

Pakistan Auto Industry

Current Status & Future Potential

Presentation at Lahore School of Economics

March 27th, 2014

Historical Facts

1959-72

Emergence of Pakistan's economy at the take-off stage in Karachi and the conditions of pre-take off stage in Lahore, as per W.W. Rostow's economic description of these stages. Bedford Rocket (GM) truck was under assembly and progressive manufacture in Karachi, while Vauxhall Victor (GM UK) car and Dodge Dart were also assembled. Daihatsu Tri-wheeler was also assembled in Karachi. Tankers, bowsers and trailers were assembled on Volvo and Mack truck chassis.

1972

Nationalization saw the deterioration of the auto industry of Pakistan

1980

Reemergence or progressive localization. A new class of automotive vendors emerged on the national scene and through this the local tractor was indigenized to the extent of 92 % and the truck and car sector also saw high level of indigenization..

Historical Facts

1983

Suzuki Motor Corporation entered into Pakistan

1990

Privatization with Millat Tractor and Al Ghazi tractor reappearing but industry stagnant thru the next decade. Toyota, Honda, Hyundai, GM entered. ISDP introduced

2002

Economic reforms and liberal consumer financing

2006-07

Industry touched peak productions

2007

Deletion programs eliminated, Used Cars import opened, consumer financing reduced high markups

GLOBAL CATEGORIZATION OF THE TRANSPORT VEHICLES

- LIGHT VEHICLE

- Car (small/medium/large)
- Pick up (medium/large)
- Motorcycle (two/three)
- Recreational vehicles
- Specialized vehicles

- HEAVY &
COMMERCIAL

- Trucks & Trailers
- Buses (mini / luxury)
- Tractors & other agricultural machinery
- Construction Equipment
- Utility Vehicles

WHAT IS A VEHICLE MADE OF

2200 various components - apart from Hardware

MATERIALS AND PROCESSES INVOLVED TO PRODUCE A TYPICAL AUTOPART / COMPONENT

- Designing
- Mold and die manufacturing
- Forging, Casting and machining
- Sheet metal, fabrication and press work
- Plastic & Rubber, moldings
- Electrical OR Electronic
- Assembly or sub assembly

FUNCTIONAL / NON FUNCTIONAL / COSMETIC COMPONENTS

- Trims - Plastic / seats and allied
- Engine Components including oil, water pumps and gears
- Suspensions & Axles
- Electrical, Electronic and allied
- Brake and allied mechanisms
- Radiators including cooling and heating mechanisms
- Air conditioning
- Add-on and accessories
- Navigation devices including radar detection

It is estimated that every 1% of a vehicle employs 100 persons if measured right across its history chain

PAKISTAN AUTO INDUSTRY - Today (1)

Presence of Global Auto Giants through Investments / technical collaborations - Assemblers

Suzuki	Japan	Cars / LCV
Toyota	Japan	Cars / LCV / SUV
Honda	Japan	Cars / Motorcycles
Massey Ferguson	UK	Tractors
Fiat	Italy	Tractors
FAW	China	Trucks, Cars, LCV
Yamaha	Japan	Motorcycles
Hino	Japan	Trucks / Buses
UD Nissan	Japan	Trucks / Buses
Isuzu	Japan	Trucks
Land Rover	UK	Jeeps

PAKISTAN AUTO INDUSTRY - Today (2)

Local Assemblers

Master	Buses / Trucks
Non-branded versions	Making body only
Motorcycle Manufacturers	42 +

Local Parts procurement :-

Cars & HCVs upto	70%.
Tractors	96%.
Motorcycles	96%.
Three Wheelers	80%.

Countries where Auto sector is Exporting

Asian Countries	Autoparts, CBU's- Cars,LCV's, Tractors
African Countries	Autoparts, Tractors
European Union	Autoparts
USA	Autoparts

PAKISTAN AUTO INDUSTRY – Today (3)

Autoparts makers 2870

Tier one - 670 units.
Tier two - 900 units.
Tier three - 1300 units.

Employment:-

Direct 400,000 skilled workers
Indirect 2 million
Total 2.4 million

Investment: Rs.280 billion

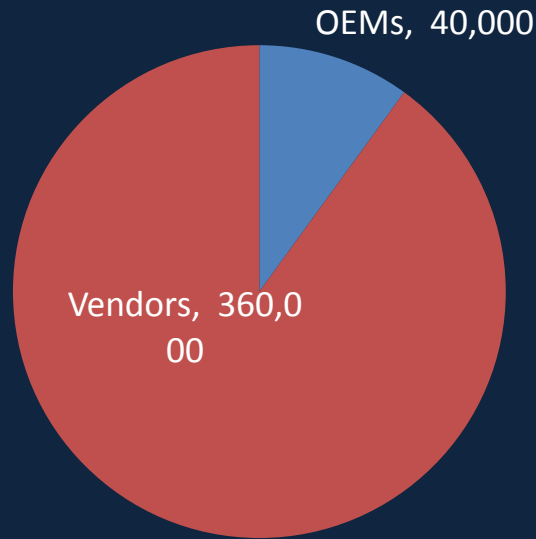
Revenue to national exchequer: Rs 124 billion

Import substitution: US\$ 2.8 billion

Exports: US\$ 700+ million

Employment

90% of All Employment is Generated by Parts Makers



Category	Jun-13
Total Direct Employment	400,000
Indirect Employment (1:8 - refer AIDP)	3,200,000

STRENGTH of Pakistani Auto parts Makers

Sub contracting opportunities exist locally and globally as technologies used for Auto parts manufacturing can also be used to make components for defense, textile, gardening, consumer electronics and almost any other industry

- Extremely Highly Value added Business
- An established and well organized sector that is already working with world class OEM' s like TOYOTA, HONDA, SUZUKI, MAZDA, HYUNDAI, NISSAN.
- Awareness of good management practices, costing, technology and marketing expertise.
- Investment in Plant and machinery is being made as required by the local OEM' s.
- In-depth knowledge of Parts Manufacturing attained already by the potential export company.
- Technologies Sheet metal, Forgings, Castings Machining, Rubber, Assemblies available
- Product quality is good and acceptable
- Existence of a competitive pricing edge over competitive countries.
- Willingness to work with low volume orders. In fact the industry is tuned to low volume production runs that automatically is the necessity of Developed countries aftermarket.
- For the Tractor components worldwide only three/four manufacturers exist. Tractor parts being produced in Pakistan have an automatic world wide acceptability unlike car parts. A focused marketing has to be developed for this sector which has huge potential

What items are we manufacturing and exporting ?

