Japan seeks to thwart proposal

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was of the view that Japanese car manufacturers would wind up their business if the government allowed commercial import of used cars. "We will review our investment policy for Pakistan, if the government allows import of used cars," sources quoted the Japanese Ambassador as saying.

Industries Ministries, however, defended the move by stating that the government encourages investors but, at the same time, it cannot ignore the interests of its people.

None of the Industry Ministry officials could be reached for comments on this development.

However, an official statement issued by the Ministry stated that the Minister noted the existing friendly economic ties between Japan and Pakistan, and added that there was a lot of room for more Japanese investment in Pakistan.

The Minister and the Ambassador discussed matters of mutual interest, bilateral relations, and regional situation, the statement said.

Industries Ministry has moved a summary relating to the revision of rules on import of used cars on the instructions of Prime Minister Yousaf Raza Gilani who directed the Ministry to hold a meeting with the car manufacturers and come up with a comprehensive plan for rationalising the prices of locally manufactured cars in the next ECC meeting.

During last ECC meeting, Industries Minister had faced criticism from his colleagues for not submitting the summary in this regard.

Now the Ministry has prepared the summary on import of used cars, exclusively provided to this correspondent by a senior official of the Industries Ministry to provide justification of some proposals.

The summary explains that the Cabinet considered the summary submitted by Ministry of Industries on January 16, 2010 which urged identification of the "reasons for increase in prices of locally manufactured cars and measures taken by the Ministry to rationalise the prices" and directed that Minister for Industries and Production may hold meetings with manufacturers of automobile and give clear message to lower the prices of their products. As an alternative, the government may consider import of secondhand cars to facilitate common man. In the subsequent meeting, ECC also directed that a decision in this case should be taken well before announcement of the forthcoming budget.

In pursuance of ECC decision, Minister for Industries and Production held a meeting with car manufacturers on May 11, 2010 and sought proposals for reduction in the price of cars to provide relief to the low and middle income groups. The automobile manufacturers showed their reservation on decreasing the prices under the present economic scenario.

The major contents of the viewpoint of the manufacturers were as follows: (i) sales volumes of the industry decreased by 8 percent in 2007-08 and further decreased by 47 percent in 2008-09. However, industry started to recover in 2009-10 to the extent of 36 percent but is still below the level of its peak year i.e. 2007-08; (ii) Pak currency devalued by 11 percent vis-à-vis Japanese yen during April 2009 to April 2010 and the dollar by 5 percent; (iii) present production capacity of cars has increased from 88,000 cars in 2001-02 to 250,000 units in 2010 whereas, at present, industry is operating well below its capacity i.e. 50 percent; (iv) Pak Suzuki and Honda Atlas Car during the meeting proposed reduction in taxes and duties on the import of CKD kits of non-localised parts/components/sub-assemblies from existing 32.5 percent to 20 percent as this will reduce the prices of cars ranging from Rs 25,000 to Rs 30,000. It may be appropriate to point out here that the issue of increasing prices and creating monopolistic situation by car manufacturers was examined by the Competition Commission of Pakistan (CCP).

According to the summary Ministry of Industries and Production finds some weight in the contention of the manufacturers due to under-utilisation of capacity, resulting in lower sale volumes, rising interest rates, negligible auto financing, higher input cost and Pak rupee depreciation.

It is relevant to point out here that Auto Industry Development Program (AIDP) was finalised with consensus of all stakeholders which replaced the deletion Programs with the Tariff Based System (TBS). The five years' tariff plan for auto sector was also agreed which is applicable from 2007-08 to 2011-12 and it covers the import duties for the entire automotive sector including the components, CKD kits etc. It is estimated that a localised part component costs about 40 percent less as compared to the imported one. Therefore, localisation is ultimately going to play vital role in the reduction of prices.

The Auto Industry Investment Policy (AIIP) lays down for new entrant as under:-

New entrant policy:

Existing Eligibility Criterion: In case of cars, the potential new entrant will have 500,000 units annual production in countries other than Pakistan.

Recommendation: In case of cars, the potential new entrant will have 100,000 units annual production in countries other than Pakistan. For local manufacturers or JVs the target of 100,000 cars from the date of operation subject to the prescribed international standard shall be applicable.

However, this concession is being proposed to encourage new entrant in order to break the existing captive market and to attract new investment.

Import of new cars

Effective Tariff Protection (ETP) in rupee terms has increased by 50 percent with the currency fluctuation for last two years. There is therefore a need to reduce tariff on import of CBU by liberalisation of imports through reduction in duties as follows: (a) Up to 800 cc from existing 50 percent to 40 percent; (b) 801 cc to 1000 cc from existing 55 percent to 45 percent; (c) above 1000 cc to 1500 cc from existing 60 percent to 50 percent; (d) above 1500 cc to 1800 cc from existing 75 percent to 65 percent; and (e) removal of 50 percent regulatory duty on cars above 1800 cc.

Import of used cars under personal baggage, transfer of residence and gift schemes.

The Industries Ministry explains that the age limit of imported vehicles may be increased from 3 years to 5 years as per precedent in 2006 order to increase availability of the vehicles in local market and promote competition trend by amending SRO 766(1)/2009 - Import Policy Order 2009-10. However, negative impact on localisation and down the chain industry can not be ruled out. Or commercial import of used cars up to 3 years may be allowed by amending the Import Policy. In an earlier summary, also provided by the same Industry Ministry's top official, car manufacturers during August-October 2009 increased prices of cars by 1-3 percent. ECC of the Cabinet took notice of increase in prices in its meeting held on October 27, 2009 and directed the Minister for Industries "to look into the reasons for increase in prices of locally manufactured cars and submit a report to ECC on measures taken to rationalise the prices".

Prices of cars are governed by market mechanism; as such, the Ministry of Industries and Production has little control. However, in accordance with the directive of the ECC, the Ministry on its part held two meetings with the car manufacturers on 4th November, 2009 and 15th December, 2009 and reasons for recent increase in car prices were discussed in detail.

The representatives of auto industry in the last meeting explained that they had to increase car prices due to following reasons: (i) devaluation of Pak rupee against Japanese yen from Rs 0.8386 in June 2009 to Rs 0.9372 in December 2009 i.e. 11.76 percent; (ii) due to declining capacity utilisation, the fixed cost burden per car has increased significantly; and (iii) due to present low level of indigenisation, value of imported CKD which is around 40 percent of the car makes, car prices are extremely sensitive to devaluation. The factors responsible for increase in prices of locally manufactured cars have been examined by this Ministry and noted that value of Japanese yen against rupee has been continuously increasing during the period under review. It is therefore, necessary to further increase localisation of vital components to offset the increasing impact of devaluation on car prices. It is pertinent to mention that indigenisation targets of vital components are already given to industry under AIDP. However, in view of decline in production, the auto industry could not achieve the target set during 2008-09.

In this regard Ministry of Industries and Production has proposed following measures for rationalisation of the prices:

i) - In order to offset the impact of devaluation of Pak Rupee against the Japanese Yen, indigenisation targets of major components will be vigorously pursued as set under the AIDP.

ii) - In order to overcome, declining production in auto industry, car financing scheme needs to be revamped by the banking sector.

iii- 'On' money has been considerably eliminated by imposing checks and balances on the dealers by the car manufacturing companies.

This correspondent contacted the Minister and left messages at his office and residence, but received no response till filing of this report. —

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