



Week of October 20, 2008
Special Report



LOOKING FOR A PREVIOUS STORY? CHECK [THE ARCHIVE](#).

Tata's Tale of Two Cities

After months of violent opposition, Tata Motors has abandoned the Indian site in Singur where it had worked for two years to build a new plant. Instead, the automaker is relocating to Sanand, where it will construct a \$417-million facility to make the Nano mini-car.

by **JACK LYNE**,
Site Selection Executive Editor of
Interactive Publishing
jack.lyne@conway.com

Taking a drastic site-selection turn, **Tata Motors** has abandoned the site in eastern [India](#) where its 2,000-employee plant was going to manufacture the new Nano mini-car. Prompted by months of often violent opposition from uprooted farmers, the pullout from the city of Singur came only after Tata had reportedly spent almost US\$350 million, working for two years to ready the operation in West Bengal state to make the low-cost "People's Car."

By August, in fact, more than 90 percent of work had been completed to bring the facility online, company officials reported. But ongoing hostilities around the plant forestalled any notions of an actual start-up. On Oct. 3rd, Tata formally withdrew from the project.

"Through these two years, we have faced enormous destruction, and assault and intimidation to our employees," Tata Motors Chairman Ratan Tata explained at a press conference that day. "Taking all things into account, mainly the well-being of our employees, the security of our contractors and, in fact, of our vendors also, we have taken the very regretful decision to move the Nano project out of West Bengal.

"You cannot run a plant where the wall is being broken," he continued. "You cannot run a plant where bombs are being thrown from all the sides [and] where the people have been intimidated or threatened. This is only during the construction. What happens when we actually start running the plant?"

But the Nano mother plant was only briefly orphaned. One of India's most highly regarded homegrown enterprises, Tata had for months been inundated with offers from a dozen other states as resistance continued to mount in Singur. On Oct. 7th, only four days after the withdrawal from West Bengal, the company



Tata Motors Chairman Ratan Tata stands beside the Nano mini-car that the company introduced at this year's Geneva Motor Show.

Photo: Tata Motors

Tiny, but with four doors and room for four or five passengers, the Nano will sell for less than \$2,500. Tata will also offer a model that runs on electricity and [another that runs on a compressed-air system](#).



announced that it would relocate and rebuild the plant in Sanand, a city in Gujarat state in west-central India.

"The site in Gujarat will help Tata Motors establish a new dedicated mother plant with the shortest possible time lag and least possible incremental project cost," Ratan Tata said. The Sanand land, he noted, "is already under the possession of the state government."

It was an extraordinary turn of events inside one of the world's most rapidly industrializing nations. And that upheaval underscores the highly charged conflicts between India's agricultural and business interests. Those quarrels center on one highly prized commodity – land – mixed, in Tata's case, with the nation's sometimes combustible politics.



Ed McCallum of McCallum
Sweeney Consulting

"Nobody can second-guess the motives of a company as sophisticated and successful as Tata," Ed McCallum, a senior principal at McCallum Sweeney Consulting, tells the SiteNet Dispatch. "The fact is, though, no matter where you go, mixing politics with business and economic development is a very dangerous game.

"This is probably a classic case where politics, economic development and site-selection business decision-making were all thrown into one pot, with the hopes that what came out at the end would be something special," adds McCallum, who has worked on major automotive projects for companies that include **Mitsubishi**, **Nissan** and **Tower Automotive**.

Mounting Hostilities Led to 'Black Day'

Many West Bengalis were, in fact, hoping for "something special" with the Tata project. The automaker's plant was widely viewed as a linchpin in demonstrating the state's rekindled receptiveness to industrial investment.

On the other side of the equation, Tata Motors has long been regarded as one of India's most socially responsible companies.

"This is a black day for Bengal," state Industry Minister Nirupam Sen commented as Tata shut down its project in Singur, which sits on the outskirts of Kolkata (formerly know as Calcutta). The facility was expected to create 10,000 to 20,000 direct and indirect jobs.

"A door to West Bengal's future has just closed," *The Indian Express* said in a newspaper editorial.

Two years earlier, Tata had opened West Bengal's door to business expansion in seemingly tranquil conditions.

"This investment is a reflection of the confidence that the Tata Group has in the investment climate and the government of West Bengal," Ratan Tata said on May 18th of 2006. The company, he said, would spend \$350 million on the Singur Nano plant. "We look forward to the opportunity of revitalizing the automotive industry in the state."

