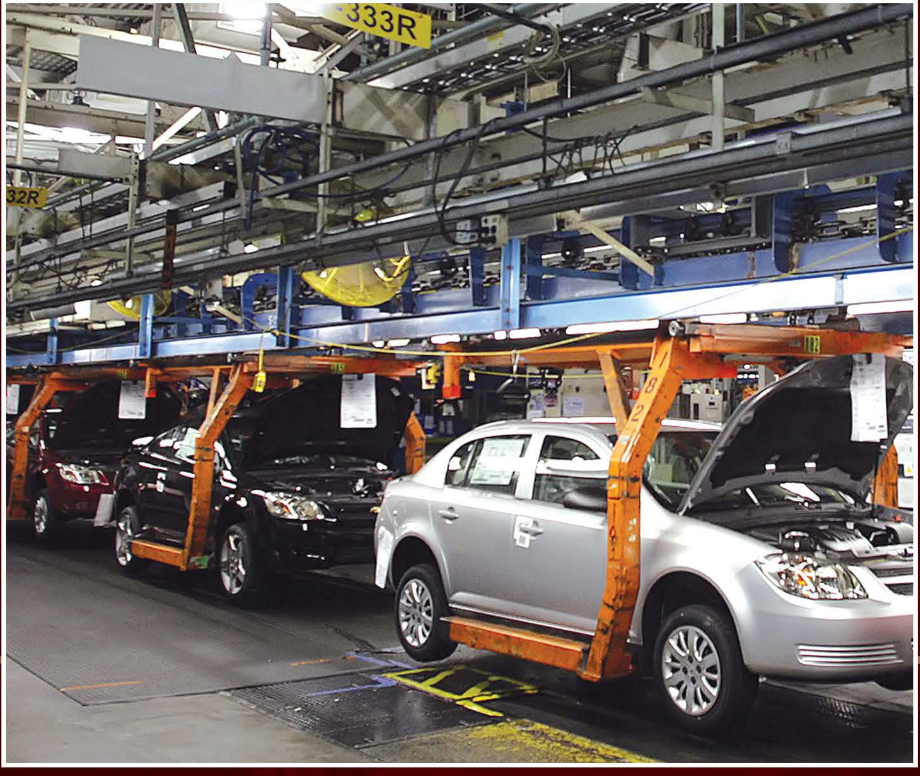
ICMA Pakistan's series of Research Studies on "Impact of COVID-19 on Pakistani Industries"

Automotive and Auto Parts Industry

Impact Assessment and Way Forward



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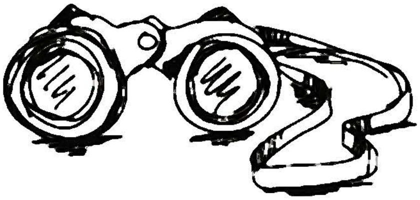

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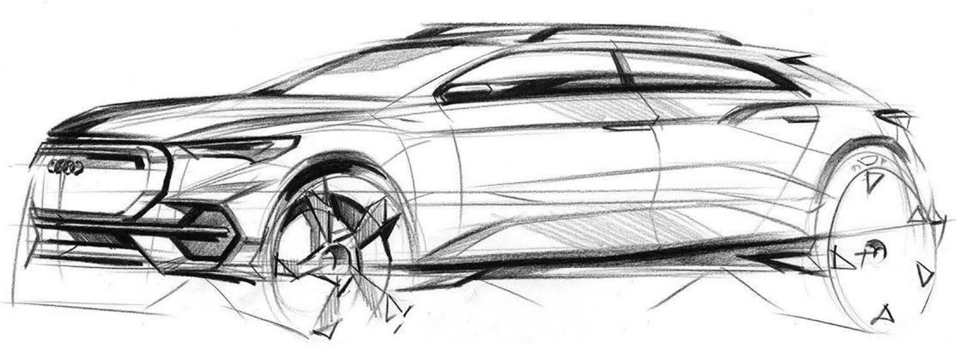
ICMA Pakistan's series of Sectoral Studies on
"Impact of COVID-19 on Pakistani Industries"

Automotive and Auto Parts Industry

Impact Assessment and Way Forward



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ABBREVIATIONS

ACD	Additional Customs Duty
ADB	Automotive Development Policy
AIDC	Auto Industry Development Committee
AIDP	Auto Industry Development Program
AIIP	Auto Industry Investment Policy
AST	Additional Sales Tax
CKD	Completely Knocked-down
CPEC	China Pakistan Economic Corridor
ECC	Economic Coordination Committee
EDB	Engineering Development Board
EVP	Electric Vehicle Policy
FBR	Federal Board of Revenue
FED	Federal Excise Duty
GATT	General Agreement on Tariffs and Trade
OEM	Original Equipment Manufacturer
PAAPAM	Pakistan Automotive Parts and Accessories Manufacturers
PAMA	Pakistan Automobile Manufacturers Association
PIDC	Pakistan Industrial Development Corporation
PSX	Pakistan Stock Exchange
TBS	Tariff Based System
TRIMS	Trade-Related Investment Measures
WTO	World Trade Organization

CONTENTS

Foreword

It gives me immense pleasure to present this research booklet on the **'Impact of COVID-19 on the Automotive and Auto parts industry in Pakistan'** developed and published by the Research and Publications (R&P) Committee of ICMA Pakistan. The initiative of the R&P Committee to bring out industry-specific booklets in the context of COVID-19 is highly commendable.

I am sure these booklets would provide useful policy guidance to the Government and the relevant stakeholders to make a real assessment of the impact of the pandemic on selected industries/ sectors and formulate pragmatic policies to remove the hurdles for their revival and sustained growth.

The methodology adopted by the R&P Committee to develop the series of sectoral booklets also need to be appreciated. In partnership with the CPD Committee, it organized the first Webinar on the Automotive sector in which the relevant people from the Government and private sector were invited as speakers and the presentations and panel discussions made during the webinar provided useful input in developing the booklet. I am told that the next webinar of the series would be held on the housing and construction sector. I wish all success and hope that the R&P Committee would continue to play its significant role as a policy advocacy wing of the Institute.

Let me mention here that being a national Institute of international repute and a trusted name in the field of professional education, corporate training, industry research, and technical support to businesses for the promotion of best practices and good corporate governance, ICMA Pakistan would continue to fulfill its national responsibility towards the economic development of the country.

I once again congratulate Mr. Muhammad Yasin, Chairman and other members of the R&P Committee as well as the R&P Department for accomplishing this task and presenting such a useful publication for the benefit of professionals, industrialists, businessmen, policy makers, researchers, and students.

Zia ul Mustafa Awan, FCMA
President, ICMA Pakistan

Preface

It is satisfying for me in the capacity of Chairman, Research and Publications Committee of the Institute to release the first of the series of sectoral publications aimed at assessing the impact of the COVID-19 pandemic on selected industries and suggesting the way forward for favorable consideration by the policymakers.

Let me briefly mention the structure of this research booklet which focuses on the automotive and auto parts industry.

Chapter 1 provides an overview of the Automobile Industry in Pakistan which covers the macro-economic contribution, market structure, historical background, key players, capacity utilization, market capitalization, production, sales and price trend, and SWOT analysis of the industry.

Chapter 2 details the regulatory framework or environment and the tax structure of the industry.

Chapter 3 briefly touches upon the auto vendor industry and localization.

Chapter 4 gives some information about the new entrants in the automobile sector.

Chapter 5 is the core segment of this booklet which analysis the impact of COVID-10 on the production and sales of vehicles and other implications of the pandemic on the industry.

Chapter 6 provides the 'Way Forward and Recommendations' for the consideration of policymakers.

I am sure that the members and other readers would appreciate this initiative of the Research and Publications Committee and actively participate in the sectoral webinars to be organized in the future.

Lastly, I want to place on record the cooperation and support of my R&P Committee and Directorate for making it possible to bring out this publication in a very short span of time.

Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

Preamble

The Research and Publication Committee of ICMA Pakistan in one of its meetings had decided to launch small e-booklets on different industry sectors in Pakistan with special reference to the impact of the COVID-19 pandemic on these industries and the way forward to revive them in the larger economic interest of the country. This decision was in line with the Government's desire and commitment to keep the wheels of the national economy moving in the post-COVID-19 scenario. It was thought that the booklet containing the assessment of the current state of affairs of the selected industry sectors, coupled with pragmatic suggestions would serve as a useful reference for the stakeholders and policymakers.

To accomplish the above task of bringing out sectoral booklets, the Research and Publications Committee also decided to launch a series of Live Webinars jointly with the CPD Committee of ICMA Pakistan, featuring the economic impact of COVID-19 on pre-selected industry sectors.

Webinar on Automotive and Autoparts Industry in Pakistan and Way Forward

The first of the series of webinars was arranged via Zoom on the 'Automotive and Auto parts industry' on 16th December 2020 from 6:00 p.m. to 8:00 p.m. The webinar was also live on ICMA Pakistan's Facebook Page [Link: facebook.com/icmapak? _rdc=1&_rdr]

A brochure was also circulated in advance to members and stakeholders.

Mr. Zia ul Mustafa Awan, President ICMA Pakistan was the 'Guest of Honour' on the occasion. He presented the opening remarks in which he apprised about the steps taken by the Institute during the lockdown to continue with online education of students and Live Webinars for CPD learning of members. He also appreciated the R&P Committee for taking the initiative to bring out booklet on the Impact of COVID-19 on various sectors.

Mr. Muhammad Yasin, Chairman of, Research and Publications Committee presented the welcome speech in which he briefed about the purpose and objectives of holding the webinars. He also gave an overview of the automotive industry in Pakistan with reference to its macro-economic contribution and the challenges faced by the industry in present times.

Engr. Asim Ayaz, General Manager (Policy, Admin & Coordination), Secretary, Auto Industry Development Committee (AIDC) of the Engineering Development Board (EDB), Ministry of Industries & Production, Govt. of Pakistan; and Mr. Sadaqat Ali, FCMA, CEO of Atlas Engineering (Pvt) Ltd. were the main speakers who made valuable presentations on the automotive and auto parts sectors, especially in the context of the impact of COVID-19.

Engr. Asim Ayaz of EDB highlighted the salient features and achievements of the Automotive Development Policy (ADP 2016-21), the product range of new entrants under ADB, and the New Electric Vehicle Policy (EVP).

Mr. Sadaqat Ali, FCMA spoke on the general overview of the industry, its challenges, post COVID-19 impact, and the Future Outlook of the Industry.

In addition to Engr. Asim Ayaz and Mr. Sadaqat Ali, the distinguished panelists also included:

1) **Mr. Aamir Allawala,** former Chairman of Pakistan Automotive Parts and Accessories Manufacturers (PAAPAM)

2) **Mr. Shamim A. Siddiqui,** ACMA, Executive Director/CFO, Loads Limited.

Mr. Shaham Ahmed, FCMA, Chairman CPD Committee of Karachi Branch Council (KBC) was the Moderator of the Panel Discussion. He put up questions to the panelists that related to current specific challenges of the auto industry and invited suggestions on how to develop and promote growth in the industry.

Ather Saleem Ch., Chairman, National CPD Committee presented the vote of thanks at the conclusion of Webinar.

Chapter 1

Overview of the Automobile Industry in Pakistan

Chapter 1

Overview of the Automobile Industry in Pakistan

The automobile industry is a vibrant sector in any country and often considered as the mother of all industries and the backbone of the economy. This industry plays a pivotal role in the development of the country in terms of revenue generation, foreign exchange, employment creation, and technology transfer. This industry has a strong impact on a dozen other sectors such as steel, plastic, petrol and vending industry etc.; hence auto sales reflects an important economic indicator of the country.

The automobile industry in Pakistan includes companies engaged in the production and/or assembling of passenger cars, light commercial vehicles, trucks, buses, tractors and motorcycles. The auto spare parts industry is an allied of the automobile industry and signify a major manufacturing sector in Pakistan.

Macro-economic contribution

The auto industry along with its allied industry [auto components] is one of the core industries in Pakistan. This sector contributes around 4 percent to the national GDP and around Rs. 50 billion (USD 312 million) to the national exchequer in terms of taxes and duties. It employs around 1.8 million people as a workforce.

There are currently 3,200 auto manufacturing facilities in the country, with an investment of Rs. 92 billion and producing around 1.8 million motorcycles and 200,000 vehicles per year. The sector as a whole provides 3.5 million people with jobs and plays a key role in promoting the development of the vendor industry.

Market Structure

The market structure of the automobile industry in Pakistan is quite concentrated and in economic terms, it could be best defined as **'Oligopoly'** which is characterized by imperfect competition with dominance of few auto assemblers in the market.

The three key market dominating players are (1) Pak Suzuki Motor Co. Ltd, (2) Indus Motors (Toyota), and (3) Honda Atlas Motors. Pak Suzuki Motor Co. has an almost monopoly in the small car segment and faces almost no competition other than the discontinued Daihatsu Cuore, produced by Indus Motors.

The automobile industry is a highly capital-intensive requiring high investments; hence the barriers to entry are high, resulting in the presence of limited number of suppliers.

The market can also be categorized as **'price-oriented'**. As cars are luxury items, their demand is elastic. Any price change affects the sales of the company to a great extent.

The automotive sector has deep forward and backward linkages; 'backward linkages' in the form of reliance on some vendors for the supply of various components; and 'forward linkages' in the form of dealership networks and agents for the provision of after-sales services.

Through the Lens of History

In 1950, the then Government established the Pakistan Industrial Development Corporation (PIDC) to develop the infrastructural facilities by establishing industries, including automobiles, which the private sector was unable to undertake either because they were technologically complex, needed large capital investment or were less profitable. These steps resulted in almost 56% growth in the manufacturing sector. However, subsequently, the nationalization of industries, including automobile in 1972 retarded the growth of the industry. After deregulation, the automotive industry took off and now the industry is growing fast.

