



UNION BUDGET 2023-2024

Recommendations by Society of Manufacturers of Electric Vehicle (SMEV)

The momentum in the electric vehicle industry has been building positively. In the last few years, we have witnessed an increase in demand for EVs. Customers have accepted the technology, and the industry is ready to take off. All this time, the government has shown its commitment to promoting and prioritising electric mobility. Its initiatives, such as the FAME scheme, which emphasises demand creation, have provided the right platform for the industry. However, other initiatives like R&D for localization, supply-side support, charging infrastructure, and consumer awareness programmes could not take off due to the nascent stage of the industry, the non-availability of resources to attract investment, and COVID. Hence, it's important at this juncture that we focus on building a strong EV ecosystem that could make the EV industry self-sustainable. We believe that NO POLICY CAN BE CAST IN STONE and MUST BE DYNAMIC TO FACTOR THE ON GROUND CONDITIONS during its implementation. With government support, the Indian EV industry can become a global hub, and below are some steps that the government could consider for the Union Budget 2023-2024 to make it possible:

Taxation:

- **GST Uniformity** - While 5% GST is levied for the vehicle; for spare parts, there is no clarity and the industry end up paying 28% (Except for Batteries). The request, therefore, is for levying a uniform 5% GST for all EV spare parts.
- **Basic Customs Duty on Cells**- Since the manufacturing of Lithium-Ion cells within the country is still in its nascency; would request that the GoI review the percentage of customs duty for cells used for EV production. Reduce customs duty to 0% until cells start getting manufactured in India, also because of a major increase in cost on account of AI 156.

FAME Subsidy:

- The validity of FAME II is set to expire on March 31, 2024. We believe FAME's validity needs to be extended since we have yet to meet the penetration the subsidy was supposed to catalyse.
- The new FAME II scheme should be linked to E-mobility conversion rather than being time-based. According to market trends, E Mobility, particularly E2W, has the potential to continue growing once it reaches 20% of the total 2W market. The subsidy can be tapered thereafter.
- The FAME II scheme should have provisions to directly transfer the subsidy to the customers.

Inclusion of LCV and M&HCV on a project-mode basis According to global trends, India should be ready to transition to E-mobility in trucks and heavy commercial vehicles in 3-4 years

- Increase the scope of FAME to include commercial vehicles on a project mode basis Today, trucks account for over 40% of India's fuel consumption and over 40% of the Greenhouse gas emissions across the road transport sector.
- Expand the FAME subsidy to electric tractors to help India reduce fuel imports and GHG emissions.

- Center to allocate special funds and advise the Agriculture Department to announce exclusive provisions for a subsidy to e-Tractor buyers (for use both on the farm and commercially) in the SMAM guidelines and allocate state-wise yearly targets for electric tractors.

Incentive / Grants for Battery R&D:

- Lack of R&D on battery storage for EVs, hence, the government can consider creating grants/incentives to stimulate innovation in this sector.

Skill Development:

- Non-availability of skilled manpower for R&D, production, or repair. Allocate incentives for building academic or skill training courses on EVs.

CAFÉ II Norms:

- Pure EV OEMs are not incentivized. Allow pure EV companies to trade credits acquired through production with ICE OEMs. It will de-incentivize ICE production and offer a level playing field for new-age companies.

Financing of the EVs:

- Help reduce the interest rates charged to EV customers. Extend the guarantee being offered by NITI Aayog and the World Bank through SIDBI even for commercial four/ six wheelers.
- Help reduce the interest rate for loans taken by pure EV OEMs for setting up EV manufacturing facilities.
- For EV penetration, a critical requirement is to enable a wide network of charging infrastructure. The government is required to provide a CAPEX subsidy of 50% for setting up charging infrastructure across the country.
- EV financing is to be included as part of priority sector lending to ensure more pools of capital are unlocked.

PLI Scheme:

- PLI scheme drafted is not designed for startups and MSMEs to benefit from it. Include them within the PLI ambit. With the PLI Scheme favoring only established big corporates and multinationals, startups and MSMEs tend to lose because they are already struggling for capital.

PLI DVA Norms

- There is no clarity on the proposed DVA norms under PLI. DVA under FAME 2 was quite different than whatever we have heard under PLI DVA. Both FAME DVA and PLI DVA must be same in order to avoid confusion, multiplicity and complexity of implementation. The industry body like SMEV should be fully involved in such critical policies.

Battery Swapping:

- Implementation of Battery Swapping Policy, which was committed in last year's budget. NITI Aayog has consulted stakeholders, but the final policy is waited for accelerating this segment.
- Need for GST Rationalization: A reduction in GST on swap batteries will lower the cost of EV ownership among fleet operators, last mile delivery companies, and the last mile connectivity sector.
- To accelerate the adoption of e-mobility, there should be a focus on the creation of EV charging and swapping infrastructure. This objective can be achieved through FAME incentives for charging and swapping infrastructure.
- To make a consortium of four large oil and gas PSUs – IOCL, BPCL, MNGL & IGL and create a special corpus to install battery swapping stations at all the gas stations.
- FAME II subsidy for extra or float batteries for battery swapping: At present, the FAME II subsidy is given to vehicle OEMs; however, for float batteries for a battery swapping network, there is no subsidy on the battery; as per the draft EV policy, it is proposed that the FAME II subsidy will be provided to the extra (float) batteries in the network as well.

Lithium-ion Battery Recycling:

- Policy towards Lithium-Ion battery recycling may be provided as we are in 5th year of operations and may need these guidelines immediately.
- Electronic component buying and recycling agencies may be recruited by GoI. The tender may be called upon for Agency recruitment.
- For research & development expenses related to battery recycling, a 200% tax rebate, as before, may be considered.

Reduction on GST for BaaS and EaaS Models from 18% to 5%:

- At present, the customers are charged 18% GST on every transaction that they undertake at an EV Charging Station and every battery swapped at a Battery Swapping Station.
- Corporate customers can take the input tax credit on the GST paid during this transaction; however, retail customers do not have such an option and they absorb the tax as a cost.

Conclusion:

The Union Budget 2023–24 is being presented at a crucial juncture of geo-political uncertainties, high inflation, and slowing world economic growth. The budget will help the EV industry move forward on its way towards faster adoption of EVs. Calibrated steps will be needed to maintain the ongoing positive economic growth curve. The industry can further go through a phase of an unstable supply chain if a recession hits the major markets and the extremely rigid stand taken on some of the policies like FAME on premature localization.

We look forward to enhanced support for battery manufacturing in India. Investments in EV infrastructure must be at the optimal level of the GDP to achieve state-of-the-art EV infrastructure. Further reductions in import duties on raw materials will be a huge relief for the industry, and we hope that the government will continue to support localization and the transition to green mobility.