

EIGHTY-THIRD REPORT

ESTIMATES COMMITTEE (1983-84)

(SEVENTH LOK SABHA)

MINISTRY OF INDUSTRY—MOTOR CARS



Presented in Lok Sabha on 26 April, 1984

LOK SABHA SECRETARIAT
NEW DELHI

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ESTIMATES COMMITTEE

(1983—84)

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1. Shri T.R. Krishnachari—*Joint Secretary*
2. Shri Bipin Behari—*Chief Financial Committee Officer*
3. Shri S.P. Chanana—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of Estimates Committee, having been authorised by the Committee to submit the report on their behalf, present this Eightythird Report on Ministry of Industry—Motor Cars.

2. The Committee took evidence of the representatives of the Ministry of Industry on the 7th March, 1984. The Committee wish to express their thanks to the officers of the ministry of Industry for placing before them the material and information desired in connection with the examination of the subject and giving evidence before the committee.

3. The Committee also wish to express their thanks to the representatives of (i) Hindustan Motors Limited, Calcutta and (ii) the Premier Automobiles Limited, Bombay for giving evidence and making valuable suggestions to the Committee.

4. The Report was considered and adopted by the Committee on 24 April, 1984.

5. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report, and have also been reproduced in a consolidated form in Appendix to the Report.

NEW DELHI

April 25, 1984
Vaisakha 5, 1906 (S)

BANSI LAL

*Chairman
Estimates Committee*

CHAPTER I

MOTOR CAR INDUSTRY

1.1 The Indian car Industry is an Important segment of the automotive industry, which comprises passenger cars commercial vehicles, jeeps, tractors, two wheelers, three wheelers and engines. M/s. Hindustan Motors Ltd. were the first to enter in the field of Passenger car manufacture in the year 1940.

A. Production of Passenger Cars

1.2 At present there are five established manufacturers of Motor cars namely, M/s. Hindustan Motors Ltd., Premier Automobiles Ltd., Standard Motors, Sipani Automobiles and Maruti Udyog Ltd. The bulk of car production is done by M/s Hindustan Motors and M/s Premier Automobiles. Production of cars by M/s Standard Motors and M/s Sipani Automobiles is very low. M/s Maruti Udyog Ltd., has started trial production in December, 1983 and expect to manufacture 20,000 cars/vans in the year 1984-85.

1.3 Asked whether Govt. agreed that with the bulk of car production controlled by M/s Hindustan Motors and M/s Premier Automobiles, there had virtually been no competition whatsoever in the Passenger car industry, the Secretary, Ministry of Industry stated in evidence :

"I am inclined to agree to this. Bulk of car production is controlled by two "

1.4 The Committee enquired what factors had been responsible for absence of competition in the passenger car industry. In reply, the witness stated :

"The factors which are responsible for the absence of competition have been that in the context of our own developing economy, greater priority was accorded to infra-structural industries and not to a sector which was considered to be a sort of luxury item.

For a number of years that had been the approach of the Govt. on account of which new licences were not given and the production was

not upto capacity. In fact, issue of new licences and production to full capacity are both needed for creating competition."

1.5 The Committee then wanted to know the steps the Ministry proposed to take to introduce healthy competition in the passenger car industry. The witness stated :

"Considering the anticipated demand in view of the general economic growth in the country, Govt. did feel that a stage has come that this sector should have substantial growth. The scope for the growth of this sector is definitely more than other sectors and this is the sector which leads to the development of engineering industries.

"It is highly employment oriented because it is the manufacture of ancillaries which require employment of much larger numbers and there are indirect employment opportunities in servicing facilities of vehicles, spare parts and repair works, etc.

This consideration led to the conclusion that a stage has arrived when we should liberalise the licensing policy and expand installed capacities. It is this conclusion that led to the major decision in Introduction of fuel efficient cars by Maruti. It is a small car and relatively low priced one. Our intention was that we should go in for a car where the volume could be bigger and it is possible only if it is low priced.

It was with this idea in view that about two years ago, car industry was included in Appendix I."

1.6 The Committee observed that even now in respect of cars below 1000 cc, there was going to be only one manufacturer and wanted to know how it would lead to competition unless 2 or 3 more companies were there. Agreeing with this, the witness stated :

"As an approach what you suggest is correct. But the danger is this. Instead of one factory for 1 lakh, if we have 3 factories of 30,000, car prices will be much higher. It is not in consumer's interest. By and large demand in country will become 1.5 lakhs Japan's demand is in millions. Large manufacturers can manufacture not one or two but three sizes."

