

# IS INDIA'S VEHICLE SCRAPPING POLICY THE ANSWER?

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# IS INDIA'S VEHICLE SCRAPPING POLICY THE ANSWER?

It was during the 2021-22 budget speech that the Finance Minister announced the voluntary Vehicle Scrapping Policy. Since then, it has been the talking point in the automobile circles, manufacturers, present and future vehicle owners, environmentalists and media to name a few. A detailed scrutiny of the same could give a better understanding of what the policy is.

## WHAT IS IT?

This long-awaited policy is introduced by the Government to achieve multiple objectives which are:

- Reduction in air pollution thereby improving the environmental health,
- Improved fuel efficiency which would lead to reduction in oil import bills,
- Enhancing vehicular safety; and
- A measure to boost the manufacturing sector

According to this policy, all vehicles will have to undergo a fitness test after a period of: 20 years in the case of private vehicles and 15 years in the case of commercial vehicles. These fitness tests would be done at Automated Fitness Centres which would be setup under public private partnership (PPP) mode. The vehicles that fail the fitness test will not only attract huge penalties but also be impounded. Besides, the vehicles that pass this test would not be exempted from all penalties such as Green taxes or other levies. And on the other hand, those who opt for the Scrapage scheme, will be eligible for benefits and incentives once they deposit their vehicles at the Registered Vehicle Scrapping Facility (RVSF). As of now the incentives/benefits proposed by the policy can be summarized as:

1. Waiver of registration fee
2. Discount in road tax (up to 25% for personal vehicles and 15% for commercial vehicles)
3. Discount by the manufacturer during the purchase of a new vehicle
4. Scrap value of the vehicle deposited at RVSF (around 4-6% of the ex-showroom price)

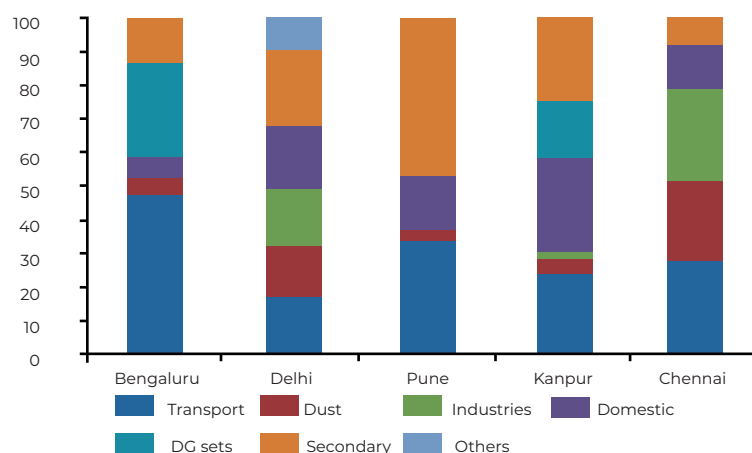
The key stakeholders expected to have a significant role in this policy would be the vehicle owners, automobile manufacturers, scrappers, players involved in fitness centres and the State Governments with their concerned departments. In addition to these direct beneficiaries, there exists a category who would be indirectly affected to a greater extent due to this policy - Small scale taxi owners, truck owners, workshop owners, small scale entrepreneurs involved in spare parts business, etc. Their means of livelihood could be challenged due to this.

## WHY SCRAPPING POLICY? QUESTIONING THE OBJECTIVES:

Given the background of the policy, it is necessary to understand ‘the need for having it’. Can the steps taken through this policy address the said objectives and achieve the envisioned goals? Let’s go through each of these in depth:

### Pollution:

The overall transport sector in India is estimated to emit about 15 percent of the carbon dioxide emissions in the country<sup>1</sup>. A study<sup>2</sup> by the TERI and Shakti Foundation on PM2.5 emissions in 5 cities in India (refer fig. below) suggests that the contribution of transport as a major pollutant (PM2.5) varies with each city ranging from 14% in Delhi to 57% in Bengaluru. Reflections from the above data suggests that without a doubt transport remains a sizable contributor of air pollution, but there are other major sources for the same. If environmental health was the aim of this policy then why wasn’t the government able to achieve success in its implementation and execution of ‘pro-environmental’ policies such as the Electric Vehicle (EV) Policy? Though the scrapping policy can be considered as a policy to stir up the ‘demand side’ and EV policy as the ‘cleaner -supply side’, however without adequate institutional support, finance mechanisms and infrastructure facilities; the intended vision couldn’t be achieved. With these gaps in the supply side, this policy would indirectly target the beneficiaries to buy improved IC engine vehicles. Compared to old IC engine vehicles, with the latest BS6 IC engines the polluting factor will be reduced almost tenfold<sup>3</sup>. However, comparing the latter with electric vehicles, the emission levels here is almost zero thereby making it more desirable to curb pollution. Figures point out that electric vehicle sales in India across two, three and four-wheelers have declined 20% in FY21<sup>4</sup>. This again compels us to think if ‘reducing the pollution’ was a major objective of the scrapping policy; if yes then again why aren’t other complementary policies such as the EV still not a success? Is implementation the issue here?