The history of automaking in Pakistan dates back to 1950s when the Kandawala Industries [later renamed as Naya Daur Motors] established its units for assembling buses and trucks and then the National Motors produced the first vehicle in 1953 at its plant in Karachi. Let's have a look at the historical developments and achievements of the automotive industry in Pakistan in the following four different time periods:

Developing Era - Initial Years [1950 to 1969]

- Ford Trucks were introduced by Ali Automobiles (1953)
- Exide battery started production (1953).
- Dodge Cars introduced by Haroon Industries (1956)
- Ford Angela Cars introduced by Ali Automobiles (1958)
- Ford Pickups introduced by Ali Automobiles (1959)
- Ford Combi was introduced by Ali Automobiles (1960)

- Precision auto parts manufacturing started at Allwin Engineering (1961)
- Lamberate Scooter introduced by Wazir Ali Engineering (1962)
- Jeep CJ 5, 6, & 7 introduced by Kandawala Industries (1962)
- Bedford Truck assembling started at Ghandara Motors (1962)
- Mack Trucks introduced by Hye Sons (1963)
- General Tyres & Rubber Company started production in Karachi (1963)
- MF Tractors introduced by Rana Tractors (1964)
- Vespa Scooter and Rickshaw were introduced by Raja Auto Cars (1964)
- Honda Motor Cycle was introduced by Atlas Autos (1964)
- Ghandara Industries launched Localization Plant for Bedford Trucks (1964)
- Specialized Vehicles production at Jaffer Industries (1965)
- Toyota vehicles introduced by Monnoo Motors (1967)

Post Nationalization Era [1972 to 1981]

- SKOPAK cars introduced by Haroon Industries [project ended in 1971 due to nationalization)
- Nationalization of Industries (1972) – [The 10 categories selected for nationalization also included motor vehicles]
- Formation of Pakistan Automobile Corporation (PACO) (1972)
- Formation of Tractor Corporation of Pakistan (1972)
- Ali Autos renamed as Awami Autos (1972)
- Wazir Ali Engineering renamed as Sindh Engineering (1972)
- Haroon Industries renamed as Republic Motors (1972)
- Ghandara Motors renamed as National Motors (1972)
- Kandawala Industries renamed as Naya Daur Motors (1972)
- Hye Sons renamed as Mack Trucks (1972)
- Jaffer Industries renamed as Trailer Development Corporation (1972)
- Rana Tractors renamed as Millat Tractors (1972)
- Yamaha Motor Cycle launched by Dawood Yamaha (1974)
- Diesel Engines manufacturing started at Bela Engineering (1974).
- Suzuki Motorcycle was introduced by Sindh Engineering (1976)
- Kawasaki Motorcycle was introduced by Saif Nadeem Kawasaki (1977)
- Suzuki Jeep was introduced by Naya Daur Motors (1977)
- Plastic parts manufacturing at SPEL (1978)
- Suzuki Pickups introduced by Awami Autos (1980)
- Mazda Truck introduced by Sindh Engineering (1980)
- Wire Harness production at Ayenbee (1981)
- Production of specialized Auto Parts at Agriautos Industries (1981)

Post Deregulation Era [1982 to 1993]

- Pak Suzuki Motors formed as a joint venture with Suzuki Motor Japan (1982)
- Bolan Castings started production (1982)
- Belarus Tractors introduced by Fecto Tractors (1982)
- Suzuki Motors commenced assembly of FX 800cc cars (1983)
- Fiat Tractors introduced by Al-Ghazi Tractors (1983)
- Vendor Development & Technical Cell (VDTC) formed (1983)
- Hinopak started assembly operations of commercial vehicles (1986)
- Production of Nissan Diesel Trucks by Ghandara Nissan (1987)
- Pakistan Association of Auto Parts and Accessories Manufacturers (PAAPAM) formed (1988)
- Second car plant sanctioned by the GoP (Indus Motor Company) (1989)
- Japan acquired 40% shares of Pak Suzuki (1991)
- Privatization of Pak Suzuki Motor Company Ltd. (1992)
- Ghandhara Nissan Ltd. formed in 1981 was converted into a public limited company (1992)
- Indus Motor Company began production of Toyota Corollas in Pakistan (1993)
- First export of Buses and Trailers by Hinopak Motors Limited (1993)

Rapid Development Era [1994 to Present]

- Production of Honda Civic by Honda Atlas Cars Pak Ltd (1994)
- Import of Vehicles under the Yellow Cab Scheme (1994)
- Formation of Pakistan Automotive Manufacturers Association (PAMA) (1994)
- Engineering Development Board (EDB) formed First PAP Show in Islamabad (1995)
- First Industry Specific Deletion Programme (ISSDP) printed for the period up to 2001 (1996)
- 1997 VDTC was renamed AT & TC (1997)
- Aircon Systems production starts at San pak Lahore (1997)
- Production of Sohrab Motorcycle (1997)
- Export of Light Commercial Vehicles by Pak Suzuki Motor Company (1998)
- Saigol Quingqi starts production of motorcycles with Chinese collaboration (1998)
- Dewan Farooque Motors starts production of Korean Pickup named Shahzore (1999)
- Hinopak Motors Ltd. was taken over by Hino Motors and TTC of Japan (1999).
- Raja Motors starts production of UNO Cars (2000).
- Production of Daihatsu vehicles by Indus Motor Company Ltd. (2000)
- Adam Motors launches Chinese Truck named Zabardast. (2002)
- Sindh Engineering launches range of Chinese Trucks (2003)
- Auto Policy 2016-2021 was introduced by the Government (2015)
- Shehzore truck was launched in Pakistan (2018)
- Kia-Lucky Motors officially launched the local assembled Sportage SUV (2019)

Major Players in the Auto Market

There are twelve (12) automobile companies listed on the Pakistan Stock Exchange (PSX) under the sector of 'Automobile Assemblers'. As per PSX, the total market capitalization of these 12 auto makers stands at Rs. 331,723 million. These companies are engaged in the production and assembling of passenger cars and vehicles, buses, trucks and tractors. Similarly, there are nine (9) companies listed on PSX under the sector of 'Automobile Parts & Accessories' which are producing car components, parts and accessories for supply to the Original Equipment Manufacturers (OEMs) in Pakistan. The total market capitalization of these nine auto parts manufacturing companies, as per PSX data, is around Rs. 67,774 million.

As per PSX website, during Jul-Mar FY 2020, there was 24.8% decline in the market capitalization of the Automobile Assemblers i.e., from Rs. 247.72 million on 1st July 2019 to Rs. 186.20 million on 31st March 2020. Similarly, there was also 17.8% decline the market capitalization of the automobile parts & accessories i.e., from Rs. 47 million on 1st July 2019 to Rs. 39 million on 31st March, 2020.

AUTOMOBILE ASSEMBLERS	AUTOMOBILE PARTS & ACCESSORIES
1) Al-Ghazi Tractors Limited	1) Agriautos Industries Limited
2) Atlas Honda Limited	2) Atlas Battery Limited
3) Dewan Farooque Motors Limited	3) Baluchistan Wheels Limited
4) Ghandara Nissan Limited	4) Bela Automotive Limited
5) Ghandhara Industries Limited	5) Dewan Automotive Engineering Limited
6) Ghani Automobile Industries Limited	6) Exide Pakistan Limited
7) HinoPak Motors Limited	7) General Tyre and Rubber Co. of Pakistan Ltd.
8) Honda Atlas Cars (Pakistan) Limited	8) Loads Limited
9) Indus Motor Company Limited	9) Thal Limited
10) Millat Tractors Limited	
11) Pak Suzuki Motor Company Limited	*[Source: PSX website]*
12) Sazgar Engineering Works Limited	

The brief profiles of the twelve automobile assembling companies are provided below:

1) Al-Ghazi Tractors Limited:

It was incorporated in June 1983 as a public limited company. It is principally engaged in the manufacture and sale of agricultural tractors, implements and spare parts. The Company is a subsidiary of Al-Futtaim Industries Company LLC, U.A.E.

2) Atlas Honda Limited:

It was incorporated on October 16, 1962 as a public limited company. It is principally engaged in the progressive manufacturing and marketing of motorcycles and spare parts. This Company is a subsidiary of Shirazi Investment (Pvt) Limited, which holds 52.43% of issued, subscribed and paid-up capital of the company.

3) Dewan Farooque Motors Limited:

It was incorporated on December 28, 1998 as a public limited company. It is principally engaged in the assembling, manufacturing and sale of vehicles in Pakistan.

4) Ghandhara Nissan Limited:

It was incorporated on August 8, 1981 as a private limited company and subsequently converted into a public limited company on May 24, 1992. It is principally engaged in the assembly and progressive manufacturing of JAC Trucks, import and sale of Nissan, Dongfeng and Renault vehicles in Completely Built-up condition and assembly of other vehicles under contract agreement. The Company is a subsidiary of Bibojee Services (Private) Limited.

5) Ghandhara Industries Limited:

It was incorporated on February 23, 1963. It is principally engaged in the assembly and progressive manufacturing of Isuzu trucks and buses. Bibojee Services (Private) Limited is the ultimate Holding Company.

6) Ghani Automobile Industries Limited:

It was incorporated in September 1987 as a public listed company. It is principally engaged in the manufacturing, assembling and trading of vehicles.

7) Hinopak Motors Limited:

It was incorporated in Pakistan in 1985 as a public limited Company. The Company's principal activity is the assembly, progressive manufacturing and sale of Hino buses and trucks. The company is a subsidiary of Hino Motors Limited Japan and the ultimate parent company is Toyota Motors Corporation Japan.

8) Honda Atlas Cars (Pakistan) Ltd.:

It was incorporated on November 04, 1992 as a public limited company and started commercial production in July 1994. It is principally engaged in the assembling and progressive manufacturing and sale of Honda vehicles and spare parts. The Company is a subsidiary of Honda Motor Company. Ltd, Japan.

9) Indus Motor Company Limited:

It was incorporated in December 1989 as a public limited company and started commercial production in May 1993. The company was formed as a joint venture among the House of Habib, Toyota Motor Corporation and Toyota Tsusho Corporation for the purpose of assembling, progressive manufacturing and marketing of the Toyota vehicles. The company also acts as the sole distributor of Toyota and Daihatsu vehicles in Pakistan.

10) Millat Tractors Limited:

It was incorporated in 1964 as a public limited company. It is principally engaged in the assembling and manufacturing of agricultural tractors, implements and multi-application products. It is also involved in sale, implementation and support of IFS applications.

11) Pak Suzuki Motor Company Ltd.:

It was incorporated in August 1983 as a public limited company and started commercial production in January 1984. The company was formed as a joint venture between Pakistan Automobile Corporation Limited and Suzuki Motor Corporation, Japan. The company is principally engaged in the assembling, progressive manufacturing and marketing of Suzuki cars, pickups, vans, 4x4s and motorcycles and related spare parts.

12) Sazgar Engineering Works Limited:

It was incorporated on September 21, 1991 as a Private Limited Company and converted into a Public Limited Company on November 21,1994. It is principally engaged in the manufacture and sale of automobiles, auto parts and household electric appliances.

Capacity Utilization in Auto Industry

The production capacity of the three major players of automotive sector [Suzuki, Honda and Toyota] have remained unchanged for the past several years. Only the Indus Motor company has expansion plans by investing around USD 40 million which will add around 10,000 units to its current production. There is a dire need for local automakers to significantly increase and enhance their production capacity.

The installed capacity of leading automobile companies is given in the below table:

Sr.	Automobile Company	Year of establishment	Installed Capacity	Primary Automotive Category Produced
1	Primary Automotive Category Produced	1983	150,000	Passenger Cars
2	Atlas Honda Limited	1963	750,000	Motorcycles
3	Honda Atlas Cars (Pakistan) Limited	1993	50,000	Passenger Cars
4	Indus Motor Company Limited	1989	66,000	Passenger Cars
5	Ghandara Nissan Limited	1981	8,500	Buses
6	HinoPak Motors Limited	1986	7,800	Buses
7	Dewan Farooque Motors Limited	1998	20,000	Passenger Cars
8	Millat Tractors Limited	1964	45,000	Tractors
9	Sazgar Engineering Works Limited	1991	20,000	Motorcycles

It can be noted that Pak Suzuki Motor Company Ltd. has the highest capacity in the production of 'passenger cars' whereas Atlas Honda Limited has the highest capacity in the production of 'Motorcycles'.

Market Capitalization and Shares Traded at PSX

The total market capitalization of the twelve automobile companies listed on the Pakistan Stock Exchange (PSX) comes to around Rs. 338.26 billion. As per PSX data, the highest market capitalization in the category of passenger cars is of Indus Motor Company (Rs. 94 billion); followed by Atlas Honda Limited (Rs. 61.7 billion); whereas in the category of tractors, Millat Tractor leads with market capitalization of Rs. 54.5 billion.

Sr.	Automobile Company	Market Capitalization (Million Rupees)	Total No of Shares Traded in PSX
1	Atlas Honda Limited	61,671	124,087,935
2	Honda Atlas Cars (Pakistan) Limited	46,624	142,800,000
3	Indus Motor Company Limited	94,320	78,600,000
4	Pak Suzuki Motor Company Limited	18,517	82,299,851
5	Ghandara Industries Limited	14,138	42,608,844
6	Ghandara Nissan Limited	5,985	57,002,500
7	Ghani Automobile Industries	269	50,028,880
8	HinoPak Motors Limited	10,292	24,801,120
9	Sazgar Engineering Works Limited	9,412	46,496,893
10	Dewan Farooque Motors Limited	957	138,735,242
11	Millat Tractors Limited	54,513	49,829,112
12	Al-Ghazi Tractors Limited	21,563	57,964,201
Total		**338,261**	**895,254,578**

As far as trading shares on PSX are concerned, the Atlas Honda Limited leads with highest shares of 142.8 million followed by Dewan Farooque Motors Limited [presently in Defaulter segment of PSX] with 138.7 million shares and Atlas Honda Limited with 124 million shares. The total shares trading of all the twelve automobile assemblers on the PSX is around 895.25 million.

