

# EIGHTY SECOND REPORT

## PUBLIC ACCOUNTS COMMITTEE (1986-87)

(EIGHTH LOK SABHA)

### CENTRAL EXCISE—IMPACT OF REDUCTION IN DUTY ON PRICES OF REFRIGERATORS AND TYRES

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

[Action taken on 47th Report (8th Lok Sabha)]



~~Presented to Lok Sabha on 22 April, 1987~~

~~Laid in Rajya Sabha on 22 April, 1987~~

LOK SABHA SECRETARIAT  
NEW DELHI

April, 1987 | Chaitra, 1909 (Saka)

Price : Re 1.00

CORRIGENDA TO EIGHTY-SECOND REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE (EIGHTH LOK SABHA)

<u>PAGE</u>	<u>PARA</u>	<u>LINE</u>	<u>FOR</u>	<u>READ</u>
2	5	8	greater	repeated
8	17	4	Taration	Taxation
12	-	23	fact	facts
14	-	7	Minister	Ministry
14	-	13	expeditions	expedition.

---

## CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE . . . . .	(iii)
INTRODUCTION . . . . .	(v)
CHAPTER I Report . . . . .	1.
CHAPTER II Recommendations and Observations that have been accepted by Government . . . . .	11
CHAPTER III Recommendations and Observations which the Committee do not desire to pursue in the light of the replies received from Government . . . . .	16
CHAPTER IV Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration	22
CHAPTER V Recommendations and Observations in respect of which Gov- ernment have furnished interim replies . . . . .	23
PART II Minutes of the Fifty-second Sitting of Public Accounts Com- mittee (1986-87) held on 3-4-1987. . . . .	24
APPENDIX Conclusions/Recommendations . . . . .	27

**PUBLIC ACCOUNTS COMMITTEE**  
(1986-87)

**CHAIRMAN**

**Shri E. Ayyapu Reddy**

**MEMBERS**

*Lok Sabha*

2. Shri J. Chokka Rao
3. Shri Amaal Datta
4. Shri Ranjit Singh Gaekwad
5. Shrimati Prabhawati Gupta
6. Shri G. S. Mishra
7. Shri Vilas Muttemwar
8. Shri G. Devaraya Naik
9. Shri Rameshwar Neekhra
10. Shri Rajmangal Pande
11. Shri H. M. Patel
12. Shrimati Jayanti Patnaik
13. Shri S. Singaravadivel
14. Shri Simon Tigga
15. Shri Girdhari Lal Vyas

*Rajya Sabha*

16. Shri Bhuvnesh Chaturvedi
17. Shri K. L. N. Prasad
18. Shri Ghulam Rasool Kar
19. Shri A. K. Antony
20. Shri Nirmal Chatterjee
21. Shri M. S. Gurupadaswamy
22. Shri Virendra Verma

**SECRETARIAT**

1. Shri K. H. Chhaya—*Joint Secretary.*
2. Shri S. M. Mehta—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of Public Accounts Committee as authorised by the Committee, do present on their behalf this Eighty-Second Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Forty-Third Report (Eighth Lok Sabha) on Central Excise — Impact of reduction in duty on prices of refrigerators and tyres.

2. In their 43rd Report, while examining the impact of the notifications issued by the Central Board of Excise and Customs on 1 October, 1983 reducing excise duty on refrigerators and certain specified tyres, the Committee had observed that in spite of the duty exemptions, all the tyre manufacturers with the exception of a state public sector undertaking increased the prices of tyres in January, 1984. After examining the facts relating to the tyre industry in some depth, the Committee had recommended that the conditions relating to the industry should be studied further to ensure that the industry was not able to manipulate and distort the market forces to their advantage. In this Report, the Committee have noted that the Ministry of Industry have now set up a Monitoring Cell in order to undertake the task of continuously monitoring the price trends of automotive tyres. Further, after the completion of the phase II study of the Bureau of Industrial Costs and Prices (BICP) relating to the tyre industry, it may be possible for Government to arrive at a long term solution on the question of prices of automotive tyres. The Committee have expressed their hope that the Monitoring Cell would be successful in keeping effective watch over price movements and in taking appropriate and timely measures so that malpractices in the pricing and distribution of tyres are effectively prevented. The phase II study of the BICP should be completed expeditiously and necessary follow-up action taken thereon promptly.

3. The Committee have expressed their hope that the probe now being undertaken by the Monopoly and Restrictive Trade Practices Commission (MRTPC) relating to pricing practices, allowing of discounts etc in the tyre industry would be expeditiously completed. They have further recommended that after obtaining the reports of the BICP and MRTPC, Government should expeditiously examine

(vi)

them and formulate an integrated policy designed to ensure the growth of the industry, while protecting the consumers from being exploited.

4. The Committee considered and adopted this Report at their sitting held on 3 April, 1967. Minutes of the sitting form Part II of the Report.

5. For facility of reference and convenience, the recommendations and 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 the Appendix to the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;

April 6, 1967

---

Chaitra 16, 1909 (Saka)

E. AYYAPU REDDY,

Chairman,

Public Accounts Committee.

## CHAPTER I

### REPORT

This Report of the Committee deals with action taken by Government on the Committee's recommendations/observations contained in their Forty-Third Report (Eighth Lok Sabha) on Paragraph 2.68 of the Report of the Comptroller & Auditor General of India for the year 1983-84, Union Government (Civil), Revenue Receipts, Volume I, Indirect Taxes relating to Central Excise—Impact of reduction in duty on prices of refrigerators and tyres.

