

INDIAN TYRE INDUSTRY

An Overview - Major Issues - Recommendations

Presentation before

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by

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AN OVERVIEW OF INDIAN TYRE * INDUSTRY

- ▶ **Industry Turnover** - Rs. 13,500 crores per annum;
- ▶ **Total number of tyre companies (large and medium) - 40** having 47 tyre factories location all across India.
- ▶ **Tyre Exports from India** to the tune of Rs. 1400 crores annually to over 65 countries worldwide, including several developed countries. The target for 2004-05 is Rs. 1450 Crores.
- ▶ **Top 7 large tyre companies** in India account for over 85% of total tyre production;

(* Unless otherwise stated, in this presentation **Indian Tyre Industry refers to large tyre companies**, 7 in number, which constitute 85% of total tyre production in India. In addition, a large number of small tyre companies also manufacture automotive tyres (mainly two-wheeler tyres).

AN OVERVIEW OF INDIAN TYRE INDUSTRY

- ▶ Indian tyre industry is **manufacturing all categories of tyres** (except some specialized categories like Snow Tyres for which currently there is no requirement and Aero Tyres). Indian tyre industry has the capability to produce all categories of tyres.
- ▶ Domestic demand for tyres to the extent of 98%, including **demand for tyres for all new vehicles being introduced in the country, is being met domestically.**
- ▶ Production of major categories of tyres in India is given below:

<u>Category</u>	<u>Production</u> (Lakh Nos.) (2003-04)	<u>% Share in Turnover</u>
TOTAL	546.90	
- Truck and Bus	108.21	60%
- Passenger Car/Jeep/MUVs	113.99	11%
- Light Commercial Vehicles	32.71	8%
- Two Wheelers	261.30	11%
- Tractor (Front & Rear)	15.63	6%

TYRE EXPORTS BY INDIAN TYRE INDUSTRY

- ▶ Indian tyres have good acceptance in global markets;
- ▶ Compounded Average Growth Rate (**CAGR**) of **tyre exports** in the last one decade has been **8%**;
- ▶ **Exports to over 65 countries** worldwide;
- ▶ **17% export to highly quality conscious US market.** other major export markets are - (countries in) Latin America;UAE, Bangladesh, Iran, Philippines, Vietnam, etc.
- ▶ **Over 20% of truck and bus tyres (bias) produced domestically are exported.** Emphasis now is on export of radial tyres, including Passenger Car radial tyres.
- ▶ All large tyre companies are exporting as a long term commitment;

SALIENT FEATURES OF INDIAN TYRE INDUSTRY

- ▶ Indian Tyre industry **provides the 'vital link' in movement of common man** (through buses and public transportation) and goods (through trucks, LCVs etc.);
- ▶ **Truck and bus tyres account for over 65% of tyre industry turnover in India** (in terms of value and tonnage). Hence, demand for truck and bus tyres is a true indicator of the performance of Indian economy in general and also the tyre industry in India;
- ▶ Indian Tyre Industry provides **direct and indirect employment to nearly 1 million** persons, taking into account dealers, retreaders, growers of Natural Rubber, employment in raw-material sector etc.

SALIENT FEATURES OF INDIAN TYRE INDUSTRY ... contd.

- **Truck and bus tyre segment is critical for Indian Tyre Industry.** Truck operation, in turn, is run by over 2.6 million small truck owners/operators;
- **Tyres are readily available and easily serviced even in remotest corners** in India;
- Indian Tyre companies also follow a **unique warranty system** whereby 'pro-rata' adjustment is given for manufacturing defects through the dealers;
- There is a **vast population and production of two-wheelers in India** for which different sizes of tyres are required and produced.

SALIENT FEATURES OF INDIAN TYRE INDUSTRY... contd.

