

NATIONAL COUNCIL OF BHUTAN



A Policy Review on Import of Secondhand Electric Vehicles

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Policy Review on Import of Secondhand Electric Vehicles

1. Background

In October 2013, the Hon'ble Prime Minister at the Friday Forum inaugural address at Royal Institute for Governance and Strategy Studies (RIGSS) in Phuentsholing shared his vision and idea of introducing electric cars in Bhutan. The main rationale to push this idea was (a) to continue the country's policy of environmental conservation and (b) as a possible remedy to the existing economic strain due to large volume of fossil fuel imports.

As per Kuensel news report, Hon PM stated that: "Electric cars can be used to reach from one place to another," He said, "We enjoy the world's cheapest electricity and it's clean." He asked if parliamentarians, Cabinet ministers and civil servants could drive electric cars. "Can electric vehicles be converted into taxis?" he said. A regular taxi, he said, consumed Nu 800 worth of petrol every day, while electric cars consumed Nu 7 worth of electricity. "Assuming 2,000 petrol and diesel-run taxis were converted into electric ones in the next two years, we'd earn Nu 568M a year,"

Since then, the Government has taken several initiatives to bring in international electric car manufacturers such as Nissan and Mahindra to Bhutan while also promoting a domestic e-car company called Thunder Motors.

While the initiative may be based on noble objectives, there have been some concerns on lifting of ban on **import of second-hand electric cars in particular**. This brief note seeks to highlight some of the legal and policy considerations that may have to be taken into account with the above decisions.

2. Issues concerning Import of Second hand electric Vehicles.

Import of second hand cars were stopped from 1996 in view of emissions and the risk of Bhutan becoming a junkyard for used cars and the associated chemical pollution. In this regard, the 53rd Coordination Meeting of the Council of Ministers on November 30, 1999 had decided to ban all secondhand vehicles regardless of their origin. The decision was in keeping with the environment policies of the country.

In 2013, the Government made an exception to allow the import of secondhand Ambulances Fire-fighting vehicles and Garbage Trucks which were less than 10 years old. This exception was made since the above vehicles are meant for public use and came as part of grant assistance.

On 10th March 2014, as per letter C-3/26/325, the Government approved the import **of second hand electric Nissan Leaf vehicles** with mileage less than 30,000 KM to be used as taxis in the country. The letter further states that it partially modifies the standing ban on import of all secondhand automobiles regardless of origin issued vide COM/02/99/48 dated December 6, 1999. The order further states that the government needs to buy the existing taxis and sell them out of the country through some arrangement.

However, based on the PM's inaugural speech in RIGSS, if the reasons for promotion of electric vehicles in the country are to uphold the country's policy of environmental conservation and remedy existing economic situation by reducing fuel imports, then such a policy shift merits a deeper reflection.

2.1. Environmental Issue with Secondhand Electric Vehicles

While the main reason for disallowing import of secondhand car is to prevent the country from being used as a dumping ground for other countries trying to dispose off their used vehicles, allowing import of secondhand electric vehicles could have double impact. In addition to the junk that the electric vehicles itself will form in the long run, the battery pack, which is the integral part of electric vehicle may wear out sooner and it could make up a significant portion of the country's e-waste and pose a serious disposal problem for the future.

Japanese Experience with Electric Cars as Taxis¹

The record of using electric vehicle as Taxis in Japan has not been an encouraging one. A news report in the *Japan Times* in early 2013 the following summary is presented:

1. In February 2011, the city of Osaka introduced a fleet of fifty Nissan Leaf taxis. The deal was a cooperative arrangement between Nissan, 30 taxi firms, and the government-- each was being subsidized to the tune of 1,780,000 Yen--over \$21,000 at the time.
2. The initial reviews from the drivers were favorable.

"It's not fatiguing to drive them. There's no vibration or knocks from the engine," gushed an employee at one taxi firm. "They just glide smoothly. The electric power is far cheaper than outlays for gasoline, and there are few mechanical failures. Eventually we're certain that EV taxis will become the most common type on the road."