2. The Committee's Forty-Third Report was presented to Lok Sabha on 29 April, 1986 and contained 6 recommendations. Action Taken Notes have been received from Government in respect of all the recommendations/observations. These Action Taken Notes have been categorised as follows:

- (i) Recommendations and observations that have been accepted by Government:

Sl. Nos. 1 to 5

- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from Government:

S. No. 6

- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

—NIL—

- (iv) Recommendations and observations in respect of which Government have furnished interim replies:

—NIL—

3. The Committee will now deal with the action taken by Government on some of their recommendations and observations.

*Need for study of conditions relating to tyre industry*

(S. No. 3, Paragraph 80)

4. As per notifications issued by the Central Board of Excise and Customs on 1 October, 1983, excise duty on refrigerators and certain specified tyres were reduced. The effective rates of excise duty on domestic refrigerators of capacity not exceeding 165 litres was reduced from 40 per cent to 25 per cent *ad valorem* and for other refrigerators from 80 per cent to 50 per cent. Similarly, duty on specified tyres was reduced from 60 per cent to 50 per cent *ad valorem*.

5. In their 43rd Report (Eighth Lok Sabha), the Committee had examined the impact of those exemption notifications on the prices of refrigerators and specified tyres. The Committee had observed that the prices of tyres went up in January, 1984 while prices of refrigerators remained at about the same level. All the tyre manufacturers with the exception of a state public sector undertaking increased the prices of their tyres in January, 1984. As greater requests to roll back the prices went unheeded, Government decided to withdraw the excise relief given to the tyre industry in the Union Budget, 1984, while the concession for the refrigerator industry was continued as the industry had co-operated at least by holding the price line. In Paragraph 80 of their Report, the Committee had observed/recommended as follows:—

“The Ministry of Industry maintain that it was administratively difficult and also in-appropriate to impose price control in multi-product industry without specific price control on the raw materials|inputs. It was the Ministry's considered view that in the prevailing buyer's market it should be left to the market-forces to determine the prices of tyres with the Government assuming the responsibility to ensure that the production is maintained and there is no scarcity in the market. The Committee appreciate the force of those arguments but felt concerned that Government find itself helpless in the face of the manufacturers' determination to keep prices at levels acceptable to them. The Committee take note of the fact that the manufacturers have strengthened themselves financially in spite of their complaint that the profit margin is low or negligible. The Public Accounts Committee have studied the facts relating to this industry in some depth. They are satisfied that the conditions relating to the industry should be studied further with a view to ensuring that the industry is not able to distort the market forces and manipulate them to their advantage.”



6. The Ministry of Finance (Department of Revenue) have in their action taken note stated as follows:—

“On 5.5.84 the B.I.C.P. was entrusted to undertake a study of the cost structure of tyres with a view to see whether and to what extent, price revision resorted to by the manufacturers during November, 1983 to January, 1984 were justified in terms of the increase in cost of production. The BICP was also requested to give its views as to the need as well as appropriate mechanism for administrative intervention, if any, in the prices and distribution of tyres as a measure for stabilising the prices of tyres at reasonable levels.”

The Chairman, BICP, in his letter dated 11th May and 8th August 1984 clarified that the study would be taken up in two phases. The first phase would be limited to the verification and updating of the cost and technical data of the industry examined in the Bureau's quick study carried out in 1983. The second phase of the study would involve an in-depth analysis of the tyre industry, encompassing the overall economic, financial and technical structure of the industry, to provide a basis for the continuous monitoring of the costs and prices in the industry in the coming years. The phase I study, already submitted to Government is limited to verification and up-dating of costs, prices and technical data in the BICP (1983 Report) and analysis of over all trend of profitability of the various companies. The phase II study is expected to be available by the end of the year 1986. After this detailed study is available it may be possible to arrive at a long term solution on the question of prices of automotive tyres. It may be added that a Monitoring Cell has been set up in the Ministry of Industry, in order to undertake the task of continuously monitoring the price trends of automotive tyres.”

7. When asked to indicate the latest position in respect of the study by the BICP, the Ministry of Industry (Department of Industrial Development) vide their D.O. No. 1/6/85-LR dated 18 March, 1987 stated as follows:—

“BICP is yet to submit Phase II of its Study Report. There had been some delay on the part of the tyre companies in

giving the information required by the BICP. However, most of the material/information has been furnished to BICP."

*Printing of price and manufacturing date labels on tyres*

(S. No. 3. Paragraph 80)

8. Emphasising the need for protecting consumers from improper trade manipulations, the Committee in Paragraph 80 of their 43rd Report (Eighth Lok Sabha) had recommended:—

"The Committee would further like Government to consider the advisability of requiring the manufacturers to print the price and the date of manufacture on every tyre. This would at the very least warn consumers of any improper trade manipulations."

9. In their note indicating action taken on the above recommendation, the Ministry of Finance (Department of Revenue) have stated as under:—

"As regards the suggestion of requiring the manufacturers to print the price and the date of manufacture on every tyre, one of the recommendations of the Satyapal Committee Report related to informative labelling and marking of tyres and this aspect has been considered alongwith other recommendations of the Report by the Development Council for tyre and tubes in its meeting on 8th May, 1986. To consider this aspect a Task Force, comprising of Department of Surface Transport, D.G.T.D., ISI and Automotive Tyres Manufacturers' Association (ATMA), has been constituted, who would submit a report in this regard. Simultaneously, the Ministry of Industry has separately written to the Automotive Tyre Manufacturers' Association to consider implementation of this recommendation. The matter was also discussed at a meeting held in the Ministry of Industry on 13-8-86, with the tyre manufacturers, and it is expected that a mutually acceptable arrangement would be arrived at very soon."

