

Govt may slash customs duty on auto parts to 7%

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NEW DELHI

CUSTOMS duties on auto components are likely to go down further from the existing 12.5% to 7-8% in Budget 2007. Despite opposition from the auto components industry, the government is determined to bring down duties to Asean rates. The government has been successively reducing customs duty on auto components in the past five years due to its commitments to the Asean chapter.

In the past, the government has progressively been reducing the Customs duty on the auto components sector from a high of 25% in 2003-04 to 12.5% last year. In the absence of any non-tariff barriers for the auto components sector, the reduction is likely to boost imports of auto components from China and Thailand. Moreover, China has imposed non-tariff barriers of more than 25% on the entry of foreign produced auto-components if they comprise more than 60% of the car. This is primarily aimed at protecting their domestic industry. This move has been opposed on the grounds that with greater imports Indian automobile companies will largely turn into assembling units. Moreover, this will damage the huge auto ancillary business in the country which has an output of Rs 45,000 crore at present. The sector makes exports more than Rs 9,000 crore across the globe.

According to the data available with the Auto Components Manufacturer Association (Acma), Chinese auto component imports to India is set to go up by 120% and will amount to be Rs 1117 crore as compared to Rs 508 crore last fiscal in 2006-07. This implies that a further duty reduction could amount to increased imports not only from China but also other East Asian partners that have forayed into auto-components after huge tax sops are being offered by countries like Thailand to component manufacturers.

Indian auto components industry faces an 18-20% cost disadvantage vis-a-vis China and Thailand due to higher taxes, power and raw material costs. This is further perpetuated by variations in inter-state taxes and hence the auto-components industry wants the level of custom duty to be frozen. The industry believes that any further reduction in custom duties should only be done when the full, countrywide GST, abolition of state taxes & duties is abolished and adequate availability of power is achieved.