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R E P O R T
of the
COMMITTEE ON TRANSPORT SUBSIDY

Planning Commission
Government of India

November 1970

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R E P O R T
of the
COMMITTEE ON TRANSPORT SUBSIDY

CHAPTER I

INTRODUCTION

1.1 In pursuance of a decision taken by the Committee of the National Development Council at its meeting held in September, 1968, the Planning Commission had set up two Working Groups to study the question of regional imbalances. One of the Working Groups was to recommend Criteria for Identification of Backward Areas and the other was to recommend Fiscal and Financial Incentives for starting industries in backward areas. The latter Working Group made a recommendation in the following terms for provision of a transport subsidy for industries in selected backward and remote areas of some States and Union Territories:

"Transport subsidy. We feel that there is a case for giving transport subsidy for reasons of special remoteness of certain areas, for taking out the finished products for a period of 5 years. Upto 400 miles the distance should be considered as normal and beyond that the transportation cost for finished products should be subsidized for such backward areas as may be selected in the States of Assam, Nagaland, Manipur, Tripura, NEFA and Andamans. The transport subsidy should be equivalent to 50% of the cost of transportation in the case of the backward areas specified in J & K State".

1.2 The Reports of the two working Groups were considered at two inter-departmental meetings held in the Planning

Commission with the Governor of the Reserve Bank of India and the representatives of the Ministries of Finance, Industrial Development & Internal Trade and Foreign Trade, etc. It was agreed at these meetings that the recommendation relating to transport subsidy should be considered separately in consultation with the Ministries concerned, including the Railways.

1.3 The comments and views of the Ministry of Shipping & Transport and the Ministry of Railways on the recommendation were subsequently obtained and considered at a meeting held in the Planning Commission under the Chairmanship of Member (Industry), on 3 March, 1970. It was considered at the meeting that a transport subsidy should be given for industries to be started in specially remote areas of certain States and Union Territories including Assam, Jammu & Kashmir, Nagaland, NEFA, Manipur and Tripura, but the matters like the distance from the rail-head, the nature and magnitude of the subsidy, whether this subsidy should be for finished products and/or raw materials, etc., should be gone into by a small Committee consisting of:

Shri T. Swaminathan,
Secretary,
Department of Industrial Development .. Chairman

Shri K.B. Rao,
Adviser (I&M),
Planning Commission .. Member

Shri P.K.Kaul,
Joint Secretary,
Department of Expenditure. .. Member

Shri G.C.Baveja,
Joint Secretary,
Planning Commission .. Convenor

1.4 The Committee held three meetings. At the first meeting, the Committee reviewed the recommendations made by the Committee on Dispersal of Industries (1960) regarding freight concessions, and also decided that information should be collected about the modus operandi of the scheme of subsidy on transport of mill yarn for the handloom industry located in the north eastern region and also the scheme for subsidy for movement of coal by the rail-cum-sea route. Further, in the absence of information about the incidence of transport costs on the production costs of industries located in remote areas, it was agreed that a quick study should be undertaken regarding the share of the transport cost of raw materials and finished products in the total cost of production and sale price in respect of some of the industrial units located in Assam and in Jammu & Kashmir. For this purpose, it was decided that these two States should be approached for collection of relevant data, prior to an on-the-spot study to be made by officers of the Planning Commission. The State Governments were requested to

furnish the data. However, as data were not received for a considerable time, two officers of the Planning Commission were deputed to visit the States of Jammu & Kashmir and Assam to collect statistical data from some industrial units regarding the share of transport costs of raw materials and finished products in the total cost of production or sale price of the products. The officers visited these States between 24 June and 4 July, 1970, collected the data, held discussions with the officials of the States and owners of some units, and submitted a joint report.

1.5 At the second meeting of the Committee, the report of the two officers was discussed and conclusions reached in regard to the terms of reference of the Committee. At the third meeting, the Committee finalised the report.

1.6 The Committee is grateful to Shri S.E. Joseph, Director, Planning Commission, for his whole-hearted assistance in completing its work. The Committee also wishes to place on record its appreciation of the report prepared by Shriyut J.D. Mehta and T.R. Kesharwani, Research Officers of the Planning Commission, after an on-the-spot study of the industrial units in Assam and Jammu & Kashmir.

