State Bank of Pakistan Annual Report - 2014
Special Section 2.1
Comparison of Pakistan & Indian Automobile Industry

Rejoinder Prepared by:

Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)

Submitted to:
The State Bank of Pakistan

January 12, 2015

Table of Contents

GLOSSARY & ABBREVIATIONS

ACD	Auto Cluster Development
AIDP	Auto Industry Development Plan
AIP	Auto Industry Policy
AMC	Adam Motor Co Ltd
APM	Auto Parts Manufacturers
CBU	Completely Built-up
CCoP	Competition Commission of Pakistan
CIAR	Competitive Impact Assessment Report
CKD	Completely Knocked Down
CNG	Compressed Natural Gas
EDB	Enginnering Development Board
EPB	Export Promotion Bureau
ERP	Effective Rate of Protection
FAW	First Automobile Works, China
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FED	Federal Excise Duty
GoP	Government of Pakistan
HACPL	Honda Atlas Cars Ltd
HCV	Heavy Commercial Vehicle
HEV	Hybrid Electric Vehicle
IMC	Indus Motor Co. Ltd
JETRO	Japan External Trade Organization
JPY	Japanese Yen
KOTRA	Korea Trade Promotion Agency
LCV	Light Commercial Vehicles
NTC	National Tariff Commission
OEM	Original Equipment Manufacturers
PAAPAM	Pakistan Association of Automotive Parts & Accessories Manufacturers
PAII	Productive Asset Investment Incentive
PAMA	Pakistan Automobile Manufacturers Association
PIDE	Pakistan Institute of Development Economics
PKR	Pakistan Rupee
PSMC	Pak Suzuki Motor Co. Ltd
PSQCA	Pakistan Standards & Quality Control Authority
RBI	Reserve Bank of India
RD	Regulatory Duty
SBP	State Bank of Pakistan
SED	Special Excise Duty
SKD	Semi Knocked Down
SMEDA	Small and Medium Enterprise Development Authority
SRB	Sindh Revenue Board
TASS	Technology Acquisition Support Scheme
TDAP	Trade Development Authority of Pakistan
TPS	Toyota Production System
TR	Transfer of Residence
UNIDO	United National Industrial Development Organization
USD	United States Dollar
WHT	Withholding Tax

EXECUTIVE SUMMARY

The State Bank of Pakistan (SBP) issued its Annual Report for the year 2014 which includes a "Special Section 2.1: Comparison with India: Where Does Pakistan Stand in Automobiles Production?"

The Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) has critically reviewed the SBP document. PAAPAM believes that SBP research team has made a rather simplistic and incorrect analysis of numerical data relating to Auto production in both countries without giving due importance to the ground realities of Government policies, economies of scale, country environment and business impediments faced by the Pakistan auto sector

It is unfortunate that, just like the Competition Commission of Pakistan (CCoP), the SBP has also chosen to conduct a theoretical study without engaging with the Auto Parts Manufacturers (APMs), who employ 90% of Auto Sector manpower and are the Core of the Auto Industry being primary contributors to economic activity, technology acquisition, employment generation & Government revenues

Compounding this deficiency and absence of original research, the SBP report makes a glaring error in comparison of prices of automobiles in India vs Pakistan. It is surprising to see that the SBP Table No S2.2 has listed Indian Rupee prices and compared them with Pakistan PKR prices without converting them at the 2012 average exchange rate of 1.7547.

Furthermore, SBP has quoted **"Report on India-Pakistan Trade, A Case Study of the Automobile Sector by SDPI (2012)"** as the source for this price information. PAAPAM has gone through this quoted document and has found that it does not contain any such data as claimed by SBP.

Using this defective data, SBP has implied that vehicles of all categories in Pakistan are substantially costlier than in India. However, it is not factually true. PAAPAM has rectified the SBP data by converting it with 2012 exchange rate and it is clear that, even without challenging the questionable price data used by SBP, in 2 out of 4 categories, Pakistani vehicles are cheaper than their Indian counterparts by upto 17%, only due to high level of localization by Pakistani APMs

The SBP report has also failed to enumerate the support offered by the Reserve of India (RBI) to Automobile Buyers and Auto Parts Manufacturers. The RBI directly engages in various types of financing to boost the demands for Automobiles. In case of cars, they have several categories like New Cars, Certified Owner Vehicles, Tractor Loans etc available at affordable financing rates. Unfortunately, the State Bank of Pakistan has no such workable financing schemes for APMs, who are mostly SMEs and the backbone of Industrial Sector.

Furthermore, SBP has failed to recognize the contribution of a network of 375 Tier-1 Auto Parts Manufacturers (APMs) and 1600 Tier-2 suppliers, who, despite extremely harsh policy and business environment, have excelled to competitively produce thousands of localized parts that are being used by the Suzuki, Toyota & Honda vehicles being assembled in the country. APMs manufacture 55%~70% of the parts used in local cars, resulting in huge foreign exchange savings and generate direct/indirect employment for almost 3 million skilled workers, technicians, engineers and management professionals. The quality of locally produced parts is certified by Japanese standards and approved according to specifications prescribed by the global car assemblers.

Automobile Industry is undoubtedly the top most worldwide generator of revenues, taxes, employment & technology. This industry employs one of seven people in the world, directly or indirectly. It can lead to development of a vibrant engineering sector with capabilities in various fields of manufactured products based on steel, plastics, rubber, electrical, electronics and other technologies

Unfortunately, Pakistan has lost multiple opportunities to use Automobile Sector as the launching pad for industrialization of the country. Examples of Asian countries such as Japan, Korea, Thailand, Malaysia, China, Indonesia, India & Vietnam have demonstrated the great capacity of the Auto Sector to attract investment as well as raise the level of technological infrastructure in any country

The Government of Pakistan, on the other hand, has not been able to honor its commitments made under the first Auto Industry Development Plan (AIDP 2007~2012). Instead of comparing New Local Cars vs New Imported Cars, the Government has unfairly exposed and damaged the confidence of the domestic industry by allowing import of 3~5 years old used cars from Japan. The GoP apathy towards this sector is evident from the fact that the Engineering Development Board (EDB), which is the apex regulator of the Industry, is without a CEO since 18 months.

Due to this continued GoP indifference, since 2007, a total of 5 Car Assembly Plants in the country (Hyundai, Nissan, Chevrolet, Fiat & Adam-Revo) have been forced to shut down. The shrinkage in automobile demand and opening up of used cars has resulted in generation of almost 40% idle capacities. Pakistan has become a country viewed skeptically by global car makers because of inconsistency in policy and due to lack of Government's respect for the existing Assemblers and APMs

From the data presented in Annexure A, it can be seen that, in 2007, Pakistan produced around 0.17 million cars vs 0.30 million cars manufactured by Indonesia & 1.71 million cars produced by India. However, it is saddening to see that, in 2013, Pakistan could only produce 0.12 million cars while Indonesia & India were able to ramp up their economies leading to collaborative investments in Auto sector and production of 0.92 million & 3.13 million cars respectively

PAAPAM trusts that the Government would realize the importance of Auto Industry to generate employment opportunities for millions of young Pakistani citizens. The players in the Auto Industry (both OEMs & APMs) are capable of making sizeable investments of Billions of Rupees in launching New Models as well as additional Parts Localization. They need the comfort of long term stable policies to implement long term investment plans and the Government must ensure that a consistent environment is created to reap the benefits offered by this Industry

PAKISTAN AUTOMOBILE INDUSTRY
THE PAAPAM PERSPECTIVE

Pakistan is part of an elite group of 40 Automobile producing countries in the world. Uniquely, a large number of Global brands are being locally produced in all 5 sub-sectors namely Passenger Cars, Light Commercial Vehicles, Motorcycles, Trucks, Buses and Tractors.

Introduction to Passenger Car Segment

OEM Assemblers:
During the last 25 years, 7 of the top ten global manufacturers of Passenger Cars started their operations in Pakistan. Out of these, 3 brands (namely Suzuki, Toyota & Honda) are currently producing around 150,000 vehicles per year in the country. Unfortunately, since 2008, 4 brands (Hyundai, Nissan, Chevrolet & Fiat) have had to close down their operations due to various factors including a sharp reduction in automobile demand, rampant import of used cars, stagnant economy, high inflation, terrorism and an unsettling law-and-order situation. An indigenous Pakistani automobile brand, Revo, also met similar fate within 1-year of starting operations in 2007

Auto Parts Manufacturers:
The foundation of the Pakistan Automobile Industry is based on the large number of diversified Auto Parts Manufacturers (APMs). Depending on type of Passenger Cars, upto 70% of the vehicle parts are being locally manufactured in the country

Economic Contribution:
The Pakistan Automobile Industry is one of the top 5 contributors to Government tax revenues. It is a completely documented industry which directly/indirectly employs almost 3 million skilled workers, technicians, engineers & management professionals.

Examples as Engine of Growth:
In recent history, countries such as Japan, Korea, Thailand, Malaysia, Indonesia, India & Brazil have wholeheartedly supported their Automobile industries. These countries have ensured 100% access of domestic market to local auto producers by discouraging import of Used Vehicles. Also, long term policies have been put in place to enable long term investments by OEMs and APMs.

Inconsistent Government Policies:
In Pakistan, unfortunately, since 2006, the Automobile Industry has been a victim of regular policy changes. Even though a 5-year Auto Industry Development Plan (AIDP) was put in place for the period 2007~2012, the Government subsequently made more than 30 policy changes affecting the environment, taxation and competitiveness of the Auto Sector. A list of these policy changes is attached as Annexure E.