But signs of local resistance surfaced in short order.



Fertile land is highly prized in India, a nation with 800 million rural residents and only 400 million arable acres (160 million hectares).
(Pictured: land outside Neral, India.)

Photo: Properties Mart

Tata first encountered unfriendliness about a week after the expansion announcement, as company officials visited Sanand to look over potential sites. They were greeted by protesting groups of local villagers and farmers, already worried that they would be displaced from the land on which they lived and worked.

Later, as West Bengal officials started acquiring Tata's chosen site, those concerns became more concrete. Ultimately, some 2,200 of the 13,000 affected landowners refused the state's offer of monetary compensation.

Led by the state's Trinamool Congress (TMC) minority opposition party, the confrontations began to take a more violent turn in late 2006: Attackers vandalized Tata's downtown Kolkata showroom, shattering windows and plastering the walls with posters opposing the plant.

Hostilities further escalated in early 2007. Plant workers and security guards were attacked, and fires were set and explosives detonated at the protective walls erected around the facility. Eventually, the plant was guarded around the clock by a force of 600 private security guards and an equal number of state policemen. Nonetheless, demonstrations and attacks persisted as land disputes continued over the plant site.

This summer, antagonism ratcheted up dramatically. Plant laborers and guards were repeatedly intimidated and assaulted.

Finally, after hostile crowds at the site forced cancellation of work for five consecutive days, Tata on Sept. 2nd suspended the expansion. At that point, the state was still in talks with TMC to try to resolve the land squabbles.

Hitting the Breaking Point

But no solution surfaced. And on Sept. 22nd, violence flared again. Unidentified assailants entered the plant site and severely beat two guards with iron rods and bamboo sticks. One sustained serious head injuries and was hospitalized in intensive care.

That, apparently, was Tata's breaking point. Soon after, trucks began rolling out of the gates of the Singur site, carrying the operation's equipment to other company locations.



Pictured are some of the security forces who guarded Tata's plant in Singur.

Photo: Paschim Banga Khet Majoor Samity

West Bengal's governmental cabinet made a last-gasp entreaty on Sept. 25th, unanimously passing a resolution appealing to Tata and the TMC for the plant's implementation. But Tata only replied in a brief statement that "in view of continued confrontation and agitation . . . the suspension continues."

Eight days later, that suspension became a full-blown cancellation.

Tata will now build a brand-new Nano plant on a Sanand site spanning 1,100 acres (440 hectares). That's slightly larger than the West Bengal tract on which Tata worked for two years. A supplier park will cover 300 acres (120 hectares) of the Gujarat property.

The company is buying the Sanand site from the Gujarat government at a reported price of about \$82 million. In West Bengal, Tata was leasing the property from the state for 90 years. The company says that it will spend \$417 million on the Sanand plant, about 20 percent more than the budgeted outlay for the West Bengal operation.

March to Market Stalled

The Sanand plant will go online with a manufacturing capacity of 250,000 cars a year, with the ability to expand to 500,000 a year. But shifting production to a still-to-be-built facility throws a serious kink into the Nano production schedule. Tata had initially planned to bring the tiny four-door car onto the Indian market in first-quarter 2009. But with the shift to a totally new factory, the Nano's full-scale introduction will likely be postponed by at least a year, industry analysts predict.

That's a costly delay in getting the highly price-sensitive auto to the nation's vast market. With a base list price of about \$2,300, the Nano is billed as the world's cheapest car. Tata officials see the small, inexpensive auto as a viable upgrade for the 45 million Indian citizens who now rely on motorcycles and scooters for transportation. The Nano, in fact, has the potential to expand the Indian automotive market by as much as 65 percent, according to the research firm Credit Rating and Information Services of India Ltd. (CRISIL).

For the moment, Tata will shift some Nano production to its existing plants in the cities of Pantnagar and Pune. But output at those modified production lines will likely be in fairly limited quantities. And in the meantime, as materials costs rise, Tata will be pressured to keep a lid on the Nano's announced sales price.

A host of other financial issues related to the West Bengal plant must also still be resolved. Tata says that it is going to hold talks with the West Bengali government to try to recoup the lion's share of its investment in Singur. State officials have said that they're receptive to compensating the company, as well as the plant suppliers that had already started setting up operations near Tata's Singur facility. The automaker says that it will also separately offer



Relocating from West Bengal to Gujarat will position Tata's Nano plant on the other side of the country from the huge market in Kolkata (pictured), India's third-largest city, with

those suppliers a yet-undisclosed compensation package.