CHAPTER II

NEED FOR TRANSPORT SUBSIDY

2.1 Broadly speaking, the share of the transport charges of raw materials and finished products in the total cost of production (or sale price) of an industrial item depends largely on the nature and volume of the principal raw materials and the finished products as well as the distance from their sources of supply and markets and the mode of transport. In the backward and remote areas, the proportion of transport costs to the total production cost (or sale price) is relatively higher because of several factors, particularly:

- i) remoteness from normal sources of industrial raw materials other than those locally available and from the market of finished products surplus to the local requirements;
- ii) heavier consumption of fuels and also costs of servicing, maintenance and repairs of goods vehicles;
- iii) under-utilisation of capacity of goods vehicles due to uneven pattern of traffic flow, and
- iv) transshipment involved in certain cases because of break-of-gauge.

2.2 Although precise statistical data regarding the element of transportation cost borne by industries located in different States is lacking, it is estimated on the basis of the information available in the Census

of Manufacturing Industries, 1958, that the cost of transport of materials, fuel, etc., to a factory along with commission to selling agents, etc., was about 1% and the cost of transportation of finished goods including commission to selling agents was of the order of 1.2% of the total cost of production. As compared to these figures, most of the industries located in Jammu & Kashmir and Assam have to bear higher transport charges.

2.3 According to the information gathered by the officers of the Planning Commission from the Jammu & Kashmir State, while the transport cost for movement of raw materials and finished products in respect of a woollen spinning mill in Srinagar was estimated at about 2% of the cost of production, the corresponding percentage in respect of a fruit processing unit (also in Srinagar) was estimated at 7%. It was as high as 20 to 40% in the case of wooden handicraft products marketed by the Government Emporium. It has also been estimated that the overall transportation cost of raw materials and finished products would be about 12% of the total production cost in respect of a rayon fibre project, about 34 to 49% in the case of cement projects at Jammu. In the case of a tiles factory at Srinagar, it has been estimated that the production cost of tiles is Rs.175 per hundred sq. ft., as

compared to about Rs.90 in Delhi.

2.4 It has been estimated on the basis of the information collected by the officers of the Planning Commission from 7 units located at Gauhati in Assam that the transport costs for movement of raw materials and finished products account for about 4 to 24% of the cost of production; these units are engaged in production of items like canvas, conductors, hard-board, bicycles, etc.

2.5 Some of the industrialists in Assam had expressed the view to the officers of the Planning Commission that their problem of high transport costs would be mitigated to a large extent if the present broad-gauge railway line upto Bongaigaon is extended upto at least Gauhati. Similarly, some of the industrialists of Jammu & Kashmir had expressed the view that early completion of the Kathua-Jammu railway line and improvement of the Jammu-Srinagar and other important roads so as to facilitate movement by heavy duty trucks, would go a long way in overcoming their present problems of high transport costs.

2.6 The Committee understands that the Kathua-Jammu railway line now under construction, is expected to be completed by March, 1972. Further, the road between

Jammu & Srinagar is being improved. A survey has been undertaken by the Railway Board in regard to the extension of the broad-gauge railway upto Gauhati in Assam. Although these measures would eventually help in improving the transport system to the remote areas in these two States and also reduce the transport costs to some extent, the Committee is of the view that, besides the time likely to be taken for the completion of these schemes, these measures alone would not be adequate to promote industries in these areas in view of the special transport problems referred to earlier.

CHAPTER III

SCHEME OF TRANSPORT SUBSIDY

3.1 The Committee has carefully studied the recommendations made by the Committee on Dispersal of Industries regarding freight concessions as well as the schemes for subsidy on transport of mill yarn for the handloom industry located in the north-eastern region and for subsidy for movement of coal by the rail-cum-sea route. Briefly, while the Committee on Dispersal of Industries had been set up to examine the question of industrialisation of rural areas and industrially undeveloped areas through medium and small scale industries, the Committee had confined itself to suggesting suitable measures for encouraging dispersal of only small scale industries to backward areas. The Committee had, however, recognised that dispersal of a particular sector of industry in isolation, without regard to what might be happening to other industries, was unrealistic. It had, therefore, recommended that certain overall measures might be considered by the Government for stimulating location of large-scale industries in the backward areas, particularly for the purpose of promoting development of ancillary industries. The specific recommendations of this

Committee regarding freight concessions have been referred to in a subsequent paragraph.

3.2 The Committee noted that, as a general rule, the transport and overhead charges on mill yarn for the handloom industry were not subsidised, except in the case of Assam and Jammu & Kashmir where transport charges were unduly heavy owing to the distance from the production centres of yarn and the inadequacy of proper communications and transport facilities. This scheme which was applicable to the handloom weavers in the cooperative fold only, envisaged a subsidy of Rs.20 per bale in the case of Assam and 50% of the transport charges from (a) Calcutta to the consuming centres in Manipur and Tripura, and (b) from Amritsar to the consuming centres in Jammu & Kashmir. Regarding the scheme for subsidy on movement of coal by the rail-cum-sea route, the Committee noted that the main objective of the scheme was to encourage the utilisation to a greater extent the coastal shipping facilities for moving coal from Calcutta to ports in southern and western India in view of the pressure on rail transport capacity for the movement of coal from Bengal-Bihar coal fields to places in the south and the west. The Committee concluded that the purpose and the objectives

for which these two schemes had been evolved, were different from those for which the present Committee had been set up.