1.7 To a suggestion that there should be more manufacturing units, the witness stated :—

"If I make a car I have to make initial investment in dies in ~~the~~

parts, forge parts, You make a die and it is very costly. There are hundreds of dies which need pressing. Whether you manufacture 20,000 cars or 100,000 cars, the investment on dies remain the same; eg. if we set up three plants and every plant invests separately for each die, the price of each car will be more.....

As far as cars having different HPs is concerned, we do not have merely two income groups in India. There is a variation. There are people who will prefer to purchase a car worth Rs. 70,000 rather than that worth Rs. 50,000/."

1.8 The Committee pointed out that the suggestion of having more manufacturing units was to bring about effective competition in the passenger car industry. Agreeing with this, the witness stated :—

"It is definitely a good objective, but not at the present stage."

Development of new designs of cars

1.9 Asked what steps had been taken by Government to generate healthy competition in this industry, the Secretary (Department of Heavy Industries) replied :—

"Competition is being generated. 'Maruti' has come. Others are also improving their product.

The manufacturers of Ambassador cars are bringing a new model "Contessa" which is likely to hit the market by the middle of next year. It will have a 1600 cc fuel efficient engine, improved gear system and suspension.

The new Fiat will have a 1300 cc engine, Premier people are also now working on a new model. They have informally been seeking a collaboration with the Japanese. I was also told that some of the Japanese have already told them that they are prepared to give them a complete car, a more efficient carMy own information is that within a week or two they will come forward to us with their proposals. Naturally they will also take some time for developing a new engine and start manufacturing."

1.10 As regards "Standard Car", he said :—

"They are now getting a chance in bringing Rover 2,000 British car and this is a very good car. That will reduce the pressure on this very high black market price of big imported cars.....It will be of 2000 cc."

1.11 About "Sipani Car", the Secretary (Heavy Industries) stated :—

"This is a new type of car which is being developed with fibre glass particles. For these cars, the manufacture has to pay royalty for the collaboration. I do not think that in the long run that is going to be successful."

1.12 Concluding his observations on the point, the witness added :—

"Four (Model) are now in position—from Maruti to Rover. They are of four different sizes. The concept here is that our labour is cheap. You look at what is happening in the Western countries and in Japan. If you go to the Japanese car factory, you will find that they have reduced the costly labour by developing automated machine tools. Automation becomes economical for the factory manufacturing 2 lakhs to 3 lakhs cars. Since they are making this number, with automation, their production cost becomes lower than with our cheap labour. That is my first point. My second point is that with automation, however skilled a man may be, the accuracy will come and the finish will be good. Today the whole technology in the engineering industry has changed. With that concept, our capacity to compete with cheap labour becomes very difficult. But, if we introduce more models of cars or if, everybody continues to manufacture small numbers of them, then, the chances are that we will not be able to export. This is the first point that we will have to keep in our minds. So, the first thing is that : The number of cars/scooters to be made by one company per year should be large. There are east European Countries—not Soviet Union but others—who do not manufacture in a big way like Bulgaria, Czechoslovakia, to an extent, Poland, etc. I do see the impact if we have the quality. Instead of 1 lakh we can expand much more. There is no harm if others can do it also."

1.13 The Ministry of Industry (Dept. of Heavy Industries) have, in a written note to the Committee described the foreign collaboration proposals in respect of car industry as follows :—

M/s Hindustan Motors : The company has submitted a proposal for foreign collaboration for manufacture of fuel efficient engines, transmission and axles with M/s Isuzu of Japan. This is under consideration of Government.

M/s Premier Automobiles : At present no proposal of company is pending with the Government.

M/s Standard Motors : The company has entered in collaboration with M/s Austin Rover Group of U.K. for import of design of body and suspension recently.

M/s Maruti Udyog Limited : The company has entered in collaboration with M/s Suzuki Motor Co. Japan for manufacture of 796 cc fuel efficient cars. The production of cars has since been started.

M/s Sipani Automobiles : The company have a tie-up with M/s Reliant Motor Co. of U.K. under the TDF scheme for manufacture of fuel efficient cars.

