

# Green Tax and Scrappage Policy

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Vehicle scrappage programs have been around since the global recession that began in the year 2008. Governments in association with vehicle manufacturers from across the globe have been implementing car scrapping policy to ensure an increase in sales of new vehicles, remove inefficient vehicles from the roads and reduce air pollution.

**In news:** 'Green tax' mooted for personal vehicles older than 15 years

**Placing it in syllabus:** Environment

## Dimensions

- Provisions of the Policy
- Benefits
- Problems
- Suggestions

## Content

- The Union Minister for Road Transport and Highways Nitin Gadkari has approved a proposal to levy a **'green tax' on old vehicles**.
- Union Finance Minister Nirmala Sitharaman, in her Budget speech for 2021- 22 has proposed a **vehicle scrapping policy**.
- The proposal will now go to the States for consultation before it is formally notified.

## Provisions of the Policy:

- Owners of old vehicles will have to pay the government a 'green' tax as a penalty for polluting the environment.
- The tax will be much **steeper for residents of the more**

**polluted cities** in India.

- It also proposes differential tax depending on fuel (petrol/diesel) and type of vehicle.
- Vehicles will undergo a fitness test in **automated fitness centres after 20 years in case of personal vehicles and after 15 years in case of commercial vehicles**
- It includes **10-25% of road tax on transport vehicles** older than eight years at the time of renewal of fitness certificate.
- A steeper penalty of up to 50% of road tax for older vehicles registered in some of the highly polluted cities in the country is also proposed.
- Vehicles of government departments and public sector units that are older than 15 years will be deregistered and scrapped.
- The policy provides exemptions to farm equipment such as tractors, harvesters and tillers; and greener technologies such as hybrid, electric, ethanol, liquefied petroleum gas (LPG) and compressed natural gas (CNG)-powered vehicles.
- **Green tax funds are to be kept in a separate account** to help States measure pollution and tackle it.
- The policy scheduled to come into effect from April 1, 2022.

In 2016, the Centre had floated a draft Voluntary Vehicle Fleet Modernisation Programme that aimed to take 28 million decade-old vehicles off the road. A panel of secretaries suggested the scheme may combine a phased regulatory approach for capping the life of vehicles along with stricter emission norms.

## **Benefits of the Policy:**

The policy is expected to benefit the environment and the economy as follows:

- First and foremost benefit is **cleaner air**. As

inefficient vehicles will be taken off the roads, the **air pollution levels will decrease**. Today, **commercial vehicles make up 5% of the vehicle fleet** but contribute an estimated **65-70% of total vehicular pollution**.

- Vehicle scrapping will ensure removal of old vehicles and an **increase in sales of new vehicles** in India.
- With the increased sale of new vehicles with advanced safety features, commuting on Indian roads will become a lot safer.
- The government is setting up authorised vehicle scrapping facilities, this will in-turn generate huge employment opportunities in India.
- Vehicle scrapping will be a major breakthrough for the raw and precious metal recycling industry in India. This leads to recovery of steel, aluminium, plastic and so on for recycling
- It will also reduce fuel use and thereby petroleum imports. The BEE estimates that **higher efficiency norms** could result in a **fuel use reduction of 22.97 million tons by 2025** in India.

### **Government initiatives for efficient Passenger Vehicles**

- In 2016, India notified the **Corporate Average Fuel Economy (CAFE) Standard** for passenger vehicles to boost efficiency.
- Passenger vehicles with not more than nine seats and weighing less than 3,500 kg were covered from April 1, 2017.
- The average fuel consumption standard is given by the Power Ministry's **Bureau of Energy Efficiency (BEE)** as less than 5.49 litres per 100 km.
- A second round of tighter efficiency norms is scheduled for 2022.
- Separate standards for light, medium and heavy commercial vehicles also exist.
- CAFE also regulates CO<sub>2</sub> emissions, while other

pollutants such as carbon monoxide, oxides of nitrogen and sulphur are covered by Bharat Stage fuel standards.

## Challenges of the policy:

- The scheme **relies on penal taxation** to persuade owners to scrap their old vehicles, with no cash-for-trade-in arrangement. For this approach to work efficiently, **the additional tax proposed should exceed the resale value** of the polluting motor
- The **sudden demand spike** in the auto industry **may lead to inflated prices** of new vehicles.
- The **vehicle registration database** for all States also needs updating to reflect true numbers of old vehicles on the road
- Some sections may not be in a position to retire old vehicles because of the **high capital cost especially after the pandemic situation**
- **Acute shortage of recycling infrastructure in India** is another hurdle for successful implementation
- The policy needs enough safeguards to ensure that old vehicles are indeed scrapped and recycled under a monitored system.

## Schemes during economic downturn:

- The Indian Government provided funds under the **Jawaharlal Nehru National Urban Renewal Mission (JNNURM)** to State governments to augment bus fleets, and help the recession-hit bus industry in 2009.
- Globally, accelerated vehicle replacement schemes have been used in several countries.
- The most notable were those in Europe, besides the high-profile, \$3 billion **“Cash for Clunkers” or CARS (or Car Allowance Rebate System)** programme in the U.S. after the 2008 recession.
- The official evaluation of the U.S. scheme was that it

led to an average mileage efficiency increase of 58%, and upgraded vehicles generally were high on environmental benefits such as lower air pollution.

## **Suggestions for improvement:**

- For a clean-up, **commercial transport vehicles are of highest concern**: on fuel efficiency, emissions and safety.
- The Centre could **offer a green new deal with financial options** such as loans and grants to smaller operators to scrap commercial transport junk vehicles.
- Government can also increase the green tax annually to achieve the nudge effect.
- **Stimulus to bus companies** could help green the fleet and cut pollution.
- Small operators such as autorickshaws could be **offered low-interest loans**, particularly to move to electric vehicles.
- **Equity features can be built into the scheme**, offering a discount to income-vetted marginal operators such as autorickshaw drivers, on the lines of the 2009 stimulus given under the **JNNURM scheme** for buses.
- The vehicle registration database for all States should be updated, so that vehicles more than 15 years old can be easily identified. Such data will help target scrappage policy benefits better.
- Steps must be taken to **augment the recycling infrastructure** so that scrapped vehicles are recycled in an environmentally friendly manner and avoid landfills.

**Mould your thought:** Critically evaluate the new 'green tax' on old vehicles and scrapping policy. **Approach to the answer:**

- Introduction
- Mention the features of the scheme
- Discuss the benefits

- Mention the challenges for implementation
- Suggest measures to improve
- Conclusion