Introduction to PAAPAM

The Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) was formed in 1991 and represents 375 Auto Parts Manufacturing Companies & their 1600+ Tier-II suppliers engaged in manufacturing of Automobile Parts for OEM Assemblers

STATE BANK OF PAKISTAN (SBP) ANNUAL REPORT – 2014

PAAPAM'S OBSERVATIONS

The SBP Annual Report – 2014, through addition of a Special Section 2.1 has presented a comparative analysis of the Automobile Industries in India & Pakistan. PAAPAM has carefully analyzed this Section and would like to highlight the following major observations:

- **Non-Conversion of Indian Rupee (INR) to Pak Rupee (PKR):**
  - The SBP Table S2.2 has presented a comparison of Average Car Prices in both countries in 2012. However, the prices have been listed without converting INR to PKR at the average exchange rate of 1.7547 prevailing in 2012

SBP Quote

"A comparison of average retail prices in Pakistan and India indicates significant disparities in prices in all engine capacities (Table S2.2)

Table S2.2: Average Car Price in 2012

Pak Rupees in thousands

Engine Size	India	Pakistan	Difference
800cc	247.5	520.0	272.5
1000cc	446.7	737.0	290.3
1300cc	702.3	1,474.0	771.7
1800cc	1,230.0	1,839.0	608.4

Source: Report on India-Pakistan Trade, A Case Study of the Automobile Sector by SDPI (2012)

SBP Unquote

- PAAPAM is shocked to note that Car prices in India (during 2012) have been indicated in the above table without being converted to Pak Rupees at the 2012 exchange rate, which was INR 1 : PKR 1.7547
- The above mentioned error is unpalatable and PAAPAM requests SBP to further elaborate its detailed basis of the price comparison study
- Without going into the merit of accuracy of price data collected by SBP in 2012, PAAPAM would like to present the revised Table S2.2 after conversion of INR to PKR @ the parity of 1.7547 (in the year 2012)

Table S2.2: Average Car Price in 2012				
Data Recalculated based on INR 1 = PKR1.7547 (2012)**				
Engine Size	India		Pakistan	Difference
	INR	In PKR@1.7547	PKR	PKR
800cc	INR 247.50	PKR 433.13	PKR 520.00	PKR 86.88
1000cc	INR 446.70	PKR 781.73	PKR 737.00	(PKR 44.73)
1300cc	INR 702.30	PKR 1,229.03	PKR 1,474.00	PKR 244.98
1800cc	INR 1,230.00	PKR 2,152.50	PKR 1,839.00	(PKR 313.50)
** http://www.pakistanaffairs.pk/threads/13880-A-comparision-INR-PKR				

- PAAPAM believes that the average prices of Indian Cars quoted by SBP are also incorrect. SBP is requested to re-prepare the comparison based on correct price data and with proper conversion of INR:PKR parity

- Furthermore, it is simplistic to review the Car Prices without duly deducting the impact of Taxation in the two countries. Therefore, SBP is urged to calculate the Vehicle values in India & Pakistan excluding the various taxes (Sales Tax, Excise Duties, Custom Duties on imported parts etc)

- **Lack of Original Research:**

  - As indicated above, SBP did not care to interact with PAAPAM and other stakeholders in the highly complex Automobile Industry and rather preferred to rely on theoretical data available through third party sources. Hence, the SBP researchers completely missed out on understanding the complexity, sensitivity and linkages in this "**Mother of All Industries**"

- **Analysis of Business Environments in both countries:**

  - The production of passenger cars in India is more than 26 times bigger as compared to Pakistan, even though its population is only 6 times larger

  - The Key differences leading to this accelerated demand for Automobiles in India especially during the period 2007~2013 is as follows:

S. No	**Factors**	**India**	**Pakistan**
1	Car Production Growth	83% growth (2007~2013)	32% shrinkage (2007~2013)
2	Security Environment	Conducive	Non-Conducive
3	Country Perception	Positive (Shining India)	Negative (Terrorism/Corruption)
4	GDP Growth	5%~7%	2%~3%
5	Foreign Direct Investment	Healthy FDI levels	80% lower than 2007 FDI
6	Price Inflation	Single digit	Double digit, even crossed 20%
7	Interest Rates	Conducive for Industrial & Consumer Financing	Prohibitive. Consumer Financing has dropped to all time low
8	Used Cars Import Policy	Highly restrictive	Liberal
9	Government Attitude	Collaborative	Hostile
10	Investment Sentiment	Positive	Negative

- **<u>Lack of Focus on Auto Parts Manufacturers (APMs):</u>**

    - The SBP report has not recognized that APMs generate 90% of employment in Pakistan Auto Industry. They produce thousands of parts conforming to Global Quality Standards, even at low volumes. This is despite the following impediments faced by Pakistani APMs

        - Volatile law & order Situation
        - Low production volumes & high fixed cost per unit
        - Lack of local raw materials
        - Global APMs unwilling to enter into TAA or JVs with Pakistani counterparts
        - Global APMs unwilling to send their technical staff to Pakistan
        - Availability & high cost of electricity & utilities
        - Availability & cost of industrial financing
        - Lack of Testing Centers
        - Lack of Engineers & technical resources
        - Low return on Investment in Auto Parts Manufacturing Sector

- **<u>Para-by-Para Comments on SBP Report Section 2.1:</u>**

    - In addition to highlighting the above mentioned observations, PAAPAM has also prepared para-by-para response to the SBP Annual Report Section 2.1 (Annexure I)

CONCLUDING REMARKS & THE WAY FORWARD – PAAPAM VIEWPOINT

Automobile Industry is the **“Mother of All Industries”** as it employs various technologies like steel stamping, plastic injection moulding, steel & aluminum casting/forging, rubber extrusion, electrical, electronics etc

Auto Parts Manufacturers (APMs) are the **“Core”** of the Automobile Industry as they are the ones investing in the above technologies to produce various types of auto parts. OEMs, primarily, are engaged in “Final Assembly” of the vehicles

PAAPAM and APMs are disillusioned by the tussle between the Government & the Passenger Car OEMs. APMs feel frustrated on being sandwiched & crushed between GoP & the OEMs

Clearly, OEMs have some apprehensions towards the GoP attitude and inconsistent policies towards the Auto Industry. On the other hand, the GoP seems upset on, what it feels, are the un-fulfilled expectations from the OEMs

PAAPAM and the APMs have worked with full dedication to fulfill their role in the Auto Industry. It has no role to play in the following issues of contention between the GoP & OEMs:

- Delivery lead times
- Premiums
- Perception of quality of vehicle
- Vehicle choices available to consumers

The APMs invested Billions to expand their production capacities from 40,000 vehicles produced in 1999 to more than 200,000 vehicles produced in 2006~7. Also, additional capacities were created to meet the GoP target to expand the Automobile market to 500,000 units in 2011~12

This market expansion could, however, not materialize and the Local Industry is still hovering around 150,000 vehicles per year. At the same time, despite their allowable age being reduced from 5 years to 3 years, a quantity of 25,000~30,000 used cars are being imported per year, mainly in category below 1000cc engines. PAAPAM believes that the import of used cars is the biggest single impediment in New Entrants and New Investments in the Pakistan Auto Sector

The reasons for contraction of the market are not caused by any outside force. Since last 7 years, we have seen mal-governance, fiscal mismanagement, budget deficits, heavy bank borrowing by GoP, high inflation, escalating interest rates, shrinkage in economic activities, dwindling FDI levels, drop in business confidence, terrorism & law-and-order problems, which have contributed to the current state of affairs

PAAPAM wishes to highlight the requirements for growth of the Auto Parts Industry as follows:

- A clear-cut GoP policy on the future of Auto Industry: Do we want Local Manufacturing or not?
- Continuation of Ban on Commercial Import of Used Cars
- Effective restrictions, on same pattern as Thailand, India, China & Indonesia, on misuse of Gift/TR/Baggage schemes, through which de-facto commercial import of used cars is being done
- Immediate Appointment of a Competent CEO EDB. This critical post is vacant since 18 months
- Finalization of the 5-year Auto Policy (pending since July-12) with genuine Industry consultation
- Consultations between GoP, OEMs & APMs for determining future direction of the industry vis-à-vis:
    - Launch of New Models to provide choice to consumers
    - Promotion of Localization on same pattern as India & Indonesia
    - Development of Vendor Capabilities
    - Invite New Entrants on basis of Localization commitment

ANNEXURES

ANNEXURE - A

ANNEXURE - A
GLOBAL RANKING OF AUTOMOBILE PRODUCING COUNTRIES

	2013 PRODUCTION STATISTICS	
	Country	**Passenger Cars Only**
1	China	18,085,213
2	Japan	8,189,323
3	Germany	5,439,904
4	USA	4,368,835
5	South Korea	4,122,604
6	India	3,138,988
7	Brazil	2,722,979
8	Russia	1,919,636
9	Mexico	1,771,987
10	Spain	1,719,700
11	UK	1,509,762
12	France	1,458,000
13	Czech Rep.	1,128,473
14	Thailand	1,071,076
15	Slovakia	975,000
16	Canada	965,191
17	Indonesia	924,753
18	Turkey	633,604
19	Iran	630,639
20	Malaysia	543,892
21	Argentina	506,539
23	Poland	475,000
24	Belgium	465,504
25	Romania	410,959
26	Italy	388,465
27	Taiwan	291,037
28	South Africa	265,257
29	Hungary	220,000
30	Australia	185,427
31	Sweden	161,080
32	Austria	146,566
33	Uzbekistan	133,740
34	Pakistan	121,234
35	Portugal	109,698

