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# Exploring India's New EV Policy: A Step towards Sustainable Transportation

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## INTRODUCTION

India's Electric Vehicle (EV) Policy stands as a beacon of hope in the global quest for sustainability amid climate change challenges. This bold initiative aims to reshape India's transportation sector towards a cleaner, greener future. With ambitious targets for EV adoption, supported by incentives to boost demand, domestic manufacturing, and charging infrastructure, India is charting a course toward sustainability. The success of this policy relies on collective action, innovation, and a steadfast commitment to building a prosperous and environmentally sustainable future. India, a key player in the automotive sector, is poised for a monumental shift towards sustainable transportation. This visionary initiative not only aims to strengthen India's global manufacturing standing but also drives EV adoption to combat climate change and reduce carbon emissions.

The world's third-largest automobile market, India's automotive sector is integral to its economy, contributing significantly to GDP. With a market projected to exceed USD 300 billion by 2030, the industry's role is paramount. Recognizing the imperative for decarbonized transportation, India's EV

Policy signals a paradigm shift towards a greener automotive landscape.<sup>1</sup>

## GOVERNMENT POLICIES AND INCENTIVES FOR ELECTRIC VEHICLES IN INDIA

The Government of India is continuously showing its support to develop India as a global leader in the EV sector. Several schemes and incentives have been launched by the government to boost the demand for electric vehicles as well as motivate manufacturers to invest in the R&D of electric vehicles and related infrastructure. The government of India has launched so far – FAME, PLI SCHEME, and Battery Swapping Policy, Special Electric Mobility Zone, Tax Reduction on EVs.<sup>2</sup>

### 1. FASTER ADOPTION AND MANUFACTURING OF HYBRID & ELECTRIC VEHICLES IN INDIA: FAME-INDIA

The FAME India initiative, launched in April 2015, aimed to reduce petrol and diesel vehicle usage and promote electric mobility in India. It incentivizes various types of vehicles, focusing on technology demand, pilot projects, technology development, and charging infrastructure. In April 2019, FAME II was introduced with a budget of Rs 10,000 Cr, targeting the incentivization



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of electric three-wheelers, buses, passenger vehicles, and two-wheelers. Additionally, funds were allocated for setting up charging stations, with a proposal for slow and fast charging units for electric buses. Originally set to end in 2022, the scheme has been extended until March 31, 2024, to further drive EV adoption in India.

## 2. PRODUCTION LINKED INCENTIVE SCHEME: PLI

In June 2021, the Department of Heavy Industry introduced the Production Linked Incentive for Advanced Chemistry Cell Battery Storage (PLI-ACC Scheme) to attract both domestic and international investors to invest in Giga-scale ACC manufacturing facilities in India. With an overall payout of INR 18,100 crore, the scheme aims to incentivize manufacturers of advanced chemistry cells, contributing to the Prime Minister's vision of "Atmanirbhar Bharat." The scheme targets a local manufacturing capacity of 50 GWh, with 30 GWh already subscribed, to be paid out over five years post-operationalization. However, stringent selection criteria, including operationalizing facilities within two years and achieving 60% domestic value addition within five years, pose challenges for smaller businesses in the EV battery and car parts manufacturing sector to benefit from the scheme. Modifying or proposing alternatives to current standards could make the scheme more accessible and beneficial for smaller firms, ultimately aiding in addressing the demand-supply gap in the industry.

## 3. BATTERY SWAPPING POLICY

The finance minister stated that the government intends to introduce a Battery Swapping Policy. This scheme will regulate the standards of batteries

to be used in EVs across India.<sup>3</sup> The legislation will help in promoting EVs in time-sensitive service sectors like deliveries and inter-city transportation as swapping a drained battery for a fully charged one is a more practical option than on-the-spot recharging, which can take hours.