Source apportionment studies for PM2.5 in five major cities of India\*

\*(Source: <https://shaktifoundation.in/wp-content/uploads/2017/06/mproving-inspection-and-maintenance-program-for-in-use-vehicles.pdf>)

## Reduction in oil import:

India has shown a rapid increase in the country's transport energy demand. The energy consumption for transport has more than doubled in 10 years and more than tripled since 2000<sup>5</sup>. Also 95% of the total energy in the transport sector in India is met by oil products (majorly petrol and diesel)<sup>6</sup>. The fuel prices in the country are hitting new peaks on a daily basis. India's expenditure on crude oil imports is almost 9 lakh crores which the decisions makers aim to slash down with the policy in place. This policy could be considered as a step taken by the government in this direction to facilitate better fuel efficient and cleaner fuel vehicles in the country.

It is obvious that savings under the head of fuels will definitely be more for electric vehicles. However, when that option is not fully explored, the beneficiaries would be turning to the latest mandated 'emission standard norm' vehicle. As per some sources, the current BS6 norm (mandated from April 2020) vehicles have decreased fuel efficiency leading to lower fuel economy of BS6 engines<sup>7</sup>. Though improved versions of engines are expected to roll out in future, the current situation does not suggest a significant reduction in oil imports when newer IC engine vehicles are purchased. But, according to a study by CEEW in November 2020, India could save on crude oil imports worth over Rs. 1,07,566 crores a year if electric vehicles were to garner 30 per cent share of new vehicle sales by 2030<sup>8</sup>.

## Vehicular Safety:

No doubt that with improved technologies and innovations in the automobile sector, the safety features in the new vehicles will be more, thereby reducing the number of accidents and mishaps. But an interesting take on the same can be obtained by analysing the causes of road accidents in India. According to the Road Accidents in India, 2019 report by the MoRTH, the causes of road accidents can be broadly categorised as human error, road environment and vehicular condition. Accidents caused due to 'over-aged vehicles' are a major classification within the category of Vehicular Condition. It conveys that, in 76.5% of the total accidents (2018-2019) the age of the impacting vehicle is less than 15 years of age (refer fig below).

Age of Impacting Vehicles	Total Accidents			Persons killed			Persons injured		
	2018	2019	%age change in 2019 over 2018	2018	2019	%age change in 2019 over 2018	2018	2019	%age change in 2019 over 2018
Less than 5 years	1,65,391	1,55,573	-5.9	49,36	48,979	-0.8	1,71,881	1,62,900	-5.2
% share of total	35.4	34.6		32.6	32.4		36.6	36.1	
5-10 years	1,30,486	1,22,251	-6.3	40,145	39,515	-1.6	1,35,253	1,27,490	-5.7
% share of total	27.9	27.2		26.5	26.1		28.8	28.2	
10-15 years	61,277	55,944	-8.7	20,608	19,081	7.4	61,912	57,335	-7.4
% share of total	13.1	12.5		13.6	12.6		13.2	12.7	
15 years & above	44,628	49,475	10.9	16,463	18,660	13.3	42,548	45,483	6.9
% share of total	9.6	11.0		10.9	12.3		9.1	10.1	
Age not known	64,946	65,454	0.8	24,740	24,774	0.1	57,524	57,878	0.6
% share of total	13.9	14.6		16.3	16.4		12.3	12.8	
Total	4,67,044	4,49,002	-3.9	1,51,417	1,51,113	-0.2	4,69,418	4,51,361	-3.8

**Accidents classified according to age of impacting vehicle during 2018-19**

(Source: Road Accidents in India, MoRTH, 2019)

### Boost in the economy/ manufacturing sector:

The policy is expected to revive the ailing economy by boosting one of its core contributors – the automobile industry. The Minister of Road Transport and Highways (MoRTH), Nitin Gadkari states that the Indian automotive industry's turnover will increase by 30% and it will have multiple positive outcomes including 50,000 employment opportunities once the policy is implemented.

The country's 'Atmanirbhar' ambitions could also be seen here, envisioning it to be a manufacturing hub of vehicles. Aluminium, Steel, Copper and Plastic recycled from the scrapped vehicles is expected to supplement the need for raw materials thereby reducing the cost of manufacturing significantly. The Union budget 2021-22 also tries to get a grip over the demand side of it. Quoting the budget speech by the Finance Minister "We are raising customs duty on certain auto parts to 15% to bring them on par with general rate on auto parts."

