CENTRE FOR SCIENCE AND ENVIRONMENT
MAIN OFFICE: 41, Tughlakabad Institutional Area, New Delhi-110 062 INDIA
Tel: 2995 5124, 2995 6110, 2995 6394, 2995 6399 Fax: 91-11-2995 5879 Email: cse@cseindia.org Website: www.cseindia.org
BRANCH OFFICE: Core 6A, Fourth Floor, India Habitat Centre, Lodhi Road, New Delhi-110 003
Tel: 2464 5334, 2464 5335



Shri Pranab Mukherjee
Union Minister of Finance
Ministry of Finance
North Block,
New Delhi 110 001

February 3, 2010

Dear Shri Mukherjee,

We know that you are in the midst of finalising the budget proposals for 2010-11. The Centre for Science and Environment (CSE) has for long advocated the use of fiscal measures for environmental management. In the past we have raised the issue of revision of taxes and duties to promote public transport, fuel efficiency of vehicles, and, reduce harmful emissions from vehicles for cleaner air and improved energy security. We strongly believe that the fiscal and regulatory policies can play a significant role in minimising the social, health and environmental costs of motorisation.

We would like to take this opportunity to present our recommendations on tax measures that we feel are critical to promote sustainable mobility as well as clean air in cities. This needs to be adequately addressed in the coming Budget.

We hope you will find the following proposals useful:

i. The current excise duty on buses must not be increased to help lower cost of investments in cities and to enable the transition to public transport.
ii. The stimulus package for buses must continue. This should be an incentive to stimulate public finance for economic recovery and public transport. Also the second fiscal package to buy buses must continue to be linked with the transport sector reforms outlined under the Jawaharlal Nehru National Urban Renewable Mission (JNNURM).
iii. The Budget 2010 should rationalise fuel taxes to stop the dieselisation of car segment that is more polluting. There are additional concerns regarding loss of revenue from increased use of diesel in private vehicles.
iv. The Budget 2010 should review the excise duty on large and fuel guzzling vehicles like SUVs. We believe the advantage given to these vehicles must be withdrawn, the excise tax increased and the special excise duty on them that was withdrawn last year be restored.

***Agenda 1: Do not increase excise duty on buses to meet the mobility needs of all and launch a second fiscal stimulus for buses in cities***

In the budget of 2008-09, the government took the step to reduce excise duty on buses from 16 per cent to 12 per cent. In December 2008, as part of the fiscal stimulus plan it further reduced the duty to 8 per cent. These steps have been critical to deal with problems of pollution and congestion in our cities. But we hope you will agree with us that the taxes on buses must not be raised again. Ideally, the entire tax should be waived off.

This low tax should be maintained and even lowered for two reasons primarily. One, because even now, buses, which carry many more people in our cities are still being charged the same excise duty as small cars and two wheelers, which transport fewer people and are so inefficient with fuel. It is important to incentivise the public transport bus over the private vehicle. In a city like Delhi, where congestion and pollution is growing, cars and two-wheelers transport less than 20 per cent of the people. But buses commute between 40-60 per cent of Delhi. This is the case across the country.

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Two, high capital cost is deterring cities from augmenting their bus fleet. We have done a careful review of all public transport agencies across the country and find that unless the capital cost of the bus is reduced, the city cannot run an affordable yet modern and convenient bus service. A complete waiver on Central excise duty would help to stimulate growth and also give the signal to state governments to correct distortions in their fiscal policies as well. Ironically, in India today, instead of encouraging bus transport with fiscal measures city governments impose higher taxes on buses compared to cars. According to a World Bank study the total tax burden on buses is 2.4 times higher than cars.

The tax measures for buses must continue to be linked with the reform agenda for the transport sector that has been made conditional under the JNNURM programme.

***Agenda 2: To increase the Central excise duty on polluting diesel vehicles to reduce distortions because of the fuel price differential***

The available reports on current trends in vehicle sales and forecast indicate substantial increase and recovery. Economic recovery has begun to take hold. This spurt in sales is happening when our fuel prices have remained skewed and oil consumption in the transport sector is increasing. This has some serious implications for emissions that can be corrected only with fiscal measures. The market share of diesel cars is already over 30 per cent of new sales and is expected to be 50 per cent of new car sales by 2010.

It is very worrying that the official policies are encouraging massive dieselisation of the car fleet when ‘clean’ diesel (less than 15 ppm of sulphur) is not available in the country. Even with the introduction of Bharat stage IV in April 2010, for which huge amounts of public funds have been expended, the quality of diesel available in the country cannot be termed ‘clean’. This will further worsen pollution levels that are fast deteriorating not only in big cities but also in smaller cities and towns of India. The overwhelming growth in diesel cars can be devastating in cities desperate seeking answers to smoke, particles and NOx. According to WHO and other international regulatory and scientific agencies diesel particulates are carcinogens.

It is also equally important to note that the government is incurring huge revenue losses due to dieselisation of the private car fleet. The price of diesel is kept lower because of its use to transport goods and people in buses. But this price differential is a loophole that is leading companies to sell cars, which run on cheaper fuel to private (and often rich) individuals. The government has to absorb colossal revenue losses on account of the ‘luxury’ consumption of diesel.