1.14 The models of the cars manufactured by M/s Hindustan Motors and M/s Premier Automobiles have remained practically unchanged for 25 years. It was only in 1977 that these Companies were given permission for import of designs, drawings and specifications manuals for improving design of the body. Further, no new licences were issued nor was permission accorded to the existing production units to increase their capacities. Only recently Government have come to realise the importance of the Passenger Car Industry in the economic growth of the country and in generation of employment opportunities—both direct and indirect. This belated awareness led to the setting up of additional capacity for the manufacture of passenger cars in the public sector. While the Committee welcome the reorientation of the Government policy in regard to manufacture of passenger cars, they regret that a timely study was not made to assess the economic importance of the industry and the industry was, until very recently, left completely stagnant with the result that outmoded cars manufactured by the Private Sector units were being foisted on the consumers at exorbitant prices.

B. Demand Projections

1.15 The Sub-Group on Automotive and Allied Industries constituted in connection with the formulation of the VIIth Plan had in October, 1981 estimated growth in demand as under :—

Year	Number of cars
1984-85	60,000
1985-86	80,000
1986-87	1,00,000
1987-88	1,30,000
1988-89	1,50,000

1.16 Asked about the composition of the Sub-Group, the Secretary, Ministry of Industry stated in evidence :—

“As you are aware of the practice that before five year plan formulations for various sectors, working Groups are constituted to work out the demands. So, in this case also it was constituted and this was headed by the concerned Joint Secretary in the Dep't. of Heavy Industry as Chairman and it had representatives from DGTD, Planning Commission, Department of Commerce, Department of Petroleum, Department of Expenditure in the Ministry of Finance, Ministry of Transport, Association of Indian Engineering Industries, Engineering Export Promotion Council etc.

1.17 Explaining the basis on which the demand projections had been made by the Sub-Group, the witness stated :—

“This Group, based on their own assessment and also with the knowledge that there are going to be possibilities of new capacities to be set up in the country in the near future, came to a certain conclusion and evolved this pattern. The Working Group was constituted much earlier than the Maruti Udyog Ltd. was set up.”

1.18 The Committee asked if the demand projections made by the Sub-Group were realistic, why did the Department of Heavy Industry also commission M/s A.F. Ferguson and Co., New Delhi for assessing long term demand projections for automotive vehicles. In reply, the witness explained :—

“Recently during our own discussions in the Department of Heavy Industry and also in the Development Council there is a Development Council for automotive sector in which various people from the industry and from the Government are also associated. We did feel that once at least we must do a much more thorough study which should be based on a commercial type of demand surveys in which people should talk to people, take their opinion and that should set the right development pattern. So, we thought that we must have a total study of that type not only for cars but for the whole of automotive sector, that is, starting from 2-wheeler mopeds, scooters, cars, light commercial vehicles, heavy trucks, medium trucks and all that. It was for the entire range of automotive sector. Why we gave it to an outside agency is because we thought that this type of study will need quite a few persons on a continuous basis. We thought that it is a one-time job for which some

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persons are required for six to eight months. We cannot ask the people from the Government to do this full time survey work and not do anything else. So, we thought of entrusting this type of work to a professional body who could send their people all around the country. Apart from Ferguson, two other parties were trying to do that. In the selection process, we called them, they gave their suggestion and they said 'this is the manner in which we would like to do it.' Ultimately we selected Ferguson."

1.19 Regarding the fees to be paid to M/s A.F. Ferguson and Company, the Secretary stated :

"The payment committed to them is Rs. 2 lakhs. So far, we have paid them Rs. 1.35 lakhs."

1.20 Asked whether the report of M/s A.F. Ferguson and Company had been received, the witness stated :—

"The report is not yet complete. We have told them that the report should be completed within a month's time. In the meanwhile, we are having continuous discussion. We have brought these people face to face with the members of the Development Council, when the Council last met in Pune last month. They have developed computer models, regression models, taking into consideration all types of factors which lead to demand. It is very interesting study. I am sure they are going to spend more than what they will get from us ; but they are also trying to establish their credibility and that this type of studies are useful. For the first time in the country this type of study is taking place. We feel this is going to be a very useful document for generating a new concept of study of demands, not only in this sector but in other sectors as well."

1.21 The Committee enquired whether any time limit had been fixed before which the report should be made available. In reply, the witness stated :—

"We have been participating in the discussion. They have already given us an interim report which, as I said, was discussed in Pune last month. It is bulky document. They have to get the views of the automobile industry and other Ministries who contribute to transport or resources. They told these people 'this is how we are going to work it; we would like to have your suggestions'. A lot of suggestions were given

to them. They are working on this. It should not take more than one month. I am confident that by the end of April the report would be coming."

