

ENGINEERING DEVELOPMENT BOARD

Press clippings - March 29, 2016

Business Recorder

AIDP aims at providing cheap financing for small cars

March 29, 2016

MUHAMMAD RIAZ

Auto Industry Development Programme (AIDP) 2015-2019 is aimed at bridging the gap between small cars and motorcycles by providing cheap financing for small cars. According to a research study on auto sector conducted by Institute of Development and Economic Alternatives (IDEAS) of Lahore University of Management Sciences that was launched on Monday, Pakistan holds an affordability rank that ranges from 49 to 58 out of 59, which reveals that for most car models, Pakistan remains one of the most expensive countries to own a car.

Access to finance for small cars will help low-income consumers, and correct the current dominance of bigger cars in the Pakistani market. Small car manufacturers are expected to face 2-3 percent less sales tax. The study mentioned that duties on localised and non-localised parts of CKD kits could become uniform at 10 percent for two years (and then 35 percent for remaining three years for non-localised parts) for new entrants to engender more competition.

This is hotly contested by existing OEMs who would continue to face 50 percent for localised parts and 32.5 percent for non-localised parts. Quality concerns and shorter delivery times seem to make this a consumer-oriented AIDP. According to the research study, a Technology Support Fund is also being considered, with 50 percent contribution from the government and the option for public-private partnerships (PPPs). The aim is to raise technology levels in the sector, which are often lagging by two to three generations with respect to the world technological frontier. To that end, financing may be provided from both the Export Development Fund and the Public Sector Development Programme (PSDP).

The new AIDP is expected to propose that Pakistan should become a member of the United Nations Economic Commission for Europe (UNECE) World Forum for Harmonisation of Vehicle Regulations to ensure and uphold vehicle and environmental safety, while introducing latest technologies that economise on fuel.

A vehicle safety certificate would be required of all auto manufacturers. In order to promote vehicle safety, installation of alarm system at production, as well as a company recall policy are being considered in the new plan. Technical and vocational training for skill upgradation in the auto sector is proposed through the establishment of two training centres in Lahore and Karachi using donor funding.

The AIDP will most likely reduce customs duties, such that new entrants will face 80 percent less duties for 5 years, while incumbents can enjoy those duties only for two years. It is also under consideration that innovation in models will be made compulsory after every ten years, including shape and design.

Green field investment incentives for new entrants might also be put forward. Chinese firms are interested in this, but current auto manufacturers say that there is not enough demand to warrant entry, as 50 percent of existing capacity lies idle. There is also some interest in using currently idle plants by new investors, but this will depend on policies.

It appears that the used car policy will remain the same in principle (used cars allowed only under personal baggage, transfer of residence and gift schemes), but implementation will be stricter to avoid misuse. The study further expects that the tariffs on motorcycles and Completely Built Units (CBUs) of cars will remain the same, except for cars exceeding 1800cc, which might now face a lower Regulatory Duty (RD) of 25 percent instead of the existing 50. It is interesting to note that the new AIDP is expected to incorporate the 2007-12 tariff schedule for auto parts. The government is also considering a uniform tariff across sub-components and components for auto parts production, as opposed to the current rates of 0 to 10 percent.