10. The latest position on the above as intimated by the Ministry of Industry (Department of Industrial Development) vide their D.O. No. 1/6/86—LR dated 18 March, 1987 is as follows:—

"The Task Force comprising of Department of Surface Transport, DGTD, ISI and ATMA has since submitted its report

and the summary of recommendations is annexed. It has been decided that the ISI Certification Scheme be extended to all tyres other than light commercial vehicles (LCV) and trucks for the present. Some of the tyre companies have also applied for the ISI in pursuance of this decision. The extension of this scheme to LCVs/truck tyres is being considered separately. As regards informative labelling on tyres, certain markings like manufacturers name, recognised trade mark or brand, the size, ply ratings, direction of rotation, are already being indicated by the manufacturers. For labelling additional information like month and year of manufacture, maximum selling price, maximum load marking, minimum mileage guarantee, Government have held discussions with various authorities, including ATMA and consumer bodies. It has been decided that the month and year of manufacture and the maximum selling price should be indicated on automotive tyres. The manner in which the decisions with regard to these labellings should be implemented is being considered keeping the consumers' interest in view. As regards minimum mileage guarantee and load marking, certain important issues have been raised and it has been decided to defer decision on these labellings. A meeting was held in the Department of Industrial Development on 11-3-87 to discuss the matter with the Ministry of Transport as well as the ISI. The consensus that emerged was that the decision in the matter be deferred till some of the major controversies are resolved."

11. The summary of recommendations of the Task Force referred to above is as follows:—

1. It is recommended that compulsory ISI certification mark scheme should be enforced immediately by Appropriate Statutory order.
2. Permanent marking of month and year of manufacture on each tyre should be made mandatory.
3. Manufacturers should compulsarily label on each tyre the maximum selling price on which the manufacturers would be free to give discounts.
4. The Present practice of marking ply rating should be continued. Permanent marking of Load markings as per ISI specifications should be made mandatory.

5. Indication on the tyres about the extent to which it could be used before it was sent for retreading has been recommended. Marking of manufacturers's name|recognised trademark or brand, the size of tyre and direction of rotation for directional type of tyres be also marked distinctly.
6. An arrangement may be arrived at, which would subject the tyre manufacturers to get the tyres periodically tested and areas of improvement indicated for incorporation. Either CIRT or URDE or both jointly could be designated to carry out such evaluation.
7. Minimum mileage guarantee marking could be introduced with immediate effect on scooter and car tyres and similar marking on bus/truck tyres would be considered further."

*Probe by MRTPC*

(S. No. 4, Paragraph 81)

12. Stressing the need for immediate Governmental action on certain issues relating to the pricing and distribution practices in the tyre industry, the Committee in paragraph 81 of their 43rd Report (Eighth Lok Sabha) had observed/recommended:—

"The facts stated in the foregoing paragraphs clearly identify some of the specific areas in the pricing and distribution of tyres which require immediate Government attention. In a note furnished to the Committee after evidence, the Ministry of Finance have stated that in pursuance of the recommendations made by Bureau of Industrial Costs and Prices (BICP) in its recent report, the Ministry of Industry have referred the issues relating to pricing practices, allowing of discounts etc. for a probe by the MRTP Commission. Committee trust that this probe will be carried out with utmost expedition."

13. The Ministry of Finance (Department of Revenue) have in their action taken note stated as follows:—

"One of the suggestions of the BICP Report for specific action by Government, is to consider whether it would be appropriate to refer the issues of prices, discounts, and trade and distribution practices and policies in the tyre industry to a probe by MRTP Commission. Government have accepted this recommendation and the issue had been

referred to MRTP Commission on 19th August, 1985 for initiating an immediate enquiry. After receipt of the recommendation of Public Accounts Committee, the matter has been again taken up with Chairman, MRTP Commission on 14th May, 1986 for urgent action in the matter."

14. The Ministry of Industry (Department of Industry Development) vide their D.O. No. 1/6/85—LR dated 18 March, 1987 stated that the MRTP Commission was yet to finalise its probe on the issue of prices, discounts and trade and distribution practices and policies of tyre industry.

*Need for formulation of an integrated tyre policy*

**(S. No. 5, Paragraph 82)**

15. Emphasising the need for formulating an integrated tyre policy designed to maintain the growth of the industry and also to protect the consumer, the Committee in Paragraph 82 of their 43rd Report (Eighth Lok Sabha) had recommended:—

"During evidence, the representative of the Ministry of Industry stated that the problems of tyre industry require a total approach. In this connection, the Committee would draw attention to the fact that a number of reports are now before the Government pending action. They include, the reports of the Bureau of Industrial Costs and Prices on costs pricing, distribution etc. the Satyapal Committee on automobile tyres and tubes, the Tyre Development Council on taxation structure on tyres and tubes. Government should expeditiously examine these reports and formulate an integrated policy designed to maintain growth of the industry at a satisfactory pace, while ensuring that the consumers are protected from exploitation and receive the benefit of whatever concessions are extended to the Industry."

16. In their action taken note furnished to the Committee, the Ministry of Finance (Department of Revenue) have stated as follows:—

"Government are taking all actions to expeditiously implement the recommendations of the various Reports, namely, BICP Report (Phase-I), Satyapal Committee Report on automotive tyres and recommendations of Taxation Panel of Development Council for tyres and tubes. As regards

**BICP Report, two specific points have been suggested for action by Government—firstly, referring the issue of prices, discounts, and trade and distribution practices and policies in the tyre industry for a probe by MRTP Commission and secondly, need for continuous monitoring of price trends of automotive tyres by Government. As indicated in the foregoing paras, the Committee have accepted both these recommendations. The first has been taken up with MRTP Commission and for the second, a cell has been set up in the office of the Economic Adviser attached to the Ministry of Industry to continuously monitor price trends of tyres. Further action would also be taken on receipt of the detailed Phase II study of the BICP. As regards, recommendations of Satyapal Committee Report, these have been discussed by Ministry of Industry initially with the concerned Ministries/Departments and subsequently considered in the meeting of Development Council for tyres and tubes. Further follow up action has been initiated. As various policy issues of far reaching nature have been raised in the Report it would take some time for their examination. The recommendations of the Taxation Panel of the Development Council for tyre and Tubes, which deal with the fiscal policies/structure on tyres and tubes and their raw materials, these were taken up by the Ministry of Industry with Department of Revenue, Ministry of Finance for consideration and action. The Government have noted the Committee's suggestion regarding an integrated policy designed to maintain the growth of the industry at a satisfactory pace and also protect the consumer from being exploited and the action in this regard has to some extent been initiated. However, it would be possible for the Government to take effective steps only when the BICP's phase II study is completed."**

