Automobile Industry Policy

Vision

TO ESTABLISH A GLOBALLY COMPETITIVE AUTOMOTIVE INDUSTRY IN INDIA AND TO DOUBLE ITS CONTRIBUTION TO THE ECONOMY BY 2010

1. POLICY OBJECTIVES

This policy aims to promote integrated, phased, enduring and self-sustained growth of the Indian automotive industry. The objectives are to:-

(i) Exalt the sector as a lever of industrial growth and employment and to achieve a high degree of value addition in the country;

(ii) Promote a globally competitive automotive industry and emerge as a global source for auto components;

(iii) Establish an international hub for manufacturing small, affordable passenger cars and a key center for manufacturing Tractors and Two-wheelers in the world;

(iv) Ensure a balanced transition to open trade at a minimal risk to the Indian economy and local industry;

(v) Conduce incessant modernization of the industry and facilitate indigenous design, research and development;

(vi) Steer India's software industry into automotive technology;

(vii) Assist development of vehicles propelled by alternate energy sources;

(viii) Development of domestic safety and environmental standards at par with international standards.

2. BACKGROUND

2.1 Automotive industry has universally emerged as an important driver in the economy. Although the automotive industry in India is nearly six decades old, until 1982, only three manufacturers - M/s. Hindustan Motors, M/s. Premier Automobiles and M/s. Standard Motors tenanted the motor car sector. Owing to low volumes, it perpetuated obsolete technologies and was out of sync with the world industry. In 1982, Maruti Udyog Ltd. (MUL) came up as a government initiative in collaboration with Suzuki of Japan to establish volume production of contemporary models. After the lifting of licensing in 1993, 17 new ventures have come up of

which 16 are for manufacture of cars. This industry currently accounts for nearly 4% of the GNP and 17% 0f the indirect tax revenue.

3. EXTANT POLICY

3.1 Before the removal of QRs with effect from 01-04-2001, the policy placed import of capital goods and automotive components under open general licence, but restricted import of cars and automotive vehicles in Completely Built Unit (CBU) form or in Completely Knocked Down (CKD) or in Semi Knocked Down (SKD) condition. Car manufacturing units were issued licences to import components in CKD or SKD form only on executing a Memorandum of Understanding (MOU) with the Director General Foreign Trade (DGFT). 11 companies signed MOUs with DGFT under which they agreed to:

- Establish actual production of cars and not merely assemble vehicles;
- Bring in a minimum foreign equity of US $ 50 Million if a joint venture involved majority foreign equity ownership;
- Indigenise components upto a minimum of 50% in the third and 70% in the fifth year or earlier from the date of clearance of the first lot of imports. Thereafter the MOU and import licensing will abate;
- Neutralise foreign exchange outgo on imports (CIF) by export of cars, auto components etc. (FOB). This obligation was to commence from the third year of start of production and to be fulfilled during the currency of the MOU. From the fourth year imports were to be regulated in relation to the exports made in the previous year.

4.CURRENT STATUS OF INDIAN AUTOMOTIVE INDUSTRY

4.1 The industry encompasses commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers, tractors and auto components. There are in place 15 manufacturers of cars and multi utility vehicles, 9 of commercial vehicles, 14 of Two/Three Wheelers and 10 of Tractors besides 5 of engines. With an investment of Rs.50,000 crores, the turnover was Rs. 59,500 crores in Automotive Sector during 1999-2000. It employs 4,50,000 people directly and 100,00,000 people indirectly and is now inhabited by global majors in keen contention.

4.2 India manufactures about 38,00,000 2-wheelers, 5,70,000 passenger cars, 1,25,000 Multi Utility Vehicles, 1,70,000 Commercial Vehicles and 2,60,000 tractors annually. India ranks second in the production of two wheelers and fifth in commercial vehicles.

4.3 India's automotive component industry manufactures the entire range of parts required by the domestic automobile industry and currently

employs about 250,000 persons. Auto component manufacturers supply to two kinds of buyers – Original Equipment Manufacturers (OEM) and the replacement market. The replacement market is characterised by the presence of several small-scale suppliers who score over the organised players in terms of excise duty exemptions and lower overheads. The demand from the OEM market, on the other hand, is dependent on the demand for new vehicles.

4.4 The auto sector (excluding Tractors) attained a steep cumulative annual growth of 22% between 1992 and 1997. The Tractors achieved a cumulative annual growth of 16%. Component production grew by 28%. There has been a slowdown in the automobile sector in the past two years. However, the component industry maintained a low but positive growth rate mainly due to its export performance. Over the years, the component industry has maintained a 10% - 12% share of exports in the total production.

4.5 Roads occupy an eminent position in transportation as they, as per the present estimate, carry nearly 65% of freight and 87% of passenger traffic. Although, India has 3.3 million kilometers of road network, which is the second largest in the world, the Indian highways are getting overpopulated. Traffic management and road sense also need attention.