- ▶ Tyre companies have built a **vast and vibrant marketing network** through dealers and depots as a result of which all categories of tyres are readily available even in remotest parts of the country, including villages;
- ▶ The total **number of tyre dealers**, geographically spread all over the country **is over 5,000** - serviced through over 500 depots of tyre companies. A vast majority of dealers handle multi-brands of tyres. Tyre companies also have exclusive retail distribution outlets;
- ▶ Indian tyres are meant, and expected to perform, under **different and extreme road conditions**, from unmetalled village roads to newly constructed national highways, from extreme cold to hot and wet conditions prevailing in different geographical parts of the country;

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

1) Radialization in the Commercial Vehicle Segment

- **Indian Tyre Industry hitherto is predominantly a cross ply/bias tyre manufacturing industry**, particularly in the commercial vehicle segment (truck, bus, LCV) whereas in the developed countries radialization level is much higher.
- ▶ In comparison to normal (Bias) tyres, **Radial tyres offer higher life/mileage, lower fuel consumption, improved safety and ride quality and several other benefits.** However, the initial cost of a radial tyre is approx. 25% higher though on a cost per kilometer (CPK) basis, radial tyre gives higher benefits.
- ▶ The process of **radialization in India has gained momentum in recent years**, particularly in the passenger car segment, as given below:

<u>Radialization Level/Segment</u>	<u>1995</u>	<u>2004</u>
Passenger Car	28%	85%
Light Commercial Vehicle (LCV)	9%	11%
Truck and Bus	1%	2%

Radialization in the Commercial Vehicle Segment

...contd.

- ▶ Though radial tyres offer multiple benefits, **low level of radialization in the truck and bus segment** is mainly due to higher initial cost (with limited 'demand pull'), low level of fitment by OEs on commercial vehicles and poor road conditions.
- ▶ With an improvement in road infrastructure, **radialization in the commercial vehicle (CV) segment needs an added thrust by way of i) increase in fitment by the OEs (as in the case of passenger car tyres), ii) increased demand for fitment of commercial vehicle radials in the replacement markets.** Both these demand drivers can be accelerated by making commercial vehicle radials cheaper and affordable.

Submission - **Two critical raw-materials** required in the manufacture of radial tyres (Steel Tyre Cord and Polyester Tyre Cord) **are not manufactured domestically** (or domestic manufacturing is not of the required grade, i.e. for steel truck radials). **Reduction in customs duty on these two essential raw-materials from 20% to 10%** will encourage wider application and reduced cost.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

2) Embossing of Maximum Price (MRP) on Truck/Bus Tyres

- In February, 1988, as per a directive of the Ministry of Industry, Embossing of MRP on truck and bus tyres was started. This was based on the recommendations of the Committee on Tyre Industry (1984, known as Satyapal Committee).
- In the last over 15 years, the economic scenario has undergone a sea change with liberalization, removal of controls and free global trade in most items. Tyre Industry is also delicensed.
- Major raw-materials of tyre industry (Natural Rubber and petroleum based materials) undergo wide fluctuations in prices. In such a dynamic scenario, it is not practical to emboss the price on tyres due to market dynamics.

Submission - Tyre industry feels that there is no need to continue with embossing MRP on truck/ bus tyres.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

3) Taxation Related

- ▶ **Incidence of excise duty on tyres continues to be high @ 24%**, the same as on luxury products like air-conditioners etc. In addition there are several local taxes and levies imposed on tyres. Ultimate burden of high taxes falls on the consumer;
- ▶ Apart from high Excise Duty, **various embedded taxes** (*viz.* Sales Tax, Octroi, Cess etc.) **take the total tax incidence on tyres to an even higher level.**
- ▶ Truck and Bus tyres are used in vehicles for **transportation of common man and goods.**

Submission - There is a need to reduce excise duty on tyres from **24% to 16%** in the next Union Budget.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

4) Used Tyres

- ▶ **Developed and industrialized countries are facing a monumental problem in disposal of used tyres.** Hence, developing and high tyre consumption countries like India are being looked upon as a dumping ground for used tyres.
- ▶ Several countries have banned or imposed severe restriction on import of used tyres. **In India, Government introduced 'floor price'** (for assessment of Customs Duty) in 1997. Till recently, floor price mechanism was effective in restricting imports. However, of late, the **volume of used tyre imports** (in circumvention) of the floor price **has increased significantly.**

