

Impact of Customs Duty Reduction on Local Manufacturing

Current Import Duty on Passenger Vehicles

Definition	Basic Customs Duty
Used CBU	125%
New CBUs with CIF value >US \$ 40,000 or engine capacity >3000 cc for petrol and >2,500 cc for diesel vehicles, or both.	100%
New CBUs with CIF value is < US \$ 40,000, and Petrol Engine < 3000 cc and Diesel engine < 2,500 cc	60%
ICE Vehicle SKD - CKD containing engine or gearbox or transmission mechanism in pre-assembled form but not mounted on a chassis or a body assembly	30%
ICE Vehicle CKD - CKD containing engine, gearbox and transmission mechanism not in a pre-assembled condition	15%
Electric Vehicles SKD* - Pre-assembled battery pack, motor, motor controller, charger, power control unit, energy monitor contractor, brake system, electric compressor not mounted on chassis	30%*
Electric Vehicle CKD - Disassembled battery pack, motor, motor controller, charger, power control unit, energy monitor contractor, brake system, electric compressor not mounted on chassis	15%

** With very little value addition (just an assembly of major modules), a company can avail of duties as low as 30%.*

Current Policy & Emphasis of Govt for Auto Sector

- Make in India & Atma Nirbhar Bharat
- Normally Government adopts following Policies for Manufacturing / Trade
 - Strong restriction on Import of CBUs
 - Slightly relaxed for intermediaries
 - Open for raw material
- However, in India there is strong emphasis on local manufacturing across the entire Value Chain, from components, Child Parts, to even Parts of Child Parts and Raw Material.
 - Increase in import duties, even on Child parts
 - Increase in import duty on even raw material unavailable in India, such as precious metals Palladium, Platinum and Rhodium. Duties ranging between 2.5% -10.0%
- In an EV, the major part is a Battery, and a Child Part of the battery is a Cell. Government is insisting Industry to localize the Cell. Hence, relaxing imports of Completely Built car, including components like Tyres, Seats, etc. may not be justified.
- Focus on Local Value Addition :
 - MANDATING Localization for availing FAME 2 incentives
 - MANDATING 60% local value addition for availing PLI for Advanced Chemistry Cell
 - MANDATING minimum local content for PLI scheme for Auto Sector (in discussion)
- QCOs, CROs & Licensing

Impact of Reduction of Customs Duty to 40%

- SKD localization slab, which gets a Duty of 30%, will become unviable, if an EV CBU can come at 40%, and nobody will be willing to set up SKD plant for EVs.
- The manufacturing of EVs in the segment less than USD 40,000 price will also get unviable due to the substantial reduction in the higher Duty slab.
- Consideration given to CBUs Duty reduction will encourage many companies to start requesting Government for different kinds of concessions, for different segments, and different kind of imports suiting their individual business context.
- All companies considering localization at different levels will hold Investment & adopt a wait-and-watch stance to understand the implications of the new policy.

What could be the approach for Global EV Players Entering Indian Market

- Set up basic Local Assembly
- Assembly in India could be considered for items (Non-xEV Parts):

Short Term	Medium Term
<ul style="list-style-type: none">• Window / Glasses (Windshield, Rear Glass, etc.)• Wiping Systems• Bumper Assembly (Front & Rear)• Seat Assembly• Axles• Suspension• Tyres• Horn	<ul style="list-style-type: none">• Lamp / Mirror Assemblies• Door Assembly• Rubber Sealings• Exterior / Interior Trims• Switches, Selection Knobs• Brake Systems,• Safety Systems (Seat Belts, Air Bags, etc.)• Infotainment• Hoses and Pipes for Cooling systems

- xEV Parts can be also be suitably considered as the Supply Chain develops
- Need to test the Supply Chain in India

EV Movement in India

- Apr, 2011– Cabinet Decision on Launch of National Mission on Electric Mobility (NMEM)
- Jan, 2013 – Launch of National Electric Mobility Mission Plan (NEMMP) 2020 by Hon'ble PM
- Feb, 2015 – Announcement of FAME India scheme by Hon'ble FM
 - FAME Scheme extended recently to **2024**
- Four broad objectives:
 - i. Faster adoption of xEVs in the country
 - ii. Liquid fuel savings
 - iii. Reduction in CO₂ and other pollutants
 - iv. **Manufacturing Eco-system (Job creation and technology capability)**
- EVs would replace existing ICE Market
- Government of India needs to ensure continuation of employment opportunity
 - Manufacturing would move to EV technology platforms
- Government of India cannot wait for 10 Years for new investments for EVs, while the investments for ICE will keep eroding.
 - Impact employment in India
- Next 2-3 years are critical for India to establish EV industry ecosystem.
 - Allowing imports of EV CBUs will replace the small volumes of EV market in India with imports rather than a locally produced vehicle.

Who are we Incentivizing?

Break-up of Cost Component	CIF USD	CIF (~₹)	Customs Duty (%)	Customs Duty in ₹	Price with Customs Duty (₹)	GST at 5%	Price after GST (₹)
Current	40,000	30,00,000	110%*	33,00,000	63,00,000	3,15,000	66,15,000
Proposed	40,000	30,00,000	40%	12,00,000	42,00,000	2,10,000	44,10,000
Difference (₹)					21,00,000		22,05,000

*Calculation includes 10% Social Welfare surcharge on BCD

- The Govt is effectively evaluating a proposal for **giving away Rs 22 lakh** on a **single car** to a single customer, who can afford Rs 44 lakhs, but not 66 lakhs.
- If a two-wheeler owner (a person barely above poverty line) can pay GST of 28% for a two-wheeler that costs Rs 44,000, then an Importer of a Rs 44 lakh car should certainly be able to pay 100% Duty.
- Foregoing so much Government revenue on Ultra Rich Customers, while the benefit could have gone to affordability challenged segments - Is it justified?
- It may be far better for the Government to invite a Global manufacturer with localization incentive, rather than a direct import incentive.



Thank You !