

Auto sector

CCP seeks open imports for 'disciplinary impact'

Anti-trust watchdog's study says healthy competition needs to exist

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ISLAMABAD

The Competition Commission of Pakistan (CCP) has sought open imports of used cars besides an increase in the age limit - from the current level of three years old to five years - aimed at bringing an end to the monopoly of local car assemblers.

In a study CCP conducted to gauge the level of competition in the local car industry, it found that existing policies are protecting three players at the expense of consumers.

The CCP has also recommended the government to withdraw three notorious Statutory Regulatory Orders (SROs) that give protection to the local industry and restrict entry of new players.

The study confirms that the cars assembled by three major players lack the quality and safety standards when compared with the vehicles of same categories manufactured in other countries.

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CCP's findings show that the Automobile Industry Development Programme has failed to achieve its objectives.

The CCP also shows concerns over the parallel rise in prices by the three players from 2010 to 2012.

"Pakistan automobile industry is inward looking and it tries to protect itself through the use of regulatory instruments," says the study. "Pakistan needs to develop the automobile industry instead of protecting it and in this regard imports will have a disciplinary impact on domestic firms."

One of the most important recommendations of the CCP is that the government should not only increase the age limit for imported vehicles to five years from three but should also allow



SIGNIFICANT: One of the most important recommendations of the CCP is that the government should not only increase the age limit for imported vehicles to five years from three but should also allow open imports. PHOTO: FILE

open imports. Currently, the import of cars is allowed only under the gift, personal and baggage schemes with restriction.

Opening up of the domestic market to the import of new cars at reasonable tariffs and reducing protection of local

industry to allow foreign competition for the benefit of consumers will bring in new technology and offer more choice to the consumers, it adds.

This increased competition will reflect in better pricing and improved quality, as

well as the availability of cars on demand.

The recent reduction of allowed age limit for import of cars from five to three years in December 2012 further protected the domestic automobile industry.

The CCP finds that carious

It recommends government should not only increase the age limit for the imported vehicles but it should also allow open imports

anti-competitive restrictions are imposed through three SROs. For instance, SRO 693 of 2006 specifies several conditions for new entrants, including the requirement to achieve fast-track localisation within three years, or pay high duties retroactively. "These SROs are periodically amended to comply with the requests of the existing assemblers and vendors after approval by the Engineering Development Board."

The CCP further notes that due to absence of regulation, the domestic automobile manufacturers do not offer safety features such as Anti-lock Breaking System (ABS), airbags and emission standards along with quality specifications such as alloy rims, power steering and windows in all their vehicles.

CCP study underscores need for import of new cars to encourage healthy competition

SOHAIL SARFRAZ

ISLAMABAD: The Competition Commission of Pakistan (CCP) has recommended expansion of domestic market to the import of new cars at reasonable tariffs, reducing protection of local industry to allow foreign competition for the benefit of consumers.

According to the CCP updated Competition Impact Assessment Study of the Automobile Sector in Pakistan issued here on Thursday, opening up of domestic market to the import of new cars will bring in new technology and provide more choice to the consumers. The increase in competition will be reflected in better pricing and improved quality, as well as availability of cars on demand.

The CCP has also invited public comments on its updated study.

Major recommendations of the report to improve competition, both in the short and long-run included benchmarking its auto policies against major developing country auto producers such as India, Thailand and Turkey by fully implementing the Trade Related Investment

Measures (TRIMs) agreement.

It recommended discontinuation of auto policy formulation through Statutory Regulatory Orders (SROs) and doing away with control of the Engineering Development Board (EDB) over the materials and components used in the auto industry and the management of new entrants.

The CCP said that the recent reduction of allowable age limit for import of cars from 5 to 3 years in December, 2012 will further protect the domestic automobile industry which is already inward looking. Import of 5 year old vehicles provides a better competitive environment to the local automobile industry. However, the idea of increasing the age limit from 5 years to older than 5 years on the import of used cars may be subject to strict road worthiness tests. It is preferable for the import of used cars to be open, rather than allowed under the Gift, Personal and Baggage Schemes that add transaction costs. It is also necessary to have stringent evaluation measures to assess the depreciation and actual values of the

used imported vehicles.

The commercial import of used cars should be allowed and open to all. The prevalent scheme of allowing used car imports under the Gift, Personal and Baggage Schemes adds to transaction costs in the form of extra legal formalities, in addition to high import duties. This practice should be replaced with open commercial import of used cars.

