CALL OF DUTY

The govt and Maruti believe the Indian car industry is no longer an infant and can face low-duty imports through FTAs, but not everyone is sure

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R C Bhargava, chairman of India's largest carmaker, Maruti Suzuki, is no stranger to making contrarian calls. And he has done it once again.

"Indian car companies are already globally competitive, with even cheaper cost of production. So there is no reason to impose high tariff barriers, or a quota system for cars that would be eligible for preferential tariff to protect the industry from the UK's or Europe's carmakers. We are not competing with China," Bhargava told *Business Standard*.

With this, Bhargava breaks ranks with many in the Indian car industry, but shows alignment with the government, which is in hectic parleys to sew up a crucial free trade agreement (FTA) with the United Kingdom. The talks have hit a roadblock over tariff reduction for cars, an issue that also has repercussions for Elon Musk's Tesla, which has made public its intention to set up operations in India if it gets to pay lower duties on import of cars that come as completely-built units (CBU).

A few days ago, Rajesh Kumar Singh, secretary to the Department for Promotion of Industry and Internal Trade, articulated the government's thinking by saying the country had to eventually move towards a lower-customs-duty regime and that domestic manufacturers could not cite the infant industry argument anymore, except in cases where there is dumping of products, such as toys coming from China.

Some domestic carmakers have softened their stand on tariffs and are willing to make compromises. The Society of Indian Automobile Manufacturers (SIAM), whose spokesperson did not respond to queries from *Business Standard* on this issue, is pushing for a gradual, not abrupt, reduction in duties. Last year, SIAM, which does not seem to have a consensus on the issue, suggested a duty reduction in phases to 10 per cent in five years and was willing to go to zero duty if the preferential duty was limited to 46,000 cars. The other proposal from SIAM was to bring the duty down to 30 per cent gradually over 10 years.

IMAGING: AJAY MOHANTY

THE UK CAR SWEEPSTAKES

11.8% Share of cars in manufacturing exports in H1 2023

60% Share of EU in its total car exports

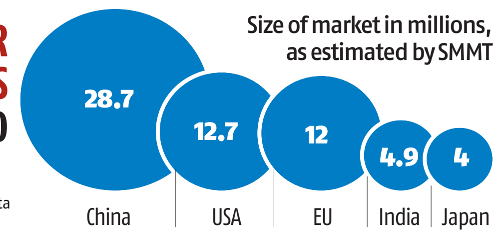
71% Share of EU in total car imports

$330 mn Total value of cars exported to India from the UK in FY23

1,000 Estimates of cars exported from the UK to India annually

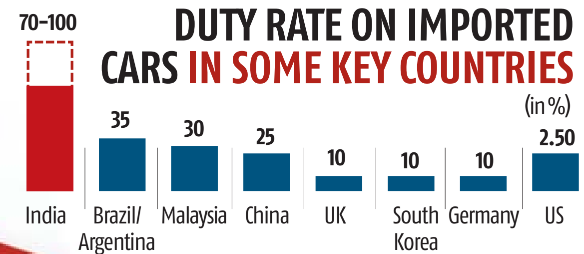
Source: Society for Motor Manufacturers and Traders in the UK (SMMT)

TOP FIVE CAR MARKETS BY 2030



Source: GlobalData

DUTY RATE ON IMPORTED CARS IN SOME KEY COUNTRIES



Note: Numbers are indicative and could vary based on engine displacement etc. Source: World Population Review

CARMAKERS' CONCERNS IN INDIA

Those who favour protection from imports say a sharp cut in duties in the India-UK FTA will set a precedent for other upcoming FTAs

Sceptics also argue that domestic electric carmakers lack the scale and supply chain to withstand unlimited competition from imports at low duties

Some others say these fears are overstated; Indian luxury car market is only 45,000-50,000 a year, and the UK's share is minuscule

Currently, India charges 70 to 100 per cent customs duty on fully-built cars, based on the price tag. The average global tariff on automobiles is 22 per cent.

Fear and scepticism

Those in support of protection from imports say a sharp reduction in duties in the India-UK FTA will set a precedent and template for other upcoming FTAs, most importantly with the European Union (EU), for which negotiations have restarted. Europe is home to some of the world's biggest carmakers, such as Mercedes, BMW, Volkswagen, and Renault. This, say the sceptics, could open the floodgates for imported cars.

The sceptics also say domestic electric carmakers, given their small volumes, have neither the scale nor the supply chain to withstand unlimited competition from imports at low duties. They worry that the mandatory value-addition norm for exports in FTAs, which currently ranges from 25 to 50 per cent, is low enough for carmakers in other countries to use the UK as a base for exporting to India.

Some others say these fears may be overstated. The Indian luxury car market is small, only about 45,000 to 50,000 a year, and the UK's share in it is minuscule.

"The concern that India will be flooded with cars imported from the UK and Europe is exaggerated. There are a few players who might benefit, like Volvo, JLR, Lotus, and Aston Martin, but they are in the luxury segment. So, even a doubling of their sales will not create even a ripple in the 4 million-plus market in India," said BVR Subbu, former president of Hyundai in India, who now sits on the board of many auto companies.

He adds that other big car companies in the UK and Europe, such as Nissan, Volkswagen, and Stellantis, are "also-ran" brands in India. "They do not have the brand salience to re-engineer home country products and sell them profitably in India," said Subbu.

Numbers say India's auto industry is no longer an infant in need of protection through a wall of high import tariffs.

With a domestic market size of 4.1 million in calendar year 2023, it is already the fourth largest car market in the world and witnessing a healthy growth of electric cars, which are expected to cross the 100,000 mark this year.

The UK is a vibrant export base for cars, which account for 11.8 per cent of its £34.4 billion manufacturing exports. But its primary export markets for cars are the United States and Europe. Its car exports to India were worth a mere $330 million 2022-23.

Making sense of it

Bhargava said the contention that India is not competitive is not based on reality. In many models, he said, production in India is cheaper by 20 to 30 per cent, compared to the UK or Europe. That is why many Indian companies, Maruti among them but also Hyundai and Volkswagen, export models from India. Suzuki, which owns majority equity in Maruti Suzuki, has shifted the base for making the Jimny, the five-door off-roader, to India where it is made for the world, because it is cheaper to make in India.

On the clamour for protection for electric cars made in India, Bhargava said the lack of a supply chain is primarily because batteries have to be imported. But that is something most countries have to live with, except China. Experts say by leveraging their volumes of internal combustion engine vehicles, companies in India have been able to bring down the prices of electric cars below ₹10 lakh and, with more players launching products the volumes, will go up. The government's target is to have 30 per cent of all cars as electric by 2030.

It is not just countries pushing for import tariff cuts; Tesla is reportedly pushing for a sharp cut in CBU import duties. If that happens, it will set up an assembly plant with an investment of $2 billion.

Elon Musk, who heads Tesla, is said to be looking at India as a large potential market, especially as it is working on a small electric car that could possibly be priced at ₹25 lakh. Musk is facing challenges in many markets, especially in Europe. For instance, a sharp fall in sales in December in Germany has brought down Tesla's sales by 9 per cent in 2023. In the UK, November and December sales were lacklustre.

Tesla has done well in China, but the country already accounts for half its sales and where competition from BYD has been rising. So, India clearly makes sense for Tesla.

The question is, how much sense does it make for India to dismantle the tariff walls for cars?