Production and Sales of Automobiles

The supply and demand of car in Pakistan is an issue for the buyers. At present, one passenger car is produced for every 869 persons. The local automakers need to increase their existing production capacity to a great extend in order to meet the demand vis-a vis competition from new entrants in the auto sector.

As per the statistics released by the Pakistan Automobile Manufacturers Association (PAMA), the total production of all kinds of automobiles viz. passenger cars, trucks, buses, motorcycles and three-wheelers, during the FY 2019-20 (July-June) was 1.37 million units as compared to 1.78 million units in FY 2018-19.

On comparing Table-1 and Table 2, we can observe massive reduction in the production of all categories of the vehicles, due mainly to the depressed market conditions; low-capacity utilization due to lesser demand of vehicles in markets in view of high prices and lastly the outbreak of COVID-19 pandemic in last two quarters of FY 2019-20.

- Production of cars went down from 209,255 units in FY 2018-19 to 94,325 units in FY 2019-20
- Production of Trucks decreased from 6,035 units in FY 2018-19 to 2,945 units in FY 2019-20
- Production of Buses fell down from 913 units in FY 2018-19 to 532 units in FY 2019-20
- Production of Motorcycles & 30-Wheelers reduced from 1,782,606 units to 1,370417 units

Table 1

FY 2019-2020 [July to June]	TOTAL CARS (units)		TOTAL TRUCKS (units)		TOTAL BUSES (units)		TOTAL MOTORCYCLES & THREE-WHEELERS (units)	
	Production	Sale	Production	Sale	Production	Sale	Production	Sale
July 19	16,472	10,968	347	407	61	118	115,205	113,096
Aug 19	10,636	9,126	237	239	61	42	127,850	128,419
Sep 19	9,090	10,923	233	228	35	36	127,716	126,141
Oct 19	9,547	9,566	358	240	50	63	158,657	156,872
Nov 19	6,744	8,524	305	336	64	53	145,001	146,426
Dec 19	8,373	9,987	267	254	55	61	135,178	128,866
Jan 20	11,475	10,095	337	393	38	51	139,940	142,445
Feb 20	9,859	10,345	341	338	66	64	139,167	139,007
Mar 20	6,432	5,796	307	298	32	44	100,207	100,413
Apr 20	-	-	-	36	-	3	-	2,974
May 20	656	3,800	-	76	-	-	34,403	38,167
Jun 20	5,041	7,325	213	243	70	24	147,093	147,179
Total	94,325	96,455	2,945	3,088	532	559	1,370,417	1,370,005

Source: PAMA

Table 2

FY 2018-2019 [July to June]	TOTAL CARS (units)		TOTAL TRUCKS (units)		TOTAL BUSES (units)		TOTAL MOTORCYCLES & THREE-WHEELERS (units)	
	Production	Sale	Production	Sale	Production	Sale	Production	Sale
July 18	21,377	18,875	856	584	108	110	152,174	150,664
Aug 18	17,977	15,389	532	615	99	107	139,374	140,243
Sep 18	18,834	16,957	661	539	74	50	164,973	165,719
Oct 18	22,553	21,342	697	615	61	43	184,628	182,205
Nov 18	19,521	5,334	549	571	99	67	143,997	141,770
Dec 18	13,232	16,141	456	301	74	169	129,714	128,959
Jan 19	20,683	9,353	504	537	61	65	147,142	149,107
Feb 19	17,576	17,071	424	526	26	37	137,346	138,555
Mar 19	18,365	9,897	348	425	47	67	142,837	138,010
Apr 19	14,412	17,06	391	407	86	65	151,873	155,215
May 19	11,885	5,428	355	368	94	83	153,530	154,782
Jun 19	12,840	14,767	262	340	84	72	135,017	136,730
Total	209,255	207,630	6,035	5,828	913	935	1,782,605	1,781,959

Source: PAMA

Price Trend of different Car Models [2017 vs. 2020]

From the below table it is quite evident that during the last three years i.e. from 2017 to 2020, there has been marked increase of an average over 40% to 50% in almost all the passenger car models manufactured by different car assemblers in Pakistan. The highest increase in car price of 62 percent has been witnessed in **Toyota Hilux Revo 2.8 G A/T** model; whereas the lowest increase of 39 percent was seen in **Suzuki Cultus VXL AGS.**

Car Model	Prices in Dec 2017	Prices in Nov 2020	%age Change
FAW V2	1,069,000	1,609,000	51%
FAW X-PV Dual A/C	919,000	1,304,000	42%
FAW X-PV Standard	869,000	1,244,000	43%
Honda City 1.3 M/T	1,549,000	2,449,000	58%
Honda City 1.3 P/T	1,689,000	2,639,000	56%
Honda City 1.5 M/T	1,599,000	2,529,000	58%
Honda City 1.5 P/T	1,739,000	2,699,000	55%
Honda City 1.5 Aspire M/T	1,729,000	2,699,000	56%
Honda City 1.5 Aspire P/T	1,869,000	2,859,000	53%
Honda Civic 1.8 CVT	2,349,000	3,729,000	59%
Honda Civic 1.8 CVT Oriel	2,499,000	3,979,000	59%
Honda BR-V CVT	2,229,000	3,319,000	49%
Honda BR-V CVT-S	2,329,000	3,479,000	49%
Toyota Corolla 1.8 Altis Grande M/T	2,399,000	3,699,000	54%
Toyota Corolla 1.8 Altis Grande CVT	2,549,000	3,999,000	57%
Toyota Fortuner 2.7 Petrol	5,399,000	8,399,000	56%
Toyota Fortuner 2.8 Diesel	5,899,000	9,149,000	55%
Toyota Hilux Revo 2.8 V	4,649,000	6,342,000	36%
Toyota Hilux Revo 2.8 G M/T	4,124,000	6,664,000	62%
Toyota Hilux Revo 2.8 G A/T	4,349,000	7,041,000	62%
Suzuki Ravi	672,000	1,034,000	54%
Suzuki Bolan	754,000	1,134,000	50%
Suzuki WagonR VXR	1,054,000	1,640,000	56%
Suzuki WagonR VXL	1,094,000	1,730,000	58%
Suzuki Cultus VXR	1,250,000	1,780,000	42%
Suzuki Cultus VXL	1,391,000	1,970,000	42%
Suzuki Cultus VXL AGS	1,528,000	2,130,000	39%
Suzuki Swift DLX M/T	1,327,000	2,030,000	53%
Suzuki Swift DLX A/T	1,463,000	2,210,000	51%

Key Raw materials used by the Car Industry

Raw materials constitute the bigger portion of the manufacturing cost of an automobile company, like any other industry. The major raw materials and components used by an auto assembly plant include iron, steel, aluminum, copper, ferrous & non-ferrous castings, plastic, rubber, glass, paints, tyres, and tubes, etc.

Steel	Steel is used to build the car's underlying frame of support. In modern cars, most of the weight comes from steel. The weight of an average car is 1360 kilograms.
Plastic	Plastic make about fifty percent of the construction of new cars. Given their durability, economicabity, and light-weight in nature, plastics are being increasingly used in body structures and engines during automotive manufacturing.
Aluminium	Aluminium is being used increasingly in making cars due to its lightweight but tough nature. Automakers are now switching from traditional iron blocks for engines to aluminium construction for better performance.
Rubber	Tires, like several other car parts, are made from rubber. About 75 percent of the world's natural rubber production is used to make tires for vehicles. The rubber tire protects the wheel and its internal parts from wearing down, which ensures fuel mileage and road safety.
Glass	Glass is used in many areas of the car, but its primary use is to create windshields, rear and side-view mirrors. Fiberglass is commonly used as an insulation material. As technology advance, glass is also being used to create navigation screens and lenses for backup cameras.

SWOT ANALYSIS OF AUTOMOBILE INDUSTRY

STRENGTHS

- Sound manufacturing base
- Established auto-clusters
- Skilled and cheap workforce
- Availability of technical know-how
- Growing market demand for cars and other vehicles
- Strong brand recognition in the market
- One of the highest tax-paying sectors to Government
- High operational efficiency

WEAKNESSES

- Lacking in R&D initiatives as per global benchmark
- Inconsistent Government policies
- Scarcity of raw material from the local market
- Expensive imports of auto parts due to rupee depreciation
- Decrease in sales due to restriction on non-filers
- Low manufacturing ability of vendors to supply parts
- Less focus on passengers’ safety due to cost-cutting strategy

OPPORTUNITIES

- Collaboration with Chinese firms
- Export potential to niche markets [African countries]
- Introducing fuel-efficient vehicles
- New entrants of automakers after Auto Policy 2016
- Emerging scope for environment-friendly electric vehicles
- Widespread local Dealership network

THREATS

- Low productivity and sales due to COVID-19 impact
- Liquidity crunch in the industry due to lockdowns
- Volatility in the fuel prices
- Fluctuation of exchange rate
- Energy crisis
- Import of second-hand vehicles
- Competition from low-cost countries e.g. China Taiwan etc
- Smuggling of auto parts

Chapter 2

Regulatory Environment and Tax Structure

Chapter 2

Regulatory Environment and Tax Structure

Regulatory Environment

The automotive industry in Pakistan is governed by a set of regulations based on both domestic legislation and on international treaties and conventions to which Pakistan is a treaty partner or has agreed to adhere to these conventions. In case of any conflict in the regulations, the international commitments would supersede the local legislation. The international conventions include the General Agreement on Tariffs and Trade (GATT) and Trade-Related Investment Measures (TRIMS). GATT was signed in 1947 and lasted until 1993 when it was replaced by the World Trade Organization (WTO) in 1995. The original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994. GATT's purpose was to promote a substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.

(a) Introduction of Deletion Program

In 1985, Indigenization or Deletion Program was introduced in Pakistan under which an attempt was made to shift away from imported inputs for the automobile industry. This plan had to be completed by 2006 to remain compliant with World Trade Organization's (WTO) Agreement on Trade-Related Investment Measures (TRIMs) which disallowed countries to place local content requirements on the domestic manufacturing sector. Though the local automakers were heavily protected as part of the Deletion program; it was unable to achieve the required indigenization that had been envisaged.

In 1994, the government banned the import of second-hand cars to provide the local industry with an incentive to improve production; subject to the condition that the local manufacturers would substitute foreign parts with local ones, gradually, over a period of time (the Deletion Program). However, this could not be implemented successfully even though few auto manufacturers had submitted their plans for increasing the levels of indigenization.

Up to 1995, the 'Deletion Cell' housed in the Ministry of Industries and Production, Government of Pakistan was formulating and monitoring the deletion programs.

(b) Formation of the Engineering Development Board (EDB)

In 1995, an 'Engineering Development Board (EDB)' was formed by the Government with the objective to provide policy direction and formulate long-term policies for the engineering sector. The Board acted as a bridge between the Government and entrepreneurs/investors by adopting an integrated approach to achieve set goals for the overall development of all the subsectors of the engineering industry.

The Board principally agreed to remove all the TRIMs in the industry to make it more competitive and recommended a plan to phase out the deletion program by the year 2000. However, due to slow implementation, only 86 products were phased out from the purview of deletion policy between June 30, 2002 and December 31, 2003. Since then, there is no deletion program for the engineering industry.

In 2003, the Board formed an 'Indigenization Committee' with the objective to prepare and monitor the new type of deletion program called "Industry Specific Deletion Program" (ISDP) for the Automobile Industry consisting of 18 components.

(c) Adoption of Tariff Based System (TBS)

In 2006, subsequent to the deletion program, a Tariff Based System (TBS) was adopted under the Auto Industry Development Program (AIDP-1) from 2006 to 2012 with the primary aim of achieving a critical mass of production by 2011-12 to develop high value-added sub-sector in the auto industry. The relevant notification issued under the TBS are as under:

- SRO 656 (I) / 2006 dated June 22, 2006 (For OEMs)
- SRO 693 (I) / 2006 dated July 1, 2006 (For OEMS)
- SRO 655(I) / 2006 dated June 22, 2006 (For Vendors)

The deletion programs have gradually been phased out under the WTO regime to become TRIMs compliant. The TBS is the outcome of a long-drawn consultative dialogue between all stakeholders including OEMs and Vendors, belonging to different sub-sectors of the Automobile Industry.

The TBS has been developed with the following overriding objectives:

- Preservation and promotion of technologies that have been developed in the country
- Protection to the present job structure in the auto sector.
- Promote job creation
- Protect the existing and planned investment by the OEMs & Vendors
- Promote new investment
- Expand the consumer base to create economies of scale

The basic framework of Tariff Based System is as under:

1) Imports in CKD condition would be allowed only to assemblers having adequate assembly facilities and registered as such by the concerned Federal Government Agency.
2) Parts/ components indigenized by June 2004 have been placed at a higher rate of Customs Duty
3) Parts not indigenized would be allowed at the CKD rate of Custom Duty.

Under the TBS, the auto sector was targeted to produce 500,000 units by end of June 2012 for which a long-term import duty structure was also announced to help the local assemblers develop their production policies. Only those assemblers were allowed to import units in CKD condition who had required assembly facilities and who were registered with the Sales Tax Department.

Furthermore, under the TBS, it was agreed that those parts, which were locally manufactured would be subjected to a customs duty of 50 percent whereas those parts, which were imported as CKD would attract customs duty at a rate of 35 percent as an attempt to reduce the cost of imported inputs used in the manufacturing of the cars in the local market.