The CCP said that removing the entry barriers imposed by higher tariffs for imports by significantly lowering the tariffs and making them relatively more uniform across all automobile categories. This will make cars more affordable, push the local assemblers to be more competitive, and incentivise the automobile industry to strive towards international standards and pricing. The tariff structure needs to be finalised in consultation with the National Tariff Commission (NTC).

The recent measure of lowering the depreciation allowance needs to be reconsidered as it may reduce consumer welfare by increasing the price of imported used cars, it said.

It recommended mandatory testing for emission and road-worthiness to be introduced as part of a regulatory regime and renewal of registration of vehicles may be contingent on passing of requisite tests in line with developed countries.

Dealerships are merely agents of the manufacturing companies and have no real incentive to compete in the market. It is proposed that strict laws should be implemented that prohibit both parties (manufacturers and dealers) from charging any premiums from the customer. Increased competition would also eliminate the premium problem, as cars will be readily available and customers will not have to wait for 6 months before receiving their car after having paid the full price in advance, it said.

Focus on job-creation in the auto-parts sub-sector, which constitutes the major portion of auto-related jobs, it added.

The CCP recommended that legislation should be introduced to prohibit premiums charged by the manufacturers and the dealers and to restrict hoarding by unscrupulous investors or traders of

cars. The existing booking structure negatively impacts competitiveness as well, imposing an additional burden on customers. By paying the full price of the vehicle months in advance, the customers are not just covering the product-based variable costs for the companies, but are also losing interest that they could have earned otherwise. The car manufacturers claim to oppose the charging of premiums, however, they seem to adopt a 'look the other way' policy on the issue of premiums charged by the dealers to expedite delivery of vehicles. According to the dealership agreements studied by us, it is the manufacturing company that controls the quantity to be sold and the price to be charged. Hence, dealerships are merely agents of the manufacturing companies and have no real incentive to compete in the market. Strict laws that prohibit both parties (manufacturers and dealers) from charging premiums would be beneficial for the consumers as well as for the auto-manufacturers and dealers that apparently declare premiums to be a false practice.

Tariff cut on auto import

No commitment made to WTO: CCP

RECORDER REPORT

ISLAMABAD: The Competition Commission of Pakistan (CCP) has said that Pakistan has not made any commitment to WTO to cut tariffs on the import of automobiles or auto parts till date and there is no WTO obligation to reduce customs duty in automobile sector.

The CCP updated Competition Impact Assessment Study of the Automobile Sector in Pakistan released here on Thursday, however, as a signatory to the WTO Agreement on TRIMS Agreement, Pakistan should not adopt measures that are trade-restrictive (anti-competitive) and have trade distorting affects.

It said that the production of cars in Pakistan takes place at 16 manufacturing plants. Consumers often have to wait for months before receiving new cars. Most carmakers have been announcing plans to increase production volume over the next few years. Even though the installed capacity of the manufacturers/assemblers can easily cater to the need of the local market, yet the actual production of their units has not been up to the mark. It also depicts that all the manufacturers/assemblers have excess installed capacities. The excess capacities maintained by the incumbent firms act as a barrier to entry for the potential new firms and helps in maintaining their respective market power. By not utilizing their

excess capacities, the incumbent firms signal their inward looking approach towards domestic market.

Pakistan automobile industry is inward looking and it tries to protect itself through the use of regulatory instruments. Pakistan needs to develop the automobile industry instead of protecting it and in this regard, imports have a disciplinary impact on domestic firms. Currently, the import of cars is allowed only under the gift, personal and baggage schemes with restriction on allowable age limits. The policy for import of cars with an allowable age limit of 5 years remained in practice until 12 December, 2012. This policy was changed and the allowable age limit was again reduced to 3 years in December, 2012. Furthermore, on 31 August, 2012, the depreciation rules were also changed. If the cumulative effect of both these policy changes is taken into account, the government has further tried to protect the domestic automobile industry at the expense of consumers. For safety and quality standards, government established in 2000, Pakistan Standards and Quality Control Authority (PSQCA) which has so far developed standards for only 2 wheelers. Due to the absence of regulation, the domestic automobile manufacturers do not offer safety features such as Anti-lock Breaking System (ABS), airbags and emission standards along with quality specifications such as

alloy rims, power steering and windows in all their vehicles. In addition, Pakistan has an aging automobile population which is an increasing burden on the economy due to increased emission levels and growing safety hazards. The current dealership/supply chain structure in the industry does not allow for meaningful competition as Dealerships are behaving merely as agents of the manufacturing companies and have no real incentive to compete in the market. Due to delay in deliveries, premiums are charged in the secondary markets, the CCP added.