	2007 PRODUCTION STATISTICS	
	Country	**Passenger Cars Only**
1	Japan	9,944,637
2	China	6,381,116
3	Germany	5,709,139
4	USA	3,924,268
5	South Korea	3,723,482
6	France	2,550,869
7	Brazil	2,391,354
8	Spain	2,195,780
9	India	1,713,479
10	UK	1,534,567
11	Canada	1,342,133
12	Russia	1,288,652
13	Mexico	1,209,097
14	Czech Rep.	925,060
15	Italy	910,860
16	Iran	882,000
17	Belgium	789,674
18	Poland	695,000
19	Turkey	634,883
20	Slovakia	571,071
21	Ukraine	380,061
23	Argentina	350,735
24	Malaysia	347,971
25	Sweden	316,850
26	Thailand	315,444
27	Indonesia	309,208
28	Hungary	287,982
29	Australia	283,348
30	South Africa	276,018
31	Romania	234,103
32	Taiwan	212,685
33	Austria	199,969
34	Pakistan	175,927
35	Slovenia	174,209
36	Uzbekistan	170,000
37	Portugal	134,047

http://www.oica.net/category/production-statistics/2013-statistics/

ANNEXURE - B

ANNEXURE – B

Pakistan vs India Country & Policy Assessment During the period 2007 ~ 2013			
S. No	**Factors**	**India**	**Pakistan**
1	Consistency in Domestic Auto Sector Policy	Consistently favorable for Domestic Auto Industry	More than 35 changes made in Auto Related policies during 2007~2014 despite launch of long term AIDP in 2007
2	Import of New Cars	Custom Duty 90%~	Custom Duty: 50%~
3	Import of Used Cars	Restricted through specific port. No duty concessions or depreciation allowances	Highly favorable policy for import of used cars: a. Age limit 3~5 years b. Depreciation allowance 1%~2% per month c. Depressed value determination for fixed duty calculation
4	Setup Testing Laboratories	Multiple Testing & Homologation Labs setup to support Auto Parts Testing Requirements	No Testing facilities available. APMs must send their parts overseas for Testing or install prohibitively expensive equipment in-house
5	Quality, Safety & Emission Standards	Bharat-IV & V standards define the Indian Government requirements wrt Quality, Safety & Emission	Except for Pak-II Emission Standard, the GoP (PSQCA) has not defined any standards for the Automobiles assembled or imported into Pakistan
6	Education System	High quality, globally recognized technical education available	Education system is in a mess… lack of skilled resourced is an impediment for APMs to develop indigenous technologies
7	Fiscal Incentives to support market growth	Tax Breaks on small cars	None
8	APM Market Access to After Sales Market	Effective Control on Smuggling & Under-Invoicing	Rampant import of spare parts, especially from China at upto 80% under declared values. Effective rate of import duty on such instances is not more than 3%-4% due to practices of mis-declaration of value, classification & quantity of goods. Therefore, APMs have less than 1% of the spare parts market

ANNEXURE – C

ANNEXURE - C

Study of Auto Policies & Tariffs in the Region

Prepared by the Pakistan Automobile Manufacturers Association (PAMA)

Regional Auto Policy Comparison

	Pakistan	India	Thailand	Indonesia	Malaysia
Annual Volumes	**134,000 units**	**4 million units**	**2.4 million units**	**1.2 million units**	**0.62 million units**
New CBU Duty	Up to 800 cc = 50% 801~1000 cc = 55% 1001~1500 cc = 60% 1501~1800 cc = 75% Exceeding 1800 cc =100% (50% additional Regulatory Duty) Sales Tax 17%	Basic custom duty 60% other Para Tariffs ACD 32%, SACD 4%, Education Cess 3% Total 119.65% (VAT 12.5%, excise tax 16.5%)	Basic custom duty 80% Additional duty (30%~50% + 17% other taxes)	Basic custom duty 10%~40% Additional Luxury tax (10%~75%) *Excise and sales tax applicable on CBU & CKD as well	Basic custom duty 30% Additional duty (75%~105% excise duty + 10% sales Tax) *Excise and sales tax applicable on CBU & CKD as well **INCENTIVES FOR LOCALIZATION***
Used CBU Duty	SRO 577 Granting partial exemption of duty & taxes	No such exemption in duty	No such exemption in duty	No such exemption in duty	No such exemption in duty
	Age limit 3 years Depreciation 1% pm No other condition	Manufactured not before 3 years Banned 1000-2500cc other condition apply	Stringent conditions subject to high duty & tax		Stringent conditions subject to very high duty & taxes
CKD Duty	**32.50% ~ 50%**	**10%**	**30%**	**5%~10%**	**10%**
Protection	As would appear, the incidence of taxes in Pakistan is lowest in the region, therefore, there is much higher degree of protection in other Regional countries				
* NOTE	* 100% Excise duty exemption on vehicles with at least 30% local content .* Excise duty exemption limited to value of local content				

ANNEXURE – D

ANNEXURE - D

PAAPAM Comments on SBP Price Comparison Table

SBP Quote

"A comparison of average retail prices in Pakistan and India indicates significant disparities in prices in all engine capacities (Table S2.2)

Table S2.2: Average Car Price in 2012			
Pak Rupees in thousands			
Engine Size	***India***	***Pakistan***	***Difference***
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1300cc	***702.3***	***1,474.00***	***771.7***
1800cc	***1,230.00***	***1,839.00***	***608.4***
Source: Report on India-Pakistan Trade, A Case Study of the Automobile Sector by SDPI (2012)			

SBP Unquote

PAAPAM Comments

SBP Price Table Adjusted for Exchange Rate

Table S2.2: Average Car Price in 2012*				
Data Recalculated based on INR 1 = PKR1.7547 (2012)**				
Engine Size	India		Pakistan	Difference
	INR	In PKR@1.7547	PKR	PKR
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1000cc	INR 446.70	PKR 781.73	PKR 737.00	(PKR 44.73)
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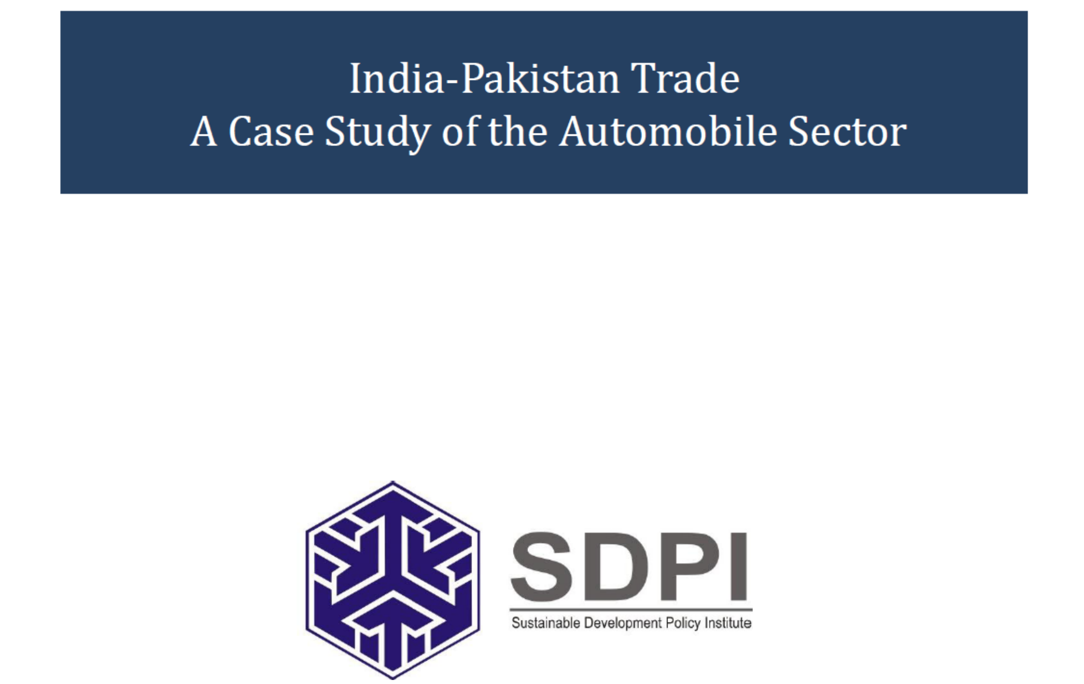
1800cc	INR 1,230.00	PKR 2,152.50	PKR 1,839.00	(PKR 313.50)
* PAAPAM has reservations on the accuracy & source of average prices of Indian Vehicles as quoted by SBP. In the above table, PAAPAM has used the SBP INR values and converted them to PKR at the 2012 average exchange rate.				
** http://www.pakistanaffairs.pk/threads/13880-A-comparision-INR-PKR				

PAAPAM Comments

The SDPI Report quoted as source of price data by SBP does not contain any such information

http://www.sdpi.org/research_programme/uploads/Presentation%20on%20India-Pakistan%20Trade%20A%20Case%20Study%20of%20the%20Automobile%20Sector.pdf



Annexure – D Contd…

ANNEXURE – E

Changes in Auto Sector related policies

During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
AIDP		- AIDP Launched	5 years tariff plan approved	CNG Buses Duty Reduced 10% to 0%	**- RD on localized parts increased for assemblers (SRO-693):** a) Auto Rickshaw from 17.5% to 30% **- Reduction in duties for OEMs (SRO-656)** a) Auto Rickshaw from 32.5% to 20% b) Trailers from 15% to 5% d) Concesionary duty on tyres in SRO-656.	- New Entrant Policy to include a manufacturer producing 100,000 vehicles + No RD on localized parts for 3 years under SRO-693		- Policy change for New Entrants of 100cc and above motorcycle, No RD on localized parts for 5 years.	- Procedural and administrative changes in SRO-655 & SRO-656. '- Policy change for New Entrants of motorcycles with new technology, Localization level allowed at min. 25% in first year and 15% for the subsequent four years.

