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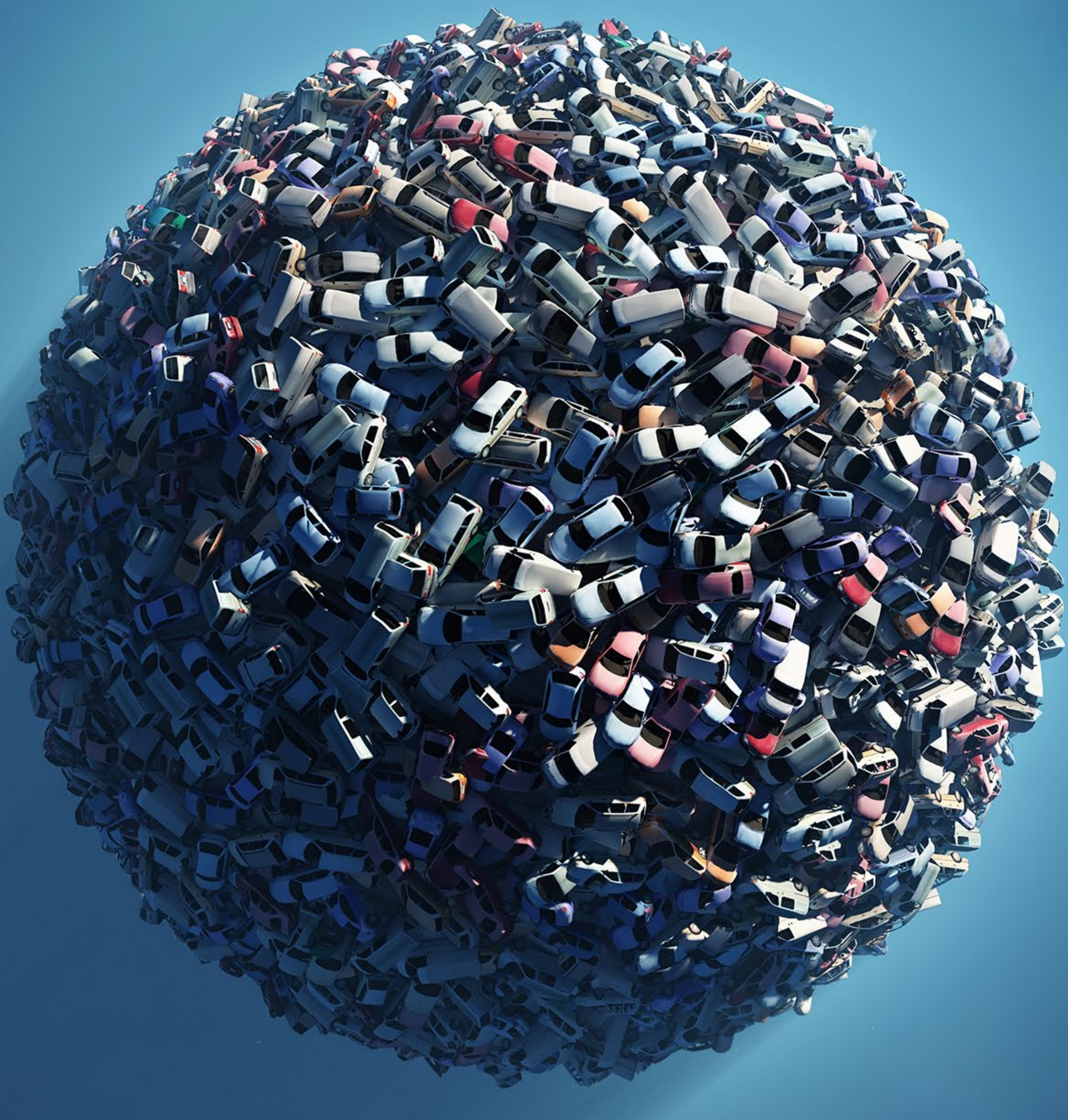

Vehicle Scrapping policy-
An opportunity for Gujarat

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Highlights of the vehicle scrapping policy

India, the world's fifth-largest auto market and manufacturer of 26.36 million[1] vehicles (during 2019-20), announced its vehicle scrapping policy in March 2021.

