OFFICE MEMORANDUM

Subject: Finalisation of Demand and Supply-Side Incentives for Electric Mobility - Forwarding of Minutes - Regarding.

The undersigned is directed to forward minutes of the meeting held at 3 PM on 22nd February 2018 at Udyog Bhawan under the chairmanship of Secretary (Heavy Industry) to decide issues pertaining to demand and supply side incentives for electric mobility.

2. This has approval of the competent authority.

Encl: As Above.

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To

1. Secretary, Ministry of Electronics and Information Technology
2. Secretary, Department of Revenue
3. Secretary, Department of Economic Affairs
4. Secretary, Department of Commerce
5. Adviser, NITI Aayog

Copy to:-
1. Shri Brajendra Navnit, Joint Secretary, PMO
2. Pr.SO to SHI.
3. PPS to Secretary, Department of Expenditure.
4. PPS to Secretary, M/o Road Transport & Highways.
5. PPS to JS (Auto), DHI.
6. Director (Auto), DHI.
7. Sr.DO (NLG), DHI.
A meeting of the committee constituted by NITI Aayog under the chairmanship of Secretary, Heavy Industry for finalization of Demand and Supply side incentives for promotion of Electric Mobility was held at 3 PM on 22nd February 2018, at “KAUSTUBHAM” Conference Hall, Udyog Bhawan, New Delhi. A list of participants is annexed.

2. After a brief round of introductions, the chairman welcomed all the participants and asked Joint Secretary (Auto) to initiate brief presentation on the concept note circulated to all members.

3. Joint Secretary (Auto) made a presentation on the Concept Note already circulated on the Demand and Supply Side Incentives. There was broad agreement on the contours of the Concept Note. However, on certain aspects, members of the committee expressed views which will need to be taken into account while finalizing the Scheme. The decisions taken on each such issues discussed during the meeting are as below.

a. Mandatory Localization Contents:

Concept note specified that for vehicles to be eligible for support under the proposed scheme, a minimum of 40% localization will have to be achieved in the first year, which will be increased to 50% by the end of the Third Year. This was based on existing norms of 35% localization prescribed for buses under the ongoing FAME scheme. In the Concept Note, this had been proposed as a well considered incremental increase over the existing localization norms. Representative from MEITY informed that they have submitted their views on this issue and feel that localization should be at least 50%, to begin with, and should reach 70% by the end of the third year. Advisor, NITI Aayog expressed the view that minimum localization should be 70% in the first year itself. It was clarified by JS, DHI that even in the EESL tender for cars, the indigenous content is understood to be barely above 40% and keeping very high indigenous content prescriptions may make the scheme unviable for the industry.

After threadbare discussions on the issue, keeping capabilities of present Indian EV manufacturing industry and lead time required for upcoming Lithium Cell/ Battery pack manufacturing industries, committee decided that localization content to be achieved by OEM to take benefit of the incentives under proposed policy should be minimum 50%, to begin with, to be increased to 60% after one year and 70% by the end of the third year.

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b. Definition of Low Emission vehicles and Hybrid Vehicles:

In the Concept note, it is stated that proposed scheme is for New Energy vehicles and it includes low emission vehicles as well as Hybrid Vehicles. To this Advisor, Niti Aayog expressed concern that since there is no clear definition for such vehicles including Hybrid Vehicles, this may be misused. Accordingly, he suggested that Low Emission Vehicles and hybrid vehicles should not be included in the proposed scheme.

Other members also expressed the opinion that since the proposed scheme is for electric mobility, other technologies based on alternate fuels may not be included. It was further felt that the MOUD is also coming up with their scheme for Green Mobility and LEVs running on alternate fuels may fit in more closely with that scheme rather than with the phase 2 of FAME scheme.

The Committee considered the issue of Hybrid technology at length and felt that Hybrids must be clearly defined in terms of efficiency or any other suitable parameter, otherwise sub-optimal performance hybrids may also get benefits under the scheme, which may not be the intent of the scheme. It was clarified to the members that Hybrid Vehicles (Strong Hybrid and Plug-in Hybrid) are already defined as per HSN codes. It was agreed that the given definition can be further modified with mandatory performance parameters in the proposed scheme.