(d) Formation of Auto Industry Development Committee (AIDC)

In 2007, the Government formed an 'Auto Industry Development Committee (AIDC) in the Engineering Development Board (EDB) under the chairmanship of CEO-EDB and comprising 24 members and co-opted members representing the different stakeholders including the relevant government ministries and the automotive representative bodies like PAMA and PAAPAM. In this context, a notification dated 18th December 2007 was issued by the Ministry of Industries and Production, Government of Pakistan after the decision of the Economic Coordination Committee (ECC).

Another notification dated 18th December 2007 was also issued by the Industries Ministry whereby it notified the five-year plan of custom duties [i.e., from 2007-2008 to 2011-2012] to be applicable on import of automotive vehicles and components for assembly of automotive vehicles to provide a predictable and transparent policy environment to encourage and facilitate investment.

(e) Auto Industry Development Program (AIDP)

In 2008, the Government announced an Auto Industry Development Program (AIDP) for which the EDB had initiated interactions from 2005 with the relevant stakeholders in the auto industry. The main objectives of the Auto Industry Development Program were as under:

1) Ensure sustained growth
2) Increase competitiveness
3) Absorb and diffuse technology
4) Develop human resources
5) Comply with standards, safety, and environmental regulations.

The Auto Industry Development Program consisted of the following sub-programs:

1) Five-year Tariff Plan
2) Human Resource Development (HRD)
3) Productive Asset Investment Incentive (PAII)
4) Technology Acquisition Support Scheme (TASS)
5) Auto Cluster Development
6) Auto Industry Investment Policy (AIIP)
7) Auto Industry Development Committee (AIDC)

(f) Automotive Development Policy (ADP) 2016-2021

In 2016, the Government announced the Automotive Development Policy (ADB) 2016-2021 after its approval by the Economic Coordination Committee (ECC) in its meeting held on 18th March 2016. The main objectives of ADB-2016-2021 are as under:

- Facilitate higher volume, more investment, enhanced completion, and better quality with the latest technology
- Creating a balance between Industrial Growth and Tariffs to ensure the sustainability of all stakeholders
- Ensuring consumer welfare
- Providing Policy Consistency and Predictability for investors and mid-term review to cater to emerging developments

Policy Directions

- Lower the entry threshold for in Greenfield Investment and Brownfield Investment categories.
- Create enabling tariff structure o Rationalizing Automobile Import Policy
- Provide regulatory and enforcement mechanism for Quality, Safety, and Environmental Standards
- Establishment of Pakistan Automotive Institute
- Ensure Consumer welfare through the provision of quality, safety, choice, and value for money
- Truck Financing by Commercial Banks and Incentivized Fleet Operations

New Investment Categories

Under the ADB 2016-2021, a new manufacturer establishing a maiden assembly facility will be provided separate treatment and greater incentives in the early years to enable it to introduce its brand, develop a market niche and share, create a distribution and after-sales service networks, and develop a part-manufacturer base. The following two types of Investment Categories have been envisaged:

a) Greenfield Investment (Category A)

It is defined as the installation of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled/ manufactured in Pakistan. [Note: “Make” is defined as any vehicle of whatever variant produced by the same manufacturer]

b) Brownfield Investment (Category B)

It is defined as the revival of an existing assembly and/or manufacturing facilities, that is non-operational or closed on or before July 01, 2013, and the make is not in production in Pakistan since that date and that the revival is undertaken either independently by original owners or new investors or under joint venture agreement with the foreign principal or by foreign principal independently through the purchase of the plant. b. Investment Incentives

Incentives Offered to Auto Investors

- Duty-free import of plant and machinery for setting up the assembly and/or manufacturing facility on a one-time basis.
- Import of 100 vehicles of the same variant in CBU form at 50 percent of the prevailing duty for test marketing after the groundbreaking of the project
- Concessional rate of customs duty @ 10 percent on non-localized parts and @ 25 percent on localized parts for a period of five years for the manufacturing of Cars and LCVs
- Import of all parts (both localized and non-localized) at prevailing customs duty applicable to non-localized parts for manufacturing of trucks, buses, and prime-movers for three years
- The existing policy for the Motorcycle industry as approved by the government and notified by FBR vide SRO 939(I)/2013 and SRO 940(I)/2013 shall continue.

Entitlements given to Auto Investors

- Import of non-localized parts at a 10 percent rate of customs duty and localized parts at 25 percent duty for a period of three years for the manufacturing of Cars and LCVs
- Import of all parts (both localized and non-localized) at prevailing customs duty applicable to non-localized parts for manufacturing of trucks, buses, and prime-movers for three years.

Single Point of Contact for Investors

Under the ADP 2016-21, the Board of Investment (BOI) has been designated as the 'single point of contact' for the investors with the government. Any new investor shall be required to submit a detailed business plan and relevant documents for the manufacturing of vehicles to the Board of Investment. BOI would get the Business Plan assessed by the Engineering Development Board (EDB).

The EDB would verify the investor's in-house assembly/manufacturing facilities for the manufacture of roadworthy vehicles. EDB would also determine the eligibility of the applicant under the defined criteria to be declared as Category A or Category B Investor.

The Ministry of Industries and Production, on the recommendation of EDB, would approve a new investor under the relevant category. The Auto Industry Development Committee (AIDC) and EDB would then review results of the new investor policy once every two years and recommend modifications if any.

Tax Structure

Taxation constitutes almost 40 percent of the total price of locally-manufactured cars which is also the real cause behind the high prices of cars in Pakistan. The value includes at least seven (7) taxes and levies, viz. customs duty, additional customs duty (based on engine size), income tax, general sales tax, federal excise duty, withholding tax, and registration tax. Additionally, there are import duties and taxes on raw materials.

There is withholding tax in the auto sector; some are adjustable and some non-adjustable. In addition to 18% Sales Tax, Federal Excise Duty (FED) is also imposed on the finished products. Some developments about new tax levies introduced by the Government on the auto industry are summarized below:

a) In the Federal Budget 2019-20, multiple tax slabs were introduced and cars of engine capacity ranging from 0 to 1000cc were proposed to be taxed at 2.5%; Cars from 1001cc to 2000cc at 5% and Cars from 2001cc and above at 7.5 percent.

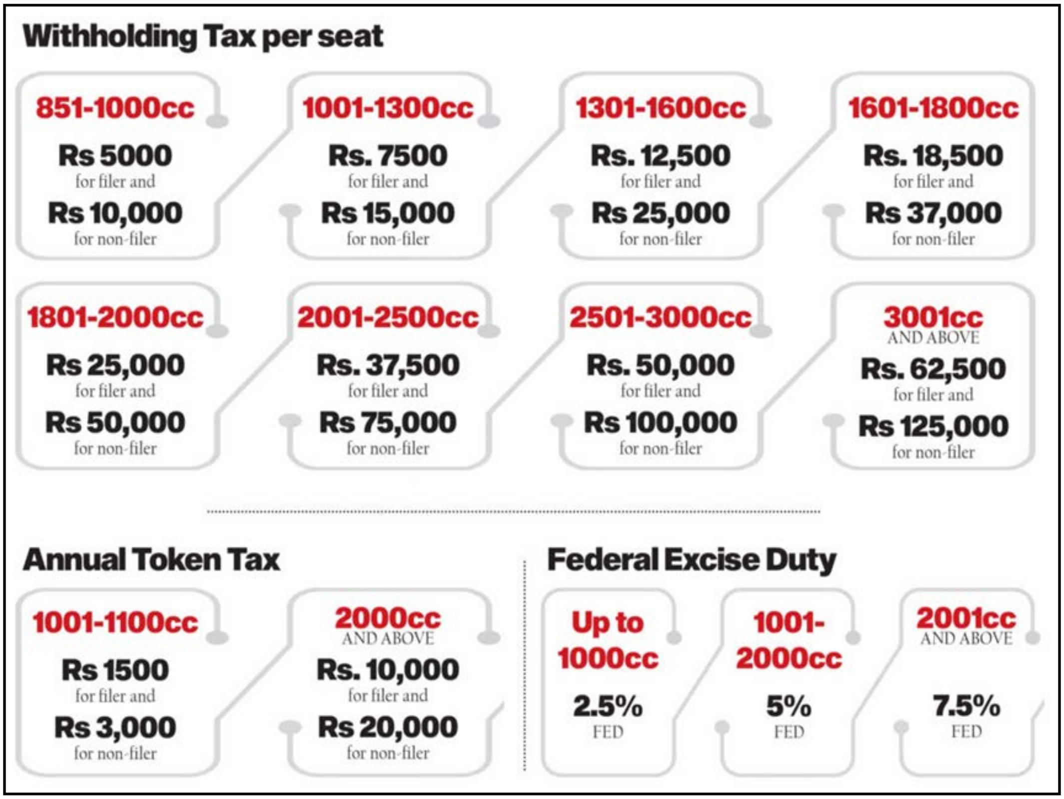
b) Through the Finance Supplementary Second Amendment Act 2019, 10% FED was introduced on cars of 1700cc engine capacity and above.

c) Additional Customs Duty (ACD) increased from 2% to 7% and presently in the range of 7% to 11%

d) Federal Excise Duty (FED) in the range of 2.5% to 7.5% have been imposed.

Withholding Tax Rates on Registration and Transfer of Motor Vehicles

The Government has announced a new policy through the Finance Bill for the auto sector under which the taxation system has been changed from one-time to the annual levy and motor vehicles have been classified into 8 slabs in accordance with the engine displacement. The tax would be imposed on each seat of the vehicle. The withholding tax will be fixed on an annual basis depending upon the number of seats of a vehicle. However, there will be a separate fee for both filers and non-filers. The non-filers are being targeted to a great extent in this policy with a double fee as compared to what non-filers will have to pay.



The Federal Board of Revenue (FBR) regularly updates the withholding tax rates on registration and transfer of motor vehicles. For the tax year 2021, the FBR has notified the following rates after incorporating the amendments made to the Income Tax Ordinance, 2001 through the Finance Act, 2020:

(a) Withholding tax under Section 231B

Under this section, the motor vehicle registration authority shall collect the withholding tax from persons getting new locally manufactured motor at the time of vehicle transferred in their name at the time of registration of the new motor vehicle. The withheld tax shall be adjustable against liability.

The tax rate shall be increased by 100% for persons not appearing on the Active Taxpayers List (ATL).

Engine Capacity	For ATL	For Non-ATL
Up to 850CC	Rs.7,500	Rs. 15,000
851CC to 1000CC	Rs. 15,000	Rs. 30,000
1001CC to 1300CC	Rs. 25,000	Rs. 50,000
1301CC to 1600CC	Rs. 50,000	Rs. 100,000
1601CC to 1800CC	Rs. 75,000	Rs. 150,000
1801CC to 2000CC	Rs. 100,000	Rs. 200,000
2001CC to 2500CC	Rs. 150,000	Rs. 300,000
2501CC to 3000CC	Rs. 200,000	Rs. 400,000
Above 3000CC	Rs. 250,000	Rs. 500,000

(b) Withholding tax under Section 231B (1A)

Under this section, every leasing company, scheduled bank, investment bank development finance institution, non-banking finance institution, MODARBA (Sharia-compliant or under conventional mode) shall collect the withholding tax from the lessee at the time of lease. The withheld tax shall be adjustable. The tax rate shall be 4 percent of the value of the motor vehicle on leasing of the motor vehicle to persons not appearing in the Active Payers' List.

(c) Withholding tax under Section 231B (2)

Under this section, the Motor Vehicle Registration Authority shall collect the withholding tax from the person transferring the ownership/registration at the time of transfer. The withheld tax shall be adjustable against the liability. The rate of tax under sub-section (2) of section 231B shall be as follows-

Engine Capacity	For ATL	For Non-ATL
Up to 850CC	Rs. 0	Rs. 0
851CC to 1000CC	Rs. 5,000	Rs. 10,000
1001CC to 1300CC	Rs. 7,500	Rs. 15,000
1301CC to 1600CC	Rs. 12,500	Rs. 25,000
1601CC to 1800CC	Rs. 18,750	Rs. 37,500
1801CC to 2000CC	Rs. 25,000	Rs. 50,000
2001CC to 2500CC	Rs37,500	Rs. 75,000
2501CC to 3000CC	Rs. 50,000	Rs. 100,000
Above 3000CC	Rs. 62,500	Rs. 125,000

(d) Withholding tax under Section 231B (3)

Under this section, the manufacturer of the motor vehicle shall collect the withholding tax from the purchaser at the time of sale of the vehicle. The withheld tax shall be adjustable against tax liability. The withholding tax rates under Division VII, Part IV of First Schedule of ITO, 2001 are as follow:

Engine Capacity	For ATL	For Non-ATL
Up to 850CC	Rs. 7,500	Rs. 15,000
851CC to 1000CC	Rs. 15,000	Rs. 30,000
1001CC to 1300CC	Rs. 25,000	Rs. 50,000
1301CC to 1600CC	Rs. 50,000	Rs. 100,000
1601CC to 1800CC	Rs. 75,000	Rs. 150,000
1801CC to 2000CC	Rs. 100,000	Rs. 200,000
2001CC to 2500CC	Rs. 150,000	Rs. 300,000
2501CC to 3000CC	Rs. 200,000	Rs. 400,000
Above 3000CC	Rs. 250,000	Rs. 500,000

Taxes on Import of Vehicles

New vehicles can be imported into Pakistan freely by anyone against payment of duty and taxes under generally applicable import procedures and requirements. Pakistani nationals residing abroad including dual nationals can import old and used vehicles into Pakistan under the following 03 schemes:

a) Personal Baggage Scheme
b) Gift Scheme
c) Transfer of Residence Scheme

The following conditions, as well as structure of duty and taxes, are laid down under the Import Policy Order for the import of vehicles into Pakistan:

(a) Cars not older than 3 years and other vehicles not older than 5 years can be imported under these schemes.
(b) The structure of duty and taxes under these three schemes remains the same.
(c) Motorcycles and Scooters can only be imported under the Transfer of Residence Scheme
(d) Students receiving remittance from Pakistan, non-earning members of the Pakistani nationals living abroad, and those who have imported, gifted, or received a vehicle in the past two years are not eligible.
(e) Old and used Vehicles of Asian Makes under these three schemes can be imported against the payment of the following amounts:

No.	Vehicles of Asian Makes meant for the transportation of persons	Duty and Taxes in US$ or equivalent amount in Pak
1.	Upto 800 cc	US$ 4,800
2.	801cc to 1000cc	US$6,000
3.	From 1001 cc to 1300cc	US$13,200
4.	From 1301cc to 1500cc	US$18,590
5.	From 1501cc to 1600cc	US$22,550
6.	From 1601cc to 1800cc (Excluding Jeeps)	US$27,940
*Depreciation in duties & taxes at the rate of 1% per month is admissible according to the age of the vehicle.		