- Part Of The Auto Vehicle , Rubber
- Tractors Agricultural
- Part Of Agricultural Tractors
- Bodies For Vehicle, Car, Wagons
- Bodies For Veh Motor, Tractors
- Gear Boxes
- Silencers and Exhaust Pipes
- Parts & Accessories of Tractor
- Parts & Accessories Of Motor Vehicle
- Part/Accessory of Motor Cycles
- Wheel Rims and Spokes
- Gear Box Shafts
- Timing Gears / Transmission
- Tractors Wheels Rims
- Pistons/ Cylinder Liners
- Radiators Cop Assy
- Hand Brakes
- Hub and Fire Wheel
- Saddles
- Parts of Cycles
- Part/Accessory of Oth Veh.N.S
- Seat Of Kind For Motor Vehicle
- Filters
- Forged Machined Parts
- Heat Treated Steel Components
- Axle, Brake Discs
- Molds (Steels)
- Expansion Tanks
- Bottles / Tanks& Moldings
- Engine Valves
- Motor Cycles-Capacity Upto 50 cc
- Motor Cycles-Capacity 50 cc-250 cc
- Motor Cycles- / Scooter- CKd Condi
- Bicycles

Interesting Facts ...

Pakistan is part of the group of 40 Automobile Producing Countries in the world

**"Without a capital goods industry the developing countries.....cannot emerge from dependence."
This will in fact be accentuated by industrialization."**

**(UNIDO REPORT ON " GLOBAL STUDY ON THE CAPITAL GOODS INDUSTRY" PUBLISHED IN
SEPTEMBER 1981)**

Pakistan graduated to EURO-II compliance in July 2013

38 Policy interventions to an agreed AIDP

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
AIDP		- AIDP Launched	5 years tariff plan approved	CNG Buses Duty Reduced 10% to 0%	- RD on localized parts increased for assemblers (SRO-693): a) Auto Rickshaw from 17.5% to 30% - Reduction in duties for OEMs (SRO-656) a) Auto Rickshaw from 32.5% to 20% b) Trailers from 15% to 5% d) Concessionary duty on tyres in SRO-656.	- New Entrant Policy to include a manufacturer producing 100,000 vehicles + No RD on localized parts for 3 years under SRO-693		- Policy change for New Entrants of 100cc and above motorcycle, No RD on localized parts for 5 years.	- Procedural and administrative changes in SRO-655 & SRO-656. - Policy change for New Entrants of motorcycles with new technology, Localization level allowed at min. 25% in first year and 15% for the subsequent four years.
USED VEHICLES	- Age of used cars increased to 10 years with depreciation @ 2%. Max upto 50%	- Age of used vehicles reduced to 5 years		- Age reduced to 3 years & 36% depreciation - Fixed duty / tax rates on old and used cars/jeeps increased by 10%.	- Depreciation rate for motorcars reduced to 1% from 2% (max. upto 50%)	- Increased age limit from 3 to 5 years and depreciation increased to 60%	- Depreciation revised to 60% for cars and 50% for other vehicles.	- 25% reduction in duties for CBU Hybrid Electric Vehicle (HEV). - CGO 13/2012 restricting 5 years to 1st Jan of the year, subsequent to the year of manufacture, till date of B/L. - Reduction in age limit of used cars from 5 years to 3 years w.e.f. 15/12/12	
TARIFF DUTY			- Increased duty on Steel Tubes from 10% to 15%. - Reduced duty on Aluminum Alloy from 5% to 0%	- Fully dedicated CNG buses exempted from duty. - Increase in duty rates on import of cars/jeeps above 1800cc from 90% to 100% + RD 50% = 150%.				- Reduction in motorcycle tariff (for a period of one year): 1) CKD from 15% to 10% (SRO-656) 2) Sub-assy from 20% to 15% (SR)-655). 3) Components from 10% to 7.5% (SRO-655) 4) Localized Parts RD from 32.5% to 28.75% (SRO-693) 5) CBU / CKD from 65% to 57.5% (Tariff)	- Exemption in duties and taxes on import of Hybrid Electric Vehicle (HEVs) (SRO499): => upto 1200cc 100% => From 1201cc to 1800cc 50% => From 1801cc to 2500cc 25%
SALES TAX			- Increased rate of Sales Tax from 15% to 20% on specified raw materials. (Aluminum Alloy LM6 in AIL case)	- GST increased to 16% from 15%		- GST increased to 17% from 16%	- GST reduced to 16% from 17%. - Exemption of Sales Tax on Tractors, CNG Buses, HCVs, CNG Kits, etc. withdrawn. - Sales Tax 10% on franchise/royalty payments & against services by SRB. W.e.f 1-7-11	- Reduction in the higher GST rates on specified raw materials from 22% & 19.5% to 16%	- GST increased to 17% from 16% - 2% additional GST on sales to unregistered person. - Locally produced Auto Parts have put under Third Schedule, retail sales price is required to be printed on the packing of the material (value excluding GST and GST be printed).
WHT			- Advance tax @5% of the gross amount payable for the purchase of motor vehicles to be collected by car manufacturer at the time of sale. - For manufacturers a uniform adjustable withholding tax on imports @ 1%	- WHT of Rs. 7,500 to Rs. 50,000 on Cars with respect to engine size at the registration stage - WHT 5% on commercial and 1% on manufacturer was made uniform at 2% for all.	- The scope of advance tax collection on purchase of new locally manufactured motorcars/jeeps is extended to all type of motor vehicles. - WHT on imports increased to 4% from 2%	- WHT on commercial imports increased from 4% to 5%		- WHT on import of input materials for Industrial concern increased from 3% to 5% w.e.f. 26/02/13 to make it standardized for both industrial & commercial importers.	- Income tax first year allowance on plant and machinery reduced from 50% to 25% - WHT on commercial imports increased from 5% to 5.50%
FED/SED		- FED 5% on technical Fees & Royalty SRO 561/2006 dated 5-6-2006	- FED exempted on franchise service vide SRO 185/2008 dated 28-2-2008 (auto parts only) - SED @1% imposed on imports.	- FED increased from 5% to 10% on franchise (except auto parts) - FED @ 5% has been levied on import as well as locally manufactured cars having engine capacity exceeding 850cc.	- 5% FED removed - Levy 16% FED on services provided by the port and terminal operators including warfage in respect of imports.	- SED of 2.5% imposed subsequently withdrawn after 3.5 months			- 10% FED levied on vehicles of 1800cc or above.
OTHERS					- Duty free import of vehicles allowed for disabled person		- Ban on import of CNG Cylinders & Conversion Kits to be used in vehicles	- Euro II introduction in petrol cars only.	- Corporate Tax rate for the Year 2013-14 is reduced from 35% to 34%. - Tax rates on registration of motor vehicles have been revised to range Rs 10,000 ~150,000 from Rs 16,875 ~50,000

