for public consultation under the Motor Vehicles Act, 1988. Based on the public consultation, the Government of India published Motor Vehicles (Registration and Function of Vehicle Scrapping Facility) Rules, 2021 ("**Vehicle Scrapping Rules**") which has come into effect from 25 September 2021.



Regulatory Framework

The Vehicle Scrapping Rules are expected to address several issues like shortage of metals and promote usage of vehicles which are compliant with emission standards. The Vehicle Scrapping Rules also lay down the framework for establishment of registered vehicle scrapping facilities, which will be responsible for carrying out verification of ownership and making suitable entries regarding scrapping of vehicles and issuance of certificate of scrapping. The Vehicle Scrapping Rules also makes provisions for scrapping yard to handle, depollute and dismantle end-of-life vehicles, and other scraps.

It has been proposed that vehicles which have not renewed their registration as per the Central Motor Vehicle Rules, 1989 ("**CMV Rules**") or have not been granted a certificate of fitness under the Motor Vehicles Act, 1988 may be offered for scrapping. Further, vehicles which have been damaged due to fire,

riot, natural disaster, accident, manufacturing rejects, test vehicles or which has been declared obsolete can also be offered for scrapping.

The Vehicle Scrapping Rules provides for setting up of vehicle scrapping facility (“**RVSF**”). The RVSF is required to have a valid certificate of incorporation, Goods and Service Tax Number, and Permanent Account Number. The RVSF is additionally required to:

- (a) obtain approval for consent to establish from the concerned State or Union Territory Government;
- (b) meet minimum technical requirement for collection and dismantling centres;
- (c) have manpower and appropriate equipment for depollution and dismantling activities;
- (d) obtain quality certification;
- (e) obtain consent to operate from State Pollution Central Board;
- (f) provide approved layout and the building plan;
- (g) provide evidence of availability of adequate useable area of land in orange category industrial zone; and
- (h) abide by the applicable laws in India.





The RVSF will be responsible for carrying out dismantling and scrapping operations and is required to have cyber security certifications as it will be having access to the central database of vehicle registration for verification purposes. The RVSF can accept, and scrap vehicles registered in any of the Indian States or Union Territories.

In order to incentivise scrapping of old and unfit vehicles, the Vehicle Scrapping Rules has incorporated provisions to allow a discount on purchase of new vehicles, if the older vehicle is offered for scrapping. The Ministry of Road Transport and Highways have also proposed certain amendments to the CMV Rules to provide additional incentives to owners who scrap their vehicle. The amendment to CMV Rules will come into effect from 1 April 2022. The amendment to CMV Rules provides a concession on motor vehicle tax on submission of certificate of vehicle scrapping:

- (a) up to 25 percent for non-transport vehicles
- (b) up to 15 percent for transport vehicles

Further, these concessions will be available up to 8 years for transport vehicles and up to 15 years for non-transport vehicles^{iv}. The amendment to the CMV Rules further provides waiver of registration fees for new vehicles, with effect from 1 April 2022^v. These incentives are expected to create a demand and interest amongst heavy vehicles owners to scrap the old vehicles. Apart from availing the incentives, owners of heavy vehicles will also be able to have BS VI compliant vehicles which can be beneficial in the long run for both the owners and environment.

Impact of Vehicle Scrapping Policy

In FY20, the automobile industry in India has manufactured approximately 26 million vehicles, including passenger vehicles, commercial vehicles, two and three wheelers and quadricycles. Automobile manufacturing in India is heavily dependent on import of metals and auto components, which in turn increases the production cost of automobiles.



The Vehicle Scrapping Rules, when implemented, is also expected to have a major impact on the steel and other metal industry. As per reports, import of total finished steel into India was at 0.401 metric ton in February 2020. Scrapping of unfit vehicles and processing the metal for re-use will help in reducing the import of steel into India. This in turn is expected to lower the cost of production of steel-based products. The Vehicle Scrapping Rules, when implemented, may also have similar impact on other industries like aluminum and plastic.

It is expected that with the implementation of Vehicle Scrapping Rules, automobile manufacturers will be able to domestically procure raw materials for production and will be less dependent on imported materials, thereby reducing the cost of production. It has been reported that some of the major auto manufacturers in India such as Maruti Suzuki, Tata Group and Mahindra and Mahindra have shown interest in setting up vehicle scrapping yards in India.