(f) 50% exemption from duty and taxes is admissible on import of Hybrid Electric Vehicles (HEVs) of engine capacity up to 1800cc and 25% exemption from duty and taxes is admissible on import of HEVs of engine capacity from 1800cc to 2500cc.

(g) Duty-free import of a car of the engine of capacity up to 1350 cc in new condition to disabled person subject to recommendations of the Federal Board for Disabled Persons.

New Electric Vehicle Policy for Four-Wheelers

The Federal Cabinet has recently approved the new Electric Vehicle (EV) policy for four-wheelers which is intended to rationalize costs of purchasing, manufacturing, and promoting the use of electric vehicles in Pakistan.

The policy stipulates rules for electric-run four-wheelers along the lines of import and export, taxation, registration, and customs duty. The salient feature of the EV policy are as under:

(1) Removal of additional customs duty and Additional Sales Tax (AST) on import of EV cars.
(2) Levy of 1% tax on import of EV parts for manufacturers
(3) Removal of registration and an annual renewal fee of EVs for the ICT sector
(4) Levy of 1% sales tax for locally made EVs up to 50kwh and light commercial vehicles up to 150 kwh.
(5) Duty on import of charging equipment capped at 1%,
(6) Federal Excise Duty (FED) will not apply upon EVs.

It may be noted that the import of plant and machinery for manufacturing of EVs will not be free of duties.

Chapter 3

Auto Vendor Industry and Localization

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Auto Vendor Industry and Localization

Global Auto Parts Industry

The global auto parts and accessories manufacturing industry is the second-ranked global manufacturing industry by market size and the 9th largest. The market size in terms of revenue is US$ 1.9 trillion in 2020. The market size has declined by 3.2% per year on average between 2015 and 2020. It is estimated that by 2027, the estimated global market size of auto parts and accessories would reach US$ 2.3 trillion. The demand for auto parts is directly proportional to the demand for automobiles in the global or local market.

Auto parts Industry in Pakistan

The auto parts or vendor industry in Pakistan is classified into two categories of manufacturers as follows:

(1) Those supplying parts to OEMs for assembling of new cars. The Original Equipment Manufacturer or OEM provides a blueprint that is manufactured to exact specifications required by the local firms.

(2) Those providing original and reconditioned pars in local and replacement markets. The replacement market comprises various suppliers of accessories and component replacements.

There are around 1,100 auto parts manufacturers; out of which, 400 to 500 are in the formal or organized sector. The industry is highly fragmented without any notable market competition as most of the companies manufacture different parts and compete in a specific niche. The concentration of the auto vendor industry is mostly in Lahore, followed by Karachi. In Lahore, the majority of the auto part makers are for tractors and motorcycles due to their huge demand in Punjab.

Macro-economic contribution

- Total Revenue of approx. Rs. 370 billion
- Direct employment to 500,000 workers
- Indirect employment to 2.4 million workforce
- Tax contribution to national exchequer is around Rs. 110 billion per annum

- Import substitution of USD 3.3. billion
- Exports of around USD 175 million [EU, US, and other countries]
- Current investment is around Rs. 200 billion

The Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) which was formed in 1988 represents the auto parts industry and provides technical and management support to its members. PAAPAM is also a member of the Federation of Pakistan Chambers of Commerce & Industry (FPCCI).

The Association has around 400 Tier 1 members [mostly over 40 years old] which are engaged in the making of parts and accessories for cars, motorcycles, tractors, trucks, and buses. Most of these represent multi-national companies of repute viz. Toyota, Honda, Suzuki, Hino, Nissan, Hyundai, etc.

Percentages of parts manufactured locally

The percentages of auto parts manufactured locally are as under:

Cars	Tractors	Two-Wheeler	Three-Wheeler
70%	90%	92%	78%

Manufacturing Technologies

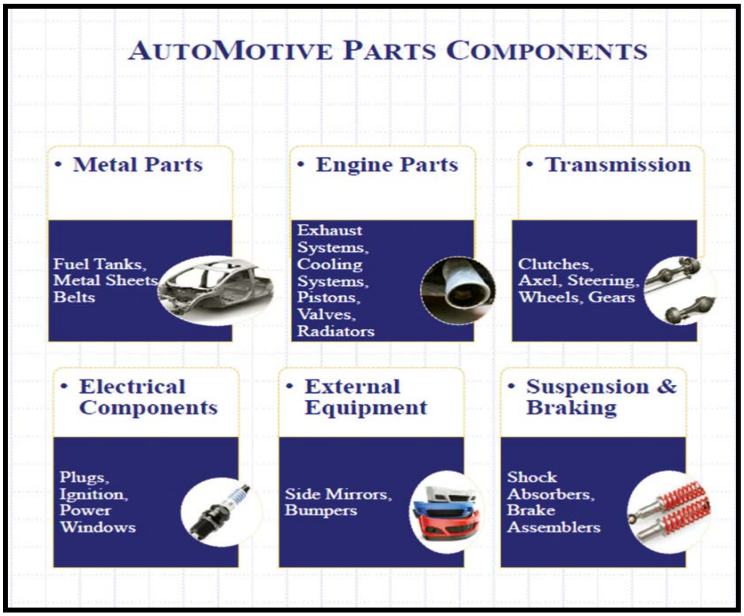
The following manufacturing technologies are being utilized by the auto vendor industry in Pakistan:

- Forging
- Casting
- Sheet Metal
- Rubber & Plastics
- Electronics

Manufacturing Components

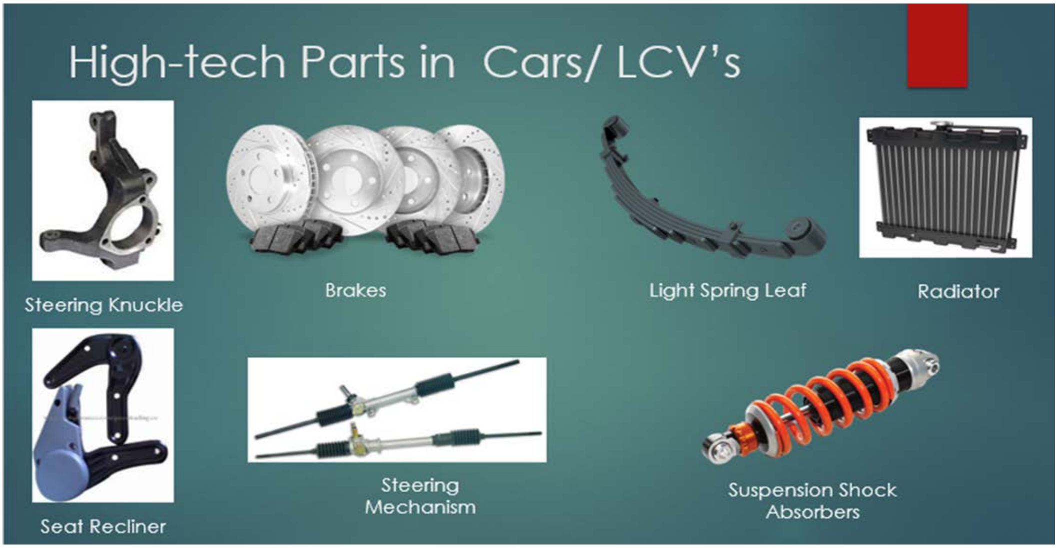
The auto vendor industry is engaged in the manufacturing of the following components:

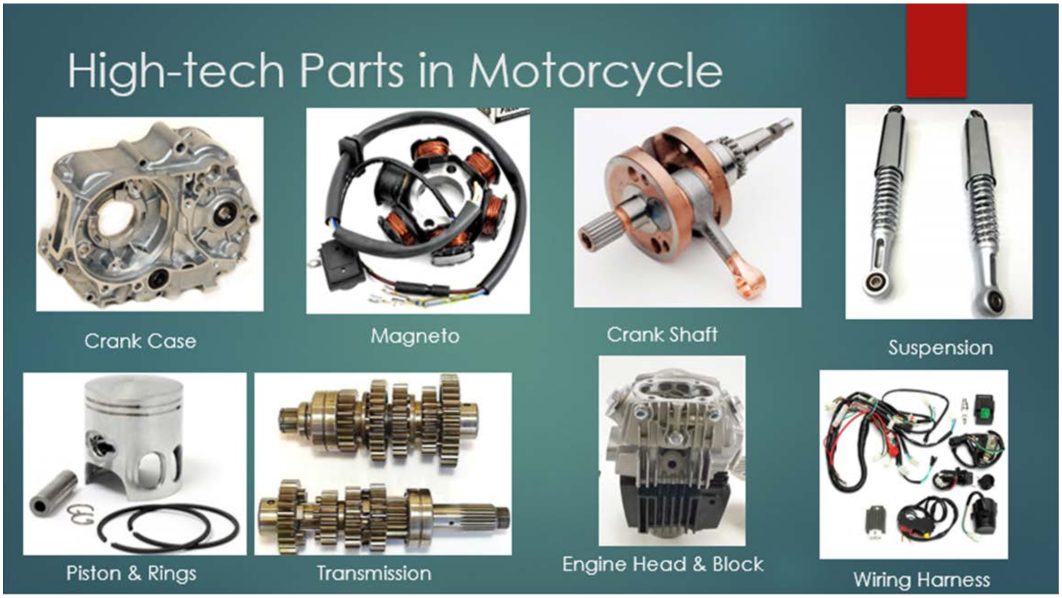
- Metal Parts – fuel tanks, metal sheets, belts, etc.
- Engine Parts – exhaust systems, cooling systems, pistons, valves, radiators
- Transmission – clutches, axel, steering, wheels, gears
- Electric components – plugs, ignition, power windows
- External Equipment – side mirrors, bumpers
- Suspension & Braking – shock, absorbers, brake, assemblers

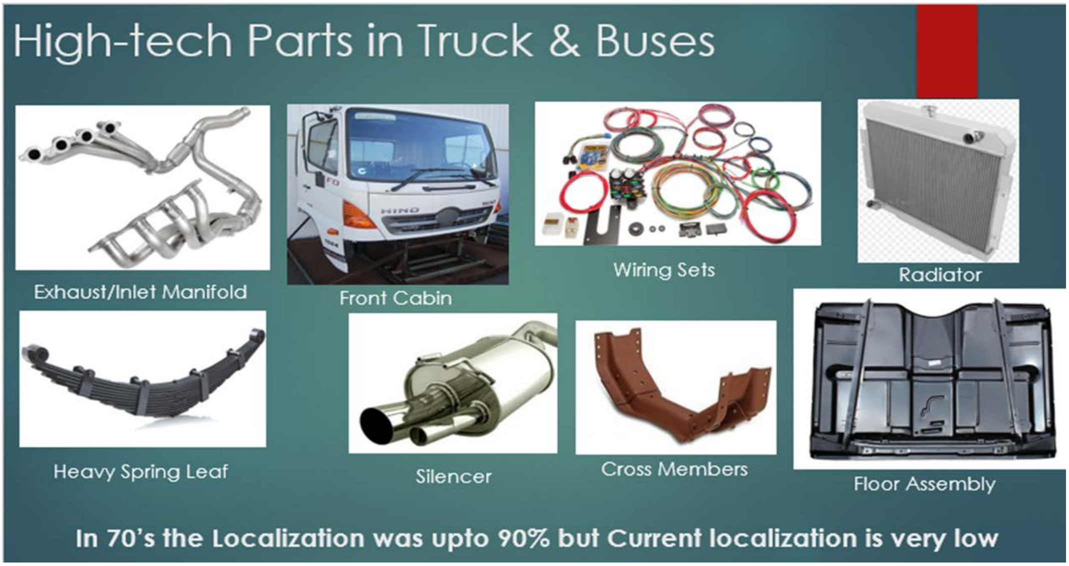


High Tech Parts used in Vehicles

The following high-tech parts are used by the vendor companies which are required for Cars/LCVs, Motorcycles, Buses & Trucks, and Tractors:




High-tech Parts in Motorcycle
Crank Case
Magneto
Crank Shaft
Suspension
Piston & Rings
Transmission
Engine Head & Block
Wiring Harness


High-tech Parts in Truck & Buses
Exhaust/Inlet Manifold
Front Cabin
Wiring Sets
Radiator
Heavy Spring Leaf
Silencer
Cross Members
Floor Assembly
In 70's the Localization was upto 90% but Current localization is very low


High-tech Parts in Tractors
Transmission
Crank Shaft
Crown Wheel & Pinion
Starter Motor
Piston
Connecting rods
Engine Valves
Engine Block


Some of the Parts Being Exported
RASTGAR

Exports of Auto Parts

The Pakistani auto parts manufacturing industry is exporting around USD 175 million to over 50 countries of the world, including the USA and the European Union.