After detailed discussion, it was decided that Low Emission Vehicles on alternate fuels may be removed from the scope of the scheme; however, Hybrid Vehicles especially Strong Hybrid and Plug-in Hybrid, which uses electric powertrain for propulsion should continue to be supported under the scheme. However, in order to avoid misuse of these vehicles, such vehicles should be defined clearly with specific quantifiable performance parameters.

c. Charging Infrastructure:

Advisor, Niti Aayog stated that the concept note did not address the issue of charging infrastructure. It was clarified to the members that since another committee has been constituted by NITI Aayog to recommend proposal of Charging Infrastructure, the same was not included in the concept note. However, members of the Committee felt that DHI should be the nodal department for all demand side and supply side incentives and incentives for deployment of Charging Infrastructure should also be part of the present proposal.

Chairman agreed to include proposal for charging infrastructure incentives within the scope of the scheme.
d. Demand Mandate:
Concept note had made recommendations on certain non-fiscal incentives for demand generation of Electric Vehicles by way of Demand Mandate. Advisor, NITI Aayog stated that there is another committee constituted for the purpose of finalization of Non-fiscal Incentives under the chairmanship of Secretary, MoRTH. All the proposals mentioned in Demand Mandate will be taken care of by this committee. Joint Secretary, MoRTH also informed that all proposals as mentioned in Demand Mandate will be part of Non-fiscal Incentives and DHI's recommendations may also be sent to them for consideration in their report. As such, the Committee decided that Demand mandate proposals might be dropped from the present concept note.

e. Retrofitment Technology:
Retrofitment had been proposed as a low cost option for conversion to Electric 3W, 4W and buses. It was mentioned that though this option was available under the ongoing FAME scheme, no proposals had been received under this category. Members of the Committee expressed the opinion that this technology is not yet a proven technology and may still face a lot of issues. It was mentioned that retrofitment solution is applicable to older vehicles and compared to the cost of retrofitment kit, cost of the old vehicle is very less and may result in misuse of government support. Further, such kits will, in all probability, be retrofitted at local workshops, which may not provide type approved kits to the vehicles. Accordingly, the quality of the vehicles will leave a lot to be desired and any mishap with such vehicles would be counterproductive for building up of an EV ecosystem. Committee decided to drop the support proposed for retrofitment kits in the scheme.

f. Taxation related Proposals:
Member, CBEC and JS, D/o Revenue stated that while MoF supports the move towards EVs, taxation matters have a large number of stakeholders and they can at best, convey the views of the Committee to the relevant authorities in MoF. With the introduction of GST, the states have a major role in determining the rates and they will convey the sense of the Committee to the competent authority. It was also stated that their detailed comments on the Concept Note was awaiting the approval of the authorities in MoF and once received, the same will be furnished to DHI.

i) Lithium Cells and Battery packs: JS, D/o Revenue requested for correction in the concept note regarding present custom duty rate for Lithium cells and Lithium-Ion Batteries, which need to be changed from 10% to NIL since presently there is no customs duty on Lithium Cells and Battery packs. Member, CBEC and JS, Revenue expressed in principle support to the proposal to increase the Customs Duty in these cases to 20% in a phased manner within next 5 years to promote domestic production of these components of Electric Vehicles.
ii) Capital goods for manufacturing of EVs and its components: While discussing the proposal on Customs Duty for capital goods for manufacturing of EVs and its components, Joint Secretary, D/o Revenue suggested that making duty NIL for these capital goods may discourage the domestic manufacturing of such goods and would be contrary to the Policy of DHI themselves. It was suggested by JS, DHI that specific capital goods needed for manufacture in the EV ecosystem could be mentioned so as to give the necessary boost to manufacture of the EV ecosystem. However, it was felt that the present rate of duty of 7.5% is not too high and may not be suggested for modification. Accordingly, Committee decided to drop this proposal from the concept note.

iii) GST proposals: Joint Secretary, D/O Revenue suggested that all the proposals mentioned in concept note have been duly deliberated within Revenue Department as well as in GST Council meetings. They are of the view that present GST rate on EVs, Hybrid vehicles as well as components are finalized after a lot of thought and this may not be disturbed. They also requested the Committee to await the formal views of the MoF in this regard. Committee agreed to not press the matter further.

iv) Fuel Cell: Committee requested D/o Revenue that fuel cell being zero-emission vehicles, need to be put under the slab of electric vehicles. Joint Secretary, Revenue agreed to the proposal and informed that suitable corrections may be possible in the tariff structure for Fuel Cells.

g. Demand Incentives:
Representative from Department of Expenditure stated that as such, D/o Expenditure does not have any objection to the proposal; however, further detailed examination will be done when EFC is submitted for comments. He informed that detailed justification may be necessary in the EFC memo for such budget requirements which also go beyond the Mid Term Outlook of Expenditure for DHI. He also suggested that since this is a continuing scheme, third-party evaluation is required and proposed scheme should attempt to address the issues emerging in third-party evaluation.

