

Government of Jharkhand
Transport Department
F.F.P. Building, Dhurwa, Ranchi.
e-mail-transport.jhr@gmail.com

NOTICE

A Draft Note has been proposed by MoRTH, Govt. of India, New Delhi regarding a scheme for Scrapping of older commercial vehicles.

It is requested to provide Comments/Inputs on the proposed scheme within a week.

(Faiz Aq Ahmad Mumtaz)
Transport Commisioner
Jharkhand, Ranchi



No. RT-11036/91/2015-MVL(Pt-III)
Government of India
Ministry of Road Transport and Highways
(MVL Section)

Transport Bhawan, 1, Parliament Street, New Delhi-110001

Dated, the 19th November, 2018

To

1. Chief Secretaries of All States/UTs;
2. The Principal Secretaries / Secretaries, Department of Transport of all States/ UTs
3. The Transport Commissioners of all States / UTs

Subject: Consultation note on Scrapping of Commercial Vehicles

Sir/Madam,

The Ministry of Road Transport and Highways had proposed a vehicle scrapping scheme for older commercial vehicles plying on Indian roads. After detailed consultations with various stakeholders, the Ministry has prepared a Draft note for the scrapping of old commercial vehicles.

2. A brief note highlighting various features of the proposal, process of implementation, financial implications, incentives and benefits of the scheme are attached herewith.
3. In light of the above, it is requested to provide comments/ inputs on the proposed scheme on priority to enable this Ministry to take further necessary action.

Yours faithfully,

(Ramandeep Chowdhary)
Deputy Secretary to the Govt. of India
Tele: 23717294
Email: ds1-morth@gov.in

Encl. As above.

Note for Consultation with the States

Subject: Creating an eco-system of scrapping scheme for transition from older polluting commercial vehicles to environment friendly vehicles

1. Introduction:

There is a proposal for creating an eco-system for environment friendly phasing out of older polluting commercial vehicles by adopting a regulatory/ voluntary route and to promote the scrapping of phased out vehicles in an environment friendly manner by establishing vehicle dismantling and scrapping centres.

2. Background:

- 2.1 The transport sector contributes about 14% of the total global emissions of greenhouse gases including CO₂. As per India's Intended Nationally Determined Contribution (INDC) submission at COP21, India aims to reduce the emissions intensity of its GDP by 33 to 35 percent by 2030 from the 2005 level. Air pollution is also emerging as a critical problem for India, with vehicular emissions being one of the non-trivial contributors. The main forms of pollutants in vehicular emissions are Carbon Mono-Oxide (CO), Hydrocarbons (HC), Nitrogen Oxides (NOx) and Particulate matter (PM), which are known to cause several respiratory diseases and even cancer.
- 2.2 The increasing number of vehicles is the key reason for rising vehicular air pollution in India. More than 20 crore vehicles are registered - a surge of more than 8 times over last 25 years. Analysis of segment and age of vehicles causing air pollution shows that commercial vehicles comprising of Medium and Heavy Commercial Vehicles (MHCVs - trucks and buses), Light Commercial Vehicles (LCVs - primarily Taxies and three-wheelers), though constitute only about 5% of total fleet, contribute to nearly 65-70% of the vehicular pollution. Of these, the older commercial vehicles, typically manufactured before 2000 before the emission norms were implemented, constitute less than 1% of the total fleet but contribute to 15% of the total vehicular pollution as these pollute 10-25 times more than a modern vehicle. Older vehicles also have lower fuel efficiency leading to higher fuel consumption per km travelled compared to new vehicles,

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resulting in significant losses in energy efficiency and higher CO₂ emissions. Hence, targeting scrapping of old commercial vehicles and replacing them with newer, "greener" fleet, which are environment friendly, will go a long way in reducing vehicular emissions in the country.

