Vehicle scrappage policy soon

Part of: GS-III- Economy automobile (PT-MAINS-PERSONALITY TEST)

The vehicle scrappage policy is likely to be finalised soon to boost the automobile sector. The Minister of Road Transport and Highways also said that his ministry has fixed a target to build highways worth ₹15 lakh crore in the next two years.

Imp Points

- The much-awaited vehicle scrappage policy is awaiting final clearance from the Union Cabinet, which will focus on eliminating the fleet of old polluting commercial vehicles plying on the country’s roads.
- The proposed policy, once approved, will be applicable on all vehicles including two and three-wheelers.
- Once the policy is approved, India could emerge as a hub for automobile manufacturing as key raw material available from scrapping like steel, aluminium and plastic are bound to be recycled, bringing down automobile prices by “20-30%“.
- The government on July 26, 2019 had proposed amendments to motor vehicle norms to allow scrapping of vehicles older than 15 years in a bid to spur adoption of electrical vehicles.
- In a draft notification, the government proposed renewal of fitness certificates for vehicles older than 15 years every six months instead of the current time-frame of one year.
- The notification also provided that the newly purchased motor vehicles will be exempted for payment of fees for registration certificate and assignment of new registration mark, if the purchaser produces scrapping certificate of the previously-owned vehicle of the same category issued by the authorised scrapping centre/agency.

In May 2016, the government had floated a draft voluntary vehicle fleet modernisation programme (V-VMP) that proposed to take 28 million decade-old vehicles off the road. Mr. Gadkari said for highways, he has set a target of building ₹15 lakh crore worth of roads in the next two years and added that the road construction pace has reached 30 km a day now. He also suggested exploring cheaper credits, including foreign capital for enhancing liquidity in the automobile manufacturing sector.

Automobile sector Analysis

This sector is hard hit by the liquidity crunch for non-banking financial companies (NBFCs) and a dip in consumer sentiment. Leading automobile manufacturers announced a sharp decline of up to 50 per cent in their recent months. Manufacturers are now going for cuts in production, and the industry that is one of the biggest job creators in the country is staring at a deep-rooted slowdown and job losses across its value chain.

Decline in Sales

Vehicle sales numbers in July, the worst in 19 years, have reaffirmed the downturn in the automobile sector happening across all segments. If passenger vehicles sales witnessed a fall of 18.4 per cent in the quarter ended June 2019, the commercial vehicle segment witnessed a 16.6 per cent decline.
Decline in the sales of commercial vehicles and tractors

- Tractor sales have been further hurt by weak farm sentiment, the slowdown in the rural economy, and fears of a worse than average monsoon this year.
- This comes amid the third advance estimates of crop production indicating a slide in rabi production and kharif sowing has remained weak so far.
- Truck sales have been hurt by changes made by the government in the axle load norms.
- A significant decline in the sales of commercial vehicles has been visible ever since the increased axle load has become effective.
- The industry has been calling for a scrappage policy and other policy support measures to revive demand.

A sign of distress

- Like tractors, the drop in two-wheeler volumes is a key indicator of rural distress.
- In the two-wheeler segment, motorcycle sales are predominantly dependent on rural India; people prefer motorcycles to scooters given their sturdier structure, better performance, and lower operational costs, especially in the economy segments.
- The continued sluggishness in two-wheeler volumes is worrying, given that India, despite now being the biggest two-wheeler market, still has a very low penetration level of two wheelers.

A cause of concern

- Such a sales slump is naturally forcing automobile factories to cut production, with July alone witnessing a production decline of around 3 lakh vehicles compared to the same month last year.
- This, in turn, means a loss of jobs for contract workers initially but if this slowdown deepens, permanent workers too may be let go.
- The automobile industry employs close to forty million people.
- While such a widespread and progressive decline is a cause for concern on its own, the unraveling of India’s famed automobile industry should also send shockwaves across policy makers too.
- The sector accounts for almost half the manufacturing GDP of India.

Causes for decline in sales

There are several reasons for the famed Indian automobile sector, fourth largest in the world, to experience this unprecedented slowdown.

- First, the sector was impacted due to impending general elections, where uncertainty over outcomes led people to postpone vehicle purchases.
- Industry insiders feel that the pressure on NBFCs and the liquidity squeeze in the market is a big factor behind the decline.
- Say for example a third of the retail sales of a company were funded by NBFCs, and a liquidity crisis in the sector has led to a drop in sales for lack of funding for customers.
- The decline in customer confidence is the other factor that is leading to a continuous slide in sales of passenger cars.
- Customers are also expecting discounts in the coming festive season.
- Customers are also postponing their purchase decisions due to various considerations, including the expected fall in GST rates, and the hope that the transition from BS-IV to BS-VI may lead to big discounts between January and March 2020.
- To top it all, the face-off between the industry and the policymakers over a proposed deadline for converting some vehicle categories to electric from the present internal combustion engine (ICE) technology has not helped either.
The government has been considering a proposal to ban all ICE-driven two-wheelers under 150cc in the next six years and all three-wheelers within four years.

What does this situation indicate?

- The sharp decline in sales numbers of the leading manufacturer shows the decline in consumer sentiment and indicates an **overall slowdown in the economy**.
- The drop in sales over the last one year has led major manufacturers to cut production, and has put pressure on the overall automotive sector, including the automobile ancillaries.
- Various manufacturing units of renowned brands have been shut in various parts of the country.
- There have already been **job losses** across the value chain of the automobile sector, including dealerships and ancillaries.
- The continuing decline in sales is now expected to put pressure on manufacturers to cut down on costs and reduce headcounts.

What next?

- Industry players say the worst is still to come and that of consumer demand and the liquidity crisis could get prolonged as automakers compulsorily transition to new technologies, rendering their products more expensive.
- The outlook for the rest of the year will depend on multiple factors, including the progress of the monsoon, the festive season offtake, as well as improvement in the liquidity situation.
- Meanwhile one may expect some sort of fiscal or monetary stimulus to boost up the sector.