¹ Osaka's great EV taxi experiment does a slow burnout Jan 14, 2013 in [Japan Times Newspaper](http://www.japantoday.com/smartphone/view/kuchikomi/osakas-great-ev-taxi-experiment-does-a-slow-burnout), <http://www.japantoday.com/smartphone/view/kuchikomi/osakas-great-ev-taxi-experiment-does-a-slow-burnout>

3. But two years later, the situation changed and the reason being mainly degradation of the battery packs. The Japan Times reported that:

“ Where a 60-mile range was once common in regular use, some are finding that cut to as low as 30 miles--and to save energy as much as possible, some drivers are shunning the car's heater in favor of chemical pocket warmers, and even blankets.”

Degradation of the battery pack has also had an effect on the battery's ability to take a quick charge. The battery charging time more than doubled from 15 minute (for brand new battery) to 40 minutes. They can't travel as far, and they can't spend as much time on the road--and it's ruining business, for some. Customers requesting longer trips are even being turned down.”

This may be an isolated case that needs further validation but there are not many examples around the world of electric car being used that is worth closer examination to learn from. So while the government's current intervention to facilitate and subsidize secondhand electric vehicles to be used as Taxis in Bhutan may be laudable, it could work out to be a lot more expensive both for the passenger and taxi drivers; and for conservation of environment, if thorough analysis are not undertaken.

2.2. Will import of electric cars reduce fuel imports?

Besides the environmental benefits, the major reasons for the electric car initiative were listed as: to reduce excessive dependence on fossil fuel, correct current account deficit situation and improve the Rupee reserve. According to news reports, the above objective is planned to be met by replacing petrol cars, starting with Taxis.

While the above objectives are noble, the reality based on evidence is quite contrary. For example the tables below and show the volume and value of fuel imported and Dzongkhag distribution.

Product	Volume (KL)	% volume 2012	Value in Million Rs.	% value 2012
Diesel	121,832.00	80.72	4,601.90	73.88
Petrol	29,094.00	19.28	1,626.82	26.12
Total	150,926.00	100.00	6,228.72	100.00

Data: Department of Trade, MOEA, 2014

From the above table, it is clear that Diesel imports dominate the fuel imports in terms of both volume (81%) and value (74%). Therefore, substitution of petrol cars such as taxis is unlikely to make a meaningful difference to the economy.

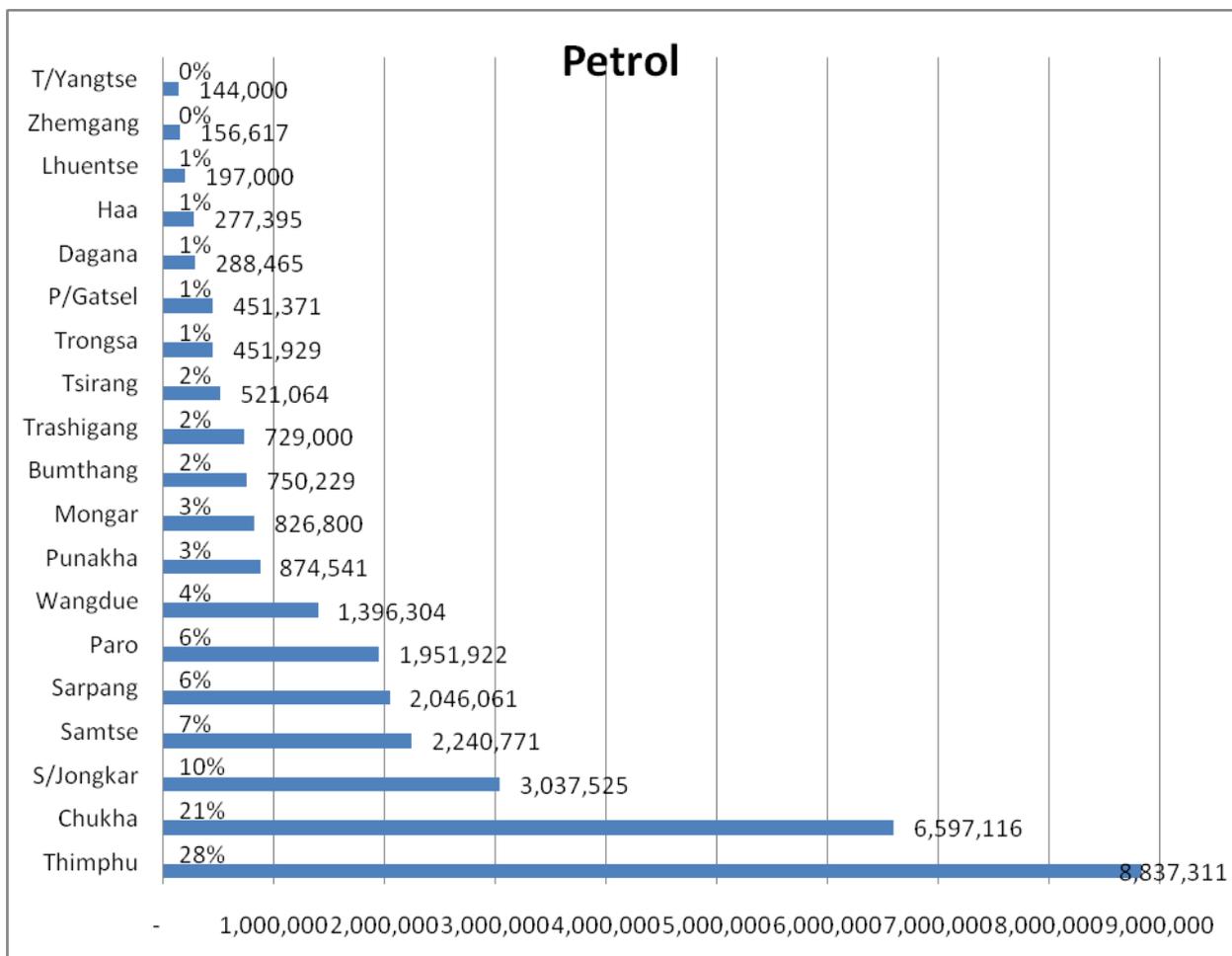
An analysis of the growth in Petrol and Diesel imports is shown below.