The policy aims to facilitate scrapping of those vehicles that have reached their end of life or are no longer usable due to accidents, fire, or other hazards, and in the process, create a formal industrial ecosystem for additional investments and employment. It is also expected to help achieve the following key objectives:

- Reduce vehicular air pollutants. For instance, heavy commercial vehicles over 10 years old accounting for less than 3 percent of the vehicle market contribute the most to air pollution (55 percent of black carbon, 60 percent of fine particulate matter, and 70 percent of nitrogen oxide emissions)
- Improve road and vehicular safety
- Achieve better fuel efficiency and foster new technology adoption, including BS VI and electric vehicles
- Boost availability of low-cost raw materials for the automotive, steel and electronics industries.

[1] https://www.investindia.gov.in/sector/automobile
[2] Press Information Bureau, March 18, 2021

Highlights of the vehicle scrapping policy include[2] :

- Deregistering commercial vehicles after 15 years, in case of failure to get a fitness certificate. For private vehicles, deregistration has been proposed after 20 years if found to be unfit or in case of failure to renew registration certificate.
- Deregistering and scrapping all vehicles of the central government, state government, municipal corporation, panchayats, state transport undertakings, public sector undertakings, and autonomous bodies with the union and state governments after 15 years from the date of registration.
- Promoting public and private participation in setting up Registered Vehicle Scrapping Facilities (RVSFs) across India, as well as select Integrated Scrapping Facilities using multiple scrapping technologies.
- Setting up of new testing centres leveraging public private partnerships (PPPs) to issue fitness certificates based on emission tests, braking, safety equipment and other tests as per the Central Motor Vehicle Rules, 1989.

Subsequently, the Government of India has also notified the Motor Vehicles (Registration and Functions of Vehicle Scrapping Facility) Rules, 2021[3] draft for public consultation and feedback. The said rules specify the procedure to set up and operate registered vehicle scrapping facilities across the country and are intended to serve as guiding principles for state governments to formulate their own policies and guidelines.

A comparison of the various incentives and disincentives proposed under the policy has been presented below:

Key incentives and disincentives under the vehicle scrapping policy, 2021[4]:

Disincentives for old vehicle user	Incentives for new vehicle buyer
Increased fees (proposed for state governments): • Commercial vehicles (for fitness test and certificate fees from and after 15 years) • Private vehicles (reregistration fees from and beyond 15 years)	**Scrapping value (to be paid by RVSFs):** • 4-6 percent ex-showroom price of a new vehicle as scrappage value for old vehicle
	Road tax rebate for replacement vehicles (proposed for state governments): • Up to 15 percent for commercial vehicles. • Up to 25 percent for private vehicles
	Discount against scrapping certificate (advice to vehicle manufacturers): • 5 percent discount on purchase of new vehicle
	Registration fee waiver against the scrapping certificate (advice to state governments): • Waiver on registration fees for the purchase of new vehicles

[3] The Gazette of India, March 16, 2021
[4] Source: Press Information Bureau (PIB), March 18, 2021

Likely economic impact of the policy

The number of vehicles that have reached or are about to reach their end-of-life status in India is significant. Per the Central Pollution Control Board (CPCB) estimates, the number of vehicles reaching their end-of-life status by 2025 will be about 21.8 million, of which 80 percent will be two-wheelers.[5] This provides a vast opportunity for the industry to grow.

Consequently, the policy is expected to help formalise and scale up RVSFs, which thus far, has primarily comprised small-scale, unorganised sector players. Additionally, there may be an opportunity to scrap imported vehicles as well, particularly at the proposed Integrated Scrapping Facilities, which are envisaged to adopt state-of-the-art technologies, both for scrapping as well as associated safeguards around pollution control, effluent treatment, and environment management.