This makes interoperability easy. If all the batteries are of the same configuration for all the same categories of EV, buyers need not worry while swapping their batteries and be concerned about the configuration of new batteries being put in. If performed well, battery switching is expected to achieve acceptance in commercial applications such as 2W and 3W vehicles and will aid faster penetration in these segments. The Battery Swapping Policy will also benefit the manufacturers. Once the standards come into play, spare parts of machinery will also be more easily available.<sup>4</sup> This approach will assist battery producers in lowering costs.

## 4. DUTY REDUCTION ON ELECTRIC VEHICLES

The budget includes a proposal to lower customs duties on Nickel ore and concentrates from 5% to 0%, Nickel Oxide from 10% to 0%, and Ferro Nickel from 15% to 2.5 percent. Nickel Manganese Cobalt (NMC) is a vital part of lithium-ion batteries, which are utilized in electric vehicles (EVs).

India has limited reserves of these ores and battery manufacturing is highly dependent on them. Hence, nickel alloys are mostly imported. The customs tax decrease will help local EV battery producers lower production costs.<sup>5</sup> There is also a proposal for a reduction in customs duty on motor parts from 10% to 7.5 percent which will help to lower

the overall cost of EVs.

## 5. SPECIAL E-MOBILITY ZONE

The government plans to establish dedicated mobility zones for electric vehicles. Only electric Vehicles or comparable vehicles will be permitted to operate in the zones identified by the administration. Such policies are prevalent in many European countries and China. The Hidden Benefit of special Electric mobility zones is that they will help curb overcrowding due to private vehicles.<sup>6</sup> People moving through these zones need to travel in EVs of their own or take a public EV vehicle, thus increasing the market share of EVs.

## POLICY OBJECTIVES AND ITS SIGNIFICANCE FOR SUSTAINABLE TRANSPORTATION

### Policy Objectives:

India's Scheme to Promote Manufacturing of Electric Passenger Cars aims to capitalize on the nation's burgeoning automotive sector by fostering transition from traditional Internal Combustion Engine (ICE) vehicles to Electric Vehicles (EVs). The policy is crafted with several key objectives:

- **Global Leadership in EV Manufacturing:** By incentivizing investments from global EV manufacturers, the scheme seeks to position India as a prominent manufacturing hub for electric passenger cars. This aligns with the broader vision of establishing India as a global leader in clean energy technology.

- **Economic Growth and Employment Generation:** With the automotive sector contributing significantly to India's GDP and employment, the policy endeavors

to stimulate economic growth by attracting investments worth Rs. 4.150 crore (USD 500 million) for setting up EV manufacturing facilities. This investment is expected to create numerous job opportunities across the value chain.

• **Promotion of “Make in India”**

**Initiative:** By encouraging domestic manufacturing of electric passenger cars, the policy reinforces the government’s flagship “Make in India” initiative. It emphasizes the importance of indigenous production to reduce dependency on imports and bolster self-reliance in the automotive sector.

• **Acceleration of EV Adoption:**

Through the provision of incentives such as reduced customs duty on imported Completely Built Units (CBUs) of electric passenger cars, the policy aims to expedite the adoption of EVs. By making electric vehicles more accessible and affordable, it seeks to drive consumer demand and expand the market share of EVs in India.

• **Environmental Sustainability:**

One of the overarching goals of the scheme is to contribute to environmental sustainability by reducing carbon emissions and curbing air pollution. By transitioning to electric mobility, India can mitigate the environmental impact of transportation, thereby promoting cleaner air and a healthier environment for its citizens.

**Significance for Sustainable Transportation:**

India’s Scheme to Promote Manufacturing of Electric Passenger Cars holds immense significance for advancing sustainable transportation in the following ways:



**Reduction of Carbon Emissions:** By facilitating the widespread adoption of electric passenger cars, the policy contributes to decarbonizing the transportation sector. EVs produce zero tailpipe emissions, thereby helping to mitigate the adverse effects of climate change and reduce India’s carbon footprint.