"There is no doubt in my mind that Tata will make sure that it makes those suppliers whole," says McCallum. "If a stalemate occurs between the OEM and the supplier, then there are only two choices: the OEM bears the increased cost, or the supplier goes out of business. One only has to look at what happened to the Ford and GM suppliers to see what a domino effect this had on the parent OEM."

Meanwhile, another vehicle manufacturer will soon occupy the Singur site where Tata's never-opened plant now stands, West Bengal Transport Minister Subhas Chakraborty contended on Oct. 12th. "We have already started preparation," said Chakraborty, part of the state's pro-industrial Marxist regime.

Political Slings and Arrows

Nonetheless, Tata's thwarted expansion in West Bengal continues to be a potent political football.

"No matter where you go, mixing politics with business and economic development is a very dangerous game," McCallum opines. "I suspect this was the case here. I doubt that a company as well respected and as professional as Tata made [decisions that] we would call in our business naive and rookie errors."

The project's highly politicized nature was further underscored by the comments that TMC leader Mamata Banerjee made after Tata cancelled the Singur expansion. Banerjee, who spearheaded the opposition to the Nano plant, charged that the pullout was part of collusion with political foes to discredit her.

"It is a joint venture to relocate the Nano project from Singur," she said, "a joint game plan of the Tatas and the CPI (the Communist Party of India, the elected faction currently controlling West Bengal). The government called in Tata to play their advocate."

Ratan Tata soon fired back in "an open letter to the citizens of West Bengal," published as a paid ad in four Kolkata newspapers on Oct. 17th.

"This decision," he wrote, "has been taken with a great deal of sadness because we came here two years ago attracted by the investor-friendly policy of the current government. . . . We still have a great deal of respect for the leadership of [West Bengal Chief Minister] Buddhadeb Bhattacharjee, and we are very appreciative of the support the government gave us. . . . The reason why we are leaving West Bengal is because of the agitation by the opposition parties led by Ms. Mamata Banerjee, not because of anything else."

Ratan Tata also called on West Bengalis – "particularly the younger citizens" – to take a more proactive role in shaping the state's future.

"Would they," he asked, "like to support the present government of Mr. Buddhadeb Bhattacharjee to build a prosperous state with the rule of law, modern infrastructure and industrial growth, supporting a harmonious investment in the agricultural sector to give the people in the state a better life? Or would they like to see the state consumed by a destructive political environment of confrontation, agitation, violence and lawlessness?"

"Do they want education and jobs in the industrial and high-tech sectors?" Ratan Tata continued. "Or does the future generation see their future prosperity achieved on a 'stay-as-we-are' basis?"

But a large number of West Bengalis clearly supported Tata's plant. Thousands, in fact, gathered to protest the company's decision to leave the state. One group, Save Nano Committee, even blocked the shuttered plant's gates last week, preventing a private company from removing some of Tata's remaining equipment from the facility.

Still, West Bengal's image with investors has taken a significant hit. The U.S.-India Business Council in late September canceled a planned visit to West Bengal that was going to include executives from **Boeing** and **Cargill**.

"The trade mission would have introduced many other American companies to West Bengal for the first time," Beth Payne, U.S. Consul General in Kolkata, told an Indian business association in late September. "Unfortunately, these companies asked, if Ratan Tata cannot succeed in West Bengal, then how can an American investor hope to succeed there? [They] decided to bypass West Bengal for the time being."

a metro population of about 15 million people.



Trinamool Congress leader Mamata Banerjee spearheaded the resistance that finally prompted Tata to back out of West Bengal.



exit is a blow to
-business
s of West
l Chief Minister
adeb
charjee.



Land Disputes Widespread

Hanging over the Tata-Singur scenario is the larger issue of [industrial acquisition of Indian land](#). Heated clashes about the nation's system for compensating displaced citizens extend beyond West Bengal's borders.

South Korean steelmaker **Posco**, for example, continues to face protests over its acquisition of forest lands in Orissa state for a [\\$12-billion plant](#) – India's largest foreign direct investment.



Posco and Dow Chemical have both been plagued by land disputes in those companies' expansions in India.



Then there's the case of **Dow Chemical**, which last month temporarily halted construction on its R&D center in Maharashtra state. Maharashtra's government requested the suspension in an attempt to resolve some local residents' concern that Dow's operation will pollute land they consider sacred.