In addition to the industrial ecosystem around RVSFs, the other area of economic activity will be around testing centres. Unlike the current testing centres, which are primarily focussed on checking emission levels for a vehicle, the new testing centres will also need to be equipped for braking and other safety equipment tests, as required under the Central Motor Vehicles Rules as part of the vehicle fitness testing and certificate issuing processes. With the right kind of fiscal and other support from the central and state governments, this could be an area that micro and small enterprises could focus on.

The Ministry of Road Transport and Highways, per its PIB release, dated 18 March 2021, has estimated that the combined impact of the abovementioned proposals could attract additional investments of around INR 10,000 crore and create around 35,000 employment opportunities.

A vehicle scrapping industry of significant scale and best-in-class technologies, and thereby ensuring effective salvaging, is also likely to increase the availability of recycled raw materials. For instance, approximately 65 percent[6] of a vehicle comprises metals, with a large part of the remaining components being made of plastic, rubber, glass, etc. Hence, a lot of these materials can be reused if the process of scrapping is scientific. This is likely to lead to reduced input costs for vehicle manufacturers, as well as other allied industries.

However, the government may need to consider appropriate measures for supporting small commercial vehicle owners and last-mile delivery businesses, which depend on older and cheaper vehicles due to financial constraints.

[5] Study of End of life vehicles sector in India, CPCB-GiZ-Chintan, 2014

[6] Source: www.metalscraps.co.uk/ news-automobiles-for-recycling-are-about-65-of-steel-and-iron-15.html

Vehicle scrapping cum replacement programme: A global perspective

Globally, governments of several countries launched vehicle replacement programmes after the global financial crisis of 2008, to support their domestic automotive industries and to check vehicular pollution. Under these programmes, purchase premiums were issued in lieu of an old vehicle to be scrapped in return. In addition, some countries also provided purchase premiums without the requirement of old vehicles. Highlights of some of these programmes have been presented below:

Country; year	Programme name	Type of vehicles covered	Vehicle age criteria	Incentive offered per vehicle
US; 2009	Consumer Assistance to Recycle and Save (CARS)	Light duty vehicles	Compulsory for vehicles > 25 years	US$3,500 – 4,500
Germany; 2009	Car Scrappage Programme (Umweltpramie)	Light duty vehicles	Vehicles > 9 years	US$3,500
UK; 2009	Car Scrappage Scheme	Light duty vehicles	Vehicles > 10 years	~US$3,000 (shared with OEM)
Japan; 2009	Accelerated vehicle replacement programme (EcoCar)	Light duty vehicles	Vehicles > 13 years	~US$2,500
China; 2009	National vehicle scrappage programme	Light and heavy-duty vehicles	Different age limits across categories	~US$1000 – US$3,000

Source: Survey of best practices in reducing emissions through vehicle replacement programmes, International Council on Clean Transportation, 2015; Various media articles