At present, only 4% of the auto parts produced in Pakistan are exported. Due to the lower cost of production, Pakistan has a competitive edge in the manufacture or assembly of auto parts.

Reasons for Low level of Localization

The following reasons may be cited for the low level of auto parts indigenization or locations in Pakistan:

- Soaring imports of raw materials
- Heavy tariff structure on imports of spare parts
- Low volumes of production of vehicles in Pakistan
- A low number of joint ventures
- Lack of support from the Government
- Taxes on the vending industry is on the high side
- Impact of technology on parts manufacturing

Future Outlook

There is a significant incentive to invest in the auto parts industry and develop the end-to-end supply chain. Honda, Toyota, and Suzuki are already localizing several spare parts used in the assembly of their vehicles. Suzuki Motor has also partnered with the Techno Pack to establish a joint venture at SEZ in Karachi for the manufacture of auto glass products to cater to local as well as international markets.

The auto policy 2016-2020 provides tax and duty incentives for 5 years to the new entrants which would lead to higher demand for auto parts as there are significant incentives for localizing parts.

During these 5 years, these new entrants will need to establish their supply chains to compete with the existing players in the market. Hence, there are immense opportunities for auto part manufacturers to partner with these new entrants to establish their supply chains.

Chapter 4

New Entrants in the Automobile Sector

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New Entrants in the Automobile Sector

The Automotive Development Policy 2016-21 announced on 21st March, 2016, provided some lucrative incentives to entice investments from the international automobile companies to set up assembling plants in Pakistan. The basic purpose was to create a healthy competition in the auto market and enhance the availability of vehicles at affordable prices for the benefit of the general public.

One of the key incentives was that any investor with a global presence of 100,000 units per year production in case of cars, 25000 trucks and buses separately, and 5000 agriculture tractors shall be entitled to import 100 percent CKD kits, whether or not locally manufactured, at the leviable customs duty for a period of 3 years for the start of assembly or manufacturing. Subsequently, an amended SRO was issued by the FBR whereby additional customs-duty leviable on sub-components, imported in any kit form by an assembler or manufacturer declared to be a new entrant by the Engineering Development Board (EDB), has been waived off for a period of three years from the start of assembly or manufacturing of respective vehicles, subject to certain conditions. However, it has been made imperative for the new entrants that they shall chalk out a plan for progressive manufacturing of the vehicles spreading over a maximum period of three years within which they shall catch up with the localization or indigenization level of respective vehicles, as approved by Auto Industry Development Committee (AIDC) of EDB; and continued non-levy of additional customs duty shall be contingent upon the achievement of progressive annual indigenization.

New Entrant Companies

The Government has granted functioning licenses with greenfield status to the following six new entrants:

1) Kia Lucky Motors (Pvt) Ltd.
2) United Motors (Pvt) Ltd.
3) Regal Automobile Industries Ltd.
4) Foton JW Auto Park (Pvt) Ltd.
5) Master Motors Ltd.
6) Hyundai Nishat Motor (Pvt) Ltd.

The total on ground investment of above six companies stood at USD 476 million.

It is expected by the Government that with the entry of above six auto makers, the installed capacity of local industry would enhance from approx. 280,000 units in 2019-20 to 418,000 units in 2021-21.

Kia Lucky Motors Pakistan Ltd [Karachi]

The South Korean carmaker started assembling cars in joint venture with Lucky Cement. The plant capacity is around 25,000 to 30,000 units. The ownership consists of Kia Motors (30%) and Lucky Cement (70%).

Kia Lucky Motors has introduced Picanto car and Sportage (SUV) vehicle:

Picanto 998 cc Car

Sportage 1999 cc SUV

The upcoming models of Kia Lucky Motors are KIA Rio and KIA Sorento.

KIA Rio 1600 cc Car

KIA Sorento 2700-3500 cc SUV

United Motors (Pvt) Ltd [Lahore]

United Motors are leading bike assemblers of Chinese bikes and has now entered into local assembly of vehicles that are look-alike of Suzuki Mehran and Ravi but with minor design variations.

United Motors has introduced Bravo 796 cc Car as under:

United Bravo 796 cc Car

The upcoming models of United Motors are hatchback 1000 cc Cherry QQ Car and Punjnad 1000 cc LCV:

hatchback 1000 cc Chery QQ Car

United Punjnad 1000 cc LCVs (Pickup)

Regal Automobile Industries Ltd [Lahore]

In 2017, Regal Automobiles Industries Limited was established as a technical venture between DFSK (Dong Feng Sokon), the largest and most reputed brand in China and RP Group, a renowned Pakistani n business conglomerate to manufacture and market PRINCE vehicles in Pakistan. The plant was established with an investment of Rs. 10 billion and started production in June 2018. They are currently offering complete range of light commercial, passenger and SUV range with full after sales and technical support to customers.

Glory 580 1.8 CVT
1798cc

Glory 580 (1.5 MT)
1498cc

Glory 580 (1.5 CVT Turbo)
1498cc

Prince Pearl
796cc Car

Megavan C 37 Model
1499 cc

Mini Van K07
997cc

Mini Truck K01
997cc

Foton JW Auto Park (Pvt) Ltd. [Lahore]

JW Forland is a joint venture between JW SEZ and Foton Motors Group. The signing ceremony of this joint venture took place on 22nd December, 2016. Foton had a brand value of CNY 100.565 billion in 2016, and is rated as China's most valued brand and has been ranked as the No.1 commercial vehicle manufacturer in China for 12 consecutive years. There are 12 product lines, over 80 product platforms, over 600 varieties.

FORLAND C10 1 TON CARGO TRUCK- 1000cc

FORLAND C19 2 TON CARGO TRUCK – 1809cc

FORLAND C311 3 TON CARGO TRUCK – 2771cc

FORLAND C314 4 TON CARGO TRUCK- 2771cc

FORLAND C717 9 TON CARGO TRUCK – 4214cc

The upcoming model of Foton JW Auto Park (Pvt) Ltd is MG SUV introduced by Morris Garages (MG) Motor UK Limited for the Pakistani market.

Morris Garages (MG) 77 HS - SUV

Master Motors Ltd. [Karachi]

Master Motor is authorized assembler/ manufacturer in Pakistan for leading commercial vehicles from China including world renowned Foton (Light Duty Truck and Heavy-Duty Truck), producing a wide range of commercial vehicles from 1.5 Ton loading capacity to 60 Ton GCW Prime Mover. Master Motor has one of the largest after sale service network across the country ensuring a strong customer trust in result of prompt and efficient support to our valued customers.

Maser Motors has launched the following Changan Brand Chinese vehicles for the Pakistani customers:

Changan A800 Car

Changan M8 1-Ton Pickup

Changan M9 1-Ton Pickup

Changan Sedan Car Alsvin 1500cc

Changan KARVAAN MPV

Changan KARVAAN MPV Plus

The upcoming model of Changan Motors is Changan CX70T SUV:

Changan CX70T - SUV

Hyundai Nishat Motor (Pvt) Ltd. [Faisalabad]

Hyundai Nishat Motor (Private) Limited (Hyundai Nishat), a Nishat Group company, is a joint venture among three leading international businesses; Nishat Group, Sojitz Corporation (Japan) and Millat Tractors Ltd. Hyundai Motor Company (Korea) has partnered with Hyundai Nishat for the manufacturing, marketing and distribution of Hyundai's product line in Pakistan.

Some of the upcoming products of Hyundai Nishat are as follows:

TUCSON 1999cc SUV

SANTA FE SUV

IONIQ HYBRID

GRAND STAREX MPV/Van

Hyundai-Nishat is all set to introduce two more products viz. Elantra and Sonata sedans in Pakistan:

Hyundai Sonata 2400 cc Car

Hyundai Elantra 1600 cc Car

Al-Haj Faw Motors [Karachi]

Al-Haj FAW Motors (AHFM) was formed in 2006 as the sole distributor and progressive manufacturer/ assembler of FAW heavy commercial vehicles, Light Commercial Vehicles and Passenger cars in Pakistan. In August 2018, Malaysian auto manufacturer, Proton, entered into an agreement with AHFM to establish a manufacturing plant in Karachi. Reportedly, the company will be debuting in Pakistan later this year, with the launch of X70 crossover SUV and Saga sedan. In April 2019, a ceremony for the exchange of Licensing and Technical Assistance Agreement of Proton Assembly Project was also held. In March 2019, a symbolic ground breaking ceremony was held which was presided by the Prime Minister of Malaysia, Dr. Mahathir Mohamad and the Prime Minister of Pakistan Imran Khan. Reportedly, the company will be debuting in Pakistan later this year, with the launch of X70 crossover SUV and Saga sedan.

Hyundai Sonata 2400 cc Car

Hyundai Elantra 1600 cc Car

Sigma Motors Limited [Islamabad]

Sigma Motors Limited was established in 1994 and is the major supplier of 4x4 vehicles. Sigma Motors has recenlty launched its hybrid car HS Q4 in Pakistan. The Sigma Motors HS Q4 will be Pakistan's first solar, electric and fuel car. The HS Q4 comes in three variants: EV Standard, EVS Solar, and EVS Premium, and is now available for booking. Sigma Motors' new car is both environment-friendly and cost-effective. The HS Q4 will have solar plates along with an electric motor to charge the car.

Sigma Motors HS Q4 Hybrid Car

Chapter 5

Impact of COVID-19 on Auto & Allied Industry

Chapter 5

Impact of COVID-19 on Auto & Allied Industry

The State Bank of Pakistan (SBP) in its Annual Report 2019-20 states that the Automobile Industry in Pakistan which was already in downtrend before the outbreak of pandemic, due mainly to stabilization measures like Pak Rupee depreciation, increase in taxes and interest rates, and an overall economic slowdown, witnessed further depressed situation after Covid-19, as lockdowns adversely affected their production activities. The production of majority of car categories fell by around half of last year's level. Let's analyze the impact COVID-19 had on the automotive and auto vendor industry.

Closure of Plant Operations

As the coronavirus cases raised in the country, the Government imposed nation-wide lockdown. Resultantly, almost all the auto makers closed their plants from end March 2020 and this continue for a month or so. The plants that stopped production included Indus Motor, Honda Atlas Cars, Atlas Honda, Yamaha, Pak Suzuki Motor Company, Dysin Automobiles, Millat Tractors and HinoPak Motors. Due to plant closure, there were increase in non-production days and the inventory piled up.

Decline in Auto Sales

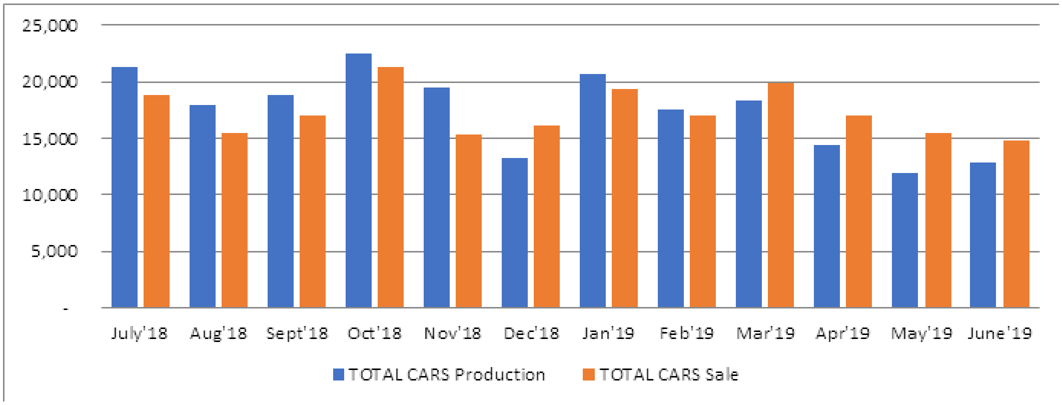
Due to plant closures and production stoppage, the sales of cars and other vehicles were greatly impacted. In fact, even before the COVID-19 pandemic, the auto sales were going down due mainly to high prices which discouraged people from purchasing vehicles. The primary reason for high prices of automobiles was Pak Rupee devaluation which made the imported auto parts and raw material costlier thus increasing the cost of production for the auto makers. Initially, the companies bore this additional cost; however, subsequently they passed it on to the consumers which severely impacted their sales.

A consolidated table showing the production of all types of vehicles viz. tractors, trucks, buses, jeeps & cars, LCVs and motorcycles during the period from January 2020 to October 2020 is provided below. It can be noted that during the complete lockdown period in April 2020 and May 2020, the production of all these vehicles remained almost nil; however from June 2020 onwards the production started to increase with marked increase seen in the category of motorcycles.