3.3 The Committee noted that the State Government of Jammu & Kashmir are already providing certain transport subsidies for small scale industries only. The State Industries Department gives a subsidy of 25% of the transport cost of raw materials from the rail-head of Pathankot to registered small scale industries units only. The State Transport Undertaking charges 50% of the normal freight rate for the movement of products of small scale industries from Srinagar to Pathankot during the off-season period. The State Government also refund the toll tax paid on most of industrial raw materials for small scale industries entering the State. The Committee is of the view that these measures of subsidy which are restricted to small scale units only, are not adequate to promote rapid growth of industries of all sizes in specially remote areas so as to reduce regional imbalances.

3.4 After a careful study of the transport handicaps and problems of the remote and backward areas particularly those of the north-eastern area consequent on the closure

of the riverine routes through East Pakistan, the incidence of transport costs to the total production costs of some of the industrial units already located in Assam and Jammu & Kashmir States and also the schemes already under implementation for subsidizing the transport costs in respect of certain industrial items and industries, the Committee is of the view that a transport subsidy should be given by the Centre for promoting growth of industries of all sizes in certain selected areas, along with other measures for removing regional imbalances. In this connection, the Committee has given careful thought to matters like the areas to qualify for transport subsidy, the quantum of subsidy for raw materials and finished products, etc., which are discussed in the paragraphs below.

3.5 Areas to qualify for transport subsidy: The Committee noted that the Working Group on Fiscal and Financial Incentives had recommended a transport subsidy for selected backward areas in the States of Assam, Jammu & Kashmir, Nagaland and the Union Territories of Manipur, Tripura, NEFA and Andaman and Nicobar Islands.

3.6 While several States and Union Territories can be considered to have remote areas in the context of transport

facilities, the Committee was of the view that, geographically, the position of the northern most State of Jammu & Kashmir and the north-eastern region comprising the States of Assam including Meghalaya, and Nagaland and the Union Territories of Manipur, Tripura and NEFA, was quite different from those of the other States and Union Territories. The Jammu & Kashmir State suffers from a handicap as it has no rail link at present; the nearest rail-head being Pathankot. Even after the construction of the Kathua-Jammu railway line, the distance of Srinagar itself from the rail-head point, viz., Jammu, will still be about 300 kms. The States of Assam including Meghalaya and Nagaland and the Union Territories of NEFA, Manipur and Tripura in the north-east region have a special handicap. With the closure of the rail and road routes through East Bengal immediately after partition of the country and the riverine route after the conflict with Pakistan in 1965, most of the north-eastern region has now to depend upon the circuitous route which involves an increased distance of 300 to 1000 kms. Moreover, the railway route to this region involves break-of-gauge movement as the broad-gauge extends only upto Bongaigaon. Taking into account the excessive remoteness from the markets of manufactured

goods and also sources of principal industrial raw materials, the Committee recommends that any scheme of transport subsidy should be limited only to the States of Jammu & Kashmir, Assam including Meghalaya, Nagaland, and the Union Territories of Manipur, Tripura and NEFA.

3.7 Distance for transport subsidy: The Working Group on Fiscal and Financial Incentives had recommended that the distance upto 400 miles should be considered as normal and beyond that the transportation cost of finished goods should be subsidised.

3.8 The Committee noted that the Working Group had not specified whether the distance of 400 miles to be considered as normal, should be taken from the nearest rail-head to the site of the industrial unit or to the main markets. However, after carefully examining the implications of linking transport subsidy with any specific distance from the nearest rail-head, the Committee has come to the conclusion that a subsidy should be given only in respect of industrial raw materials which are brought into and finished products taken out of the State of Jammu & Kashmir and the north-eastern region, and not for internal movement. Accordingly, it is suggested that in the case of Jammu & Kashmir State, a subsidy should be given for transport costs between the rail-head at