**17. On 18th March, 1987, the Ministry of Industry (Department of Industrial Development) vide their D.O. No. 1/6/85—LR further stated:—**

**"The recommendations of Taration Panel of Development Council for tyres and tubes, which deal with the fiscal policies/structure on tyres and tubes and their raw materials, have been taken up with the Ministry of Finance (Department of Revenue) for consideration and action. Reaction of that Ministry is awaited."**

The Committee's suggestion (Para 82 of the Report) regarding an integrated policy designed to maintain the growth of the industry at a satisfactory pace and also protect the consumers from being exploited, has been noted. The implementation of the recommendations of various Reports, are steps in that direction. However, the matter of evolving any concrete policy in this regard could be considered only after Phase II Study Report of BICP and outcome of MRTP Commission's probe/enquiry are available to Government."

18. Excise duty on refrigerators and certain specified tyres were reduced by notifications issued by the Central Board of Excise and Customs on 1 October, 1983. In their 43rd Report (Eighth Lok Sabha), the Committee while examining the impact of the notifications on the prices of those items had observed that in spite of the duty exemptions, all the tyres manufacturers with the exception of a state public sector undertaking increased the prices of tyres in January, 1984. The Committee had expressed their concern that Government found themselves helpless in the face of the tyre manufacturers' determination to keep prices at levels acceptable to them. The Committee had taken note of the fact that the manufacturers had strengthened themselves financially in spite of their complaint that the profit margin was low or negligible. After examining the facts relating to the tyre industry in some depth, the Committee had recommended that the conditions relating to the industry should be studied further to ensure that the industry was not able to manipulate and distort the market forces to their advantage. In their action taken note, the Ministry of Finance have stated that on 5 May, 1984, the Bureau of Industrial Costs and Prices (BICP) were requested to undertake a study of the cost structure of tyres with a view to see whether, and to what extent, price revisions resorted to by the manufacturers during November, 1983 to January, 1984 were justified in terms of the increase in cost of production. The BICP were also requested to give their view on the need as well as appropriate mechanism for administrative intervention, if any, in the pricing and distribution of tyres as a measure for stabilizing the prices of tyres at reasonable levels. The study was to be covered in two phases, the first being limited to the verification and updating of the cost and technical data of the industry, and, the second phase, involving an in-depth analysis of the tyre industry. The Report on phase I study has been made available to Government, while the Report on Phase II study is still awaited. According to the Ministry, after this detailed study is available, it

may be possible to arrive at a long term solution on the question of prices of automotive tyres. The Ministry have further stated that a Monitoring Cell has now been set up in the Ministry of Industry, in order to undertake the task of continuously monitoring the price trends of automotive tyres. The Committee hope that the Monitoring Cell will be successful in keeping effective watch over price movements, and in taking appropriate and timely measures so that malpractices in the pricing and distribution of tyres are effectively prevented. The Committee also desire that the phase II study of the BICP should be expeditiously completed and necessary follow-up action taken thereon promptly.

19. The Committee had in their earlier Report observed that the Ministry of Industry had referred the issues relating to pricing practices, allowing of discounts etc. in the tyre industry for a probe by the Monopoly and Restrictive Trade Practices Commission (MRTPC). The result of the probe is still awaited. The Committee hope that it would be expeditiously completed. They would also like to be informed of the outcome and the action taken thereon, in due course.

20. In their earlier Report, the Committee had drawn attention to the fact that a number of reports relating to the tyre industry were pending action before Government. They included the phase I study of the BICP on pricing, distribution etc., the Satyapal Committee on automobile tyres and tubes, the Tyre Development Council on taxation structure on tyres and tubes. The Committee had recommended that Government should expeditiously examine these reports and formulate an integrated policy designed to maintain growth of the industry at a satisfactory pace, while ensuring that the consumers are (a) protected from exploitation and (b) receive the benefit of whatever concessions are extended to the Industry. In their action taken reply, the Ministry of Finance have stated that while action is being taken on the phase I report of the BICP, the Reports of the Satyapal Committee and the Tyre Development Council were still under examination. It has been further stated that Government have noted the recommendation of the Committee for formulation of an integrated policy and the action in this regard has been initiated. However, according to the Ministry, evolving any concrete policy could be considered only after the Phase II study of BICP and the outcome of MRTPC's probe are available to Government. The Committee desire that after obtaining the aforesaid reports, Government should expeditiously examine them and formulate an integrated policy designed to ensure the growth of the industry, while protecting the consumers from being exploited.



## CHAPTER II

### RECOMMENDATIONS AND OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

As per notifications issued on 1 October 1983 the effective rates of excise duty on domestic refrigerators of capacity not exceeding 165 litres was reduced from 40 per cent to 25 per cent *ad valorem* and for other refrigerators from 80 per cent to 50 per cent. Similarly, duty on specified tyres was reduced from 60 per cent to 50 per cent *ad valorem*. According to Audit, the reduction in the rates of duty was made in the expectation that the price of such goods to the consumer would come down or, at least, not go up. It was also expected that with the price coming down or remaining the same, the increase in volume of clearances would compensate for the decrease in the quantum of duty realised per unit. After a review of the clearances made by seven leading refrigerator manufacturers and ten leading tyre manufacturers, Audit have pointed out that a manufacturer of refrigerators increased his prices in October 1983 and again in January 1984 and another manufacturer did so in January 1984. Eight manufacturers of tyres increased their prices in January 1984 while another raised his prices in March, 1984. Monthly clearances from October 1983 effected by manufacturers increased compared to average monthly clearances in the previous 12 months. There was marginal decrease in the average monthly clearances made by four manufacturers between October 1983 and February 1984 as compared to the previous 12 months. The Audit have estimated that the net revenue foregone on clearance made between October, 1983 and February 1984 as a result of reduction in the rate of duty, was Rs. 6.64 crores.