**Improvement of Air Quality:** Electric vehicles produce fewer pollutants compared to their ICE counterparts, leading to improved air quality and public health outcomes, by encouraging the use of EVs, particularly in urban areas where air pollution levels are high, the policy supports efforts to create cleaner and healthier environments for citizens.

**Energy Security and Independence:** With India’s heavy reliance on imported fossil fuels for transportation, the

transition to electric mobility enhances energy security and reduces dependency on volatile oil markets. By promoting the use of domestically manufactured electric passenger cars, the policy strengthens India’s energy independence and resilience to global supply disruptions.

**Technological Innovation and Leadership:** The scheme incentivizes investments in advanced technology and research and development in the EV sector. By fostering innovation and indigenous manufacturing capabilities, India can emerge as a front-runner in electric vehicle technology, driving technological advancements and promoting sustainable transportation solutions globally.

**Inclusive Growth and Accessibility:** The policy’s focus on domestic manufacturing and affordability of electric passenger cars ensures that the

benefits of sustainable transportation are accessible to a broader segment of society. By democratizing access to EVs, the scheme promotes inclusive growth and equitable development, empowering individuals, and communities with cleaner and more sustainable mobility options.

#### Key Scheme Highlights:

- Approved applicants are required to set up manufacturing facilities in India with a minimum investment of Rs. 4,150 crores for manufacturing electric passenger cars (e-4W).
- The manufacturing facilities must become operational within three years from the date of issuance of the approval letter by MHI and achieve a minimum Domestic Value Addition (DVA) of 25% within the same period.<sup>7</sup>
- As per the scheme, the approved applicant will be required to achieve minimum DVA of 50% within a period of 5 years from the date of issuance of approval letter by MHI.
- The scheme allows for the import of Completely Built Units (CBUs) of e-4W at a reduced customs duty of 15% for a period of five years, subject to certain conditions.
- The scheme allows for the initial import of the EV passenger cars (e-4w) with a minimum CIF value of USD 35,000, at a duty rate of 15% for a period of 5 years from the date of issuance of approval letter by the Ministry of Heavy Industries. The maximum number of e-4W allowed to be imported at the reduced duty rate shall be capped at 8,000 nos. per year. The carryover of unused annual import limits

would be permitted.

- The maximum number of EVs to be imported under this Scheme shall be such that the total duty foregone will be limited to the lower of the following:

- The maximum duty foregone per applicant (limited to Rs. 6,484 crore), or
- committed investment of the applicant (in Rs. crore)

- Under the scheme the lower customs duty of 15% would be applicable for a total period of 5 years (from the date of issuance of approval letter by MHI) subject to setting up of a manufacturing facility in India within 3 years (involving a minimum investment of Rs.4,150 crore (~USD 500 million)).

- As per the scheme, the applicant will be required to achieve a domestic value addition (DVA) of a minimum of 25% by the end of the third year and a minimum of 50% by the end of the fifth year (from the date of issuance of approval letter by MHI) for the e4W manufactured in its facility(ies).

- According to the scheme, the applicant's commitment to set up a manufacturing facility and achievement of DVA shall be backed by a bank guarantee from a scheduled commercial bank in India equivalent to the total duty to be forgone, or Rs 4150 crore, whichever is higher, during the scheme period.

- According to the scheme, cases in which the Bank Guarantee will be invoked if the following criteria are not fulfilled:

i. Investment of minimum Rs. 4,150 crores by the applicant within a period of 3 years.

ii. EV passenger cars manufactured by the applicant at its manufacturing facility(ies) will be required to achieve a DVA of minimum 25% within a period of 3 years.

iii. Investment made by the applicant within a period of 5 years should be at least equivalent to duty foregone, or USD 500 million, whichever is more.

iv. EV passenger cars manufactured by the applicant at its manufacturing facility(ies) will be required to achieve a DVA of minimum 50% within a period of 5 years.

v. The bank guarantee will be returned once achieving 50% DVA and investing at least Rs 4,150 crore, or the amount of duty foregone in 5 years, whichever is higher.

