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Setting off price hikes

CCP accuses auto assemblers of collusive behaviour

ISLAMABAD: The Competi-tion Commission of Pakistan (CCP) has accused local auto assemblers of collusive behaviour, triggering price hikes.

The Commission, while discussing the issue of price parallelism in the overprotected local auto sector, said that a price comparison of similar models based on engine size was undertaken.

For this purpose, historical price data was collected from various car manufacturers for the past four years (2009-12). An analysis was conducted using common data points between competing models in each market segment. The price comparison showed a clear trend of price parallelism in the industry.

In every segment, each competing model followed the other as far as price trends are concerned. Their price rise and fall in a synchronised manner. This blends in perfectly with an earlier observation that there are market leaders in every market segment in the industry which entails that others are most likely followers. However, the data analysis on its own does not present any clear casualty for price parallelism.

"Some may construe this price parallelism as evidence of a cartel in our domestic industry a few words of caution (borrowed from the OECD) are necessary," the CCP said.

The current dealership/ supply chain structure in the industry does not allow for meaningful competition. Dealerships are merely agents of the manufacturing companies and have no real incentive to compete in the market. It is the company that controls the quantity to be sold and the price to be charged. These dealership agreements go on to eliminate intra-brand competition by disallowing discounts. It must be noted that the existing booking structure contributes to the lack of competiveness.

Customers, by paying the full price of the vehicles months in advance, are not just covering the product based variable costs for the companies but are also losing interest they could have earned in the capital markets.

Meanwhile, companies enjoy a break in investment, besides reaping interest that accrued on advance payments made by customers. For these reasons, the CCP stated that it seemed appropriate to revise the dealerships and booking arrangements to solve the problems that have been highlighted.

Pakistan auto industry is inward looking. Consequently, it tries to protect itself through the use of regulatory instruments.

"We need to develop the auto industry instead of trying to protect it on old technology. If our domestic industry needs to sustain itself it should focus on advanced technology. Only through investment in technology out domestic assemblers can sustain themselves," the CCP added.

For example, even imported cars with the present technology that are considered to be of better quality than domestic ones are going to be rendered obsolete in the near future. China has recently launched an energy saving scheme and the old technology vehicles are taken out of the encouraged sector in the catalogue of guidelines for foreign investment 2011 and the promotional catalogue of energy saving automobile 2011.

Though the Economic Coordination Committee (ECC) of the Cabinet had directed to a committee headed by Deputy Prime Minister, Parvaiz Elahi to recommend reduction in age limit of imported used cars provided local assemblers agree to slash price from Rs50,000 to Rs150,000 per car; this has not materialised for reasons best known to Secretary Industry, whose brother in law is CEO Engineering Development Board (EDB).

According to Pakistan Motor Dealers Association, local assemblers are still charging on money which is as follows ; (i) Honda Civic- Rs125,000 to Rs135,000;(ii)Toyota Corolla Rs25,000-Rs 65,000;(iii) Toyota Altus Rs80,000-Rs90,000;(iv) Suzuki Mehran Rs50,000-60,000;(v) Suzuki Cultus Rs40,000-Rs50,000 ;(vi) Suzuki Bolan Rs25,000-35,000 and (vii) Suzuki Ravi Rs25,000-Rs35,000.

The CCP argues that Pakistan holds an affordability rank that ranges from 49-58 out of 59.

Pakistan remains one of the most expensive and unaffordable country for an ordinary automobile buyer. High tariffs on imports of cars had an impact on the price of the locally assembled cars which rose. Given the lack of competition from imports customer choices were limited. In the budget for financial year 2009, a five per cent Federal Excise Duty was imposed on motor cars exceeding 850 cc. This duty was withdrawn which benefited buyers of large scale engine size cars but the smaller engine–size segment (less than 850cc) has a higher demand in the market.

According to the Commission, barriers imposed by higher tariffs for imports by significantly lowering the tariffs and making them relatively more uniform across all automobile categories should be removed . This will make cars more affordable, push the local assemblers to be more competitive and incentivize the automobile industry to strive towards international standards and pricing. The tariff structure need to be finalised in consultation with National Tariff Commission (NTC). The CCP has recommended that recent measures of lowering the depreciation allowance needs to be reconsidered as it may reduce consumer welfare by increasing price of imported cars.

On August 31 last year, the FRB issued a Customs General Order(CGO) 13/2012) which may have the effect of increasing the price of imported cars. Under the CGO 13/2012, the policy has been changed and contrary to the previous practice of counting depreciation month from the date of first registration', depreciation will now be calculated from the first day of January of the year subsequent to the year of manufacture till date of shipment as per Bill of Lading(B/L).

Under the three years allowable age limited for the import of used cars, and with maximum cap of depreciation allowance of 50 per cent, the maximum depreciation allowance that could be availed is 48 per cent (1 per cent 48 months; for example, in December 2010, vehicles of 2007 model would be importable and if the export certificate is of January 2007, then from January 2007 to December 2010, 48 months depreciation allowance could be availed). Similarly, under five years allowable age limit depreciation will be for 72 months. Through this revision in policy, an effective tariff protection of 12 per cent of the assessable value has been provided to domestic manufacturers' trough of August 31 last year.—MUSHTAQ GHUMMAN