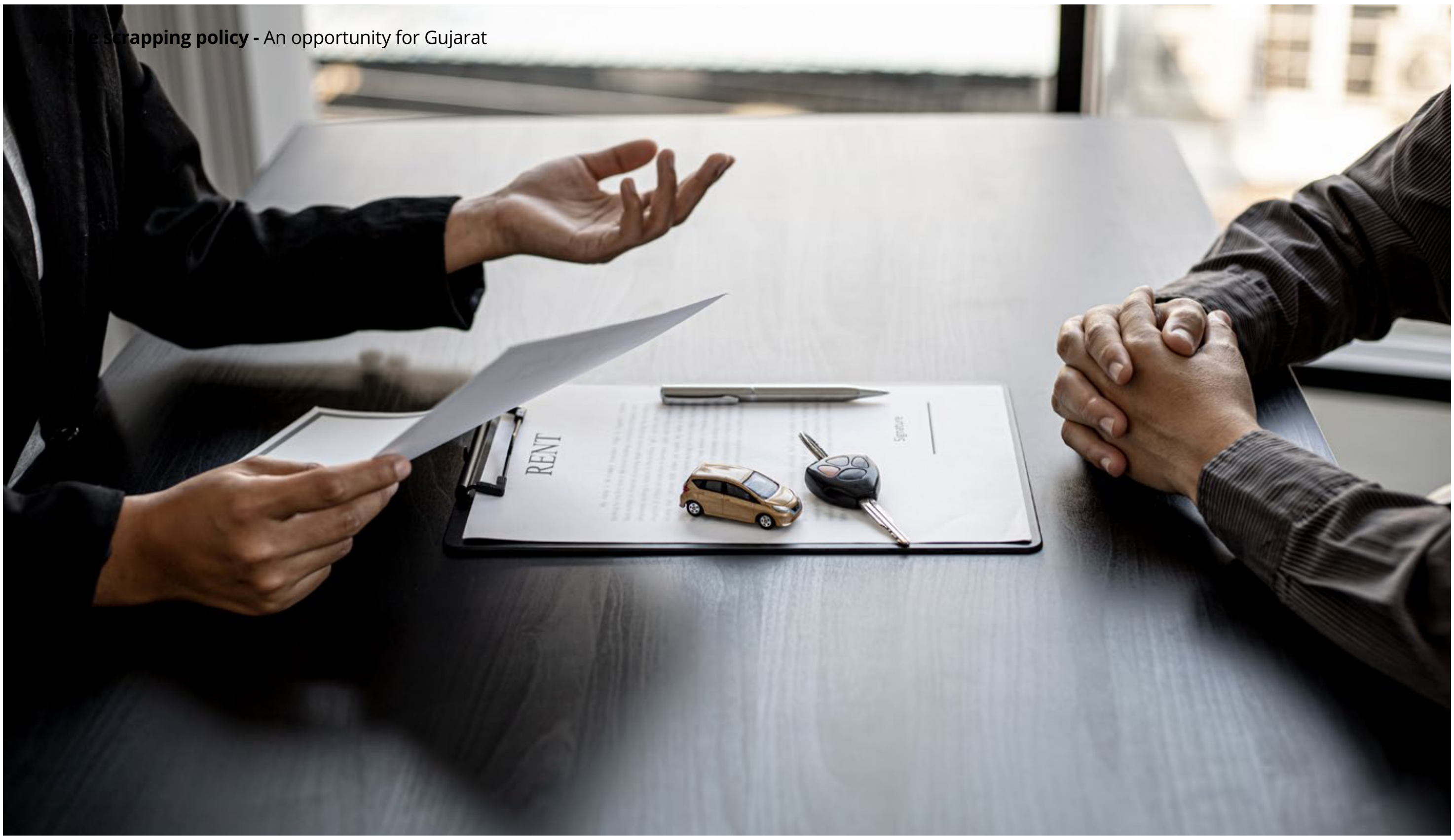
While all these programmes have led to significant economic and environmental benefits, their relative effectiveness and overall impact has been observed to depend on the following key factors:

Complimentary role of central/ federal and state/provincial governments: Programmes have achieved maximum economic impact in countries with close coordination between different tiers of the government, as in the case of the US and China.

Need to compliment fiscal policies with additional incentives: Complementary measures like mandatory age limits for vehicles, related operational restrictions and low emission zones not only incentivise increased participation in any voluntary vehicle replacement programme, but also have their own distinct emission-related benefits

Programme implementation, management, and enforcement should ensure expected benefits are actually achieved: Programme implementation should ensure that subsidies are not provided primarily for vehicles already abandoned and not in regular operation. In addition, replacement programmes should include strong oversight and guarantees on the processing of the replaced vehicles.