Interventions and its impact

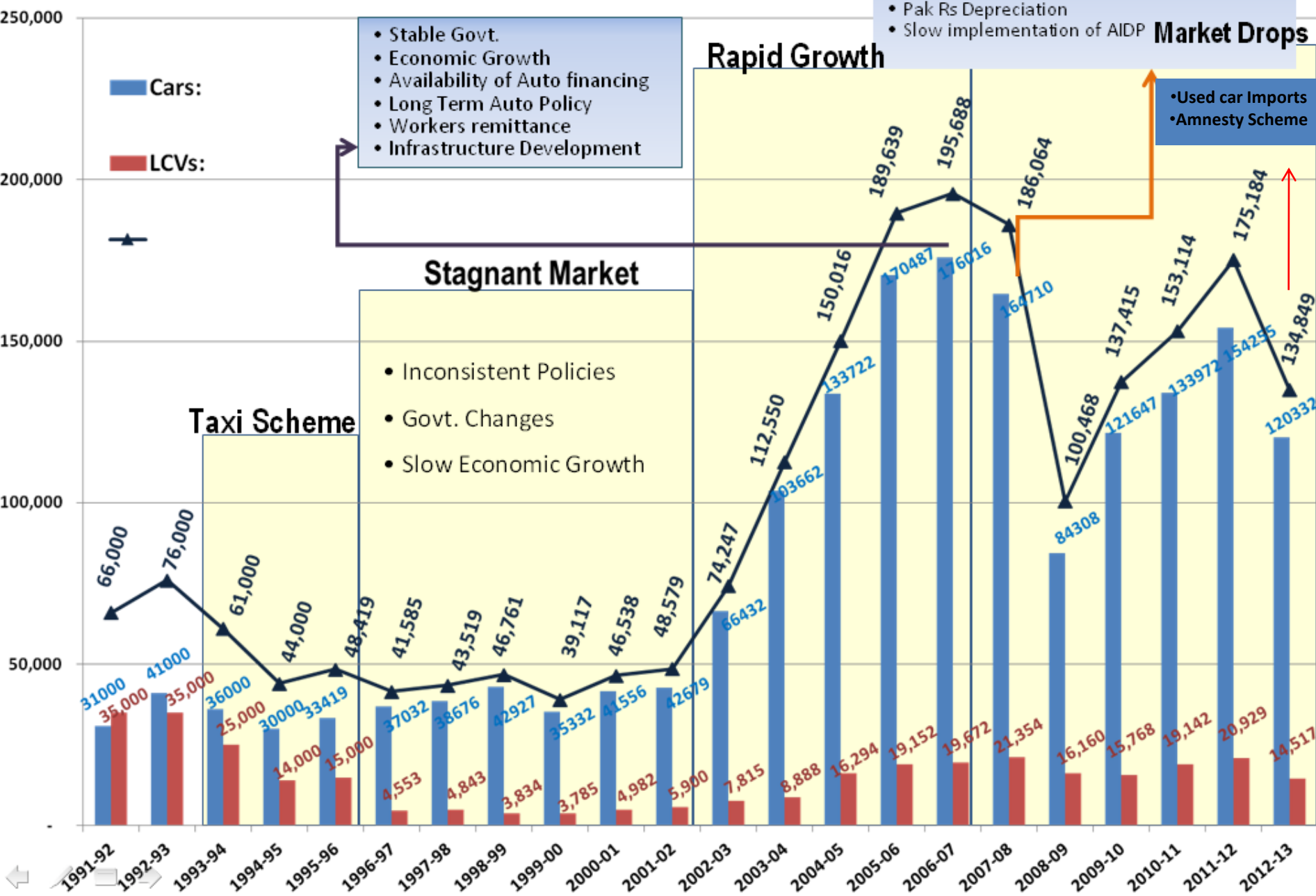
- Liberalization of Used Vehicle Import Policy in 2005 & in 2011. This led to:
 - Import of a total of 230,000 Used Vehicles
 - **Loss of 230000 employment**
 - Closure of 5 Plants in last 8 years & Reduction in Choices available to Customers:
 - Hyundai - Dewan
 - Nissan - Ghandhara
 - Chevrolet - Nexus
 - Revo – Adam
 - Mazda – Sind Engg.
- Capacity is 350,000 Vehicles vs Production of 145,000 Units last year

- Loss of Confidence to Invest by Existing Assemblers & Parts Manufacturers. All Investments Plans were scrapped or put on hold
- Discouragement to Serious New Entrants to make Long Term Investment in Pakistan Auto Sector under these circumstances of unfavorable GoP policy

CAR & LCV Market

Annex- A

- Political uncertainty
- Economic slowdown
- Rising Interest rates, Lower Auto Financing
- Inflation, high input costs
- Pak Rs Depreciation
- Slow implementation of AIDP