1.22 The Committee note that the assessment of demand for the whole range of Automobiles including passenger cars has been entrusted to a private firm at a cost of Rs. 2 lakhs. According to the evidence tendered by the Secretary (Heavy Industry) before the Committee, Government appeared to be satisfied with the professional competence of the firm and the methodology adopted by them. The Committee regret that such an exercise was not made earlier. If such data were available to Government earlier, it could have formed a more objective and credible base for reviewing the licensing policy in regard to the manufacture of passenger Cars.

C. Enhancement of Licensed Capacity

1.23 A car manufacturing company has, in a Memorandum, submitted to the Committee pointed out that :—

"It is equally necessary that the industry is allowed to have a normal and healthy growth in its volume of production in order to counter the increase in the cost of inputs. Even this facility is denied to the industry. For many years the industry was assigned a low priority and the expansion of capacity was not favoured. Even today, though the industry has been placed on the priority list, there are constraints with regard to the capacity expansion. Our request to Government for enhancing our licensed capacity by 33% on the best achieved production in accordance with the liberalised industrial policy announced by the Government was turned down by the Government on the grounds of 'dominance factor'."

1.24 Asked to offer his comments, the Secretary (Department of Heavy Industries) stated in evidence :—

"...there is a scheme for re-endorsement. Scheme for reendorsement was not made only for automobile. It was a total scheme in the licensing system which has been announced in Parliament and it is applicable to all types of vehicles. Re-endorsement scheme is for the entire range of industry and it is applicable to car industry also provided dominance of the units concerned does not increase after re-endorsement. That was the condition in the re-endorsement scheme. There are only two companies. Which one is more dominant-each one has more than 30%. So for re-endorsement, again they fall into MRTP. But after a few years

when Maruti comes up then they will be out of dominance and then it will be applicable. Instead of going through re-endorsement they could follow other routes.

25% increase of production if they do, it is permissible. They could ask for additional licence. We were prepared to consider that having put the car industry in Appendix I. Not that this has become a constraint. If they wanted, we could consider favourably. In fact Hindustan Motors had come to us. They wanted to increase their capacity from 30,000 to 50,000."

1.25 The Secretary (Heavy Industry) has justified the setting up of a new unit for the production of passenger car in the public sector with a capacity of 1,50,000 units per year on the ground of achieving economies of scale. The Committee recommend that this consideration should be applied also in the case of requests for expansion of existing capacities from the manufacturers of passenger cars in the private sector so that the benefit of economy of scale is available to consumers of the types of cars being produced in those units.

CHAPTER II

PRICING POLICY

A. Pricing Policy

2.1 Prices for passenger cars were fixed after enquiry by the Tarif Commission in 1956. Since then increases in prices were allowed from time to time after investigations in the claims made by different companies by the Chief Cost Accounts Officer. In order that a rationale for price fixation of cars could be finally evolved the Tariff Commission was requested to undertake in 1966 an enquiry into the cost of manufacture and cost of sales of passenger cars and recommend fair selling prices. The report of Tariff Commission was received in August, 1968. While the report was under consideration of the Government two of the three manufacturers of passenger cars unilaterally raised the ex-factory prices of their cars. In this situation, therefore, Government had no alternative but to fix the fair selling prices of passenger cars under Section 18 (G) of the Industries (Development & Regulation) Act 1951 on 21.9.1969. The manufacturers of passenger cars questioned the validity of the Government Order fixing the Prices of passenger cars before the Supreme Court in a Writ Petition. The Supreme Court in their judgement dated 24th November, 1971 held the Government Order dated the 21st September, 1969 in effective. The court laid down certain principles on which fair selling prices of passenger cars were to be fixed. A list of the principles is given below :—

- (a) The production capacity should be taken as 30,000 cars & 5,000 commercial vehicles for Hindustan Motors;
- (b) 14,000 cars and 6,000 commercial vehicles for Premier Automobiles ; and
- (c) 3,400 cars and 1,000 commercial vehicles for Standard Motors.
- (d) The cost and expenses on account of bonus and warranty should not be included in the ex-works cost but should be met out of the return.
- (e) Depreciation on account of plant and machinery should be on the

basis of the historical cost as followed by the car prices commission.

- (f) The return on capital employed should be 16% as recommended by the Commission.
- (g) The prices recommended by the car prices Inquiry Commission for July, 1970 should be modified on the basis of the aforementioned factors and brought up-to date by allowing for variations in cost of production since July, 1970.
- (h) Provision should be made for escalation of the prices of the cars after the initial fixation. The position should be reviewed by Government every six months in the beginning of the months of January and July.