The Ministry of Finance maintain that the notifications reducing the rates of excise duty on specified tyres and refrigerators were issued in October 1983 as fiscal relief mainly with a view to stimulating the growth of the industries whose performance in 1982-83 was found to be sluggish. It was expected that reduction in duty would result in price reduction which would, in turn, stimulate demand. Unfortunately, this did not happen. In fact, the prices of tyres went up in January, 1984 while prices of refrigerators remained at about the same level. All the tyre manufacturers with

the exception of a state public sector undertaking increased the prices of their tyres in January, 1984. As repeated requests to roll back the prices went unheeded, Government decided to withdraw the excise relief given to the tyre industry in the 1984 Budget. The concession for the refrigerator industry was continued as the industry had co-operated at least by holding the price line.

[S. Nos. 1 and 3 (paras 78 and 79) of Appendix IV to 43rd Report of PAL (Eighth Lok Sabha)].

### Action Taken

The observations of the Public Accounts Committee have been noted.

[Ministry of Finance (Department of Revenue) letter No. 234/86-CX-7 dated 1 October, 1986]

### Recommendation

The Ministry of Industry maintain that it was administratively difficult and also inappropriate to impose price control in multi-product industry without specific price control on the raw materials/inputs. It was the Ministry's considered view that in the prevailing buyer's market it should be left to the market forces to determine the prices of tyres with the Government assuming the responsibility to ensure that the production is maintained and there is no scarcity in the market. The Committee appreciate the force of these arguments but felt concerned that Government find itself helpless in the face of the manufacturers' determination to keep prices at levels acceptable to them. The Committee take note of the fact that the manufacturers have strengthened themselves financially inspite of their complaint that the profit margin is low or negligible. The Public Accounts Committee have studied the fact relating to this industry in some depth. They are satisfied that the conditions relating to the industry should be studied further with a view to ensuring that the industry is not able to distort the market forces and manipulate them to their advantage. The Committee would further like Government to consider the advisability of requiring the manufactures to print the price and the date of manufacture on every tyre. This would at the very least warn consumers of any improper trade manipulations.

[S. No. 3 (para 80) of Appendix IV to 43rd Report of PAC (Eighth Lok Sabha)]

### Action Taken

On 5-5-84 the B.I.C.P. was entrusted to undertake a study of the cost structure of tyres with a view to see whether, and to what extent, price revision resorted to by the manufacturers during November, 1983 to January 1984 were justified in terms of the increase in cost of production. The BICP was also requested to give its views as to the "need as well as appropriate mechanism for administrative intervention, if any, in the prices and distribution of tyres as a measure for stabilizing the prices of tyres at reasonable levels."

The Chairman, BICP, in his letter dated 11th May and 8th August 1984 clarified that the study would be taken up in two phases. The first phase would be limited to the verification and updating of the cost and technical data of the industry examined in the Bureau's quick study carried out in 1983. The second phase of the study would involve an in-depth analysis of the tyre industry, encompassing the overall economic, financial and technical structure of the industry, to provide a basis for the continuous monitoring of the costs and prices in the industry in the coming years. The phase-I study, already submitted to Government, is limited to verification and up-dating of costs, prices and technical data in the BICP (1983 Report) and analysis of over all trend of profitability of the various companies. The phase-II study is expected to be available by the end of the year 1986. After this detailed study is available it may be possible to arrive at a long term solution on the question of prices of automotive tyres. It may be added that a Monitoring Cell has been set up in the Ministry of Industry, in order to undertake the task of continuously monitoring the price trends of automotive tyres.

As regards the suggestion of requiring the manufacturers to print the price and the date of manufacture on every tyre, one of the recommendations of the Satyapal Committee Report related to informative labelling and marking of tyres and this aspect has been considered alongwith other recommendations of the Report by the Development Council for tyre and tubes in its meeting on 8th May, 1986. To consider this aspect a Task Force, comprising of Department of Surface Transport, D.G.T.D., ISI and Automotive Tyres Manufacturers' Association (ATMA), has been constituted, who would submit a report in this regard. Simultaneously, the Ministry of Industry has separately written to the Automotive Tyre Manufacturers' Association to consider implementation of this recommendation. The matter was also discussed at a meeting held

in the Ministry of Industry on 13-8-86, with the tyre manufacturers, and it is expected that a mutually acceptable arrangement would be arrived at very soon.

[Ministry of Finance (Department of Revenue) letter No. 234/2/86-CX-7 dated 1 October, 1986]

### **Recommendation**

The facts stated in the foregoing paragraphs clearly identify some of the specific areas in the pricing and distribution of tyres which require immediate Government attention. In a note furnished to the Committee after evidence, the Minister of Finance have stated that in pursuance of the recommendations made by Bureau of Industrial Costs and Prices (BICP) in its recent reports, the Ministry of Industry have referred the issues relating to pricing practices, allowing of discounts etc. for a probe by the MRTP Commission. The Committee trust that this probe will be carried out with utmost expeditions.

[S. No. 4 (para 81) of Appendix IV to 43rd Report of PAC (Eighth Lok Sabha)]

### **Action Taken**

One of the suggestions of the BICP Report for specific action by Government, is to consider whether it would be appropriate to refer the issues of prices, discounts, and trade and distribution practices and policies in the tyre industry to a probe by MRTP Commission. Government have accepted this recommendation and the issue had been referred to MRTP Commission on 19th August, 1985 for initiating an immediate enquiry. After receipt of the recommendation of Public Accounts Committee, the matter has been again taken up with Chairman, MRTP Commission on 14th May, 1986 for urgent action in the matter.

