

PREMIUM OR ON-MONEY CHARGED BY DEALERS

# CCP rejects replies of auto manufacturing companies

By Abrar Hamza

**KARACHI:** A report of the Competition Commission of Pakistan (CCP) has declared the replies of automobile manufacturing companies on the issue of premium or on-money being charged by their authorised dealers as unsatisfactory.

The report titled Competition Impact Assessment Report of the Automobile Industry of Pakistan mentioned four major auto manufacturers failed to control the malpractice of on-money charged by their authorised dealers in the retail market.

The CCP inquired the companies about the malpractices and their role to control this anti-consumers trend but responses of these companies were not satisfactory showing their apathy towards ending this malpractice.

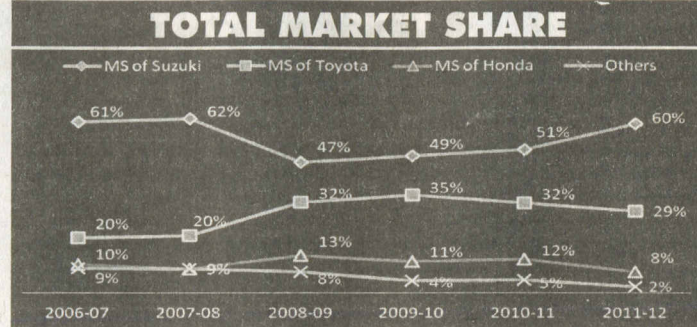
The commission rejected the responses of three companies as fourth had not responded. Honda Atlas (HCAR), Indus Motor Company (IMC), and Pak Suzuki Motor Company (PSMC) claimed that they had no role

in promoting such illegal practices in the local market but instead they were working to decrease the menace of on-money mainly through their agents and authorised dealers.

The IMC said in its reply that it is difficult for the company to distinguish as to who (customers, dealers or investors) will sell cars after booking. The CCP rejected the notion saying that dealers are clearly identifiable as IMC works directly with them.

It is rather easy for IMC to identify as IMC itself has pointed out that investors usually order in bulk, while customers order individually or a small number of cars, the Competition Impact Assessment Report of the Automobile Industry of Pakistan mentioned. Hence, it added, investors and customers can be identified with a fair degree of accuracy. It is up to IMC to address the issue of premiums that stems from the activities of investors.

CCP refuted HCAR's stance saying in its argument that the company mentioned that 840 units do not cater to one customer. In fact, by having those 840



units of cars in its 20 dealerships, Honda is ready for several customers to walk into its various dealerships, and purchase the car of their choice.

In the unlikely event that two customers walk in one after the other looking for the same car, Honda can always provide it through a nearby dealership. Hence there is no strong case that can be made to justify delays in the provision of cars, CCP report further stated.

PSMC had a different stance as compared to other companies as IMC and HCAR accepted that the problem of

premiums existed whereas PSMC clearly stated that this was not the case and premium was not a concern as far as PSMC and its products were concerned.

CCP importantly mentioned that PSMC holds a dominant position in the 800cc and 1000cc car segments, and if the claim made by PSMC is true then the problem of premiums lies primarily in the 1300cc and above car segments.

The commission further said that PSMC caters to an excessive demand from the middle-income households, and it is unlikely that supply shortages

and premiums do not occur at all in the car segments dominated by PSMC.

In this regard, the report on the automobile sector produced by the Monopoly Control Authority (MCA) in 2005 identified that the problem of premium did not exist at the level of car manufacturing companies, but it was at the level of investors who took the car as an investment property and managed to book hundreds of cars through fake identity cards and took delivery of the vehicles to hoard and create artificial shortage in the market and to sell at a premium price.

MCA 2005 report revealed that 'the business community of Jodia Bazaar, Karachi was prominently involved in this practice and a single investor of Jodia Bazaar was holding not less than 700 cars at the moment'.

MCA report stated that the problem of artificial shortage of cars in the market using delay in delivery of cars and charging of premium price lies in the secondary market and not at the end of car assemblers. As far as the issue of charging of 100 percent

advance payment is concerned, the policy was, in fact, adopted to encourage the genuine buyer to book a car. Had part payment been accepted as down payment of a car, it would have aggravated the problem manifold. Therefore charging of full price at the time of booking and payment of markup at market rate after 60 to 90 days of the booking was considered as more advisable proposition.

The CCP further said that the three automobile manufacturers stated that they did not encourage the practice of charging premiums. In fact, IMC has been actively running advertisements in early 2011 to encourage people to purchase cars from the company and not from the resellers (investor).

However, from a multitude of media reports, premiums are charged by the dealers to expedite delivery of vehicles. This may require a look at the dealership agreements and the booking system between the manufacturing companies and the dealers in order to check if there are indications of collusion between the two parties.