The commission said that there is constant pressure from automobile manufacturing sector to ban the import of used cars completely, thereby restricting competition by foreign cars, albeit used. The automobile manufacturers have argued that a ban will help local manufacturers boost sales and when volumes grow, production cost will go down, thus benefiting the end users. The automobile manufacturers have previously been successful in one way or the other to restrict the import of used cars. Subsequently, the age limit for the import of cars was reduced from 5 to 3 years during 2007-08. The Federal Board of Revenue also reduced the depreciation rate from 2 to just 1 percent on the import of used cars in 2008, which further increased overall rates of duties and taxes on the import of used vehicles. On the other hand,

assemblers have failed to bridge the gap between supply and demand, especially of cars of 800cc and 1,000cc engine. The production of higher engine capacity cars remains the focus, which is apparent from the fact that in 2011, 1,300cc or greater capacity cars made up more than 83 percent of total production, study added.

It said that 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 here that the existing booking structure contributes to the lack of competitiveness. 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. On the other hand, the companies are enjoying a break on investment as well as reaping the interest that accrues on the advance payments made by the customers. For these reasons, it seems appropriate to revise the dealership and booking arrangements so as to solve the problems that have been highlighted.

Govt advised to allow import of new, used cars

By Mehtab Haider

ISLAMABAD: The Competition Commission of Pakistan (CCP) has recommended the government to allow import of new and used cars at reasonable tariffs and soften protection for local auto manufacturers.

A draft report, released by the CCP on Thursday for getting comments of public, stated the open market will bring in new technology and offer more choices to the consumers. This

increased competition will reflect in better pricing and improved quality as well as availability of cars on demand.

The CCP asked for benchmarking auto policies against auto producers in India, Thailand and Turkey by fully implementing the trade related investment measures agreement. It also recommended discontinuing the formulation and continuation of auto policy through statutory regulatory orders and discontinuing the control of the

Engineering Development Board over the materials and components used in the auto industry, the degree of local content and the management of new entrants.

The recent reduction of allowable age limit for import of cars from five to three years in December 2012 will further protect the domestic automobile industry, which is already inward looking. Import of five-year old vehicles provides a better competitive environment in the local

automobile industry.

However, the idea of increasing the age limit from five to older than five years on the import of used cars may be subject to strict road worthiness tests. It is preferable for the import of used cars to be open, rather than allowed under the gift, personal and baggage schemes that add transaction costs. It is also necessary to have stringent evaluation measures to assess the depreciation

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Govt advised...

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The CCP recommended for removing the entry barriers imposed by higher tariffs for imports by significantly lowering the tariffs and making them relatively more uniform across all automobile categories. This will make cars more affordable, push the local assemblers to be more competitive, and incentivise the automobile industry to strive towards international standards and pricing. The tariff structure needs to be finalised in consultation with the National Tariff Commission.

The recent measure of lowering the depreciation allowance needs to be reconsidered as it may reduce consumer welfare by increasing the price of imported used cars. The CCP asked for making mandatory testing for emission and road-worthiness as part of a regulatory regime. Renewal of registration of vehicles may be contingent on passing of requisite tests in line with developed countries.

Dealerships are merely agents of the manufacturing companies and have no real incentive to compete in the market.

CCP recommends commercial import of used cars

■ Suggests ending the excessive protection provided to the domestic automobile manufacturers

By Abrar Hamza

KARACHI: In order to improve the competitiveness of auto industry, the Competition Commission of Pakistan (CCP) recommended in a report on Thursday to the legislators to open commercial import of used cars for customers.

The report said that the commission suggested opening of auto import policy on the basis of auto tariff regime that had been stagnant since 2007 in Pakistan, and therefore it is the need of the hour to end the excessive protection provided to the domestic automobile manufacturers.

Keeping in view the upcoming Auto Industry Policy (AIDP) II, which is expected to be announced by the end of next month, the watchdog suggested vital proposals to the government through its Competition Impact Assessment study of the automobile sector in Pakistan.