[Ministry of Finance (Department of Revenue) letter No. 234/2/86-CX-7 dated 1 October, 1986]

### **Recommendation**

During evidence, the representative of the Ministry of Industry stated that the problems of tyre industry require a total approach. In this connection, the Committee would draw attention to the fact that a number of reports are now before the Government pending action. They include, the reports of the Bureau of Industrial Costs and Prices on costs pricing, distribution etc. the Satyapal Committee on automobile tyres and tubes, the Tyre Development Council on taxation structure on tyres and tubes. Government should

expeditiously examine these reports and formulate an integrated policy designed to maintain growth of the industry at a satisfactory pace, while ensuring that the consumers protected from exploitation and receive the benefit of whatever concessions are extended to the Industry.

[S. No. 5 (Para 82) of Appendix IV to 43rd Report of PAC  
(Eighth Lok Sabha)]

#### **Action Taken**

Government are taking all actions to expeditiously implement the recommendations of the various Reports, namely BICP Report (Phase-I), Satyapal Committee Report on automotive tyres and recommendations of Taxation Panel of Development Council for tyres and tubes. As regards BICP Report, two specific points have been suggested for action by Government—firstly, referring the issue of prices, discounts, and trade and distribution practices and policies in the tyre industry for a probe by MRTP Commission and secondly, need for continuous monitoring of price trends of automotive tyres by Government. As indicated in the foregoing paras, the Committee have accepted both these recommendations. The first has been taken up with MRTP Commission and for the second, a cell has been set up in the office of the Economic Adviser attached to the Ministry of Industry to continuously monitor price trends of tyres. Further action would also be taken on receipt of the detailed Phase II study of the BICP. As regards recommendations of Satyapal Committee Report, these have been discussed by Ministry of Industry initially with the concerned Ministries/ Departments and subsequently considered in the meeting of Development Council for tyres and tubes. Further follow up action has been initiated. As various policy issues of far reaching nature have raised in the Report it would take some time for their examination. The recommendations of the Taxation Panel of the Development Council for tyre and Tubes, which deal with the fiscal policies/ structure on tyres and tubes and their raw materials, these were taken up by the Ministry of Industry with Department of Revenue, Ministry of Finance for consideration and action. The Government have noted the Committee's suggestion regarding an integrated policy designed to maintain the growth of the industry at a satisfactory pace and also to protect the consumer from being exploited and the action in this regard has to some extent been initiated. However, it would be possible for the Government to take effective steps only when the B.I.C.P.'s phase-II study is completed.

[Ministry of Finance (Department of Revenue) letter No. 234/2/86—  
CX-7. dated 1 October, 1986]

### CHAPTER III

## RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

### Recommendation

The Committee find from the details of production and clearances of refrigerators that while the number of refrigerators cleared during April to September 1983 was far below the production, the clearances during October 1983 to February 1984 had considerably exceeded production. Evidently, the duty concessions had not so much stimulated growth as enabled the manufacturers to clear their accumulated stocks. Thus, in the case of refrigerator industry also the benefit of duty concession was not passed on to the consumer and as such, the purpose of fiscal relief was not fully achieved.

[S. No. 6 (Para 83) of Appendix IV to 43rd Report of PAC  
(Eighth Lok Sabha)]

### Action Taken

The Committee has observed that the duty concessions on refrigerators had not so much stimulated growth as to enable the manufacturers to clear their accumulated stock. The information regarding production and clearance of the major manufacturers of the refrigerators in respect of the 165 litres capacity was analysed and the following position emerges:—

Name of the manufacturers	Production		Clearance	
	1-4-83 to 30-9-83	1-10-83 to 31-3-84	1-4-83 to 30-9-83	1-10-83* to 31-3-84
Kelvinators	98,200	1,17,404	67,216	1,49,325
Godrej & Boyce	74,332	71,430	51,433	98,358
Hyderabad Allwyn	23,625	19,723	17,886	27,099

\*After proportionately revising the figures for the period 1-10-83 to 29-2-84.

Similarly, the production and clearances during 1983-84, when compared to the years, 1982-83 and 1981-82, are as below—

Name of the manufacturer	Production			Clearances		
	1981-82	82-83	83-84	1981-82	82-83	83-84
Kelvinators	127370	163721	215604	139887	156512	216541
Godrej & Boyce	101606	119502	145762	100371	123447	149791
Hyderabad Allwyn	33907	39923	43348	33990	40760	44985

Thus, it may be seen that the overall production in the year 1983-84 is higher compared to the production in 1982-83. In the case of M/s Kelvinators, the increase in 1983-84 is about 32% over the production in 1982-83 as compared to the increase of 28.7% in 1982-83 over that of 1981-82. Similarly, in the case of Godrej & Boyce also the increase in production in 1983-84 is higher.

It may also be mentioned here that at the time of announcing the concession in 1983-84, the position of a high carry over stock of refrigerators was noticed. Without liquidating the stock first, it would not have been feasible to increase the production substantially in 1983-84 over and above the levels achieved in 1982-83.

A statement showing consumer prices of refrigerators during the relevant period may be seen at Annexure-I. Another statement showing the trend of wholesale price of domestic refrigerators as on 24-9-83 and 25-2-84 may be seen at Annexure-II. From these statements it is observed that there was a reduction in both the retail and wholesale prices of refrigerators after excise duty reduction on this item in October, 1983.

[Ministry of Finance (Department of Revenue) letter No. 234/2/86-CX7, dated 1 October, 1986]

**ANNEXURE-I**

*Consumer prices of Kelvinator Refrigerators*

(Price in Rs.)

