

EIGHTEENTH REPORT
ESTIMATES COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

MINISTRY OF INDUSTRY
MOTOR CARS

[Action taken by Government on the Recommendations contained in the Eighty-Third Report of Estimates Committee (Seventh Lok Sabha)]



Presented to Lok Sabha on, 1985

LOK SABHA SECRETARIAT
NEW DELHI

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(1985-86)

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8. Shri Hannan Mollah
9. Shri B. B. Ramaiah

INTRODUCTION

I, the Chairman of the Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Eighteenth Report on Action Taken by Government on the recommendations contained in the Eighty-third Report of Estimates Committee (7th Lok Sabha) on the Ministry of Industry-Motor Cars.

2. The 83rd Report was presented to Lok Sabha on 26 April, 1984. Government furnished their replies indicating action taken on the recommendations contained in that Report by 1st September, 1985. The draft Report was adopted by the Committee at their sitting held on 17th October, 1985.

3. The Report has been divided into the following Chapter.

1. Report.

II. Recommendations/Observations that have been accepted by Government.

III. Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies.

IV. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee.

V. Recommendations/Observations in respect of which replies of Government are awaited.

4. A analysis of action taken by Government on the recommendations contained in the 83rd Report of Estimates Committee is given in the Appendix. It would be observed therefrom that out of 8 recommendations made in the Report, 5 recommendations i.e. 62.5 per cent have been accepted by Government. Replies of Government in respect of 3 recommendations i.e. about 37.5 per cent have not been accepted by the Committee.

NEW DELHI:
November 8, 1985.

Kartika 17, 1907 (S).

CHINTAMANI PANIGRAHI,
Chairman,
Estimates Committee.

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(vi)

CHAPTER I

1.1 This report of the Estimates Committee deals with action taken by Government on the recommendations contained in their 83rd Report (7th Lok Sabha) on the Ministry of Industry—Motor Cars which was presented to Lok Sabha on 26th April, 1984.

1.2 Action Taken notes have been received in respect of all the 8 recommendations contained in the Report.

1.3 Action Taken notes on the recommendations of the Committee have been categorised as follows:—

- (i) Recommendations/Observations which have been accepted by the Government:—

1, 2, 3, 4 and 6.

(Chapter II—Total 5)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:—

NIL

(Chapter III)

- (iii) Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee:—

5, 7 and 8.

(Chapter IV—Total 3)

- (iv) Recommendations/Observations in respect of which final replies are still awaited:—

NIL

(Chapter V)

1.4 The Committee will now deal with action taken by Government on some of the recommendations.

*Incidence of Taxes in the Price of Car***Recommendations (Sl. No. 5, Para No. 215)**

1.5 The Committee had found that Central Excise, sales tax, octroi etc. were substantial elements in the show-room price of a motor car. They had also noticed that the duties/taxes were levied not only on the finished product but the raw materials and components which were procured by the automobile manufacturers were also subject to such taxes. Even the manufacturers of component paid these levies on their inputs of raw materials. This piling up of taxes on taxes had made the end—product very costly for the consumer. One of the car manufacturers had estimated the incidence of duty/taxes in the price of the car as high as 66 per cent of the price without tax and 39.76 per cent of the ex-show room price. Though this incidence of taxes in the price of the car had been controverted by the Secretary (Heavy Industry) during evidence, the fact remained that levy of taxes on taxes made up a substantial total which considerably enhanced the consumers price of the car. The Committee had therefore recommended that Government should 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.

1.6 In their reply, the Ministry of Industry have merely stated the "Government have substantially reduced excise/custom duties on fuel efficient cars."

1.7 The Committee regret to note that the reply of the Ministry of Industry that Government have "substantially reduced excise/custom duties on fuel efficient cars" does not indicate whether this substantial reduction was the outcome of any indepth study of the incidence of duty/tax on pricing of passenger cars. If any such study was conducted by the Ministry its results ought to have been furnished to the Committee. The Committee would like to reiterate their recommendation that the Ministry should undertake an indepth study of the incidence of the multiple point/duty tax on pricing of cars and bring down these taxes to a reasonable level.

*Manufacture of D.D./E.D.D. Steel***Recommendations (Sl. No. 7, Para No. 3.12)**

1.8 The Committee had called upon 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 Bokaro Steel Plant

1.9 In reply, the Ministry have stated that although Bokaro Steel Plant is trying to step up production of D.D./E.D.D. Steel, the demand is increasing rapidly. In the interim period, import of D.D./E.D.D. Steel is being permitted.

1.10 The Committee are unhappy to note the scant reply furnished by the Ministry that Bokaro Steel Plant "is trying to step up production of D.D./E.D.D. Steel" and since the demand for such steel is on the increase the import is being permitted in the interim period. The Ministry ought to have indicated the specific steps taken by the Bokaro Steel Plant towards increasing the production of D.D./E.D.D. Steel keeping in view the increasing demand for such variety of steel and the likely time when the plant would be in a position to meet it adequately. The Committee would like the Ministry to take positive steps in this direction and keep the Committee informed about the concrete progress made.

Air Pollution through Vehicle Exhausts

Recommendation (Sl. No. 8, Para No. 3.17)

1.11 Smoke emitted by automotive vehicles is one of the major cause of air pollution. The Committee had observed that at present no State (except perhaps Maharashtra) had prescribed any norms or issued regulations to contain this problem. The Committee has desired the Ministry to evolve, in consultations with the relevant Research Institutions, model regulation in this behalf and commend them to the State Governments for promulgation.

