

# **FICCI Suggests Sharing of the Subsidy between Centre and States to Replace Old Diesel Vehicle**

## **Creating Low Emission Zones would help in Reducing Pollution Levels in Cities: FICCI**

### **FICCI Submits Suggestions for Vehicle Replacement Policy to the Government**

**NEW DELHI, 13 May 2015:** FICCI in submission to the Government has suggested various options with respect to the policy for replacing old vehicles in the country in order to reduce pollution levels. The submission has been made to National Green Tribunal (NGT), Department of Heavy Industry and Ministry of Environment, Forest and Climate Change.

The experience worldwide is that the stand alone mandatory vehicle replacement programs are not very common and without additional incentives (fiscal or otherwise), these measures may become unpopular, emphasized FICCI in its submission. Vehicle replacement programs need to be supported by some form of policy incentives, FICCI noted. These suggestions came in the wake of the NGT order to ban ten year old diesel vehicles in Delhi.

“Mandatory provisions need to be supported by incentives to encourage the users to volunteer to replace their vehicles in advance and substitute with a more environment friendly vehicle if pollution levels are to be brought down significantly,” **FICCI said**. Incentivizing scrapping of old vehicles which are high contributors to environmental damage was one of the recommendations of the Working Group on Road Transport for the 12th Five Year Plan.

Suggesting the options for vehicle replacement, FICCI said that there are many ways of implementing such policies. While there is an option of Central Government directly providing the subsidy for replacement of old vehicle, however, since the cost of such a subsidy will be high, 50% of this subsidy could be shared by the States. Further, the subsidy for replacing old vehicle could be implemented in phases too depending upon the age of the vehicle. However, any robust programme would require that stringent conditions are imposed and enforced for the new vehicle too, that would replace the old vehicle. These options are discussed below in the **Table-1** in brief. Based on a set of assumptions, FICCI tried to calculate various options of the subsidy or incentive required to encourage vehicle owners of diesel trucks to replace their old vehicles before the retirement age that are mentioned too in Table-1.

Besides, FICCI suggested that non-fiscal options are also effective in many cases to bring down the pollution levels significantly. Creating low-emission zones as is the case in several countries like China, Germany etc. have proved to be very successful. Government could create low emission zones to reduce pollution levels in populated areas. Low emission zones are regions in which high-emitting vehicles are either prohibited from operating or charged a fee for entering. The establishment of such zones can provide strong additional incentives to owners of high-emitting vehicles to take advantage of fiscal subsidies and replace their vehicles.

Citing examples, FICCI said that in China, the city of Beijing offered subsidies for the replacement of older vehicles while simultaneously banning those vehicles from traveling in the city center, strongly incentivizing truck owners to take advantage of the subsidies and upgrade their vehicles. Similarly, in California the twin ports of Los Angeles and Long Beach banned high-emitting drayage, thereby incentivizing truck owners who wished to do business in the port to upgrade. In some cases, especially in Europe, fees for entering the low emission zone are differentiated based on vehicle emissions, with higher emitting vehicles being charged more.

**Table-1**

<b>Options Under the Vehicle Replacement Scheme</b>	<b>Details of the Options</b>	<b>Fiscal Implication/ Remarks</b>
Option 1	Direct Subsidy of Rs 46000/- per diesel truck older than 13 years; entire subsidy amount to be borne by the Centre by making additional allocation under the following budget heads/schemes: <ul style="list-style-type: none"> <li>●<b>Prevention of Air and Water Pollution</b></li> <li>●<b>Mission on Climate Change and Adaptation</b> (<i>National Adaptation Fund for Climate Change</i>)</li> </ul>	Rs 1231 crore for the Centre
Option 2	Direct Subsidy of Rs 46000/- per diesel truck older than 13 years; 50% subsidy amount to be borne by the Centre and 50% by the States as the Centre has devolved more funds to States this year onwards	Rs 615 crore for the Centre and Rs 615 crore for the States combined
Option 3	Direct Subsidy but Replacement to be done in Phases depending upon the age of vehicle; In the First phase vehicle older than 20 years to be replaced and in the second phase vehicle older than 13 years to be replaced.	Age profile figures required to calculate the fiscal impact
Option 4	Direct subsidy but the policy to be implemented in phases depending upon the congestion in cities. In the first phase Million-plus cities to be targeted followed by other cities in second phase	Rs 300 crore in Phase 1 for Million-Plus cities and Rs 920 crore in Phase 2
Option 5	Ban of old vehicles is not based on the age of the vehicle but on its road worthiness and fitness test as is the case in some advanced countries. This would require	Robust Inspection & Certification System required

	strengthening of the inspection and certification system which could be implemented in PPP mode.	
Option 6	Creating low emission zones to reduce pollution levels in populated areas; high-emitting vehicles are either prohibited from operating or charged a higher fee for entering.	None; revenue to be generated; but supply of cleaner fuels to be accelerated

**Weblink - Ficci Note on Vehicle Replacement: <http://ficci.com/SEdocument/20330/FICCI-Note-on-Vehicle-Replacement.pdf>**

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