Specification/Month	Sept. 1983	Oct. 1983	Nov. 1983	Dec. 1983	Jan. 1984	Feb. 1984	March 1984
<b>MADRAS CENTRE</b>							
<i>Kelvinator Refrigerators</i>							
165 Lt.	.	.	4720	4395	4395	4550	4550
286 Lt.	.	.	.	.	65 60	6800	6800
	.	.	7576	6650	6650	6800	6800
<b>HOWRAH CENTRE</b>							
165 Lt.	.	4370	4370	4200	4200	4200	4200
286 Lt.	.	6620	6620	6400	6400	6400	6400
<b>KANPUR CENTRE</b>							
90 Lt.	.	.	3490	3120	3120	3120	3120
165 Lt.	.	4150	4150	3550	3550	3700	3750
286 Lt.	.	.	6750	5680	5680	5800	6050



**ANNEXURE-I—contd.**

**Consumer prices of refrigerators manufactured by M/s. Godraj & Boyce Co. Pvt. Ltd.**

**REFRIGERATOR PRICES & EXCISE DUTY AS ON DIFFERENT DATES**

Date	Basic Price		Excise duty	
	165 Lt.	290 Lt.	165 Lt.	290 Lt.
15-11-85	No change	4165.00	No change	1864.77
15-10-85	2810.00	3990.00	637.17	1788.52
25-9-85	2810.00	3990.00	637.17	1788.52
16-9-85	2985.00	4165.00	675.29	1864.77
3-6-85	2835.00	No change	683.30	No change
12-4-85	2925.00	4015.00	702.91	1880.79
25-2-85	2800.00	3815.00	686.80	1819.89
1.11.84	No change	3565.00	No change	1710.95
24-10-84	2650.00	3430.00	656.12	1652.12
15-10-84	2850.00	3815.00	699.69	1815.15
25-7-84	No change	3680.00	No change	1819.02
6-7-84	2750.00	No change	699.56	No change
5-5-84	2600.00	3480.00	665.70**	1728.72**
2-10-83	2600.00	3480.00	547.58*	1492.47*
7-9-83	2600.00	3480.00	876.12	2387.95

\*Lower Excise duty charged after the relief granted by Govt. on 1-10-83.

\*\*Increase in quantum of Excise duty due to Payment of excise duty on optional service Contract charges for refrigerators. The Excise duty on the Optional Service Contract being paid under protest in view of order dated 24-4-84 passed by HonJustice. M.L.Pense of Bombay High Court on a writ petition No. 903 of 1984.

**MODEL 165 SD with Table Top**

**Place Hyderabad**

*M/S Hyderabad Alhwyn*

*Customer price*

1983-84

	Aug. 83	Sept. '83	Oct. '83	Nov. '83	Dec. '83	Jan. '84	Feb. '84	March '84	April '84	May '84	June '84	July '84
Basic price	3605.90	3605.90	3192.90	3192.90	3192.90	3192.90	3192.90	3345.00	3345.00	3345.00	3345.00	3345.00
Sales Tax & Surcharge	574.75	574.75	557.05	557.05	557.05	557.05	557.05	583.60	583.60	583.60	583.60	583.60
Total price:	4180.65	4180.65	3749.95	3749.95	3749.95	3749.95	3749.95	3928.60	3928.60	3928.60	3928.60	3928.60
Optional Warranty	460.00	460.00	460.00	460.00	460.00	460.00	460.00	460.00	460.00	460.00	460.00	460.00

**ANNEXURE-II**

**Trend of whole sale price of Domestic Refrigerators between end September 1983 and end February, 1984**

	24-9-83		25-2-84	
	Price	Whole-sale price index	Price	Whole sale price index
		176.4		156.6
(1) 266 Ltrs. (Ex-Delhi Godown)	4810.81	183.9	3980.25	152.1
(2) 165 Ltr, (Model P3 FOR)	3237.52	169.0	2892.04	151.0

(Source: Monthly Bulletins issued by the Office of Economic Advisor, Ministry of Industry.

**CHAPTER IV**

**RECOMMENDATIONS AND OBSERVATIONS REPLIES TO  
..WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE..  
AND WHICH REQUIRE RETTERATION**

**--NIL--**

**CHAPTER V**

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF  
WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;  
April 6, 1987  

---

Chaitra 16, 1909 (Saka)

E. AYYAPU REDDY,  
Chairman,  
Public Accounts Committee.

## PART II

### MINUTES OF THE 52ND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 3-4-1987

The Committee sat from 1500 hrs. to 1600 hrs.

#### PRESENT

Shri E. Ayyapu Reddy—*Chairman*

2. Shri Amal Dutta
3. Shri G. Devaraya Naik
4. Shri H. M. Patel
5. Shri Bhuvnesh Chaturvedi
6. Shri A. K. Antony
7. Shri Nirmal Chatterjee
8. Shri Virendra Verma

#### SECRETARIAT

1. Shri K. H. Chhaya—*Joint Secretary*
2. Shri S. M. Mehta—*Senior Financial Committee Officer*

#### REPRESENTATIVES OF THE C&AG OF INDIA

1. Shri D. K. Chakravorty—*Addl. Dy. C&AG (Reports Central)*
2. Shri M.M.B. Annavi—*DADS*
3. Shri R. Parameswar—*D.A.C. W&M-I*
4. Shri S. B. Krishnan—*Director (Reports)*
5. Shri P. K. Bandhopadhyaya—*DRA-II*
6. Shri N. L. Chopra—*Joint Director, Defence Audit*
7. Shri S. K. Gupta—*Joint Director Revenue Audit*

2. The Committee considered and adopted the following draft Reports with some amendments/modifications as show in Annexures I\*, II and III\*.