Pathankot and the site or location of an industrial unit in the State. When the railway line is extended upto Jammu and opened for traffic, the subsidy may be restricted to movements between Jammu and the site of the industrial unit. These freight charges may be determined on the basis of the road transport rates fixed by the Jammu & Kashmir State Government from time to time or the actual freight paid, whichever is lower. In the case of the States and Union Territories in the north-eastern region, namely, Assam including Meghalaya, Nagaland, NEFA, Manipur and Tripura, a subsidy should be given on the transport costs between Siliguri and the site of an industrial unit. While calculating the transport costs, the cost of movement by rail to/from the nearest railway station and cost of movement by road from/to the nearest rail-head to/from the location of an industrial unit should be taken into account. In the case of goods moving entirely by road or other mode of transport, the transport charges may be limited to the amount which the unit might have paid had the goods moved by rail upto the nearest rail-head and thereafter by road. Freight charges for movement by road should be determined on the basis of transport rates fixed by the Government concerned from time to time or the actual freight paid, whichever

is lower.

3.9 The Committee is of the view that cost of loading or unloading and other handling charges such as from the railway station to the site of the industrial unit should not be taken into account for the purpose of determining the transport subsidy.

3.10 Quantum of subsidy for existing and new units: The Working Group on Fiscal and Financial Incentives had recommended that the transport subsidy should be equivalent to 50% of the cost of transport for finished products (subsidy to cover the cost of raw materials was not mentioned). In this connection, the Committee noted that the Committee on Dispersal of Industries had made the following recommendations for selected backward districts:-

- (i) the entrepreneurs should be given refund of 1/5th of the cost incurred by them in the transport of capital goods;
- (ii) for the transport of raw materials, the refund should be 33-1/3rd per cent;
- (iii) for out-going finished goods the concessions would apply to the point of first delivery whether inside or outside the district concerned and would be 33-1/3rd per cent; and
- (iv) these concessions should be admissible for five years from the date of production.

3.11 In the light of the data collected by the officers of the Planning Commission regarding the

proportion of transport costs to total costs of production, the Committee is of the view that all new industrial units to be set up subsequent to the announcement about the transport subsidy, should be eligible for subsidy equivalent to 50 per cent of the transport costs of both raw materials as well as finished products. Regarding the existing units, the Committee is of the view that they should also be eligible for the subsidy provided that they undertake expansion or diversification subsequent to the announcement about the transport subsidy, resulting in an increase in production of at least 25 per cent over the average annual output during the preceding three years. In such cases, the subsidy should be restricted to 50% of the transport costs of the additional raw materials required and finished goods produced as a result of the expansion and diversification.

3.12 The Committee is of the view that except for the plantations, refineries and the power generating units, all other industries, in the public as well as the private sectors, should be eligible for the transport subsidy, irrespective of the size of the industrial units.

3.13 According to the information collected by the officers of the Planning Commission, steel constitutes

the largest single item of raw material which is imported in the north-eastern region. In this context, it is noted that steel is made available at FOR price at rail-heads. But in the case of the north-eastern region, the Hindustan Steel Limited has recently opened a stockyard at Gauhati, where the price charged is about Rs.150 per tonne higher than the FOR price. Since this acts as a serious handicap to the industries using steel in the north-eastern region, it is felt that 50% of the transport charges for movement of steel beyond the Gauhati stock-yard to the site of the industrial unit in the north-eastern region should also be subsidised.

3.14 Administration of transport subsidy: It is suggested that the scheme of transport subsidy outlined above may be administered by the Ministry of Industrial Development and Internal Trade, through the Directorates of Industries of the States and Union Territories. In other words, claims for transport subsidy should be scrutinised and settled by the Directorates of Industries of the States and Union Territories and, thereafter, the Governments concerned should be reimbursed by the Ministry of Industrial Development and Internal Trade.

3.15 The Committee would like to stress that the success of the proposed scheme of transport subsidy will depend on the arrangements and procedures to be drawn up by Directorates of Industries of States and Union Territories for not only scrutinising the claims from entrepreneurs, but also arranging prompt payment of the claims. In order to check any misuse of the subsidy, it would be necessary for these Directorates to carry out periodical checks to ensure that the raw materials and the finished products in respect of which the subsidy had been given was actually used for the purpose by a system of scrutinising of consumption of the raw materials and the output of the finished products. For this purpose, it may be necessary for the Ministry of Industrial Development and Internal Trade to continuously review the arrangements to be made by the Directorates of Industries of all the concerned States and Union Territories with a view to suggesting suitable modifications in the procedure for scrutiny of the claims, payment of the subsidy, etc.