5. NEED FOR A COMPREHENSIVE AUTOMOTIVE POLICY

5.1 The extant policy has drawn many overseas companies into India but needs to be more investor friendly, address emerging problems and be WTO compatible. The Indian car market is full of possibilities; but present demand profile inhibits volume production, save by a few, and conduces contention rather than competition. World over, the majors have consolidated to elevate technology, enlarge product range, access new markets, cut costs and ingraft versatility. They have resorted to common platforms, modular assemblies and systems integration by component suppliers and E-Commerce.

5.2 The automotive industry is in the midst of a major structural transformation in today's globalised scenario. "System Supply" of integrated components and sub-systems is becoming the order of the day, with individual small components being supplied to the system integrators instead of the vehicle manufacturers. In this process, most of the SSI units manufacturing smaller individual components are on their way to become tier 2 and tier 3 suppliers, while the larger companies including most MNCs are being transformed into tier 1 companies, which purchase from tier 2 & 3, and sell to the auto manufacturers.

5.3 Indian auto sector needs to grow collaterally and in harmony with

world industry. India has the potential to be a global automotive power. However, concerted efforts will be required to take auto manufacturing to a self-sustaining level where they shall have volumes, generate requisite technology and meet evolving emission requirements.

5.4 Volume is important for any manufacturing enterprise. However, it is more important for automobile sector, both for the manufacture of vehicles as well as auto components. Lack of volume will not only inhibit efficient manufacture but also R&D and introduction of new models. The investment and fiscal policies should create an environment for volume production and indigenous capability for innovation for small cars and auto components.

5.5 Auto components manufacturers have been slowly gaining global recognition and maintaining a certain level of exports despite the recent downturn. It should be possible to achieve an export target of US $ 1 billion by 2005 and US $ 2.7 billion by 2010. This would require three pronged marketing strategy: exports through OEMs for their global sourcing requirements, export to tier I manufacturers as a part of their international supply chain and direct exports to aftermarket. The main challenges are lower volume – low scale, fragmentation, inadequate R&D/technology support, lower productivity levels, limited resources for international marketing and establishment of an efficient supply chain.

6. MEASURES TO REALIZE THE POLICY OBJECTIVES

6.1 Initiatives relating to investment, tariffs, duties and imposts will be the instruments to achieve the Policy objectives. These path government's economic reform and are in harmony with the commitments made to WTO.

6.2 Increased resource allocation to the highways sector to ensure collateral upgradation and development of road infrastructure in step with the increase in the population of vehicles.

6.3 An appropriate regulatory framework for smooth movement of traffic, safety and environmental aspects.

7. FOREIGN DIRECT INVESTMENT

7.1 Automatic approval for foreign equity investment upto 100% of manufacture of automobiles and component is permitted.

8. IMPORT TARIFF

8.1 The incidence of import tariff will be fixed in a manner so as to facilitate development of manufacturing capabilities as opposed to mere

assembly without giving undue protection; ensure balanced transition to open trade; promote increased competition in the market and enlarge purchase options to the Indian customer.

8.2 The Government will review the automotive tariff structure periodically to encourage demand, promote the growth of the industry and prevent India from becoming a dumping ground for international rejects.

8.3 In respect of items with bound rates viz. Buses, Trucks, Tractors, CBUs and Auto components, Government will give adequate accommodation to indigenous industry to attain global standards.

8.4 In consonance with Auto Policy objectives, in respect of unbound items i.e., Motor Cars, MUVs, Motorcycles, Mopeds, Scooters and Auto Rickshaws, the import tariff shall be so designed as to give maximum fillip to manufacturing in the country without extending undue protection to domestic industry.

8.5 The conditions for import of new Completely Built Units (CBUs), will be as per Public Notice issued by the Director General Foreign Trade (DGFT) having regard to environment and safety regulations.

8.6 Used vehicles imported into the country would have to meet CMVR, environmental requirements as per Public Notice issued by DGFT laying down specific standards and other criteria for such imports.

8.7 Appropriate measures including anti dumping duties will be put in place to check dumping and unfair trade practices.

9. EXCISE DUTY

9.1 Motor Cars

9.1.1 The ownership of cars in India is just 6 per thousand of population as against 500 in the developed economies. The contribution of the auto sector to the GDP and employment is likewise low. Expansion of local demand holds great potential and is vital to install scale volumes of production.

9.1.2 Domestic demand mainly devolves around small cars not exceeding 3.80 meters in length. Small cars occupy less of road space and save on fuel. These capture more than 85% of the market. India can build export capability and become an Asian hub for export of small cars. The growth of this segment needs to be spurred.

9.2 Multi Utility Vehicles

9.2.1 MUVs are an important mode of economical mass transport in rural India due to poor road infrastructure and lack of good State transport system. They are the first vehicle purchased by a number of farmers, traders, small businessmen in rural and semi-urban markets. The Government will endeavour to provide fiscal incentives to this sector.