2.2 In pursuance of the Supreme Court direction car prices were fixed by Government on 24.1.1972 and thereafter on every 1st of July, and 1st Jan., till 31.12.74, when the price control on car, was withdrawn with effect from 1.1.1975.

2.3 Asked to indicate the prices of cars prior to 1975, the Secretary, Department of Heavy Industry stated in evidence that in 1974, the prices of cars were as follows :

“The ex-factory price, without excise duty, Sales Tax and other charges.”

Hindustan Motors (on 1.1.74)—Rs. 17,250

Premier (on 1.7.74) — Rs. 20,710

2.4 When asked to justify the decontrol of car prices in 1975, the witness stated :—

“I am sure the Committee would appreciate that if you see the prices rise, from 1.7.81 it is almost for 2½ years. The Ambassador price has not increased even by a rupee and those were days without control. In the case of Premier from 1.7.81, the increase was in January 1983. We called them back. They increased by Rs.3,000. We forced them to go back. This is the first time probably it has happened that a dealer who had announced the price, had reduced it by Rs. 1500. During 2½ years the Premier car prices have increased only by Rs. 1500. I am telling you as to what we are doing today. Without having a

statutory control, we have been able to stabilise the price mainly by keeping a very close dialogue with the industry.....We have been trying to find out by a method of our own how to reduce the price or how to stabilise the price. It was said that there was inflation effect. We accept that certainly there is inflation. There is also a better management method followed by which we can increase the productivity and we can control the rejections. There are other methods by which this can be reduced. That is what is to be aimed I must say that the industry has responded and during the 2½ years, the production of Fiat has increased. Hindustan Motors production has not increased. At the same time in July meeting they had assured us that they would not increase the price for the current year."

2.5 The Committee enquired whether Government exercised any control on the price of car atleast at the time of manufacturing new models as the manufacturing companies wanted to make profit in the beginning itself, in reply, the witness said :

"We do institute a study by the Bureau of Industrial Costs and prices. They go into the price structure of the cars. Till 1975 the point was that they had been making huge losses under the price control. If you go by the balance sheet, you will find that they are at a loss. Probably the Supreme Court has given guidelines in which they said that 16% of return on capital should be laid down even after 1975. At one stage they had been making profits. If you see the year to year figure, you will find that it is only from 1978 or 1979 onwards that they started making profits."

2.6 Asked whether the prevailing car prices could be considered reasonable, the witness stated :

"The Bureau of Industrial Costs and Prices conducted the survey and they did not find justification for reduction in the price of passenger cars having related it to cost structure of industry, the incidence of taxation, etc. In fact they, did not support the price control and they said that only through competitive situation, you would be able to control it."

2.7 The Committee note that following price decontrol in 1975 there has been substantial rise in the price of passenger cars. The Committee would like the Ministry to institute a study as to how far the rise in the price of motor cars in the period immediately following price decontrol was justifiable and inform the Committee of the result thereof.

The Secretary (Heavy Industry) has told the Committee that during the last 2½ years Government have been stabilising the price of car "mainly by keeping a very close dialogue with the Industry." They also note that a survey by the Bureau of Industrial Costs and Prices did not support re-imposition of price control and forward controlling the prices "only through competitive situation". The Committee trust that the Ministry will continue to keep the prices of cars under constant review and, if any unjustified aberrations are noticed, take suitable remedial measures either by informal consultation with the Industry or by taking recourse to statutory measures, if necessary.

B. Tax Structure

2.8 A car manufacturing Company has pointed out, in a Memorandum that :—

"One of the main reasons for high price of the car in the hands of the consumer in India is multiple and steep levy of various indirect taxes such as Excise duty, Customs duty, Sales Tax, Octroi, etc. These levies are not only applicable to the end product but are also applicable on the raw materials and components that are procured by automobile manufacturers. Even the manufacturers of raw materials and components also pay these very levies with regard to their inputs of raw-materials and components. In other words, apart from the high rates of tax on the end product, there is a cascading effect due to levy of tax on tax which is in-built in the price of end product at each stage of manufacture. We have estimated that the incidence of tax in the price of the car works out to as high as 66%.