- 2.3 Ministry of Road Transport and Highways commissioned a study in March, 2016 to design a scheme for phasing out older vehicles with newer fuel efficient and environment friendly vehicles. Based on the findings of the study, a concept note was circulated by the Ministry in May, 2016 proposing adoption of incentivization route for voluntary scrapping of Medium and Heavy Commercial Vehicles (MHCVs). The concept note proposed incentives for replacement of voluntarily scrapped vehicles in the form of excise duty waiver as well as discount from the vehicle manufacturers. The note evoked a positive response from the public and the stakeholders. The proposed Scheme was discussed in a meeting held by Hon'ble Finance Minister during which it was decided to refer the matter to a Committee of Secretaries (CoS). It was also decided that the excise duty rebate may not be practical in view of the proposed implementation of GST in near future.
- 2.4 The proposal was subsequently discussed in the CoS chaired by the Cabinet Secretary in the month of February, 2017. The CoS also suggested that the Ministry may explore the regulatory route for phasing out old polluting vehicles. The CoS also suggested that States may accord a waiver of road tax/ registration charges for the new vehicles purchased against the scrapped ones and the Central Government may reimburse a stipulated portion of the same to States. However, an assessment of road and passenger taxes indicated varied rates and structure of these taxes across states, leading to significant complexities. Moreover, some states may not accept the proposal for this waiver. Therefore, uniform implementation of vehicle replacement scheme may not be feasible across the country.
- 2.5 Globally, various countries such as United States of America, Germany, China, Canada and UK, among others, have deployed vehicle modernisation and scrappage programs with the objective of curbing vehicular pollution. Significant environmental impact of these programs has been witnessed across countries, with reduction in PM, GHG and NO_x emissions.

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3. Proposal:

- 3.1 Having reviewed the proposal in its entirety, it is being proposed to take recourse to Section 59 of the Motor Vehicles Act to mandatorily de-register the commercial vehicles [Taxis & Three-wheelers (LCVs) and Medium & Heavy Commercial transport vehicles (MHCV)], after completing life of twenty years. It is imperative to allow adequate lead-time for the development of supporting eco-system. Accordingly, it is proposed to implement the above notification with effect from 1st April, 2020. This would minimize market disruptions and inconvenience to commercial vehicle owners. This would also provide sufficient lead-time for creation of adequate infrastructure for environment friendly scrapping.
- 3.2 It is not proposed for the present to cap the life of non-transport private/ personal vehicles (Two-wheelers/ Car/ SUV/ Jeep Segment) as the private vehicles typically have lesser running (mileage) and leave significantly reduced carbon foot-print on the environment as compared to the commercial vehicles. Moreover, maintenance of such vehicles is supposed to be much better. The number of private vehicles is very large, therefore, any programme for scrapping such vehicles would require huge capacity building for collection, dismantling and shredding centres. Apart from the requirement for infrastructure, the mandatory scrapping of private vehicles would have significant socio-economic impact too.
- 3.3 Regulatory decision to cap the life of the commercial vehicles would curb the existence of polluting vehicles on road. However, it is apprehended that this may lead to some public backlash. To avoid such a backlash and generate wider acceptance by the affected commercial vehicle owners, it is felt that a combination of regulatory mandate coupled with a set of incentives is likely to work better. It is also a fact that a commercial vehicle, by the time it reaches its proposed end of life, is in the hands of a second or third owner, who may not have the financial capacity to replace the scrapped vehicle with the same category of new vehicle. He may, as a matter of fact, continue to remain a 2nd or 3rd owner in the chain. For instance, he may purchase another truck with 12 to 15 years life to carry on with his business as usual. He may also switch over from a Truck to a Taxi. As such, it is important that he gets adequate value for

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scrapping the vehicle in his hand so as to be able to buy a replacement or a vehicle of another category.

- 3.4 The key principle behind deciding the amount and nature of financial incentives is to ensure that the incentive is sufficient to encourage participation, whilst keeping the overall impact on exchequer to the minimum. It is proposed that the vehicle owners scrapping their old commercial vehicles should get monetary incentives to buy a new commercial vehicle in three forms for willing adoption of this program, i.e. (i) Receivables from the scrap value of the old vehicle, (ii) Incentives from the OEMs, and (iii) Exemption from GST on sale of the vehicle going for scrapping and concessions on GST for purchase of new vehicle against a scrapped vehicle. The Ministry of Road Transport and Highways has sent a proposal to the Department of Revenue in the Ministry of Finance in respect of its proposals regarding exemption and concession on GST. The proposals for the incentives under GST in respect of transactions involving sale of vehicle for scrapping as also for the new vehicle bought in lieu of the old scrapped vehicle are subject to the approval of GST Council. These concessions have been proposed for a period of one year (i.e. up to 01.01.2021) to begin with.
- 3.5 It is further proposed that applicable incentives under the FAME scheme of Department of Heavy Industries would also be additionally available if a new electric vehicle is purchased against a scrapped vehicle.
- 3.6 A well-structured, robust but user-friendly IT infrastructure is necessary to ensure appropriate functioning of the transportation ecosystem and implementation of the Scheme. The growing penetration of VAHAN platform in tasks handled by the RTOs is a positive step forward. The IT systems need to be strengthened to provide for de-registration systems, linking of scrapping centres all over the country for tracking and monitoring the scrapping process for older vehicles, issuance of scrapping certificates, and linking of other relevant databases in the ecosystem to ensure integrity of the entire scrapping process. MoRTH proposes to frame regulations to facilitate online deregistration of vehicles handed over for scrapping, by authorised recycling/ scrapping centres. Ministry would also hold consultations with the states and issue suitable advisories to ensure seamless experience to the owner of the scrapped motor vehicle. A robust data base and online integration with NCRB database shall