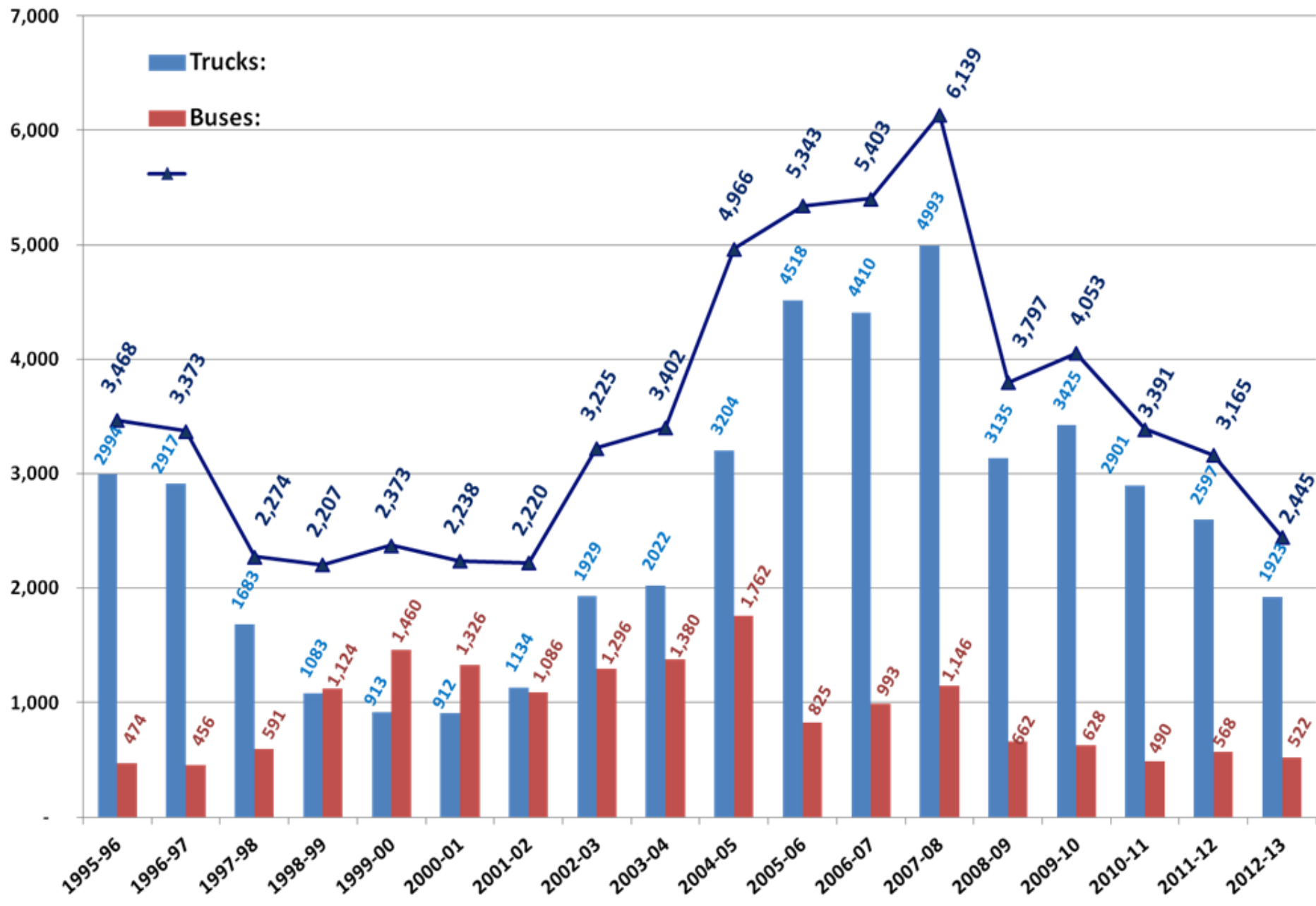
- Stable Govt.
- Economic Growth
- Availability of Auto financing
- Long Term Auto Policy
- Workers remittance
- Infrastructure Development