Submission - a) India too should introduce a complete BAN on import of Used Tyres.

b) Used Tyres should NOT be included in the list of any Regional Trade Agreements (RTAs) for import into India at concessional rate of duty, as has been included in the 'request list' of Singapore under the India-Singapore Agreement.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

5) Bangkok Agreement/RTA's - Inclusion of Raw-Materials of Tyre Industry

- ▶ **Under the Bangkok Agreement, tyres can be imported at 5% concession in import duty** (i.e. 15% customs duty vs. 20% normal duty rate). **South Korea and China are signatories of the Bangkok Agreement.** Tyre imports from these two countries at concessional rate of customs duty are a matter a serious concern for Indian tyre industry.
- ▶ Preferential tariff treatment has resulted in import of large volume of passenger car radial tyres into India from South Korea and truck/bus tyres from China.
- ▶ However, since major raw-materials of tyres are not included in the Bangkok Agreement (eligible for concessional rate of customs tariff from signatory countries) tyre industry is at a disadvantage and is faced with inverted duty structure.

Submission - Raw Materials of Tyres should also be included the list of items eligible for concessional rate of Customs duty under Bangkok Agreement or any other RTA.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

6) Automotive Industry Standards (AIS)

- ▶ All large tyre companies had voluntarily taken BIS (Bureau of Indian Standards) certification.
- ▶ In addition, **Government has proposed Automotive Industry Standards (AIS)** which are essentially 'safety standards' and applicable to tyre industry also.

Submission - Tyre Industry is of the view that **there should be a unified 'national standard'** which can be achieved with a merger of AIS standards with BIS.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

7) Government support for promoting 'Made in India' Brand for Tyres

- Indian tyre industry is facing intense competition from China and other South East Asian countries in tyre exports to other countries.
- Though the quality of Indian tyres is better and has wider acceptance, due to cheaper pricing, higher volumes and aided by Government support and subsidies, Chinese tyres are cutting into the share of Indian tyre exports.
- There is a need to promote India Brand for tyres as one which spells quality and higher standards.

Submission - If the suggestion finds favour with the Department, Tyre Industry can work out a proposal for Government support in this direction.

MAJOR CONCERNS OF INDIAN TYRE INDUSTRY

8) Non-Tariff Barriers (NTBs) on Indian Tyres

- Several countries have imposed Non-tariff barriers, by way of standards, specifications and quality markings, which Indian tyres have to comply with when exported to those countries. These stipulations are by way of Non-tariff barriers and are coming in the way of improved export performance.
- Since the conditions imposed are in a WTO compatible manner, there is a need to initiate simplification and curb duplication at Government-to-Government level.

Submission - Tyres which have Bureau of Indian Standards (BIS) markings should not require mandatory certification of importing country. BIS should enter into reciprocal arrangement with its counterpart organizations in other countries to this effect.

SUMMING UP – RECOMMENDATIONS FOR CONSIDERATION BY THE GOVERNMENT

- Accelerate radialization in Commercial Vehicle (CV) segment facilitated by reduction in customs duty on Steel Tyre Cord and Polyester Tyre Cord to 10%, from existing level of 20%.
- The current practice of embossing of MRP on Truck and Bus tyres should be allowed to be done away with.
- Reduce excise duty on tyres from existing 24% to 16% in the next Union Budget.
- Impose a complete ban on import of Used Tyres. Raw Materials of Tyres should also be eligible for concessional customs duty under Bangkok Agreement or preferential customs duty under Regional Trade Agreements;
- Automotive Industry Standards (AIS) should be merged with BIS
- Ensure that Non-Tariff Barriers (NTBs) on Indian tyres are removed and reciprocal agreements for acceptance of national standards are entered into.