2.9 In support of their statement, the car manufacturing company has shown the details in the Memorandum the tax element in the ex-show room price of Premier Padmini car in Bombay as follows :—

Particulars	Rs.	Tax elements
I.Ex-factory price	48,880	7,807
	Built in tax	
Excise duty (Rs. 9,500 + 5% Basic Price).	11,804	11,804
Special Excise duty @ 5% on excise duty	590	590
Maharashtra Sales Tax @ 12%	7,017	7,017
Collection charges	149	—
Ex-show room price at Bombay	68,448	27,218

II. Percentage of Tax to Price w/o Tax

(a) Ex-show Room Price as above	68,444
(b) Tax-element as above	27,218
(c) Price without tax	41,222
(d) %age of tax to price without tax (b/cx 100) say.	<u>66%</u>

III. Break-up of Built in Tax**(a) Taxes paid by Automobiles Manufacturer :**

(i) Customs Duty	2,425
(ii) Excise duty	1,136
(iii) Sales Tax	1,623
(iv) Octroi duty	379

(b) Estimated taxes borne by vendors and included in their prices.

2,244

7,807

2.10 The break-up of the prices of the Premier, Ambassador and Maruti cars ex-factory (excluding transportation, Central Sales Tax, Local Sales Tax etc.) has been indicated by Government as follow ; the excise duties indicated are those on finished vehicles. In addition taxes and duties are levied on raw materials and some components as well :

	Premier	Ambassador	Maruti
Ex-factory	46,080	48,587	39,598.75
Dealer mark-up	2,800	2,000	2,000.00
Excise Duty	12,394.20	13,576	5,906.25
	<u>61,274.20</u>	<u>64,963.00</u>	<u>47,500.00</u>

The show-room prices (at Delhi) of these cars are as under :

Ambassador	Rs. 74,429.00
Premier	Rs. 72,336.00
Maruti	Rs. 52,250.00

2.11 Asked whether it was a fact that customs and excise duties formed more than 50% of the price of the car, the Secretary, Department of Heavy Industry stated in evidence :—

“It is about 35% of the sale prices.”

2.12 When asked that even according to Government the tax of cars was 51 odd per cent. the witness started that “it would not be 51% of the show room price but of ex-factory price.”

2.13 The Committee enquired how did the incidence of tax on cars compare with the levels obtaining in other countries. In reply, the witness stated :—

“About the incidence of tax, I don't have figures for all the countries—how it compares with them. But compared to the Western, developed and industrialised countries, our tax incidence is high but the only exercise which we have done in 1980, based on the then prices and the then taxation rates, shows that the incidence of tax worked out to 35% of the show room price. Today it might be a little different but not anywhere near 65%. It cannot be 65%.

2.14 The Committee asked whether it was not a fact that the taxation rate was very high. Agreeing with this, the witness added :—

“But at least during the current year, for the fuel efficient car, we have reduced the rate”.

2.15 The Committee find that Central excise, sales tax, octroi etc. are substantial elements in the show-room price of a motor car. They also find that the duties/taxes are levied not only on the finished product but the raw materials and components which are procured by the automobile manufacturers are also subject to such taxes. Even the manufacturers of component pay these levies on their inputs of raw materials. This piling up of taxes on taxes makes the end-product very costly for the consumer. One of the car manufacturers has estimated the incidence of duty/taxes in the price of the car as high as 66% of the price without tax and 39.76% of the ex-show room price. Though this incidence of taxes in the price of the car has been controverted by the Secretary (Heavy Industry) during evidence, the fact remains that levy of taxes on taxes makes up a substantial total which considerably enhances the consumers price of the car. The Committee would like Government to make an indepth study of the incidence of duty tax in the prices of cars and devise ways and means to reduce them to a reasonable level.

CHAPTER III

MISCELLANEOUS

A. *Research and Development*

3.1 Research and Development is an important facet of the health of an industry and greater stress is being paid in the engineering industry, to allocate more resources towards this activity. Research and Development aids in adaptation and absorption of technology and also in generating new technologies and processes relevant to the environment and also relevant for meeting customer needs both domestic and international.

3.2 A car manufacturing Company has informed the Committee that for Research and Development they have been spending on the whole roughly 1-1/4 to 1-1/2 percent of their total expenditure.

3.3 Asked by Committee whether this expenditure was adequate for Research and Development, the Secretary, Department of Heavy Industry stated in evidence :—

“If you ask me a direct question whether the present R & D is adequate, I will say that it is not at all adequate. If they spend at least one and half percent of their expenditure while manufacturing five lakhs cars and spending lot of money, it will be better.”