- Inconsistent Policies
- Govt. Changes
- Slow Economic Growth

Rapid Growth

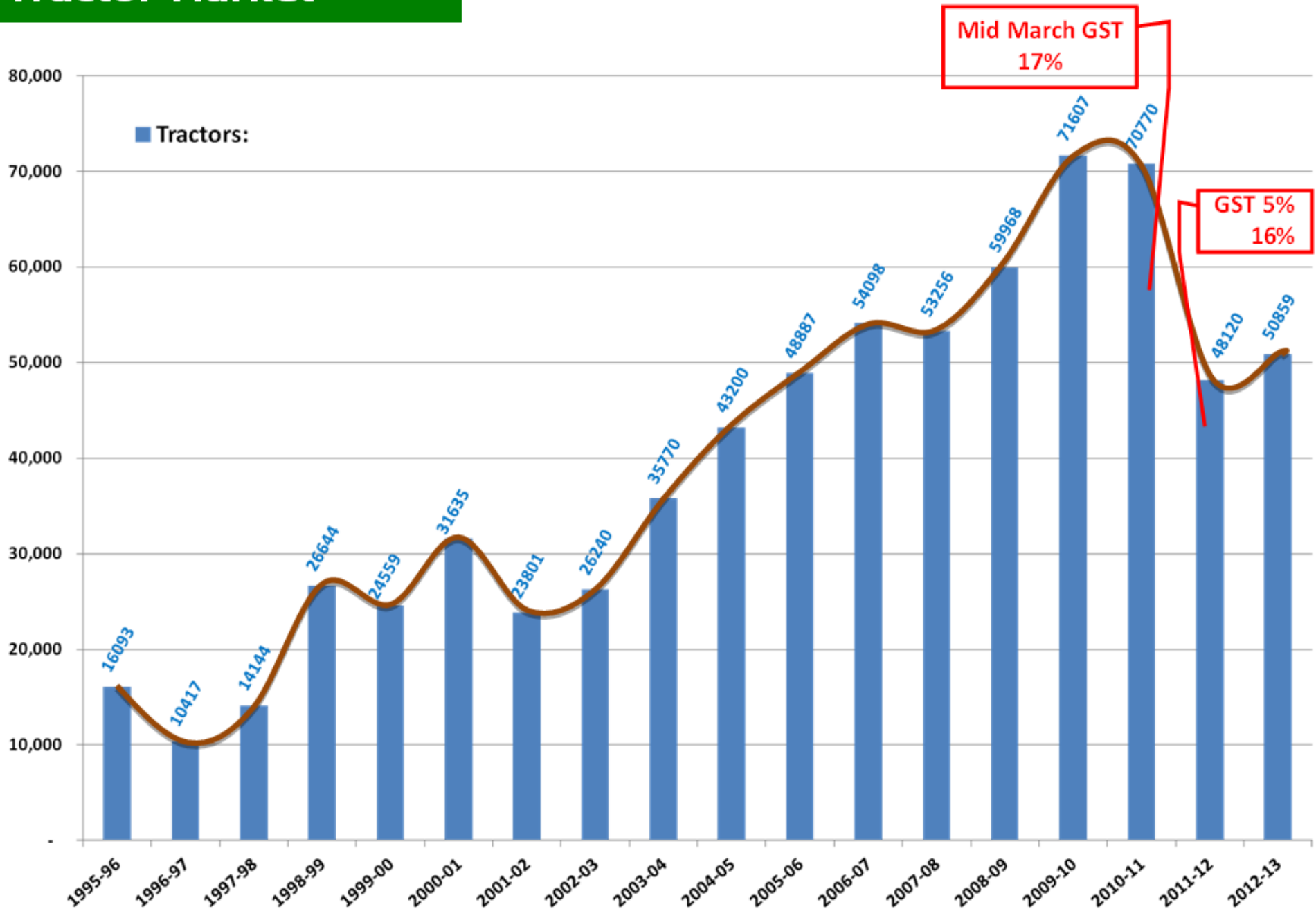
Market Drops

- Used car Imports
- Amnesty Scheme



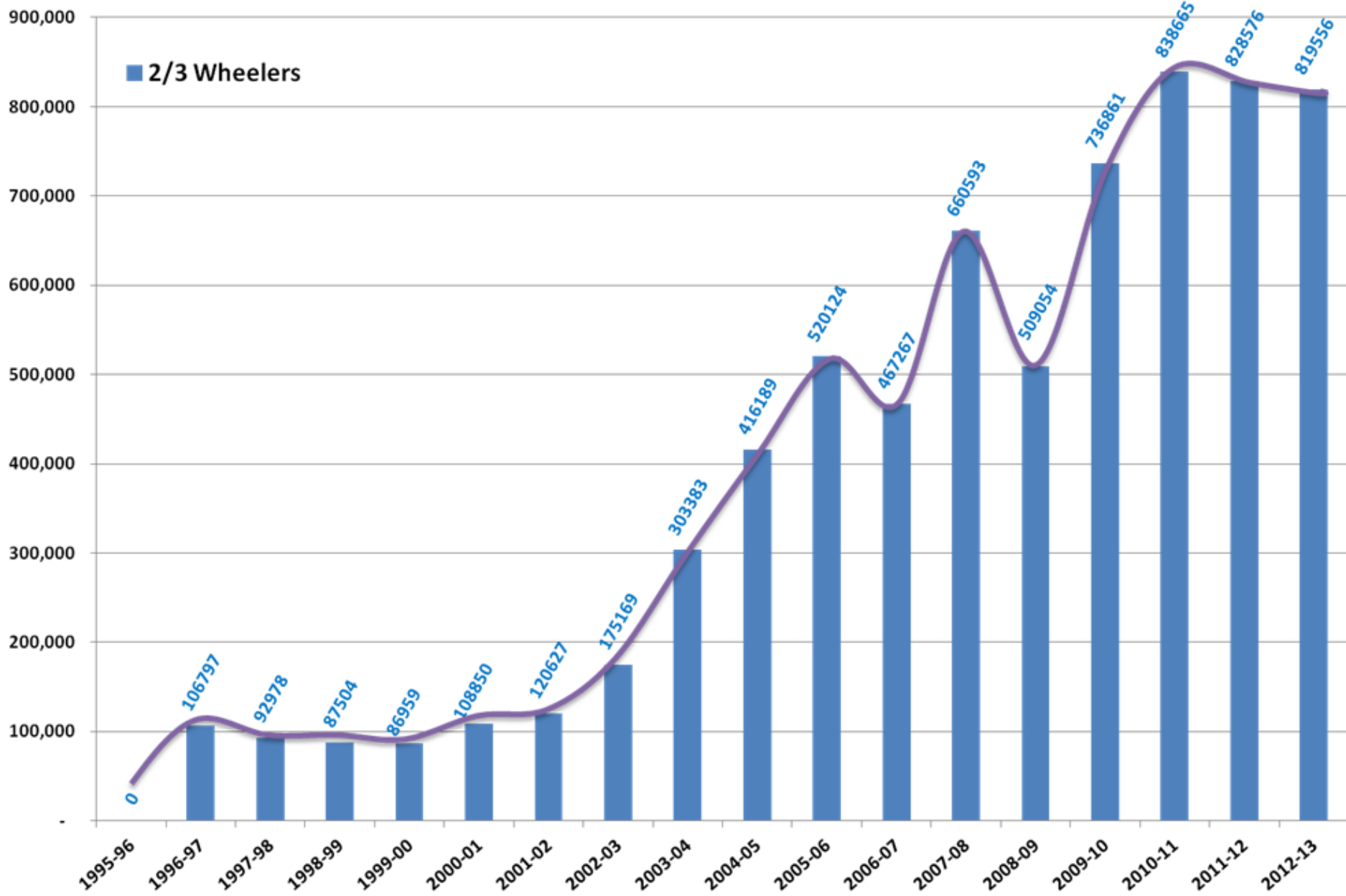
Tractor Market

Annex-C



2/3 Wheelers Market

Annex-D



Long Term Investments...on ground.