% Growth	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Diesel	10.23	11.70	4.55	1.24	-1.53	9.52	3.19	12.32	33.16	21.01	17.59
Petrol %	16.37	12.26	15.36	16.74	10.46	10.29	3.65	13.32	18.84	14.25	8.72

Data: Department of Trade, MOEA, 2014

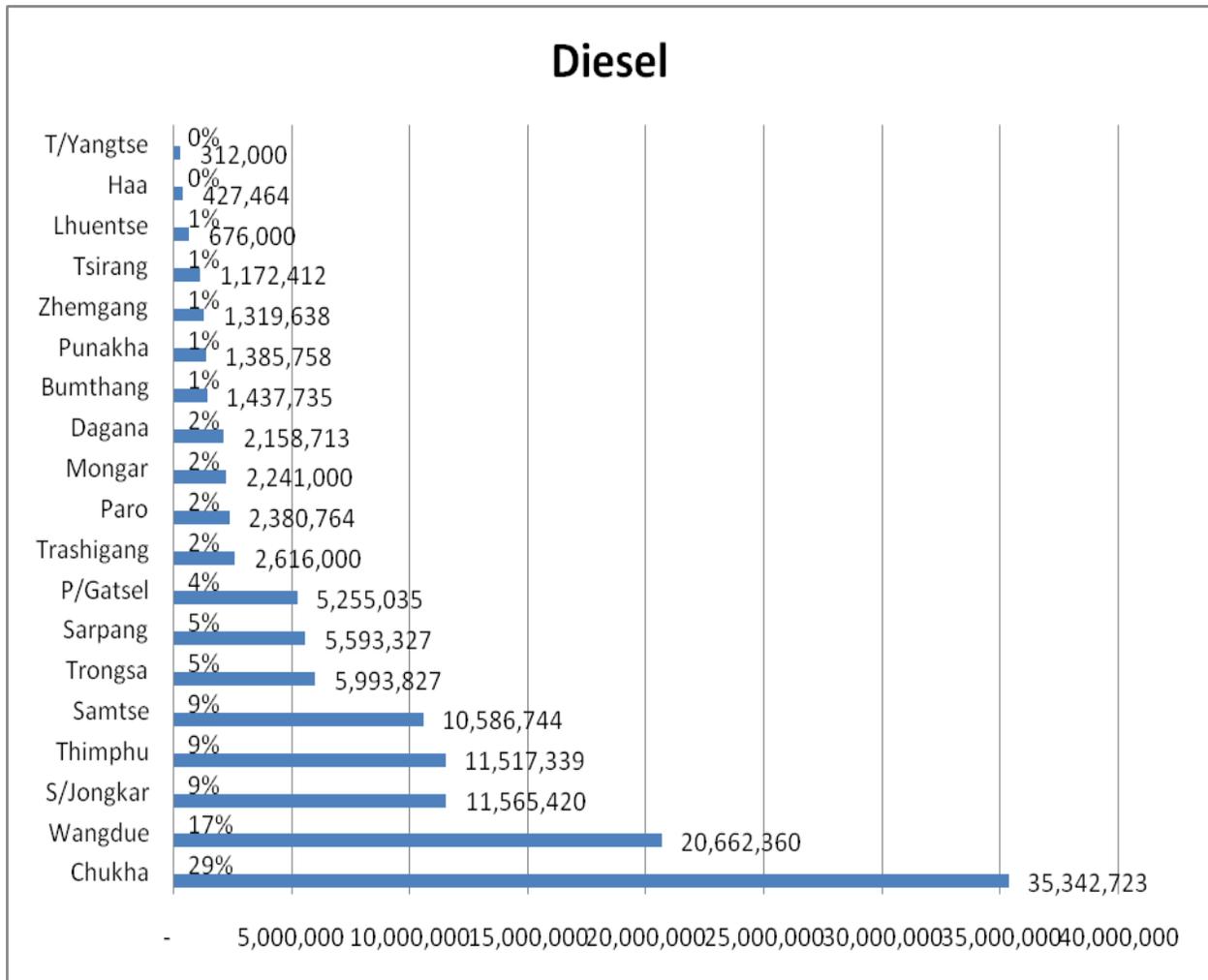
There has been a sharp growth in both petrol and diesel imports from 2009 onwards. This roughly corresponds to the period that witnessed hydropower and real estate construction boom preceding the rupee crisis.