Annexure - E
Changes in Auto Sector related policies
During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
USED VEHICLE	- Age of used cars increased to 10 years with depreciation @ 2%. Max upto 50%	- Age of used vehicles reduced to 5 years		- Age reduced to 3 years & 36% depreciation - Fixed duty / tax rates on old and used cars/jeeps increased by 10%.	- Depreciation rate for motorcars reduced to 1% from 2% (max. upto 50%)	- Increased age limit from 3 to 5 years and depreciation increased to 60%	- Depreciation revised to 60% for cars and 50% for other vehicles.	- 25% reduction in duties for CBU Hybrid Electric Vehicle (HEV). - CGO 13/2012 restricting 5 years to 1st Jan of the year, subsequent to the year of manufacture, till date of B/L. - Reduction in age limit of used cars from 5 years to 3 years w.e.f. 15/12/12	

Annexure - E
Changes in Auto Sector related policies
During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
TARIFF DUTY			- Increased duty on Steel Tubes from 10% to 15%. '- Reduced duty on Aluminum Alloy from 5% to 0%	- Fully dedicated CNG buses exempted from duty. - Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100% + RD 50% = 150%.				**- Reduction in motorcycle tariff (for a period of one year):** 1) CKD from 15% to 10% (SRO-656) 2) Sub-assy from 20% to 15% (SR)-655). 3) Components from 10% to 7.5% (SRO-655) 4) Localized Parts RD from 32.5% to 28.75% (SRO-693) 5) CBU / CKD from 65% to 57.5% (Tariff)	- Exemption in duties and taxes on import of Hybrid Electric Vehicle (HEVs) (SRO499): => upto 1200cc 100% => From 1201cc to 1800cc 50% => From 1801cc to 2500cc 25%

Annexure - E
Changes in Auto Sector related policies
During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
SALES TAX			- Increased rate of Sales Tax from 15% to 20% on specified raw materials. (Aluminum Alloy LM6 in AIL case)	'- GST increased to 16% from 15%		'- GST increased to 17% from 16%	- GST reduced to 16% from 17%. - Exemption of Sales Tax on Tractors, CNG Buses, HCVs, CNG Kits, etc. withdrawn. - Sales Tax 10% on franchise/ royalty payments & against services by SRB. W.e.f 1-7-11	- Reduction in the higher GST rates on specified raw materials from 22% & 19.5% to 16%	- GST increased to 17% from 16% - 2% additional GST on sales to unregistered person. '- Locally produced Auto Parts have put under Third Schedule, retail sales price is required to be printed on the packing of the material (value excluding GST and GST be printed).

Annexure - E
Changes in Auto Sector related policies
During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
WHT		- Advance tax @5% of the gross amount payable for the purchase of motor vehicles to be collected by car manufacturer at the time of sale. - For manufacturers a uniform adjustable withholding tax	- WHT of Rs. 7,500 to Rs. 50,000 on Cars with respect to engine size at the registration stage - WHT 5% on commercial and 1% on manufacturer was made uniform at 2% for all.	- The scope of advance tax collection on purchase of new locally manufactured motorcars/jeep is extended to all type of motor vehicles. - WHT on imports increased to 4% from 2%	'- WHT on commercial imports increased from 4% to 5%		- WHT on import of input materials for Industrial concern increased from 3% to 5% w.e.f. 26/02/13 to make it standardized for both industrial & commercial importers.	- Income tax first year allowance on plant and machinery reduced from 50% to 25% '- WHT on commercial imports increased from 5% to 5.50%	

		on imports @ 1%							
FED/SED		- FED 5% on technical Fees & Royalty SRO 561/2006 dated 5-6-2006	- FED exempted on franchise service vide SRO 185/2008 dated 28-2-2008 (auto parts only) - SED @1% imposed on imports.	- FED increased from 5% to 10% on franchise (except auto parts) - FED @ 5% has been levied on import as well as locally manufactured cars having engine capacity exceeding 850cc.	- 5% FED removed - Levy 16% FED on services provided by the port and terminal operators including warfage in respect of imports.	- SED of 2.5% imposed subsequently withdrawn after 3.5 months			- 10% FED levied on vehicles of 1800cc or above.

Annexure - E

Changes in Auto Sector related policies

During the period 2005~2014

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
OTHERS					- Duty free import of vehicles allowed for disabled person		- Ban on import of CNG Cylinders & Conversion Kits to be used in vehicles	- Euro II introduction in petrol cars only.	- Corporate Tax rate for the Year 2013-14 is reduced from 35% to 34%. Tax rates on registration of motor vehicles have been revised to range Rs 10,000 ~150,000 from Rs 16,875 ~50,000

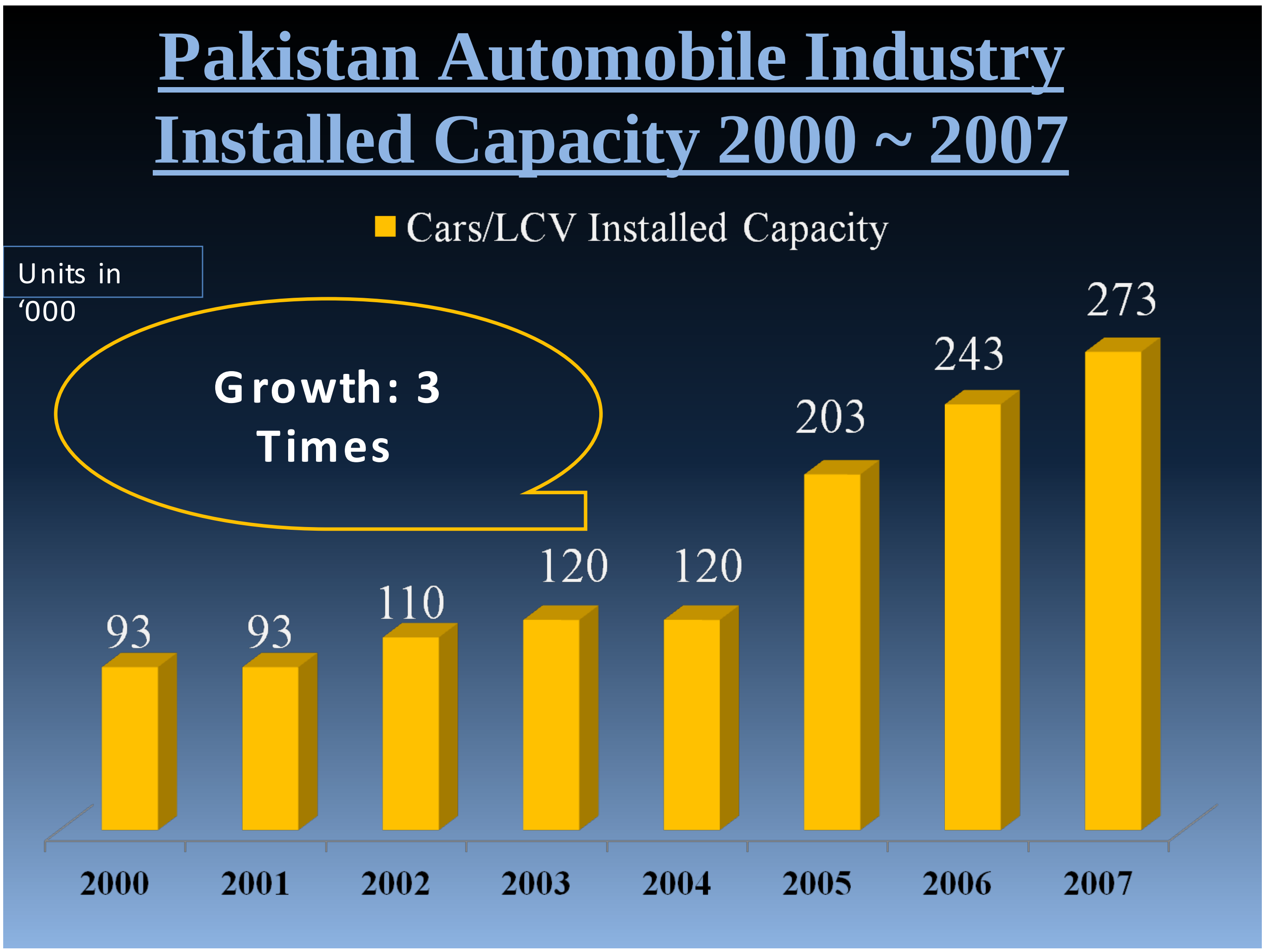
Annexure - E
Changes in Auto Sector related policies
During the period 2005~2014

