European carmakers want India to cut down import duty by half

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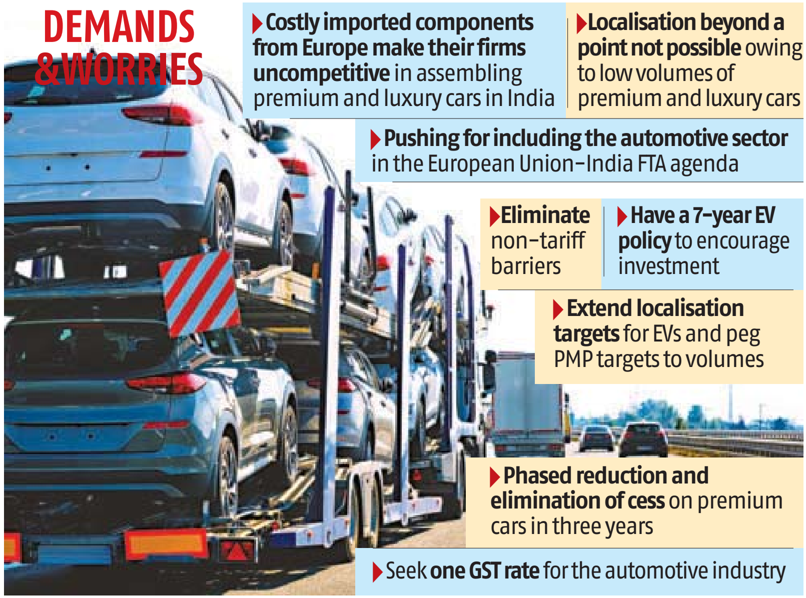

The European Business Group (EBG), which has top European passenger car and auto component companies as its members, has demanded a sharp reduction in the import duty on premium and luxury completely built units (CBU) of over 1,500 cc to 50 per cent.

Currently, the duty on CBUs of these new passenger cars stands at either 60 per cent or 100 per cent. The advocacy group, which is a joint initiative of the European Commission and the European business community in India, has suggested that instead of two rates, there should be one rate — of 50 per cent.

Currently, Customs duty of 100 per cent is levied on models with a freight on board (FoB) value of more than $ 40,000, or engine capacity of more than 3 litres for petrol variants/2.5 litres or more for diesel. For CBUs of cars with an FoB value less than $40,000 and petrol and diesel engine capacity less than 3000 cc and 2500 cc, respectively, it is 60 per cent.

Explaining its demand, the EBG said most European carmakers import parts and CKD (completely knocked down) kits to India to assemble them locally to maximise domestic value addition. However higher import duties on components sourced from Europe as against those imposed by nations/bloc with which India has free trade agreements (FTAs), such as Japan, South Korea, and Asean, places European manufacturers at a disadvantage. The premium market in India is small, according to the group, and as a result, European vehicle makers are constrained by the economics of scale and quality, and hence not able to develop a supplier ecosystem to expand localisation beyond a point. These problems, of course, could be resolved through the proposed FTA being discussed between the EU and India. The EBG has recommended that the inclusion of the automotive sector in the proposed EU-India FTA is a must and said that it stands for a pragmatic compromise on tariff reductions and relaxations in non-tariff restrictions.

It has also argued that the elimination of non-tariff barriers should be given equal priority as they are significant deterrents to investments in India by European manufacturers. Third, it has argued that differentiation between premium and volume products is a possible pathway that can address the Government of India's concerns about the adverse impact on the local automotive industry.

The European auto sector has invested around ₹300 billion in the country and automakers like the Volkswagen group have made commitments to invest $2 billion.

On giving a push to EVs, the EBG has recommended a seven-year EV policy framework to boost confidence in long-term investments, the continuance of the 5 per cent GST on EVs for a long period, and extension of the indigenisation target and possible imposition of a phased manufacturing programme after a certain EV volume is achieved.