While the Union government earns more than four times higher excise revenue from every litre of petrol used by a petrol car compared to a litre of diesel used by a diesel car. Central Government along with the public sector oil companies had absorbed nearly 86 percent of the impact of high international prices awhile ago. Since government charges less taxes on diesel and it controls the prices by paying for the under recoveries the use of cheap diesel for luxury consumption in cars is not acceptable.

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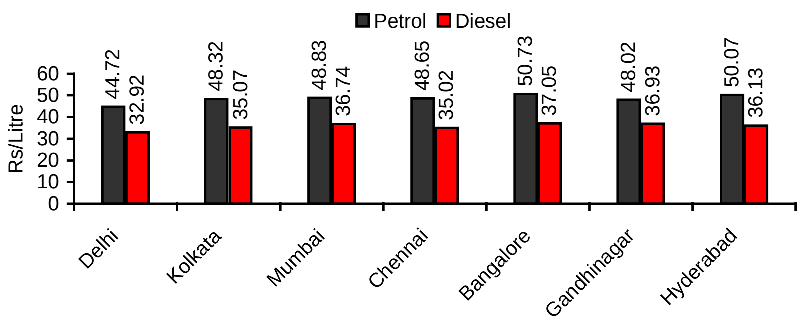
Even though a few cities will introduce Euro IV emissions standards from April 2010 that is not at all adequate to address the toxic emissions from diesel and the pollution costs associated with it. In fact, the European Commission has recently calculated the

difference in lifetime pollution costs of Euro IV compliant diesel car and petrol car and it shows major difference. The total pollution cost of a Euro IV diesel car is Euro 1195 as against Euro 846 for a petrol car. This nullifies the marginal greenhouse gas reduction benefit of diesel car.

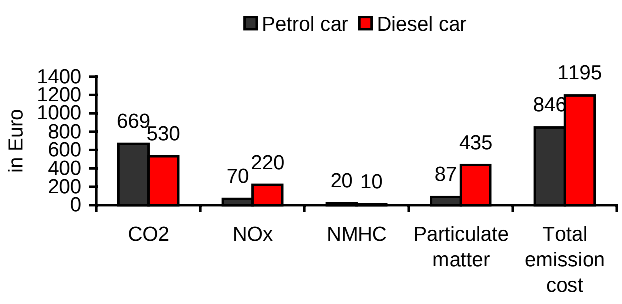
**Graph 1: Disparity in petrol and diesel prices in Indian cities**

*While the Union government earns nearly Rs 13.75 from every litre of petrol used by a petrol car as excise, it earns a mere Rs 3.71 from a litre of diesel used by a diesel car. Also states charge VAT at varying rates but maintain a lower VAT on diesel. This acts as huge implicit incentive for driving diesel cars.*




*Source: Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas*

**Graph 2: Lifetime pollution costs of Euro IV compliant diesel car is higher than petrol car**




Source: Franz Söldner 2009, *EU policy on clean vehicles*, European Commission, Directorate General Energy and Transport

It is also important to note that revenue losses are increasing also because of the special allowance made for the small compact diesel cars under the 2006 Union budget. This Budget allows lower excise duty for small cars. But this segment has been defined as a car of length not exceeding 4,000 mm and with an engine capacity not exceeding 1,200 cc for petrol cars and 1,500 cc for diesel cars. The more relaxed limit for diesel cars has brought within net a large number of mid segment diesel cars to qualify for the tax cut. This must also be changed.

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In view of these environment and economic concerns urgent steps are needed to rationalise taxation policy to remove incentives for diesel cars. One option is to equalise the price of diesel and petrol fuel. But we also know that this will not be immediately possible, given the constraints of different economic groups. The vehicle manufacturers also make full use of this loophole and government's helplessness in removing the differential.

We are therefore, suggesting that the Union Budget 2010, must increase the excise duty substantially on the diesel car and SUVs – it has to be at least 50 per cent of the value of the car – to negate the impact of the price differential between petrol and diesel fuels. Anything less than this, will not be adequate to stop the massive dieselisation of the private vehicle fleet in the country, which is bad for the environment and bad for the cost-recovery of oil companies.

Agenda 3: ***To use fiscal mechanisms to disincentivise fuel guzzling and polluting vehicles by restoring the special excise duty on bigger cars, MUVs and SUVs in the forthcoming budget***

We need special measures to prevent increase in SUVs that will not only worsen the fleet-wide fuel economy level but also increase emissions. Most SUVs also run on diesel. It is extremely worrying that following the pressure from the Indian auto industry the excise tax rate for large sized passenger cars were reduced last year and special excise duty was withdrawn to further stimulate the industry. The excise on big cars and SUVs must again increase to 24% and the special excise duty on bigger cars, MUVs and SUVs must be restored in the forthcoming budget.

This is clearly the trend across the world. Governments are increasing taxes on bigger cars especially the SUVs – most exemplary is the case of China in Asia – to minimise the energy and pollution impacts of the bigger vehicles. Governments are also learning to pay for the externalities of transport through pricing policies. In Shanghai, the number of vehicles is capped; in Shenzhen, substantially increased parking fee has lead to huge shift towards public transport.

We do hope you will consider our proposals in the Budget of 2010. We look forward to your intervention on these issues.

Yours cordially

Sunita Narain Anumita Roychowdhury