Fiscal incentives should be carefully tailored to optimise both environmental benefits and cost-effectiveness: The level of fiscal support necessary for a specific programme will vary based on the severity of the regional air pollution, as well as the targeted vehicle types and resources available. Generally speaking, fiscal incentives should be sufficient to guarantee enough programme participation to warrant investment in the programme, with economic benefits of cleaner or more fuel-efficient vehicles as a result of the programme exceeding the fiscal incentives given.related benefits



Gujarat: Well poised to leverage the new vehicle scrapping policy

Gujarat has some inherent advantages when it comes to creating an industrial ecosystem that captures the positive economic impact of the new vehicle scrapping policy. Some key factors that give the state a head start are as follows:

- Gujarat is home to one of the greenest and safest ship-breaking hubs at Alang, which possesses international standards green certification. Three of Alang's four ship-breaking yards are HKC compliant, certified by Class NK and ISO certified by the American Bureau of Shipping (ABS), Lloyds Register (LR), and Bureau Veritas (BV). These yards already employ over 100,000 people with an existing common effluent treatment plant, landfill site for hazardous waste, environmental monitoring system and an ecosystem of downstream units[7]. These can optimise additional investments to set up integrated vehicle scrapping facilities as well as RVSFs.
- The state also has one of the highest vehicle ownership rates in the country, with around 450 vehicles for every 1,000 people[8]. The number of registered vehicles that are over 15 years old is estimated to be over 50 lakh, only in Gujarat, Rajasthan, and Maharashtra[9], thereby ensuring a minimum scale of operations for vehicle scrapping units. Further, given the state's access to ports along the western coast, opportunities exist in targeting the import market for old vehicles, as in the case of ship breaking.
- Gujarat has consistently ranked high in the Ease of Doing Business assessments conducted by the Department for Promotion of Industry and Internal Trade (DPIIT) over the last few years. It has an evolved single-window approval mechanism, an established industrial infrastructure with available land, along with an existing ecosystem of ancillary units, engineering clusters and over 3.5 million micro, small and medium enterprises. The Gujarat Industrial Policy, 2020, identified electric vehicles and components as one of its sunrise sectors, which has been subsequently followed by the announcement of the Gujarat Electric Vehicle Policy, 2021. These factors are likely to be key in attracting additional investments.
- The state also features within the top 3–4 states in the country in vehicle manufacturing capacity[10]. It has established auto manufacturing hubs in various locations such as Ahmedabad, Halol, Sanand, and Vadodara, with significant investments from Maruti Suzuki, MG Motors, General Motors, Tata Motors, Ford, Hero Motorcorp, Honda Motorcycle & Scooter India, etc. Consequently, there already exists a ready market for the recycled material/components from vehicle scrapping centres, as well as a potential investor base for setting up large-scale vehicle scrapping centres, as automobile companies may also be interested in investing in vehicle scrapping facilities

[7] https://www.businesstoday.in/zero-carbon-challenge/story/clean-and-green-alang-295650-2021-05-12
[8] Times of India, January 23, 2020
[9] The Hindu, March 22, 2021
[10] Times of India, January 31, 2016

Key enablers for success

To utilise its inherent advantages in this sector and facilitate the establishment of a vibrant vehicle scrapping industry in the state, some additional measures that the Government of Gujarat may consider have been outlined below:

- Notify suitable policies around incentives and disincentives to vehicle owners to encourage accelerated scrapping of old vehicles, while encouraging adoption of more environment-friendly vehicles.
- Introduce appropriate policies to facilitate new investments in RVSFs as well as Integrated Scrapping Facilities by utilising a combination of capital/interest subsidies, available land, and existing industrial infrastructure, etc.
- Design suitable PPP models for facilitating the setting up of new testing facilities by small and medium enterprises, with financing support from banks and financial institutions.
- Extend existing single window and investment approval mechanisms for RVSFs, integrated scrapping facilities, as well as new vehicle testing facilities, through technology platforms and institutional coordination between concerned departments/agencies, such as the state pollution control board, industries department, roads and buildings department, Gujarat Maritime Board, etc.
- Coordinate closely with the Ministry of Road Transport & Highways, Government of India, on the alignment of policies and integration/interfacing of required policy and regulatory clearances to offer a “one-stop shop” to current and potential investors in the sector.

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