3.4 The Committee asked whether the Department of Heavy Industry favoured each manufacturer of car Industry setting up Research and Development facilities of its own or would it advocate a centralised R&D set up to cater to the entire automobile industry. In reply the witness stated :—

“In fact, the initiative came from our side in the Development Council, since I happened to be the Chairman of the Development Council, and I told them, ‘you are not able to do any research on automobile engines on an individual basis. Why do you not centralise it?’ For centralisation a proposal was made that if we introduce a cess of 20 or 30 or even 100 rupees, the industry can take care of it. Not only that. We have formalised a scheme-during the last two or three months and apart from the approval of our own Ministry, I got the approval of the

Finance Ministry for it. The notification has been issued. The Cess will be to the tune of Rs. 2 crores this year."

3.5 According to the Annual Report of the Department of Heavy Industry for the year 1983-84, with a view to focusing on the R&D activities in the automotive Sector, a R&D cess at the rate of 1/8% *ad valorem* has been imposed with effect from 1.1.1984 on the manufacture of all types of automotive vehicles covered under the transportation industry. The amount so collected will be disbursed by the Development Council for Automobile and Allied Industry for taking up R&D projects. It is proposed to utilise this amount primarily for building up capability in the country for design of engines transmission and body styling. The immediate priorities will be to optimise the existing designs for improved fuel efficiency, pollution contry and safety standards.

3.6 The Committee welcome the imposition of R&D cess at the rate of 1/8% *ad valorem* w.e.f. 1.1.84 on the manufacture of all types of automotive vehicles. They hope that with the amount so collected it would be possible to step up the R&D effort in respect of automobiles including passenger cars.

B. *Import of Steel*

3.7 The Committee understand that the basic constraint on production for cars is that about 75 percent of steel required has to be imported. This steel is call "Extra deep drawing Steel" and is used for making the body of the cars. It is imported through SAIL by the Car manufacturers (including Maruti) from Japan, Germany or U.K.

3.8 Asked if the Public Sector Steel Plants in India were not in a position to undertake the manufacture of this type of steel to avoid its import, the Secretary, Department of Heavy Industry stated in evidence :—

"This is now under development in Bokaro. I am glad to say that some of the trial productions which have been done have succeeded."

3.9 The Committee enquired whether there was any difficulty regarding technology for the manufacture of this type of steel. In reply, the witness stated "they have succeeded in it and even automobile manufacturers have tried that steel."

3.10 The Committee enquired how much steel was required to be imported. The witness stated that "Roughly 750 KG per car is required."

3.11 In a note, the Department of Heavy Industry have stated :—

"Though the weight of sheet metals in the final product is only 367

kg, approximately 725 kg of gross sheets are required per car to cater for cuts, wastages, etc.

The country is importing about 80,000 tonnes of EDD/DD steel per year for automobile manufacture. The requirement during the year 1984-85 is estimated at 110,000 tonnes. This steel has already been developed by Bokaro Steel Plant and steps are being taken to produce it in commercial quality to gradually eliminate dependence on imported steel."

3.12 The Committee would like the Ministry of Industry to pursue with the Ministry of Steel and Mines and try to expedite the production of "Extra Deep Drawing Steel" and "Deep Drawing Steel" used for the manufacture of body of the car by the Bokaro Steel Plant.

C. Pollution

3.13 Government have set up a group of representative of Research Institutions, Government Department and Automobile manufacturers to provide safeguard against air pollution being caused by Passenger cars. Their report is awaited.

3.14 A car manufacturing company has, however, stated that there is at present no regulation or law in India about the pollution from cars.

3.15 Asked to give his comments on the above statement, the Secretary, Department of Heavy Industry stated in evidence :—

"On the one hand, you are probably aware that in 1982, the Air Pollution (Prevention and Control) Act was passed. It provides for the creation of water pollution boards in each State to be in charge and cover air pollution also. That has been passed. But most of the States have still not created the Boards.

Maharashtra is the only State which has set norms. We have started through the Poona Centre a research study. In that study we are trying to cover all the things that are important from safety point of view, which should be provided by a car manufacturer or a truck manufacturer. We are trying to identify on what basis we should pass an order before we allow manufacture of a car. Now people are getting collaboration from outside."

3.16 The Committee asked if there would be a provision to take care of the pollution aspects in the new collaboration. In reply, the witness stated :—

“We are not checking that. But they are fairly well within the norms. My worry is more about the people who are trying to modify it.”