The Vehicle Scrapping Rules incentivises owners of old vehicles, who have opted to scrap while buying a new one. This will help the owners to get new vehicles at lower cost, with better fuel efficiency and lower maintenance cost. Similarly, owners of commercial vehicles are also expected to benefit from the Vehicle Scrapping Rules as new vehicles will be safer and compliant with new emission norms.



While introducing the Vehicle Scrapping Rules in the Union Budget 2021, the Government has also mentioned that vehicle scrapping policy is expected to boost demand of electric vehicles in India, which so far electric vehicles have not seen a sustainable demand in the Indian market. With incentives available for scrapping old vehicles and additional incentives made available by State Governments on purchase of electric vehicles, this could be a win-win situation for consumers, who may be inclined to shift towards electric vehicles. Of course, infrastructure for charging batteries is still at a nascent stage. However, the Government has been taking proactive measures to address this concern. Large metropolitan cities such as Mumbai and Delhi have already started using electric buses to curb vehicular pollution. Recently, the State of Uttar Pradesh has also announced usage of electric vehicles in several districts. These initiatives are an indication that the Government is actively developing infrastructure for convenience of electric vehicles.

The Vehicle Scrapping Rules should also have a positive impact on the environment as well, as it encourages recycling of wastes and also reduces usage of unfit/ polluting vehicles on Indian roads. Further, scrapping of old vehicles can reduce fuel consumption (since an older vehicle is considered to give lower mileage) and will thus reduce the burden of already ballooning oil import bill. The Government also expects that registered vehicle scrapping facilities, scrap yards and treatment of older vehicles will be a source of employment generation and that too with an organized sector tag.

To encourage scrapping of old vehicles, the Central Government has significantly increased the vehicle registration renewal fees effective April 1, 2022. This move should act as a deterrent for vehicles owners to continue using their old vehicles post the normal usage period and thus, encourage scrapping.

Challenges in implementation and way forward

Implementation of the Vehicle Scrapping Rules will be a daunting task due to lack of existing infrastructure such as for testing the fitness of vehicles. There are only 7 automated fitness test centres and 2 authorised scrappage centres^{vi}. A legislation having nationwide application, will require many more fitness test centres and scrappage units; large private players will need to actively participate and invest in this area. Achieving the same will be a big challenge especially considering the current situation caused due to COVID-19 pandemic.

In addition, compelling vehicle manufacturers/ sellers to extend concessions to buyers who have scrapped their vehicles as per the provisions of Vehicle Scrapping Rules might have a negative impact on sales margin and the proposal may not be acceptable. Timely implementation of the policy and roll out of incentive pay out mechanism poses another major challenge for the Government, especially since the tax collections have taken a hit in the last 18 months.

Further, as the Vehicle Scrapping Rules are not mandatory, it may not fully achieve the goal of reducing the use of older vehicles. The Vehicle Scrapping Rules also lack clarity with respect to providing concession on motor vehicle tax as the amounts are not fixed and is suggestive in nature. It is expected that the Government will bring about clarity on the implementation and providing incentives to vehicle owners so that the objective of the policy is achieved.

Overall, this is a welcome step and if implemented in a timely and appropriate manner, will benefit all the stakeholders including the consumers, manufacturers, the Government, other private players and of course, the largest beneficiary will be the environment.

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ⁱ<https://www.statista.com/statistics/1097326/worldwide-motor-vehicle-sales-by-type/>

ⁱⁱ<https://www.ibef.org/industry/india-automobiles.aspx>

ⁱⁱⁱ Speech by the Minister of Road Transport & Highways of India in Lok Sabha. Available at:

<https://loksabhatv.nic.in/sites/default/files/videos/speeches/Nitin%20Gadkari.mp4>

^{iv}<https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/oct/doc202110701.pdf>

^vhttps://morth.gov.in/sites/default/files/notifications_document/Revision%20of%20Fee%20714.pdf

^{vi}<https://www.ibef.org/blogs/vehicle-scrappage-policy-2021-expectations-and-challenges>