ANNEXURE – F

ANNEXURE - F

Passenger Car / LCV Capacity Growth in Pakistan

During the years 2000 ~ 2007

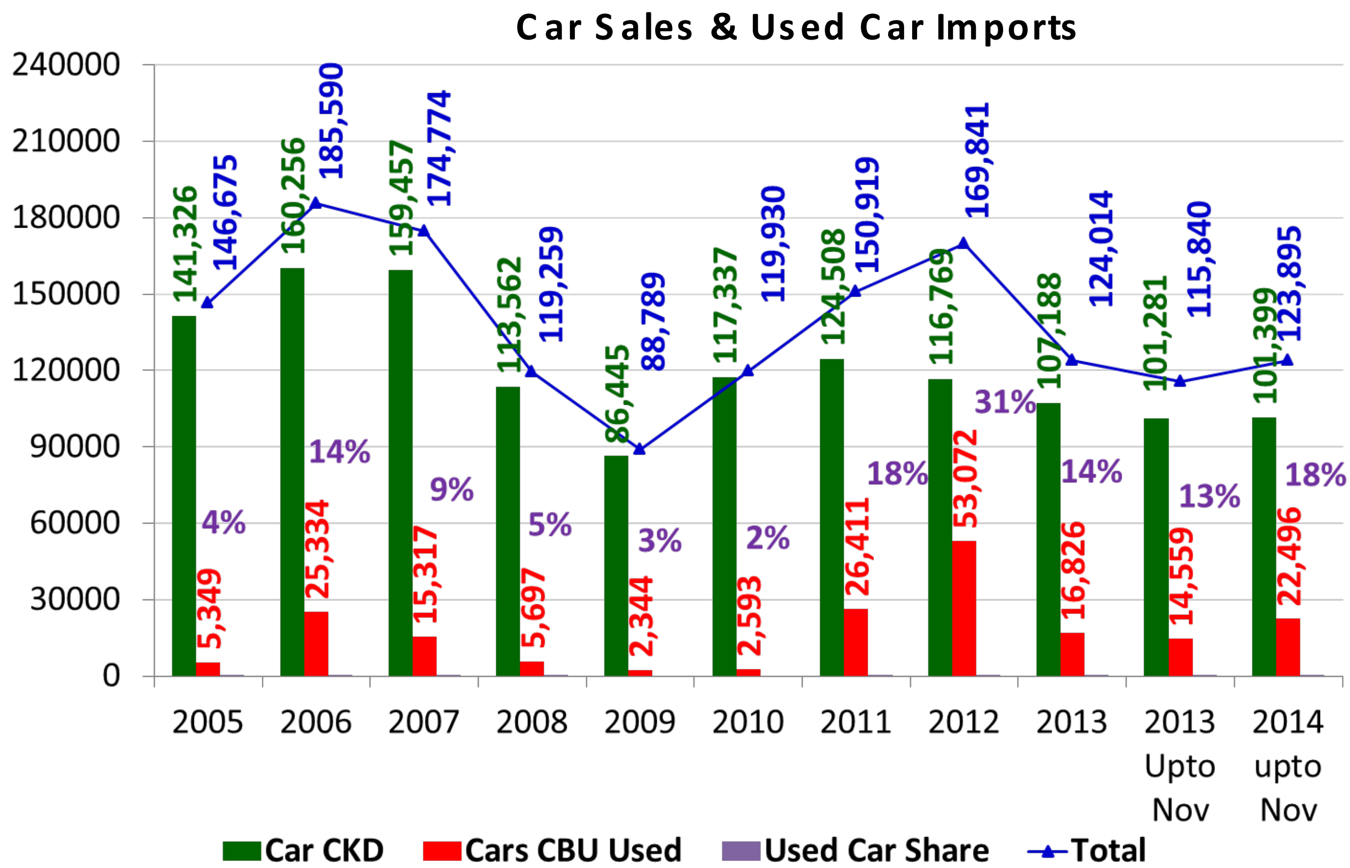


ANNEXURE – G

ANNEXURE – G

Import of Used Cars vs Locally Assembled Cars
For the years 2013 vs 2014 (Jan ~ Nov)

Imported Used Cars Imported vs Locally Assembled Cars			
	Jan~Nov 2013	Jan~Nov 2014	Increase
	Units	Units	%
Imported Used Cars	14,559	22,496	54.52%
Locally Assembled Cars Sales	101,281	101,399	0.12%
Total Sales of Passenger Cars	115,840	123,895	7%
Share of Used Cars	13%	18%	
Share of Locally Assembled Cars	87%	82%	


Car Sales & Used Car Imports
240000
210000
180000
150000
120000
90000
60000
30000
0
141,326
146,675
5,349
4%
160,256
185,590
25,334
14%
159,457
174,774
15,317
9%
113,562
119,259
5,697
5%
86,445
88,789
2,344
3%
117,337
119,930
2,593
2%
124,508
150,919
26,411
18%
116,769
169,841
53,072
31%
107,188
124,014
16,826
14%
101,281
115,840
14,559
13%
101,399
123,895
22,496
18%
2005
2006
2007
2008
2009
2010
2011
2012
2013
2013 Upto Nov
2014 upto Nov
Car CKD
Cars CBU Used
Used Car Share
Total

ANNEXURE - H

ANNEXURE - H

Landed Cost of New Vehicles in Japan
vs
Price of Used Imported Cars in Pakistan

		New Cars available in Japan			Used Imported Cars
		2014 & 2015 Models*			2011 Models
Vehicle	Engine	Price*	Exch. Rate	Landed Cost	Prices in Pakistan**
				1.85	
				(50% CD + 17% ST + Misc)	
	CC	USD	USD:PKR	PKR	PKR
Suzuki Alto	660cc	$ 12,800	100	PKR 2,368,000	PKR 850,000
Suzuki WagonR	660cc	$ 14,700	100	PKR 2,719,500	PKR 850,000
Daihatsu Mira	660cc	$ 12,300	100	PKR 2,275,500	PKR 1,000,000
Toyota Passo	1000cc	$ 15,300	100	PKR 2,830,500	PKR 1,050,000
Toyota Vitz	1000cc	$ 16,800	100	PKR 3,108,000	PKR 1,200,000

* Source: www.bafta.com
** Source: Market surveys conducted in Karachi

ANNEXURE - I

ANNEXURE – I

EXCERPTS FROM THE SBP ANNUAL REPORT - 2014

PAAPAM'S PARA-WISE COMMENTS

HIGHLIGHTED

SBP Extract

Special Section 2.1: Comparison with India: Where Does Pakistan Stand in Automobiles Production?

PAAPAM Response

- ***While it is a highly constructive exercise to benchmark Pakistan's Automobile Industry with other countries, yet, it is critical to identify & list down the Objectives of such a comparative analysis***

- ***Any fruitful study between India & Pakistan must make necessary adjustments to gauge the performance of both Industries at similar levels of volumes & technical complexities.***

- ***India produced almost 3.1 million vehicles in 2013 and it would be unfair to compare it with Pakistan, which produced only 0.12 million vehicles in the same year. It would have been more appropriate for SBP to also compare the state of today's Pakistan Auto Industry with the state of Indian Auto Industry in the 1990s, when it was at production level of below 0.2 million vehicles per year***

- ***Another interesting analysis would be to compare the production of cars in both countries in 2007 vs 2013. This data has been presented in Annexure A (Global Ranking of Automobile Manufacturing Countries). We have also added Indonesia to the below extract:***

	2013 PRODUCTION STATISTICS	
Rank	Country	Passenger Cars Only
6	India	3,138,988
17	Indonesia	924,753
34	Pakistan	121,234

	2007 PRODUCTION STATISTICS	
Rank	Country	Passenger Cars Only
9	India	1,713,479
27	Indonesia	309,208
34	Pakistan	175,927

- ***It is a pity that, from 2007 to 2013, while India & Indonesia Automobile production increased by 84% and 300% respectively, Pakistan Automobile production reduced by 32%. The gap between Indian & Pakistani Automobile demand was increased from 10:1 to 26:1. This is primarily due to competent economic management in these countries along with policies to encourage domestic OEM & APMs and treating them as partners rather than adversaries***

- ***Without factoring-in such variables, a simplified presentation of statistics by the SBP may inaccurately reflect the ground realities, especially the incentives enjoyed & impediments faced by the Auto Sectors in both countries***

SBP Extract

Although Pakistan and India share the same vision for their automobile sectors (promotion of local technology and designs, less dependency on imports, and achieving international competitiveness), Pakistan has not been as successful in achieving these objectives.

PAAPAM Response

- ***SBP comments are correct, only in theory. Governments of both countries announced their visions to develop a full-fledged Automobile Sector with localization of parts, acquisition of technology and targeting the global export market***

- ***However, in practical terms of implementation of their respective Visions, the Governments of Pakistan & India have been moving in opposite directions since the last 8 years, especially in the following areas:***

    - ***Consistency in Auto Sector Policy***
    - ***Tariffs & Non-tariff measures on import of New & Used Cars***
    - ***Creating Government infrastructure & laboratories for Testing, Homologation & Certification of Vehicles & Auto Parts in the country***
    - ***Establishing Country Standards for Quality, Safety & Emission as roadmap for development OEMs & APMs***
    - ***Ensuring a regular flow of Qualified Engineering Graduates to the Auto Industry through a network of Universities & Technical Institutes***

- ***Introducing fiscal incentives to support passenger cars market growth, hence providing volumes to the Industry, being the key to enable long term investments in manufacturing auto parts for domestic industry & for exports***

- ***Effective control on smuggling, under-invoicing & mis-declaration of auto parts, hence allowing full access by the domestic auto parts manufacturers to the after-sales market (which is roughly 10 times the size of OEM market)***

- ***A comparison of the practical actions taken by Governments of both countries for realizing their Auto Industry visions are listed in Annexure A***

- ***From the above, it can be clearly seen that both countries had setup similar visions for their Automobile Sectors. However, in practice, India proceeded to implement its action plan, resulting in expansion of Automobile market size in India. Pakistan, on the other hand, since 2007, has not fulfilled any of its commitments made under the Auto Industry Development Plan and has made more than 35 changes in policies affecting the Auto Sector. Hence, the performance of Auto Sectors in both countries are reflective of actions (or lack thereof) by their respective Governments***

SBP Extract

Profile of India and Pakistan’s Automobile industry

Pakistan’s auto industry is characterized by a few assemblers, and a limited number of products (Table S2.1), whereas the picture is different in India, where a large number of manufacturers are producing a wide range of models (Figure S2.1a &S2.1b).