The chart below shows the volume of Petrol in liters distributed across the country.



About 72 percent of total Petrol consumption is in the top five Dzongkhags of Thimphu, Chukha, Samtse, Samdrup Jongkar and Sarpang. Thimphu is a major population center and is understandable. However, all others are border towns in the South.

The next chart looks at the Diesel consumption Dzongkhagwise in Liters and it is quite revealing.



Data: Department of Trade MOEA, Thimphu 2014.

As seen in the table above, about 73 percent of the total Diesel in the country is consumed in the top five Dzongkhags comprising of Chukha, Wangdue, Samdrup Jongkar, Thimphu and Samtse. These Dzongkhags are either border towns with high movement of heavy freight vehicles, or areas with intensive construction activities and use of heavy machinery and trucks which consume diesel. Thus we can see that unless electric vehicles replace heavy trucks and machines, the economic impact will be very nominal.

Considering the above facts, it is unlikely that electric cars will have a major impact on the trade balance and rupee balance.

2.3. Legal Provisions concerning import of Secondhand Vehicle

In keeping with the environmental policies of the country, the 53rd Coordination Meeting of the Council of Ministers decided to ban all secondhand vehicles regardless of their origin on 30th November, 1999.

In the following year, the National Assembly passed the "Sales Tax, Customs and Excise Act 2000". The essence of the secondhand vehicle import ban is reflected in Section 45(h) of the Act, which restricts the import of used or second hand goods, vehicles, machinery and equipment into the country.

Section 33.2 of Part II (Customs) of the Act states that,

"Officials of Diplomatic Missions, International organizations and experts may instead of new vehicles bring in their used and second hand vehicles along with them on their transfer to Bhutan. Such vehicles however shall not be permitted to be sold or transferred to any Bhutanese or privileged persons and shall have to be re-exported on his repatriation".

Section 2 of the Rules and Procedures for Imports from Third Countries 2001 includes second hand vehicles in the list of "Negative Goods" which are prohibited for import when it states:

"The import into Bhutan of goods of the following nature shall be prohibited:

c) Second hand or used vehicles other than those imported by privileged personnel of Diplomatic Missions and International Organizations under conditions specified under the Customs Act and such other categories of persons as may be specified by the Royal Government from time to time".