It was further pointed out there are multiple schemes being implemented by different departments like MSIPS of MEiTY, Green Mobility Initiative of M/o Urban Development and Start-up India by DIPP, etc. An attempt should be made to harmonize and mobilize these schemes for promotion of Green Mobility and there should not be any duplication of efforts/support for the same type of activities.

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Joint Secretary, MoRTD suggested that Motor Cycle and Scooter may be clubbed and put up under 2W categories and number of vehicles to be supported to be increased substantially. Advisor, NITI Aayog also suggested increasing the number of 2Ws to be supported under the scheme. Committee agreed to review this aspect in the Scheme.

MEITY informed that incentive amount suggested in concept note per kwh basis is different for buses as compared to other segments of vehicles. MEITY expressed the view that this should be same for all segments of vehicles. It was clarified that incentives amount is calculated using a principle so that extra differential cost of the vehicle can be recovered in a maximum period of 3 years. For buses, even after offering higher incentives extra differential cost of the vehicle will be recovered in 5 to 7 year period.

Members suggested that this may be reviewed before finalization of the proposal.

4. Conclusion

The following decisions were endorsed by the Committee:

i. Minimum localization content of 50% may be stipulated in the first year of the scheme. Thereafter, the localization content may be increased to 60% in the second year and 70% by the end of the third year;

ii. Low Emission Vehicles on alternate fuels may be removed from the scope of the scheme;

iii. Hybrid Vehicles, especially Strong Hybrid and Plug-in Hybrid, which use electric powertrain for propulsion should continue to be supported under the scheme. However, in order to avoid misuse of incentives, hybrid technology should be defined clearly with specific quantifiable performance targets;

iv. Proposal for charging infrastructure incentives may be added within the scope of the scheme.

v. Since Demand mandate proposals fall within the ambit of another committee chaired by Secretary, MoRTD, same may be dropped from the present concept note.

vi. Committee decided to drop the support proposed for retrofitment kits in the scheme.

vii. In the Tax proposals, the proposals for rationalization of custom duty were supported with corrections clarified on duty structure for import of lithium cells and lithium ion battery packs. However, it was felt that the present rate of duty of 7.5% on import of capital goods for manufacture of EV ecosystem is not too high and may not be suggested for modification.

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viii. In the proposals for GST, committee decided not to pursue the proposals regarding rationalization of GST except in the case of Fuel Cell vehicles, where D/o Revenue in principle, agreed to support a GST rate similar to that for electric vehicles.

ix. Committee agreed to increase the number of 2W to be supported under the scheme.

x. Members suggested that the basis for incentive amounts for buses and other segments of vehicles should be reviewed before finalization of the proposal.

xi. Apart from the above, the other proposals / strategy of supporting public transport (only 2 wheelers for private transport); supporting only advanced chemistry batteries; capital subsidy for manufacturing facilities for the EV ecosystem; proposing demand incentives based on power of batteries; venture capital funding; demand aggregation and pilot projects etc. were approved by the committee for inclusion in the final scheme.

Meeting ended with the vote of thanks to the Chair.

*Concluded*
LIST OF PARTICIPANTS

1. Dr. Asha Ram Sihag, Secretary, Heavy Industry
2. Shri Vishvajit Sahay, Joint Secretary, Heavy Industry
3. Dr. John Joseph, Member, CBEC, D/o Revenue
4. Shri Anil Srivastav, Adviser, NITI Aayog
5. Shri Abhay Damle, JS, M/o Road Transport and Highways
6. Shri Alok Shukla, JS, D/o Revenue
7. Shri Aravind Kumar, JS, M/o Electronics & Information Technology
8. Ms. Geeta Kathapalia, M/o Electronics & Information Technology
9. Shri Akhilesh K. Mishra, Director D/o Economic Affairs
10. Shri Chittaranjan Dash, Director, D/o Expenditure
11. Shri Prakash Nevatia, Director, D/o Commerce
12. Shri Pravin Agrawal, Director, Heavy Industry
13. Shri N.L. Goswami, Sr.DO, DHI
14. Ms. Harikiran K. Sanjeevi, NITI Aayog
15. Shri Prashant Kumar, M/o Electronics & Information Technology
16. N. Muthukumar, S.O., D/o Commerce

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