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ensure that the stolen vehicles are not purchased by the scrapping centres. The issuance of scrapping certificate is also proposed to be linked to the GSTN also, if the proposal to accord rebate on GST for the new vehicles purchased against scrapping of old vehicles is approved by the GST Council.

- 3.7 Currently, the scrapping industry in India is unorganized and recycling of old vehicles is not done in an environment friendly and efficient manner. They also lead to inefficient resource management. Moreover, there is a lack of appropriate infrastructure to deal with expected surge in scrapped vehicles after the approval of the scheme. Therefore, establishment of recycling/ scrapping centres in the country needs to be prioritised. An organised scrapping industry would also be catalytic in reducing the dependence of the country on imported scrap. During the meetings held to discuss the scrapping scheme, the Ministry of Steel have expressed their willingness to formulate a policy for development of organised scrapping industry in Public as well as Private sector and assume responsibility for its implementation. Ministry of Road transport and Highways shall, in consultation with Ministry of Steel and the Scrapping industry, notify a framework/ standard for ultimate use of dismantled components of a scrapped vehicle.
- 3.8 Since the prevailing processes in unorganized sector for recycling/ scrapping are not carried out in environment friendly manner, the Ministry of Environment, Forest and Climate Change will have to issue guidelines for the processes to be followed by these recycling/ scrapping centres to ensure that the process of scrapping does not lead to environmental damages or health hazards. At the same time, the process of according NOC for establishment and operations of these centres has to ensure ease of business.
- 3.9 As a key player in the value chain, OEMs will have to play a critical role in ensuring smooth implementation of vehicle fleet modernization in the country. Specifically, support from OEMs could come in the form of facilitating collection of scrapped vehicles, ensuring supply of new vehicles and providing financial incentives in the form of discounts/ additional benefits to the buyers of the new vehicles in lieu of the old scrapped vehicles. The OEMs have indicated positive response to the proposal of the Ministry of Road Transport and Highways to participate in the scheme. However, the Ministry would hold further consultations with OEMs to take them on board and arrive at mutually agreed

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level of such discounts.

3.10 Read with para 3.3 above, it is critical to note that the Vehicle Scrapping certificate is made “transferable” in nature. This means that a vehicle owner, who surrenders his old vehicle for scrapping, is able to monetise the value thereof and transfer the certificate to another person who could then use this certificate to avail discounts on purchase of a new vehicle. Usually, the truck owners with the third level of ownership, who would typically be the beneficiaries of scrapping scheme, do not have sufficient capital to buy a new truck even at a discounted price. Transferability of scrapping certificate will help address this problem. Transferability of the certificate would help old vehicle owners retire their polluting trucks, while transferring their certificate to a new vehicle owner, and get considerable financial incentives for the same.

3.11 To ensure timely implementation, several Government Ministries will need to work collaboratively. The responsibility matrix is shown below:

Ministry	Key action points
Ministry of Road Transport & Highways	<ul style="list-style-type: none">• Issue of Draft and Final notifications prescribing end-of-life for CVs under Section 59 of the Motor Vehicle Act, 1988• Setting up the IT systems for implementation of the scheme• Periodic monitoring and audit of the scheme• Notification of framework/ standard in consultation with Ministry of Steel for use of dismantled components of a scrapped vehicle
Ministry of Finance	<ul style="list-style-type: none">• Placing the proposal of the Ministry before the GST Council• Notify the incentives, if the proposals are approved by the GST Council• Allocation of Budget for administration of Scrapping Scheme
Ministry of Environment, Forest and Climate change	<ul style="list-style-type: none">• Notify rules for establishment of environment friendly scrapping in consultation with Ministry of Steel.• Business friendly process for grant of NOC for establishment, operations of scrapping centres in consultation with Ministry of Steel.
Ministry of Steel	<ul style="list-style-type: none">• Frame, administer and implement the policy to promote establishment of recycling/ scrapping and shredding centres.