PAAPAM Response

- ***A more crystallized & in-depth SBP analysis would have discovered the following facts:***
  - ***In the year 2007, Pakistan enjoyed the presence of the following domestically produced brands:***
    - ***Suzuki: producing over 100,000 vehicles***
    - ***Toyota: producing over 50,000 vehicles***

- ***Honda: producing over 20,000 vehicles***
- ***Hyundai: producing below 15,000 vehicles***
- ***Nissan: producing below 5,000 vehicles***
- ***Chevrolet: producing below 5,000 vehicles***
- ***Fiat: producing below 5,000 vehicles***
- ***Adam-Revo: producing below 5,000 vehicles***

- ***In 2006, the GoP liberalized the import of used cars by increasing the allowable age to 5 years and depreciation allowance to 2% per month***
- ***Furthermore, the GoP encouraged the import of used cars by setting up a subsidized fixed duty structure for import of used cars. The value for the purpose of duty calculation was kept depressed. Hence, huge quantities of almost 100,000 used vehicles were imported in the country over a period of 3 years (2006~2008)***
- ***The volumes of 5 smaller & relatively newer OEMs (Hyundai, Nissan, Chevrolet, Fiat & Revo) were instantly hit by rampant import of used cars. Production Volumes are the lifeline for survival of Automobile Plants. These OEMs had no option but to shut down their operations by 2008.***
- ***Honda, despite being a strong player, suffered losses of Rs 2.084 billion over 5 years and saw its equity completely wiped off. Honda Pakistan could barely survive this crisis, only through support of its Parent (Honda Japan)***
- ***PAAPAM is convinced that, had the GoP not caved in to the demands of Used Car lobby, Pakistan would have had at least 8 brands of vehicles being produced in the country today. Furthermore, there was high probability of more brands coming to Pakistan which would have added to the availability of a wide range of vehicles in the country***
- ***To summarize, the responsibility of a relatively smaller range of vehicles being produced in Pakistan rests squarely on the GoP actions to encourage & subsidize used car imports, which is an impossibility in India or any other Automobile manufacturing country in the world***
- ***Finally, as per the report prepared by JICA Expert Mr. Yasuo Nakagawa (JICA Expert to EDB since 2 years), the natural size of the Pakistan market, considering the population and GDP should be around 480,000 vehicles. However, it is dependent on intelligent governance of the***

country and an environment enabling market growth through consultative dialogue between the Government, OEMs and APMs

SBP Extract

Table S2.1: Comparison of Car Manufacturers and Their Products (2013)

Pakistan		India	
Car Manufacturers	**No. of Products**	**Car Manufacturers**	**No. of Products**
Pak Suzuki	6	Tata	17
Honda	2	Maruti	12
Indus Motors	3	Mahindra	17
Hyundai	2	Hyundai	6
		Nissan	4
		Honda	6
		Ford	4
		Toyota	10
		Chevrolet	9
		Renault	6
		VW	9
		Others	12

Source: PAMA and Official Websites of Indian Car Manufacturers

PAAPAM Response

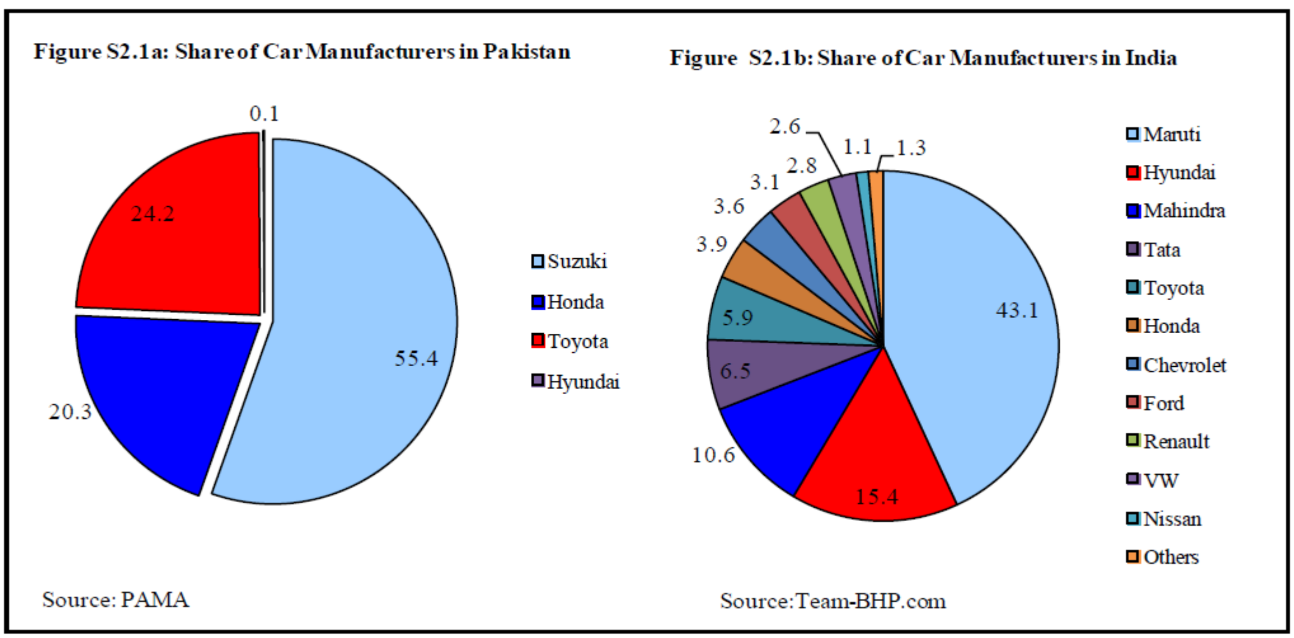
- ***India, by virtue of its population, is already 6-times larger than Pakistan. Therefore, naturally, their volumes and choice of vehicles will always be bigger than Pakistan too***

- ***Furthermore, a deeper analysis should have been done to determine the number of OEMs & Models available in India in 1990s, when they were at the stage of market volumes below 150,000 per year.***

- ***As per the SBP Table S2.1, the total number of Passenger Car models available in Pakistan & India are as follows:***

	Pakistan	***India***	***PAAPAM Comments***
OEMs	***4***	***12***	***Pakistan had a total of 8 brands available in 2006~7, 5 of which had to shut down due to Used Car import policy of the Government***
Models Available	***13***	***112***	***India has a demand for around 4 million vehicles as compared to demand level of below 0.2 million vehicles in Pakistan. The number of models available in Pakistan would have been much higher had the Government not adopted the Used Car Import policy that led to closure of 5 OEM brands in 2008~9***

SBP Extract



PAAPAM Response

- ***Seemingly, the intention of presenting the above data is to show that Pakistan Automobile market is controlled by only 3 brands, which have 99% of the***

market share. In comparison, the top 3 brands in India enjoy 69% of the market share, hence demonstrating a higher level of competition

- ***However, SBP has missed out to mention the following key points, which PAAPAM would like to highlight:***
    - ***Currently, around 25,000~30,000 used cars are being imported through misuse of TR/Baggage/Gift schemes, constituting around 20%~25% of the market size. Hence, share of the 3 OEMs in Pakistan is not more than 75%, similar to India***
    - ***The only force that caused elimination of competition amongst locally assembled cars is the Government of Pakistan. The policy of liberalization of used cars imports in 2006 led to wiping out of 5 smaller OEMs (Hyundai, Nissan, Chevrolet, Fiat & Adam-Revo)***

SBP Extract

Note 89: As defined in microeconomic theory, any product sold in a market environment, creates welfare (utility) for both consumers and producers. In an efficient market, consumers should realize the bulk of the welfare. In Pakistan's automobile sector, producers gain at the expense of consumers.