Based on these provisions, the import of used or second hand cars into the country has been banned by law, except for those that belong to officials of Diplomatic Missions and International Organizations and experts. Even in these cases, the vehicles are required to be re-exported upon the repatriation of the official. The legislative intent of above provisions is very clear and does not provide legal means to import second hand cars. Clearly, the letter and spirit of the law was in keeping with the environmental policy of the country and intended to prevent the country from being used as a dumping ground of used vehicles from developed country.

3. Conclusion

The policy to allow import of secondhand electric vehicle is contrary to the long held belief of the Royal Government on its environment conservation initiatives. The intent of government's intervention to facilitate and subsidize secondhand electric vehicles to be used as Taxis in the country is laudable, as it the move is expected to make taxi service cheaper and profitable. However, Taxis are generally chosen for its reliability and simplicity and unless thorough analysis are undertaken learning from experiences around the world, it could work out to be a lot more expensive both for the passenger and taxi drivers as well as environmentally. It is clear, that Diesel imports dominate the fuel imports in terms of both volume (81%) and value (74%). Therefore, substitution of petrol cars such as taxis is unlikely to make a meaningful difference to the economy.

More importantly, in keeping with the country's environmental policy to conserve and promote clean and waste-free environment, the ban on import of secondhand vehicles has been in place as early as 1999. Consequently, the essence of the ban has been enacted in the legal provision of "Sales Tax, Customs and Excise Act 2000." Further, Section 2 of the Rules and Procedures for Imports from Third Countries 2001 includes second hand vehicles in the list of "Negative Goods" which are prohibited for import. Therefore, both the letter and spirit of the law does not allow the import of secondhand cars in the country.

In the case of secondhand electric cars, the damage to the environment could be two folds; degradation of battery pack that are used in electric cars and the car itself. Hence, making an exception to allow the import of secondhand vehicles even by liberal interpretation of law stands contradictory to the very rationale with which the government is promoting electric car and consequently the country may face serious disposal problem in future as a result of such policy changes.

4. Resolution to observe the import of secondhand electric vehicles.

Respecting Article 5.2 of The Constitution of Bhutan, which states that "*the Royal Government shall:*

- a) Protect, conserve and improve the pristine environment and safeguard the biodiversity of the country;*
- b) Prevent pollution and ecological degradation;*
- c) Secure ecologically balanced sustainable development while promoting justifiable economic and social development, and*
- d) Ensure a safe and healthy environment."*

Recalling the decision of the 53rd Coordination Meeting of the Council of Ministers to ban all secondhand vehicles regardless of its origin as early as November 30, 1999 with the intent to stop our country from being used as a dumping ground for secondhand vehicles;

Abiding by section 45(h) of "Sales Tax, Customs and Excise Act 2000" which restricts the import of used or second hand goods, vehicles, machinery and equipment into the country and section 33.2 of Part II (Customs) of the Act that categorically disallow the sale or transfer to any Bhutanese or privileged person the second hand vehicles of officials of Diplomatic Missions, international organizations and experts permitted to bring their car in the country for their use under the condition that such vehicles be re-exported upon his/her repatriation.

Further abiding by Section 2 of the "Rules and Procedures for Imports from Third Countries 2001," that prohibits the import of second hand or used vehicles in the country;

Acknowledging the Government's main rationale to promote the use of electric vehicles was to continue the country's policy of environmental conservation;

And Recalling the past resolution of the National Council calling upon the government to consider providing affordable, reliable and efficient public transport (electric or non-electric) as one of the methods to address the growing concerns of traffic congestion and rising fuel imports;

Foreseeing the uncertainty and uncalculated risk of converting secondhand Nissan Leaf vehicles as taxis which in a few years could create multiple problem in the disposal of both the car as well as the exhausted batteries;

The National Council, here by requests the Royal Government to

- 1) Continue observing the ban on the import of secondhand vehicle including the import of some 40 secondhand electric car (Nissan Leaf as reported in the media) as per the letter

and intent of the provision of "Sales Tax, Customs and Excise Act 2000" and "Rules and Procedures for Imports from Third Countries 2001."

- 2) Re-examine the government decision to facilitate and subsidize second hand electric cars to be used as taxis in light of its efficiency, reliability and eco-friendliness.
- 3) To place greater emphases on promoting efficient, affordable and reliable public transport (electric or non-electric).