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4. Financial Implications:

- 4.1 The GST linked incentives are initially proposed to be provided for the vehicles manufactured before 31-12-2000, which would be de-registered under the scheme in the year 2020. The targeted number of commercial vehicles eligible under the scheme (vehicles manufactured before 31st December, 2000) is nearly 7 lakhs, with expected adoption rate of 50% during the currency of the program. The incentive scheme is likely to result in net gains of about Rs. 6,100 crore to the Central and State governments in respect of vehicles manufactured before 31-12-2000. Subsequently, the mandatory capping of vehicle life will lead to replacement of vehicles, which will also lead to rise in GST collections. It is expected that the scheme would result in net financial gains to the tune of Rs. 38,300 crore to the Central and State governments by April 2025. A decision on further extension of the incentives till 2025 may be taken based on the experience gained during the period till 31.03.2021.
- 4.2 The total budget requirement till April 2025 is estimated at approximately INR 200 crores towards administration, publicity and audit costs for the scheme duration. The revenue foregone on account of concessional GST rates of 18% has been estimated at Rs. 3,400 crores. As stated above, the revenues foregone are not likely to result in any shortfall as the scheme is expected to result in net gains to government exchequer with the surge in manufacturing and sale of larger number of new vehicles.
- 4.3 The overall financial benefits of the above proposal are enumerated in the following table:

GST @18% instead of 28%	Benefits accruing till 2020	Benefits accruing till 2025
Additional revenue for government GST @ 28%	9,600	41,900
Revenue foregone as incentives & admin cost	3,500	3,600
Net financial benefit (INR crores)	6,100	38,300

5. Justification

- 5.1 The scheme is expected to have significant benefits for environment (air

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pollution reduction, energy efficiency benefit), economy (additional government revenue and import substitution benefit) and in other areas such as logistics cost, employment generation, health benefits and GDP growth.

- 5.2 Replacement of older commercial vehicles having poor mileage with newer vehicles having better performance will result in reduction in fuel consumption. The reduction in oil imports is estimated to reduce forex outgo of INR 9,550 crores over the six-year period. In addition, replacement of imported scrap with domestic scrap generated from disposal of older vehicles is estimated to reduce forex outgo by INR 6,550 crores, thus generating total benefits of nearly INR 16,100 crores.
- 5.3 The overall economic benefits of the above proposal are enumerated in the following table:

GST @18% instead of 28%	Benefits accruing till 2020	Benefits accruing till 2025
Savings in Crude oil imports	2,400	9,550
Domestic steel scrap generation to replace imported scrap	1,500	6,550
Total economic benefits (INR crores)	3,900	16,100

- 5.4 Environmental benefits - Use of new commercial vehicles with latest emission standards and scrapping of older vehicles generating more pollution will reduce the overall vehicular pollution levels. It is estimated that PM emissions, HC & NOx emissions and CO emissions will reduce by almost 28%, 17% and 18% respectively. In addition, it is estimated that reduction in fuel consumption will reduce carbon dioxide emissions approximately by 65,000 tons per day.

6. Proposals:

- (i) Proposal to notify de-registration of commercial motor vehicles on completion of 20 years from the year of manufacture, w.e.f. 1-01-2020.
- (ii) Proposal to set up a robust IT driven system to ensure the integrity of the scrapping process and issue of Vehicle Scrapping Certificates.
- (iii) Department of Revenue, Ministry of Finance to place the proposals relating to GST exemptions/ concessions before the GST Council for its

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consideration.

- (iv) Ministry of Steel to draft and implement the Policy for establishment of Vehicles recycling/ scrapping centres.
 - (v) Ministry of Environment, Forest and Climate Change to notify and implement rules for ensuring an environment friendly processing of scrapped vehicles in consultation with Ministry of Steel.
7. The statutory notification shall be issued immediately after the approval of the Cabinet. The Scheme is proposed to be implemented w.e.f. 01-01-2020 however it will be launched earlier for voluntary scrapping.