PAAPAM Response

- ***For SBP to state that "In Pakistan Automobile Sector, producers gain at the expense of consumers" is unfair and unsubstantiated***
- ***Prior to making such a sweeping remark, it would have been prudent for SBP to analyze the performance of Pakistan Assemblers and APMs as compared to other Automobile manufacturing countries in the world***
- ***Pakistan Auto Industry, despite low volumes, negative country environment, lack of macroeconomic governance, hostile GoP attitude, inconsistent policies, high cost of production etc, is able to deliver high quality Civic, Corolla, City, Swift & WagonR models at highly competitive prices***
- ***The real problem is the comparison of locally assembled vehicles with 3-5 years used vehicles coming from Japan. Logically, such a comparison is unfair as no industry in Pakistan or any other country of the world can stand up to competition with import of Used Articles***

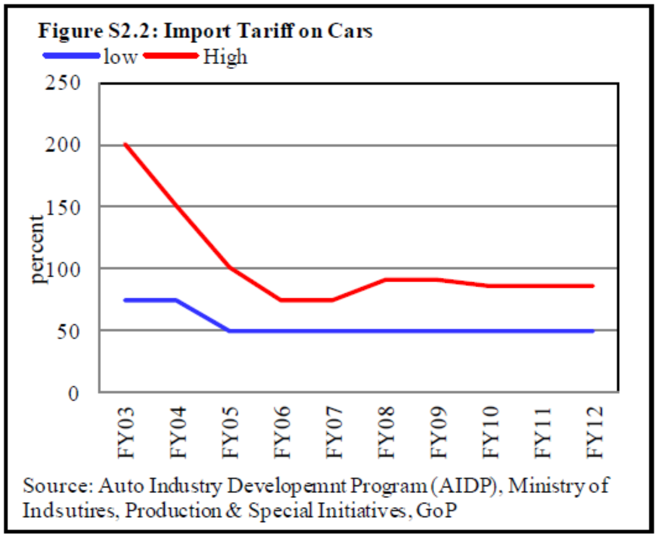
SBP Extract

In the case of Pakistan, with only a few producers that are protected from foreign competition, producers are able to offer few products and charge high prices

PAAPAM Response

- ***Firstly, the Auto Industry in Pakistan is not extraordinarily protected. A comparison of duties applicable in regional countries is attached (Annexure B)***

- ***Currently, the custom duties on CBU cars in Pakistan is 50%~75%, which have drastically come down from 200% over a period of 10 years (as per below graph)***



SBP Extract

A comparison of average retail prices in Pakistan and India indicates significant disparities in prices in all engine capacities (Table S2.2).

Table S2.2: Average Car Price in 2012

Pak Rupees in thousands

Engine Size	India	Pakistan	Difference
800cc	247.5	520.0	272.5
1000cc	446.7	737.0	290.3
1300cc	702.3	1,474.0	771.7
1800cc	1,230.0	1,839.0	608.4

Source: Report on India-Pakistan Trade, A Case Study of the Automobile Sector by SDPI (2012)

PAAPAM Response

- ***PAAPAM has serious reservations on the price data presented by SBP as per above table. This is due to the following:***
    - ***No original source for collection of the price data has been quoted in the SBP report***
    - ***Even though the table mentions that prices are in Pak Rupees, yet, clearly, from PAAPAM research, we believe that the prices of Indian Cars are, actually, in INDIAN RUPEES and need to be multiplied by Exchange Rate of 1.7547 (Average Rate for 2012) to enable a comparison with Pakistani Assembled Vehicles***
    - ***PAAPAM urges SBP to clarify the source of this information. We consider this as a serious discrepancy, which negates the competitiveness of our Automobile Industry and questions the competence of the APMs to produce local parts at internationally comparable prices***
    - ***A detailed chart of the discrepancy has been placed at Annexure C***
    - ***SBP is requested to urgently review the table and issue an Corrigendum to its report if the information is found defective***

SBP Extract

Despite charging higher prices, the local industry in Pakistan does not provide much variety to buyers.

PAAPAM Response

- ***SBP has not substantiated its comments regarding charging of higher prices by local industry***
- ***The comparison of prices with Indian vehicles, as presented in Table S2.2 is defective and hence cannot be used to pass any such judgment***
- ***No comparison with other countries such as Indonesia, Thailand or Malaysia has been conducted. The SBP observation seems to have been made on the basis on unsubstantiated perceptions and incorrect information presented in Table S2.2***

SBP Extract

Furthermore, as shown in the sales data, demand dynamics differ in these countries

(Table S2.3): in India, demand for 800-1000cc cars dominates the market, while in Pakistan, larger cars (1300cc and above) are just as popular. This is very surprising as India and Pakistan have similar socio-economic foundations, and have similar demand patterns. This is perhaps because there is only one assembler in the 800-1000cc category in Pakistan since FY13. Interestingly, before the phasing out of two popular models in the 800cc category in FY12, the market segmentation was not as skewed in Pakistan.

TableS2.3: Share in Total Sales (in percent)

	India	Pakistan	
	2012	FY12	FY13
800-1000cc	80	40	21*
1000-1300cc	18	21	30
1300cc and above	2	39	49

Source: Official websites of manufacturers/Assemblers; and Report

PAAPAM Response

- ***The above also shows the concentration of wealth in Pakistan and the failure of the Government to develop buying power of the middle classes, which are the primary consumer of smaller engine vehicles***

- ***Conversely, in India, a strong & vibrant middle class has emerged on the back of an investor-friendly Government, which has been rewarded with huge inflows of Foreign Direct Investments, leading to creation of jobs for middle class citizens as well as available of car financing to enable purchase of automobiles with low upfront payment***

- ***Finally, Indian Government, in 2006, stimulated the sales of small cars by reducing the excise duty from 24% to 12%. No such incentive has been attempted by the Government of Pakistan***

SBP Extract

Capacity Utilization:

Pakistan's automobile industry is utilizing only 50 percent of its capacity (Table S2.4) which is much higher at 75 percent in India. As mentioned earlier, the product range in Pakistan is limited compared to India and the demand of domestically produced cars is stagnant. As a result, consumers prefer imported products over domestic ones, as they offer more options. If consumers in Pakistan have a wide range of domestically produced models, it would lead to an increased demand and higher capacity utilization.

Table S2.4: Capacity Utilization (in percent)

	FY12	FY13	FY14
Suzuki	58.8	44.1	42.9
Toyota	92.7	65.8	56.2
Honda	25	42.5	47.2

Source: PAMA

PAAPAM Response

- ***Every manufacturer with capital investments targets to maximize its capacity utilization. With its long gestation period, the Auto Sector is specially sensitive on the negative impacts of idle capacities***

- ***SBP comments are reflective of lack of understanding of the operational dynamics in Automobile Sector***

- ***No Assembler wants to carry idle capacity. However, production volumes can be enhanced only if there is market growth and increase in demand for Automobiles. Providing impetus to this market expansion is a function of the economic policies of the Government***

SBP Extract

Strength of India's automobile industry

The most important strength of India's automobile industry is greater indigenization and domestic availability of raw materials. The industry has developed the capability to produce all automotive parts, ranging from engines, transmission apparatus, suspensions, brakes, body parts and chassis parts.92 This has made Indian auto sector not only immune from exchange rate fluctuations, but has also helped reduce its cost of production.93 In addition, India has the advantage of economies of scale because of a large domestic market. Furthermore, competition from a number of domestic manufacturers has created more efficiency in the Indian auto sector.

PAAPAM Response

- ***Despite low volumes in the country, the Pakistan APMs have played a remarkable job in achieving high level of localization. Even the Engines & Transmission are being assembled in the country and with increase in volume to 500,000 vehicles per year, it is expected that Engine/Transmission parts will also be locally produced in the future***

SBP Extract

Government policies: India has adopted a highly protectionist regime for its automobile sector. Not only are import duties kept high, the import of used cars is subject to strict restrictions: (i) import duty on cars is 100 percent; (ii) new vehicles can only be imported via the ports of Mumbai, Chinnai and Kolkata; (iii) cars older than three years cannot be imported; (iv) used cars can only be imported through the port at Mumbai; and (v) import of vehicles with engine sizes 1000 cc-2500cc, is totally banned

PAAPAM Response

- ***As stated by SBP above, a highly protectionist regime adopted by the Government of India is the foundation of growth of Indian Auto Industry in the last 20 years***
- ***Pakistan, on the other hand, has been plagued with frequent changes in policies, with drastic impact on volumes of the domestic industry and creation of idle capacities in the Auto Sector***
- ***Annexure D lists down the changes made in policies relating to the Auto Sector during the period 2005~2014. This is despite the announcement of a 5-year AIDP which was supposed to the long term consistent policy for the Pakistan Auto Industry***

SBP Extract

Downsides of Pakistan's Industry:

After the deletion program, Pakistan adopted a Tariff Based System (TBS) under the Auto Industry Development Program I (AIDP-I) for the period FY06 -12. The objective was to achieve a critical mass of production by FY12, which is required to develop high value added sub-sector in the auto industry. Specifically, the auto sector was targeted to produce 500,000 cars by end-June 2012. To achieve this objective, a long-term import duty structure was announced to help local assemblers formulate their production policies (Figure S2.2). While the industry was kept highly protected during 1985-2006, duties were lowered in the development phase (FY06-12). However, actual production of cars stood at 132,661 in FY12, which is far below the target.

