How is India planning to boost EV production?

How have domestic players reacted to the policy? How can electric vehicle adoption be upscaled?

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THE GIST

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- Tata Motors, as reported by *Reuters* in December 2023, had opposed the Tesla proposal. It argued that lowering duties would hit the domestic industry.

- I.V. Rao, Distinguished Fellow at The Energy and Resources Institute (TERI), thinks that global players setting up shop in India must consider local circumstances, like the environment, roads, driving behaviour and usage conditions.

The story so far:

The Union government on March 15 approved a policy to promote India as a manufacturing hub for Electric Vehicles (EVs). The minimum investment cap has been set at 4,150 crore.

What does the policy stipulate?

The policy broadly clears the path for global EV makers like Tesla and Chinese EV maker BYD to foray into the Indian markets. The central goal of this policy is to enable transitioning to localised production in a commercially viable manner and plan as per local market conditions and demand. The most significant provision is the reduction of import duty on electric vehicles imported as a Completely Built Unit (CBU) with a minimum cost, insurance and freight (CIF) value of $35,000 to 15% (for a five-year period) from the present 70%-100%. This is provided the maker sets up a manufacturing unit within three years. The policy also stipulates that a total duty of 6,484 crore or an amount proportional to the investment made — whichever is lower— would be waived on the total number of EVs imported. It must be noted that, a maximum of 40,000 EVs can be imported under the scheme at not more than 8,000 units a year, provided the minimum investment made is $800 million. Another important aspect of the scheme is localisation targets. Manufacturers have three years to set up their manufacturing facilities in India. They are expected to attain 25% localisation by the third year of incentivised operation and 50% by the fifth year. Should the localisation targets not be achieved, and if the minimum investment criteria as defined under the scheme is not meet , the bank guarantees of the manufacturers would be revoked.

What about domestic players?

Tata Motors, as reported by *Reuters* in December 2023, had opposed the Tesla proposal. It argued that lowering duties would hit the domestic industry and "the investment climate will get vitiated." Assessing the policy from the perspective of domestic players, Rajat Mahajan, Partner at Deloitte India told *The Hindu*, "Most Indian players are leading in the segments below 29 lakh as of now, and hence this policy benefit (from 15% import duty) will likely be for Original Equipment Manufacturers (OEMs) catering to consumers in the higher end of the market." He added that the policy makes it lucrative for global EV players and Indian JVs with such players, to expand sales and manufacture in India.

How does it cater to Indian markets?

I.V. Rao, Distinguished Fellow at The Energy and Resources Institute (TERI), thinks that global players in India must consider local circumstances, like the environment, roads, and usage conditions. Mr. Mahajan from Deloitte notes that while penetration in the two-and three-wheeler segment has been significant, passenger vehicles have seen only a 2.2% contribution thus far. "This is mainly due to lack of proper charging infrastructure, range anxiety, and limited number of products in the affordable range due to limited localisation," he observed. The Confederation of Indian Industry (CII) in a July 2023 report had observed that India may require at least 13 lakh charging stations by 2030 to support "aggressive EV uptake."

Dinesh Abrol, retired professor at the Institute for Studies in Industrial Development explained to *The Hindu* that the associated EV ecosystem must be made capable of addressing reliability and durability of components and service support. Mr. Abrol pointed to how Suzuki enhanced their control in their business partnership with Indian car maker Maruti, resulting in growth of imports. He added that liberalisation and globalisation currents acquiring increased hold of the components' manufacturing system altered its manufacturing priorities. He added that the 21st century cannot be guided only by notions of competitive products, instead, they must also be sustainable. "We need to focus on domestic demand to guide our product and system designs and business portfolios. Exports will follow, he said, adding that "appropriate product and system designs in case of two wheelers and three wheelers and four wheelers will have to guide PLI. Foreign capital would not easily meet this purpose. Indian manufacturers should be directed to this."