1.12 The Ministry in their reply have stated that "measures to prevent and control air pollution through vehicle exhausts are being introduced by the Central Board for Prevention and Control of Pollution. This Board also set up a Committee of experts for vehicular pollution under the Chairmanship of Director, Automotive Research Association of India for recommending to the Government, standards for limiting harmful emissions out of vehicle exhausts. The work of this Committee is almost complete and a final report is awaited. The report when received will be scrutinized before the regulations become legal documents."

1.13 The Committee welcome the appointment of a committee of experts for vehicular pollution for recommending to the Government, standards for limiting harmful emissions out of vehicle exhausts and would like to be informed of the final outcome.

1.14 The Committee trust that serious efforts would be made by the Ministry to persuade the State Governments to promulgate model regulations in the light of recommendations made by the Committee.

Implementation of Recommendations

1.15 The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by Government. They would, therefore, urge that Government should make expeditious implementation of the recommendations accepted by Government. In case it is not possible to implement any recommendations in letter and spirit for any reason, the matter should be reported to the Committee in time with reasons for non implementation.

CHAPTER II

RECOMMENDATIONS|OBSERVATIONS THAT HAVE BEEN . ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 1, Para No. 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.

Reply of Government

Observations of the Committee have been noted. The Government are encouraging automobile units to upgrade technology through indigenous R&D as well as selective import of know-how. Adequate manufacturing capacity has been sanctioned and it is expected that the competitive situation now generating in the industry shall ensure the availability of passenger cars to consumers at reasonable prices.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry) ■
O.M. No. 1(1)/84-AEI-I dated 12 September, 1985].

Recommendation (Sl. No. 2, Para No. 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.

Reply of Government

The observations of the Committee have been noted. It is proposed to update the A.F. Ferguson study with recent trends and extend it upto 1995.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. (1)/84-AEI-I dated 12 September, 1985.]

Recommendation (Sl. No. 3, Para No. 1.55)

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 recommended that this consideration should be applied also in the case or 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.

Reply of Government

The applications of expansion of capacity made by the three car manufacturers in the private sector have been considered and approved. Besides all four wheelers have been clubbed into a common category for the purpose of licensing.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. 1 (1)/84-AEI-I dated 12 September, 1985].

Recommendation (Sl. No. 4, Para No. 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 2 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.

Reply of Government

As recommended, B.I.C.P. had been asked to conduct a study on price rise of motor cars for the period immediately following price de-control in 1975. BICP in their study report have stated that from analysis of M/s. Hindustan Motors and Premier Automobiles cost data made available to them, increase in prices effected after 1-1-1975 appear to be substantiated by the increase in the cost of raw materials and in other elements of cost (which used to be taken into account earlier by the Government for the purpose of revision in prices during price control regime, as per the Supreme Court judgement). The production of cars by both the companies dropped significantly during the year 1975-76 and also the financial position of their car activity revealed poor profitability, inspite of the price increase made by them. Taking above facts into account, BICP have concluded that the price increase effected by the companies immediately after the de-control may not be considered unjustified.

Government periodically review the pricing of the automobiles and whenever necessary asks the industry, through informal consultation to maintain price restraint. The best way to tackle the problem is through competition. With the broad banding of 4 wheelers into one category, competition is expected to enhance.

In the light of BICP's report, at present it is not considered necessary to impose any control on prices of passenger cars.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. 1 (1)/84-AEI-I dated 12 September, 1985].

Recommendation (Sl. No. 6, Para No. 3.6)

The Committee welcome the imposition of R&D cess at the rate of 1/8 per cent *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.

Reply of Government

Several schemes have been identified and approved for funding from cess fund for undertaking R&D work in the automobile sector.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. 1 (1)/84-AEI-I dated 12 September, 1985].

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

—NIL—

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT'S REPLIES HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 5, Para No. 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 per cent of the price without tax and 39.76 per cent 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 device ways and means to reduce them to a reasonable level.

Reply of Government

Government have substantially reduced excise/custom duties on fuel efficient cars.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. 1 (1)/84-AEI-I dated 12 September, 1985].

Recommendation (Sl. No. 7, Para No. 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 Bokaro Steel Plant.

Reply of Government

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Recommendation (Sl. No. 8, Para No. 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 consultations with the relevant Research Institutions, model regulation in this behalf and commend them to the State Government for promulgation.

Reply of Government

Measures to prevent and control air pollution through vehicle exhausts are being introduced by the Central Board for Prevention and Control of Pollution. This Board has set up a Committee of experts for vehicular pollution under the Chairmanship of Director, Automotive Research Association of India for recommending to the Government, standards for limiting harmful emissions out of vehicle exhausts. The work of this Committee is almost complete and a final report is awaited. The report when received will be scrutinized before the regulations become legal documents.

[Ministry of Industry & Company Affairs (Deptt. of Heavy Industry)
O.M. No. 1(1)|84 AEI-I dated 12 September, 1985]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF
WHICH FINAL REPLIES ARE STILL AWAITED

NIL

NEW DELHI;
November 8, 1985
Kartika 17, 1907 (S)

CHINTAMANI PANIGRAHI,
Chairman,
Estimates Committee.

APPENDIX

(Vide Introduction)

Analysis of Action taken by Government on the 83rd Report of the Estimates Committee (Seventh Lok Sabha)

I.	Total number of Recommendations	8
II.	Recommendations/Observations which have been accepted by Government Nos. 1, 2, 3, 4 and 6	5
	Percentage to total	62.5%
III.	Recommendations/Observations which the Committee do not desire to pursue in view of Government's reply	
	No. NIL	
	Percentage to total	NIL
IV.	Recommendations/Observations in respect of which Government's replies have not been accepted by the Committee :	
	Nos. 5, 7 and 8	3
	Percentage to total	37.5%
V.	Recommendations/Observations in respect of which final replies of Government are awaited	
	No. NIL	
	Percentage to total	NIL