**TOTAL INVESTMENT MADE BY OEM
& Part Makers**

Over Rs. 230 billion

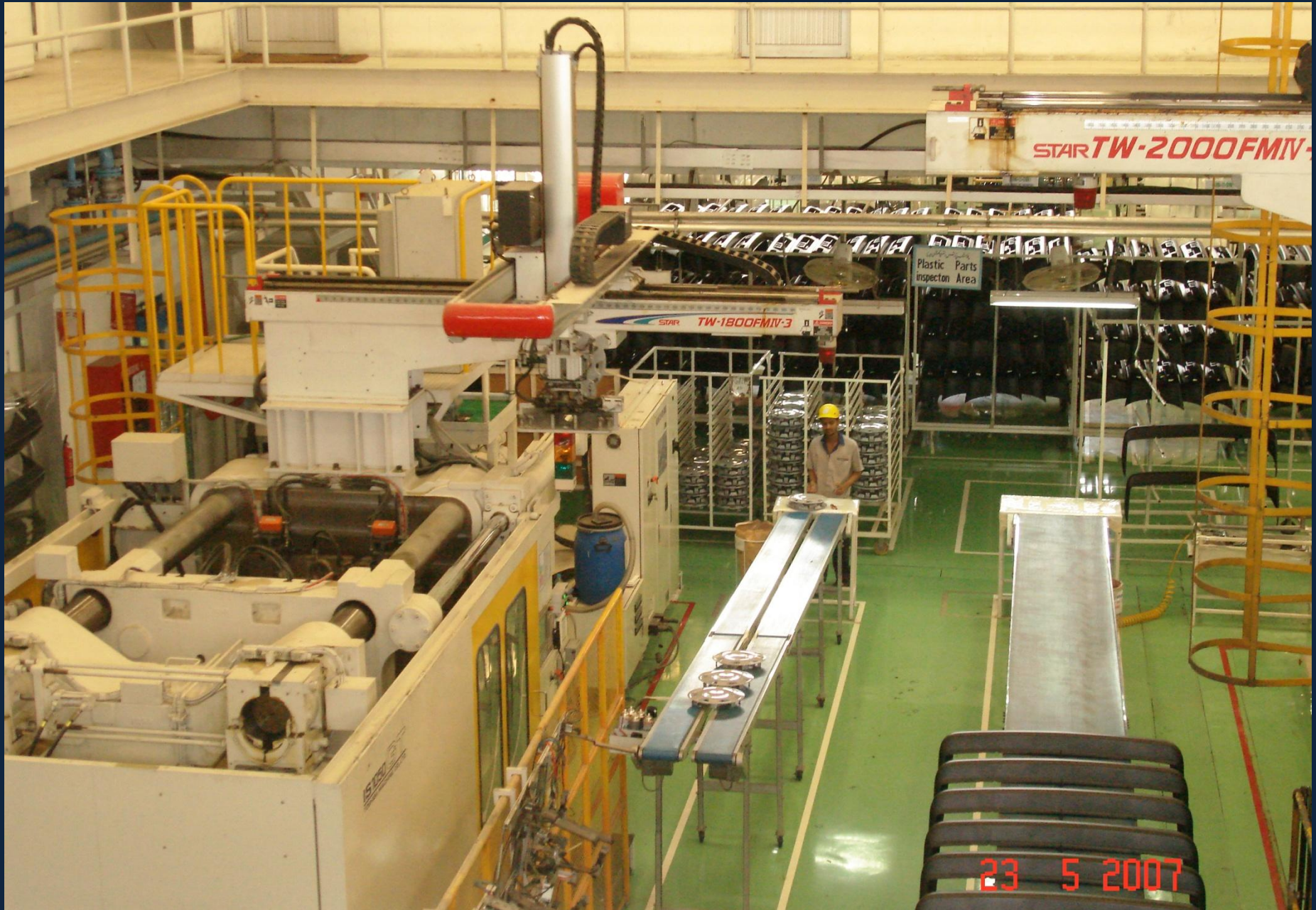
Press Shop



Engine Production Line



Plastic Moulding Facilities



Aluminum Die Casting Shop

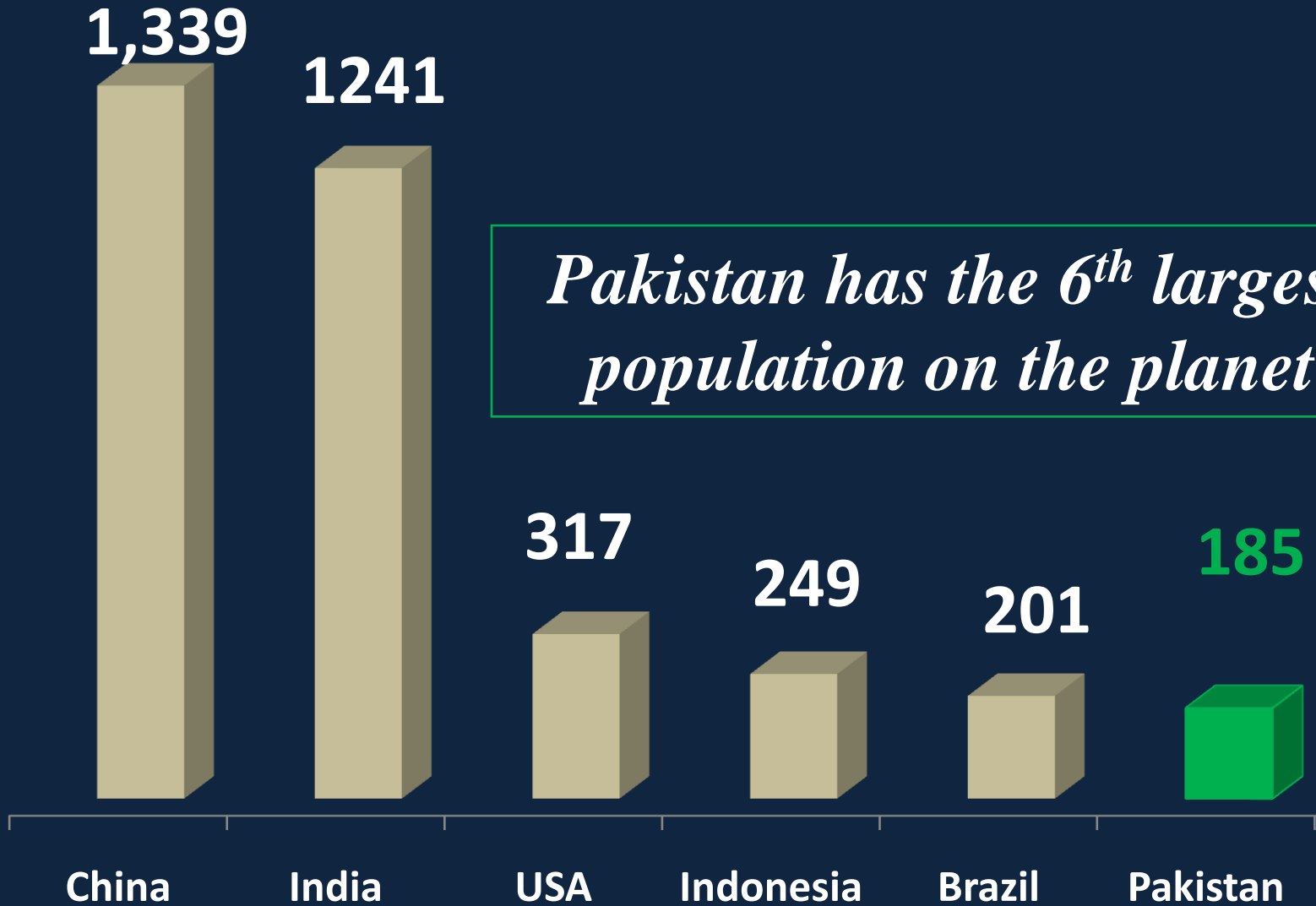


