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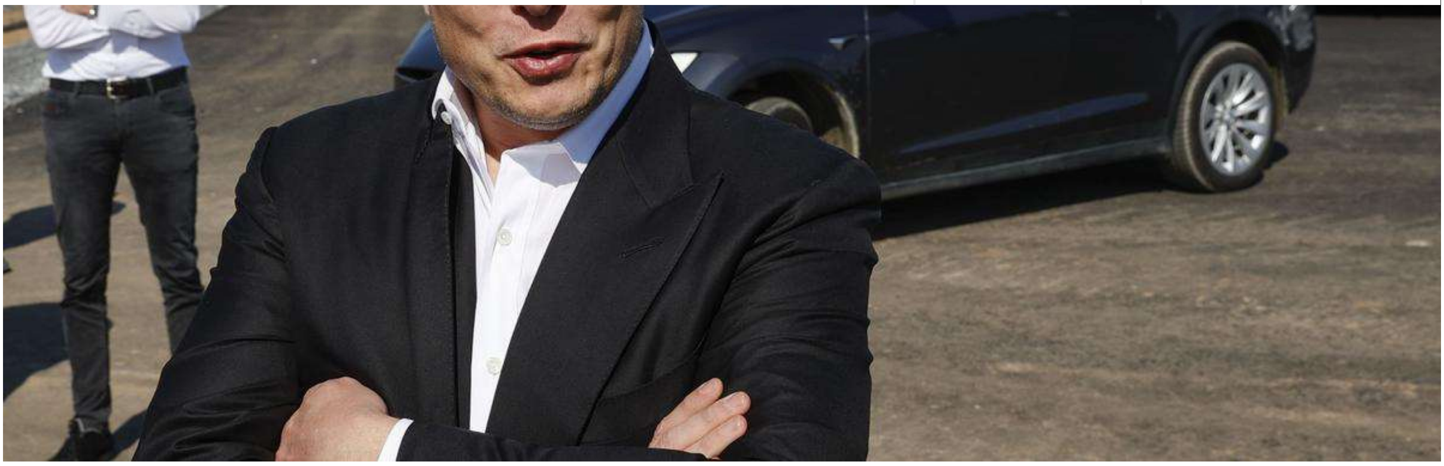
AUTOMOBILE INDUSTRY

Indian and foreign automakers butt heads after Elon Musk's criticism of high import duties on EVs

At present, the country's import duty on all cars priced below Rs 30 lakh is 60% and 100% beyond that price.

Niharika Sharma, qz.com
Yesterday · 09:30 pm



Tesla CEO Elon Musk had recently said he wants to launch his cars in India but is holding back because of the import duties. | Odd Andersen/AFP

A disagreement between two automobile tycoons has triggered a long-standing debate over India's taxation of electric vehicles, and all eyes are now on the Narendra Modi government's next moves.

Last month, in a tweet, Tesla CEO Elon Musk said he wants to launch his cars in India but is holding back because of the import duties, which are "highest in the world by far for any large country". Musk has been reiterating this challenge for at least two years now, but the government has not moved to address his concern despite Prime Minister Narendra Modi's obsession with portraying India as a business-friendly destination for international ventures.

disagreement from Bhavish Aggarwal, co-founder and CEO of Indian mobility unicorn Ola, which is currently in the process of setting up an electric scooter factory in India.

> **Bhavish Aggarwal** @bhash
>
> Strongly disagree with both. Let's have confidence in our ability to build indigenously and also attract global OEMs to build in India, not just import. We won't be the first country to do so!
>
> > **Hormazd Sorabjee** @hormazdsorabjee
> > Hyundai MD S S Kim backs Tesla's call for lower duties in India on imported EVs. Says "lower duties will help grow the EV market"
>
> 2:29 PM · Jul 27, 2021
>
> 5.9K 387 Share this Tweet

Though many local voices have supported Aggarwal's argument, more international automobile companies have joined Musk's chorus.

On July 28, South Korean automotive manufacturer Hyundai joined Tesla's appeal for lower import duty on EVs. On August 11, Volkswagen also spoke in support of Musk's demand. "The market for EVs has to be big enough for investments to come in and for that, we shouldn't be placing barriers," Gurpratap Boparai, managing director of Skoda Auto Volkswagen India, told Reuters.

Unlike Aggarwal, Indian automobile industry analysts believe reducing import duty would be the right step by the Modi government even though the centre has in the past said it has no plans to do so.

"It will be paramount for India to reduce its existing import duties on EVs if the government is in favour of increasing EV penetration in the country," said Vahishta Unwalla, lead analyst at credit rating firm Care Ratings.

At present, the import duty on all cars priced below $40,000 (Rs 30 lakh) is 60% and it is 100% for cars priced above $40,000.

High import duties

The high import duties currently make EVs from international brands almost unaffordable for the majority of Indians, said Jeetender Sharma, managing director and founder of Okinawa Autotech, a Rajasthan-based EV scooter manufacturing firm. This is bad news given that there are already barriers to EV adoption in India. "If somehow one can pay the heavy taxes, the charging infrastructure presents a lot of roadblocks," Sharma said.

The government has not budged on the import duty front despite several requests over the year because it believes the high tax will encourage foreign carmakers to set up factories in India. However, analysts are of the view that the ground reality makes this an overly ambitious thought.

Making cars in India is very challenging as the country lacks the infrastructure needed to support manufacturing.

"Currently, India does not have significant manufacturing capabilities in terms of producing batteries and other necessary EV components," said Unwalla of Care Ratings. Her concerns stem from the fact that India's automobile industry is heavily dependent on imported parts.

In 2019, India imported auto parts worth $4.2 billion from China alone. This import dependence has huge risks.

Besides, Indian automobile makers are have been struggling with a short supply of semiconductors chips for months because they are almost entirely dependent on imports for the same. Semiconductor chips have been short in supply in the global market because of the disruption in the supply chain due to the Covid-19 pandemic.

Given the current situation, most of the international players are either sitting out or struggling to survive – something which Rajeev Chabba president and managing director of MG Motor India, also pointed out in an interview with *Quartz* in May.

"In India, very few players have been successful but those who have succeeded are making good money…The name of the game in India is what I call an R to R model: raw material to resale the product," he said. "You look at the whole value chain from raw material to resale, and then at every stage, you have to see how you can economies, how can you form partnerships, the revenue models, and economise the cost."

Gaps in policy

In the early 2000s, India's car market opened up to global players such as Toyota and Mercedes after the country removed quantitative import restrictions. While the higher import duty of 60% remained, India abolished the rule that made it mandatory for the carmakers to manufacture or assemble in India for sale in the country.

electronic vehicle manufacturers are eyeing the Indian market but high import duties are acting as a bottleneck for them to enter the market," said Amit Gupta, managing director of SAG Infotech, a tech-based tax firm. "Electric vehicle generation is standing right next to the door and the only thing we have to do is to open the door."

Gupta further suggested that if foreign firms decide to avoid India, it will be the customers who will be the biggest losers.

Lately, there have been reports that the government might soften its stance on not reducing import duties on foreign cars. On August 9, Reuters reported that India might consider the industry players' request for providing a tax rebate if there are "economic gains".

"Reducing import duties is not a problem as not many EVs are imported in the country," the news agency quoted an unnamed government official as saying. "But we need some economic gain out of that. We also have to balance the concerns of the domestic players."