EV car policy may be tweaked based on FTA outcomes

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The Centre is open to modifying its Scheme to Promote Manufacturing of Electric Passenger Cars in India (SMEC) on the basis of the outcomes of the bilateral trade agreement (BTA) with the US and other free trade agreements (FTAs), according to a senior government official.

If the discussions yield to slashing tariffs on imported cars to 15 per cent, similar to what is mentioned in the SMEC, with specified investment numbers, the government may revise the policy accordingly to keep it attractive to global auto manufacturers, the official said.

At present, India is involved in BTA talks with the US and FTA talks with the European Union and the UK. As part of possible changes, the government may consider lowering the policy's tariff to zero or reduce the investment commitment to sweeten the deal.

The Centre notified SMEC in March last year to turn India into a hub of electric vehicle (EV) manufacturing. The scheme requires a minimum investment of ₹4,150 crore (around $500 million), specifically for four-wheelers. Under this policy, there is no cap on maximum investment, encouraging global EV manufacturers to invest heavily in the Indian market.

The scheme stipulates a three-year timeline for setting up manufacturing facilities and mandates that commercial production of EVs begin within this period, achieving a 50 per cent domestic value addition (DVA) within five years at the maximum.

For qualifying manufacturers, import taxes on EVs priced above $35,000 cost, insurance, and freight will be slashed to 15 per cent from the current rates of 70 per cent or 100 per cent. India currently imposes more than 100 per cent tariff on imported cars. To avoid higher tariffs, global automakers, at present, have only the SMEC route available.

The policy, however, has seen lukewarm response from global automotive players because of its stringent guidelines and the potential for tariff reductions through upcoming trade deals.

The government may consider lowering the policy's tariff to zero

While the scheme offers significant incentives, global automakers like Tesla and VinFast have reportedly raised concerns over certain criteria. During initial consultations in April 2024, these companies questioned the DVA calculation methodology and the exclusion of pre-existing investments from eligible criteria.

Tesla had expressed reservations about meeting DVA targets in the stipulated time frame. Similarly, Vietnam's VinFast, which is setting up an EV plant in Tamil Nadu with an initial investment of $500 million, had argued that pre-existing expenditure should qualify for incentives.

As a result, the government is weighing options to make the policy more attractive. Queries sent to the spokesperson and secretary of the ministry of heavy industries remained unanswered till press time.

"The tariff in the SMEC policy is 15 per cent. We don't know what the tariff levels will be at the BTA. If we keep it at 15 per cent and the numbers at the BTA conclude with a lower or similar figure, there is no benefit of the scheme and it is unlikely to attract global OEMs (original equipment manufacturers) to invest in EV manufacturing," the official cited above said.

The guidelines of the policy will likely be released only after the conclusion of the trade deals. The official further said that there should be no hassle in changing or tweaking the policy as it will not require Cabinet approval.