PAAPAM Response

- ***It would have been better had SBP also outlined with reasons of non-achievement of the target of 500,000 vehicles in 2012***

- ***PAAPAM would like to highlight that from 2000~2007, the OEMs and APMs increased their capacities from 93,000 vehicles to 273,000 vehicles (Refer Annexure E).***

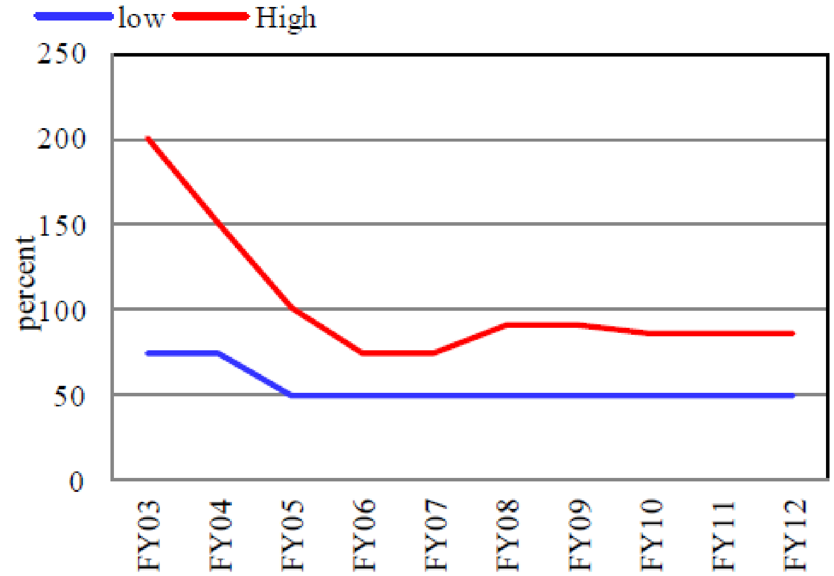
- ***Investments worth hundreds of billions were made to achieve this expansion to meet the demand growth in the country***

- ***Till 2007, the Industry was operating at 100% capacity and the The APMs were fully geared up to further expand their capacities to 500,000 vehicles per year progressively, from 2007 to 2012***

- ***However, the GoP took several measures that adversely affected, not only the automobile demand in the country, but also damaged the confidence of the Industry. 5 OEMs were shut down. The APMs were stuck with idle capacities of almost 40% and all future investments at APM plants are on hold***

SBP Extract

Figure S2.2: Import Tariff on Cars



Source: Auto Industry Developemnt Program (AIDP), Ministry of Indsutires, Production & Special Initiatives, GoP

PAAPAM Response

- ***The above graph is reflective of the trend of reduction in import duties for New vehicles into Pakistan and demonstrates the willingness of the Automobile sector to compete with imported vehicles***

SBP Extract

Pakistan's auto sector is still significantly dependent on imports, as indigenization is limited to the manufacturing of sheet metal parts, interior trim, seats, rubber & plastic parts, batteries, wheel rims, tyres, and lighting accessories. The more sophisticated moving parts (engine, transmission, etc.) that require precision engineering are all imported because Pakistan is unable to produce these components to their international standards. This implies that a significant part of the cost of production, is vulnerable to movements in the exchange rate, which forms the basis of frequent increases in retail prices. Pakistan currently imports 57 percent of its total auto-related raw materials from Japan, and Yen movements against the PKR, plays an important role in the final price.

PAAPAM Response

- ***SBP research team would have made more informed remarks if it had visited the APM plants. To say that indigenization of parts by APMs is limited is a fallacious statement.***

- ***The parts such as the entire steel body of the vehicle, other sheet metal parts, plastic parts (including bumpers, dashboards, steering wheels etc), interior parts (trims, carpets, roof linings, handles, parking levers etc), seating parts (seats, recliners, fabric etc), rubber parts (weather strips, hoses, mountings etc), Batteries, Tyres, Wheel Rims, Wiring Harnesses, Headlamps, Radiators, Mufflers, Starters, Alternators and a long list of other parts are based on complex technologies, require huge investments and constitute upto 50% or more of the cost of the materials used in the vehicle***

- ***Furthermore, the Engines and Transmissions are being assembled in Pakistan since last several years. The main impediment for localization of their parts is the small volumes that make the requisite investments prohibitive***

- ***PAAPAM wishes to request SBP to share the data forming the basis of the statement that 57% of the auto related materials are still imported from Japan. Off course, in the absence of availability of local raw materials (Hi-Tensile Steel, Plastics & Rubber), the APMs have no option but to go for international suppliers. However, PAAPAM still feels that the figure of 57% is highly exaggerated***

SBP Extract

The government has also been inconsistent with its import policy for used cars. In an attempt to incentivize the local industry, the government reduced the age limit for used cars from 5 to 3 years in December 2012. As a result, imports of used Completely Built Units (CBUs) declined substantially (Figure S2.3). Such anti-competitive policies favor producers over consumers.

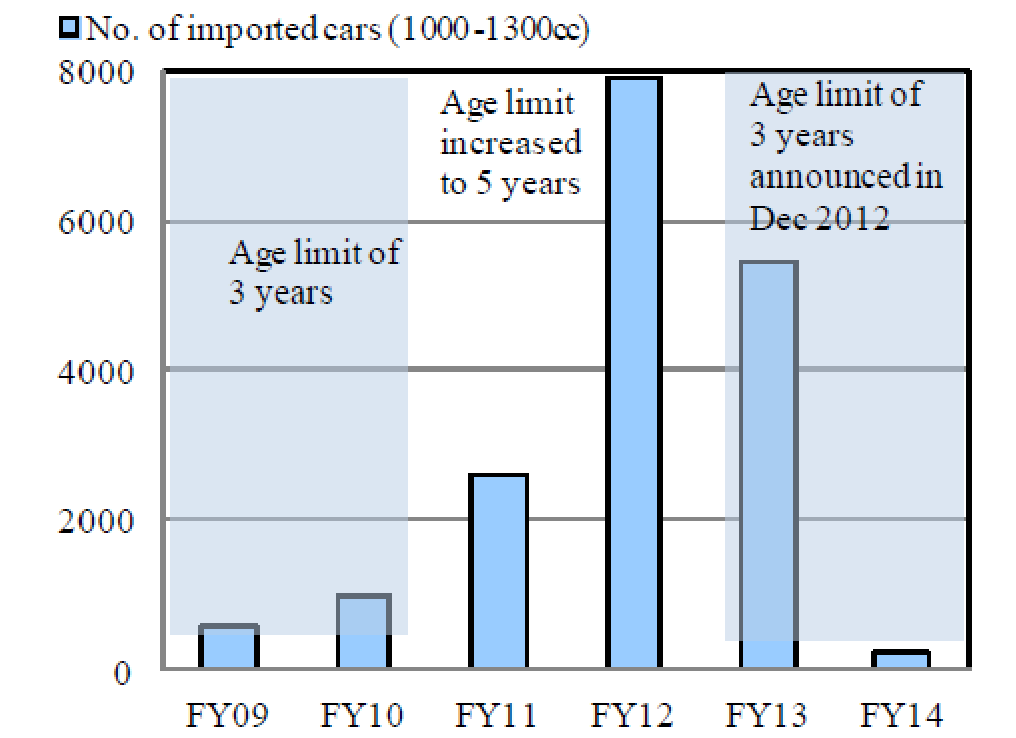
PAAPAM Response

- ***PAAPAM fails to understand the SBP logic that restriction in import of used cars reflects anti-competitive policy which favors producers of local vehicles. Using the same logic, would SBP recommend to the Government to allow free import of used articles for all items listed in the Pakistan Custom Tariff***

- ***On the contrary, PAAPAM feels that allowing import of used car is an anti-competitive policy for the Domestic Industry. One can understand if a case was made for reduction in duties applicable on new cars to ensure competition to domestic producers. However, the support of import of Used Cars in the reports issued by CCoP & SBP is unfathomable***

SBP Extract

Figure S2.3: Changes in Import Policy for Used Cars



Source: Pakistan Bureau of Statistics

[95] The government had previously eased restrictions on used car imports in FY06; allowing imports aged up to 10 years. However this was lowered to 3 years by FY09. This was again eased to 5 years in FY11.

PAAPAM Response

- ***This single policy measure to liberalize the import of Used Cars from 2006 to-date led to elimination of 5 locally assembled brands in the Pakistan market and made Pakistan an undesirable place for investment by the Global Automobile Brands as well as leading Auto Parts Manufacturers worldwide***

SBP Extract

What can be done?

The above comparison highlights the inability (and unwillingness) of the domestic industry to provide better quality vehicles at competitive prices. The dependence on imported components could not be phased out despite a long phase of protection. We believe a more balanced development of Pakistan's automobile sector, requires increasing the level of competition by opening up the market to imports. In this regard, we endorse the assessment of the Competition Commission of Pakistan, which has advocated the need to reduce protection of the local market and allow the import of new cars.[96] Having said this, Pakistan's automobile sector should be provided a long-term policy environment, which should focus on: (i) developing local auto parts, to reduce dependence on imports; (ii) avoiding frequent changes in the tax regime and import policy; (iii) making all efforts to attract FDI in this sector; and (iv) encouraging the production of small fuel efficient cars (with engine capacity below 1000cc).

PAAPAM Response

- ***Almost all of the above SBP statements are based on false or incomplete information, which underline the need for SBP to interact and take feedback from PAAPAM and its APM Members. The realities are as follows:***

    - ***The quality and prices of most vehicles produced in Pakistan (Honda Civic, Toyota Corolla, Honda City, Suzuki Swift and Suzuki WagonR) are comparable to global and regional standards. SBP is requested to make its original research to arrive at the true numbers.***

    - ***The Cars assembled in Pakistan have a significantly high level of local parts. Local parts form 55% ~ 70% of the materials used in locally assembled vehicles. PAAPAM members are proud of this achievement especially considering the low volumes per model for which substantial investment must be made in dies, tooling & development costs***

    - ***PAAPAM & APMs have absolutely no objection or reservation to compete with imported vehicles. However, we absolutely disagree with the confusing notion presented in CCoP report which justifies competition of local new cars with imported used cars. CCoP has recommended to increase allowable age of used cars from 3 years to 5 years and depreciation allowance to 2% per month***

- ***Finally, we agree with SBP recommendation for providing a stable, progressive & consistent policy to further develop the Automobile Sector in Pakistan. Also, PAAPAM strongly recommends GoP to implement the Auto Industry Development Plan (AIDP), launched in 2007, 90% of which is still un-implemented since passage of 7 years***

- ***An important step in this direction would be the appointment of CEO Engineering Development Board on top priority basis. The post of CEO EDB has been lying vacant since 18 months showing the apathy of the Government of Pakistan towards the potential contribution of the Automobile Industry***