The Confederation of Indian Industry (CII), a private, industry-led organization that represents some 90,000 companies, is calling for a reform of the country's system for land acquisition.

"Such occurrences need to be avoided in the future, as this only affects the image of the India," CII Director General Chandrajit Banerjee said immediately after Tata withdrew from West Bengal. "The political consensus should have happened and such an iconic project should have come up in the state of West Bengal.

"Looking at this outcome, CII is of the strong opinion that a full review and consensus needs to be reached on how land acquisitions need to happen in the future," Banerjee continued. "It should be the onus of the political leadership of the country to ensure and facilitate investments in the country without unnecessary delays being created."

Gujarat Promises Rapid Site Acquisition

But reforming India's land acquisition system won't be easy or quick.

The nation has made a number of attempts at improving those practices, most recently last year, when the government suspended the creation of special economic zones (SEZs) for three months after facing repeated resistance from landowners and farmers. The tax-free SEZs are a major draw for foreign direct investment, which has contributed significantly to India's 8.8-percent average economic expansion over the last five years.

Tata's case illustrates some of the complexities of the nation's system of land ownership. The West Bengal government acquired the site for Tata's plant. That acquisition included invoking [India's 1894 Land Acquisition Act](#) to acquire 300 acres (120 hectares) of arable land that farmers wouldn't agree to give up.



"It should be the onus of the political leadership of the country to ensure and facilitate investments in the country without unnecessary delays being created," said Chandrajit Banerjee, director general of the Confederation of Indian Industry.



Gujarat Chief Minister Narendra Modi says that his state's system for property acquisition "ensures that land can be handed over to entrepreneurs fast."

Direct deals between expanding companies and land owners would circumvent many political problems, some observers feel. But such transactions are frequently impractical in light of the intricacies and ambiguities of many Indian title deeds.

As in West Bengal, the state government will supply the site for Tata's plant in Sanand. But Gujarat Chief Minister Narendra Modi contends that the company's experience in his state will be different.

"We prepared a land bank for land acquisition for industry," Modi said in a public statement. "We also made an industry map in Gujarat. All this has been done to ensure that land can be handed over to entrepreneurs

fast."

But land issues could emerge in Gujarat as well. Farmers in three villages say that the tract that Tata will occupy in Sanand belongs to them. The British government, they say, leased the property from them for 99 years in 1902 and never returned it. Modi is meeting with the farmers in an attempt to resolve the dispute.

"The chief minister has promised us that no injustice will be done to farmers," Jayshivsinh Vaghela, the former prince of Sanand and one of the land claimants, told a press group. "If they have not been paid the compensation, the state government will consider their case."

'Time for Damage Control Is Now'

Tata's withdrawal from West Bengal has marshaled substantial support for reforming and streamlining the nation's system of land ownership and transfer. *The Times of India* was among those calling for changes.

"Tata's Nano may be shifting to Gujarat. But relocation cannot be the panacea for all contested projects," *the Times* contended in [a strongly worded editorial](#). "Land-related agitations threaten to wreck the industrialization process. The source of controversy is generally land acquisition and human displacement. Land transfer has in fact been handled with myopic insensitivity by the political class, deploying a colonial-era law in dire need of upgrade. . . .

"The moral of the story: India's industry-and-investment-friendly image is under siege," *the Times* concluded. "The time for damage control is now."

There are broader business morals as well in Tata's unpleasant experience in its homeland, says McCallum.

"The lessons that can be learned from this example are not only for India, but for any country," he notes. "Making a business plan based on assumptions that are not . . . supported by legal contractual obligations is a recipe for disaster.

"If it can happen to Tata in India," McCallum adds, "then it can happen to any company."



Arriving more slowly on the market: Ratan Tata drives the Nano on stage at the 2008 Geneva Motor Show.

Photo: Tata Motors

CONTINUE TO THE LATEST EDITION OF "[BLOCKBUSTER DEAL OF THE WEEK](#)"

RETURN TO: SITESELECTION.COM OR SITENET.COM

LOOKING FOR A PREVIOUS STORY? CHECK [THE ARCHIVE](#).



▲ PLEASE VISIT OUR SPONSOR • CLICK ABOVE ▲



| [Online Insider](#) | [Site Selection Online](#) | [SiteNet](#) | [Search](#) |

©2008 Conway Data, Inc. All rights reserved. SiteNet data is from many sources and is not warranted to be accurate or current.