This policy is sure to have a positive impact on the revenue realized by the Government from Road Transport. As per the 2016-17 statistics<sup>9</sup>, the revenue realized from the road transport sector by the Centre was Rs. 2,80,132.1 crores, with a CAGR of 28.5 for over a period of 7 years. Out of this the tax revenue collected for Motor Vehicles & Accessories is 12.1%. The revenue collected by the State Governments from the road

transport sector (Motor Vehicles Taxes and Fees) for the same year is Rs. 53,388.1 crores.<sup>10</sup> These figures reflect the significant contribution of vehicle sales in the Government's revenue, which is definite to increase if things go as planned. This boost in the revenue is much needed to improve the economic situation of the country. Many countries globally had adopted such policies to fight the global financial crisis of 2008<sup>11</sup>.

Briefly assessing these objectives it is more evident that through this scheme the fourth objective stands to gain more, considering the current situation.

## **ASSUMPTIONS THAT CAN GO WRONG**

As of date the incentives proposed as part of this policy is prone to changes, but the suggested outline by the central government might not leave the other concerned stakeholders here happy - the State governments and the Automobile manufacturers. For a period between 1993 to 2008, the share of motor vehicles tax in the State's Own Tax Revenue is 5.74% (average taken for all states)<sup>12</sup>. This shows a significant part of the States' revenue, which they are being asked to 'let go' by the centre by providing discounts in the road tax and waiving the registration charges. The current ailing economic situation of the States might not leave them on a happy note on this front. Manufacturers on the other hand are already finding it hard to comply with various norms and standards put down by the Government. With this they've been asked to provide discounts during the purchase of new vehicles under this policy. This when overlapped with the grim economic condition, will adversely affect these players. There are high chances that this might also lead to increase in the price of new vehicles – thereby contradicting the last objective which also intends to reduce the cost of vehicle manufacturing. Providing incentives and benefits are the best ways to attract beneficiaries to this scheme. Hence, if this aspect is crippled the chances of the policy becoming successful is narrow.

## **ARE WE READY FOR IT?**

The Union Minister had also mentioned that around one crore aging vehicles are set to be scrapped in the country once the policy is implemented. As per National Green Tribunal's (NGT) estimates, the number of 'end of life vehicles' will be over 2.1 crores by 2025. When such a huge volume is what is envisioned, the question is are 'we' ready for it? At present the country lacks 'scrapping infrastructure'. If not designed carefully it could result in unregulated scrapyards and dumpyards. Mayapuri in Delhi, which claims to be Asia's largest Automobile scrap unit is facing litigation for causing environmental pollution. Hence just having a policy without its support system in place will have unintended consequences. The central government has already come up with the draft Motor Vehicles (Registration and Functions of Vehicle Scrapping Facility) Rules, 2021. In order to have a smooth functioning 'scrapping ecosystem', effective coordination between various Government departments and agencies involved are a pre-requisite. Some crucial stakeholders



from the Government's side could be identified as the Transport Department, Local Governments, Police Department, Revenue Department, Industries Department and Pollution Control Board, to name a few. Lack of coordination between all the stakeholders involved is considered as a reason for delays and litigations in other infrastructure projects. Hence ensuring effective coordination between these stakeholders needs to be addressed on priority.

## UNINTENDED CONSEQUENCES:

Going with the details of the policy available so far, the 'old' vehicle owners could avail their benefits (to the maximum) only when they buy a 'new' vehicle. So, is the policy not actually promoting the use of public transport!? - Something that the City planners, Policy Researchers and Green Activists are aggressively promoting for a sustainable future. With an efficient public transport system in place, most of the objectives of this policy could've been met! What are the benefits that an individual would get if he/she sells his/her old vehicle and not opt to buy a new vehicle? All these should be accounted for while designing the policy and its schemes. If carefully addressed, this shall be a way out to even promote the usage of public transport. Formalising the recycling sector could also mean that the livelihood of all the indirectly affected category (small commercial vehicle owners, small scale spare parts dealers, workshop workers and operators, etc.) could also be negatively affected. For a significant share of Indians owning a vehicle would be a lifelong affair and buying a new vehicle after the 20 year period would be impractical due to affordability issues. Will this restrict people from the lower economic strata to keep/own a vehicle?

## WAY FORWARD

In short, for the policy to become successful, its impacts should be carefully analysed and the finer details need to be addressed. Only then it can minimize the unintended consequences and pave way for a practical and implementable policy. The policy makers should not just have a clear rationale behind the goal, but also a definite path to achieve it. In its absence, the policies would result as mere advocacy campaigns.

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### Endnotes:

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