As CCP is mandated to carry out research to improve the understanding of competition issues facing the economy of Pakistan, the watchdog carried out a detailed research in which it found that the prevalent scheme of allowing used car imports under the 'gift and personal and baggage schemes' adds to transactional costs in the form of extralegal formalities, in

addition to high import duties. This practice should be replaced with an open commercial import of used cars, the report said.

The report added that Pakistan should benchmark its auto policies against other major automotive manufacturing countries like India, Thailand and Turkey, and through implementation of Trade-Related Investment Measures (TRIMs) agreement in true letter and spirit. This would entail removing the current Tariff Based System (TBS) for regulating imports, and result in the auto sector receiving the same treatment as other engineering industries.

CCP said that the shaping of auto policy through Statutory Regulatory Orders (SROs) should end; the three SROs that manage the import of autos should be revoked and any tariff protection should be levied through the customs tariff.

The reduction of age limit for import of cars from 5 to 3 years makes the import of cars unfeasible owing to limited depreciation allowance and therefore will eliminate competition. It limits availability of foreign brands of cars compared with local brands, the report added.

The report said that the import of cars older than 5 years may be subject to strict road worthiness tests though the cars of same age

limit are not effectively competitive to local new cars.

CCP further suggested that significantly lower and relatively more uniform tariffs should be introduced across all categories of automobiles, and the tariff structure should be finalised in consultation with the National Tariff Commission (NTC). On the other hand, the commission also recommended incentives for assemblers/manufacturers in the form of low tariffs on raw materials but the reduction of depreciation allowance for used cars should be reconsidered.

Mandatory testing for emission and road-worthiness are needed to be introduced as part of a regulatory regime which may not only determine the minimum criteria in line with the European Union (EU) or North American standards but also keep abreast of international developments, the report said.

The way forward for the automobile industry in Pakistan lies in the removal of investment and regulatory barriers. It is time that the practice of giving excessive protection to the industry through high import tariffs and custom duties is discontinued, and tariffs and duties are significantly lowered and made relatively more uniform across different categories, it concluded.

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CCP study

ISLAMABAD: The Competition Commission of Pakistan (CCP) has invited public comments on its updated Competition Impact Assessment study of the automobile sector in Pakistan till Dec 8.

The Nation

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CCP invites comments on automobile sector study

ISLAMABAD (Staff Reporter): The Competition Commission of Pakistan (CCP) has invited public comments on its updated Competition Impact Assessment study of the automobile sector in Pakistan. CCP is mandated to carry out research to improve the understanding of competition issues facing the Pakistan economy and has initiated sectoral Competition Impact Assessment studies of the key economic sectors as a major component of that research effort. The study on Automobile sector can be downloaded from the website of the Commission, www.cc.gov.pk and the last date of submitting comments is 8 December 2014.



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آٹوموبائلز کی صنعت پر کی گئی کبھی ٹیشن
امپیکٹ اسیسمنٹ سٹڈی پر عوامی آراء طلب

لاہور (کامرس رپورٹر) مسابقتی کمیشن پاکستان (سی
سی پی) نے آٹوموبائلز کی صنعت پر کی گئی کبھی ٹیشن
امپیکٹ اسیسمنٹ سٹڈی پر عوامی آراء طلب کر لیں تاکہ
آٹوموبائلز کی صنعت پر تحقیق کو مزید موثر بنایا جاسکے، عوام
کی جانب سے آراء جمع کروانے کے لئے ستمبر تا دسمبر 8
دسمبر مقرر کی گئی ہے۔

جہانِ پاکِستان

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آٹوموبائل سیکٹر کی تحقیقی رپورٹ عوامی رائے کے لئے جاری

اسلام آباد (دقائق نگار) مسابقتی کمیشن آف پاکستان نے آٹوموبائل کے شعبے سے متعلق اپنی نئی بنائی ہوئی تحقیقی رپورٹ عوامی جاننے کے لئے جاری کر دی ہے، مسابقتی کمیشن پاکستانی معیشت میں مسابقت سے متعلق مسائل اور معاملات پر عوامی شعور اجاگر کرنے کا پابند ہے اور اس سلسلے میں کمیشن نے معیشت کے مختلف شعبوں میں تحقیقی رپورٹ جاری کرنے کا آغاز کیا ہے، آٹوموبائل سے متعلقہ جائزہ رپورٹ کو کمیشن کی ویب سائٹ www.cc.gov.pk سے ڈاؤن لوڈ بھی کیا جاسکتا ہے، رائے دینے کی آخری تاریخ 8 دسمبر 2014 ہے۔