9.3 Commercial Vehicles

9.3.1 Presently excise duty on commercial vehicles sold by a manufacturer whether as a chassis or with a complete body is 16%. However, no duty is levied on the body that is built by an independent body builder on chassis bought from a manufacturer. This dispensation inveigles production of the complete trucks and buses by the chassis manufacturer and is detrimental to safety standards. The duty imposed on the construction of bodies by an independent body builder, small or organised sector, shall be equal to that of bodies built by a chassis manufacturer.

9.3.2 The Government will encourage fabrication of bus body on bus chassis designed for better passenger comfort instead of truck chassis as is the current practice.

9.3.3 The Government will promote the use of multi-axle vehicles for carriage of goods as they cause reduced environmental pollution and lesser wear and tear on road surface in comparison to the existing 2-axle trucks.

10. IMPROVING ROAD INFRASTRUCTURE

10.1 Traffic on roads is growing at a rate of 7 to 10% per annum while the vehicle population growth for the past few years is of the order of 12% per annum. Poor road infrastructure and traffic congestion can be a bottleneck in the growth of vehicle industry. A balanced and coordinated approach will be undertaken for proper maintenance, upgradation and development of roads by encouraging private sector participation besides public investment and incorporating latest technologies and management practices to take care of increase in vehicular traffic.

10.2 For the convenience of traveling public the Government shall also promote multi-modal transportation and the implementation of mass rapid transport systems

11. INCENTIVE FOR RESEARCH AND DEVELOPMENT

11.1 The Government shall promote Research & Development in

automotive industry by strengthening the efforts of industry in this direction by providing suitable fiscal and financial incentives.

11.2 The current policy allows Weighted Tax Deduction under I.T. Act, 1961 for sponsored research and in-house R&D expenditure. This will be improved further for research and development activities of vehicle and component manufacturers from the current level of 125%.

11.3 In addition, Vehicle manufacturers will also be considered for a rebate on the applicable excise duty for every 1% of the gross turnover of the company expended during the year on Research and Development carried either in-house under a distinct dedicated entity, faculty or division within the company assessed as competent and qualified for the purpose or in any other R&D institution in the country. This would include R & D leading to adoption of low emission technologies and energy saving devices.

11.4 Government will encourage setting up of independent auto design firms by providing them tax breaks, concessional duty on plant/equipment imports and granting automatic approval.

11.5 Allocations to automotive cess fund created for R&D of automotive industry shall be increased and the scope of activities covered under it enlarged.

12. BUILDING BYE LAWS FOR RESIDENTIAL, COMMERCIAL AND OTHER USES

12.1 With the growth of vehicles, smooth traffic movement has come under severe strain. The problem has been aggravated because of inadequate provision of parking facilities generally. Starting with metropolitan and important towns, the Government will pursue with State Governments and Local bodies amendments to bye laws for upward revision of the parking norms for new residential buildings, construction of common parking for existing residential areas besides parking upgradation in all commercial areas. Multi-storied parking shall also be encouraged.

13. ENVIRONMENTAL ASPECTS

13.1 The automotive and oil industry have to heave together to constantly fulfill environment imperatives. The Government will continue to promote the use of low emission fuel auto technology.

13.2 The Government after considering the recommendations of the Expert Committee on Auto Fuel Policy headed by Dr. R.A. Mashelkar, have approved a road map for implementation for the auto fuel quality

consistent with the required levels of vehicular emissions norms and environmental quality. The Government will formulate a comprehensive auto fuel policy covering the other related aspects and ensure availability of appropriate auto fuel/fuel mixes at minimum social costs across the country. Suitable institutional mechanism will be put in place for certification, monitoring and enforcement of different technologies/fuel mixes. Appropriate fiscal measures will be devised to achieve milestones in the roadmap for implementation of auto fuel policy.

13.3 In the short run, the Government will encourage the use of short chain hydrocarbons along with other auto fuels of the quality necessary to meet the vehicular emissions norms.

13.4 There is prime need to support the development and introduction of vehicles propelled by energy sources other than hydrocarbons by promoting appropriate automotive technology. Hybrid vehicles and vehicles operating with batteries and fuel cells are alternatives to the conventional automobile, which in their early beginnings, lie intreasured. As an impetus for the development of such vehicles, an appropriate long-term fiscal structure shall be put in place to facilitate their acceptance vis-à-vis vehicles based on conventional fuels.

13.5 Internationally, the practice is to levy higher road tax on older vehicles in order to discourage their use. In India, the road tax on vehicles varies in nature and quantum among the states. Lifetime road tax is also in vogue. The endeavour will be to move to the international model.

13.6 In order to facilitate faster upgradation of environmental quality, the Govt. will consider having a terminal life policy for commercial vehicles alongwith incentives for replacement for such vehicles.

14. SAFETY

14.1 Government will duly amend the Central Motor Vehicles Rules, Bureau of Indian Standards (BIS) and other relevant provisions and introduce safety regulations that conform to global standards.

14.2 Testing and certification facilities need to be revised and strengthened in accordance with safety standards of global order. Government, in partnership with industry, will tend to this requirement.

15. HARMONISATION OF STANDARDS:

15.1 Government recognises the need for harmonisation of standards in a global economy and will work towards it.