3.17 Smoke emitted by automotive vehicles is one of the major causes of air pollution. At present no State (except perhaps Maharashtra) has prescribed any norms or issued regulations to contain this problem. The Committee would like the Ministry to evolve, in consultation with the relevant Research Institutions, model regulations in this behalf and commend them to the State Governments for promulgation.

NEW DELHI:

BANSI LAL

April 25, 1984

Vaisakha 5, 1906 (S)

*Chairman,
Estimates Committee.*

A P P E N D I X

Statement of Recommendations and Observations

Sl. No.	Para No.	Recommendations/Observations
1	2	3
1	1.14	<p>The models of the cars manufactured by M/s Hindustan Motors and M/s Premier Automobiles have remained practically unchanged for 25 years. It was only in 1979 that these Companies were given permission for import of designs, drawings and specifications manuals for improving design of the body. Further, no new licences were issued nor was permission accorded to the existing pronunction units to increase their capacities. Only recently Government have come to realise the importance of the Passenger Car Industry in the economic growth of the country and in generation of employment opportunities—both direct and indirect. This belated awareness led to the setting up of additional capacity for the manufacture of passenger cars in the public sector. While the Committee welcome the reorientation of the Government policy in regard to manufacture of passenger cars, they regret that a timely study was not made to assess the economic importance of the industry and the industry was, until very recently, left completely stagnant with the result that cutmoded cars manufactured by the Private Sector units were being foistered on theconsumers at ex-orbitant prices.</p>
2	1.22	<p>The Committee note that the assessment of demand for the whole range of Automobiles</p>

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including passenger cars has been entrusted to a private firm at a cost of Rs. 2 lakhs. According to the evidence tendered by the Secretary (Heavy Industry) before the Committee, Government appeared to be satisfied with the professional competence of the firm and the methodology adopted by them. The Committee regret that such an exercise was not made earlier. If such data were available to Government earlier, it could have formed a more objective and credible base for reviewing the licensing policy in regard to the manufacture of passenger cars.

3 1.25

The Secretary (Heavy Industry) has justified the setting up of a new unit for the production of passenger car in the public sector with a capacity of 1,50,000 units per year on the ground of achieving economies of scale. The Committee recommend that this consideration should be applied also in the case of requests for expansion of existing capacities from the manufacturers of passenger cars in the private sector so that the benefit of economy of scale is available to consumers of the types of cars being produced in those units.

4 2.7

The Committee note that following price decontrol in 1975 there has been substantial rise in the price of passenger cars. The Committee would like the Ministry to institute a study as to how far the rise in the price of motor cars in the period immediately following price decontrol was justifiable and inform the Committee of the results thereof.

The Secretary (Heavy Industry) has told the Committee that during the last 2½ years Government have been stabilising the price of car "mainly by

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keeping a very close dialogue with the Industry." They also note that a survey by the Bureau of Industrial Costs and Prices did support re-imposition of price control and favoured controlling the prices "only through competitive situation." The Committee trust that the Ministry will continue to keep the prices of cars under constant review and, if any unjustified aberrations are noticed, take suitable remedial measures either by informal consultation with the Industry or by taking recourse to statutory measures, if necessary.

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2.14

The Committee find that Central excise, sales, tax, octroi etc. are substantial elements in the show-room price of a motor car. They also find that the duties/taxes are levied not only on the finished product but the raw materials and components which are procured by the automobile manufacturers are also subject to such taxes. Even the manufacturers of components pay these levies on their inputs of raw materials. This piling up of taxes on taxes makes the end-product very costly for the consumer. One of the car manufacturers has estimated the incidence of duty/taxes in the price of the car as high as 66% of the price without tax and 39.76% of the ex-show room price. Though this incidence of taxes in the price of the car has been controverted by the Secretary (Heavy Industry) during evidence, the fact remains that levy of taxes on taxes makes up a substantial total which considerably enhances the consumers' price of the car. The Committee would like Government to make an in-depth study of the incidence of duty tax in the price of cars and devise ways and means to reduce them to a responsible level.

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6 3.6 The Committee welcome the imposition of R&D cess at the rate of 1/8 percent *ad valorem* w.e.f. 1.1.84 on the manufacture of all types of automotive vehicles. They hope that with the amount so collected it would be possible to step up the R&D effort in respect of automobiles including passenger cars.

7 3.12 The Committee would like the Ministry of Industry to pursue with the Ministry of Steel and Mines and try to expedite the production of "Extra Deep Drawing Steel" and "Deep Drawing Steel" used for the manufacture of body of the cars by the Bokare Steel Plant.

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