Pakistan Automobile Industry

A Vision of Future Potential

Pakistan

A Country with Population Power



Population (Millions)

**54% of the total population is
below 30 years in age**



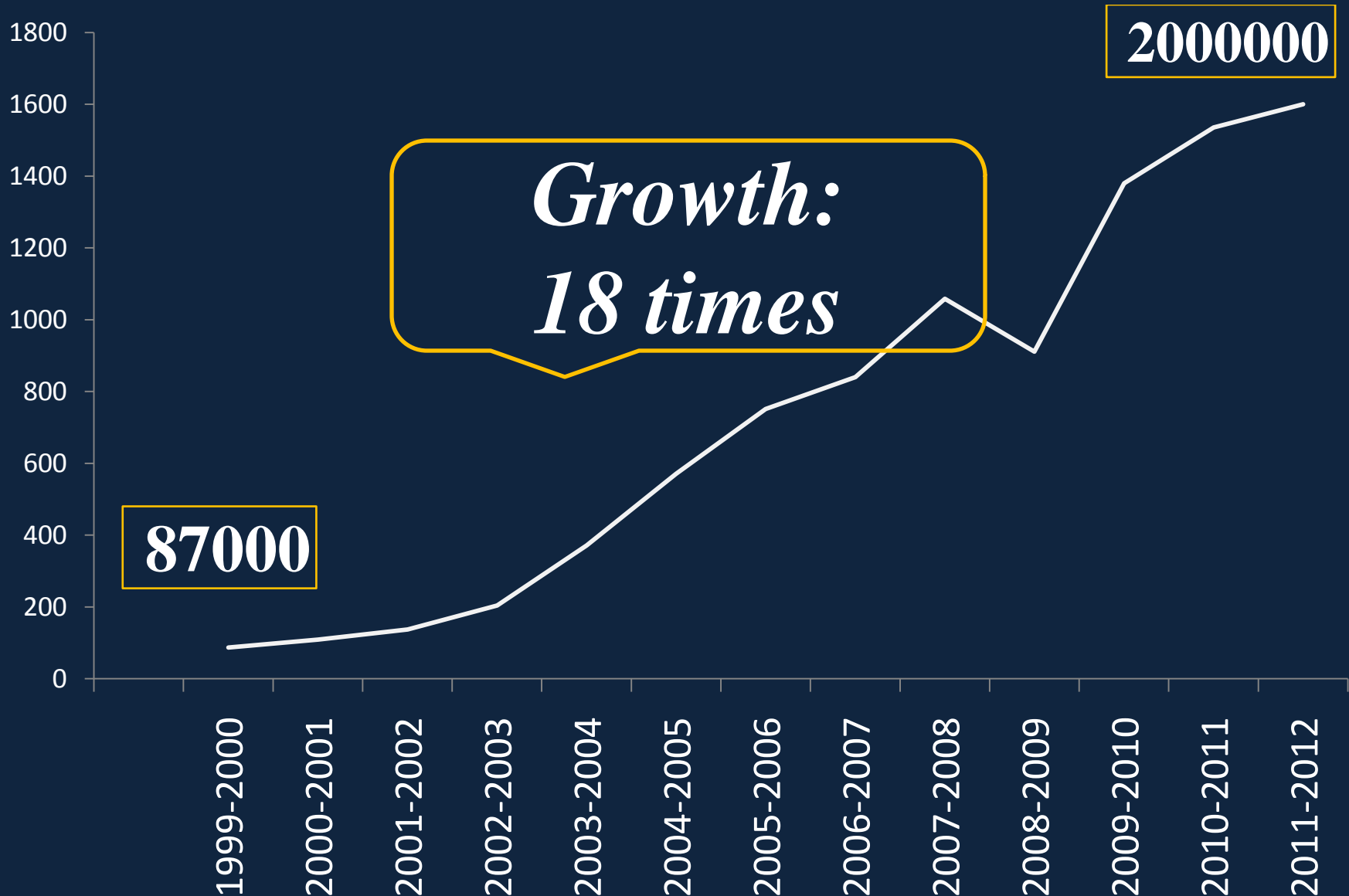
**99.9 Million Young
Potential Consumers**