#### KEY PROVISIONS:

India's Electric Vehicle (EV) Policy presents a significant opportunity to reshape the transportation sector towards sustainability while fostering economic growth. To qualify for benefits under the scheme, companies must meet specific criteria, including substantial global revenue and investment thresholds. The scheme aims to boost domestic manufacturing, promote EV adoption, and develop charging infrastructure.

**- Domestic Value Addition Targets:** Mandating minimum Domestic Value Addition (DVA) aims to promote local manufacturing and reduce import dependency.

**- Customs Duty Reduction:**

Lowering customs duty incentivizes local production and market entry while maintaining flexibility.

**- Bank Guarantee Requirement:**

Requiring bank guarantees ensures accountability and timely investment to meet DVA targets.

**Potential Impact:**

**- Greenhouse Gas Emissions**

**Reduction:** EV adoption will mitigate emissions, address climate change, and improve public health.

**- Transformation of Energy**

**Landscape:** EVs will drive demand for renewable energy sources, reducing reliance on fossil fuels and optimizing energy distribution.

**- Economic Growth:**

The policy will stimulate economic growth, attract investments, and create job opportunities across various sectors.

**CONCLUSION:**

India's acceleration towards electric mobility signifies a transformative shift with multifaceted benefits. The scheme not only targets emission reduction and cleaner air but also aims at bolstering energy security and inclusive economic growth. Through incentivizing

investments in electric passenger car manufacturing and driving technological innovation, India's EV policy sets a pioneering example for sustainable development, reaffirming its commitment to long-term sustainability goals.

This bold initiative is poised to position India as a global leader in electric mobility, fostering innovation, prosperity, and environmental stewardship. By promoting indigenous manufacturing and attracting global EV manufacturers, the scheme drives economic growth and job creation while reinforcing India's manufacturing capabilities in the electric vehicle sector. At its core, the scheme emphasizes indigenous manufacturing, technological innovation, and value addition, fostering a robust ecosystem for electric mobility. With stringent performance criteria and investment thresholds, it incentivizes companies to invest in cutting-edge technology and infrastructure, paving the way for a competitive and sustainable automotive industry. Aligned with broader policies like the FAME India scheme and production-linked incentives, this initiative underscores India's commitment to decarbonizing the transportation sector and mitigating vehicular emissions' environmental impact. Together, these measures chart a strategic course towards a cleaner, greener automotive future.



**Sonal Verma** leads the ESG Practice in the firm as a Partner and Global Leader – Markets & Strategy. With his crossroad working with business & laws – he brings advice & technology for effective change management in the journey of ESG. Sonal is well acclaimed for his work in regulatory & compliance programs over the last decade. He had in the past worked with 1800 plus clients in India and 61 other countries globally. He has worked with the top 3 unicorns and many Fortune 500 companies. His clients have been across different industries, viz. Automotive and OEMs, Pharma and Life Sciences, Manufacturing, Chemical Industry, BFSI, Infrastructure and Utilities (including stateowned PSUs), e-Commerce and Fintech Companies, Diversified Conglomerates etc.



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<sup>1</sup><https://static.pib.gov.in/WriteReadData/specificdocs/documents/2024/mar/doc2024315324901.pdf>  
<sup>2</sup>Government Policies and Incentives for EVs in India - E-Vehicleinfo, <https://e-vehicleinfo.com/government-policies-and-incentives-for-electric-vehicles-in-india/>.  
<sup>3</sup>Government Policies and Incentives for EVs in India - E-Vehicleinfo, <https://e-vehicleinfo.com/government-policies-and-incentives-for-electric-vehicles-in-india/>.  
<sup>4</sup><https://e-vehicleinfo.com/government-policies-and-incentives-for-electric-vehicles-in-india/>  
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<sup>7</sup>New Electric Vehicle Policy 2024 - Drishti IAS, <https://www.drishtiias.com/daily-updates/daily-news-analysis/new-electric-vehicle-policy-2024>.