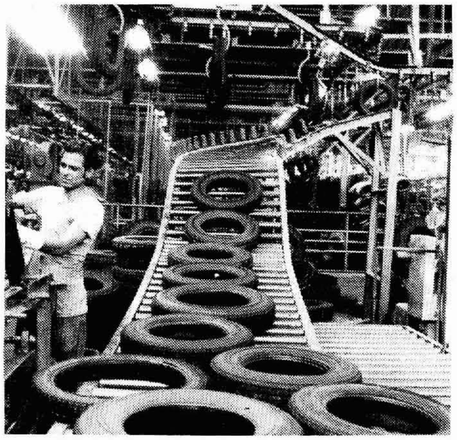
Tyre Prices

Vastly Over-inflated

TYRES are one essential commodity over which the Government seems to exert no control whatsoever. In the last six months prices have risen twice. And this is despite the fact that the last decade has seen a sudden burgeoning in the number of tyre-manufacturing units, which caused worries last year that there would be a glut in the market.

This year's hikes are very much in keeping with the pattern established over the last few years. Since 1977 prices have risen 13 times. While each price rise has been small, the combined effect has been devastating. Between 1977 and 1981 scooter tyre prices went up by 97.2 per cent, truck and bus tyres by 72.2 per cent, and tractor tyre prices by 80 to 92 per cent. Even the price of animal-drawn vehicles has risen by 61.7 per cent. These frequent increases have become the norm ever since the Monopolies and Restrictive Trade Practices (MRTP) Commission



Tyres: even higher prices expected

lifted all controls on tyre prices and a code of conduct imposed in the early '70s, throwing open the field to individual manufacturers to decide prices.

Strong Protests: The first round of increases this year came in June when prices rose by 6 per cent, and the second was in September when prices went up again by 5 per cent. Industry sources now reveal that a third raise is imminent. Predictably, the news has sparked off protests from users, chiefly truck operators who complain that their profitability has been gnawed to the bone by the price increases. In addition, tyre manufacturers are accused of arranging their price raises by mutual consent, leaving a few days' gap between them in order not to contravene MRTP rules. Nevertheless, charge users, the manufacturers are secretly operating as a cartel, thus violating anti-monopoly laws. In September, for instance, Ceat started the round of price rises on the 5th. It was quickly followed by Dunlop on the 8th, Modi on the 11th, Vikrant on the 14th, and Madras Rubber Factory (MRF) on the 25th.

Suspicions about the price structure have been voiced before. In 1978, the Industry Ministry asked the MRTP Commission to examine whether tyre price increases constituted a restrictive trade practice. The MRTP Commission has still not submitted its findings on this question. Nor does the Bureau of Industrial Costs and Prices effectively monitor the manufacturers' claims that price increases are necessitated by rocketing raw materials costs.

Ironically, tyre price increases are usually led by the giants in the field (Dunlop, Goodyear, Ceat), and smaller tyre makers are forced to follow suit. The older established tyre makers have long ago recouped their plant and machinery investments, but the newer manufacturers have had to sink huge sums of capital which will take years to recover. Ceat, for instance, was floated in 1959-60 at a cost of roughly Rs 6 crore, but Vikrant Tyres, which commenced production in May 1980, had to spend Rs 40 crore.

Surprisingly, in spite of frequent price increases, six of the 12 major tyre makers (JK Tyres, Inchek, Vikrant, Bombay Tyre International, Premier Tyres and Apollo Tyres) are deep in the red. After years of losses, Dunlop turned in a profit for the first time last year. The industry as a whole is operating at only 65 per cent of its licensed capacity.

Manfacturers' Claims: "What our critics seem to forget," says R.K. Talwar, the general secretary of the Tyre Manufacturers' Association, "is that tyres are the finished products in a long line. Every input: carbon black, nylon, caprolactum, synthetics, has gone up by between 150 and 200 per cent in the last four years."

Natural rubber accounts only for 26 per cent of a tyre's inputs. Roughly 44 per cent of the cost is accounted for by nylon fabric alone. Although India produces about 1.45 lakh tonnes of natural rubber annually, the demand is far greater. Rubber prices are notified by the Government at their minimum level; but maximum prices are not regulated. From Rs 5,000 per tonne in 1973–74, rubber prices shot up to Rs 9,000 per tonne in 1978. For over three years now they have hovered around Rs 17,500 per tonne.

Manufacturers also complain that they are being bled to death by exorbitant taxes slapped on by the Government. For instance a 60.5 per cent *ad valorem* duty has to be paid the moment each tyre leaves a factory, but manufacturers say that their dealers are able to pay them only after three months. Interest rates in the meanwhile, therefore, are met from high prices. "When my cost goes up by one rupee," says a manufacturer, "the customer has to shell out Rs 1.90."

Dishonest Practices: It is in the shadow world of relations between manufacturers and dealers, say critics, that there is ample room for dishonest practices. Tyre dealers claim commissions of 12 per cent, and credit of up to six months. But manufacturers sometimes slash their 'basic' prices, so that they incur less excise duty and sales tax, and at other times term about 10 per cent of their production as "seconds".

Another 'racket', as one manufacturer calls it, takes place when some tyre makers accept huge 'security deposits' from their dealers, at interest rates ranging between 17 and 18 per cent per annum. Such interest is meant to be paid by either cheque or demand draft, but is, in many cases, paid in cash. Dunlop, for instance, 'reimburses' dealers their trading expenses—a subtle form of discounting that increases the manufacturer's expenditure and reduces tax liability.

On the whole, tyre pricing is a murky world into which no watchdog body has so far dared venture. But the Government does not envisage imposing mandatory price controls on manufacturers and on raw material suppliers. The result is that every motorist is finding it more and more difficult to stay on the road.

—CHAITANYA KALBAG

The Markets

Temporary Slump

GOD giveth with one hand and taketh away with another. Just when the IMF loan is through and the finance minister waxes eloquent in Parliament on the wonders it will do to the national economy, he has to go and flog his bearer bonds for all they are worth. Net result: a rush for the bonds—though they are a bit slow on the uptake—and an apparently mad rush for the disposal of equities on the stock market. A number of scrips have taken a plunge, some like Delhi Cloth Mills by as much as 20 per cent in less than two weeks.

The IMF loan and the bearer bonds are only the tip of the iceberg. The finance minister's statement in Parliament has gone down rather well but his off-the-cuff remark that taxation may have to be reduced doesn't seem to have made much of a mark. But there is a general feeling that after a two-year period of near-stagnation, the economy—or at least the corporate sector—is about to turn, though it is still not clear how and