3.16 Financial implications: It has not been possible for the Committee to assess the financial implications of the proposed scheme of transport subsidy owing, mainly, to the lack of relevant data

about the movement of raw materials and finished products and also the likely growth of industries. However, it is felt that the total requirements of funds for the subsidy would not exceed more than Rs.1 to 2 crores during the remaining Fourth Plan period. In this connection, the Committee noted that a provision of Rs.5 crores has already been made under the Fourth Plan for giving outright grant or subsidy equivalent to one-tenth of the total fixed capital investment, by the Centre to new industries to be set up in selected backward districts. The Committee is of the view that it may be possible to meet the funds required for the transport subsidy from within the existing provision of Rs.5 crores under the Fourth Plan for the development of industries in the backward areas. If, however, this provision is found to be inadequate, it can be supplemented.

3.17 Finally, it is suggested that the proposed scheme of transport subsidy should be implemented for a period of five years. The question of continuing the scheme beyond five years should be decided after a detailed review of the working of the scheme, especially its impact on growth of industries in the States and Union Territorial concerned.

CHAPTER IV

SUMMARY OF CONCLUSIONS

- 4.1 To sum up, the Committee recommends:-
- (i) A transport subsidy should be given by the Centre for promoting growth of industries of all sizes in certain selected areas. (Para 3.4)
 - (ii) The scheme of transport subsidy should be limited only to the States of Jammu & Kashmir, Assam including Meghalaya, Nagaland and the Union Territories of Manipur, Tripura and NEFA. (Para 3.6)
 - (iii) Transport subsidy should be given only in respect of industrial raw materials which are brought into and finished products taken out of the State of Jammu & Kashmir and the north-eastern region, and not for internal movement. (Para 3.8)
 - (iv) In the case of Jammu & Kashmir State, the subsidy should be given for transport costs between the rail-head at Pathankot and the site or location of an industrial unit in the State. When the railway line is extended upto Jammu and opened for traffic, subsidy may be restricted to

movements between Jammu and the site of
an industrial unit. (Para 3.8)

- (v) In the case of Assam, including Meghalaya, Nagaland, NEFA, Manipur and Tripura, subsidy should be given on the transport costs between Siliguri and the site of an industrial unit. While calculating the transport costs, the cost of movement by rail to/from the nearest railway station and cost of movement by road from/to the nearest rail-head to/from the location of an industrial unit, should be taken into account. In the case of goods moving entirely by road or other mode of transport, the transport charges may be limited to the amount which the unit might have paid had the goods moved by rail up to the nearest rail head and thereafter by road. (Para 3.8)
- (vi) Freight charges for movement by road should be determined on the basis of transport rates fixed by the Government concerned from time to time or the actual freight paid, whichever is lower. (Para 3.8)
- (vii) Cost of loading or unloading and other handling charges such as from the railway station to the site of units should not be taken into account for the

purpose of determining the transport
subsidy. (Para 3.9)

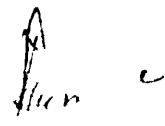
(viii) All new industrial units to be
set up subsequent to the announce-
ment about the transport subsidy,
should be eligible for subsidy equiva-
lent to 50 per cent of the transport
costs of both raw materials as well
as finished products. (Para 3.11)

(ix) The existing units should also be
eligible for the subsidy provided
that they undertake expansion or
diversification subsequent to the
announcement about the transport
subsidy, resulting in an increase in
production of at least 25 per cent
over the average annual output during
the preceding three years. In such
cases, the subsidy should be restricted
to 50 per cent of the transport costs
of the additional raw materials required
and finished goods produced as a result
of the expansion or diversification.
(Para 3.11)

- (x) Except for the plantations, refineries and the power generating units, all other industries, in the public as well as the private sectors, should be eligible for the transport subsidy, irrespective of the size of the industrial units.
(Para 3.12)
- (xi) 50 per cent of the transport charges for movement of steel from the Gauhati stockyard to the site of the industrial unit in the north-eastern region should also be subsidised.
(Para 3.13)
- (xii) Claims for transport subsidy should be scrutinised and settled by the Directorates of Industries of the States and Union Territories and, thereafter, the Governments concerned should be re-imbursed by the Ministry of Industrial Development & Internal Trade.
(Para 3.14)
- (xiii) In order to check any misuse of the subsidy, it would be necessary for these Directorates of Industries to carry out periodical checks to ensure that the

raw materials and the finished products in respect of which the subsidy had been given, were actually used for the purpose by a system of scrutinising of consumption of the raw materials and the output of the finished products. (Para 3.15)

- (xiv) The proposed scheme of transport subsidy should be implemented for a period of five years. (Para 3.17)


(T. Swaminathan)
Chairman


(K.B. Rao)
Member


(P.K. Kaul)
Member


(G.C. Baveja)
Convenor.

November, 1970.

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