Young Population of Pakistan

An Example Motorcycle Industry Demand Surge over 10 Years



Motorcycle Production in Pakistan



Dream of Every Motorcycle Driver





The Nation

Countries of Comparable Population

Pakistan vs Indonesia vs Brazil

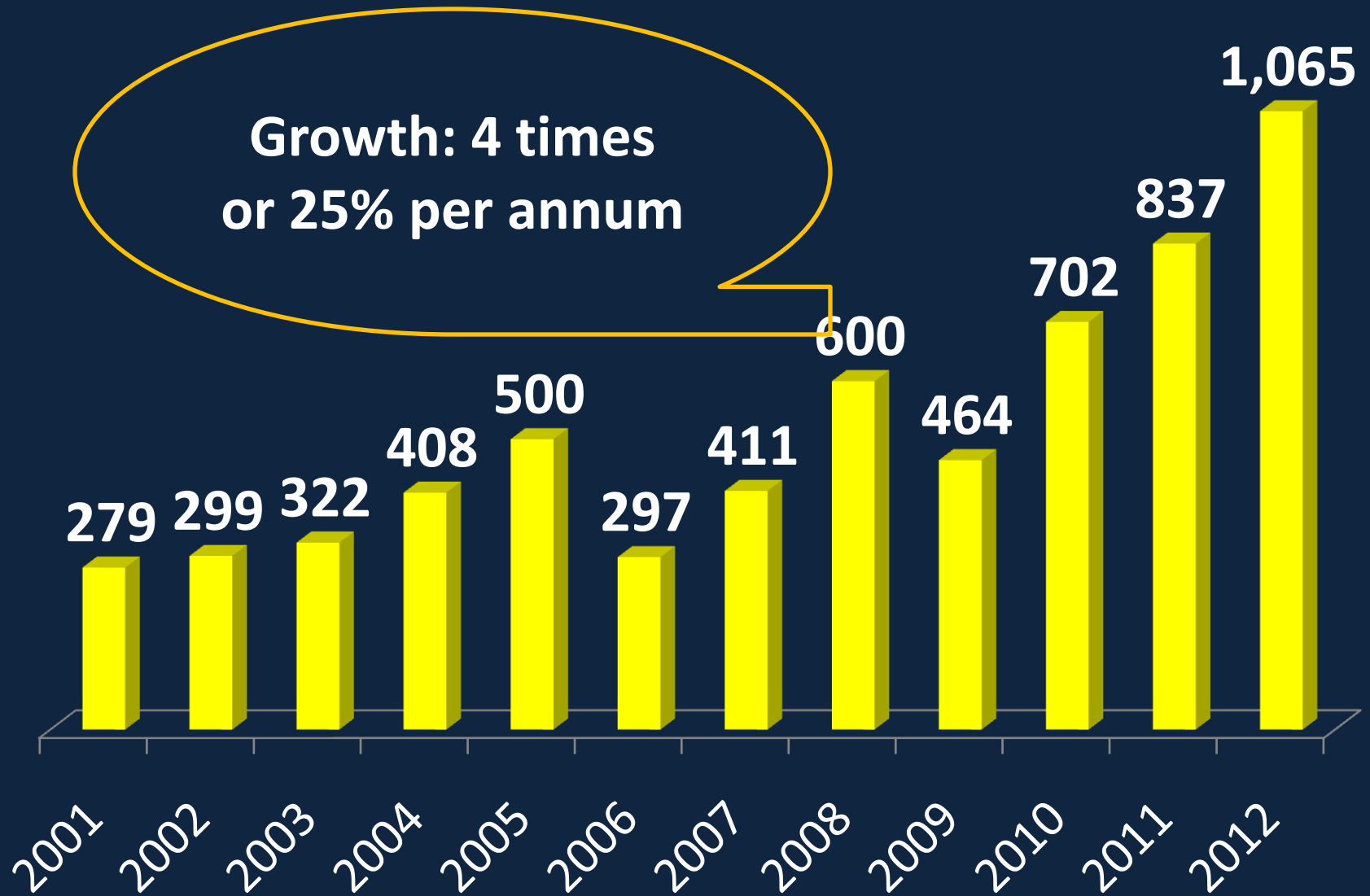
Pakistan vs Indonesia vs Brazil

No of Vehicles per 1000 Persons

Huge Growth Potential



Indonesian Case Study (Vehicles '000)



1. A national Industrial vision with the Auto industry in focus
2. Consistency

PAKISTAN NATIONAL AUTO POLICY 2025

1. Intelligent Long Term manufacturing based Policy
2. Must have a global outlook
3. No experimental interventions except corrections

CONTENTS

1. Rational Tariffs to safeguard current and new investments immediately and further reduce the same to bring competitiveness
2. Ensure consumer interests are looked after
3. Put in Place Pakistan Manufacturing Standards
4. Put in Place Pakistan Emission standards and targets
5. Put in Place Pakistan Auto Safety standards and ensure implementations
6. Move Pakistan towards international recognition as an “Engineering Destination” and make our region and the world our market
7. Set production targets of 500000 vehicles within next five years
8. Set production targets of 150000 tractors within next five years to ensure our food Basket remains intact
9. Set Motorcycle Production target to 4.5 million

Trade with India

The Pakistan auto sector seeks liberalization but with necessary mechanisms

India has a list of 850 items on which it applies well laid out Non-Tariff barriers in which can be categorized as follows :-

- Harsh testing requirement,
- Complex harmonized code classifications,
- Inadequate infrastructure,
- Special labeling requirements
- Import licensing requirements
- Special Customs Procedures
- Biased Internal Government procurements favoring local products
- Provisions of Export Subsidies to local products

Preparation of our Government of Pakistan

Have we setup the Institutional Infrastructure ?

- EDB
 - Automobile Standards & Promoting JV & TA's
 - Setting up Testing Laboratories in the country
- PSQCA: Auto Quality Standards
- EPA: Auto Emission Standards
- NTC: Injury Protective Mechanism

Answer : No

Obama 2012 Campaign Slogan “1.1 Million Auto Jobs Saved”



The Big Question

In our 67-year History, Pakistan has wasted numerous Opportunities to Achieve Rapid Growth

Will we miss-out again on the Great Opportunity to realize our Unique Potential & Capabilities in the Automobile Sector ?

Pakistan Automobile Industry

Current Status – A Video Presentation

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Thank you

Pakistan Auto Parts Show

PAPS 2014 – 6th March 2014

Lahore Expo Centre

Inaugurated by

His Excellency

Mian Muhammad Nawaz Sharif

Honorable Prime Minister of Pakistan