Time Period	Type of Vehicle					
	Tractors	Trucks	Buses	Jeeps & Cars	LCVs	Motorcycles
Oct-20	3,976	283	35	12,315	1,221	222,253
Sep-20	4,555	240	47	12,875	1,258	219,364
Aug-20	3,355	284	29	7,689	1,138	183,129
Jul-20	3,317	245	49	8,665	1,312	199,152
June-20	4,040	213	70	5,302	1,003	194,058
May-20	3,560	0	0	669	57	64,108
Apr-20	1,742	0	0	0	0	0
Mar-20	2,858	307	32	6,769	928	148,500
Feb-20	3,054	341	66	10,332	1,053	192,048
Jan-20	683	337	38	11,861	745	204,869

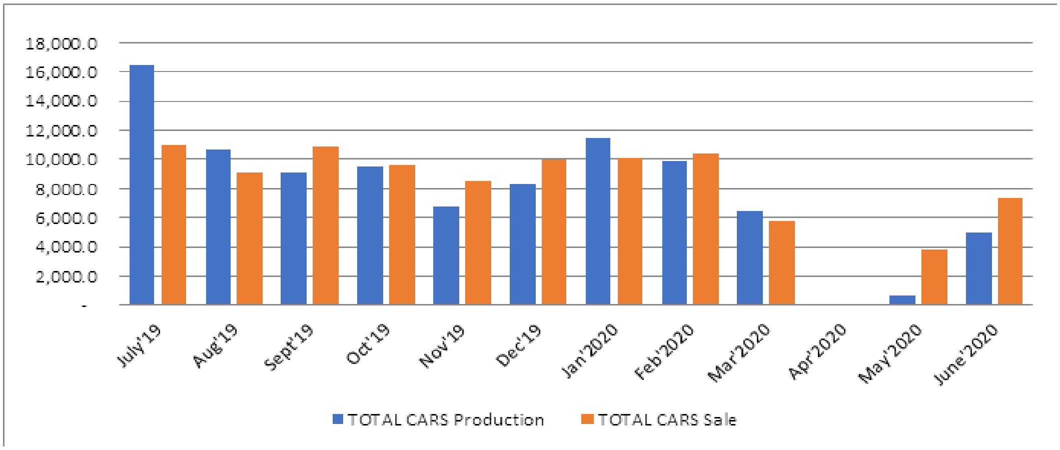
Now, let's have a comparative look at the production and sales of passenger cars during the period from July 2018 to June 2019 vs. July 2019 to June 2020.

		July'18	Aug'18	Sept'18	Oct'18	Nov'18	Dec'18	Jan'19	Feb'19	Mar'19	Apr'19	May'19	June'19
TOTAL CARS	Production	21,377	17,977	18,834	22,553	19,521	13,232	20,683	17,576	18,365	14,412	11,885	12,840
	Sale	18,875	15,389	16,957	21,342	15,334	16,141	19,353	17,071	19,897	17,076	15,428	4,767

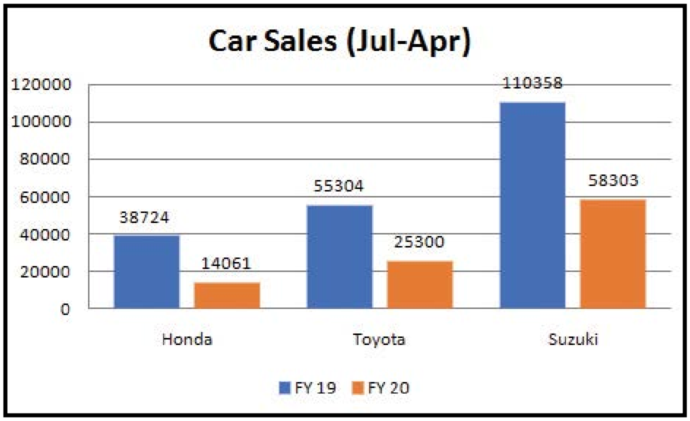


In April 2020, the auto industry witnessed the worst month for car sales and recorded zero sales. Only 39 units were sold in April 2020, which mainly composed of trucks and buses. The three key market players [Honda, Toyota & Suzuki] did not sell even a single vehicle during this month due to complete lockdown, as reported by the Pakistan Automotive Manufacturers Association [PAMA].

		July'19	Aug'19	Sept'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20	May'20	June'20
TOTAL CARS	Production	16,472	10,636	9,090	9,547	6,744	8,373	11,475	9,859	6,432	-	656	5,041
	Sale	10,968	9,126	10,923	9,566	8,524	9,987	10,095	10,345	5,796	-	3,800	7,325



During the first 10 months [Jul-Apr] of FY 2019-20, car sales nosedived by 52% and in April 2020 it stood at only 98,449 units. The highest reduction of 64% was in cars sales of Honda; followed by Toyota Indus Motors [54%] and Pak Suzuki Motor Company [47%] year-on-year respectively.



Atlas Honda Limited recorded nominal sales of 2,783 motorcycles in April 2020 as compared to record sales of around 100,000 units in the same month of last year. According to the Association of Pakistan Motorcycle Assemblers (APMA), despite lockdown, the demand of bikes in the market remained intact, rather bikes were sold on much higher price due to increased demand.

Massive Layoffs in Auto Vendor Industry

Though there were insignificant layoffs in the automotive industries in Pakistan; the auto vendor companies across the country, however, was forced to lay off thousands of daily wage and contractual workers as well as outsourced employees because of massive decline in the auto sales during COVID-19.

According to the Pakistan Association of Automobile Parts and Accessories Manufacturers (PAAPAM), around 40,000 people working in 400 member companies of the Association, were laid off due to steep fall in parts procurement by the car and other auto assemblers after massive sales drop. PAAPAM fears that if the sales slowdown continues till end of 2020, it could lead to more joblessness even of permanent workers.

The auto vendor industry was already working on low margins of scale even when the car production was high. The recession resulting from COVID-19 pandemic has further accentuated their problems due to very low number of orders from the Original Equipment Manufacturers (OEMs).

Realizing the liquidity crunch faced by auto vendors, few leading OEMs adopted different strategies to come to their rescue so that they can sustain in the market and continue to develop and provide crucial parts for them. For instance, Indus Motors (Toyota) provided its vendors with equivalent cash of the average orders they placed with each vendor as an interest free loan. This loan is to be adjusted against future supplies under a plan. This resolved the vendors' liquidity issue.

Similarly, Suzuki Motor Company fully paid in one go, the cost of the tools developed by its vendors; which normally had to be paid in installments i.e., 30% in advance and remaining amount amortized over a period ranging from 3 to 5 years. This provided the vendors with needed liquidity.

No Stimulus Package for Auto sector in Budget 2020-21

The automobile and auto vendor industry were expecting a stimulus package from the Government in the Federal Budget 2020-21; however, they were quite disappointed when the budget announced on 12th June 2020 did not include any measures that could help cut the cost of production and create jobs in the industry.

The main demands of the Pakistan Automotive Manufacturers Association (PAMA) were as under:

1) Withdrawal of Additional Custom Duty (ACD)
2) Withdrawal of Additional Sales Tax (AST)
3) Cutting the import duty to 10% on Completely Knocked-down (CKD) units from Feb to Dec 2020
4) Slashing sales tax by 50 percent from Feb to Dec 2020

5) Withdrawal of Federal Excise Duty (FED) of 2.5% to 7.5% imposed in Budget
6) Reduction in Turnover tax from 1.5% to 0.5 percent
7) Reduction by 75% in withholding and income taxes applicable to manufacturers, authorized dealers and showrooms from Feb to Dec 2020

Surge in online trading of automobiles during lockdown

During the lockdown period the automobile showrooms, markets and weekly bazaars remained closed across the country which led to unprecedented increase in online trading of various automobiles, mainly cars. As buyers of the cars and dealers utilized available online platforms for trading of new and used automobiles, the six-month sale of automobiles on a single platform, OLX, was recorded at Rs370 billion.

According to a recent OLX study, vehicles remained the second most popular category on OLX with approximately over 100,000 ads actively listed from all over Pakistan on any given day. Overall, 40 million searches were conducted by users on OLX, of which around 25 percent were in the automobile category alone. On average, 171 million impressions were served in the cars sub-category alone on the OLX Platform, with a reach of 2.57 million users.

Most of the ads in the car sub-category came from Punjab i.e., 32,000, followed by Sindh with 15,000, Khyber Pakhtunkhwa with 6,000 and Islamabad with 5,000. In terms of the buying trend, Karachi remained at the top with 19,038 buyers, followed by Lahore with 15,168 buyers. Suzuki cars were traded the most on OLX with over 3,000 ads posted daily, followed closely by Toyota with around over 2,900 daily listings. Honda stood third with 1,800 ads, while Daihatsu and Nissan saw 700 and 500 daily ads, respectively.

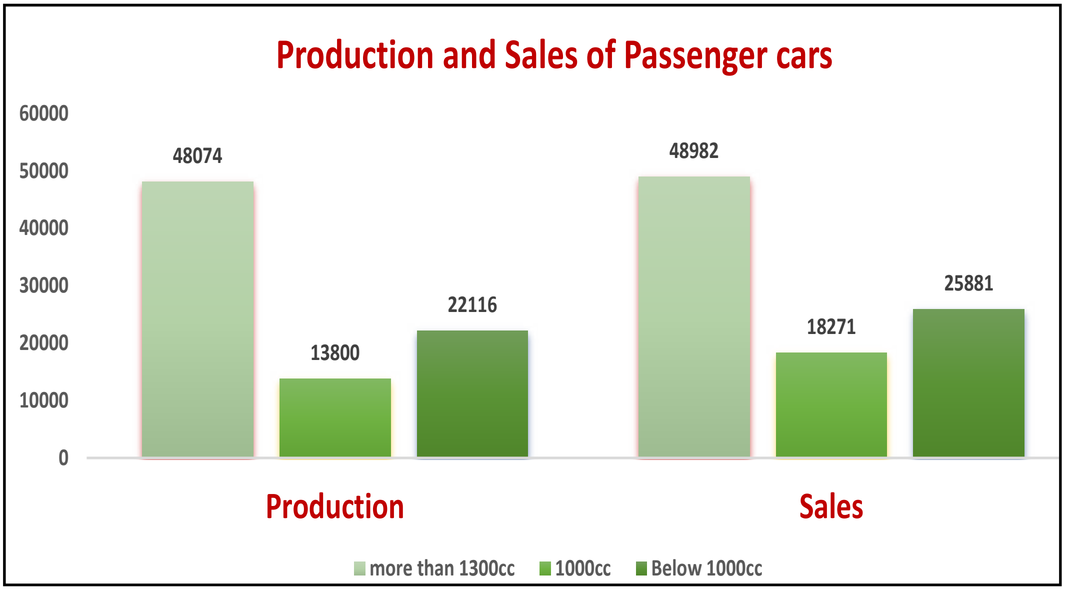
Impact of COVID-19 on Production and Sales of Passenger Cars

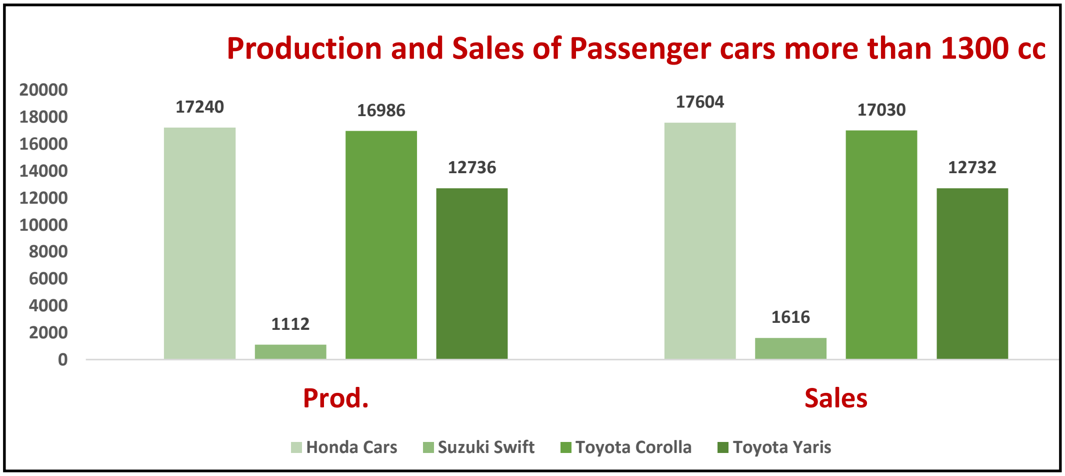
From the below table, it is evident that after a brief period of three months from March 2020 to May 2020 the car and other vehicles production came to complete halt due to COVID-19 pandemic and resultant lockdown in the country. However, from June 2020 onwards, the production and sales of passenger cars of all models produced by three key market players viz. Honda, Indus and Suzuki are picking up gradually.

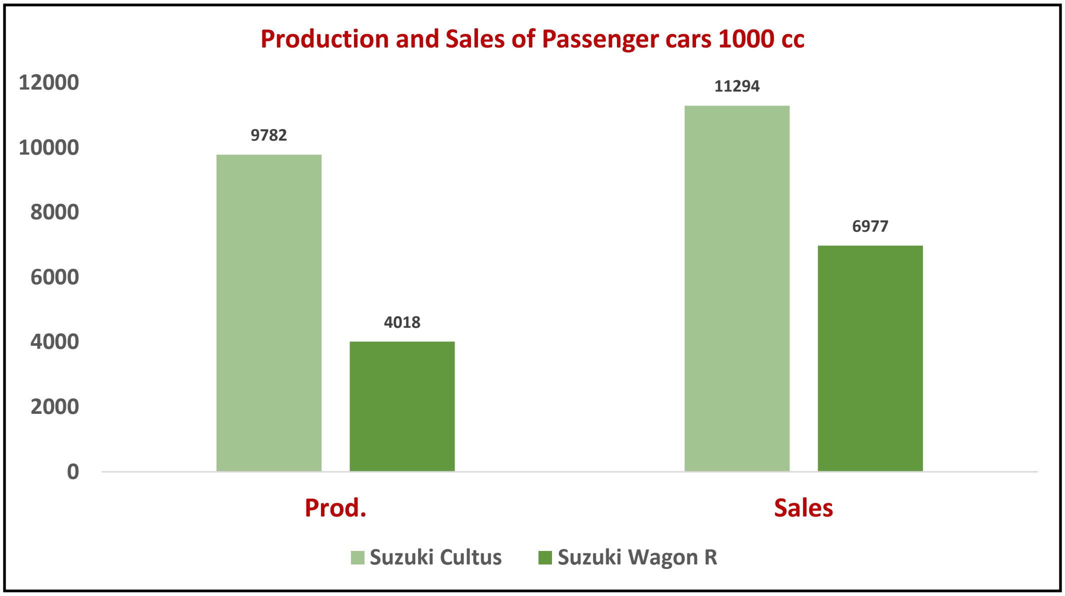
Toyota Yaris cars introduced by Indus Motors in May 2020 has witnessed growing consumer demand as its production as well as sale crossed 3000 units in October 2020. Suzuki Alto by Pak-Suzuki Motor company is also having a good market share with sales reaching 3104 units in September 2020.