---

\*Annexures I and III not annexed.

(i) \* \* \* \* \*

(ii) Draft Report on Action Taken on the 43rd Report (8th Lok Sabha) relating to Central Excise—Impact of reduction in duty on prices of refrigerators and tyres.

(iii) \* \* \* \* \*

3. The Committee authorised the Chairman to finalise the draft Reports in the light of the above modifications and other verbal consequential changes arising out of factual verification by the Audit and present them to the House.

*The Committee then adjourned*

**ANNEXURE II**

*Amendments/ Modifications made by the Public Accounts Committee in the Draft Report on action taken on the 43rd Report (Eighth Lok Sabha) Relating to Central Excise - Impact of Reduction in duty on Prices of Refrigerators and Tyres at the sitting of the Committee held on 3 April, 1987 (AN)*

<b>PAGE</b>	<b>PARA</b>	<b>LINE(S)</b>		<b>AMENDMENTS/MODIFICATIONS</b>
13	18	7 from bottom	<i>Substitute</i>	"would...constant" by "will be successful in keeping effective"
43	18	5-6 from bottom	<i>Substitute</i>	"look into...check" by "and in taking appropriate and timely measures so that"
13	18	4 from bottom	<i>Add</i>	"are effectively prevented" after tyres"
15	20	4-5	<i>Delete</i>	"to some extent"
15	20	8-15	<i>Substitute</i>	"That Committee... exploited" by "The Committee desire that after obtaining the aforesaid reports, Government should expeditiously examine them and formulate an integrated policy designed to ensured the growth of the industry while protecting the consumers from being exploited"



## APPENDIX

### Conclusions|Recommendations

Sl. No.	Para No.	Ministry/Department Concerned	Conclusions/Recommendations
1	2	3	4
1	18	Ministry of Finance (Department of Revenue) and Ministry of Industry (Department of Industrial Development)	<p>Excise duty on refrigerators and certain specified tyres were reduced by notifications issued by the Central Board of Excise and Customs on 1 October, 1983. In their 43rd Report ( Eighth Lok Sabha), the Committee while examining the impact of the notifications on the prices of those items had observed that in spite of the duty exemptions, all the tyres manufacturers with the exception of a state public sector undertaking increased the prices of tyres in January, 1984. The Committee had expressed their concern that Government found themselves helpless in the face of the tyre manufacturers determination to keep prices at levels acceptable to them. The Committee had taken note of the fact that the manufacturers had strengthened themselves financially in spite of their complaint that the profit margin was low or negligible. After examining the facts relating to the tyre industry in some depth, the Committee had recommended that the conditions relating to the industry should be studied further to ensure that the industry was not able to manipulate and distort the market forces to their advantage. In their action taken note, the Ministry of Finance have stated that on 5</p>

18 Ministry of Finance  
 (Department of Revenue)  
 and Ministry of Industry  
 (Department of Industrial  
 Development)

May, 1984 the Bureau of Industrial Costs and Prices (BICP) were requested to undertake a study of the cost structure of tyres with a view to see whether, and to what extent, price revisions resorted to by the manufacturers during November, 1983 to January, 1984 were justified in terms of the increase in cost of production. The BICP were also requested to give their view on the need as well as appropriate mechanism for administrative intervention, if any, in the pricing and distribution of tyres as a measure for stabilizing the prices of tyres at reasonable levels. The study was to be covered in two phases, the first being limited to the verification and updating of the cost and technical data of the industry, and, the second phase, involving an in-depth analysis of the tyre industry. The Report on phase I study has been made available to Government, while the Report on Phase II study is still awaited. According to the Ministry after this detailed study is available, it may be possible to arrive at a long term solution on the question of prices of automotive tyres. The Ministry have further stated that a Monitoring Cell has now been set up in the Ministry of Industry, in order to undertake the task of continuously monitoring the price trends of automotive tyres. The Committee hope that the Monitoring Cell will be successful in keeping effective watch over price movements, and in taking appropriate and timely measures so that malpractices in the pricing and distribution of tyres are effectively prevented. The Com-

mittee also desire that the phase II study of the BICP should be expeditiously completed and necessary follow-up action taken thereon promptly.

2 19

Do.

The Committee had in their earlier Report observed that the Ministry of Industry had referred the issues relating to pricing practices, allowing of discounts etc. in the tyre industry for a probe by the Monopoly and Restrictive Trade Practices Commission (MRTPC). The result of the probe is still awaited. The Committee hope that it would be expeditiously completed. They would also like to be informed of the outcome and the action taken thereon, in due course.

3 20

Do.

In their earlier Report, the Committee had drawn attention to the fact that a number of reports relating to the tyre industry were pending action before Government. They included the phase I study of the BICP on pricing, distribution etc., the Satyapal Committee on automobile tyres and tubes, the Tyre Development Council on taxation structure on tyres and tubes. The Committee had recommended that Government should expeditiously examine these reports and formulate an integrated policy designed to maintain growth of the industry at a satisfactory pace, while ensuring that the consumers are (a) protected from exploitation and (b) receive the benefit of whatever concessions are extended to the Industry. In their action taken reply, the Ministry of Finance have stated that while action is being taken on the phase I report of the BICP, the

20 Ministry of Finance  
 (Department of Revenue)  
 and Ministry of Industry  
 (Department of Industrial  
 Development)

Reports of the Satyapal Committee and the Tyre Development Council were still under examination. It has been further stated that Government have noted the recommendation of the Committee for formulation of an integrated policy and the action in this regard has been initiated. However, according to the Ministry, evolving any concrete policy could be considered only after the Phase II study of BICP and the outcome of MRTTP's probe are available to Government. The Committee desire that after obtaining the aforesaid reports, Government should expeditiously examine them and formulate an integrated policy designed to ensure the growth of the industry, while protecting the consumers from being exploited.