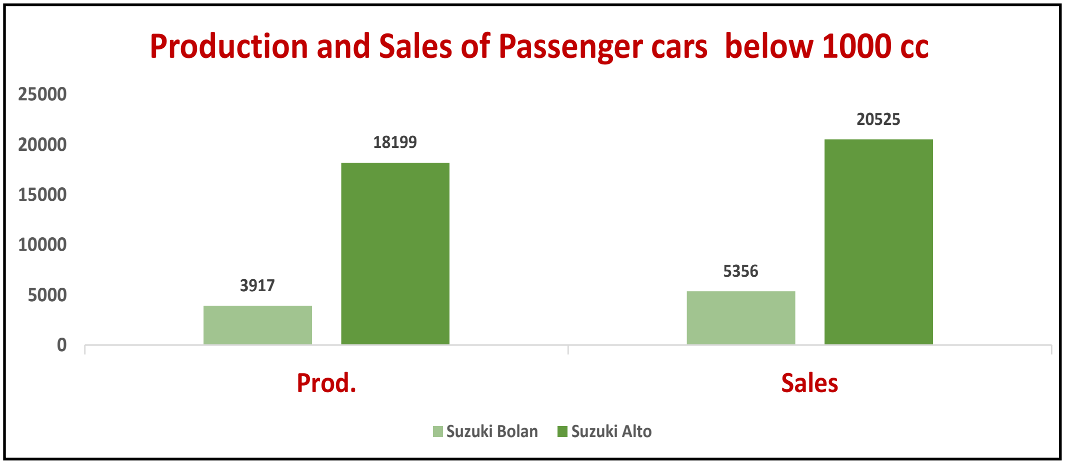
COVID-19 Impact: Production and Sales of Passenger Cars [Units]
[January 2020 to November 2020]

1300cc & above		Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020
				COVID-19 - LOCKDOWN								
Honda Cars (Civic & City)	Prod.	1974	1678	1278	-	71	2012	2193	1865	2261	1719	2189
	Sales	1878	1868	1327	-	263	1839	2210	1980	2293	1858	2088
Suzuki Swift	Prod.	86	97	198	-	-	19	61	104	421	81	45
	Sales	144	186	82	-	78	202	182	196	252	180	114
Toyota Corolla	Prod.	3451	3764	2220	-	196	744	1561	836	1203	1307	1704
	Sales	3445	3715	2089	-	294	855	1528	867	1219	1314	1704
Toyota Yaris	Prod.	-	-	-	-	389	1033	1879	1640	2426	3061	2308
	Sales	-	-	-	-	167	1160	1883	1705	2421	3058	2338
1000cc												
Suzuki Cultus	Prod.	1389	1107	1090	-	-	602	1428	960	863	590	1753
	Sales	1701	1535	710	-	922	830	1077	1400	786	816	1517
Suzuki Wagon R	Prod.	145	52	50	-	-	-	300	483	1301	1351	336
	Sales	567	699	310	-	386	476	566	733	1161	1198	881
Below 1000cc												
Suzuki Mehran	Prod.	-	-	-	-	-	-	-	-	-	-	-
	Sales	2	3	-	-	-	1	-	-	-	-	-
Suzuki Bolan	Prod.	252	94	94	-	-	299	730	539	802	757	350
	Sales	564	719	394	-	386	306	519	615	624	680	549
Suzuki Alto	Prod.	4178	3067	1502	-	-	332	128	750	2840	2735	2667
	Sales	1794	1620	884	-	1304	1656	2158	2389	3104	2893	2723


Production and Sales of Passenger cars
60000
50000
40000
30000
20000
10000
0
48074
13800
22116
48982
18271
25881
Production
Sales
more than 1300cc
1000cc
Below 1000cc


Production and Sales of Passenger cars more than 1300 cc
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
17240
1112
16986
12736
17604
1616
17030
12732
Prod.
Sales
Honda Cars
Suzuki Swift
Toyota Corolla
Toyota Yaris


Production and Sales of Passenger cars 1000 cc
12000
10000
8000
6000
4000
2000
0
9782
4018
11294
6977
Prod.
Sales
Suzuki Cultus
Suzuki Wagon R


Production and Sales of Passenger cars below 1000 cc
25000
20000
15000
10000
5000
0
3917
18199
5356
20525
Prod.
Sales
Suzuki Bolan
Suzuki Alto

Chapter 6

Key Recommendations and Way Forward

Chapter 6

Key Recommendations and Way Forward

This section provides some useful recommendations and way forward for consideration by the Government and policymakers to stimulate growth in the automotive and auto vendor industry in Pakistan, especially in augmenting volumes of production; establishing joint ventures with international collaboration; bringing down prices of vehicles within the reach of the common man and formulating long term policies and strategies to provide a level playing field to both existing and new entrants in the Auto market in Pakistan. Most of the proposals were put forward by the distinguished speakers and panelists hailing from the auto sector who attended the ICMA Pakistan' Webinar on the 'Impact of COVID-19 on Automotive and Auto parts industry in Pakistan' held on 16th December 2020.

1) Increasing Volumes to Rationalize Prices of Vehicles

The Government may need to formulate a pragmatic policy that could facilitate increasing the volumes and mass-scale production in the auto sector; initially to 500,000 units and then to one million units. Brazil whose population is almost equivalent to Pakistan is making 32,00,000 cars annually whereas Indonesia is making 13,00,000 cars annually, and Pakistan is stuck up in producing around 250,000 cars. The Government should need to pinpoint the reason for this stagnant production level in the auto sector in consultation with the relevant stakeholders in the industry. Our primary objective should be to bring the prices of automobiles in the reach of the common people who are those individuals working in the factories and offices at low-cadre positions like chowkidars, peons, clerks, small shopkeepers, etc.

2) Minimizing the tax burden on the Auto Sector by reducing taxes and levies

Exorbitant taxes are the real cause behind the high prices of cars in Pakistan as taxation constitutes at least 40 percent of the retail value of a new car. This means that almost 40 percent of the total price of locally-manufactured cars are made of taxes. There are around seven kinds of taxes and levies viz. customs duty, additional customs duty (based on engine size), income tax, general sales tax, federal excise duty, withholding tax, and registration tax. The Government had recently increased the Additional Custom Duty (ADC) on vehicles from 2% to 7% which had an impact on vehicle prices. Similarly, in addition to 17% sales tax, there is an additional 3% sales tax if any used car is sold to an unregistered person (non-filer). The Federal Excise Duty ranges from 2.5% to 7.5 percent. The minimum turnover tax is around 1.5 percent for auto manufacturers, vendors, and dealers. Due to heavy taxes and levies, the prices of cars and other vehicles are exorbitantly high; though the pre-tax price of cars manufactured in Pakistan is even less than in India. For instance, the price of Toyota Corolla Car is comparatively lower in Pakistan than produced in India; however, due to heavy taxes, the prices of Toyota become quite high.

The Government must therefore minimize the tax burden on the Auto sector and reduce the number and amount of taxes like ACD, AST, FE, etc. to enable them to compete in the market with reasonable prices of their products which would eventually benefit the common man.

3) Obligatory maintenance of cost accounting records and cost audit

The Government may make it obligatory for the auto assemblers and vendor industry to maintain proper cost accounting records, especially of capacity utilization, auto parts; etc., and conduct annual cost audits to reduce wastages and optimize costs thereby bringing down the prices of vehicles in the local market. With the applicability of cost audit, the vendor industry would be in a position to sustain its fixed costs and ensure the supply of parts to OEMs based on their marginal costs. This would help the car assemblers to achieve cost competitiveness and bring down prices of products for the benefit of local consumers.

4) Special Incentives for existing auto assemblers having joint ventures with vendors

The Government may consider providing similar incentives being given to the export sector; to the automobile and other such industries; which are supporting localization and import-substitution. The maximum localization of raw material and auto parts and accessories would definitely lead to lesser imports which would not only save the precious foreign exchange for the country but also bring down the prices of locally made cars and vehicles in the markets.

The government must treat the auto industry like any other industry and allow competition in it on equal footing. There should not be investment barriers for either the potential new entrants or the existing auto assemblers. It is possible that incentives given to new investors/entrants could discourage the existing auto assemblers to make further investments in Pakistan.

It is therefore suggested that all special auto-related SROs should be done away with and special incentives be provided to those existing auto assemblers who make investments or joint ventures with the local vendor industry for maximum indigenization of parts.

5) Special package of Incentives for the development of Auto Vendor Industry

The auto vendor industry which is employing around 300,000 workers is not getting a direct incentive from the Government as in other sectors like cement, textiles, etc. It is suggested that a special package of incentives be provided by the Government to the auto vendor industry that could help augment the maximum level of indigenization or localization of parts. Further, in the Auto Policy 2021-26, the Government may provide some tax incentives and exemptions to the local auto vendor industry to encourage the setting up of joint ventures with international collaboration to produce quality auto parts and accessories for the OEMs as well as for exports to other countries.

6) Granting 10-year exemption on Turnover Tax for industries set up in (SEZs)

It is for the first time that a local carmaker [Pak Suzuki Motor] has made a joint venture with a local auto parts manufacturer [Techno Pack Telecom Pvt. Ltd] to set up Techno Auto Glass Limited (TAG) whose main area of operation would be to manufacture, develop & design auto glass products to cater to local as well as international markets. It is a big development and first collaboration in the auto industry in Pakistan as in India, Maruti Suzuki has entered into 26 joint ventures with the local vendors. This project has been set up in the Special Economic Zone at Bin Qasim Karachi with an investment of Rs. 2.87 billion.

The Government has provided an incentive for new industries being set up in the Special Economic Zones (SEZ) at Bin Qasim that there will be no applicability of income tax on them for a period of initial ten years. However, there is a lacuna that though income tax is exempted, the Turnover Tax has not been exempted which means that every company setting up a manufacturing unit in SEZ shall have to pay 1.5% Turnover Tax on its sales revenue. Normally, industries with huge investments have a 5 to 6 percent profit margin, and a 1.5% turnover tax makes a huge amount for the company, even more than the income tax amount during 4 to 5 years. This would discourage foreign investors to come to Pakistan.

It is therefore strongly proposed that the Government may also consider a 10-years exemption of turnover tax in general for all industries being set up in the SEZs; and in particular to Pak Suzuki- Techno Pack joint venture so that the local vendor industry could be benefitted and more such joint ventures between automakers and auto vendors could come up in the special economic zones in the country.

7) Special priority on increasing indigenization in car manufacturing

The Government must focus its auto policy 2016-21 on increasing the indigenization in car manufacturing which is presently below 70 percent; thus, leading to high prices due to the use of imported parts and material. On the other hand, indigenization in the local tractor industry is above 95% whereas localization of parts in motorcycle manufacturing is also above 90 percent. Resultantly, the prices of tractors and bikes are comparatively cheaper in Pakistan and easily affordable by the common man. The Government must give it a priority to increase the level of deletion in car manufacturing by encouraging joint ventures and technology upgradation. This would also help generate employment opportunities.

8) Study on reasons of stagnancy in car production and success stories of other automaking countries

The automotive industry is a highly capital-intensive industry, unlike the textile industry which is considered a labor-intensive industry. Localization of auto parts needs huge investment which seems not forthcoming due to the current policy structure. The Government must give the auto sector top priority in its industrial policy by taking a holistic view of the reasons for stagnancy in the volume and production of cars and study the policies of those countries which were successful in achieving phenomenal growth in the volume in a short period such as Indonesia, Turkey, Thailand, and India, etc. The Engineering Development Board (EDB) may be assigned this task to develop a report in consultation with the other stakeholders and suggest some pragmatic proposals for policies and legalizations required for the phenomenal and sustained growth of the automotive industry in Pakistan.

9) Auto-specific Industrial Policy

There should an Auto-specific industrial policy on a long-term basis to ensure the trust of the existing as well as new investors in the automotive sector. In this context, it is proposed that a meeting of all the stakeholders may be convened by the Ministry of Industries and Production, Government of Pakistan, to develop the auto-related industrial policy in light of existing exemptions given in Section 65D of ITO, 2001 and other similar tax provisions; and proposed incentives and exemptions required for the industry.

10) Disclosure of value and share of imported and local materials used in auto assembly

In the past, the auto assemblers/companies in Pakistan were disclosing the value and share of the imported and indigenous material in the attached notes to the Audited Financial Statements, however, subsequently for unknown reasons, this requirement was done away with. It is important to mention here that the Indian automobile companies disclose the value and percentage share of their imported and indigenous materials and components in the Schedules, annexed with Annual Reports.

It is therefore strongly suggested that the relevant regulator may advise the auto assemblers/companies to disclose the value and share of imported and indigenous contents in notes related to raw materials.

11) Proposed Action Plan for Automotive Sector Companies

1) Identify, prioritize and Accelerate Cost Down Measures
2) Optimize the working capital
3) Build financial buffers, prioritize liquidity rather than profitability in times of COVID
4) Identify potential sources of collateral to obtain finance from banks and DFIs
5) Build buffer stocks to mitigate the impact of the worldwide second wave of COVID
6) Restructure supply chain (go for multi-sourcing / diversify the source of supply etc.)
7) Establish suppliers in more countries to ensure raw material supply for industrial production
8) Focus on employee care and retention to avoid the cost of starting from scratch
9) Strengthen and systemize demand forecasting and remain alert to global supply chain challenges
10) Improve the use of information technology in all business areas including services to supply chain

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